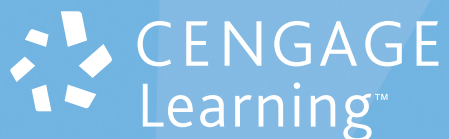




COMMERCE:

INQUIRY AND SKILLS

Grant Kleeman
Anastasia Zarkos
David Hamper
Judy Adnum
Rod Lane



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Grant Kleeman
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Judy Adnum
Rod Lane

Commerce: Inquiry and Skills

1st Edition

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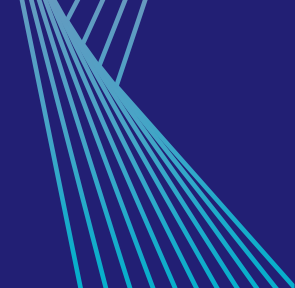
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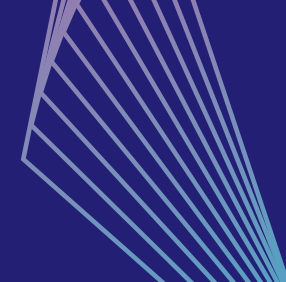
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INTRODUCTION

Commerce: Inquiry and Skills has been written by a team of experienced classroom teachers to meet the curriculum-specific requirements of the Commerce Years 7–10 syllabus in New South Wales (implemented in 2020).

Students using this text will gain a solid foundation for the study of Economics, Business Studies and Legal Studies in Years 11 and 12.

Commerce: Inquiry and Skills highlights the knowledge, understandings, skills and values students require to research and develop solutions to consumer, financial, economic, business, legal, political and employment issues. This, in turn, will enable them to make informed and responsible decisions as individuals and as part of the broader community. This text also provides the material necessary for students to develop an understanding of commercial and legal processes and competencies for personal financial management. Students using the text will develop the financial literacy needed to participate in the financial system in an informed way.

Commerce: Inquiry and Skills contains a diverse range of material in the form of explanatory text and special interest boxes. The explanatory text is designed to develop students' knowledge and understanding of the concepts, processes and issues central to the study of Commerce at this level. Featured throughout the text are Spotlight boxes that illustrate these concepts, processes and issues within specific contexts and highlight additional material of interest.

The language used in this book is clear and direct, making the text accessible to students with a wide range of language and ability levels. The content provides essential understanding, as well as more conceptually challenging material, to cater for a broad range of student abilities. Each chapter features a glossary of key terms, which introduces students to the key terminology and concepts.

In addition to its clear explanatory text, the book contains a wealth of stimulus material, including photographs, flow diagrams, cartoons, newspaper extracts and up-to-date statistics. Activities based on this material enable students to develop the skills specified in the syllabus. Skills related to information and communications technology are developed in context throughout the text.

Each chapter is organised into short sections, which facilitates the planning of learning experiences. At the end of each section, there are 'Understanding the text' questions and tasks to guide students towards an understanding of the material covered, as well as activities that extend students beyond the text and engage them in a variety of learning experiences. The activities have been carefully selected to cater for the full range of student abilities. Many of these activities are student-centred and contribute to the skills associated with active and informed citizenship.

ABOUT THIS BOOK

Student book features

Content focus is aligned to the syllabus and clearly explains what students will learn and the skills they will develop.

Focus questions ask students to think about the content of the chapter and promote inquiry.

A wealth of stimulus material, including photos, diagrams and graphs, supports learning and skills development.

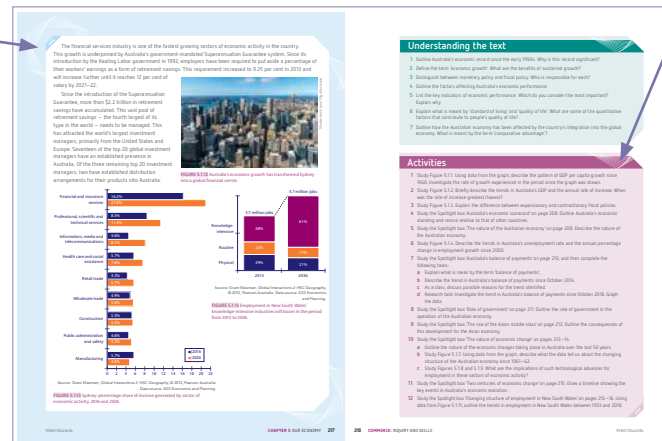
Spotlight boxes contain relevant and contemporary case studies to provide real-life examples of important concepts.

Glossary of key terms provides clear definitions of important concepts and terminology.

Clear presentation of detailed and engaging content, suitable for a wide range of abilities.

Activities enable students to develop the skills specified in the syllabus and extend their learning beyond the text.

Understanding the text questions at the end of each section guide students' knowledge and understanding of the content.



Cross-curriculum priorities

Cross-curriculum priorities are an integral component of the Commerce syllabus and have been integrated throughout this book. Icons are included to help you draw links and develop your understanding of contemporary issues.



Aboriginal and Torres Strait Islander histories and cultures



Asia, and Australia's engagement with Asia



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Grant is a very experienced author, having been involved in the publication of this text since the first edition of *commerce.dot.com* (Farr Books, 2004). He has authored a multitude of other successful secondary textbooks.

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COMMERCE STAGE 5 OUTCOMES GRID

	CORE TOPICS						OPTIONS				
	1 Consumer and financial decisions	2 The economic and business environment	3 Employment and work futures	4 Law, society and political involvement	5 Our economy	6 Investing	7 Promoting and selling	8 Running a business	9 Law in action	10 Travel	11 Towards independence
COM5-1 applies consumer, financial, economic, business, legal, political and employment concepts and terminology in a variety of contexts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
COM5-2 analyses the rights and responsibilities of individuals in a range of consumer, financial, economic, business, legal, political and employment contexts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
COM5-3 examines the role of law in society	✓		✓	✓				✓	✓		
COM5-4 analyses key factors affecting decisions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

	CORE TOPICS						OPTIONS				
	1 Consumer and financial decisions	2 The economic and business environment	3 Employment and work futures	4 Law, society and political involvement	5 Our economy	6 Investing	7 Promoting and selling	8 Running a business	9 Law in action	10 Travel	11 Towards independence
Outcomes											
COM5-5 evaluates options for solving problems and issues	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
COM5-6 develops and implements plans designed to achieve goals	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
COM5-7 researches and assesses information using a variety of sources	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
COM5-8 explains information using a variety of forms	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
COM5-9 works independently and collaboratively to meet individual and collective goals within specified timeframes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Commerce Years 7–10 Syllabus 2019, pp. 14–15 © 2019 NSW Education Standards Authority (NESA)



CONSUMER AND FINANCIAL DECISIONS

CONTENT OVERVIEW

- 1.1 The nature of Commerce
- 1.2 Consumer and financial decisions
- 1.3 Consumer protection
- 1.4 Financial management
- 1.5 Current issues

CONTENT FOCUS

In this core topic, we focus on your role as a consumer. You will learn how to identify and investigate the issues you will encounter when making consumer and financial decisions. You will also learn about the various ways consumers are protected, the range of options you have when making consumer and financial decisions, and those strategies you can use to ensure that you make responsible financial decisions.

The skills you will develop in this core unit of study include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What is Commerce, and why is it important to develop an understanding of how our economic, legal and political systems work?
- How are we protected when making consumer and financial decisions?
- How can we ensure that we make responsible financial decisions?

GLOSSARY OF KEY TERMS

budget

A detailed plan of your finances, listing all income and expenditure. It is used to ensure you do not spend more than you earn.

category killer

A large store that dominates the sale of one type of product.

collective wants

Goods and services provided for the community by governments.

comparison shopping

The process of comparing the price and quality of similar products before making a purchasing decision.

complementary good

A good that is generally consumed with another good; for example, a car and petrol.

consumer

Anyone who buys goods and services.



consumer sovereignty

The power of consumers to decide which businesses and products survive in the marketplace.

contract

A written or verbal agreement between two parties, who may be either individuals or organisations.

credit

The ability to receive goods and services now, but to pay for them in the future.

customer loyalty program

Strategy used by retailers to reward customers for making regular purchases from their business; for example, a frequent flyer program or store credit card.

demographic

The features of a population, such as age and gender structure.

depreciate

To decrease in value over time. An asset depreciates through wear, deterioration or obsolescence (becoming out of date).

deregulation

The removal of government regulation from an industry or a market with the aim of increasing efficiency and improving competition.

disposable income

The income remaining after deduction of taxes. It is the money available to be spent or saved.

durable good

A good that has a long lifespan and does not need to be replaced frequently; for example, a fridge or dining table.

e-commerce

Electronic commerce; the use of electronic transactions by businesses and/or consumers for commercial purposes.

economics

The study of the way a society allocates scarce resources to fulfil unlimited wants.

extended warranty

An extended period of cover on a warranty agreement, secured by paying an extra fee.

franchise

A business for which there is an agreement for the use of a brand name and operating systems in exchange for a fee.

goods

Items that are tangible (able to be touched), such as coal and iron ore, motor vehicles and bottles of wine.

gross income

A person's total income before tax has been deducted.

hire purchase

An agreement that enables a customer to pay for a purchase in instalments over a period of time.

impulse buying

The unplanned purchase of goods or services.

liability

The degree of financial responsibility for any losses incurred by a business or individual.

liquidity

Funds available to finance spending on a day-to-day basis.

merchantable quality

Fit for the purpose for which a good is bought.

needs

Goods essential to our survival, such as food, water, shelter and clothing.

non-durable good

A good that is purchased frequently and has a short lifespan; for example, food or pens.

personal wants

Luxury or non-essential goods and services that we, as individuals, would like to consume.

producer

A person or company that makes, grows or supplies goods or services for sale.

resource

Anything used to satisfy people's needs and wants.

savings

The amount of money a person has available after paying for needs and wants.

scarcity

In short supply; the gap between our unlimited wants and our limited resources.

service

An intangible good that is provided by an individual or organisation; for example, legal advice or a haircut.

standard of living

A person's quality of life; a person's economic, social and personal wellbeing.

substitute

A good that can be purchased as an alternative to another good.

unconscionable conduct

Dishonest and unfair conduct by individuals or businesses providing goods or services to consumers.

wants

Luxury or non-essential goods and services.

warranty

An agreement that outlines the conditions under which a consumer is entitled to have a good repaired or replaced.



1.1 The nature of Commerce

An introduction to Commerce

What is Commerce?

Commerce is the study of the way in which our society functions. It includes the study of commercial and legal institutions and the role governments play in managing the affairs of the nation. It is also concerned with our rights and responsibilities as citizens and helps to prepare us for life in an increasingly complex world.

Why study Commerce?

The study of Commerce provides us with the knowledge, understanding, skills and values that enable us to make sound decisions on how best to live our lives. It includes decisions we make as consumers, and decisions concerning the financial, business, legal and employment-related matters we engage with as adults.

Through the study of Commerce, we develop our financial literacy. This enables us to participate in the financial system in an informed manner. It also enables us to develop an understanding of the relationships that exist between consumers, businesses and governments.

In our study of Commerce, we also develop a number of important life skills. These include the ability to:

- apply problem-solving strategies incorporating the skills of analysis and evaluation
- think critically
- reflect on the nature of the learning in which we are engaged
- undertake research
- evaluate alternatives and participate in collaborative decision-making
- make an informed contribution to our democratic and increasingly diverse society.

Commercial and subsistence economies

We live in a *commercial economy*. This means that we use our income to buy the goods and services we need to support our way of life. Most of the goods and services we consume are purchased from enterprises that exist to produce a profit for their owners or shareholders. This type of economy is often referred to as the *market economy*.

In some developing countries, many people live in a *subsistence economy*. This means that they provide for most of their own basic needs. In some parts of remote Australia, and also in the Torres Strait Islands, a subsistence economy still exists. This is partially supported by the market economy.

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FIGURE 1.1.1 In a commercial economy, people use their income to buy the goods and services they need to support their way of life.



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FIGURE 1.1.2 In a subsistence economy, people provide for most of their own basic needs.

Spotlight: Investigating issues relevant to the study of Commerce

While studying Commerce, you will be required to investigate current issues. When investigating a current issue, the following points may help you to develop your knowledge and understanding of the issue:

- Read or view the material dealing with the issue.
- Name and briefly outline the issue.
- Identify the main people/organisations involved in the issue.
- Identify the scale at which the issue is relevant. Is it a global, national, regional or local issue?
- Explain why the issue is of interest to consumers.
- List the main sources of information about the issue.
- State whether the sources used present different perspectives, or viewpoints, on the issue.
- State whether the sources of your information are biased.
- Outline the actions people could take to address the issue. What would be the likely outcome of these actions?
- Consider how the media have influenced your study of the issue.
- Explain how your study of the issue has affected your own views on it.

TABLE 1.1.1 Issues relevant to the study of Commerce

Access to the law	Human rights	Sustainable development
Advertising standards	Immigration	Taxation
Bank closures	Industrial disputes	Technological change
Bank fees	Inequality	Tourism
Changing patterns of work	Legal aid	Trade unions
Consumer protection	Media ownership and control	Transnational corporations
Crime and punishment	Political participation	Unemployment
E-commerce	Population growth	Victims' rights
Enterprise bargaining	Poverty	Welfare provision
Ethical conduct	Refugees	Workplace safety
Globalisation	Resource management	
Global terrorism	Rights of Indigenous peoples	

Decisions affecting the quality of our lives

Every day, we make many decisions that affect the quality of our lives. Some of these decisions are commercial in nature, while others relate to our physical wellbeing, our relationships with our family and friends, our values and beliefs, and our social life. Figure 1.1.3 summarises some of these important decisions.

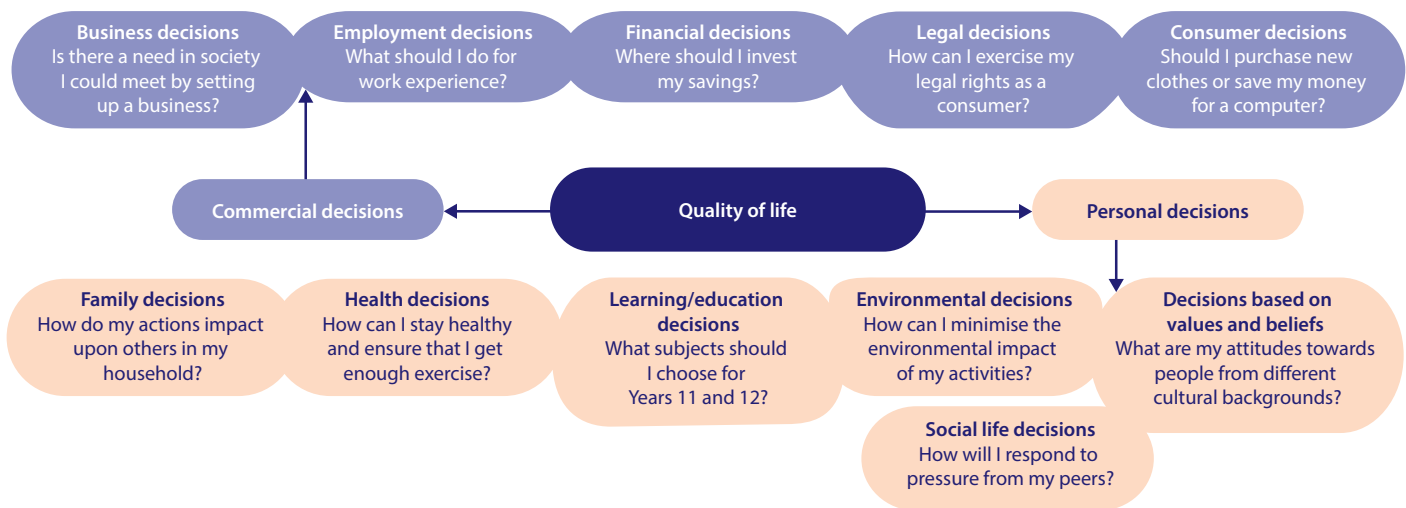


FIGURE 1.1.3 Decisions affecting the quality of our lives

Consumption of goods and services

The consumption of goods and services has an important impact on the quality of people's lives. Some of these goods are essential for our survival and are known as **needs**. They include food, water, shelter and clothing. Other goods and services that we buy are not necessary for our survival. Examples are smartphones, perfumes and movie tickets. These luxury goods and services are known as **wants**. Wants may not be essential for our survival, but they do provide us with a level of satisfaction and help to support the lifestyle or **standard of living** to which we aspire.

Wants can be grouped according to whether they are purchased to satisfy the personal desires of individuals (**personal wants**) or the needs of society as a whole (**collective wants**). Collective wants include a police force, roads, public transport, hospitals and schools. These are frequently very expensive, so they are often provided by governments on behalf of communities. Individual **consumers** contribute to the cost of these goods and services by paying taxes, tolls and fares.



FIGURE 1.1.4 For many of us, our needs outweigh our wants.

Our key problem as consumers is that we cannot afford to buy every good and service we want – our resources are limited, yet our wants are endless. For this reason, we need to choose which of our wants we are going to satisfy immediately and which purchases we are going to delay, perhaps until we have saved the money to buy them. Through the study of Commerce, you will be introduced to many new skills that will help you to make better-informed decisions and to make the most of the financial resources that are available to you.

Scarcity and resource allocation

Commerce is, at least in part, the study of the allocation of scarce resources. We have unlimited wants and only a limited amount of resources to satisfy them. We therefore wish to maximise the benefit we receive from scarce resources.

Scarcity is defined as the gap between limited – that is, scarce – resources and theoretically limitless wants. This situation requires people to make choices about how best to allocate the resources available to them, in order to satisfy their basic needs and as many of their additional wants as possible.

A **resource** is anything that can be used to satisfy our needs and wants. The scarcity of any particular resource is reflected in its price. Things that are scarce are expensive; things that are plentiful are not.

Economics can be defined as the study of the allocation of scarce resources.

Employment decisions

Consumers often have to make choices and modify their consumption habits as their lifestyle changes. One important factor influencing the quality of our lives is the amount of time that we spend working. On average, Australian employees are working longer hours than they did in the past. Often the decision about how many hours to work will depend on the person's preferred lifestyle. Many people work longer hours to help support the material standard of living to which they have grown accustomed. Some people choose to work shorter hours so that they have more time to consume leisure-related services, such as using a gym, or engaging in hobbies and other recreational activities. This type of consumption creates employment for people in the services industry. Flexible work practices can help employees achieve a work-life balance. These practices include working from home and part-time or casual employment. Other important employment decisions also have an influence on the quality of our lives. These include:

- which sector of the workforce to work in; for example, agriculture, mining, manufacturing or the service sector (see Chapter 3, section 3.2). Each industry sector has different opportunities and working conditions, including pay and fringe benefits, and requires different educational qualifications and training
- whether to run a business (be an employer) or to work for someone else (be an employee)
- how to adapt to changes in the job market, including the growing need for skilled employees, the decline of manufacturing jobs and the increasing importance of services.

For Indigenous Australians, the decision might be to move from a remote community to where work is available.

The decisions that individuals make in regard to these considerations have a significant impact on their quality of life and future in the workforce.

Financial decisions

How we choose to manage our finances can also have a significant impact on our quality of life. Every day, consumers make a variety of financial decisions, which can have both positive and negative consequences for their lives now and in the future.

Balancing spending and saving/investing

It is important to strike a balance between spending and saving/investing. Most people are aware of the immediate benefits they obtain by spending their money. However, saving money also has many benefits and can improve the quality of our lives.

Consider the following benefits:

- Saving money can bring personal satisfaction and a feeling of security in case of an emergency.
- **Savings** can be used to buy a more expensive item in the future; for example, a car or television.
- When you need a loan later in life, you may need to provide evidence of a savings history to show you can manage your money responsibly.
- Savings can be used for financial services, such as superannuation and long-term investments, which can be used to generate more money. (These investments are discussed in Chapter 6.)

Obviously, we cannot aim to save everything we earn. Some money needs to be set aside for everyday expenses, such as transport costs and food.

Preparing a budget

Deciding to use a budget to plan expenditure is an important first step for a wise consumer. If we budget effectively, we can avoid the 'debt trap' and ensure that we have enough money to purchase more expensive goods and services in the future. See section 1.4 for information on how to prepare a budget.

Deciding how to pay

Consumers need to select the best method of payment for different types of purchases. We have the choice of using cash, credit, direct debit, lay-by, electronic funds transfer, cashless transactions, and other forms of payment such as paying in instalments. The advantages and disadvantages of each of these payment methods are outlined in section 1.2.

Making investment decisions

Where and how we decide to invest our savings will depend on a number of factors. These include our need for **liquidity**, the risk associated with the investment, the interest rate offered, inflation and expected capital gains (increase in the value of an asset). See Chapter 6 for more information on investing.

Deciding how to receive income

Often, employees can decide whether to take their income in the form of cash or a fringe benefit. Some employees can minimise the amount of tax they pay by 'packaging' their income (their employer deducts payments from their gross income before tax is calculated) or by sacrificing income for some other form of benefit, such as a company car or computer. Employees can use these methods to gain the maximum benefit from their income, which improves their standard of living.

Business decisions

The decision to start your own business can affect your quality of life in a number of ways. First, small business owners have increased responsibilities and, therefore, increased risk. Many small businesses fail because of poor financial management, a lack of business skills, poor planning and unstable economic conditions. Employers often miss out on the fringe benefits available to employees and have to deal with demands that may result in stress. Business owners, like employees, often also experience the pressures of having to keep their knowledge of technology up to date.

Despite these difficulties, many business owners make sound and informed decisions and experience a range of benefits from owning their own business. These benefits include:

- the freedom to make their own decisions and create their own product or service
- the ability to generate profits and wealth from an interest of their own
- the freedom to decide where and when they work and who to employ.

Some of the key decisions that business owners need to make are discussed below.

Legal structure

When starting a business, a decision needs to be made about the legal structure of the business. Will the business owner operate as a sole trader or partnership, or as a private company, franchise or cooperative (a group of stores that purchase products together to reduce costs)? Each of these business structures has its advantages and disadvantages (see Chapter 8, section 8.2). Having made this decision, the business owner is then able to determine where the funds will come from, the size of the business, the number of employees and so on. The legal structure of the business is very important, as it determines the **liability** of the owners/shareholders for any losses incurred by the business.

Marketing: product, price and promotion

When deciding what to sell, managers/owners should consider what their talents are and the types of products or services consumers want to purchase. When deciding what price to charge, various factors need to be considered: production costs, the price of competitors' products and the amount that consumers are willing to pay for the product (see Chapter 8, section 8.3).

Quantity to produce

Deciding how much to produce involves a delicate balance. **Producers** have to estimate the demand for their product and make a decision about how much to produce. Overproduction will result in wasted resources, whereas underproduction might result in the needs of consumers not being met.

Distribution

Business owners need to decide how to distribute their product to customers. They may distribute from a traditional shop front, via the internet or perhaps door-to-door. The advantages and disadvantages of the main distribution methods are discussed in section 1.2.

Legal decisions

The law plays an important role in the marketplace by protecting consumers' rights and defining the responsibilities of suppliers of goods and services. Every time we make a purchase, no matter how small, our rights as consumers are protected by laws put in place by federal and state governments.

When we purchase a loaf of bread from a supermarket, for example, we are not only exchanging money for a product but also entering into a **contract** with the retailer. The contract states that we have the right to get what we paid for. It also establishes a process that consumers can follow if they are not satisfied with a particular transaction or purchase. NSW Fair Trading, for example, provides consumers with advice concerning their legal rights and responsibilities in the marketplace and assistance when resolving disputes with retailers. The legal rights and responsibilities of consumers are discussed in greater detail in section 1.3. It is important also to note that NSW Fair Trading is a member of the National Indigenous Consumer Strategy (NICS) Reference Group. NSW Fair Trading is committed to ensuring that beneficial outcomes for Indigenous consumers are achieved.

Environmental decisions

Many consumers consider the environmental impact of their consumption decisions. They understand that protecting the environment will improve the quality of life of future generations. Every year, Australians throw out more than 64 million tonnes of waste. That is more than 2.7 tonnes of waste per person, each year. Almost 60 per cent of this waste is recycled. The rest goes to landfill. This level of consumption is not ecologically sustainable – it cannot continue without causing significant damage to the environment. When selecting products, environmentally aware consumers ask themselves the following questions:

- Does the production or distribution process of this product harm the environment?
- Does the use of the product harm the environment?
- Is this product recyclable?



Understanding the text

- 1 In your own words, define what Commerce is.
- 2 What benefits are there in studying Commerce?
- 3 What are the main types of decisions that affect the quality of our lives?
- 4 How does a want differ from a need? Provide examples.
- 5 Distinguish between personal wants and collective wants.
- 6 Why must consumers choose which wants to satisfy?
- 7 **a** Outline the main types of employment decisions a person needs to make.
b How do these decisions impact on a person's quality of life?
- 8 List five examples of flexible working practices and the advantages of working in this way.
- 9 Make a list of the key financial decisions that consumers need to make. Explain the importance of each of these decisions.
- 10 Outline the advantages of saving.
- 11 Describe the key business and legal decisions that affect the quality of our lives.
- 12 Outline the factors consumers can consider when assessing the environmental impact of their consumption decisions.

Activities

- 1 Working in small groups, compile a list of your needs and wants. Compare these with other groups in the class. Survey the needs and wants of students in another year group. What differences do you notice in the types of needs and wants of these students? Using the results of your survey, suggest some of the factors that influence the needs and wants of consumers.
- 2 Create a table and list the types of collective goods provided in your local community.
- 3 As a group, discuss the impact that commercial and personal decisions have on the quality of your life.
- 4 Survey members of your household and find out what kinds of commercial decisions they make on a daily basis. Classify these decisions under the headings in Figure 1.1.3. Create a table with two columns: decisions and outcomes. In the outcomes column, summarise some of the advantages and disadvantages of each decision.
- 5 Conduct a class debate on the topic 'People should not allow personal issues and concerns to influence their commercial and business decisions'.
- 6 In small groups, brainstorm your legal rights as a consumer.
- 7 In small groups, brainstorm the strategies that consumers can use to minimise the impact of their consumption decisions on the environment.
- 8 Access the website of NSW Fair Trading. Write a short paragraph outlining the type of legal advice this site provides for consumers.
- 9 Study Table 1.1.1. As a class, discuss the issues listed.
 - a What do these issues have in common?
 - b What other issues are commerce-related?
 - c Are there general criteria that make an issue commerce-related? If so, what are they?
- 10 From the list, decide which current commerce-related issues are long-term and which are short-term.
- 11 As a class, discuss which current issues from the list are most important and why.



NSW Fair Trading

1.2 Consumer and financial decisions

Key factors affecting consumer decisions

Every day, consumers and households make decisions about the goods and services they purchase. Figure 1.2.1 summarises some factors that influence these consumption decisions.

Finance

Consumers require access to funds in order to purchase goods and services. These funds may come from their own savings or from a bank or financial institution in the form of **credit**. Some retailers also offer finance in the form of store credit cards and **hire-purchase** agreements. Hire purchase is similar to purchasing goods on a credit card. With hire purchase, however, the store, rather than the bank or financial institution, lends the funds to the customer. Customers can take the goods home and make regular repayments to the retailer over a period of time. This is a common way of purchasing durable goods, such as cars, white goods, and expensive electronic equipment such as televisions and home movie systems.

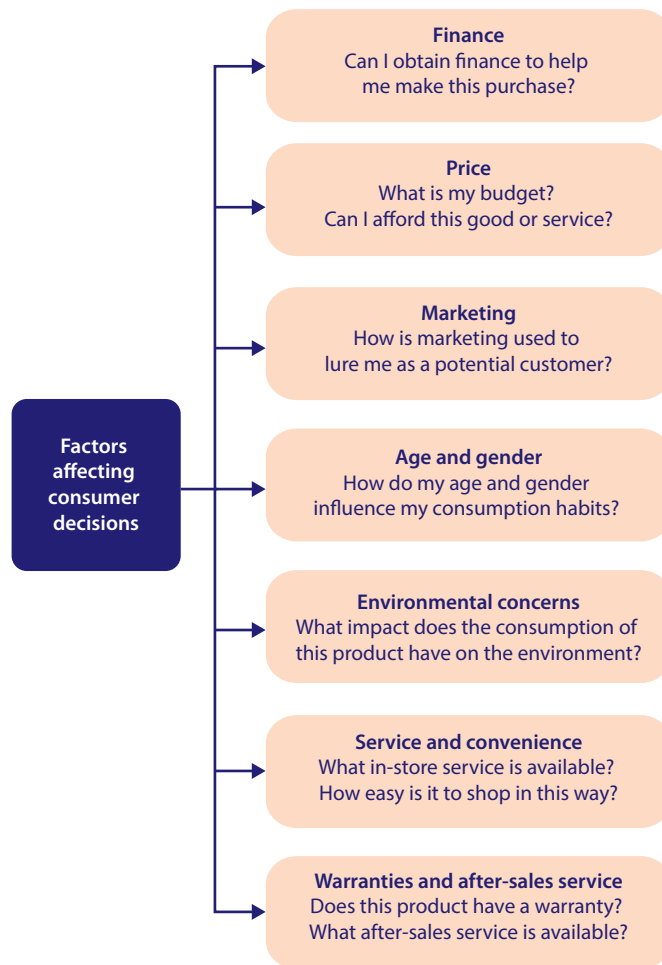


FIGURE 1.2.1 Factors affecting consumer decisions

The amount of money that you earn (your income) is another important factor that influences purchasing behaviour. Your **disposable income** (or net income) is the amount of money you have available to spend on goods and services. It is calculated by subtracting the tax you are required to pay from your **gross income** (or total income).

$$\text{Disposable income} = \text{gross income} - \text{tax}$$

Several factors influence your level of gross income, including the type of industry you work in, your qualifications and your level of experience in the job.

Price

The amount of money you are willing to spend and the product's price are two of the most important factors affecting your decisions as a consumer. Being a wise consumer means answering the following questions before you purchase a good or service:

- Am I spending more than I can afford?
- Have I checked the price of the same product in other stores?

The Australian Government's consumer website suggests that you obtain a minimum of three quotes before buying an expensive good or service. When comparison shopping, it is often useful to mention that you have obtained quotes from a number of suppliers. This usually encourages businesses to quote you a lower price.

It is also vital that you know how much you can spend by preparing a detailed budget. It is easy to forget about your spending limit when you are excited about buying a new mobile phone, computer game or surfboard. A budget helps you to avoid spending your money on less important items and not leaving enough money for the things you really want or need.

Some other tips for comparing prices are:

- Don't assume that the price is lower just because the item is on sale or that the advertised price is always the lowest price.
- Don't be rushed into making a purchase by sales assistants who tell you that a special price is for a limited time.
- Be aware of hidden costs, including delivery fees, installation charges, service costs, and postage and handling fees. Add these charges to determine the total cost of the product.
- When comparing the prices of products in a supermarket, use the unit pricing method to compare the cost per gram or kilogram (see the Spotlight box below). Bigger packages are not always better value for money than smaller ones.

Spotlight: Unit pricing method

Two packets of breakfast cereal are for sale in your local supermarket. The product in both boxes is identical. However, the prices and weights differ:

- Box A weighs 1 kilogram and the price is \$8.33.
- Box B weighs 750 grams and the price is \$6.00.

You can work out which box is better value by calculating the cost per gram using the formula below.

$$\text{Cost per unit} = \text{price} \div \text{weight}$$

Using the formula above, the cost per gram of the boxes is:

- box A: $833 \div 1000 = 83$ cents per gram
- box B: $600 \div 750 = 80$ cents per gram.

Box B is better value because it has a lower cost per unit.

Marketing

Retailers and manufacturers use the four Ps of marketing (product, price, promotion and place) to alter the buying behaviour of consumers. Breakfast cereal manufacturers, for example, package their products in large boxes to maximise the advertising power of each box on the supermarket shelf.

Marketing strategies such as this have a substantial negative, as well as positive, impact on consumers. Growing numbers of consumers and community groups are unhappy with the wasteful use of resources in some product packaging and the extra costs incurred that are passed on to customers. These groups would like to see manufacturers reduce the amount of packaging used for their products and minimise the impact of their production methods on the environment.

Spotlight: The four Ps of marketing

Marketing is about more than just advertising. Businesses need to consider the four Ps when designing a marketing strategy:

Product: the benefits/features of the product or service.

Price: the pricing strategy for the product or service.

Promotion: the methods used to make customers aware of the product or service.

Place: where the product or service is made, sold and distributed.

Age and gender

Most consumers realise that their wants change as they get older. There are, however, a range of other **demographic** factors that influence consumption decisions, such as gender (different genders often purchase different types of products), ethnic background and income.

Environmental concerns

In recent years, consumers have become increasingly aware of environmental issues and have taken these into account when choosing which goods and services to purchase. They have started to look beyond 'value for money' and to consider the environmental impact of their purchases.

In response to these concerns, manufacturers and retailers have started promoting and selling a range of 'environmentally friendly' products manufactured from recycled materials. These products are becoming increasingly popular among consumers. Australia's two big supermarket chains, Woolworths and Coles, banned single-use plastic bags in 2018.

Service and convenience

In recent years, service and convenience have become increasingly important to customers as their lives have become busier and the value of their free time has increased. As a result of these pressures and the difficulties of transport in many of Australia's large cities, customers are increasingly making use of convenient alternatives such as online shopping and internet banking.

The demand for increased convenience is accompanied by a desire by many consumers for a more personalised shopping experience. Businesses have responded to this demand by offering a range of mobile domestic services, including car washing, pet grooming, ironing and gardening services. Many of these businesses operate seven days a week and will travel to a customer's home or workplace at a time that is convenient for the customer.

Warranties and after-sales service

A **warranty** is an agreement that outlines the conditions under which a consumer is entitled to have a good either repaired or replaced. Warranty conditions differ from one product manufacturer to another, so it is important to know what is covered by each policy and what is not. Shop around until you secure a good deal.

Customers can often purchase an **extended warranty** from the manufacturer or retailer. Paying for an extended warranty can save a lot of money on ongoing repairs, and can make the product cheaper in the long run. Extended warranties are popular for expensive electrical goods, such as computers and white goods (for example, clothes dryers and fridges). It is important to be aware of your rights and responsibilities as a consumer so that you know whether you can have the product repaired or replaced if it is faulty.

Other forms of after-sales service include customer help lines and product-support websites. Make sure you are aware of the support available for a product before you purchase it.



Spotlight: Hints for dealing with warranties and after-sales service

Keep the original packaging

Many manufacturers will only honour a warranty agreement if the product is returned to them in its original packaging. This may seem unnecessary to many customers. However, this rule is made for a good reason: the original packaging is custom-designed to protect the product when it is being transported.

Do not try to fix the product yourself

You are likely to void the warranty if you do not follow the manufacturer's instructions. If the warranty is void, you will lose the right to have the product repaired or replaced under the warranty. If you experience a problem with a product, it is a good idea to contact the company as soon as possible.

Keep your receipt

The receipt is more important than the warranty return card because the receipt is your proof of purchase. The date on the receipt will determine when the warranty period starts and ends. You need to keep the receipt until the end of the warranty period.

Get it in writing

Do not rely on the promise of the salesperson. Get all promises in writing.

Choosing what to buy

Every day, consumers make a range of decisions when purchasing goods and services. In this section, we look at the types of goods and services that exist in the marketplace and the various shopping options available to consumers.

Choosing to spend or save

Is it better to spend and enjoy your money or save it? How can we make sure that we can meet any unexpected expenses? These are perhaps the most important questions we must answer as consumers. While it is important that we meet our basic needs and satisfy our wants, we should always ensure that we have enough savings to meet any unexpected event in our lives. There are many good reasons for saving. These include becoming financially independent, saving to buy a car or home, getting out of debt, meeting large annual expenses such as car registration and insurance, covering emergencies and any unforeseen expenses such as major car repairs or losing your job, and perhaps saving for that dream holiday. See section 1.4 for more on spending and saving.

Types of goods and services

Consumers purchase two main types of goods – durable goods and non-durable goods – to meet their personal (individual) needs and wants. They also purchase a wide range of services.

A **good** is an item that is tangible. Goods that have a long lifespan are known as **durable goods**. These goods include washing machines, furniture and motor vehicles. They are generally more expensive than other goods and are bought less frequently. People often use credit or save up to purchase durable goods. Because durable goods have a long life, they tend to lose value, or **depreciate**, over time.

Many products are not manufactured to last a long time. These products are known as **non-durable goods**. Examples are newspapers, takeaway food containers and packaging, and pens. Non-durable goods tend to be less expensive than durable goods, and are often purchased with cash or EFTPOS (electronic funds transfer at point of sale). Because these products have a short lifespan, they need to be purchased more frequently.

Another way of naming or grouping goods is to look at the relationships between them. It is common, for example, to find two products in the marketplace that are consumed together. An example is tomato sauce and meat pies. When we purchase a car, we also need to purchase petrol. These types of goods

are known as **complementary goods**. There are also a number of products that can be consumed as alternatives to each other. These products, such as butter and margarine or glue and sticky tape, are known as **substitutes**. Consumers will often increase their demand for one product (such as butter) or service when the price of its substitute (in this example, margarine) rises.

Services are intangible goods that are provided to consumers by individuals or organisations. While services themselves may not be seen or touched, their results often are. Some services, such as education, are transferable from one person to another. Others are consumed at the point of sale (for example, watching a concert or getting a haircut) and are, therefore, not transferable.

Both businesses and individuals consume a range of services in their daily activities. Services consumed by businesses are known as *producer services*. Producer services are provided by one business for the benefit of another. Examples of these services include transport, accountancy and legal advice. *Consumer services*, on the other hand, include the broad range of services that individuals consume in their everyday lives. These services are provided by a variety of industries, including finance, hospitality and health. Individuals as well as businesses often consume the same service; for example, a taxi ride or an accountant's service. However, the service is called either a producer service or a consumer service depending on who the consumer is.

Different brands and products

As a consumer, it is difficult to ignore the large number of brands in almost every category of good and service in the marketplace. Notable examples include Nike, Calvin Klein (see Figure 1.2.2), Coke, Quiksilver, Nintendo, Microsoft and Apple. Manufacturers use brand names and advertising to promote a particular image and to add value to their products. In some cases, a brand name can become so powerful that it replaces the original or generic name for the product. Examples include 'Kleenex' for tissues, 'Esky' for insulated coolers, and 'Photoshop' for types of photo manipulation. Brand names are used not only to promote individual products but also to build the reputation (and value) of companies.

In recent years, retailers have attempted to 'fight back' against the rising power of manufacturing companies by releasing *own-label* and *generic* products. Generic products range from flour, sugar and dishwashing liquid to frozen pizza, soft drinks and cotton buds. Each of the major supermarket chains has own-label products, which are designed with simple, distinctive packaging. Examples of these products include Coles brand and Woolworths' *Homebrand* branded products. Generic and own-label goods are used to boost the reputation of supermarkets and reduce the power of manufacturing companies.

As a wise consumer, it is important to be aware of the existence of generic goods on the supermarket shelves. You may wish to compare the price and quality of branded and generic products before making a decision to buy. Many generic products are of comparable quality to the branded alternatives and cost less.



FIGURE 1.2.2 When buying clothes, people will often look for brands that present an image they like.

Consumer caution

With so much choice in the marketplace it can often be difficult to decide which good or service to buy. The key is to be aware of your needs and your budget and avoid the common trap of impulse buying. **Impulse buying** is when you purchase a good or service on the spur of the moment and later discover that you cannot afford the product or do not really need it. Supermarkets and planned shopping centres (for example, Westfield shopping centres) are designed to maximise the likelihood of these types of unplanned purchases.

You can avoid the trap of impulse buying by considering the following questions when shopping:

- *What exactly are my needs?* The first step for successful **comparison shopping** is to know what your needs are and avoid impulse buying. The key to achieving this is to be organised. Make a list of the goods and services you really need before you go shopping. If you keep to your shopping list, you can avoid making unnecessary purchases and ensure that the products you buy meet your requirements.
- *Can I afford this?* Budget carefully so that you know how much you can afford to spend and what other financial commitments you have.
- *Have I compared prices?* Compare the price of the product with other similar products on the market.
- *What after-sales service is available with the product?* Does the product come with a guarantee or warranty? If so, what are the terms of these offers?
- *What are the features of the product and will it do all that I want it to do?* Write a description of the important features that you require in a particular good or service. You may also need to do some research to find out what features are available in different products.
- *How safe and reliable is the product?* A reliable product is one that does what is required or expected of it over a reasonable period of time. Unreliable products often need to be replaced soon after they are purchased and can cost their owners a lot more than they originally budgeted for. An important first step is to check that the goods you are buying are in proper working order before exchanging money for them. This is especially important if you are buying a second-hand good.

Choosing where to buy

Deciding where to buy can be frustrating because of the vast amount of choice in the marketplace. Consumers may choose to shop at a traditional retail outlet, such as a corner store, supermarket, department store or planned shopping centre. Alternatively, they may decide to shop online, or buy from door-to-door salespeople, or visit local farmers' markets or purchase goods from a catalogue. These shopping alternatives are becoming increasingly popular as consumers work longer hours and have less time for shopping.

The shopping hierarchy

Different kinds of retail outlets can be placed into a hierarchy based on the types of services they provide and how far consumers will travel to get to them. At the bottom of the hierarchy are small shops and general stores selling convenience goods such as bread and milk. These goods are purchased frequently because they are non-durable. At the top of the hierarchy are large regional shopping centres and stores selling relatively expensive consumer durables; for example, sporting equipment, furniture and electrical goods.

It is important to note that the central business district (CBD) is no longer at the top of the shopping hierarchy in Australia's large urban areas. It has been replaced by planned shopping centres. Examples in Sydney are Westfield Miranda and Parramatta, the Macquarie Centre and Chatswood Chase. Planned shopping centres are also found in large regional towns. Increases in car ownership and average incomes have meant that consumers are now prepared to travel further to do their weekly shopping. There is also growing demand for 'one-stop' shopping, where customers can park close to the shops and find everything they need in one location.

Another important change in the shopping hierarchy has been the shrinking number of independent retailers and corner stores in suburban areas. Many of these retail outlets have closed as a result of the extended trading hours of supermarkets and the large number of company mergers and takeovers (the joining of companies or transfer of control from one group of shareholders to another).

The different types of retail outlets are outlined below.

General (corner) stores

General (corner) stores are small retail outlets that focus on selling everyday convenience items such as milk and bread (see Figure 1.2.3). These stores were once a common feature of neighbourhoods in Australia's cities and country towns. Unfortunately, the **deregulation** of trading hours and the growing power and size of the large retail chains (especially Coles and Woolworths) have meant that many general stores have had to close. A number of 24-hour convenience stores and service station franchises (including 7-Eleven, Caltex and BP) have, in many cases, taken over the role of family-owned and operated corner stores.

Supermarkets

Supermarkets are large self-service stores that sell a wide variety of food and other household products. The format of typical supermarkets has changed significantly over time as they have grown in size and their range of products has expanded. Supermarkets are also becoming more diversified with the introduction of discount petrol, in-store bakeries and banking services. Many of these stores now trade for extended hours and most are open seven days a week. Australia's main supermarket chains include Coles, Woolworths (see Figure 1.2.4), IGA and Aldi (see Figure 1.2.5).



FIGURE 1.2.3 Corner stores concentrate on selling convenience goods.



FIGURE 1.2.4 Woolworths is one of Australia's biggest supermarket chains.



FIGURE 1.2.5 Aldi, the German-owned grocery chain, provides an alternative to Coles and Woolworths, which have dominated the Australian supermarket industry for many years.

Department stores

Department stores are one of the oldest forms of retailing in Australia. David Jones, which opened in 1838, is the country's oldest department store (see Figure 1.2.6). As the name suggests, these retail



FIGURE 1.2.6 David Jones's flagship Elizabeth Street store is one of Sydney's up-market department stores.

outlets are divided into a number of smaller units, or departments, selling a wide range of goods and services. Goods are arranged by type; for example, women's fashion, menswear, children's wear, china and glassware, perfumes and cosmetics, furniture and household appliances. Department stores, like planned shopping centres, are designed to maximise the number of purchases that customers make within the store. To encourage spending, department stores set up elaborate displays and provide entertainment, giftwrapping services, coffee shops and other facilities. **Customer loyalty programs**, such as store credit cards and reward points, are also used to encourage customers to return to the store for repeat purchases. Myer is another well-known department store in Australia.

Discount stores

Discount stores include Big W (see Figure 1.2.7), Kmart and Target. Like department stores, discount stores offer a range of goods through specific product departments. The main difference is that discount stores focus on cut-price promotions and value for money. The goods offered by these outlets are usually cheaper than those offered by department stores. Discount stores rely on self-service, and customers may need to approach the information desk or checkout for assistance with a particular purchase. Department stores, on the other hand, pride themselves on the personal service that they provide to customers.



FIGURE 1.2.7 Big W is a discount variety store.

Independent specialty stores

Independent specialty stores are retail outlets that are usually owner-operated; that is, managed by their owners. These stores do not form part of a larger company and the owners are free from outside control in their decision-making. These types of stores sell a variety of products, ranging from electrical goods to stationery. Independent specialty stores are common along main streets and in traditional shopping centres. In recent decades, independent retailers have experienced



FIGURE 1.2.8 Independent specialty stores are usually managed by their owners.

increased difficulties as a result of the growing power of major retail chains, including Coles, Myer and Woolworths.

Big box retailers

Big box retailers (sometimes referred to as **category killers**) are retail outlets that dominate the sale of one particular product type. Category killers include Officeworks, Bunnings (see Figure 1.2.9), Baby Bunting and JB Hi-Fi. They often operate from large warehouses, purchase their supplies in bulk and attempt to undercut the prices of other retailers. These stores are frequently parts of larger chains and are usually located in the suburban areas of Australia's large urban centres.

Franchises

Franchising is a type of retailing that involves selling the rights to use a business name, image or management system. A **franchise** is part of a group of stores that share similar products and operating systems, but each franchise is independently owned. Examples of franchises include some McDonald's restaurants, KFC, Pizza Hut, Subway, 'Yes' Optus stores, Midas and Donut King. Franchising is one of the fastest growing industries in Australia. The number of Australian-owned franchises continues to grow.

Periodic markets

Market shopping is a popular recreational activity for Australian consumers who enjoy looking for a bargain or unusual product. Periodic markets can be found in many parts of urban and rural Australia. Markets differ from other types of shopping because they involve large numbers of sellers in an informal market setting. Paddy's Markets at Haymarket and Flemington in Sydney are two of the country's oldest retail centres. Each of these markets has more than 1000 stalls, selling goods ranging from souvenirs, clothes and sporting goods, to cosmetics, footwear, sunglasses, electrical goods and food. Many of these large markets open only on the weekends and invite customers to bargain and bulk-buy in order to save money.



FIGURE 1.2.9 Bunnings is an example of a big box, category-specific retail outlet.



FIGURE 1.2.10 McDonald's is a franchised retail outlet popular with teenagers and young families around the world.



FIGURE 1.2.11 A periodic market: Sydney's Martin Place



FIGURE 1.2.12 Shopping strip precincts are usually found along major roads in older suburban areas.



FIGURE 1.2.13 The Macquarie Centre in Macquarie Park is an example of a planned shopping centre.

Shopping strips

Shopping strips (see Figure 1.2.12) are traditional shopping centres consisting of a range of retail outlets lining the main street of a town or suburb. These shopping areas are rarely enclosed and generally contain a supermarket and a range of specialty stores. Shopping strips often do not provide the parking facilities available in planned centres. They are usually dominated by independent specialty stores providing customers with personalised service.

Planned shopping centres

Planned centres differ from other types of retail outlets in that they are planned, operated and managed as a single unit. They contain a wide range of different types of stores under one roof and provide customers with easy access to car parking. Each centre generally has one or two large 'anchor' stores (usually a department store or large supermarket), which are designed to attract customers to the centre. The idea is to encourage these shoppers to make further purchases at the carefully located specialty stores along the way. The environment inside a planned centre is carefully designed to encourage consumers to remain within the centre. Strategies used include coffee shops, piped music, artificial lighting and in-store entertainment. Examples of planned centres in Sydney include the Macquarie Centre (see Figure 1.2.13) and Warringah Mall. As the size and number of planned centres continue to grow, the amount of retailing accounted for by traditional shopping strips continues to decline. While most retailing takes place outside planned centres, they represent a growing share of the overall market (between 20 and 25 per cent).

Direct marketing

Direct marketing is where goods are sold directly to a customer rather than through a retail outlet. There are several forms of direct marketing, including mail order (sending customers offers, advertising or catalogues in print or online), telemarketing (phone sales) and door-to-door sales.

For some people, direct marketing is a convenient way to shop because it allows them to order goods without leaving their home and the goods are delivered straight to their door. For others, direct marketing is an invasion of privacy and an easy way of being talked into buying things they don't really need. Some of the key advantages and disadvantages of direct marketing are listed in Table 1.2.1.

TABLE 1.2.1 Advantages and disadvantages of direct marketing

ADVANTAGES	DISADVANTAGES
- Convenience – shoppers can overcome difficulties, such as lack of transport or spare time, by ordering over the phone, online or by mail and having goods delivered direct to their home. - The flexibility to change your mind – for particular types of purchases, a 10-day cooling-off period may apply. Within this period, you have the right to cancel the sale. Details of the cooling-off period should be supplied to you in writing at the time of purchase (see section 1.3).	- It is very difficult to make price and quality comparisons when selecting goods from a catalogue. - A number of direct marketing scams take the customer's money and fail to provide a good or service in return (see section 1.3). - Direct marketing companies keep records of customers' spending habits and personal details (name and address), which can be passed on to other companies without the customers' knowledge. - Hidden delivery costs often apply.

You can avoid the pitfalls of direct marketing and door-to-door sales by knowing your rights as a consumer and being aware of the common scams in the marketplace (see section 1.3).

Online shopping

The internet has transformed the way consumers shop for goods and services. According to Australia Post's *Inside Australian Online Shopping* 2019 report, more than 73 per cent of Australian households shopped online in 2018. Those with higher incomes are even more likely to shop online. Convenience and price are the main drivers for consumers to shop online. While it is possible to purchase a broad range of products and services, fashion, homewares and appliances, and health and beauty items are the most popular items purchased online by Australians.



Important steps when internet shopping are listed below.

Step 1: Find an online store.

- Use a *search engine* to find a range of online stores selling the product.
- If you are buying a product from overseas, calculate the price of the product in Australian dollars, including delivery charges, taxes and duties. Many international sites now price goods in Australian dollars. If this is not the case, a range of currency converters are available on the internet.

Step 2: Carry out comparison shopping.

- Compare the prices and conditions offered by each of the online stores.

Step 3: Ask around.

- Once you have found an online retailer that looks good, find out more about it by asking people who shop online regularly. Also, do a search for internet scam sites and check if the retailer is listed.

Step 4: Check that the payment system is secure.

- If you are unsure about entering your credit card details, don't do it. Most online stores offer alternative methods of payment, including PayPal, bank transfer or using a debit card rather than a credit card.



Shutterstock.com/Primakov

FIGURE 1.2.14 eBay and Amazon are popular online shopping sites that offer a broad range of products for purchase.

TABLE 1.2.2 Make shopping online safe.

ALWAYS	NEVER
• Make inquiries. Phone or email the store to confirm the details of the sale. • Check for any hidden costs and do your exchange rate calculations carefully. • Check for any restrictions on imported goods by visiting the website of the Australian Border Force. • Protect your personal information. Be careful about who you provide your credit card details to. • Be wary of offers that sound too good to be true – they probably are. • Contact NSW Fair Trading if you experience problems with your purchase.	• Deal with retailers that will not supply a mailing address or contact details. • Forget to keep records of any orders or transactions conducted online. • Give the details of your bank account to any business. • Trust any single person's opinion or guarantee. Make an informed decision based on several sources of information. • Forget to check for the danger signs of fraud. Is the retailer being pushy? Does the website lack information about how to contact the supplier or make a complaint? • Do business over the phone or internet with companies that you do not know.



Spotlight: Online sales boom

The way we access goods and services is changing. The growth of online retailing is perhaps the most significant of these changes. In 2017, traditional 'bricks-and-mortar' retail sales were \$267.6 billion (an increase of 2.5 per cent over 2016). Online sales reached \$27.5 billion in 2018 (an increase of 24.4 per cent over 2017). People are increasingly using mobile devices such as smartphones to make online purchases. In 2018, 26.4 per cent of online purchases were made using mobile devices. It is estimated that by 2020 one in 10 items will be purchased online.

Spotlight: Trends in consumers' online shopping behaviour

Increasingly, we are going online to purchase goods and services. Some of the more interesting recent developments include the following.

Buy now, pay later

Buy now, pay later (BNPL) payment services are changing the way people shop online. BNPL payment services now make up 7.7 per cent of total online spending on physical goods. Fashion alone now accounts for 57 per cent of all BNPL transactions. This form of payment is especially popular with the 18–39 age group. It allows them to access the goods now and pay for them in instalments. Afterpay and Zip Pay are notable examples of BNPL services.

Shopping events

Shopping events are now part of the online shopping culture. Black Friday and Cyber Monday, Click Frenzy and the Boxing Day sales are responsible for large spikes in online shopping. These events are now becoming a significant part of the shopping landscape.

Online marketplaces

Online marketplaces are central online platforms where goods are offered by multiple third parties. Until recently, eBay was the only significant online marketplace for fashion shoppers in Australia. With the arrival of Amazon, and with retailers such as the Catch Group and Myer setting up their own marketplaces, it is likely that online marketplaces will play an even bigger role in the future.

Discount variety stores

Discount variety stores have also developed an online presence. This category consists of retailers that sell a wide range of goods, from clothing and beauty products to books and electronics. Around one-quarter (25.6 per cent) of variety store purchases are fashion-related, and a further 20 per cent are consumer electronics. Discount variety stores are now the biggest category in online shopping, accounting for more than a third (35.6 per cent) of all purchases in Australia in 2018.

Traditional department stores

While traditional department stores have developed an online presence, they have only experienced modest growth in online retail sales. In order to compete with online sales, department stores such as David Jones are investing heavily in the customer's in-store experience. David Jones has undertaken expensive store makeovers and introduced concepts such as upmarket cafes, restaurants, champagne bars, gourmet food halls, themed specialist departments and personalised shopping services.



Getty Images/E+/praetorianphoto

FIGURE 1.2.15 Online purchases of goods and services are growing rapidly.

Buying locally, regionally, interstate or from another country

Another important choice that consumers need to make is whether to purchase locally manufactured or imported goods (goods produced overseas). The price and quality of a good, along with the service provided (including warranties and after-sales advice), can act as a guide when making these decisions. For some consumers, however, the decision is an ethical one. When we purchase imported goods, there is a flow of money out of the country to pay for them.

This is generally not a problem unless we, as a nation, spend more on imported goods than we earn from our exports (goods we sell to other countries). If this continues for a long time, it increases our foreign debt.

In an attempt to address these concerns, the Australian Chamber of Commerce and Industry developed the Australian Made campaign, which has now been running for more than 30 years. This campaign encourages customers and businesses to choose Australian-made products when they are determined to be equal to products from overseas or represent better value for money. Australian products are promoted both locally and overseas using a triangular green and gold kangaroo logo (see Figure 1.2.16). The logo is now recognised by more than 90 per cent of Australian shoppers and is accepted as a symbol of quality in the marketplace. Recent research has found that 75 per cent of Australian consumers prefer to buy Australian-made goods and 50 per cent make an effort to buy Australian-made products.

Australian labelling laws make it easy for consumers to identify products made in Australia. For a product to carry the label 'Product of Australia', it needs to be both produced and processed within the country. The alternative label 'Made in Australia' is used to identify products that are manufactured within Australia but may also contain imported ingredients.

Improvements in communications technology, as well as in road, rail and air transport, have also made it easier for consumers to purchase products regionally or from interstate. These developments provide consumers with greater choice by giving them access to products and retailers not available in their home state.

Methods of payment

When buying goods and services, you need to decide how to pay for them. You have a range of options. These include cash or cashless transactions and credit.

Cash

Despite technological developments in banking and finance, many consumers prefer to use cash to pay for the goods and services they consume. A key advantage of this payment method is that it is immediate. Most shops accept cash, and some purchases can only be made using cash; for example, small-value items (although this is changing, with many shops now accepting cashless payment for small-value items). Some consumers can monitor the amount of money they have more easily when they use cash. They can limit their dealings with banks and the slow processing and settlement of non-cash payments. Many customers are concerned about the high interest charges on credit cards and the low interest paid to savings stored in bank accounts. Budget-conscious customers are also aware that they can negotiate lower prices when they pay for expensive items with cash. They can also take advantage of 'cash-only' sales.

A disadvantage of cash is that it can be a bulky way to pay for expensive items. Imagine paying for a new house or car with cash. In addition, cash is not very secure. Once it is lost or stolen, it is gone for good. The key advantages and disadvantages of cash or cashless transactions are summarised in Table 1.2.3.



FIGURE 1.2.16 The famous Australian Made, Australian Grown (AMAG) logo is Australia's most trusted, recognised and widely used country of origin symbol. As a registered trademark, the AMAG logo can only be used on products that are registered with the not-for-profit Australian Made Campaign Ltd (AMCL) and that meet the criteria set out in the Australian Consumer Law and the AMAG Logo Code of Practice.

Direct debit

Today, a majority of consumers avoid the inconvenience of paying bills by mail or at a bank by setting up a direct debit from their regular savings or cheque account or from a credit card. Direct debit is a popular method of paying for household services (utilities, including gas, internet and electricity bills) as well as recurring payments such as gym memberships and subscriptions.

Cheques

A cheque is a written instruction asking for funds to be transferred from your bank account into someone else's. Cheques were once the principal means of paying for goods and services. Today, they are rarely used (see the Spotlight box below).

Spotlight: Cheques tipped to disappear

If current usage trends continue, the humble chequebook will disappear entirely by the end of 2020. The number of customer cheques processed in Australia dropped from 45 900 a month in early 2012 to just 6549 in early 2018. It was predicted that the number of cheques used would continue to fall, with just 3000 a month being used by early 2019.

Students currently enrolled in secondary schools are unlikely to ever own a chequebook.



FIGURE 1.2.17 Handwritten cheques were once the principal means for paying for expensive goods and services. They are rarely used today.

Credit cards

Credit cards enable customers to purchase goods and services with money lent to them by a bank, other financial institution or retailer. These purchases usually have an interest-free period within which consumers can accumulate debt at no charge. After this date, interest is charged on the daily outstanding balance. Credit cards can be a very useful resource for a consumer when they are used effectively. Examples of common credit cards include Visa, Mastercard and American Express. The key advantages and disadvantages of credit cards are summarised in Table 1.2.3. See Chapter 11, section 11.4, for more information on credit cards.

TABLE 1.2.3 Cash or cashless transactions and credit cards: advantages and disadvantages

CASH OR CASHLESS TRANSACTIONS	CREDIT CARDS
Advantages • The biggest advantage of paying with cash is that you are limited in how much you can spend. If you don't have the cash in your pocket (or in your debit account), you are unable to spend the money and reduce your savings. • You don't have to pay a credit card company an annual fee or surcharge when you use cash. • You don't incur a late payment fee and interest if you miss a monthly credit card repayment or don't pay off the full amount owing.	Advantages • Credit cards are convenient and widely accepted. • Most cards offer an interest-free period. If used carefully, they can be relatively inexpensive to use. • Credit cards allow you to spread the payment of expensive purchases over several months. You will, however, be charged interest on any outstanding balance. • You are protected against unauthorised charges if your card is lost or stolen. • Credit cards are often linked to rewards programs, such as the accumulation of frequent flyer points.

> CASH OR CASHLESS TRANSACTIONS	CREDIT CARDS
Disadvantages • Paying with cash forces you to carry around enough money to make all your purchases. For small, inexpensive purchases, this is not a problem. Carrying large amounts of cash to pay for expensive goods or services can be risky. If your wallet or handbag is lost or stolen, so too is your money.	Disadvantages • Access to a credit card can encourage impulse buying – the purchase of goods and services you may not be able to afford. • Interest rates are often very high, so credit cards can be an expensive way of paying for things if you don't pay the outstanding balance each month.

Electronic funds transfer

Today, instead of paper and pens, electronic devices (such as smartphones and computers) are used when making and processing transactions. The term 'EFT' (electronic funds transfer) refers to all types of financial transactions that are carried out electronically. Examples of EFT include EFTPOS (including PayWave), Apple Pay, Google Pay, BPAY, PayPal, internet banking, and using an ATM to withdraw money or transfer money between accounts. (If you have more than one account, you can have them linked and use one card to make transactions for all your accounts.)

BPAY

BPAY is a method of making electronic payments. This system enables the payment of bills over the phone or online. BPAY reduces the time and cost associated with traditional bill payment and is available 24 hours a day, seven days a week. Funds used for BPAY come either from a credit card account or from a savings or cheque account.

EFTPOS

Electronic funds transfer at point of sale, better known as EFTPOS (including 'tap and go'), is a common method of paying for goods and services. EFTPOS allows you to pay for items directly from your bank account using a plastic debit card and, especially for larger transactions, a PIN (personal identification number), or with a smart device. Apple Pay and Google Pay are increasingly popular payment methods, as they allow consumers to make in-store or in-app purchases without the need for a bank card. Apple Pay and Google Pay are digital wallet and online payment services that work in partnership with the major banks and financial institutions, and allow users to make payments and transfer money using their smart device. The systems use facial recognition software and unique transaction codes, rather than storing card numbers on the user's device. This system can offer more security than a physical card or cash.

The main advantages and disadvantages of EFTPOS are listed in Table 1.2.4.

TABLE 1.2.4 EFTPOS: advantages and disadvantages

ADVANTAGES	DISADVANTAGES
• EFTPOS is cash free and therefore minimises security concerns for both customers and retailers. • Electronic payment is quick and convenient for customers and retailers. • EFTPOS is widely accepted as a method of payment by most retailers.	• There has been a significant increase in fraud related to electronic transactions in recent years. In many cases, funds have been stolen from bank accounts using 'skimming' devices, which copy the information on your card and record your PIN. • EFTPOS technology allows the collection and storage of data related to individual spending habits. This personal information can be sold or passed on to other companies without your knowledge.

Lay-by

Lay-by is a convenient service provided by a limited number of retail stores. It allows goods to be purchased when the customer does not have the full amount of money to buy them up-front. A retailer will hold the goods at the store for a specified period of time until they have been paid for in full. Unlike hire-purchase agreements and credit sales, there are no interest charges associated with lay-by. Another advantage of lay-by is that it protects the customer against any future increase in the price of the product. The seller will hold the goods at the original price, unless payments are not made as agreed.

Buy now, pay later

Buy now, pay later (BNPL) services are becoming an increasingly popular payment method. These services (for example, Afterpay and Zip Pay) allow a customer to purchase and receive a good or service without paying the full price up-front. Customers pay for the item in instalments (often fortnightly) over a set period of time via direct debit. A user needs to sign up and be approved by a BNPL service provider and can then use its app or website to make purchases online and in-store. Generally, the services are offered as 'interest-free'; however, the provider will usually charge late fees if the scheduled payments are not successfully processed. It is important to read the terms and conditions before signing up to a BNPL service.

Similar to credit card transactions, it can be easier to spend more than your budget as the full amount is not being deducted straightaway. With many expensive items now being available for purchase using a BNPL service (including flights and health services), purchases should be carefully considered to avoid accumulating unmanageable debt.

Spotlight: Services for Indigenous Australians and remote communities

Over the past two decades, access to banking and financial services in Australia's remote communities has declined. Many of the branches in remote communities have been closed and replaced with electronic banking services.

These developments have had a significant impact on Aboriginal and Torres Strait Islander peoples in particular, for a number of reasons:

- Over 50 per cent of Australia's Indigenous population live in regional and remote areas.
- Indigenous Australians are relatively poor in cash income terms and are often dependent on welfare.
- Many Indigenous Australians live in remote communities where there are often no banking services provided in town or through electronic or phone banking services.

In addition, cultural differences between Indigenous and non-Indigenous Australians mean that different types of services are often required to meet the needs of Indigenous communities. We cannot assume that one type of service meets everyone's needs or that all communities have the same level of access to online services.



Spotlight: Reflecting on your own purchasing decisions

From time to time it is important to reflect on your own recent purchasing decisions. Issues you might like to reflect on include:

- Did I really need the good or service?
- Could I really afford it?
- Did I get it for the best price?
- How did I inform myself about the best good or service to purchase?
- How did I justify the purchase to myself? Others?
- Did I get value for money?
- Did I ask about after-sales service and any warranty?

Working individually, formulate a response to these questions. Share your experience with your classmates. What reflections do you have in common? Were any of your reflections unique to you? What have you learnt from this exercise?

Understanding the text

- 1 Outline the key factors that influence consumer decisions. Provide an example of each of these factors.
- 2 List the types of finance available to consumers.
- 3 **a** What is a hire-purchase agreement?
b How does hire purchase differ from other forms of credit?
- 4 Define the terms 'gross income' and 'disposable income'.
- 5 List four important tips to remember when comparing prices between stores.
- 6 **a** What is unit pricing?
b How can unit pricing help you to find a better deal?
- 7 How do manufacturers use packaging to give themselves a competitive advantage in the marketplace?
- 8 Explain why service and convenience have become increasingly important for customers in recent years.
- 9 **a** What is a warranty?
b What features of a warranty agreement should consumers look for when buying a product?
- 10 **a** What is a good?
b Explain the key differences between goods and services.
- 11 Describe the difference between durable goods and non-durable goods.
- 12 Would you spend more time shopping for a durable good or a non-durable good? Explain your answer.
- 13 Define the terms 'depreciation', 'complementary goods', 'substitute goods', 'producer services' and 'consumer services'.
- 14 **a** What is a generic or own-label product?
b Why do retailers provide them?
- 15 **a** Define the term 'impulse buying'.
b Describe the strategies that can be used to avoid impulse buying.
- 16 What is meant by the term 'reliable'?
- 17 **a** What is a shopping hierarchy?
b Describe the types of stores you would expect to find at the top, middle and bottom of the hierarchy.
- 18 How has the hierarchy of shopping centres in Australia changed over time? Provide reasons to account for these changes.
- 19 **a** What is a customer loyalty program?
b Why do stores use them?
- 20 What is the main difference between discount stores and department stores?
- 21 Define the terms 'franchise' and 'category killers'.
- 22 What are the key advantages of planned centres over more traditional shopping formats, such as shopping strips?
- 23 What is direct marketing?
- 24 **a** What is internet shopping?
b What are its advantages and disadvantages?

- 25 Describe some of the reasons why consumers may wish to buy locally rather than from overseas.
- 26 Outline the reasons why it is important to save at least part of your income.
- 27 Outline the advantages and disadvantages of using cash and credit when buying goods and services.
- 28 List the methods you can use to purchase goods and services. Which of these methods do you use?
- 29 Outline the advantages and disadvantages of using credit cards.

Activities

- 1 Use pictures from the internet, magazines and other forms of media to create a collage of factors that influence consumer decisions.
- 2 Working in groups, brainstorm as many complementary goods as you can. What strategies do retailers use to encourage you to purchase both products? Share the key points raised in your group's discussion with the rest of the class.
- 3 List alternative products, or substitutes, for the following goods:
 - a breakfast cereal
 - b jam
 - c movies on DVD
 - d telephone calls
 - e fresh milk
 - f soft drinks
 - g pay television.
- 4 As a class, make a list of the services that you consume on a daily or weekly basis. Develop a method for classifying these services.
- 5 In small groups, select a business or company that interests you. Undertake research to find out what the company does and what types of producer services it uses.
- 6 Select 10 goods that you would purchase during a typical week and then copy and complete the table below.

BRAND	DOES THIS GOOD SATISFY A NEED OR A WANT?	IS THIS GOOD DURABLE OR NON-DURABLE?	WHAT IS A SUBSTITUTE FOR THIS GOOD?	IS THIS A GENERIC/OWN-LABEL GOOD?

- 7 Potato chips are available in a supermarket in the following packet weights and prices:
 - a 500 gram packet – \$2.50
 - b 750 gram packet – \$3.60
 - c 1 kilogram box – \$5.30.
 Use the unit pricing method to work out which packet size is the best value.
- 8 Design an educational pamphlet or television commercial outlining the steps that consumers can take to avoid impulse buying. Include pictures and illustrations to help you get your message across.
- 9 As a class, establish criteria for determining the reliability of particular types of household products. Bring household items to school and test them against your criteria. Write up your findings in the form of a report. Find a copy of *CHOICE* magazine, or access it online, and use this as a guide for structuring your report.
- 10 As a class or in small groups, conduct a 'quality assessment' of a range of branded and own-label products. How does the quality of generic products rate against the others? Write a report summarising your findings.

- 11 Create a table summarising the different types of retail formats. Give examples of each from your local area, and outline the advantages and disadvantages of shopping in this way. In groups of two or three, design a multimedia presentation describing the key features of each store type.
- 12 In small groups, come to an agreement about how far you would be willing to travel to purchase each of the following goods:
 - a bread and milk
 - b weekly groceries
 - c a new bike or mobile phone
 - d a car or boat for your family.
- 13 Visit a planned centre close to your home or school and comment on the following features:
 - a access to car parking
 - b number and variety of retailers
 - c the format/layout of the centre
 - d services and entertainment provided.

Write a report outlining the key differences between planned centres and other common retail formats.
- 14 As a class, brainstorm the reasons why independent stores may find it difficult to trade in competition with large planned centres and category killers.
- 15 Design a pamphlet and a short presentation informing consumers of the advantages and disadvantages of either direct marketing or internet shopping. Share your findings with other students in the class by forming small groups of four or five.
- 16 Select one online shopping site and answer the following questions:
 - a How easy is this site to use?
 - b What types of goods are available from this site?
 - c How are the goods delivered? How long does this take and what are the delivery charges?
 - d What payment options are available?
 - e How secure is the site?

Present your findings in the form of a report.
- 17 Write a report outlining the steps that can be taken to avoid frustration and fraud when shopping online.
- 18 Study the Spotlight box 'Trends in consumers' online shopping behaviour' on page 22. Write a report outlining recent developments in online shopping.
- 19 Conduct a class survey to identify the factors that influence decisions to buy locally, regionally, interstate or globally.
- 20 Design your own educational campaign to encourage consumers to buy locally rather than from overseas.
- 21 The Dubai Mall is one of the world's largest shopping and entertainment destinations. Use the Dubai Mall website to create a fact file of statistics about the shopping centre. As a starting point, find out the answers to the following questions:
 - a Where is the centre?
 - b How large is it?
 - c What entertainment facilities are provided?
 - d How do consumers move around the complex?
- 22 As a class, discuss the advantages and disadvantages of different forms of finance.
- 23 Use the internet or library to locate two specialist consumer magazines. Write a point-form summary of their comparison shopping advice for consumers.
- 24 Design a campaign to encourage customers to think about packaging and the environment when they make decisions in the marketplace.
- 25 The website for the Australian Competition and Consumer Commission (ACCC) provides useful information for consumers. Access the 'Consumers' page of the ACCC website. What advice does this site give about the importance of finance, price, packaging, service and convenience when making consumer decisions?



The Dubai Mall



ACCC
– Consumers



NSW Fair
Trading

- 26 Copy the following table into your notebook and complete it using the information provided under the heading 'Methods of payment' in this section. Also use the website of NSW Fair Trading to find out more about the advantages and disadvantages of the different payment methods. Add this information to your table.

METHOD OF PAYMENT AND DESCRIPTION	ADVANTAGES	DISADVANTAGES
Cash		
Direct debit		
Credit card		
Book up		
Lay-by		
EFT (including BPAY, EFTPOS and PayPal)		

- 27 Your family has decided to purchase a new smart, UHD television. You do not have the \$4000 up front and are looking at the following payment options:
- a borrowing the money from a relative who requires the debt to be repaid within two years along with an interest payment of \$200
 - b purchasing the television on lay-by and paying it off in 25 monthly instalments
 - c paying for the television using a store credit card that has an annual interest charge of 24 per cent
 - d using a bank credit card that has an interest rate of 18 per cent per annum
 - e taking out a personal loan for 80 per cent of the purchase price at an interest rate of 13.5 per cent per annum – the interest rate applies to the total borrowed amount.
- Write a page outlining the advantages and disadvantages of each of the above options. Which option would you recommend and why?
- 28 Describe to a classmate the difference between a credit card and a debit card, and explain when you would use each.
- 29 Access the website of a bank and find out the following information:
- a What are the current interest rates offered for credit cards and personal loans?
 - b What is a cash advance? What are the advantages and disadvantages of using this service?
 - c What electronic banking facilities and payment services does the bank provide?
- 30 As a class, discuss the most appropriate payment method for the following types of purchases:
- a buying a newspaper
 - b paying for a haircut
 - c paying the monthly electricity bill
 - d purchasing a formal dress
 - e paying for a car
 - f buying groceries
 - g paying off a mortgage (housing loan) or personal loan.
- 31 Read the Spotlight box 'Services for Indigenous Australians and remote communities' on page 26. In small groups, brainstorm measures that could be used by industry, government and Indigenous organisations to improve the financial and banking services available for Indigenous Australians and those living in remote communities.
- 32 In small groups, make a list of the resources that are available to help you organise the records you need to keep as a consumer.

- 
- 33 Develop a spreadsheet that you could use to keep track of your purchases over the period of a month. Remember to include purchases paid for with cash as well as EFTPOS, BPAY, credit and cheque transactions. At the end of the month, use your spreadsheet data to check the accuracy of your bank statements. You can also use your spreadsheet to keep track of when the warranty runs out on certain products you have bought and/or when car registration or annual insurance is due.
 - 34 As a class, brainstorm the advantages and disadvantages of smart card technology. Suggest reasons why some members of the community are concerned about the introduction of these cards.
 - 35 Use Microsoft Publisher or Word to create a newspaper article titled 'Shopping in 2050'. Include ideas from this section of the text as well as your own thoughts and illustrations.
 - 36 Make a list of the recent technological developments in retailing that have transformed the way people shop for goods and services. Select one of these changes and use the internet and library research to find out more about it. Present your findings in the form of an oral report or multimedia presentation.

1.3 Consumer protection

The need for consumer protection: scams and rip-offs

Shopping can be enjoyable, but it can also be frustrating and stressful if you are unaware of your rights as a consumer. This section looks at some examples of **unconscionable conduct** by businesses and provides advice that you can use to beat the cheats and save yourself both time and money.

Misleading advertising: bait-and-switch strategies

Have you ever been attracted to a sale by very low prices, only to find that the limited number of discounted items sold out before you got there? Often this is a deliberate strategy to trick customers into spending more than they planned. Once the customers are in the store and the sale stock has run out, retailers will then try to convince them to buy a more expensive item. This practice, known as 'bait-and-switch advertising', is both deceptive and illegal.

During a sale, retailers have a responsibility to ensure that they stock a reasonable quantity of the product and that they inform customers of the period during which the product is on offer. Stores must inform customers if stocks are limited or if the offer is only available for a short period of time. Consumers have a right to protection against misleading and deceiving practices, including false advertising claims and high-pressure selling tactics.

'Fake' price reductions

You will be aware of the strategy of offering a product 'reduced to \$29.95' when its original price was actually \$30. In these 'sale' situations, the customer has a right to know what the original price of the good was and by how much it has been reduced. Likewise, when a retailer claims that a price 'was \$75' and is 'now only \$50', they must guarantee that the original selling price is accurate and that goods were actually sold for that amount. It is illegal for retailers to invent the higher figure. Another version of this scam is to claim that a product is being sold below cost.

Double ticketing

Double ticketing occurs when a seller places two or more prices on a product or service and does not charge the customer the lowest price. This practice is illegal under the *Competition and Consumer Act 2010* (Cwlth), and consumers are entitled to complain to their state government's consumer affairs department if they are required to pay the higher price in these situations.

Overvalued and unsafe vehicles

The second-hand motor vehicle industry has a poor reputation. Some unlicensed motor dealers have, for example, been known to purchase old, run-down cars, add a little paint and pass them on to customers at highly inflated prices. Shoddy repairs and the winding back of odometers are two other concerns of NSW Fair Trading. The best way to protect yourself against these scams is to check both the vehicle's condition and the odometer reading. The logbooks and service stickers can also provide useful information about the age and condition of the vehicle.

Grey nomads targeted by classified scammers

By Esther Han

Crooks are baiting Australia's travelling retirees with fake ads for boats, motor homes and machinery, tricking them into transferring money and passing them on to accomplices who are successfully squeezing more money out of them.

Police have seen an alarming rise in the number of scams involving fake ads targeting grey nomads on online and print classifieds such as Gumtree.

They said scam artists are posting ads for machinery and recreational vehicles with eye-catching low prices and a phone number.

When an interested buyer calls, the scammer does not pick up but replies with a text message saying they can't talk on the phone.

Once they establish the caller is a genuine buyer, they usually direct the conversation to email to start price negotiations.

'Once a price is agreed, the scammer requests a considerable payment (up to 50 per cent) upfront by electronic transfer, then provides instructions to contact a freight company to arrange delivery and make final payment,' NSW Police said in a public warning.

'It is understood that the freight company contact details provided by the scammer defer to another scammer, who takes a final payment before providing a fraudulent tracking number.'

The goods never arrive and like with most scams, it's usually impossible to get any of the money back.

Con artists have used classified scams to fleece Australians out of nearly \$2.2 million so far this year, according to the Australian Competition and Consumer Commission's (ACCC) Scamwatch.

The ACCC urged people browsing classifieds to look out for warning signs, especially low prices that are too good to be true and sellers who say they're away and insist on early payment.

'When you show interest in the item, the scammer may claim that they are travelling or have moved overseas and that an agent will deliver the goods following receipt of payment,' it said.

'Following payment you may receive a fake email receipt claiming to be from the website's secure payment provider, however, you won't receive the goods and will not be able to contact the seller.'

In relation to the fake ads targeting the grey nomads, police said investigations showed these scams also involved identity takeovers, phishing, and mobile phone porting, which helps scammers hide their identity.

'Detectives from the Financial Crimes Squad have commenced an investigation and are urging the public to be vigilant when purchasing items through online or newspaper classifieds,' it said.





The ACCC has warned Australians to also watch out for increasingly sophisticated ‘holiday season’ scams such as online shopping scams, travel scams and parcel delivery scams, in which they ask you to print off a label, do a survey, claim a prize, or view the status of your delivery by clicking on a link in order to get them to download malware.

ACCC deputy chairwoman Delia Rickard said the best way to avoid the traps was to be sceptical and do research.

‘Be sceptical about an online store you haven’t used before,’ she said. ‘Do some research to see if they’re legitimate and don’t be fooled by big discounts.’

Sydney Morning Herald, 22 December 2018

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Spotlight: Online help for car buyers

If you are buying a second-hand car, it is important to check the national Personal Property Securities Register (PPSR) to find out if there is money owing on the vehicle.

The PPSR is a national online register that can help to protect consumers when buying valuable second-hand goods (other than land). The register will allow consumers to search for second-hand vehicles and boats, as well as personal property including machinery, crops and livestock.

Take the opportunity to study the information provided on the PPSR website. What advice does the website provide for consumers looking to purchase a new car?



Personal
Property
Securities
Register

Shutterstock.com/Sabelnikova Olga



FIGURE 1.3.1 Consumers must take care so that they get value for money when shopping.

Unsolicited goods

One common mail scam involves sending people goods they did not ask for (unsolicited mail) and then demanding payment for them. The goods – often books and magazines – are sent in the hope that the potential customer will like the product and want to order more.

In this situation, consumers have a number of important rights. If they receive unordered goods, they are under no obligation to pay for them. Most states and territories in Australia have laws that apply to unsolicited goods. Under NSW consumer protection law, a consumer who receives unordered goods can respond in one of two ways. They can write to the seller, informing them that they do not wish to purchase the goods and requesting the sender to retrieve them at their own expense. If the seller fails to collect the goods within one month, the householder is entitled to keep them at no charge. Alternatively, the householder may choose to do nothing. The seller then has three months to collect the goods before they lose ownership of them. The sender does not have the right to use legal action or debt collectors to force the householder to pay.

Door-to-door sales

Door-to-door sales involve retailers or their representatives making uninvited visits to private homes and offices in an attempt to sell products and services. Sometimes these salespersons use dishonest or high-pressure techniques to secure a sale. This may involve playing on the customer's emotions or making unrealistic claims about a product.

The key to success with this form of shopping is to avoid being bullied and to ask relevant questions. Who is the salesperson, and what company/business do they represent? What is the total price of the product? What after-sales service is available? Remember, the use of physical force or harassment by a salesperson is illegal and you have the right to ask the salesperson to leave your property.

TABLE 1.3.1 Dos and don'ts of door-to-door sales

DO	DON'T
• Ask the retailer to provide some identification. • Call and check if the salesperson is employed by the company named on their ID. • Check if the company is registered with a wider industry organisation. • Get a written copy of any contracts. • Make sure you are given information about the 10-day cooling-off period that applies to goods and services that cost more than \$100. If you think a salesperson has breached the law, or if you need more information, contact the ACCC Infocentre.	• Sign anything if you are unsure about the terms and conditions or if you feel pressured. • Allow people access to your home without acceptable identification. • Put up with high-pressure sales tactics. Often, sales representatives tell customers 'we are in your area for this week only' or that special prices are 'only available if you buy today'. • Allow yourself to be distracted by the offer of 'free' extras.

Pyramid schemes

Pyramid schemes, which are illegal in Australia, promise people quick and easy money in return for a 'joining fee'. The idea is that those who have already joined will make money from each new 'member' that they introduce to the scheme. However, it is only the people at the very top of the pyramid who make substantial gains. Most of these schemes eventually fail, with members at the bottom of the pyramid losing their money.

Internet offers

Increasingly, the internet is being used to promote dubious products and money-making schemes. These scams are similar to pyramid schemes in that they offer 'guaranteed income' in return for a small up-front membership fee. There is one rule to follow with these offers: if they sound too good to be true, then they probably are.

The process of consumer redress: remedies and their outcomes

Figure 1.3.2 shows the key steps that you should follow when making a consumer complaint. Remember, it is important to keep records of the steps you have taken to address the problem, including the names of the people you have contacted and the date you spoke to them.

Step 1: Identify the problem. Gather the relevant documents, including the receipt and warranty.

Step 2: Contact the business without delay. Write to or phone the person you had a problem with, or the manager, to seek a remedy.

Step 3: Contact the relevant industry association or ombudsman. Industry associations promote industries and ensure that their members maintain acceptable standards. Contact details for these associations can be obtained from your state government's consumer affairs department. In New South Wales, this is NSW Fair Trading. Complaints about government departments and certain industries can be directed to the relevant ombudsman. Use the website of the Commonwealth Ombudsman to gain contact details for the relevant ombudsman in your state or territory.

Step 4: Contact the state government's consumer affairs department. This department can inform you of your rights and suggest further action that you can take.

Step 5: Contact a mediation/conflict resolution service. Both government and non-government organisations offer mediation/conflict resolution services. A mediator can hear both sides of the dispute without bias and suggest a solution acceptable to both you and the retailer.

Step 6: Contact a court or tribunal. Courts and tribunals can make a decision that is legally binding. However, this can be a very costly way to resolve a dispute.

FIGURE 1.3.2 Steps involved in resolving a consumer complaint



Use simple, clear language and attach copies of relevant paperwork.

Provide a clear description of the problem.

Today's date

Quality Scooters Pty Ltd
Consumertown NSW 2354

Dear Sir/Madam

Re: Speed Scooter, Model 4500

On 1 December 2019, I bought a Speed Scooter from your business for \$450. I have attached a copy of the receipt and other relevant paperwork for your information.

When I removed the product from the packaging, I noticed that the wheels were poorly attached and that the braking system did not work as shown in the instructions.

It is my understanding that consumers have a right to expect the products they purchase to be of reasonable quality and suitable for the purpose for which they were bought.

I am sure you will agree that the scooter I purchased does not meet these standards, given the faults described above. I believe that I am entitled to a refund for the purchase of this faulty product. I would like to return the Speed Scooter 4500 to your store and receive a full refund of the original purchase price of \$450.

I look forward to your reply and trust that the above issues will be resolved quickly. Please do not hesitate to contact me during business hours on 0425 435 678.

Yours faithfully

Ollie Taylor Fuller

Be aware of your rights and communicate them clearly in your letter.

Propose a solution to the problem.

FIGURE 1.3.3 Writing a letter of complaint

Features of a simple contract

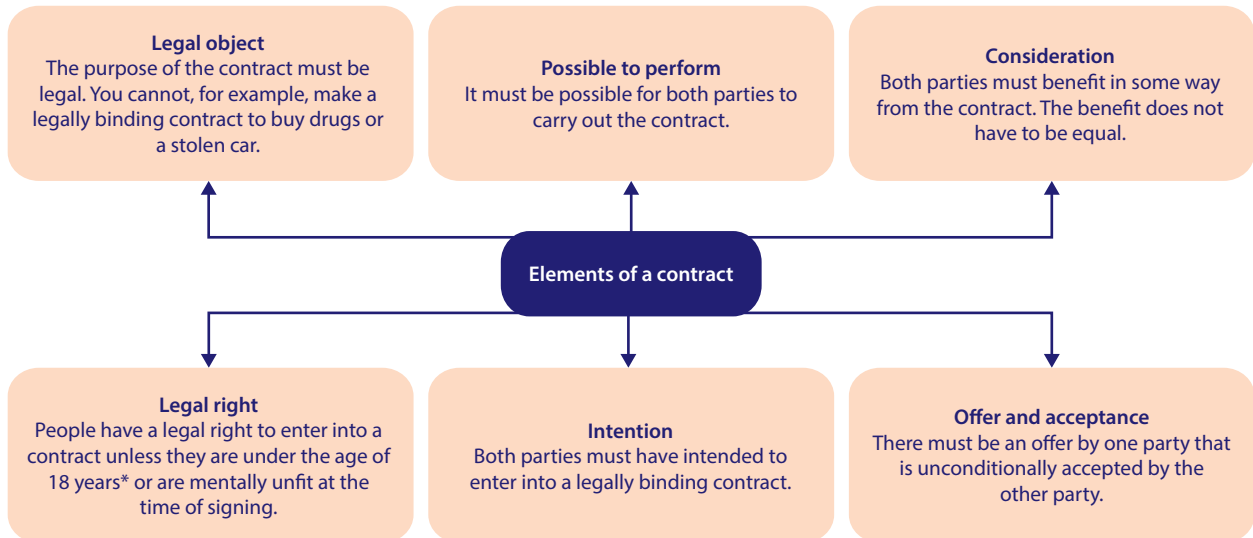
Buying something involves the exchange of money for a product or service. This is a form of agreement between you (the buyer) and the seller or retailer. Any agreement to buy or sell goods and services, whether it is written or spoken, is a form of contract.

This means that both the buyer and the seller have important rights and responsibilities that can be enforced by law. Each person can be sure that the other individual or business involved in the contract will

perform their part of the agreement. For example, when a seller hands over a good, the seller is responsible for ensuring that the good is of reasonable quality and fit for the purpose for which it is sold. Likewise, the consumer has a responsibility to pay the agreed price for the good.

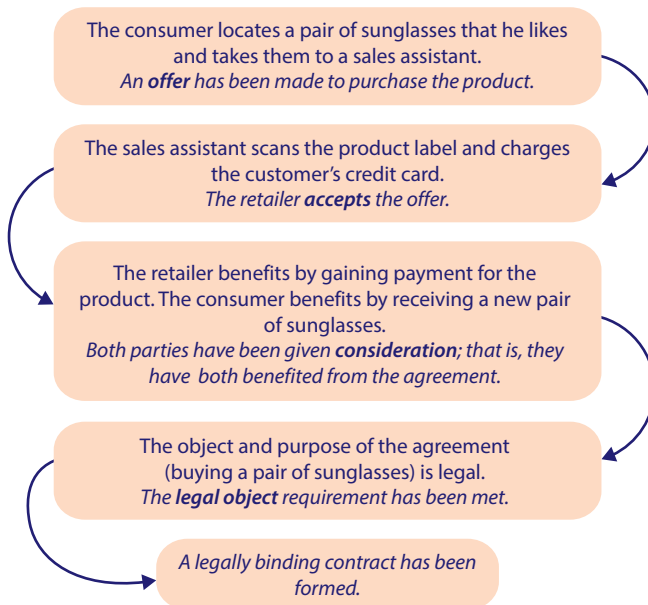
The law requires that some types of sales contracts be made in writing. This is also the case when you buy on credit, purchase goods from a door-to-door salesperson or borrow money to purchase a property.

For a contract to be legally enforceable, it must have six essential features. These features are explained in Figure 1.3.4.



*There are some exceptions to this. For example, those under the age of 18 years must honour an apprenticeship contract.

FIGURE 1.3.4 Six essential features of a contract



Getty Images/ONOKY

FIGURE 1.3.5 The buying and selling of a product is an example of a contract.

Legal rights and protective legislation for consumers

Understanding your legal rights as a consumer is essential if you are going to protect yourself against dishonest retailers and faulty goods.

Legislation to protect consumers

The key federal government law protecting consumer rights is the *Competition and Consumer Act 2010* (Cwlth). This Act is administered by the Australian Competition and Consumer Commission (ACCC).

The aim of the Competition and Consumer Act is to improve the wellbeing of Australians by promoting competition, fair trade and consumer protection. This law deals with issues such as anticompetitive and unfair practices, product safety, conditions and warranties, and actions against manufacturers and importers.

The Competition and Consumer Act is designed to protect consumers against unfair price increases. The Act gives the ACCC the power to monitor and report on the prices, costs and profits of companies and government authorities. The commission can also launch a public inquiry into the price of particular goods and services and force businesses to notify the ACCC of any intention to raise their prices. The ACCC has recently investigated the likely impacts of airline mergers, and trends in petrol prices, telecommunications and postal services, to determine whether companies working in these industries are in breach of the Act.

Consumer protection laws

Australia's consumer protection laws provide consumers with important rights. NSW Fair Trading outlines four important consumer rights:

- Goods and services should be safe and of **merchantable quality**. A consumer has the right to purchase goods that are of reasonable quality and fit for the purpose for which they were bought. If, for example, you tell a sales assistant that you need a watch for scuba diving, the watch must be suitable for that purpose.
- You have a right to be protected from misleading and deceiving practices, such as false advertising claims and high-pressure selling tactics.
- Information provided with goods and services should be accurate and, by law, is required to give details such as the price, and the contents, and weight of packaged items. Care instructions must be labelled on garments and textiles.
- Safety instructions should appear on dangerous products. Consumers should be informed of the correct way of using a product, and of any potential dangers it may present.

Spotlight: What are your refund rights?

Signs claiming 'no refunds' are illegal under the Commonwealth Competition and Consumer Act and the state Fair Trading Acts and can incur fines of more than \$20 000. Consumers have the right to a refund if goods are unsafe or do not work the way they are supposed to. This right does not apply if you simply change your mind about a good. In this situation, you will only be able to get a refund if the store has a hassle-free refund policy. Consumer law does not cover this situation. Remember, it is important to keep all receipts, warranties, quotes and contracts. You may require them if you have a problem with your purchase in the future. Check out your rights if you purchase a faulty product by accessing the NSW Fair Trading website.



Spotlight: Consumer responsibilities

Consumers have an important role to play in ensuring that their rights, and the rights of others, are protected. As a consumer, you have a responsibility to do the following:

- *Ask questions.* Question the price and quality of a product before you buy. Insist that you get a fair deal.
- *Be aware of the principle of caveat emptor, meaning 'let the buyer beware'.* This principle means that the buyer alone is responsible for judging the quality and value of a purchase before accepting the goods.
- *Minimise the environmental impact of your consumption decisions.* Consider whether the production process harms the environment. Aim to avoid products with excessive or non-recyclable packaging.
- *Be aware of the impact of your consumption decisions on others.* Ask yourself whether others may have been exploited in any way to produce this product. For example, child labour may have been used.
- *Use products correctly.* If you do not follow the product instructions, you may void the warranty. If you injure yourself or someone else by using a product in an unsafe way, you have little chance of a successful lawsuit against the manufacturer. The blame would rest with you.
- *Behave ethically.* Have a sense of right and wrong and use this to make responsible consumption decisions.

Organisations that provide assistance for consumers

As an active and assertive consumer, it is important to be aware of your rights and to know where you can get extra help if you need it. In Australia, legal assistance for consumers can be obtained from government authorities at the national and state levels, as well as from independent associations around the country. Each of these organisations has a website that is easy to access and contains a wealth of legal advice for consumers. The important authorities and independent organisations are outlined below.

State government authorities

NSW Fair Trading aims to protect consumer rights in New South Wales and to provide advice for businesses about fair and ethical retail practices. One of the key jobs of NSW Fair Trading is to administer the rules that ensure transactions between consumers and traders (businesses) are fair. It investigates unfair business practices and operates a licensing system to ensure that employees in a range of industries in New South Wales are appropriately qualified. The office administers more than 80 state laws that protect consumer rights. These laws cover issues ranging from door-to-door sales and credit to electrical safety and motor vehicle repairs. The office's website contains information about each of these laws.

The NSW Civil and Administrative Tribunal (NCAT) is a court that aims to resolve consumer-related disputes as well as trader and tenancy-based matters (those involving rental property and housing). The NCAT deals with matters under a broad range of categories, including home building, residential parks, motor vehicles, retirement villages, tenancy (housing) issues, commercial matters, general consumer issues, and strata and community schemes. There is a small fee to lodge an application. A discounted fee applies to students and pensioners. Court hearings are conducted in more than 140 venues in New South Wales. NSW Fair Trading can refer consumers to the tribunal. Both of these state authorities provide specialist assistance for specific groups who may require further assistance.

Federal government departments

The Australian Competition and Consumer Policy Division within the Department of Treasury aims to protect and promote the power of consumers; that is, ensure **consumer sovereignty**. This involves a range of tasks, including changing consumer protection laws, providing education and information, representing consumers, and addressing product safety and product information standards.



NSW Fair Trading



NSW Civil and Administrative Tribunal

The Australian Competition and Consumer Commission, which was discussed earlier, is another federal body dealing with consumer concerns.

The ACCC handles issues such as anticompetitive and unfair market practices, mergers or takeovers of companies, and product safety/liability. The ACCC is the only national agency dealing generally with competition matters in Australia.

Ombudsmen

If you experience problems in your dealings with a government department, you will need to contact the ombudsman. The ombudsman is an independent official who has been appointed to deal with complaints against either government departments or private businesses. In Australia, there is a Commonwealth Ombudsman as well as state and territory ombudsmen.

A number of ombudsmen have been established within various industries to help settle disputes between consumers and businesses. Industry ombudsmen are common in areas of the economy that were previously owned or regulated by governments, such as telecommunications, banking, energy and insurance.

Independent organisations

Australian Consumers' Association

The Australian Consumers' Association (ACA) is a non-profit organisation that aims to provide consumers with information and guidance about goods, services, health and personal finances. The ACA is completely independent and does not receive money from political sources, businesses, unions or advertisers. As part of its role, the ACA conducts tests on products and publishes the test results in a monthly magazine, *CHOICE*. It also lobbies governments to make improvements to consumer laws. Armed with the ACA's information and assistance, consumers can make more informed decisions.

Other organisations

There are also other organisations that provide product quality and safety information to particular groups of consumers in Australia. Kidsafe (the Child Accident Prevention Foundation of Australia), for example, is a non-profit, non-government organisation that provides information about the safety of products in order to prevent the unintentional injury or death of children.

Community organisations

A number of community-based organisations provide assistance to consumers. These services include citizens' advice bureaus, financial counsellors, information and referral services, as well as community legal centres.

The media

Newspapers and current affairs programs regularly provide information regarding retail scams and other consumer protection issues. Journalists and television stations invite consumers to write in and share their shopping experiences with other readers or viewers. Sometimes, viewers are given the opportunity to receive feedback from an expert who can assist them with their particular problem. In this way, the media can alert the public to many of the traps in the marketplace.



ACCC – Other
helpful
agencies



CHOICE

Spotlight: Community organisations assisting consumers

You can find the details of the community organisations discussed here by using the federal government's consumers and business directory. This directory can be accessed at the ACCC's website.

The Australian Consumers' Association (ACA) provides a user-friendly website for its consumer magazine, *CHOICE*. This website contains advice on consumer rights, campaigns, scams and reliable brands.

Familiarise yourself with the content of the ACA's *CHOICE* website. Identify the range of product reports available on the website, the current consumer product alerts, and the consumer services provided by *CHOICE* magazine and the ACA.

Laws that monitor and regulate the financial services industry

The National Credit Code

Reforms to consumer credit law have included the introduction of a single national law for consumer credit practices. From 1 July 2010, the *National Consumer Credit Protection Act 2009* (NCCP Act) replaced state-based consumer credit codes and the uniform Consumer Credit Code. The Australian Securities and Investments Commission administers the NCCP Act.

The NCCP Act provides important protection to consumers. Lenders and brokers must be licensed or come under the umbrella of another licensee, and credit providers must only lend money responsibly. This means that you could be denied credit if a lender thinks the credit contract that you are asking for is not suitable for you. Other examples of consumer protection introduced by the NCCP Act include disclosure on the loan contract of:

- the consumer's right to apply for a repayment arrangement in the event of financial hardship
- a default notice giving the consumer at least 30 days to repay any arrears before court action or repossession of goods is initiated.

Examples of loans that the NCCP Act covers are home loans, personal loans (for example, a car loan), credit cards, consumer leases (for example, car leases and rental contracts for goods), overdrafts and line of credit accounts, and investment property loans (granted on or after 1 July 2010).

The NCCP Act does not apply to certain loans, such as low-cost short-term loans (less than 62 days), insurance premiums paid by instalments, pawnbroking loans, bill facilities, staff loans and charge cards (for example, when the account balance must be paid in full every month).

The Financial Services Reform Act

The Commonwealth *Financial Services Reform Act 2001* (FSR Act) was introduced to provide better protection for consumers and investors engaging with the financial services industry.

A significant feature of the FSR Act was to introduce a licensing scheme for people who provide financial products and financial advice, such as advisers (accountants, CPAs), marketers and product providers. Anyone who provides financial services must be licensed.

Financial products include making and managing financial investments such as shares, bank deposits and superannuation; and managing non-cash payments such as direct debit facility, cheque facility, smart cards and traveller's cheques. Products excluded are health insurance, funeral benefits and credit card facility.

Another important aspect of the FSR Act is that financial service providers must disclose information on most products and comply with a standard of conduct (a guide to the way they must conduct their business). Financial service providers must now give their clients:

- a product disclosure statement that includes any recommendations or an offer
- a financial services guide before any service is provided
- a statement of advice whenever financial advice is provided.

Australian Securities and Investments Commission

The Australian Securities and Investments Commission (ASIC) regulates and monitors the finance industry through various regulations and provides advice for people who are thinking about saving, investing, superannuation or insurance.

Understanding the text

- 1 Define the term 'unconscionable conduct'.
- 2 What is bait-and-switch advertising? Why do you think it has been made illegal?
- 3 Why do retailers have sales? What rights do consumers have in 'cut-price' or 'below-cost' sales?
- 4 What rights does a consumer have when a product has two conflicting price tags?
- 5 How can you check if there is money owing on a second-hand vehicle that you would like to purchase?
- 6 What is an unsolicited good? What rights do consumers have when dealing with these types of goods?
- 7 What types of scams are associated with door-to-door sales? What can consumers do to protect themselves against these scams?
- 8 Explain, in your own words, what a pyramid scheme is. Why are pyramid schemes so attractive to some consumers?
- 9 How is the internet being used to promote consumer scams?
- 10 Outline the steps that a consumer can take to resolve a dispute with a retailer.
- 11
 - a Describe the six key elements of a contract.
 - b Explain why purchasing a pair of glasses is an example of a contract.
- 12 What is the purpose of the Competition and Consumer Act? List some of the issues dealt with by this law.
- 13 Outline the four important legal rights of consumers.
- 14 What is meant by the term 'merchantable quality'?
- 15 Is it legal to display 'no refunds' signs in stores? Explain your answer.
- 16
 - a What responsibilities do consumers have in the marketplace?
 - b Explain why it is important for consumers to be active and assertive when purchasing goods and services.
- 17 What is meant by the term 'caveat emptor'?
- 18 Describe the problems consumers can create when they do not read product instructions carefully.
- 19
 - a What are ethics?
 - b Why is it important to be an ethical consumer?
- 20 Copy the following table into your notebook and complete it using the information provided under the heading 'Organisations that provide assistance for consumers' in this section.

CONSUMER PROTECTION ORGANISATIONS	FEDERAL GOVERNMENT/STATE GOVERNMENT/INDEPENDENT	TYPE OF PROTECTION PROVIDED FOR CONSUMERS
NSW Fair Trading		
NSW Civil and Administrative Tribunal		
Australian Competition and Consumer Commission		
Ombudsmen		
Australian Consumers' Association		
Other organisations		

- 21 What is consumer sovereignty and why does it need to be protected?
- 22 a Identify two pieces of legislation that monitor the finance industry.
- b What do they cover?

Activities

- 1 Copy the following table into your notebook and complete it using the information provided under the heading 'The need for consumer protection: scams and rip-offs' in this section.

NAME OF SCAM	DESCRIPTION AND DETAILS OF THE SCAM	CONSUMER RIGHTS AND ADVICE

- 2 Study the newspaper extract 'Grey nomads targeted by classified scammers'. Briefly outline the nature of the scam and who is being targeted. How can you avoid being taken advantage of by scammers?
- 3 Divide into small groups and conduct research into one of the scams discussed in this section. Use a library or the internet to find out more information about this form of fraud. Design a consumer education campaign providing advice to consumers about this scam.
- 4 As a class, discuss your or your family's experiences with consumer fraud.
- 5 Conduct a role-play demonstrating the way in which consumers should deal with the following scenarios:
- a purchasing a faulty or dangerous good
 - b receiving poor service or advice from a retailer
 - c receiving unsolicited mail.
- 6 Study Figure 1.3.3. Write a letter to a supplier requesting that they collect unsolicited goods from your address.
- 7 Using Figure 1.3.5 and an example of a purchase that you have made recently, explain in writing why the buying and selling of a good is an example of a legally enforceable contract.
- 8 In small groups or as a class, discuss the rights and responsibilities of consumers in each of the following situations:
- a Jan purchased a new sleeping bag. The washing instructions read 'Hand wash in mild detergent and warm water'. When the sleeping bag was washed according to these instructions, it appeared to shrink and lose its colour.
 - b Chris purchased a new tie from a specialty store close to his work. On returning to the office, he noticed that the tie clashed with his favourite shirt. He still had the receipt for the purchase and wanted to get a refund.

- c** For three months, Mike had been looking for a new couch that would suit his unit. In the weekend paper, he noticed a sale of new couches for \$999. He raced to the store before the end of the sale period, but was told that all the couches on sale had already been sold. There were only \$3000 couches left. Mike was furious, as there was no mention of limited stock in the original advertisement.
- 9** As a class, discuss examples of unsafe or faulty products you have purchased from stores. What action did you take? How would you respond differently now?
- 10** Use the information on the NSW Fair Trading (Youth) website to:
- a** design an educational poster informing consumers of the important features of a consumer contract
 - b** investigate the typical features of mobile phone contracts and the types of problems that consumers have with them
 - c** outline your rights when it comes to shopping and refunds.
- 11** As a class, brainstorm the reasons why individuals and local governments would want to set up community-based organisations to support consumers. Conduct research to find out more about consumer support organisations in your local area.
- 12** Conduct research to find out where organisations such as ACA and Kidsafe obtain their funding. Why don't these organisations include paid advertisements in their publications?
- 13** As a class, gather information about the role of the ombudsmen and when a consumer would need to use this service.
- 14** In small groups, select either a state or federal government authority discussed under the heading 'Organisations that provide assistance for consumers' in this section and find out the following information:
- a** What are the aims of this authority?
 - b** What forms of practical support does the authority provide to consumers?
- 15** In groups of two or three, select one of the laws referred to in this chapter and undertake internet or library research to find out:
- a** when and why the law was developed
 - b** which level of government is responsible for it
 - c** the penalties for breaking this law
 - d** the type of protection it provides for consumers.
- Present your findings in the form of an oral report or multimedia presentation to the rest of the class.



NSW Fair
Trading (Youth)

1.4 Financial management

As you move towards adulthood, you will be required to make an increasing number of financial decisions. These decisions involve those related to spending, saving, investing, borrowing and the management of money.

Poor financial management has some serious consequences. The accumulation of excessive debt is perhaps the most problematic of these. Excessive debt occurs when you borrow or spend more than you can comfortably repay after paying for your basic needs. In the most extreme cases, you can be declared bankrupt. Bankruptcy is a legal process through which people who cannot repay debts to creditors can seek relief from some or all of their debts. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor (someone you owe money to). Being bankrupt has serious consequences and may affect your ability to borrow money in the future.



FIGURE 1.4.1 Do we spend or save?

Financial mismanagement can also affect the wellbeing of the individual and family. These effects can include stress-related illnesses and may have serious consequences for mental health. The stress associated with financial mismanagement can also lead to marriage breakdowns and conflict within the family. All can be avoided if you educate yourself about the best ways to manage your finances.

Spending and saving

As a young child, you may have been given a weekly allowance, received money from relatives on special occasions or been paid for doing odd jobs around the home or neighbourhood. As you have grown older, you may have secured a part-time job. As you prepare for adult life, you will be thinking of employment and a regular income. Over time, it will become increasingly important to manage your personal finances; that is, your income, savings and investments. What do we mean by income? Is it only the money earned by working?

Strictly speaking, income is the money earned from working and the returns on investments. However, there are many different ways to earn an income. These are listed in the left-hand column of Table 1.4.1, which also classifies the various types of income.

TABLE 1.4.1 Sources and types of income

SOURCE OF INCOME	TYPE OF INCOME
Working for an employer	Wage, salary, fee, commission
Working for yourself; that is, running your own business	Profit
Payments from the government	Social security
Investing savings and retirement money	Interest, dividends
Renting out property	Rent
Creating or inventing something new, such as writing a book or composing music	Royalties
Playing professional sports or being a professional gambler	Prize money

Spotlight: The different types of income

In a commercial economy, most people make a living by working for an employer. In Australia, approximately 86 per cent of people who work are classified as employees. An employee is a person who receives income in the form of a wage, salary, fee or commission.

Other types of income include profits, social security, interest and dividends, rent, royalties and prize money. See Table 1.4.1 and Chapter 3, section 3.2, for further information on these types of income.

Spending patterns and factors that influence the need for saving

If we looked at how we spent our money for a length of time, we would probably see a pattern emerge. In general, what our spending pattern is like will depend on how we decide to satisfy our needs and wants. We all have basic needs (items necessary for our survival), such as food, water, clothing and shelter. These basic needs will not change over our lifetime. Our wants, however, will change because they are items that are not necessary to survival but make life more pleasant; for example, a car, a smartphone or a laptop computer. Our wants will be influenced by our age, gender, peers, income, wealth and the society we live in. Our spending patterns will therefore vary.

What we spend our income on can also be classified into fixed and variable expenditure. *Fixed expenditure* refers to recurring expenses, such as food, rent, phone, electricity, car registration and insurance. These expenses occur on a regular basis; for example, weekly, monthly or yearly. *Variable expenditure* refers to expenses that occur irregularly, such as buying movie tickets or a new computer game. In general, the higher our income the more money we have for variable expenditure. The opposite is true if our income is low. As we get older, we may also gain more responsibilities (such as raising a family or caring for elderly relatives) and greater financial commitments (such as a mortgage). Spending money wisely therefore carries a lot of responsibility.

To *save* means to put some money aside now in order to spend it later. As a child, you may have had a 'piggy' bank or moneybox, or you may have a relative who hides their money under their mattress or in a cookie jar. Most people, however, save their money with a bank. People save for many reasons. The most common reason is that they cannot afford to purchase a good or service now because they do not have enough money. The relationship between spending and saving is not determined only by how much a good costs to buy. A number of other factors contribute to our decision to spend or save, including:

- our age
- our disposable income (that is, how much income we earn after tax)
- how much wealth we have already accumulated
- whether we are an impulse buyer or a 'scrooge'
- how risk-averse we are (that is, how willing we are to take a chance that we may lose the money).

Investing

Reasons for investing

We invest our money in order to increase our wealth (that is, the stock of things we possess, such as money, a house, works of art, jewellery and shares) and to provide for our future needs. There are four main reasons why people decide to invest. These are:

- investing for extra income
- saving for a 'rainy day'
- saving for a major purchase
- investing for retirement.

The different investment options

When we invest our money, we do so in the expectation that there will be a return; that is, we will receive a financial benefit for allowing the person or organisation we invested with to use our money. An important point to remember is that the higher the return, the greater is the risk that we could lose our money. Figure 1.4.2 illustrates the different investment options available in Australia and their relative levels of risk and return.

As mentioned earlier, most Australians have bank accounts. In Australia, banks are the most secure of all the investment options. Because there is a low risk of losing money invested in a bank account, the returns that banks provide on savings and investments are at the lower end of possible returns. However, different bank accounts do have different levels of return. The return will be directly related to (or a function of) the

level of risk and how easily the money can be accessed. For example, a term deposit of five years will have a higher rate of return than that of a keycard account because the bank is able to use your money for five years and you can only access it after this time. By comparison, you can access the money in your keycard account at any time. There is also a risk that interest rates may rise significantly. Banks compensate for this risk by giving you a higher rate of return on longer-term accounts than for those accounts where your money is available on demand.

At the top of the investment ladder in Figure 1.4.2 is the investment option of the share market. In Australia, shares are traded on the Australian Securities Exchange (ASX) – a marketplace where public companies are listed and their shares are open for trade. When you buy a share, you purchase an ownership stake in that company. You will then receive part of the company's profits through dividend payments. However, you also take on board the risk that the company may not make profits and, in a worst-case scenario, that it may go bust.

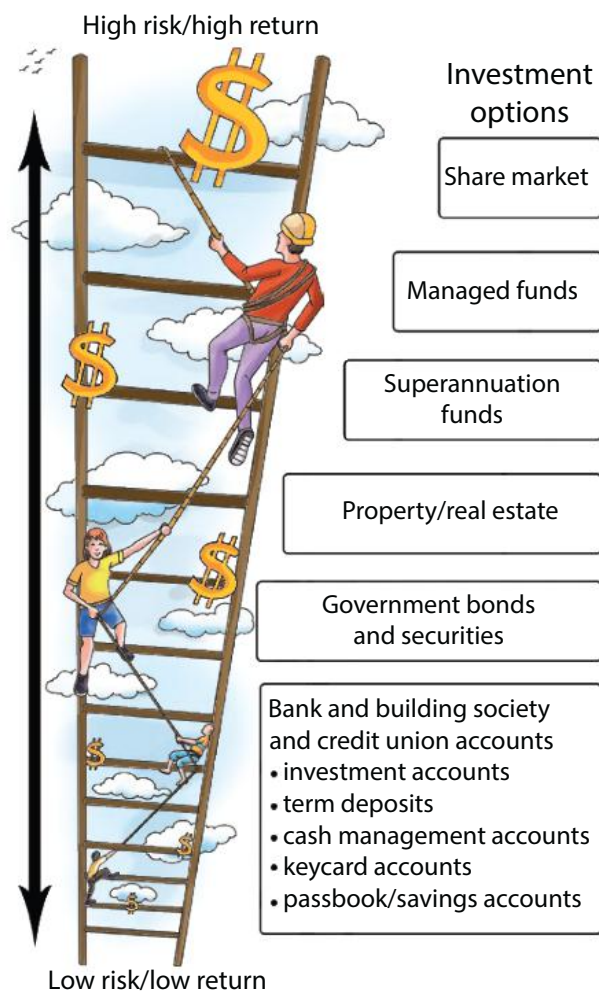


FIGURE 1.4.2 The risk and return ladder

Borrowing

Reasons for borrowing and the different borrowing options

People borrow money because they wish to spend more money than they have at the moment. They do not want to put off their spending until the future when prices may have risen. Instead, they want to purchase their need or want now. Most people in Australia will have to borrow money to purchase major items such as a house, a car or an overseas holiday. Some people borrow money to invest in the share market or the property market. Businesses also borrow money to help finance their operations and expansion plans.

When you borrow money, you are in debt. Being in debt is not a problem as long as you remain in control of the debt; that is, you are able to make the repayments. However, debt causes difficulties if it starts to control you, such as if you have trouble making the repayments or you borrow more money to cover your existing debt.

There is a price attached to borrowing. The money that is borrowed is called the loan principal. Not only will you have to repay the principal amount but also the interest. When individuals or businesses borrow money, the main cost they need to pay is the interest charged by the lending institution. The interest charged on the loan principal will depend on the interest rate per annum, the duration of the loan, and the amount of the loan repaid each month. Different loans have different interest rates. Interest rates can be either fixed or variable. A fixed interest rate means the rate does not change for the duration of the loan. A variable rate, on the other hand, means that the lender can change the interest rate at any time during the loan. Apart from interest charges, lenders often add other charges to the cost of a loan, such as legal costs, bank charges or loan-establishment fees.

Governments often charge stamp duty when a loan is taken out.

Figure 1.4.3 shows the types of places where money can be borrowed. In Australia, banks are probably the best-known lenders of money. Australia's banking system is much more diverse today than it was 30–40 years ago and includes foreign as well as Australian banks. Additionally, a number of new banks exist; many old banking regulations have been removed, and this allowed building societies and credit unions to convert to banks. Today, the banking industry is much more competitive than in the past.

A financial institution's business is to attract deposits from customers and then lend this money, and to provide financial services to both individuals and businesses. To ensure financial institutions are profitable, the interest that people receive from saving is less than the interest they pay when they borrow.

Borrowing is therefore quite costly. Before you decide to borrow money, there are a number of issues to consider. First, you should be aware of the different types of loans on offer. Table 1.4.2 lists the types of loans available in Australia.

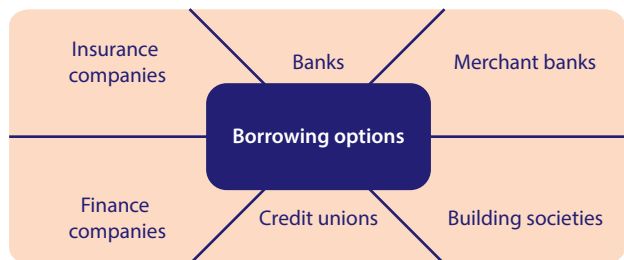


FIGURE 1.4.3 The different borrowing options

TABLE 1.4.2 Financial institutions and their different loan options

TYPE OF LENDING INSTITUTION	TYPES OF LOANS
Banks, building societies and credit unions	Mortgage loans, which are large amounts of money used for housing Personal loans for items such as cars, boats and holidays Small business loans Other loans include: • overdraft facilities • credit card services • leasing finance for businesses
Merchant banks	Business loans and other credit facilities specifically for large businesses
Finance companies	Business loans for business developments Personal loans and consumer credit contracts for the purchase of cars and the like
Insurance companies	Property loans to large businesses for new industrial and rural developments Housing loans to policyholders

Paying on credit: a form of borrowing

Do your parents or guardians have a credit card? More than likely, the answer is ‘yes’. More Australians are paying for purchases using credit than ever before. Did you know that buying on credit is a form of borrowing? It allows you to receive goods, services or cash straightaway and pay for them later, usually in a series of instalments. However, you may have to pay more than the cash advance or purchase price if you do not pay your credit card balance in full each month.

In late 2019, there were more than 16 million bank, building society and credit union user cards on issue in Australia. The most popular of these cards are Mastercard and Visa. There are also charge cards, such as American Express, Diners Club, petrol cards and credit cards issued by major retailers (called *store cards*). Charge cards must be paid back in full each month.

In recent years, consumers have been introduced to ‘co-branded’ cards. For example, Qantas and David Jones offer ‘co-branded’ American Express cards. The use of the cards allows the consumer to accumulate frequent flyer benefits and other rewards.

Avoid the credit card trap

Credit cards make it easy for people to spend money they may not have and to accumulate rewards they may never collect. For these privileges, many users pay far more than expected in fees and other charges.

As with any form of borrowing, you should be informed about the conditions of the credit card agreement. Figure 1.4.4 sets out the factors you should consider before applying for a credit card.

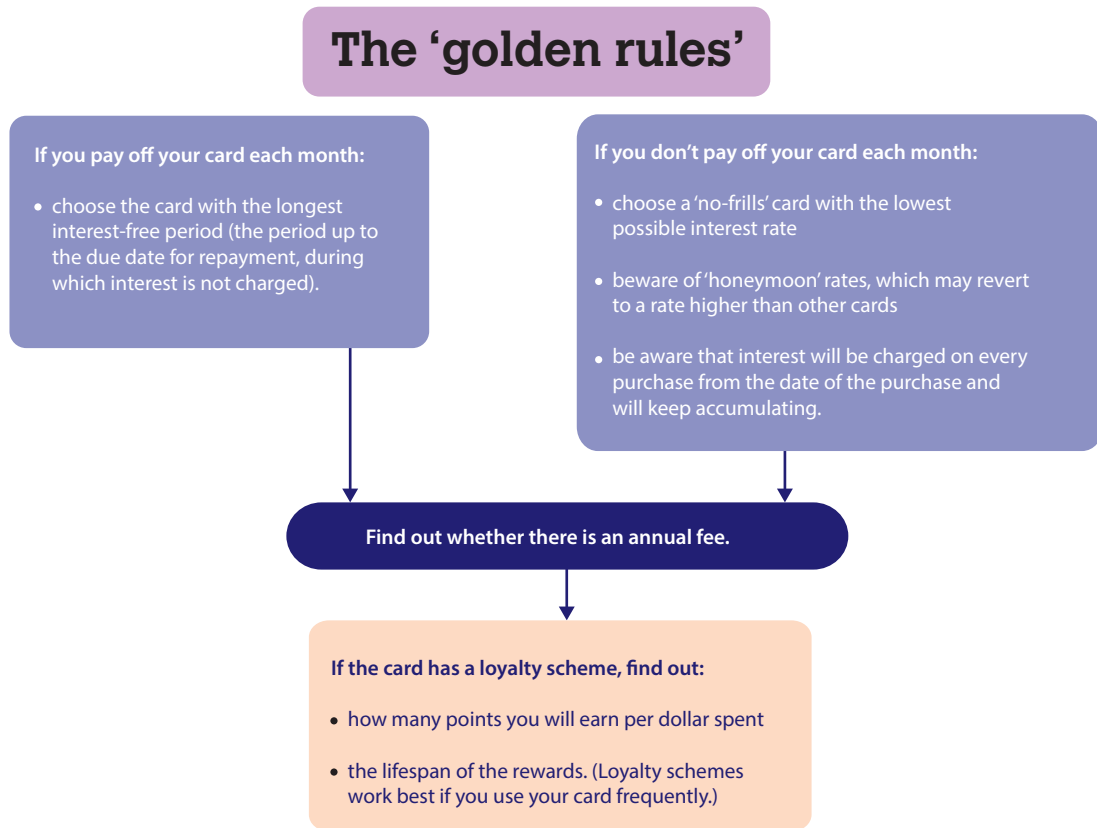


FIGURE 1.4.4 Avoiding the credit card trap

Deciding whether to borrow money

There are four important steps to take when deciding whether to borrow money.

- 1 Understand that you will be getting yourself into debt. You will need to pay the principal *plus* the interest charges. Find out what type of security, if any, is required.
- 2 Find out how much the loan is in total. The loan is made up of:
 - the principal
 - the interest charge
 - any additional costs, such as fees, stamp duty and government charges.

Find out the annual percentage rate of interest and whether it is a fixed or variable interest rate.

- 3 Work out your repayment amounts:

- how much per repayment
- how many repayments in total
- when each repayment is due.

Find out whether you can repay the loan over a shorter period. If you can, watch out for penalty rates. Can you afford the repayments?

- 4 Understand what the consequences will be if you can't make the repayments.

What factors will affect your ability to get a loan?

You have done your research and your sums and chosen the best loan and financial institution. But what will happen when you approach the financial institution for the money? All financial institutions will ensure that you can satisfy a number of requirements before they will grant you a loan. This is known as a *credit check* and takes into account the following factors and whether or not you can meet them:

- *a stable job* – if you have held the same job for a number of years, you are more likely to get a loan than if you have changed jobs every year
- *an employment history* – it will be difficult to get a loan if you have never had a job or have been unemployed for a long period of time
- *an address history* – if you have moved house frequently, the lender may be wary of giving you a loan
- *income details* (including any income from interest or investments) – you need to show that you earn enough to repay the loan
- *previous credit history* – the financial institution is more likely to lend you money if you have paid off a previous loan in full and on time
- *a listing of your assets* (such as bank accounts, a house, a motor vehicle and life insurance) – these can be used as security in the event that you are unable to repay the loan
- *a listing of your liabilities* (any other existing loans and other financial commitments, such as rent and personal expenses) – you need to show that you have enough money left over to meet the repayments.

The financial institution will consider these factors when determining whether you will be able to repay the loan, which is referred to as *servicing a loan*.

You will be required to complete a loan application form and provide supporting documentation, such as bank statements and pay slips showing your income. The financial institution will also want to independently check your credit worthiness, known as your *credit rating*. This is done through credit reporting agencies such as Veda, which has thousands of members, including banks, finance companies, credit unions, department stores and manufacturers. Veda holds the largest database of consumer and business credit records in Australia. It keeps a record of all loans taken out and whether each loan was repaid in full and in the specified period.

The association collates the information and provides its members with summaries on request. Individual consumers can also access their files for a fee.

If you are able to satisfy the financial institution's lending requirements, you will be asked to enter into a loan contract. The loan contract will contain, at a minimum, the terms of the contract. These include:

- the principal (the amount you are borrowing)
- the interest rate
- the repayment frequency (usually monthly)
- the method of repayment (for example, by direct debit from your bank account).

Remember to read the contract carefully and don't sign it if it contains anything that you don't understand. Further discussion on contracts can be found in section 1.3.

Tools and strategies for effective financial management

As you have probably gathered, managing your finances is no easy task. A number of considerations need to be taken into account if you want to manage your finances properly. These range from determining whether to save, spend, invest or borrow and the best way to do these. You should also consider whether you:

- are fully informed about the various financial institutions and what they offer
- are fully informed about your rights as well as your responsibilities
- need to take out insurance to cover yourself against loss
- are able to prepare a budget to help manage your finances.

The following section examines these considerations in more detail.

Seeking financial advice

Often family and friends can give you advice on how to manage your finances. Be aware, however, that free advice may not always be the best advice. Before looking for financial advice, you should know your needs and aims (including any future needs and aims). A number of organisations (such as banks and insurance companies) provide financial services and, together, these organisations form the financial services industry. This industry provides products that people use to help them manage their money. They include banking, insurance, superannuation and investment products.

As a responsible consumer, you should make use of the different sources of advice on saving, investing and borrowing. Try to find as much information as you can by:

- checking the money sections in the daily newspapers
- reading investment books and magazines
- attending seminars, including those run by the Australian Securities Exchange.

All financial institutions will be able to provide you with financial advice and have customer service officers who can discuss your needs or provide you with brochures detailing their products and services. Remember, however, that their advice will be tailored to their own products and services as they want your business. It is always a good idea to shop around.

Another way of obtaining advice is from a financial planner or adviser. They are also part of the financial services industry. Independent financial advisers should provide you with advice on the different financial options available to you and, above all, help you to understand the terminology and the process. Ask your family, friends or accountant if they can recommend a financial adviser, or call the Financial Planning Association or look at the online Yellow Pages. It is wise to get advice from three different financial planners or advisers. Once you have narrowed down your choice of advisers, contact each chosen company and ask for a copy of its financial services guide. This guide gives important details about the following:

- whether the company has a licence to provide financial services; that is, its licence dealer status
- complaints procedures
- services
- fees and charges
- commissions the adviser receives
- other companies or financial institutions the adviser is associated with.

You should also find out if the company provides a free, no-obligation meeting to discuss your needs. Ensure that the financial advisers are reputable, experienced and have procedures in place in case things go wrong. You should be comfortable with your decisions and should never sign anything until you are happy that you have done your homework, are fully informed, and understand all the terms, conditions and processes.

Long-term financial strategies: superannuation and insurance

Superannuation

Superannuation is a form of long-term saving. Your money is put away for your retirement. In most instances, people elect an industry or retail fund to manage their money. These superannuation funds invest the money in your super account so that it grows over time. Because your super account is built over your entire working life, it may be one of the largest investments you will ever have. How well you live in retirement will be largely determined by how much money you save over your working life.

There are two types of superannuation funds operating in Australia: industry and retail funds.

- *Industry funds* were originally established to provide a retirement income for workers in a specific industry. Industry super funds are not-for-profit organisations and do not have shareholders. They are mutual or membership-based funds. The fund's profits are shared among its members. Many of the industry super funds are trade union-based.
- *Retail funds*, which are typically managed by large publicly owned financial institutions such as the banks, distribute any profits to the company's shareholders.

Some people, especially those who are self-employed, can opt to have a 'self-managed' superannuation fund (SMSF). The difference between an SMSF and other types of funds is that the members of an SMSF are usually also the trustees. This means the members of the SMSF run it for their benefit and are responsible for complying with the superannuation and tax laws.

Benefits of superannuation

Superannuation has several benefits. These include:

- *You know it will be there.* Because you cannot access your superannuation savings (except in very special circumstances), you know that it will be there to support your lifestyle when you reach the age of 65 (or the age of 60 if you are retired).
- *Tax advantages.* Because a special concessional rate of tax is applied to superannuation funds, the amount of tax paid will be well below the tax paid on any interest earned from a bank account.
- *Employer contributions.* One of the most attractive features of superannuation is the contribution your employer makes. In fact, the bulk of your superannuation is probably made up of employer contributions.

Superannuation, whether voluntary or compulsory, is a good thing. It represents regular saving, it is tax-efficient and your money is generally invested in well-performing long-term assets (shares, property and fixed interest). Because you cannot usually get your hands on the cash, superannuation is an important part of any long-term financial plan.

How it works

Your superannuation account consists of compulsory contributions (referred to as the Superannuation Guarantee) that your employer is legally required to make on your behalf. Currently, this is 9.5 per cent of your wage or salary but will grow to 12 per cent by mid-2026. This money comes from your employer and is in addition to your weekly/fortnightly/monthly wage or salary – it does not come from your pay packet.

In general, all employees aged over 18 and who earn at least \$450 (before tax) in a calendar month, are covered by the Superannuation Guarantee legislation. It does not matter if you work full-time, part-time or on a casual basis.

The Superannuation Guarantee law was enacted in 1992 by the Keating Labor government to ensure all Australians had at least some savings for their retirement. It was the government's view that not everyone would save for retirement if it wasn't made compulsory. The alternative was for people to rely on the age pension. For many people, the age pension isn't enough to maintain their existing lifestyle or the kind of lifestyle they would like to have in retirement.

The Super Choice law (enacted in 2017) provides employees with greater choice regarding the fund into which their super contributions are paid. For employees who do not choose their own fund, the employer is obliged to deposit the funds into a 'default' super fund. Choosing the right fund now can make a lifetime of difference. Individuals can also add extra, after-tax contributions to their superannuation accounts.

Generally, your superannuation is preserved until you reach the age of 65, or if you retire from the workforce on/or after reaching retirement age, typically 60 years of age. Under special circumstances, such as temporary residents permanently leaving Australia or during times of financial hardship caused by serious illness, it may be possible to access some or all of your superannuation funds before reaching the legislated retirement age.

Insurance

Benefits of insurance

Insurance is a system of protecting consumers and businesses against loss. There are many different types of insurance policies. They all have the benefit of providing financial protection against unexpected or unpleasant events. As such, taking out insurance is an important aspect of good financial management.

Imagine the following scenario. You have just purchased your first car for \$5000 and are driving home from the car yard. In your excitement, you accidentally bump into the BMW stopped ahead of you at the lights. No-one is injured, your car is fine, but the BMW has a scratch that will cost \$2000 to repair. What are you going to do? Hopefully, you have third-party car insurance, which will cover the cost of damage to the BMW.

How it works

When individuals take out insurance, they pay regular amounts, called *premiums*, to an insurance company. The insurance company invests these premiums and makes profits. With these profits, the insurance company should have enough money to cover any claim payouts because not everyone will make a claim at the same time, if at all. Insured individuals (known as insurance policyholders) can lodge a claim with their insurance company to cover any losses or damage to the insured property or person. The insurance company will provide an insurance payout as long as everything is in order; that is, premiums have been paid and the policy is up to date and contains no conflicting exceptions. Table 1.4.3 shows how insurance works and gives examples of some of the different types of events you can be insured for.

Types of insurance

There are many types of insurance, but they can generally be classified as either personal insurance or property insurance. Table 1.4.3 lists the different types of insurance.

TABLE 1.4.3 Types of insurance

Life insurance

Life insurance can cover the whole of your life or a limited time. The former provides a payout to a nominated person (often a family member) in the event of your death. The latter is like a form of saving and after a certain time you receive a payout. These payouts can be in the form of a lump sum (one payout) or a number of regular payouts.

Income insurance

Income-protection insurance covers the loss of income through personal accident, illness or disability. Rather than receiving your usual income (that is, payments that are made by your employer), regular payments are made by the insurance company until you have recovered.

Health insurance

Health insurance protects you against medical and hospital expenses. Medicare provides basic health insurance and is funded by the federal government through a levy on your taxable income. Many people also choose to take out additional, private health insurance where they pay a premium to a private health fund.

Home and contents insurance

Home and contents insurance covers losses associated with fires, storms, earthquakes and theft. This and car insurance are the two most popular forms of insurance in Australia.

Public liability insurance

Public liability insurance covers the general public in the event that something happens to them while on your property; for example, the electrician you hired trips over the cat sleeping on your front steps and breaks a leg.

Travel insurance

Travel insurance covers events such as the loss of luggage, and medical costs and cancellations due to illness or injury.



Car insurance

Car or motor vehicle insurance includes both compulsory third-party insurance and optional cover, such as comprehensive insurance. Compulsory third-party insurance is required by law and covers third parties (those people other than you) who may be injured in a motor vehicle accident you have caused. This insurance is paid annually when you pay the motor vehicle's registration. Optional insurance includes comprehensive insurance (covering yourself and the third party) and third-party property insurance (only covering the third party's property, not your own).

Keeping records

Wise consumers keep records of their income and expenditure over time. This involves storing important documents, such as records of purchases (cash and EFT receipts), bank statements, pay slips, product instructions and warranties, in a safe place so that they can be accessed with ease.

Most banks or financial institutions will send you a monthly or quarterly statement of your account transactions (deposits, withdrawals and purchases). It is important that you keep these statements and check them carefully against your records of transactions. Often receipts or receipt numbers are given to you when you use services such as BPAY to pay for a bill over the phone. You should check that these numbers match those on your statement. If there are any differences (discrepancies) between your records and what is on the statement, you should alert the bank or financial institution and have the error adjusted. Without accurate records, these discrepancies can go undetected and cost you money.

Keeping accurate records is also an important aspect of managing your tax affairs (see Chapter 8, section 8.4). The Australian Taxation Office (ATO) may ask you to show receipts to justify claims on your annual taxation return.

One of the easiest methods of keeping track of what you earn (your income) and what you spend (your expenditure) is to prepare a budget. A budget also helps you to plan for ongoing service costs, such as phone bills, music lessons or tennis coaching. For more information on budgeting, see the Spotlight box 'Designing a budget' on the next page.

Changes over time and the impact of technology

Technology in retailing and payment methods is continually developing and changing. Throughout this chapter, we have looked at a number of recent developments in shopping technology, including the introduction of chip technology in EFTPOS and credit cards, allowing customers to conduct transactions with mobile phones, contact-less terminals and online. It is inevitable that the way we shop and pay for products will continue to change as new technology is implemented in the future. This technology includes self-checkout supermarkets using new microchip price tags that enable customers to scan their own groceries just by placing them in a shopping trolley.

How to manage your finances through budgeting

There is no time like the present to start a budget to help you manage your finances. However, a budget is particularly important when you are:

- starting a new job
- saving for an expensive purchase
- moving out of home
- getting married (or divorced)
- having a child
- retiring.

But what do we mean by a budget? A **budget** is a statement of your income and expenditure over a period of time, usually a week, month or year. You may already work out how much of your weekly allowance you can spend at the school canteen or local shop and how much (if any) you should save. A formally written budget, however, is a useful planning tool that enables you to work out where your money is going and how you can save. Without a budget, it is easy to overspend and be caught without money for important bills and expenses.

Spotlight: Designing a budget

Step 1: Calculating your total net income

The first step in designing a budget is to create a page with four columns. Label the first column 'Net income' and label the third column 'Expenditure' (see Table 1.4.4). This can also be done using a spreadsheet program, such as Excel. Having done this, the next step is to calculate your net income per week. This is the easy part, as it is often the shortest list. Your income may come from a variety of sources, including a part-time job or an allowance. It is important to remove from this figure any tax that you are required to pay.

In the first column, record your sources of net income per week. In the second column, record the amount of income received from each source. Now calculate your total net income.

TABLE 1.4.4 Calculating your total net weekly income

NET INCOME	\$	EXPENDITURE	\$
Part-time job	120.00		
Allowance	20.00		
Bank interest	0.60		
Total net income	140.60	Total expenditure	

Step 2: Calculating your total expenditure

After calculating your income, the next step is to calculate your total expenditure for a week. Start by listing your fixed, or recurring, expenses. These expenses may include music lessons, sports coaching, rent, board and mobile phone bills. Once you have done this, estimate your weekly variable expenses, which may include birthday presents, movies, clothes, school equipment, food and haircuts. If you find it hard to remember all the things you spend money on, keep a diary of your expenditures for a week. You will be surprised at how much money you actually spend.

Record your expenditures in the third column. In the fourth column, record the cost of each expense (see Table 1.4.5). Now calculate your total expenditure.

TABLE 1.4.5 Calculating your total weekly expenditure

NET INCOME	\$	EXPENDITURE	\$
Part-time job	120.00	Music lessons	45.00
Allowance	20.00	Train fares	10.00
Bank interest	0.60	Fast food	15.00
Total net income	140.60	Total expenditure	70.00

Step 3: Calculating your weekly savings/deficit

Your total savings or deficit is calculated by subtracting your total expenditure from your total net income. If you end up with a positive number, you have savings. These can be either invested or accumulated to help you finance your long-term consumption goals, such as the purchase of a bike or laptop.

$$\text{Savings/deficit} = \text{income} - \text{expenditure}$$

If your expenditure is greater than your income, you have a *deficit* (shortfall). You should consider reducing your expenditure, otherwise the deficit will need to be paid for by either borrowing money or taking it from your savings.

Servicing ongoing costs as a budget consideration

To budget for ongoing costs, such as your mobile phone bill and other regular bills, you may need to look at a longer time period in your planning. You can do this by dividing your simple budget into five columns, as shown in Table 1.4.6. To fill in the budget, you need to follow the same steps as before. However, this time you will describe the sources of income and the expenses in the first column. The other columns are used to record the dollar amounts you receive and spend per quarter of the year. This will give you an idea of the quarters when you will have surplus money. This surplus money can be put aside (saved) to cover the more expensive periods of the year.

TABLE 1.4.6 Budgeting for ongoing costs

	JANUARY–MARCH	APRIL–JUNE	JULY–SEPTEMBER	OCTOBER–DECEMBER
Net income				
•				
•				
Total net income per quarter (A)				
Expenditure				
•				
•				
Total expenditure per quarter (B)				
Savings/deficit per quarter (A) – (B)				

Once you have set up a budget, you should try to stick to it. While doing a budget may be boring, it does provide you with more control over your spending. People who don't budget well are not likely to achieve their goals. They are likely to waste their money and, worse, it can result in them being unable to repay their debts.

Budgeting well means setting realistic goals. You don't have to give up all of life's luxuries to maintain a workable budget. If you start taking sandwiches to school each day, allow yourself a bought lunch once a week or once a fortnight. Don't give up going to the movies altogether; just make sure you go on the cheap nights. Budgets also come unstuck when people stray from them for a couple of months and feel they have failed. You can always start again. Working out the right budget will take finetuning – at times you will underestimate what things cost or will have to allow for an emergency or something unexpected. If there are changes in your income or expenditure, you will need to modify your budget. Budgets need monitoring but, once set up, they are a valuable tool in helping you to manage your finances.

The consequences of poor financial management

If you are unable to pay for all your expenses or have borrowed money, then you are in debt. As mentioned earlier in the chapter, debt is not necessarily a problem. However, if you start having trouble making repayments, you will need to take action as it can have serious consequences. The different scenarios that could occur as a consequence of poor financial management are described below. There are a number of ways to resolve problems with debt. These are discussed later in this section.

Debt collectors

Debt collectors may start pursuing you for the lenders' money. There are, however, legal limits on what debt collectors are allowed to do. If they visit you at home, they should have already contacted you by either mail or telephone. Home visits cannot be used as a means of intimidation or harassment. The Australian Competition and Consumer Commission guidelines for debt collection specify that a debt collector can make contact by phone between 7.30 a.m. and 9 p.m. (Mon–Fri); 9 a.m. to 9 p.m. (weekends); no contact is allowed on public holidays. A debt collector should also leave your home immediately upon being asked. Debt collectors should only contact you at work as a last resort or if you have expressly asked them to contact you there.

Bankruptcy

You may file for bankruptcy. If you are on a low income, declaring yourself bankrupt may seem an easy way to clear all your debts. By filing for bankruptcy through the courts, you no longer have an obligation to repay your debts. But once you have been declared bankrupt, it remains on record with the credit reference agencies for the next seven years. Therefore, you should weigh up whether this option is advisable because it is likely that you will need to borrow money in the future.

Strategies for dealing with financial difficulties

If you find you have run up a lot of debt because of poor financial management, the first thing to do is advise your lenders. Visit or phone your credit providers and explain your problem so that you can work out a repayment plan. If your difficulty is viewed as being short-term, such as a minor illness or an injury that has put you off work for a couple of weeks, a credit provider may allow you to defer (postpone) payments or extend the loan period until you have recovered.

If you are unable to resolve the situation with your credit provider, or feel as though your debt is getting out of control, there are a number of individuals and organisations who can advise you. Professional advice

can be obtained from an accountant, a solicitor, a specialist legal centre or a financial adviser. Many of these advisers have specialist help for specific groups in our communities, including non-English speaking and Indigenous people. Also, you could contact Moneycare, a confidential, free-of-charge financial counselling service operated by the Salvation Army.

Being a poor financial manager and not meeting your debt repayments means not only that you will be faced with financial and legal consequences, but could also have dire social consequences. It could mean the difference between a life of financial hardship and one of prosperity. You should also consider that it might not only affect you but also your family and, in the long term, your community.



FIGURE 1.4.5 Not being able to pay your bills is often the first indicator of financial difficulties.

Debt consolidation

You could try to consolidate all your debts into one debt. This is called debt consolidation. People with several debts, all attracting different rates of interest, are often encouraged to roll all their debts into one loan, such as their mortgage. This reduces interest costs when the interest rate of the single loan is lower than those of the individual credit cards and personal loans. The secret to making this work is to maintain your repayments and stop yourself from borrowing further. Also, you will need to watch out for any fees related to debt consolidation.

Understanding the text

- 1 Identify the factors that affect our spending patterns.
- 2 Why would the relationship between fixed expenditure and variable expenditure change as we get older?
- 3 What is your interpretation of 'to save'?
- 4 List the reasons why people need to save.
- 5 Define the term 'disposable income'.
- 6 What does it mean to invest?
- 7 Why do people invest?
- 8 Examine the relationship between risk and return.
- 9 List the reasons why people borrow money.
- 10 What are the costs of borrowing?
- 11 Compare the different types of loans available in Australia.
- 12 Identify the four steps to consider before borrowing.
- 13 What is a credit check? What factors are taken into account when a credit check is carried out?
- 14 Why is paying on credit a form of borrowing?
- 15 What are the 'golden rules' for applying for a credit card?
- 16 Define the term 'loyalty scheme'.
- 17 Where can you get financial advice?
- 18 State what superannuation is and what it seeks to do in terms of people's wellbeing and lifestyle.
- 19 Distinguish between industry and retail superannuation funds.
- 20 Outline the benefits of superannuation.
- 21 Briefly outline how superannuation works. What is the Superannuation Guarantee? Who is eligible to receive it? Who pays it?
- 22 Under what circumstances can you access your superannuation savings before the age of 60?
- 23
 - a What is insurance?
 - b What is a premium?
 - c Identify the circumstances under which you can receive a claim payout.
 - d Why is insurance important?
- 24 Explain why it is important to keep records of your income and expenditure.
- 25 Make a list of the types of records that consumers should keep on a weekly, monthly and annual basis.
- 26 What checks should you make to ensure that your credit card and savings account statements are accurate?
- 27 List the different types of insurance available. For each type, make up a scenario in which a consumer would benefit from having the insurance.
- 28 How can a budget help you to manage your finances?

- 29 Define the terms 'fixed expenses' and 'variable expenses'.
- 30 Describe the method for calculating total savings and deficit.
- 31 a What is a spreadsheet program?
- b How do these programs help you to record your income and expenditure?
- 32 Assess the results of poor financial management.
- 33 What strategies can be put in place to address financial difficulties?

Activities

- 1 Study the Spotlight box 'The different types of income' on page 44. Copy the following table into your notebook, then complete the tasks below the table.

TYPE OF INCOME	MY DEFINITION	TEXTBOOK DEFINITION	EXAMPLES OF OCCUPATIONS
Wage			
Salary			
Fee			
Commission			
Profit			
Social security			
Interest			
Dividends			
Rent			
Royalties			
Prize money			

- a In your own words, write a definition for the terms listed in the first column of the table.
- b Refer to Chapter 3, section 3.2. Find a definition for each of the types of income listed in the first column. Compare your definitions with the textbook definitions.
- c For each type of income listed in the first column, give two examples of occupations that would receive this type of income.
- 2 Think about the statement 'Spending and saving patterns vary across different life stages'. In pairs, discuss what you understand by this statement. Then copy and complete the following table.

PERSON	POSSIBLE SPENDING PATTERN (FIXED VERSUS VARIABLE)	POSSIBLE SAVING AND INVESTING PATTERN
A 15-year-old who lives at home and goes to school		
An 18-year-old who lives at home and: a catches public transport b owns a car		
An 18-year-old who lives away from home and: a goes to uni full-time b has a full-time job		
A 30-year-old who has two school-age children and: a rents b has a mortgage		

PERSON	POSSIBLE SPENDING PATTERN (FIXED VERSUS VARIABLE)	POSSIBLE SAVING AND INVESTING PATTERN
A 45-year-old who has adult children and: a is a homeowner b is a business-owner		
A 65-year-old retiree who: a receives the age pension b is independently wealthy		

3 Copy the following table into your notebook, then complete the table answering these questions:

- a What types of investments would the following people be likely to have?
- b Why is it likely that they would have these types of investments?

POSSIBLE INVESTMENTS		
18-year-old	35-year-old	65-year-old

4 Pretend you work for a financial institution and it is your job to design a new credit card aimed at attracting young people aged 18. Design the card and list all its features; for example, interest rates, annual fees and a reward program. Consider whether you would co-brand your card and, if so, with whom.

5 Assume the following people have come to you for a loan. Assess which person you are most likely to lend money to and the person you are least likely to lend money to. Be prepared to justify your reasoning to the rest of the class.

- a Sam Safi currently has two credit contracts. He has always paid his instalments on time. Sam has recently lost his job and wants to borrow money to help him through this difficult time.
- b Alice Dingo has been working for 12 years since leaving school. She has never had a loan as she has always paid for everything with cash. Alice wants to borrow money for a new car.
- c Joe Cribb was declared bankrupt three years ago after getting into debt to the value of \$380 000. He has been working full-time for the last two years and wants to borrow money to go on an overseas holiday.
- d Danny Grimes defaulted on two loans 10 years ago. He has just finished paying off another loan. He is working two casual jobs. Danny wants to borrow money to pay for a part-time course.

6 As a class:

- a prepare two separate lists of all the different types of loans available and all the different types of lending institutions
- b brainstorm the advantages and disadvantages of these different types of loans and lenders.

7 As a class, discuss the responsibilities of lenders and advisers when providing information or advice.

8 Create a table with three columns and label it 'Insurance'.

- a In the first column, list the different types of insurance available.
- b Refer to the online Yellow Pages. In the second column, list some examples of insurance companies that provide each type of cover.
- c In the third column, indicate whether your family has each type of insurance and, if so, give the name of the insurance company.

9 In groups, discuss whether you think personal or property insurance is more important. Be prepared to discuss your thoughts with the class. Based on this discussion, list (in order of priority) the types of insurance you will possibly have by the time you are 18–20 years old and when you are 35–40 years old.



ACCC



MoneySmart

- 10 Access the ACCC website and search for information on debt collectors. Write a report that describes what debt collectors do and the rights of consumers.
- 11 Access ASIC's MoneySmart website. Investigate the role of ASIC and make a list of the types of consumer assistance offered on the site.

1.5 Current issues

There are many consumer-related issues that we can investigate. Some of these are outlined below.

Consumer rights

According to the ACCC, the top five consumer rights issues are product safety, debt collection, sales, guarantees and avoiding responsibility.

Product safety

Product safety is the number one consumer concern. Consumers don't want to purchase a product that causes harm or unintentional damage. Not surprisingly, consumers have the right to take legal action if a product or service threatens their wellbeing. Many product categories have mandatory safety standards determined by the Commonwealth Government. These standards address issues such as product packaging, buyer information and the materials used.

Some products may be subject to a ban, making it illegal to sell them. For example, there is a permanent ban on toys made of toxic plastics.

Debt collection

Many people experience financial difficulties at some stage during their lifetime. In such circumstances, it is reasonable to expect some consideration from the creditors to whom they owe money.

Laws around debt collection are based on the concept of fairness. It is reasonable to expect that a revised repayment plan can be negotiated. A heavy-handed response from the organisation to which the money is owed is rarely in the interest of either party.

Sales

Sales of goods and services made via techniques such as telemarketing or door-to-door selling are known as 'unsolicited consumer agreements'.

Because these sales are unprompted by the prospective buyer, they carry additional rights for consumers. There is, for example, a 10-day cooling off period, which must be made clear at the point of sale.

It is also important to note that under consumer law, the salesperson is considered part of the company they work for. Companies cannot legally distance themselves from the actions of their sales staff.

Guarantees

Consumers are disappointed when the things they buy break or don't work. If this happens, consumers have a reasonable expectation that the supplier of the goods or service will accept some responsibility, especially if the product is defective.

Customers are typically offered one of three types of warranty: express warranties, warranties against defects and extended warranties. The first two types of warranty refer to the actual product's qualities, and what you will do if it doesn't meet those standards or breaks. The third is an additional guarantee offered by a supplier beyond that offered by the manufacturer. Extended warranties often come at an additional cost to the consumer.

The important point for businesses is to be clear about what type of warranty they can offer. Failing to meet a warranty agreement may result in legal action and will damage the retailer's reputation.

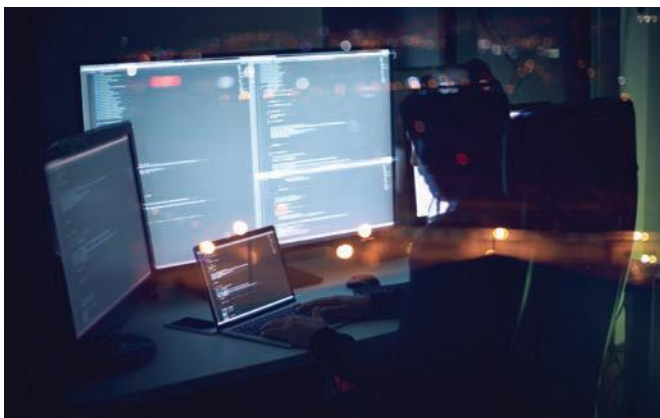
Avoiding responsibility

From a consumer's point of view, the legal responsibility for a product rests with the retailer that sold the good. Retailers cannot, for example, deal with complaints by directing the customer to the manufacturer. Nor can they state that any purchase is devoid of warranty. A basic legal guarantee exists on everything that is sold. For the seller, keeping to this obligation ensures that they won't be subject to legal action. It also helps to maintain the loyalty of customers. Staff must understand the rights of consumers.

Scammers

A scam is an attempt to defraud a person by first gaining their confidence.

Scammers do everything in their power to steal from other people, usually by means of trickery, deceit or force. With the accessibility and anonymity that the internet provides, scammers have become increasingly common in recent decades. They are typically motivated by personal greed. Rarely do they show sympathy or empathy for the people they steal from. They often target the most vulnerable members of society, including the aged. See the Spotlight box 'ACCC's Scamwatch'.



iStock/Getty Images Plus/imaginima

FIGURE 1.5.1 Scammers are typically motivated by personal greed.

Spotlight: ACCC's Scamwatch

Scamwatch is an initiative of the Australian Competition and Consumer Commission. It provides information to consumers and small businesses about how to recognise, avoid and report scams. The Scamwatch website lists the types of scams and shows you how to get help if you are the target of a scam.

Scam types include the following:

- *Attempts to gain your personal information* – for example, hacking, identity theft, phishing and remote access scams. Phishing involves attempts by scammers to trick you into giving out your personal information, such as your bank account numbers, passwords and credit card numbers. Remote access scams include phone calls from scammers telling you that you have a computer or internet problem and that you need to buy new software to fix the problem.
- *The buying and selling of goods and services* – for example, false billing, health and medical products with little, if any, benefit to the user, and online shopping scams.
- *Dating and romance* – scammers taking advantage of people looking for a partner, often via dating websites. They play on people's emotions, convincing them to hand over money, gifts or personal details.
- *Fake charities* – scammers will steal your money by posing as genuine charities.



- *Investment scams* – for example, a scammer claiming to be a stockbroker or financial adviser calls you and offers a low-risk investment offering you high returns, or encourages you to invest in overseas companies.
- *Threats and extortion* – for example, ransomware (scammers demanding money to ‘unlock’ your computer or files). It may also include threats to your physical wellbeing if you don’t hand over money or your personal details.
- *Unexpected winnings* – for example, travel prize scams that attempt to trick you into parting with your money to claim a ‘reward’ such as a free or discounted holiday.

Technological change and its impact on consumer choice

Advances in communications and transport technologies are transforming almost every aspect of our lives. This includes the decisions we make as consumers. Two examples illustrate the nature of these changes and the threats they pose to our privacy. The Spotlight box ‘Supermarkets of the future’ illustrates how advances in technology will help inform us about the products we buy. We have the opportunity to become more informed consumers. The Spotlight box ‘Targeted advertising – a threat to privacy?’ provides an insight into how advertisers use technology to target us with information about products we are likely to find appealing. Some see this ‘data mining’ as a threat to our privacy.

Spotlight: Supermarkets of the future

Have you ever wondered what a trip to the supermarket might look like in 2050?

Supermarkets will still physically exist, but they will be transformed into places where people go not only to shop, but also to meet other people and find information about the high-quality goods they want to buy. They will feature sophisticated Kinect (motion sensing) devices and the latest digital technology (see Figure 1.5.2).

In the supermarket of the future, sensors, robots, interactive screens and apps will help you learn more about the products you are buying. As you browse and select your goods, digital information pops up on screens placed above the shelves. If you want to know where the strawberries come from, just point your finger at the container and start reading. Allergic to nuts or seafood? Bring a product up on the screen and the system will tell you which products have nuts or seafood-based extracts and which have none. Looking to buy ethically? Let the supermarket take you through the products’ production chain.

The physical design of the supermarket will also be transformed. Cluttered aisles, tall vertical shelving and limited product information will be replaced with low, well-designed interactive shelving, organised displays and multiple digital screens adding an engaging and responsive dimension to the shopping experience. There will also be more space, perhaps even cafes, where customers can interact.

As customers select their goods and place them in their shopping trolley, scanners embedded in the trolley will record their purchases. As the customer exits the supermarket, the shopper’s basket of goods will be tallied and their bank account or credit card debited for the total amount owing.

The data collected by the shopping trolley’s sensors will be used to automatically restock the shelves from a stockroom immediately below the shelves. The data can also be used to order new stock on a cost-saving, just-in-time basis.



FIGURE 1.5.2 The supermarket of the future

Spotlight: Targeted advertising – a threat to privacy?

Targeted, online advertising is rapidly replacing traditional forms of advertising such as billboards, newspapers, magazines and radio.

Targeted advertising involves the use of sophisticated methods of data collection to target the most receptive potential customers. The data collected can identify consumers by a range of demographic and non-demographic traits. The former include race, gender, age, level of education, economic status, income and employment. The latter are based on the consumer's attitudes and values, and their personality, opinions, lifestyles and interests. The data gathered can also include a range of behavioural variables, such as web browser history and purchase history.

Advances in information and communication-based technologies and the emergence of social media have enabled targeted advertising to extend across all forms of ICT, such as web, internet protocol television (for example, subscriber-based telecommunications networks) and mobile environments. Two types of targeted marketing are of particular interest. These are search engine marketing and social media targeting.

Search engine marketing involves advertisers using an individual's internet search history to target potential customers. It can greatly enhance the targeting of advertising, as the ads appearing on the user's browsing pages feature products or services they have previously viewed on advertisers' websites.

Another example of search engine marketing is Google Adwords. Adwords is an online advertising facility that allows businesses to have their advertisements run on Google's search result listings. The ads look almost identical to the normal search results, with the only difference being the small word 'Ad' in green. Google ads will show at the top and bottom of a search results page. Depending on how much an advertiser is willing to pay compared with other suppliers of the good or service in an area, their ad may show up on the results page when people search for the terms the advertiser bids on. For example, a plumber may bid on key terms such as 'plumbing Newcastle', 'plumber', 'leaking taps' and 'broken toilet'. The amount the plumber bids compared with other plumbers in the area will determine where the plumber's ad will appear on the list of search results. This type of advertising has a number of advantages for the advertiser. The searchers have what is referred to as 'buying intent' and the advertiser only pays if someone clicks on the ad.

Social media targeting uses general targeting strategies (broad characteristics such as gender, age, location, behaviour and interests) to gather information from what consumers have accessed/viewed or uploaded on the internet and social media platforms. For example, on Facebook, if a user has liked a particular clothing page they will receive ads promoting that brand and outlets where the products can be purchased close to where they live. This allows advertisers to target very specific consumers. Over time, social media compiles profiles of the consumer based on their interests and 'likes'.

Many people are concerned about the amount of information being gathered by commercial interests and social media providers, and the means by which it is being acquired. Privacy advocates are especially concerned about the ways in which this information is being used.

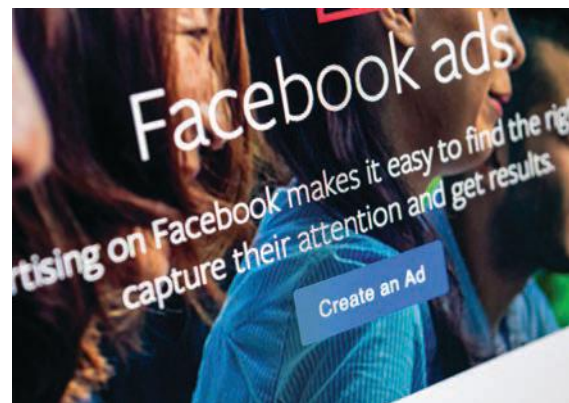


FIGURE 1.5.3 Social media is increasingly used to advertise goods and services.

Understanding the text

List the top five consumer issues identified by the ACCC. Which of these do you see as the most important? Justify your answer.

Activities



Scamwatch

- 1 Study the Spotlight box 'ACCC's Scamwatch' on page 61. Visit the ACCC Scamwatch website and identify the range of scams highlighted. Find examples of scams that have been reported in the media. Share these with the rest of the class.
- 2 Study the Spotlight box 'Supermarkets of the future' on page 62. How will future supermarkets differ from those that exist today?
- 3 Study the Spotlight box 'Targeted advertising – a threat to privacy?' on page 63. What is targeted advertising? Conduct a class debate on the topic 'Does targeted advertising represent a threat to our privacy?'
- 4 As a class, share the targeted advertising you experience on your web browser. Are there any types of ad you have in common with other members of the class?
- 5 Using the media and the internet, investigate any consumer-based issue that is in the news. Prepare an oral report outlining your findings.



2

THE ECONOMIC AND BUSINESS ENVIRONMENT

CONTENT OVERVIEW

- 2.1 The nature of the economy
- 2.2 The nature of markets within the economy
- 2.3 Interactions within markets
- 2.4 Current issues

CONTENT FOCUS

In this core topic, we focus on the importance and features of the economic environment, including markets. You will learn about the operation of businesses in the context of an increasingly globalised economy, and investigate the causes and impacts of a major economic event affecting Australian consumers and businesses.

The skills you will develop in this core unit of study include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What are the key features of the economic environment?
- How has global economic integration affected the nature, role and operation of business?
- What are the impacts of major economic events on Australian business and consumers?

GLOSSARY OF KEY TERMS

Budget

A government's estimate of revenue and spending for each financial year.

business investment

The purchase of capital equipment; for example, the purchase of equipment and factories that firms need to enable them to produce.

capital

Wealth in the form of money or other assets (for example, machines, factories and offices) available for the purpose of starting a company or investing. Capital is one factor of production.

centrally planned (or command) economy

An economic system in which the government makes economic decisions, rather than allowing the interaction between consumers and businesses to determine the

allocation of resources. State-owned enterprises undertake the production of goods and services.

competitive advantage

The factors that make a business's goods or services superior to all those that customers have to choose from.

depression

A long and severe recession in an economy or market.

disposable income

The income remaining after deduction of taxes. It is the money available to be spent or saved.

economy

A system or science of managing organisations and institutions that assist or enable the production and distribution of a community's resources among members of a society.

enterprise

Another term for a business or company. It is also associated with entrepreneurial activities and ventures.

entrepreneurship

The process of developing new business ventures, and/or promoting growth and innovation in existing firms.

financial stability

The state in which the financial system (including markets and financial institutions) is able to resist economic shocks and to function effectively.

globalisation

The process of increased global interdependence between countries. It involves increased economic and cultural links between different parts of the globe.

inflation

A general increase in prices and fall in the purchasing value of money.

innovation

The introduction of a method, idea or product.

labour

An input in the production process: the total of all human physical and mental effort used in the creation of goods and services.

land

An input in the production process.

laissez-faire system

An economic system in which transactions are free from government intervention or regulation.

market

The circumstances that allow buyers and sellers of a specific good or service to interact in order to make an exchange.

market economy

An economic system in which the laws of supply and demand determine the production of goods and services.

mixed economy

An economy in which there are elements of both public and private enterprise.

productivity

The output per unit of labour and capital invested.

recession

A period of economic decline during which trade and industrial activity are reduced, generally defined by a fall in gross domestic product (GDP) in two successive quarters.

scarce resources

The limited availability of a commodity or input that may be in demand in the market.

unemployment

The situation that arises when a person who is actively searching for work is unable to find it.



2.1 The nature of the economy

Let us start by defining the term 'economy'. **Economy** can be defined as a system or science of managing organisations and institutions that assist or enable the production and distribution of a community's resources among members of a society. What this means is that the limited resources (such as labour, raw materials and land), together with organisations (such as producers and businesses), operate within the legal frameworks set by the government to produce the flow of goods and services for society's needs and wants.

Resources

Economic resources include **labour** (human effort and expertise), use of **land** (natural resources, such as soil, rivers and forests) and **capital** (such as machinery and technology that are used to create goods and services). Some economists add a fourth resource: **enterprise** – defined here as the people who bring all the resources together for the purpose of production. This is also called entrepreneurship. Since all of these resources are in limited supply, they are often referred to as **scarce resources**. A nation must decide how best to use these scarce resources – what to produce, how much to produce, how to produce and for whom to produce.

Economics

Economics is the study of the way a nation tries to satisfy people's needs (such as clean water, food, shelter and health care) and wants (non-essential goods and services) with limited resources. There are three main players in our nation's economy – consumers, businesses (employers) and governments – and they all

work together trying to solve the economic problem of choosing which needs and wants to satisfy with their limited resources. A nation's economy is also affected by other nations' economies through the trade of goods and services (imports and exports).

In Australia, we live in a commercial economy. The study of economics involves looking at how goods and services are produced and consumed, and income is earned and spent, on a national basis. It involves looking at topics such as saving and investing, interest rates, wage rates, inflation, unemployment, trading with other people and other countries, paying taxes and being governed.

Economic change

Economic change can occur for several reasons.

Australia's economy has grown in the past 15 years in response to Asia's growth. Demand in Asia for commodities and resources has boosted Australia's export income and resulted in considerable investment in the mining sector. The global financial crisis (GFC) in 2008 meant that the economy slowed down, but the government's fiscal stimulus and the Reserve Bank of Australia's (RBA's) monetary policy (interest rates dropped from 7.25 per cent to 3 per cent) enabled a quick economic recovery.

Global and local changes have a direct impact on the level of economic activity within our society. The reasons for this are expanded on below as we investigate the various economic relationships and the possible causes of economic change.

Role and interdependence of key participants in the economy

To fully understand the nature of the economy, we must initially understand the links and interdependence between its key players – consumers, business, government, financial institutions and the overseas sector. The following four diagrams (Figures 2.1.2 to 2.1.5) provide a detailed view of the various economic links that exist in our economy both internally and externally. Each diagram builds upon the preceding one.

Households and business

Figure 2.1.2 shows a model of a two-sector economy of households and business. Households (an economic measure for a group of consumers) provide labour to businesses in exchange for payment of wages or salary (Flow A). By earning an income, households can purchase goods and services from businesses (Flow B). This two-sector economy is also known as a circular flow of buying and selling goods and services. Households are dependent on businesses for employment, and businesses are dependent on households to purchase their goods and services.

Financial sector

By adding the financial sector in Figure 2.1.3 we can see how the flow of money between households and businesses contributes to the functioning of the economy. Households earn money as wages or salary, and after paying taxes the remaining **disposable income** can be used to purchase goods and services or set aside as savings. Money saved by households is usually deposited in financial institutions such as banks or credit unions.



FIGURE 2.1.1 Economics is the study of the way a nation tries to satisfy people's needs and wants with limited resources.

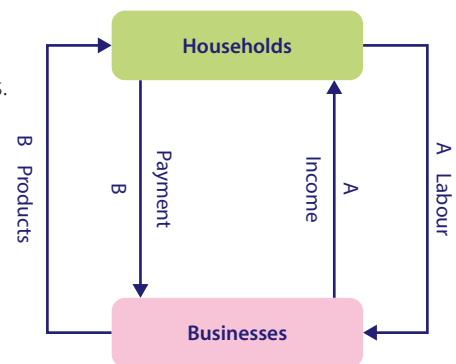


FIGURE 2.1.2 A two-sector economy

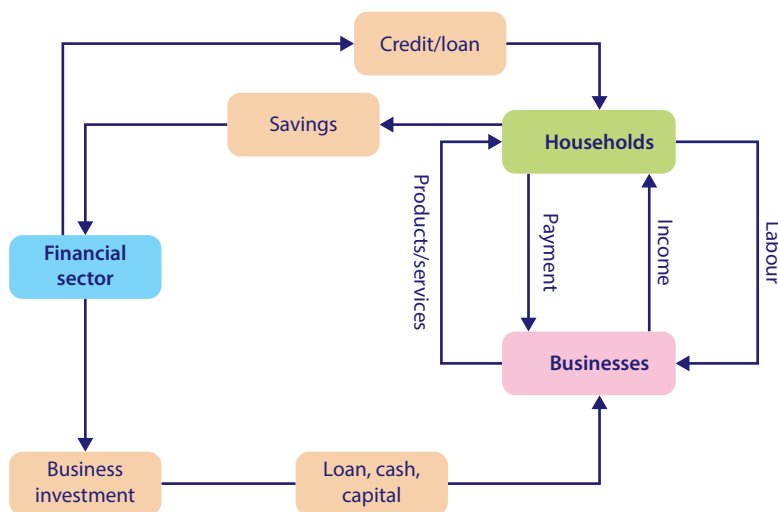


FIGURE 2.1.3 A three-sector economy with links to the financial sector

accommodation) is maintained or increases, it contributes to the ongoing operation or growth of a business.

If a business needs to expand or upgrade, it will borrow money from financial institutions. This is known as **business investment** and includes loans to relocate to new premises, cash advances for operational costs, or capital investments for purchasing new equipment for the business. The continued success and expansion of business is vital, as it provides ongoing or increased employment opportunities for households.

The financial sector has an important function in bringing together borrowers and lenders. This process is possible through intermediaries such as banks, investment banks and finance companies. In simple terms, the banks, credit unions and other authorised deposit-taking services take savings (from deposits) and lend the money to borrowers such as households, businesses and government.

With a personal loan from a financial institution, a household can purchase a car, go on a holiday or upgrade their kitchen; with a mortgage loan, they can buy a house. When household demand for, and the consumption of, products (such as a new car or kitchen appliances) and services (such as travel and

Spotlight: Role of the financial sector in facilitating business investment

The economic functions performed by banks in Renaissance Italy still apply today. In fact, the economy could not develop without the financial sector. A core function of the financial sector is to transfer savings back into the spending stream. Historically, households have been the natural net savers, depositing money into savings and fixed-term accounts with banks or similar financial intermediaries.

In July 2019, \$526 billion was held in savings accounts across Australia. These funds are used by the financial sector to invest. Retail banks use the deposits to fund loans, credit and cash advances to small business borrowers and corporations. Banks must pay interest to the depositors, but they make money by charging interest on loans to borrowers. Australian Bureau of Statistics (ABS) data in 2016 shows that 40 per cent of business debt and investment comes from loans facilitated by financial institutions.

In general, the type of loans and investment provided to businesses depends on the size of the company. For example, small business borrowings would include: business loans to purchase a property, equipment or a vehicle; business overdrafts to manage cash flow; and cash advances for short-term financing needs. The borrowing needs of large businesses or corporations range from basic business loans through to complex financing arrangements to purchase company assets, trade internationally, or raise capital for expansions and projects. If the financial sector is working well, the economy benefits by expanding the productive capacity of businesses through business investment.

Since 2012, alternative finance platforms have grown; these include peer-to-peer, marketplace lending and crowdfunding, which use new online technologies to connect fundraisers directly with funding sources. The aim of these alternative means of gaining finance is to avoid the costs and delays involved in traditional intermediated finance sources, such as loans available from banks. While alternative financing platforms are growing rapidly, they are still a very minor source of funding for businesses in Australia.

Spotlight: Financing Australian exporters

Agri Direct Australia (ADA) is a Victorian-based exporter of a range of agricultural products to Bangladesh, India, Pakistan, China and Japan.

Founded in 2011, ADA partners with Australian farmers to export high-quality wheat, chickpeas, lentils, canola and oats to a network of overseas wholesalers.

To deliver a recent large order, ADA needed additional working capital to cover upfront payments to suppliers, before receiving its own payment.

While ADA's bank was interested in providing a trade finance facility, it wasn't able to do so without a guarantee. Efic [Export Finance Australia] provided ADA with an export working capital guarantee, which allowed ADA's bank to approve the additional finance that will cover the time lag before ADA is paid by its overseas buyer.

Having the funds available to cover the cost of each order will allow ADA to seek new contracts and continue growing its business.

Source: Based on Export Finance Australia, 'Agri Direct',
<https://www.efic.gov.au/resources-news/case-studies/agri-direct/>.

Government sector

Figure 2.1.4 is a model of a four-sector economy. Households and businesses pay taxes, duties and rates to the government in return for goods and services that businesses are unable or unwilling to provide, such as health, education and roads. The revenue from taxes is also used by the government to manage the economy by providing welfare payments and services. For example, the payment of unemployment benefits allows households to buy goods and services from businesses. The government is also an employer of households, and a consumer of goods and services from business. The economy grows when the actions of businesses, households and governments lead to a rise in the amount of goods and services available per person.

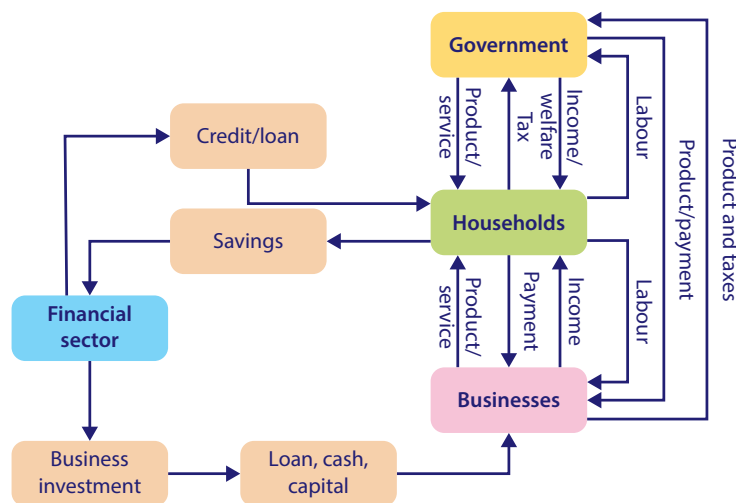


FIGURE 2.1.4 A four-sector economy

Spotlight: Role of government in protecting consumers

The key federal government law protecting consumer rights is the *Competition and Consumer Act 2010* (Cwlth). The Act is administered by the Australian Competition and Consumer Commission (ACCC). The aim of the Competition and Consumer Act is to improve the wellbeing of Australians by promoting competition, fair trade and consumer protection. This law deals with issues such as anticompetitive and unfair practices, product safety, conditions and warranties, and actions against manufacturers and importers.

The Competition and Consumer Act is designed to protect consumers against unfair price increases. The Act gives the ACCC the power to monitor and report on the prices, costs and profits of companies and government authorities. The commission can also launch a public inquiry into the price of particular goods and services and force businesses to notify the ACCC of any intention to raise their prices. Some examples of recent ACCC investigations include Samsung's misleading water-resistant mobile phone advertising, the compulsory recall notice for all vehicles fitted with Takata air bags, and the selling of fake Indigenous Australian artwork by Birubi Art (in liquidation), which resulted in the issue of a \$2.3 million penalty by the Federal Court.

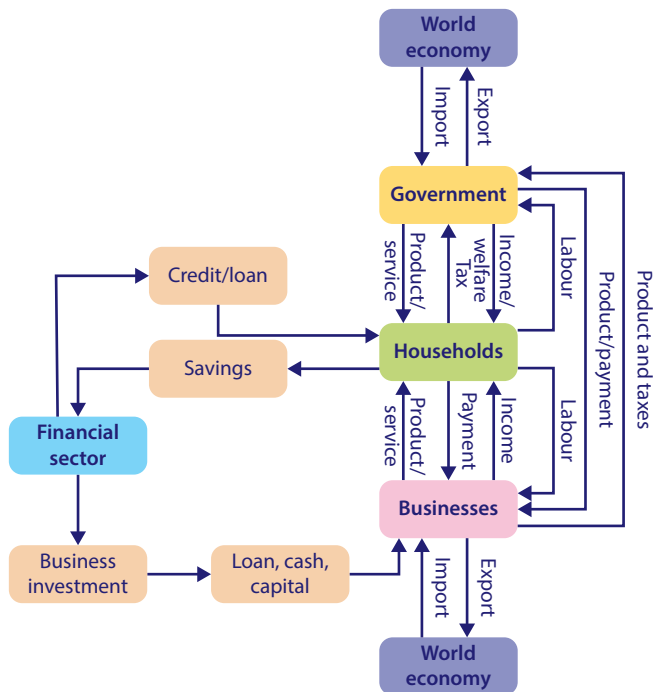


FIGURE 2.1.5 A five-sector economy showing flows between the domestic economy and world economy

Overseas sector

The five-sector economic flow model shown in Figure 2.1.5 includes the world economy (overseas businesses and consumers) and its links to households, business, financial institutions and government. When businesses Australia (including government businesses) sell goods and services overseas, these products are called exports and bring money into the Australian economy. Australia exports many products, including meat, wheat, minerals (such as iron ore) and its education system. When businesses and households buy from overseas businesses, the products brought into Australia are called imports and money is lost from the Australian economy as the payment goes to an overseas economy. Australia imports many products, ranging from Adidas shoes to technology such as Xbox.

The business cycle and its impact on the economy

The term 'economic cycle' (also called the business cycle) refers to the changes or fluctuations in economic activity that occur over time (see 'The economic cycle' in this section). The changes in the level of economic activity are reflected in total output, spending and consumer confidence, inflation, wage rates, interest rates and unemployment.

Total output

Every economy makes decisions about how it will solve its economic problem of scarce resources, unlimited wants, and the need to make choices about which wants to satisfy. The choices of consumers (everyone who uses goods and services), businesses and governments determine the four basic functions of an economy. As we saw earlier, these functions involve deciding what to produce, how much to produce, how to produce, and for whom goods and services are produced.

Consumers buy the goods and services that businesses produce. Businesses invest in goods and services to enable production. Governments buy goods and services to meet their goals and objectives. Total output is the sum of all goods and services produced in the Australian economy. It also takes into consideration the goods and services produced in Australia that are then sold overseas (exports) less the products consumed within Australia that were produced overseas (imports). Gross domestic product, or GDP, is another term commonly used for total output.

Put another way, the total output/GDP formula is:

$$\text{Total output (or GDP)} = C + I + G + (X - M)$$

where:

C = consumers' consumption of goods and services

I = investment in goods and services by business

G = government spending on goods and services

X = exports

M = imports.

Productivity is the output gained from the resources used. If output increases without a change in the resources used, productivity has improved. For example, when a business first starts up or begins operating, the staff are usually on a steep learning curve. As employees become more skilled at performing their roles, the firm's output increases even though the same level of resources (land, labour and capital) are being used. This is an increase in the *productivity of labour*. Technology also enables businesses to produce more efficiently and thus increase productivity.

The economic cycle

Total output (GDP) periodically rising and falling is called the economic cycle. Economic growth is experienced when GDP is persistently rising. Economic **recession** is experienced when GDP is persistently falling. When GDP falls for an extended period, it is called a **depression**. When GDP first starts rising, it is referred to as recovery.

An economic cycle is measured from the peak of a growth period to the peak of the next growth period. In other words, it starts and ends just as an economy is starting a recession period. When the economy turns from a recession to a recovery period, it is referred to as a trough, as can be seen in Figure 2.1.6. The length of time an economic cycle takes varies considerably.

Over the past 50 years, Australia has experienced periods of strong economic growth (mid-1960s and early 2000s) and periods of recession (mid-1970s and early 1980s). Growth and economic confidence have been evident since the 1990s and sustained by the mining boom in the 2000s (see the Spotlight box below). Australia's GDP contracted as a result of the GFC, but the economy rebounded and has remained strong relative to the weaker global economy.

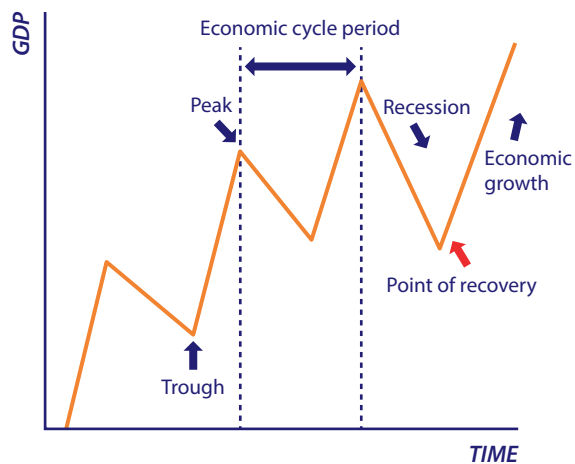


FIGURE 2.1.6 The economic cycle

Spotlight: Australia and the global economy – the mining boom

Australia is heavily dependent on trade for its economic wellbeing. Exports and imports account for one-fifth of the GDP, which means that changes in other countries' demand for our goods and services can have significant implications for Australia's economy. The ratio of export prices to import prices is called the terms of trade. An increase in export prices relative to import prices implies that Australia is better off (favourable terms of trade, or trade boom). A fall in the terms of trade means that Australia must export more goods and services to maintain the same level of imports.

Between 2005 and 2011, Australia experienced a period of trade boom, driven by large increases in price for commodity exports (raw materials such as coal and iron ore, and agricultural products). Our supplies of natural resources include the second-largest accessible reserves of iron ore in the world, the fifth-largest reserves of coal and significant gas resources. Since the 1970s, commodities have made up a substantial share of our exports.

What caused the boom?

From around 2005, and again in the period beginning in 2016, the prices for commodities used to produce steel and to generate energy (iron ore, coal and natural gas) rose sharply, as global demand increased significantly and supply was unable to keep up. The increase in global demand was largely due to increased demand for steel and energy, driven by rapid urbanisation and industrialisation in China. New housing, factories and transport infrastructure all require use of steel in their construction.

The result was that Australia's terms of trade reached very high levels. By 2011, the terms of trade were around 75 per cent above the average of the preceding half-century.

During the boom

High commodity prices triggered a massive amount of investment in mines and mining infrastructure. Mining companies, keen to increase production and to profit from the high prices, expanded existing mines and developed new mines. This led to the largest resources investment in Australia's economic history. Mining investment averaged just 1.5 per cent of GDP leading up to the terms of trade boom, but it increased from \$20 billion in 2004 to \$130 billion in 2012, peaking at 9 per cent of GDP. By 2018–19, mining investment had declined to less than 4 per cent of GDP, still substantial by historical standards.

Investments and revenue from mining benefited and affected other parts of the Australian economy in several ways:

- *Increased demand* for workers and higher wages in the mining sector and related sectors such as construction, engineering, finance, legal and transport. The increase in employment and higher wages increased household consumption – more Australians had more money to spend on goods and services.
- *Increased government revenue* as higher profits for mining companies meant they paid higher taxes and royalties.
- *Increased shareholder profits* flowed on to payments of dividends to company shareholders, which included Australian residents.

After the boom

Eventually, the investment in mining enabled increased supplies for export; however, as additional supply became available, demand from China and other Asian countries slowed down. The combined effect of increased supply and falling demand resulted in a drop in the price of commodities and a decline in Australia's terms of trade. The falling commodity prices placed downward pressure on GDP, employment, profits, wages and inflation. In response, the Reserve Bank of Australia cut the cash interest rate to maintain the target inflation rate of 2 per cent.

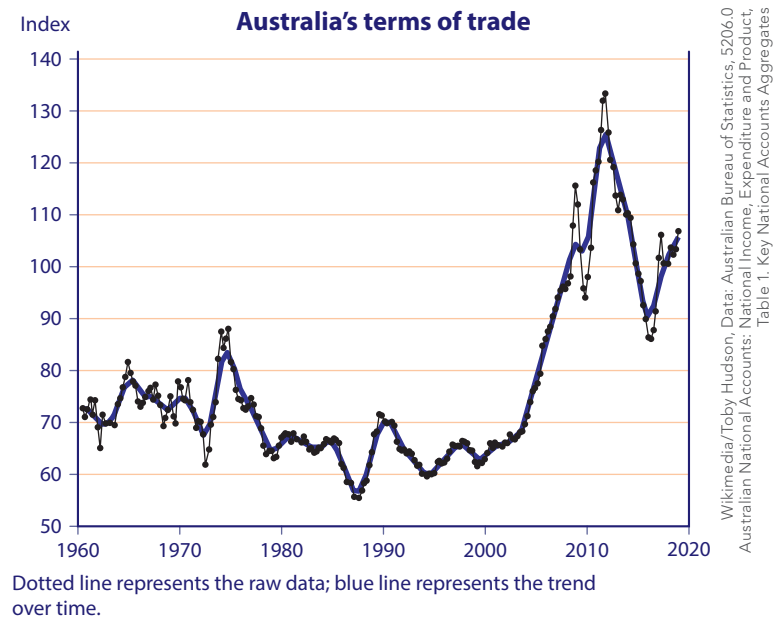


FIGURE 2.1.7 Australia's terms of trade, 1960 to 2019

Spending and consumer confidence

Consumer confidence is reflected in consumer spending, while business confidence is reflected in business spending. Economic confidence is the overall perception of the economy by all the sectors combined. Consumer and business confidence are very important because they influence spending and, hence, total output (GDP). This is illustrated by the GDP formula given earlier in this section. Economic growth depends on consumers and businesses spending.

When consumers and businesses are feeling unsure about their incomes, they spend less on goods and services. When consumers and businesses lack confidence and reduce their spending, GDP will fall, unless the government makes up the difference with its spending. When GDP falls for a sustained period, the economy is said to be in recession.

Spotlight: Consumer confidence declines as the economy slows down

The Melbourne Institute and Westpac Bank Consumer Sentiment Index for Australia is based on a survey of more than 1200 Australian households and reflects consumers' evaluations of their financial situation in the past year and anticipated future economic conditions. Index scores above 100 indicate that household optimism outweighs pessimism.

The July 2019 survey reveals that consumer confidence has declined after an initial boost following the back-to-back interest rate cuts by the Reserve Bank of Australia. Optimism increased in households servicing a mortgage loan, as most banks passed on the cut in the interest rate. However, self-funded retirees see the cut in the cash rate as a decrease in their earnings from interest accrued on savings and term deposits. The latest survey suggests a deepening concern in households about the slowdown in the economy (see Figure 2.1.8).

Consumer confidence in Australia has averaged 101.36 index points from 1974 until 2019. It reached an all-time high of 123.94 index points in May 2007, before the global financial crisis in 2008, and a record low of 64.61 index points in November 1990, at the start of the last recession in Australia.

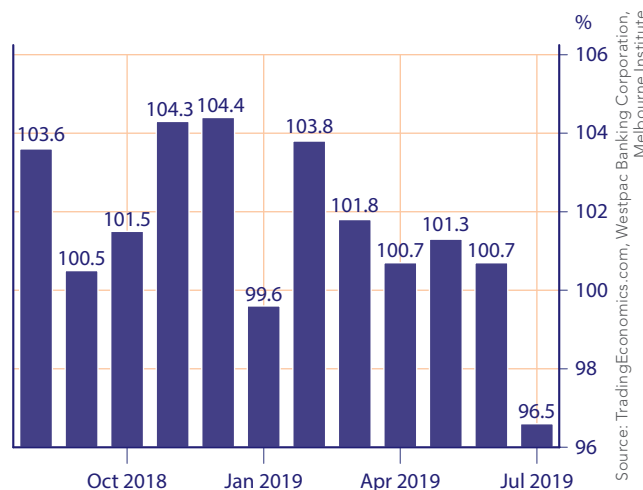


FIGURE 2.1.8 Australia's Consumer Sentiment Index
August 2018 to July 2019

Inflation

When the average price level of goods and services rises, it is called **inflation**. When prices rise, the money used to purchase the goods and services decreases in value. For example, at the beginning of a year it might cost \$100 for you to buy a standard basket of groceries at the local shop. At the end of the year, however, you may find that the same basket of groceries now costs you \$105. This would indicate an inflation rate of 5 per cent over the year. This can be presented as follows: $(\$105 - \$100)/\$100 \times 100 = 5$ per cent. If the same groceries cost \$120 at the end of the year, the inflation rate would have been 20 per cent over that year. This can be presented as $(\$120 - \$100)/\$100 \times 100 = 20$ per cent. This means that \$100 has lost some of its purchasing power. In each case, you need more money to buy the same amount of goods.

When consumers see prices rising, they lose confidence and adjust their spending accordingly. The fewer products purchased, the lower the total output, or GDP, of the economy.

Australia's inflation rate reached an all-time high of 23.9 per cent in December 1951. Negative inflation (also known as deflation when the supply of goods is higher than the demand) of minus 11 per cent was experienced in June 1931. Unanticipated world events can also affect Australia's inflation rate (see Figure 2.1.9); for example, the Great Depression in the 1930s, the post-Second World War recovery and the Korean War in the 1950s, the global oil price shock in 1973 and the global financial crisis in 2008.

Since the mid-1990s, an objective of the Reserve Bank of Australia is to keep inflation to between 2 and 3 per cent.

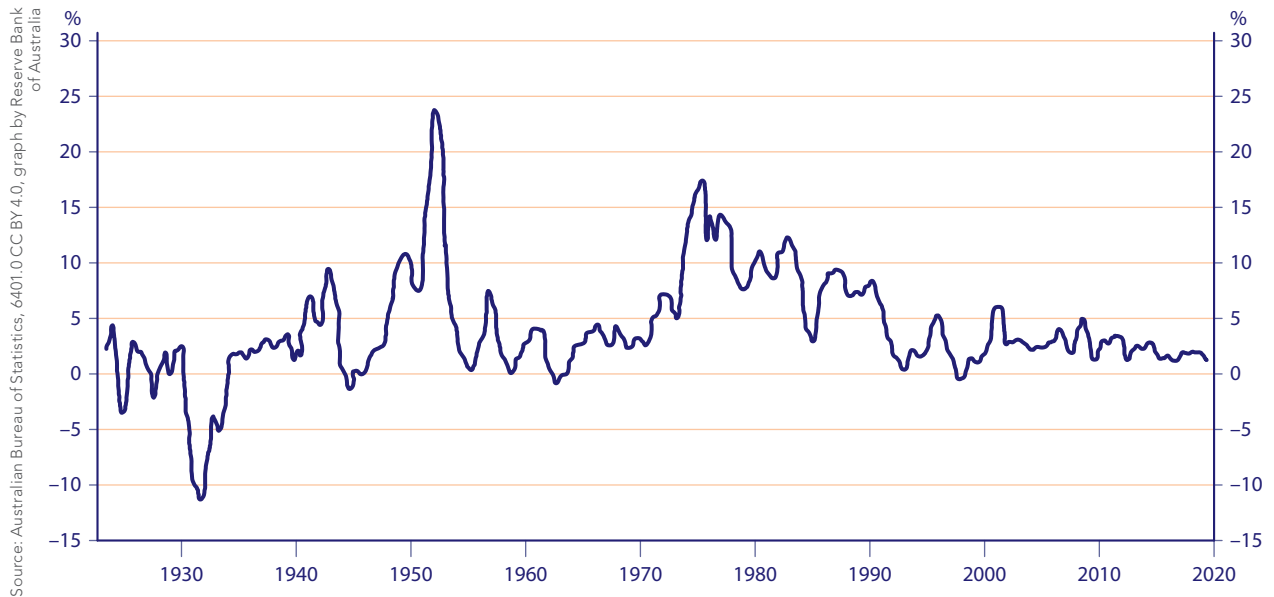


FIGURE 2.1.9 Inflation rate in Australia, 1920 to 2019

Wage rates

If the economy is experiencing high inflation, consumers often demand higher wage rates so they can afford more goods and services. When wages rise faster than improvements in productivity, it further adds to inflation because businesses increase their prices to cover the increased costs of production the wage rises have caused. In the past, wage rises helped fuel the level of inflation. Today, wage rates are not usually linked to price rises. Instead, they are generally tied to productivity (through enterprise agreements, as discussed in Chapter 3), so inflation is more contained.

Interest rates

Interest rates also influence consumer spending and play a major role in shaping the nature and level of economic activity. High interest rates encourage consumers to save, rather than spend. As interest rates increase, so do the required payments on mortgages, so many consumers with mortgages need to reduce spending in other areas. Also, when interest rates are high, consumers often defer buying or investing in real estate.

Business spending also drops as interest rates rise, because high rates make it more expensive to borrow funds to invest in capital.

Savings and borrowing

When households and businesses save, interest rates act as a reward. When they borrow, interest rates are a cost. Hence, when interest rates are high, consumers and businesses are more likely to save than borrow; when interest rates are low, there is more of an incentive to borrow.

Businesses invest according to the cost of funding the investment. If, for example, a new factory will produce \$10 000 in extra income each month, but the interest payments are \$12 000, then it would not be financially beneficial to make the investment. However, if interest rates were lower and monthly repayments were, say, \$7500, then the business would find it financially viable to invest in a new factory.

Role of the Reserve Bank

The Reserve Bank of Australia is a statutory authority. Its primary obligation is to implement monetary policy, which involves setting the official interest rate. The RBA's official interest rate directly influences the interest rates that other banks and financial institutions charge for loans such as mortgages, and business and personal loans. For example, if the official interest rate is cut by 25 basis points (0.25 per cent), the banks could reduce the interest rate for their mortgage loans by up to 0.25 per cent. On a loan of \$300 000, this would be a saving of up to \$600 per annum for a borrower.

Rise and fall of interest rates

In addition to influencing other interest rates, the official (RBA) interest rate affects the behaviour of borrowers and lenders, economic activity and the rate of inflation. Movements in interest rates can have an adverse effect on businesses and households (see the Spotlight box 'Australia's record low interest rates' on page 76).

When interest rates *rise*, borrowers are concerned because the cost of their loan increases (repayments increase). On the other hand, investors with cash deposits in the bank achieve higher returns when interest rates rise.

When interest rates *fall*, investors are concerned that the return on their funds decreases, diminishing their ability to meet future needs. On the other hand, borrowers with variable interest loans appreciate a fall in the interest rate, as it reduces their repayments.

Rising interest rates tend to dampen consumer confidence and spending because of the increased cost of borrowing money (such as finding additional funds to meet increased mortgage repayments). Falling interest rates tend to increase consumer confidence and spending; however, if interest rates remain too low for too long, over borrowing and over spending may result, leading to a rise in inflation.

Movements in the interest rate also affect people's investment decisions, such as retirees depending on interest from savings accounts and term deposits. Low interest rates force people to move out of cash (such as term deposits) into products that offer a higher return, such as shares and property.

Fixed and variable interest rates

Variable interest rate loans have an interest rate that can change according to the movements in the official (RBA) interest rate. In response to changes to the official interest rate, the bank or financial institution (lender) can change the interest rate during the entire term of the variable interest rate loan.

Fixed interest rate loans have an interest rate that cannot be changed by the lender for the loan's entire term, or for a fixed period, no matter what happens to the official interest rate. A fixed interest rate loan may be attractive if the interest rate is low and it is about to increase. By locking in your loan to a lower fixed interest rate, you avoid future interest rate increases, but you will miss out on future lower variable interest rates.

Over the period of the loan, borrowers with fixed interest loans will likely pay more for their loan than those with variable interest loans. The increased cost of borrowing at a fixed rate of interest compensates the lender for missing out on unexpected rises in the variable interest rate.

A honeymoon rate means that the interest rate is fixed at an attractive low rate at the start of the loan period. When the fixed period expires, the loan is subject to either a variable interest rate or a higher fixed interest rate to compensate for the low honeymoon interest rate.

Spotlight: Australia's record low interest rates

In July 2019, the Reserve Bank of Australia cut the cash interest rate to a historic low of 1 per cent (see Figure 2.1.10). The RBA hopes that the back-to-back cuts in the interest rate will stimulate the economy through increased consumer spending. The lack of household spending is partly due to the slow wages growth that has stalled at 2 per cent, but the RBA is optimistic about Australia's economic growth.

Despite the fact that the interest rate and cost for borrowing is a third of what it was during the global financial crisis, many analysts expect it to go lower. Australia's very low interest rate reflects what is happening in other world economies, as shown in Figure 2.1.11.

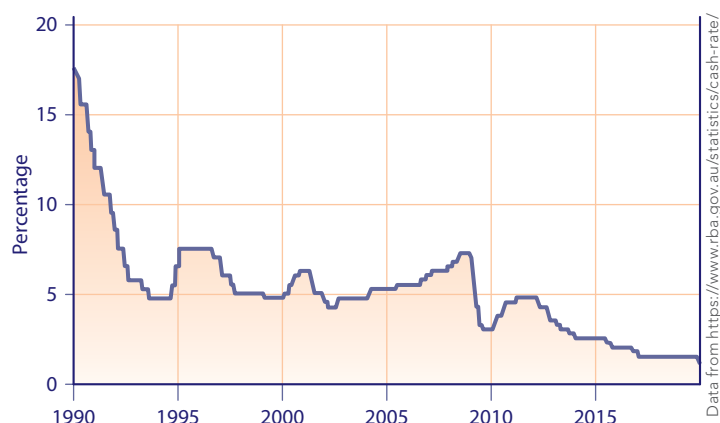


FIGURE 2.1.10 RBA cash rate, 1990 to 2019

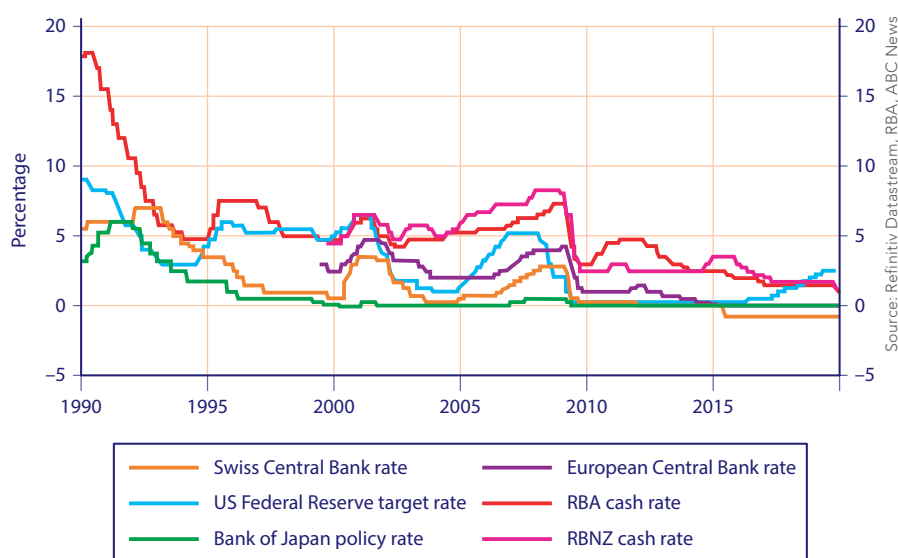


FIGURE 2.1.11 Central bank policy rates, 1990 to 2019

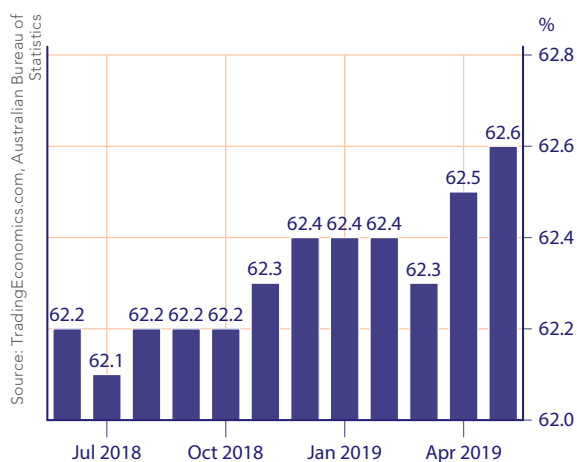


FIGURE 2.1.12 Australia's employment rate, June 2018 to May 2019

Employment/unemployment

The employment rate is a measure of the percentage of the population that is engaged in some form of paid employment. In Australia, the employment rate averaged 59 per cent from 1978 to 2019, but it has been as low as 54 per cent (in April 1983). Australia's recent employment rate is shown in Figure 2.1.12.

The **unemployment**, as officially measured by the Australian Bureau of Statistics (ABS), is that percentage of Australians aged over 15 who are not currently working but are seeking employment and are available to start work. The unemployment rate in Australia averaged 6.83 per cent from 1978 until 2019, reaching an all-time high of 11.2 per cent in December 1992 and a record low of 4 per cent in February 2008.

Unemployment means there are resources that are not being utilised to help the economy grow. The skills and talents of the labour resource are being wasted. Welfare payments are not goods or services but a mere transfer of payment. Therefore, they do not directly contribute to economic growth. However, the way recipients spend their money in consumption does affect total output.

Economists argue that when wages are prevented from rising rapidly, businesses have more opportunity to employ more workers and to invest in more capital, thereby contributing to an increase in total output (GDP). Since the 1990s, sustained economic growth and low inflation have enabled the number of jobs to grow and unemployment levels to drop to below 5 per cent. During the GFC in 2008, unemployment peaked at 5.8 per cent but quickly decreased and has remained steady at 5.2 per cent, as shown in Figure 2.1.13.

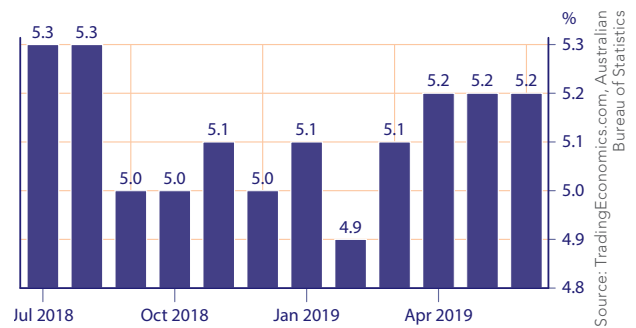


FIGURE 2.1.13 Australia's unemployment rate, July 2018 to April 2019

Understanding the text

- 1 Define the term 'economics'. Who are the main players in the economy?
- 2 State what the economic problem is.
- 3 List the five functions of an economy.
- 4 Identify the economic resources and explain what the outcome of resource scarcity is.
- 5 Explain how the financial sector acts as an intermediary between savers and borrowers.
- 6 State in what ways the government can affect the economy.
- 7 Define the term 'total output'.
- 8 What is the economic cycle? Explain the relationship between various points in the cycle and economic confidence.
- 9 Define the term 'productivity'.
- 10 Explain the impact of consumer confidence, inflation and wage rates on the economy.
- 11 Explain the relationship between interest rates and consumer and business borrowing and investment.
- 12 State how variable and fixed-term interest rates differ.
- 13 Explain why changes in interest rates affect consumer and business confidence.
- 14 Define the term 'unemployment'.
- 15 Explain the relationship between employment and wage rates, and state how it impacts the economy.

Activities

- 1 In pairs, copy Figure 2.1.5 (see page 70) onto a large piece of cardboard. Find examples in magazines or other publications for each of the flows in the diagram and paste them onto the poster. (For example, paste a picture of a Ferrari next to the term 'Import'.)
- 2 Interpret the following data (by using the GDP formula given under the heading 'Total output' in this section) and make a conclusion about economic activity for the relevant years.



RBA

YEAR	C (\$'000)	I (\$'000)	G (\$'000)	X (\$'000)	M (\$'000)
2016	400	500	300	300	200
2017	300	500	300	300	300
2018	200	200	400	500	400

- 3 Write five sentences about the topic 'Our economy'. Each sentence should contain at least two terms from the list below.

Economy	Consumer spending	Economic cycle	Investment
Total output	Imports	Scarce resources	Exports
Mixed economy	Inflation	Consumers	Unemployment
Businesses	Wage rates	Government	Interest rates

- 4 Write a paragraph on your evaluation of the implications of economic changes for consumers and businesses, using as many terms as possible from the list above.
- 5 Access the RBA website. Research and give an outline of the following:
- the history of the RBA
 - what monetary policy is
 - the RBA's role in setting monetary policy.
- 6 Use the business section of a newspaper, or access the website of a bank, to research the difference between the various types of interest rates. Complete the following tasks:
- Record the different types of interest rates and graph any changes over a period of five weeks.
 - Describe the effect of both increases and decreases in interest rates on:
 - repayment of debt
 - choice of fixed or variable rate
 - choice of personal investment strategy.
- 7 Analyse and outline the implications of falling interest rates for retirees, households with mortgage loans, and business investments.

2.2 The nature of markets within the economy

Mixed economy

In Australia, we have a **mixed economy**. It is also sometimes referred to as a *modified market economy*. We do not have a **laissez-faire system** (where the market is left to sort itself out) or a **centrally planned (or command)** system (where the government controls everything). We have an economy where the market runs itself but with some influence and participation by the government, such as tax-funded education, industry assistance and social security payments.

Pricing and the interaction of supply and demand within a market

In Australia, the price of a product is mainly determined by the market. That is, businesses set the prices of their products at a level at which consumers are willing and able to pay (this is known as demand), but also at a level that the business is willing to offer to ensure it receives a profit (this is known as supply). Put simply,

the market will settle at a point where supply equals demand and this sets the price (see Figure 2.2.1). This is known as the law of supply and demand.

When demand for a product is high, the price is usually higher than if the demand were low. This is because buyers are competing for a limited supply, and price determines who receives the product on the basis of affordability. For example, in 2010 the new Apple iPad 16 GB retailed for more than \$500. Two years later, as supply increased and demand declined, the price dropped to less than \$400.

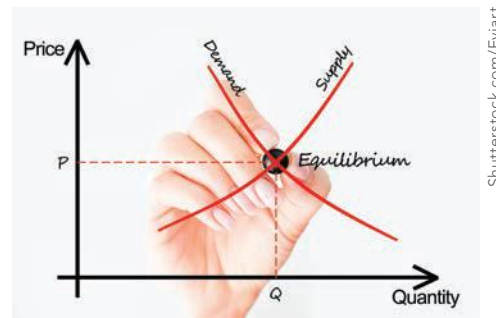


FIGURE 2.2.1 Law of supply and demand

In Australia, the government also influences some prices through taxes. It will set or regulate maximum prices (such as the retail price for electricity), or will subsidise the cost of items (such as medicines on the Pharmaceutical Benefits Scheme), so that more consumers can afford these products.

Price changes

Changes in Australia's inflation and the exchange rate can affect you as a consumer, producer or business.

Inflation

The real value of money is what goods and services can be purchased with it; that is, its purchasing power. When the prices of goods and services rise, the purchasing power of money is reduced. This means the cost of living has become higher.

In Australia, inflation is measured using the Consumer Price Index (CPI), which is set by the Australian Bureau of Statistics. The CPI measures the changes in the price of a fixed 'basket' of what the ABS believes represents the goods and services typical of household consumers. Every three months, in multiple locations throughout each capital city, the ABS attempts to collect the price of thousands of goods and services that make up the 'basket' and measures the average change over time in the prices paid by households.

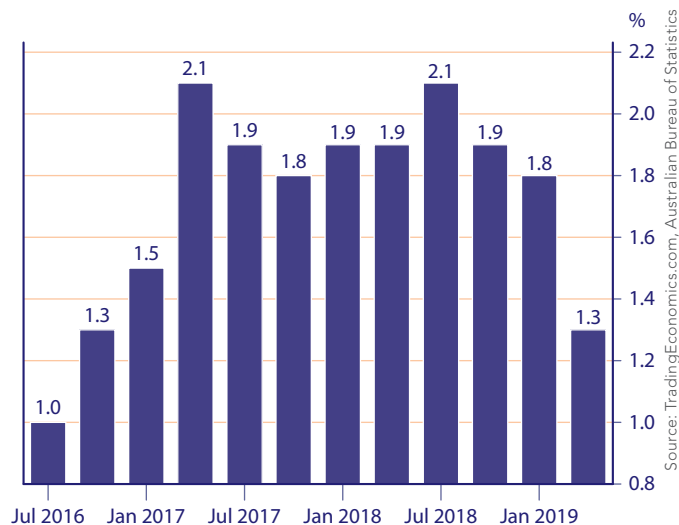


FIGURE 2.2.2 Australia's inflation rate, July 2016 to March 2019

Another early indicator of inflation is the Wage Price Index (WPI). The WPI measures changes in the cost of wages and salaries every three months by measuring changes in the price employers pay for labour that arise from market factors.

As stated earlier, the RBA has aimed since 1995 to keep Australia's inflation at between 2 and 3 per cent (see Figure 2.2.2). One reason for this is to reduce economic uncertainty. When prices change dramatically, consumer and business confidence falls. Saving levels drop due to consumers being nervous about interest rates keeping pace with inflation. If consumers are not saving, they are spending, which further adds to the inflation process. The RBA has been quite successful with this goal, except in 2000, just before the goods and services tax (GST) was introduced, when inflation increased and pushed the CPI temporarily higher before it came down again.

Exchange rates

An exchange rate is the amount for which one currency is exchanged for another as determined by forces of supply and demand in financial markets (see the Spotlight box 'Floating of the Australian dollar'). In early 2008, one Australian dollar (A\$1) was worth 88 US cents (US\$0.88). At this exchange rate, US\$1 could be exchanged for A\$1.14. For example, to buy a \$10 000 car in the United States, you needed A\$11 400. By mid-2019, the exchange rate had moved: A\$1 was now worth only US\$0.68, or US\$1 could be exchanged for A\$1.48. Referring to the previous example, to buy that \$10 000 car in the United States, you would now need A\$14 806.

When the Australian dollar increases in value relative to other currencies in the world, it makes the purchase of imports (goods and services produced overseas) less expensive. This is called an appreciation of the Australian dollar. For example, if, in mid-2019, an Australian business paid US\$100 to a US supplier for each pair of US designer jeans it imported, the jeans would cost the equivalent of A\$148 each. If the importer later wanted to order another batch of jeans and, in the meantime, the Australian dollar had gained value (appreciated) against the US dollar, the US supplier would still want US\$100 for each pair of jeans, but they would then cost the importer less than A\$148 each. If the Australian dollar depreciated (that is, decreased in value relative to the US dollar), the jeans would cost more. The increasing and decreasing value of the Australian dollar against the US dollar is shown in Figure 2.2.3 for the period 2006 to 2018.

When the Australian dollar depreciates, consumers and businesses spend less on imports. They would then be likely to increase their spending on local products and, thus, consumption and investment would rise.

Also, Australian products would be relatively cheap for foreign buyers, and so exports would rise. Since consumption, investment and exports rise, and imports drop, it can be seen that the depreciation of the exchange rate increases economic activity in Australia. However, the increased demand for local products can place pressure on prices due to the original problem of allocating scarce resources to satisfy unlimited needs and wants. Prices would therefore adjust to determine who actually receives the goods and services in demand. This can result in excessive inflation.

Of course, the reverse applies when the Australian dollar appreciates. Even though the Australian dollar is worth more, it is not as beneficial to the Australian economy. Exporters suffer the most. After the Australian dollar appreciates, foreign businesses no longer perceive Australia as a cheap source of goods and services.

The advantages and disadvantages of a strengthening (appreciating) or weakening (depreciating) Australian dollar are listed in Table 2.2.1.

TABLE 2.2.1 Advantages and disadvantages of a stronger or weaker Australian dollar

CHANGE IN VALUE OF A\$	ADVANTAGES	DISADVANTAGES
Strengthening dollar	• Lower prices for imported goods • Helps to keep inflation low • International travel is cheaper • Investors find it cheaper to buy foreign shares	• Local companies and exporters find it more difficult to compete in foreign markets • Local companies must compete against cheaper imports • Tourists find it more expensive to visit Australia, damaging the local tourism industry
Weakening dollar	• Local companies find it easier to compete internationally • Local companies can increase their prices because the cost of imported products increases • Australian investments become more attractive to overseas investors	• Higher prices on imported products put upward pressure on the rate of inflation • It is harder for local companies to expand into foreign markets • International travel becomes more expensive for Australians

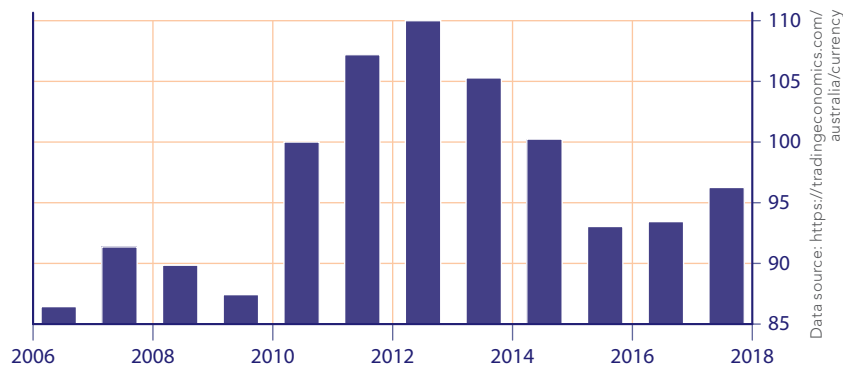


FIGURE 2.2.3 Australian/US dollar exchange rate, 2006 to 2018

Spotlight: Floating of the Australian dollar

The floating of the Australian dollar was a profound economic reform. It opened up Australia's economy and removed old protectionist practices and assumptions that the government could control prices in the market. A floating exchange rate is when supply and demand in the world currency markets determine the value of the dollar. Before the float, the Australian dollar was overvalued and uncompetitive. It was 'pegged' to the UK pound and US dollar, and in the 1970s to a moving peg in relation to several currencies.

On 12 December 1983, the Australian dollar was floated and there was real fear among investors and some in government about what would happen to it. However, its value rose for a few weeks and then slowly dropped until it stabilised at around 77 US cents for the decade. The Australian dollar reached a record low of US\$0.49 in April 2001, but increased to US \$1.10 in July 2011 during the mining boom.

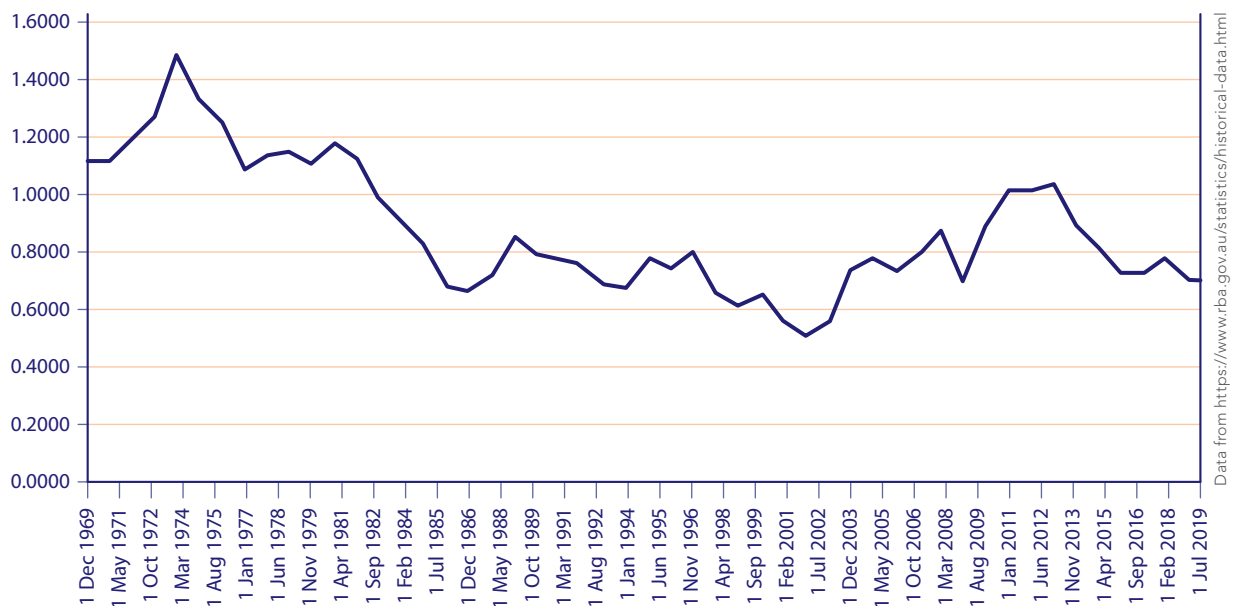


FIGURE 2.2.4 Australian/US dollar exchange rate, 1969 to 2019

The concept of a market

Traditionally, markets were a physical space or location that allowed producers and consumers of goods and services to come together. Many of these markets have been operating for more than 100 years; for

example, the Queen Victoria Market in Melbourne (see Figure 2.2.5), the Grand Bazaar in Istanbul, Turkey, and the Damnoen Saduak floating market in Ratchaburi, Thailand.

In economics, the term **market** is used for the space where buyers and sellers connect to exchange goods and services for money. A market can be a physical space, or it can exist in cyberspace. In Australia, different types of markets operate to enable the distribution of scarce resources. These are retail, labour, financial and stock markets.

Retail markets

A retail market involves the process of selling a product or service to an end user (the customer). There are different kinds

of retail markets that, as consumers, we associate with 'shopping', buying or purchasing. Chapter 1, section 1.2, provides details of the different types of retail services, but generally retail markets can be found in:

- central business districts (CBDs) of cities with department stores like David Jones, specialty stores, boutiques, malls like the QVB and shopping centres like Westfield Sydney (see Figure 2.2.6)
- suburban shopping hubs that may consist of planned shopping centres like Chatswood Chase and/or street shops
- local neighbourhood street shops that may include a supermarket or specialty shop
- fresh produce markets like Sydney Markets at Flemington
- open-air markets or specialty stalls selling organic, vintage or craft goods, such as Carriageworks Farmers Market
- online shopping, such as Amazon, Gumtree, eBay, Book Depository and Menulog.



FIGURE 2.2.5 Queen Victoria Market in Melbourne



FIGURE 2.2.6 Westfield Sydney shopping centre



FIGURE 2.2.7 Carriageworks Farmers Market, Sydney

Spotlight: Online shopping in Australia

Australia's total retail sales of \$317 billion grew by just 2.6 per cent in the 12 months to August 2018. 'A mammoth 54 per cent of that growth came from online retail,' said Kate Warwick, a corporate finance consultant.

In the last 12 months, online retail contributed \$16 billion, or 5 per cent, to Australian retail sales. IBISWorld predicts that online retail will reach \$22.6 billion in 2018–19; and Australia Post says that by 2020, one in 10 items will be bought online.

A 2018 survey also showed that Australians are more prudent shoppers online than their global counterparts, spending about 26 per cent of their discretionary income on online purchases – 5 percentage points lower than the global average. Australians do appreciate new ways of shopping, with 39 per cent of those surveyed indicating that they shop on mobile devices.

Source: Based on Carolyn Cummins, 'Retailers need multiple sales platforms to entice shoppers', *Sydney Morning Herald*, 10 November 2018.



FIGURE 2.2.8 Variety stores are the most popular destination for online shopping. Fashion and consumer electronics represented over 40 per cent of variety store online purchases in 2018.

Labour markets

An essential economic resource for any business is labour, as discussed in section 2.1. Households (employees) provide labour or skills to businesses (employers) in exchange for payment of wages or salary. This connection of employers and employees represents the labour market. There are around 12.7 million people employed in Australia.

The labour market can be very competitive. Employers look for someone with particular experience, skills or qualifications who will be a good fit for the job. In the past, if a business needed, or was looking for, labour, it would place a sign outside its premises indicating a vacant position and/or place a job advertisement in the local or daily paper. Prospective employees who were unemployed or looking to change jobs would seek out these advertisements. Today, it is most likely that jobs will be advertised on sites such as Seek, CareerOne, LinkedIn and the free Australian government service, JobSearch, connecting employees with employers.

Another option for employers is to outsource the employment or recruitment process to an agency. These companies can be generalist agencies able to place candidates across several jobs, or specialist providers looking to place candidates with specific skills in IT, engineering, finance, construction and so on.

Each month across Australia, around 150 000 vacancies are advertised on the internet or in newspapers. Employers now use a wide range of recruitment methods to fill vacancies that may include one or a combination of the options detailed in Table 2.2.2.

TABLE 2.2.2 Different recruitment methods enable employers and employees to connect.

RECRUITMENT METHOD	OVERVIEW
Internet job sites	Half of all vacancies are advertised on the internet using sites such as Seek, CareerOne or JobSearch. Information is easily accessed, reaches a wide audience and attracts a high number of applicants.
Company website	It is not uncommon for large organisations to advertise vacancies on their company website.
Newspapers	Job advertisements in newspapers have declined over the years. Now only 11 per cent of vacancies are advertised in newspapers, and around half of these are also placed on the internet.
Social media	This option is more popular in cities, with around 5 per cent of vacancies appearing on social media sites such as Facebook.
Employment agencies	Employment agencies, including private recruitment agencies, labour hire firms and Australian government-funded employment services providers, fill about 15 per cent of all vacancies. Employment services providers such as MatchWorks, Employment Plus and CVGT Australia also provide job training and advice to help job seekers and the unemployed find work. People on unemployment benefits are required to take an active role in looking for work.
Not formally advertised	Informal methods of advertising vacancies include word of mouth, prospective employees applying directly, or businesses placing a sign in their shop window. This option is not uncommon in regional areas or for low-skilled jobs. Some employers approach potential applicants directly. To avoid missing out on informal advertising opportunities, job seekers should be proactive and let people know that they are looking for work.

Financial markets

Financial markets bring together people to enable the flow of money to where it is needed most. There are many different types of financial markets, but they all serve a common function: they allow savings to be more productive than sitting in a bank vault. In simple terms, banks are a financial market where borrowers can go to seek money to grow their business and depositors can go to make more money through the interest paid on their deposits.

The aim of lenders and investors participating in the different financial markets is to make a profit. Some examples of financial markets are provided in Table 2.2.3.

TABLE 2.2.3 Types of financial markets

FINANCIAL MARKET	OVERVIEW
Stock market	Investors buy and sell shares in public listed companies. Each share comes with a price, and the aim is to buy shares at a low price and sell them when their price has increased on the stock market. The challenge is to choose the right shares that will generate a profit for the buyer (investor) when they sell the shares. See 'Stock markets' in this section for more information.
Foreign exchange market	This market involves buying and selling currencies of other countries. Foreign exchange trading is when buyers attempt to generate a profit by speculating on the value of one currency compared to another. Foreign currencies can be traded because the value of a currency will fluctuate, or its exchange rate value will change, when compared to other currencies. See 'Foreign exchange market' in this section for more information.
Bond market	To raise money for investment in projects, companies and governments can issue bonds. Investors buy the bonds and, after an agreed period, receive in return the amount of money paid for the bond plus interest. Essentially, the investor is lending money to a business or the government in return for interest payments.
Commodities market	Commodities are natural resources such as corn, oil and gold. The buying and selling of commodities can be complex, challenging and risky, because their price can be unpredictable.
Money market	When major institutions such as banks (ANZ, Westpac, NAB and the Commonwealth Bank), mutual societies, superannuation funds and large corporations require a large amount of money, they will trade with each other. The money market is a source of funding for banks and institutions. The high-level interest rates on the money market are based on the cash rate (set by the RBA), which then determines the cost of short-term lending between major financial institutions on the money market.

Financial markets enable banks to make loans to individuals or households who wish to borrow money. This might include a mortgage to buy a home or a personal loan for a car or holiday. Different types of loan attract different rates of interest to be paid by the borrower. By charging borrowers higher interest rates than the interest paid to the depositors, the bank is able to make a profit.

Financial markets also enable banks and other non-banking finance providers to make loans and raise capital for companies that need to hire staff, expand operations, invest in new assets or export to overseas markets.

A subset of the finance industry is private equity, venture capital providers and angel investors who supply finance to companies in exchange for profit participation or an ownership stake. This form of finance in exchange for equity is used for high-risk start-up companies, businesses with little or no history of profit but with high potential, or established companies experiencing short-term financial difficulties.

Stock markets

The stock market, also referred to as the share market or stock exchange, is a transparent and regulated 'meeting place' for buyers and sellers of shares. A share is a portion of ownership or equity of a public company that can be sold to other investors through the stock market. For more information on shares and investments, see Chapter 6, section 6.2.

In the past, the buying and selling of shares happened in a physical location, with stockbrokers taking phone calls and rapidly buying and selling shares on behalf of investors, as shown in the 1960s, photograph in Figure 2.2.9. Today, technology and the internet enable buyers and sellers to access stock markets online, which means that share trades can happen anywhere.



National Archives Australia A1200, L78693

FIGURE 2.2.9 Brokers at the Melbourne Stock Exchange, 1960s



Throughout the world, there are many different stock markets, most notably the New York, London and Tokyo stock exchanges. In Australia, the national Australian Securities Exchange (ASX) has existed since 1987, following amalgamation of six independent state-based stock exchanges. There is also an alternative trading exchange named the Chi-X, which commenced trading in 2011.

The stock markets enable private companies to offer shares for sale in order to raise capital outside the banking system. The need to expand is the main reason that companies decide to be listed on the stock exchange and to go public via an initial public offering (IPO). Companies that are already listed and require further capital for the business can raise money (secondary capital) by offering more shares to the public and shareholders.

More than 2000 companies are listed on the Australian stock markets. Some of the leading companies in terms of the value of shares sold and bought include large retailers such as Woolworths and the Coles Group; the four big banks (ANZ, CBA, NAB and Westpac); mining and energy companies such as BHP and Woodside; and biotechnology companies such as CSL.

What are the advantages and disadvantages of companies issuing shares for trade and being listed on the stock exchange? Not all companies choose to go public. Some very large companies in Australia, such as Visy, 7-Eleven, Meriton and Linfox, remain private companies where ownership is tightly held within the family or by a small group of partners or shareholders. Table 2.2.4 summarises the advantages and disadvantages for companies listing on the stock exchange.

TABLE 2.2.4 Advantages and disadvantages for companies listing on the stock exchange

ADVANTAGES	DISADVANTAGES
• Company can raise primary and secondary capital for expansion and business projects, and the risk is shared by shareholders • Company shares and share options can be offered to current and future employees to retain and attract skilled and talented employees • Increases company's leverage when seeking a loan from a finance provider • Trading of company stock provides market exposure, adds brand equity and increases credibility with the public • The IPO process is a form of indirect complimentary advertising for the company	• Expensive and time-consuming IPO process to prepare, lodge and issue documentation as required by the Australian Securities and Investments Commission (ASIC) • Original equity or company ownership is broken or diluted through selling part of the company to strangers • Loss of management control; even minority shareholders have a say • Increased regulatory and reporting requirements for listed companies • Potential increased liability and increased public and shareholder scrutiny

We have looked at the stock markets and public companies, but what are the benefits and drawbacks of being a shareholder? Table 2.2.5 summarises some of the benefits and drawbacks of investing in shares.

TABLE 2.2.5 Benefits and drawbacks of being a shareholder

BENEFITS	DRAWBACKS
• Right to vote and attend company's annual general meeting (AGM) • Receive updates and reports on company's progress, enabling assessment of investment • Dividend payments, tax benefits, capital growth and opportunity to buy more discounted shares through 'rights issues' • Eligible shareholders receive discounts on company's goods and services	• Value of shares may drop to zero or below the purchase price • Shareholders are the last on the list of creditors to receive any funds if the company is de-listed (ceases trading) • General and specific market risk and share volatility can see share prices rapidly rise and fall • Poor-quality investment advice or poor decisions may lead to investment losses

Foreign exchange market

The foreign exchange market, also known as the FX, Forex or currency market, trades in other currencies. The main participants are large international banks. A key function of the foreign exchange market is to assist international trade and investment through the conversion of currency (see 'Exchange rates' earlier in this section for more information on Australia's foreign exchange rate). For example, if Australians buy goods or services from an overseas supplier and they pay in Australian dollars, the seller needs to exchange the Australian dollars into their own currency. If the payment for the overseas goods and services is made in the foreign currency, then the buyer needs to exchange Australian dollars into the foreign currency. Both sets of actions give rise to trade in the Australian dollar.

Many investors will speculate on the value of one foreign currency compared to another currency with the aim of making a profit. Foreign exchange trading is very risky: exchange rates can be volatile; markets operate 24 hours for six days a week, so investors need to devote a lot of time to tracking their investments; currencies are difficult to predict; and even a small movement (up or down) can have a big impact.

Customary Indigenous markets

Aboriginal and Torres Strait Islander peoples have traded goods over long distances for tens of thousands of years. This trade was closely linked to the ways in which Indigenous Australians used the resources of the land and sea. They travelled widely according to the seasons and weather conditions. Many of the movements also had a cultural purpose. Clan groups would gather, forming larger groups for ceremonies. During these gatherings, goods that were plentiful in different areas at different times of year were exchanged.



Goods traded

The items traded depended on where people lived. A clan living in a coastal area, for example, would exchange resources such as fish and shells. A clan living inland might exchange herbs, tools (stone axes, grinding and cutting stones) and ochres, which were used for paint and body decoration. Foods such as fish, crabs, dugong or turtle meat, yams, and bird and turtle eggs were traded over shorter distances. Plaited grass mats, spears and woodcarvings were also traded.

In Aboriginal and Torres Strait Islander society, trade traditionally involved swapping, or bartering, one item for another. Through trade, Indigenous peoples could obtain things that were not readily available in their area.

There were trade routes all across Australia. Many routes were long, often complex and regularly intersected. They often followed natural features such as rivers or chains of waterholes.

Significantly, trade involved more than exchanging and sharing resources. It also reinforced cultural traditions. When engaged in trade, people from different regions and cultures were required to respect the rights, boundaries and cultural differences of the peoples they traded with. These interactions were also the means by which new knowledge was exchanged.

Spotlight: Aboriginal ochre fingerprinting helping researchers to trace ancient Indigenous trade routes

Researchers at Flinders University in Adelaide are investigating the origins of different ochres found on Aboriginal artefacts housed in the South Australian Museum's collection.

They are doing this by comparing the chemical and bacterial composition of the ochre used by Indigenous artists with that of ochre deposits across Central Australia. This matching has allowed the researchers to determine the origin of the ochre used on the artefacts.

Researchers have determined that Indigenous peoples travelled long distances to obtain particular ochres from specific places, because of the cultural importance of certain ochres to particular groups. This research has allowed them to identify the ochre trade routes, many of which extended over hundreds of kilometres.

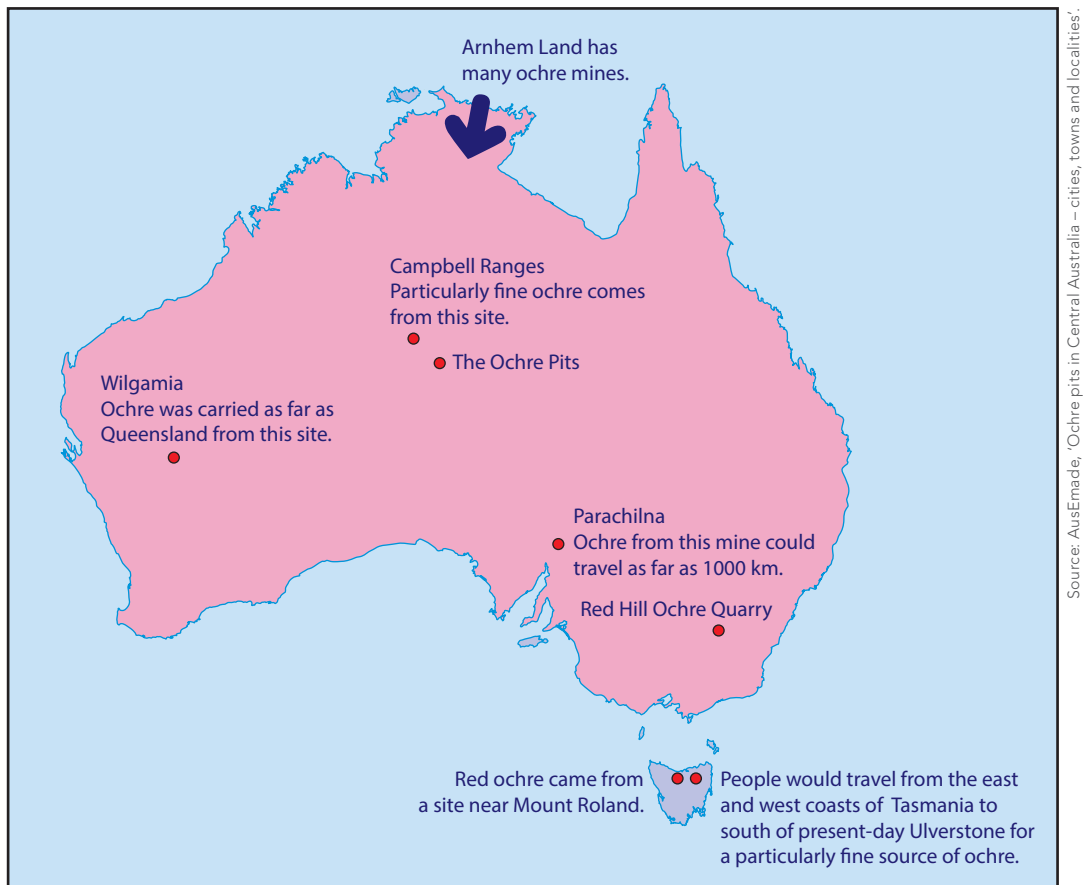


FIGURE 2.2.10 Some well-documented ochre sources across Australia. In the past, ochre was traded hundreds of kilometres from its source.

Alamy Stock Photo/Hemis



FIGURE 2.2.11 Aboriginal artefacts at the South Australian Museum



FIGURE 2.2.12 Ancient Northern Territory ochre pit

Shutterstock.com/fritz16

Ceremonial gatherings

The gathering of clans for ceremonial purposes was central to Indigenous culture and way of life, including their trading practices. The ceremonies brought together all aspects of Indigenous culture, including dance, song, body decoration and art. The ceremonies themselves took many forms. They included ‘increase rites’ – rituals performed to ensure a plentiful supply of plant, bird, fish and animal food; celebrations and feasts, many of which were planned well in advance; rites of passage – ceremonies marking the passage of the young into new stages of life (for example, Bora, the initiation of Aboriginal boys into adulthood); and the often complex and ritualised funeral ceremonies. These ceremonial gatherings nearly always featured the exchange of goods. People would bring special objects and raw materials to trade with other clans.

Contemporary Indigenous markets

Recently, at both a national and an international level, Indigenous cultural artefacts have been recognised as highly significant, valuable and collectible. Customary Indigenous culture includes art, music, dance, Dreamtime stories, sacred sites, and objects and language. On both mainland Australia and the Torres Strait Islands, Indigenous culture is a major component of the tourism industry and Indigenous artefacts are highly sought after.

Intellectual property is an extremely important component of this trade. The difference between authentic articles for general sale – that is, created and produced by Indigenous artists and merchants compared to those mass-produced, usually overseas in Asian countries – is a highly sensitive issue. Indigenous artists usually produce their own designs, which have significance to them based upon their culture and family lines. Some artists will have an original artwork or object that they may reproduce themselves through screen-printing, for example. They may also work with Indigenous entrepreneurs to sell their work away from their traditional homes so that it is available to a wider market. To reach an international market, sites like eBay may be used to display and sell Indigenous cultural artefacts.

A growing market for Indigenous entrepreneurs is cultural tourism. At many significant Indigenous sites, such as Katherine Gorge and Uluru, and in many tourist destinations around Australia, Indigenous businesses allow visitors to gain a deeper understanding of the local culture through, for example, the use of a local Indigenous guide. These tours provide an insight into



Alamy Stock Photo/Andrew Watson

FIGURE 2.2.13 Indigenous ceremony featuring dance, music and body paint



Alamy Stock Photo/Josie Elias

FIGURE 2.2.14 Aboriginal busker playing a didgeridoo as a tourist attraction on Circular Quay, Sydney



Alamy Stock Photo/Andrew Watson

FIGURE 2.2.15 Aboriginal art gallery in Alice Springs

traditional hunting and gathering, knowledge of country, and the connection between the Indigenous community and the land. Some Western tourist operators employ local Indigenous guides for their tours. In this area, Indigenous operators are beginning to make decisions about what can be shared and what is sacred and private.

The Australian government, through the Indigenous Visual Arts Industry Support (IVAIS) program, provides support for Indigenous art centres and associated industries. The aim of this support is to help build a stronger Indigenous visual arts industry. The industry consists of numerous Indigenous-owned art centres producing and marketing Indigenous visual arts. In doing so, the program maintains and transmits culture and generates income and employment opportunities for Aboriginal and Torres Strait Islander artists.



Voyages
Indigenous
Tourism
Australia

Spotlight: Indigenous tourism

Indigenous tourism is big business. It contributes billions of dollars to the Australian economy each year. Tens of thousands of international tourists arrive in the country wanting to experience Australia's Indigenous culture. In response, there are now hundreds of Indigenous owned and operated tourism enterprises across Australia.

One notable example of a tourism-related enterprise is Voyages Indigenous Tourism Australia, part of the Indigenous Land Corporation (ILC). The ILC is a statutory authority established to assist Indigenous Australians with land acquisition and land management. Voyages' profits are used to support Indigenous training and employment. Among Voyages' most significant investments is the Ayers Rock Resort at Uluru, which it operates on behalf of the ILC. The resort employs more than 200 Indigenous staff.



Getty Images/MyLoupe

FIGURE 2.2.16 Voyages Ayers Rock Resort. Voyages Indigenous Tourism Australia is owned by the Indigenous Land Corporation (ILC) and manages tourism and resorts in the Northern Territory (Ayers Rock Resort), Western Australia and Tropical North Queensland on its behalf.

Aboriginal enterprises

The Australian federal government's focus on promoting Indigenous entrepreneurship over the past decade has seen an increase in Indigenous businesses and opportunities. Indigenous businesses are important for both non-Indigenous and Indigenous economic development. The growth of Indigenous entrepreneurship has led to increased Indigenous participation in the workforce. It is estimated that Indigenous businesses employ up to 50 per cent more Indigenous than non-Indigenous workers.

Indigenous Business Australia (IBA) is the government body created to assist and enhance the economic development opportunities of Aboriginal and Torres Strait Islander people across Australia. The IBA promotes and encourages economic independence, home ownership and the starting of businesses by Indigenous Australians. IBA serves, partners and invests with Aboriginal and Torres Strait Islander people who want to have more control over their own future.



Indigenous Business
Australia

According to the 2016 Census, between 2011 and 2016, the number of Indigenous business owner-managers increased by 30 per cent.

Other support initiatives include the Indigenous Procurement Policy and the Indigenous Business Sector Strategy. The Indigenous Procurement Policy (introduced in 2015) established targets for federal government departments to buy what they needed from Indigenous suppliers. Since this policy was implemented, more than 1000 Indigenous businesses have signed contracts with federal government departments. In 2017, the total amount going to Indigenous suppliers was around \$1 billion.

In 2018, the federal government introduced the Indigenous Business Sector Strategy. This strategy aims to strengthen support for business owner-managers through improved access to finance, improved business networks and a better understanding of where commercial opportunities can be found. This was an area identified by Indigenous owner-managers as needing support.

All state and territory governments have support networks for local Indigenous businesses. In New South Wales, the NSW Indigenous Chamber of Commerce and Supply Nation were established in 2009, and both aim to support and enhance the employment and economic and social prosperity of Indigenous peoples across the state through business support. This type of support is seen as key to addressing generational disadvantage for Aboriginal people. There are strict guidelines expected by both organisations to prove a business owner or entrepreneur's Indigenous heritage.

Spotlight: Boomalli Aboriginal Artists Co-operative

The Leichhardt-based Boomalli Aboriginal Artists Co-operative was established in 1987. The cooperative's aim is to promote Aboriginal artists whose language groups exist within the NSW state boundaries. Many of the artists supported by Boomalli have gone on to have highly successful careers. A particular focus is the promotion and education of its members and the protection of copyright.

The cooperative has about 50 members, more than half of whom are based in regional New South Wales. Boomalli has a gallery in which it mounts major exhibitions, and smaller galleries that are used by Boomalli's artist members to mount their own solo exhibitions.

Boomalli has key partnerships with the Euraba Paper Aboriginal Corporation of Boggabilla, a town in north-western New South Wales. Like Boomalli, Euraba is also an Aboriginal artists' collective. It is owned and operated by the Gomeroi people of the Toomelah region. In addition to supporting artists, Euraba has been making handmade paper since 1998.



Spotlight: Using cultural knowledge in enterprising ways

Indigenous chef Clayton Donovan introduces kids to bush tucker

Clayton Donovan is one of Australia's best-known chefs. He is internationally acclaimed for his ability to fuse bush foods, modern cuisine and his Indigenous culture to create exciting and innovative restaurant meals.

As a child, Donovan learnt about bush tucker from an aunt, who took him foraging in the area around his home on the mid north coast of NSW. He has since continued his own education as he is constantly introduced to new local ingredients on his travels. He is passionate about introducing diners to foods they have never heard of before, let alone tasted.

He is particularly passionate about teaching children about bush foods. He visits primary schools and works with the kids to develop their knowledge and skills with bush foods – how to find them or grow them, how to cook with them, and to appreciate their unique flavours and often startling nutritional value.



AAP Image/Jamie Williams, City of Sydney



Shutterstock.com/wasanajai



Shutterstock.com/Serj Malomuzh

FIGURE 2.2.17 Clayton Donovan has a passion for native bush foods such as finger limes (centre) and quandong (right).

Finger limes are one of the best-known bush foods. These small finger-shaped fruit contain a tangy pulp, which has more Vitamin C per lime than three mandarins! They also contain high levels of Vitamin E, folate and potassium. Quandongs are a type of native peach, also high in Vitamin C, and are one of the most versatile bush foods. They can be stewed, dried or eaten raw and have a sweet and tangy flavour. Similarly, the Kakadu plum has been called a 'superfood' for its extraordinary Vitamin C content (it has the highest Vitamin C of any fruit in the world, up to 100 times more than in one orange). Kakadu plums also have antibacterial, antifungal and antiviral properties.

Reasons the government intervenes in the market

The government influences the market through laws and taxes to make it as fair as possible, and also participates through its own businesses, such as Australia Post and NBN Co. It is an employer through its business operations, provision of services (such as health and education) and general operations (administration of government). The federal **Budget** can also affect the economy. An example is the \$42 billion stimulus package included in the 2008/09 Budget, which was a response to the global financial crisis. These fiscal measures by the federal government were implemented to boost economic growth and to avoid a recession. The Reserve Bank of Australia, a statutory body, implements policy to ensure, among many objectives, that Australia maintains **financial stability**.

In addition to setting economic goals, making plans and implementing policies, the government also regulates the market and intervenes when actions and decisions have been taken by individuals or organisations.

Should the government intervene in the market? One argument is that if a problem has been identified, government should not intervene as the market will rectify the problem to deliver the best outcome for society.

The accepted argument is that government should intervene when market or regulatory failures occur, to:

- ensure compliance and fairness
- allocate resources for public goods
- achieve delivery of social and environmental benefits for the community.

The reasons why governments intervene in the market are discussed below and include market failure, competition, public goods and services, negative externalities and unacceptable risks.

'Market failure' refers to the inequitable or inefficient distribution, flow or access to goods or services to consumers and can occur through market dominance and anticompetitive behaviours such as the following:

- A *monopoly* (single business) or an *oligopoly* (a small number of large sellers) controls the market and exerts a significant influence on the supply and price of goods and services. Australian banks and supermarkets are sometimes viewed as acting as oligopolies, but these claims are overstated. Only 15 per cent of the economy is dominated by large firms. While the big four banks have increased their market share through mergers, competition in the banking sector is constrained by regulation. However, the dominance of Coles and Woolworths has declined since the rise of Aldi and Costco.
- *Collusion* occurs when an oligopoly exists, and the decision of a few firms is to collude on pricing or conditions that can significantly impact the market as a whole. For example, between 2002 and 2004, Visy and Amcor, which control 90 per cent of the corrugated fibre packaging (cardboard box) market valued at over \$2 billion, conspired to raise prices while maintaining their respective market shares. When customers renegotiated contracts, the two companies shared information to ensure that the competitor's quote was higher. The scheme was discovered when Amcor reported to the ACCC. Visy was fined \$36 million, and both companies had to pay \$95 million in damages to a customer class action.
- *Competition* in the market promotes efficiency, which leads to improvements in general living standards. In Australia, the *Competition and Consumer Act 2010* requires all businesses to compete, apply fair trading practices and act in the interests of consumers. This legislation is administered by the Australian Competition and Consumer Commission, which monitors activities to ensure that individuals and businesses comply with the law; for example, it scrutinises company takeovers and mergers that may not be in the interest of consumers. The ACCC also regulates some national infrastructure services, such as communications, water and energy; and monitors pricing where competition is weak, such as electricity (see the Spotlight box below), petroleum, banking and insurance.

Spotlight: Energy inquiry explainer: how the ACCC plans to cut your power bills

According to the competition watchdog, the national energy market is broken and needs drastic change – from consumer rebates for network costs to simpler discounts for customers, new powers to stop 'market manipulation' and even government support for new generation.

After an inquiry spanning more than 12 months, in a report ... the Australian Competition and Consumer Commission made 56 recommendations. Some of the proposals and the problems they are designed to solve are listed below.

Rebates for excessive network costs

The problem: 'Excess spending' on electricity network assets with billions of dollars of costs passed on to consumers.

Simpler discounts

The problem: The current system of consumer discounts doesn't work. There are 'misleading' discounts and on-time discounts that are 'excessive and punitive' for customers who don't pay their bills on time.

Not enough generation

The problem: A lack of investment in power generation, in part because banks won't lend to companies that want to build new power plants without contracts locked in from large industrial users that intend to buy the electricity into the future.

Greater competition in generation

The problem: Market concentration, eroding the competition that lowers power prices. In particular, the ACCC criticised the NSW government's decision to sell two Macquarie Generation power plants to AGL, and the Queensland government's decision to consolidate three generation businesses into two.

Wind back 'excessively generous' renewables subsidies

The problem: Most state governments introduced 'excessively generous solar feed-in tariff schemes' to encourage rooftop solar. The renewable energy target encouraged wind and solar power but was 'indifferent to the ability to provide energy to the market when demand requires it'.

National energy guarantee

The problem: Policy uncertainty. Because of a decade of political warfare, we haven't had a price signal for electricity generation that helps Australia meet its international emissions reduction targets and provide dispatchable baseload power.

Source: *The Guardian*, 11 July 2018. Copyright Guardian News & Media Ltd 2019.

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Public goods and services such as health, education, defence, parks and public transport are provided by government and are socially desirable and beneficial to the community. The government intervenes to supply these goods and services, as the private sector will not supply them and there is no profit. For services such as public schools and hospitals, Australia Post, the Australian Broadcasting Corporation (ABC) and the National Broadband Network (NBN), the government allocates resources to ensure access and availability for everyone. The government will also subsidise the cost of items (such as medicines on the Pharmaceutical Benefits Scheme), so that more consumers can afford these goods.

Numerous business enterprises that commenced as public resources have been privatised; for example, Qantas, Commonwealth Bank of Australia, Telecom (now Telstra) and Medibank Private.

'Negative externalities' refers to the cost suffered by a third party, such as damage to the environment, as a result of producing a good. Generally, government intervention depends on the size and nature of the externality. In the case of the Great Barrier Reef, the government's \$500 million package was aimed at preventing further environmental degradation and conserving a natural resource (a UNESCO World Heritage site). The federal and Queensland governments' joint intervention includes the:

- *Reef 2050 Long-Term Sustainability Plan*, to protect and manage the reef from 2015 to 2050
- *Reef Trust*, which combines private and government funding to improve coastal habitat and water quality
- *Reef 2050 Water Quality Improvement Plan*, to guide how industry, farmers, government and the community will work together to improve the quality of water flowing into the Great Barrier Reef.

Unacceptable risks include harm to human health, potential safety hazards and the threat of damage to the physical environment. The market does not always use resources efficiently and may produce



socially undesirable goods and services that have a negative impact on society, such as illegal drugs, guns, gambling and pollution.

Some examples of regulatory measures designed to minimise harm and risks include the *Water Act 2007*, the National Clean Air Agreement 2018–2020 work plan (to review air quality standards) and the *Interactive Gambling Amendment Act 2017* (to address online gambling). In addition to legislation, the government intervenes to change consumer choices and behaviour, such as using indirect excise taxes on alcohol and tobacco (cost is passed on to customers, making the goods more expensive) and conducting advertising campaigns to educate and inform consumers of the risks of excessive drinking and smoking.

Government intervention in the market

Government interventions in the business environment are principally designed to ensure economic stability, competition and fairness. For example, in response to warnings that small business enterprises were experiencing difficulties with getting credit and finance from the four major banks, the Australian government, in 2018, announced a plan to establish an Australian Business Securitisation Fund, which will invest up to \$2 billion in packaged small business loans. The government is not lending directly to small business, but will be supporting smaller banks and non-bank lenders.

Investments in major infrastructure projects are another form of government intervention that has the ability to stimulate and enhance economic productivity. The building of new roads, and the upgrading of existing roads and transport links in Western Sydney, will capitalise on the economic gains generated by the new airport at Badgerys Creek. Another example is the Northern Australia Infrastructure Facility (NAIF), a \$5 billion lending facility to provide loans for projects that service multiple users in Northern Australia.

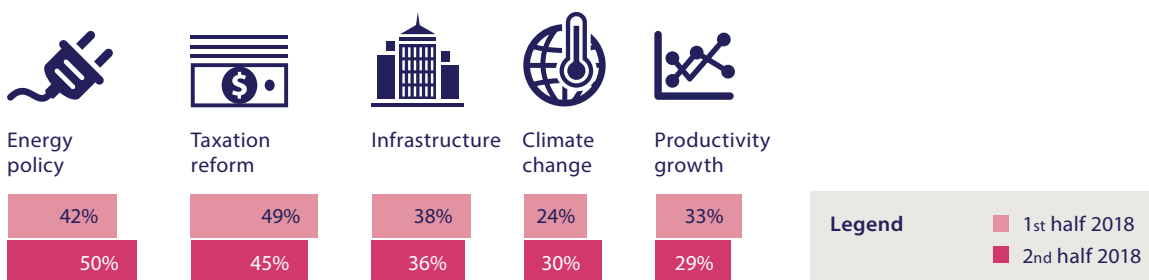
Business and industry groups can also lobby and place pressure on governments to intervene. Climate change has emerged as a major concern in recent data published by the Australian Institute of Company Directors. The Director Sentiment Index for the second half of 2018 found that directors want action by the federal government on climate change and renewable energy (see Figure 2.2.18). The Turnbull government's proposed (but since abandoned) National Energy Guarantee (NEG) obligated energy retailers to supply enough 'reliable' power (gas and electricity) to the local market while reducing emissions between 2020 and 2030. Business leaders, consumers and the broader community met the abandonment of the NEG with criticism (see the Spotlight box 'National Energy Guarantee').



Director Sentiment Index

Director Sentiment Index: Research Summary 2018, Australian Institute of Company Directors, page 6

Top five issues of importance the federal government should address in the short term



Directors rate energy policy, taxation reform and infrastructure as the top priorities for the federal government to address in the short term.

FIGURE 2.2.18 Directors rate climate change as the top long-term priority for the federal government to address.

Spotlight: National Energy Guarantee

The federal government faces a mounting business backlash over energy policy as leaders of some of the nation's biggest companies and most influential lobby groups have publicly lamented the ditching of the National Energy Guarantee and blasted its proposed replacement.

One of the country's biggest manufacturers, BlueScope, on Friday singled out the decision to scrap the National Energy Guarantee as disappointing.

BlueScope chief executive Mark Vassella said ... 'We thought [the NEG] had real potential to deliver less volatile electricity prices and greater reliability of supply, while also cutting emissions.'

...

Matt Kay, chief executive of oil and gas company Beach Energy, also called for more certainty but declined to back calls from oil and gas rival Woodside for the introduction of a carbon price.

...

The Business Council's sharp criticism, lodged in a detailed submission on Thursday, urged the government to proceed with the National Energy Guarantee and its scheme to reduce emissions, despite Coalition declarations that the policy is 'dead'.

...

The Australian Chamber of Commerce and Industry has also called for a return to the NEG saying it was the 'only long-term policy that enjoyed overwhelming support across the business community'.

Source: Nick Toscano, Cole Latimer and David Crowe, "Disappointing": business leaders slam Morrison government on energy policy', *Sydney Morning Herald*, 23 November 2018.

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Environmental degradation and government intervention



Business decisions in Australia that impact the physical environment are handled by either the federal, state or local government. Generally, the Commonwealth has significant powers and is responsible for breaches on Commonwealth land. The state government's environmental responsibilities extend to planning and development, air, water and land pollution, waste management, mining, fishing and habitat protection. Responsibilities of local governments include local planning and development, waste collection and land care.

All businesses must comply with environmental protection legislation, and some may require operating licences, such as handling toxic or hazardous waste. Businesses must provide access to authorised officers from environmental protection agencies. Companies that break the law or breach their operating licence can be fined, or business owners can serve time in prison.

Spotlight: Notorious waste dumper jailed

Sydney's most notorious waste dumper has been sentenced to three years' jail for his crimes and will be made to pay for newspaper ads publicising his punishment.

Dib Hanna has repeatedly been caught illegally dumping asbestos around Sydney over the past decade, but had previously escaped with fines and suspended prison sentences.

On Thursday the Land and Environment Court sentenced him to three years' prison, for dumping waste on private properties in East Kurrajong, Llandilo and Wallacia in 2015 and 2016.

He was also ordered to clean up the dumped waste, pay the Environment Protection Authority's legal costs and take out newspaper advertisements publicising his punishment as a deterrent to other would-be offenders.

Source: Sarah Gerathy, 'Notorious waste dumper Dib Hanna jailed, made to pay for newspaper ads publicising his crime', ABC News, 1 June 2018.

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Growing social activism and the use of social media to harness community support have seen business proposals impacting the environment not proceeding. For example, a 'waste to energy' incinerator proposed for Western Sydney, which would have provided energy for 100 000 homes, was rejected by an independent panel and the NSW Environment Protection Authority (EPA). The project was hugely controversial in the community and over 950 objections were lodged with the EPA and local government.

Understanding the text

- 1 Distinguish between a mixed economy, a laissez-fair economy, and a centrally planned or command economy.
- 2 State how prices for goods and services are set in Australia.
- 3 Explain what CPI is and how it is measured. Outline why it would be useful to compare the CPI and the WPI.
- 4 Outline the advantages and disadvantages of an appreciation of the Australian dollar.
- 5 Outline the advantages and disadvantages of a depreciation of the Australian dollar.
- 6 Define the term 'market'. Explain how what constitutes a market has changed over time.
- 7 Outline the diversity of retail markets.
- 8 Outline the key elements of the labour markets.
- 9 Identify the principal role of the financial markets.
- 10 Outline the role of the stock market. Distinguish between an initial public offering and secondary capital raising.
- 11 Outline the nature of the trade in goods in traditional Aboriginal and Torres Strait Islander society.
- 12 State the nature of the exchange that took place in traditional Indigenous trade in the absence of money.
- 13 Outline the role of ceremonial gatherings in trade. Identify the range of ceremonies held in traditional Indigenous society.
- 14 Outline the nature of contemporary Indigenous markets.
- 15 Explain the importance of intellectual property rights.
- 16 Describe the nature of the relationship between Indigenous entrepreneurship and cultural tourism.
- 17 Outline the role of the Indigenous Visual Arts Industry Support program.
- 18 Outline the government programs supporting Aboriginal enterprise. In doing so, describe the nature and aims of each body.
- 19 Identify the ways in which governments intervene in the market. Explain why they do this.
- 20 Explain why governments find it necessary to legislate to promote competition and protect consumers.
- 21 Outline the mechanisms put in place to protect the environment from the impacts of businesses.

Activities

- 1 Go to the business section of a newspaper, or access the internet for a foreign exchange rate or currency converter on a bank's website. Record the exchange rate of the Australian dollar against the US dollar, the British pound, the euro, the yen and the NZ dollar. Over the next five weeks, track any movements and discuss the effects that any changes may have on our economy.
- 2 Study the Spotlight box 'Online shopping in Australia' on page 83. Outline the growth of online shopping in Australia.
- 3 Study Figure 2.2.8. Identify the fastest growing categories of online purchases.
- 4 Study Table 2.2.2. Outline the recruitment options that enable employers and employees to connect.
- 5 Study Table 2.2.3. Describe the nature of the interactions between buyers and sellers in the finance market.
- 6 Study Table 2.2.4. Write a report outlining the advantages and disadvantages of a company listing on the stock exchange.
- 7 Study Table 2.2.5. Write a report outlining the benefits and drawbacks of being a shareholder in a public company.
- 8 Study the Spotlight box 'Aboriginal ochre fingerprinting helping researchers trace ancient Indigenous trade routes' on pages 87–88 and complete the following tasks:
 - a Outline the purpose of 'fingerprinting' the ochre used in Aboriginal art.
 - b Describe the distribution of ochre sources in Australia. What are the implications of this for the trade in ochre?
- 9 Study the Spotlight box 'Indigenous tourism' on page 90. Outline the nature of the link between international interest in Indigenous culture and the growth in the number of Indigenous enterprises.
- 10 Investigate a tourism-related Indigenous enterprise. Outline the nature of the enterprise and its economic focus. How many Indigenous Australians does it employ?
- 11 Investigate an arts-based Indigenous enterprise. Outline the nature of the enterprise and how it supports local artists.
- 12 Identify any Indigenous enterprises in your local area. Visit one of these enterprises and interview those responsible for its management. Develop a profile of the enterprise and identify the areas in which it receives support from the state and federal governments. What does it produce? Is it a privately owned enterprise or a cooperative? What good or service does it produce? Who does it cater for?
- 13 Study Figure 2.2.18. Write a report outlining the findings of the Director Sentiment Index, 2018.
- 14 Study the Spotlight box 'National Energy Guarantee' on page 96. Research Australia's response to the issues of climate change and the securing of its energy supply. Why has it proved such a contentious political issue? Write a report outlining your findings.
- 15 Study the Spotlight box 'Notorious waste dumper jailed' on pages 96–97. Using the media, find examples of environmental vandalism. What has been the response of authorities?
- 16 Imagine you live in a rural community and the government is proposing a new mine and processing plant to be built next to a nature reserve containing many endangered species. The mine and processing plant will employ 500 people. Do you agree or disagree with the boost to the economy? Write a letter to your local paper justifying your views, and discuss the economic and environmental implications of the proposed mine and plant.

2.3 Interactions within markets

Providers of goods and services are typically businesses, and in this section of the chapter we look at the types of businesses (producers).

Types of businesses

There are different ways we can classify businesses. One of these involves looking at the nature of the business's ownership. Using such criteria, we can identify four types of business: sole proprietorship, partnership, limited liability company and corporation.

- *Sole proprietorship* (sometimes referred to as a sole trader). Typically, this takes the form of a single individual in business as the sole owner of the company. In many cases, the owner is also the only employee, though this doesn't have to be the case. Legally, there is no separation between the business and the individual owning it. Revenues flow to the owner, and in many cases the owner doesn't even maintain separate bank accounts to distinguish the funds of the business from their personal funds. The owner is liable for any of the business's debts.
- *Partnership*. While similar to a sole proprietorship, a partnership is owned and managed by two or more individuals instead of just one. The owners may divide duties among themselves, putting one in charge of finances while the other is in charge of day-to-day operations, for example. Contracts between the partners may assign debts and legal liabilities to specific members of the partnership, but there is no way to shift the liability to the business itself.
- *Limited liability company*. These businesses involve the creation of a separate legal entity that bears at least some of the responsibility for the business's debt or legal liability. This reduces, or even eliminates, the liability of the owner or owners. The business structure may be similar to a corporation, but is often much less structured and provides the owners with the flexibility often associated with a partnership.
- *Corporation*. A corporation is a business that operates as a separate legal entity from its founders. Corporations are run by a board of directors and do not have a single owner. Most corporations are listed on a stock exchange where shares in the company are traded. While many corporations are large companies with thousands of shareholders (owners), smaller businesses can be incorporated as well.

The different types of businesses are discussed in more detail in Chapter 8, section 8.2.

Another way of categorising businesses is to look at the nature of the business itself. There are, for example, businesses that only operate online. Others provide e-commerce based solutions aimed at making day-to-day life simpler. These are referred to as 'on-demand' businesses. Other businesses are 'global' in terms of their operations and markets, while some are more appropriately referred to as 'offshore' businesses. Some businesses are government-controlled, and some are best described as 'not-for-profit'. Businesses may also be classified according to their scale. They can be either large-scale or small-scale.

Online businesses

An online business is any enterprise using the internet to sell goods or services online. This may be the only means by which it interacts with consumers, or it might be used in combination with what is referred to as a 'bricks-and-mortar' outlet. For example, Australia's two large department store chains, Myer and David Jones, have an increasingly sophisticated online retailing presence while maintaining a network of stores.

On-demand businesses

The on-demand business model is the fastest growing sector of economic activity. These smartphone-dependent operators provide services that aim to make day-to-day life simpler and more cost-efficient. Examples of on-demand businesses include Uber, an app-based transportation network; Airbnb, an online

accommodation rental service; and Deliveroo, an online food delivery company. The businesses are often referred to as 'disrupters'. Travellers, for example, are using Uber to replace taxis and are opting to use Airbnb for accommodation rather than hotels.

Global businesses

A global business is a company doing business across the world. This can involve both production and consumption. Apple, for example, sources iPhone components from contracted suppliers in multiple international locations before having them assembled by Foxconn in Shenzhen, China. The products are then sold to a worldwide market of consumers keen to have the latest smartphone technology.

Global companies are not new. The two earliest global companies were the British East India Company, which began in 1600, and the Dutch East India Company, established in 1602. Both have now passed into history. What is new is the scale of the global economy and the size of the enterprises involved.

Offshore businesses

An offshore business is one located beyond one's national boundaries. It is typically a company that exists as a legal entity outside of the country where its principals (its officers, directors, shareholders or partners) live. It is a company that has been formed for the purpose of operating outside of the jurisdiction where it was originally based. The reason such businesses are formed is to take advantage of laws that are not available in one's country of residence. For example, there might be significant taxation benefits in having a legal corporate entity based in another country. Apple, the American technology company headquartered in Cupertino, California, established offshore companies in low-tax Ireland. In doing so, it minimised the amount of tax it paid (see the Spotlight box below).



FIGURE 2.3.1 On-demand business models are increasingly popular. Their success lies in their ability to make day-to-day life simpler and more affordable.

Spotlight: Apple's cash mountain and how it avoids tax

The tax on the huge profits of US corporations is not due until the money comes back to the United States. That's why US corporations leave huge amounts of cash overseas. An estimated US\$2.6 trillion in corporate profits is sitting in overseas bank accounts, about half of that in cash. Apple alone is thought to have more than US\$252 billion stashed overseas. This enormous amount of money was kept offshore to avoid a 35 per cent US tax rate on profits earned overseas. The US government lowered the rate to 21 per cent in 2018.

Apple is one of many US corporations seeking to avoid paying taxes. For years, it funnelled most of its overseas profits through Ireland. Arrangements with the Irish government allowed Apple to pay just



FIGURE 2.3.2 Irish protesters demanding an end to the tax rulings that give away billions in revenue to Apple and other multinational corporations

0.005 per cent in tax on the money it made from selling its products in countries other than the United States. Ireland eventually bowed to international pressure and cracked down on Irish firms, such as Apple's subsidiaries, that claimed that most of their income was not subject to taxes in Ireland or anywhere else in the world. It has been reported that Apple has since shifted its mountain of cash to Jersey, a tax haven in the English Channel.

The tax Apple pays in Australia is also subject to some discussion. Despite earning a profit of A \$900 million on revenues of over \$9 billion in 2018, Apple paid just \$164 million in tax.

Government business enterprises

The government, as the name suggests, owns government businesses. These businesses have the financial and operational authority to carry on a business and enter into contracts in their own names. They also sell goods and services, in the normal course of business, to other entities at a profit or full cost recovery. Also, they are not reliant on continuing government funding to be a going concern. Examples of businesses owned by the Australian government include Australia Post, Defence Housing Australia, Australian Rail Track Corporation, NBN Co, Snowy Hydro and Australian Naval Infrastructure.

Not-for-profit businesses and organisations

The term 'not-for-profit' is used to describe a type of business or organisation that does not earn profits for its owners. All of the money earned by, or donated to, a not-for-profit business organisation is used to advance the business's aims and to keep it operating. Typically, not-for-profit businesses are charities or other types of public service organisations. Examples include professional organisations, policy think tanks, conservation foundations, sporting clubs and the National Trust.

Small, medium and large-scale businesses

Australian corporate regulators define 'small business' differently depending on the laws they administer. The Australian Taxation Office (ATO), for example, defines a small business as one that has annual revenue turnover (excluding GST) of less than \$2 million. Fair Work Australia defines a small business as one that has fewer than 15 employees. ASIC, which regulates many businesses, defines a small proprietary company as one that has two out of three of the following characteristics:

- an annual revenue of less than \$25 million
- fewer than 50 employees at the end of the financial year
- gross assets of less than \$12.5 million at the end of the financial year.

Despite these differences, many regulators have informally adopted the definition of 'small business' used by the Australian Bureau of Statistics, which is 'a business that employs fewer than 20 people'.

Medium-sized businesses have between 20 and 199 employees, and large businesses have 200+ employees. In Australia, small and medium businesses make up 97 per cent of all businesses, produce one-third of total GDP and employ 4.7 million people.



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FIGURE 2.3.3 Australia's \$51 billion National Broadband Network was built by NBN Co, a government-owned business.

Factors influencing business decisions

Globalisation is defined as the process of increased global interdependence between countries. It involves increased economic and cultural links between different parts of the globe. Globalisation has transformed the business environment.

The emergence of global markets

Over the last half-century, many of the barriers that once separated countries, such as distance and cost, have largely disappeared. As a result, people around the world have become increasingly connected through international trade, international financial transactions and international migration. The evidence of globalisation is everywhere. People on the other side of the world manufacture many of the clothes we buy and wear, and the decisions made in the boardrooms of New York, London and Tokyo affect employment opportunities in countries on the other side of the globe. Some of the factors that have promoted the growth of these global links are discussed below.

Changes in transport and communications technology

New technologies in the area of telecommunications, transport and computers have slashed the cost and time taken to move goods, capital, people and information, and vastly expanded the means of doing so. The introduction of specialised bulk carriers, oil tankers and container ships has helped to reduce the cost of transport and increase world trade. These changes have made it possible, for example, for global businesses in the clothing industry to manufacture shoes and sportswear in South-East Asia and distribute these products quickly and easily to markets across the globe. Advances in air transport have greatly reduced the cost and time involved in international travel.

Developments in telecommunications, and especially the internet, have accelerated the growth of a global market for both goods and services. It is now much easier to conduct business over large distances. Much of it can be done online. Technological developments in the future will only increase these interactions (see the Spotlight box below).

Spotlight: 5G transforming the business environment

5G technology will be transformative. It will affect entire economies and benefit entire societies. Some call it the most profound technological leap we have ever seen.

What is 5G? 5G is not a single wireless technology, but a generic term used to describe the fifth generation of wireless communication. It offers networks that are 100 times faster and can support 100 times more devices.

Second generation (2G) wireless technologies gave us the ability to send texts, while 3G enabled mobile users to browse the internet at speeds previously only available on a desktop computer. The introduction of 4G enabled the development of a new economy based on mobile applications such as Uber and Airbnb. The shift to 5G will be



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FIGURE 2.3.4 5G technologies have the potential to transform the business environment.

even more revolutionary. It will connect billions of devices in our homes, cars, offices and cities, at speeds not previously thought possible.

The industries where Australia is already telecommunications-intensive, including the information, media and telecommunications, arts and entertainment, education, and wholesale and retail sectors, are well placed to take advantage of 5G services.

Changes in government policy

Many of the laws and regulations that once restricted the international flow of finance have been removed. Governments have also reduced the number of taxes (tariffs) and import restrictions (quotas) that are used to protect local industries and to restrict the flow of imported goods. Both of these changes have reduced the trade barriers between countries, which has had a significant influence on world trade and the activities of global corporations.

Changes in consumers' tastes and preferences

A major factor promoting the growth of international markets has been the desire of consumers to gain access to products and services produced overseas. Businesses have catered to this demand by either importing products manufactured overseas or expanding overseas themselves.

The growth of global businesses

Global businesses (such as McDonald's, Nike, Apple and Microsoft) have helped to speed up the process of globalisation. These businesses have enormous financial resources and can produce and sell their products anywhere in the world. Global corporations also play an important role in the expansion of the global market through their heavy advertising and promotion of international brands.

Spotlight: The globalisation of labour

Australia's workforce is becoming increasingly global.

The globalisation of labour is not new, and in the future it is reasonable to expect that we will continue to see a rise in the physical mobility of workers.

Over the last four decades, Australia has lost hundreds of thousands of manufacturing jobs to low-cost locations around the world, and especially to South and South-East Asia. Now, new technologies are making it possible for foreign workers in remote locations to do jobs that are currently based in Australia. These jobs include legal, IT, design, architectural and business services. Research suggests that up to 11–12 per cent of service sector jobs may be at risk of being lost to workers in foreign locations doing work that up until now has been done in Australia.



Responding to opportunities in the market to sustain competitive advantage

Competitive advantage refers to those factors that make a business's goods or services superior to all those that customers have to choose from. These factors could include lower costs, better customer service, more convenient locations and higher-quality products. Establishing a competitive advantage involves analysing your business's strengths and those of your competitors, and learning how to take advantage of them.

There are five ways in which a business can maintain a competitive advantage.

- 1 *Discourage competitors from challenging your market share.* The owner of a cafe may, for example, enter into an agreement with the mall owner from whom they rent their premises to prevent another cafe from opening in the complex.
- 2 *Remain 'cutting edge'.* Once you have gained a competitive advantage, you will need to maintain it through pricing, the quality of the goods or services provided, and marketing. If, for example, you own a cafe, you will need to make sure that the coffee used is the best available and that you employ a skilled barista. You will also need to provide premises that customers find welcoming and employ staff with good interpersonal skills.
- 3 *Predict future trends in the industry.* This requires research. Stay aware of developments and trends in the industry. Coffee apps, for example, have allowed cafe owners to better cater for the needs of people on the go.
- 4 *Monitor your competitors constantly.* The decision by McDonald's to add McCafés to its Australian outlets was a response to the increasingly sophisticated tastes of Australian consumers. McDonald's had been losing market share to the cafes opening across suburban Australia.
- 5 *Adapt to your customers' changing needs and wants.* Survey your customers. Ask your staff for any feedback they get from customers.

Entrepreneurship and innovation

Entrepreneurship is a mindset or a set of attitudes. It includes a person's motivation and ability, independently or within an organisation, to identify an opportunity and to pursue it in order to create wealth or to achieve economic success. It takes creativity or innovation to enter and compete in an established market, to change the nature of that market, or perhaps to create a new market. Successful entrepreneurship demands more than just money and luck. It involves planning, idea development, creativity and risk-taking.

Put more simply, entrepreneurship involves the process of developing new business ventures and/or promoting growth and innovation in existing firms. Innovation is not just about new technology, but also about doing things better to enhance value for customers, employees and shareholders.

Innovation – the introduction of a method, idea or product – is fundamental to the promotion of economic growth. The driver of growth is output per unit of labour and capital invested. We refer to this as **productivity**. Increasing productivity (and thus value) is important for developing solutions to economic and social challenges facing humanity, including climate change, the ageing of the population, food security and poverty.

There is no single way of measuring entrepreneurial success, because everyone sees success differently. Some individuals measure success by how much money they make, while others focus on the level of customer satisfaction. Other measures include the growth rate of a company, employee satisfaction, and the business's market performance relative to its competitors.

Entrepreneurship and opportunities in the market

History is witness to many missed opportunities by businesses. Notable examples include the giant US-based Western Union company. Western Union, which had a monopoly on telegraphs (and telegrams), refused to purchase Alexander Graham Bell's patent for the telephone in 1875, saying it was of no commercial value. Another example is Eastman Kodak, which developed the first digital camera in 1975 but did not proceed with the innovation, fearing that it would undermine its film business, which it dominated with a 90 per cent share. Eastman Kodak never really recovered from this missed opportunity.

Now let's focus on Uber and examine in Table 2.3.1 how two friends, Travis Kalanick and Garrett Camp, came up with the concept and how the company continues to respond to opportunities in the market.



FIGURE 2.3.5 Uber is an excellent example of how a pair of entrepreneurs responded to an opportunity in the market.

TABLE 2.3.1 Elements of the product development process and how Uber responded to an opportunity in the market

Product development Uber as a concept was launched in Paris in 2008 on a cold winter's night. Kalanick and Camp were attending a conference and could not get a taxi. The idea of a timeshare limo that could be ordered on an app was born. Camp returned to San Francisco and continued to develop the concept and lodged the domain name UberCab.com. In 2009, Camp worked on the prototype and in mid-2010 invited Kalanick to join him. A test using three vehicles was conducted in New York and the company was launched in May 2010. Today, Uber employs 16 000 people and remains a privately owned company.	Pricing Uber uses an automated algorithm to set and increase prices based on the number of drivers nearby (supply) and the number of riders wanting a car (demand), but riders (consumers) in the early days could only guess the final price of the ride. When demand exceeded supply, such as on New Year's Eve, 'price surging' would be triggered and the rates would soar. This fuelled negative customer feedback. In 2017, Uber introduced 'up-front pricing' calculated using time, distance, traffic conditions, and supply and demand. Consumers are now given the actual fare they will be charged, instead of confusing pop-up screens showing a 'surge' increase.
Risk and reward Both Kalanick and Camp were familiar with the risks and rewards of entrepreneurship, having sold their co-founded start-up businesses for millions of dollars in 2007. Financing was crucial for the growth of Uber, with capital investments coming from venture capital funds and individual investors such as Jeff Bezos, founder of Amazon. Uber also expanded the services offered with the less expensive UberX, the carpooling option UberPool, and Uber Eats. In 2018, a Japanese conglomerate made a successful bid for a 15 per cent stake in the company, giving Uber a powerful ally for further expansion into Asia. Using a clean-energy model, Uber has invested in emerging services. In 2018, for example, Uber invested in electric scooter rentals (Lime) in collaboration with Google.	Marketing strategies Uber has weathered fierce opposition from the taxi industry and government regulators, and from Lyft, a competitor that entered the US market in 2014. Uber's rapid expansion and game-changing success can be attributed to its marketing strategy, which includes: • launching a new service in a city with a poor taxi infrastructure • building a customer base by sponsoring IT events and providing free rides • rewarding customers for referring new customers • providing a loyalty and rewards scheme that partners with hotel chains and credit card companies • providing a clean and safe service • adding a 'personal touch' – before your Uber arrives, you know the driver's name and rating by other riders and your driver addresses you by your name. In summary, Uber's marketing strategy is to make customers happy and to make it easy for them to share their Uber experience with the world using customer reviews and social media.
Use of technology Uber's reliance on app-based technologies makes it easy to use and accessible for both drivers and customers. Its embrace of innovative technology is continuing with testing of self-drive cars, and it is rumoured that Uber is working on an app that can detect if drivers or riders are intoxicated or drug-affected.	

Spotlight: Some famous entrepreneurs

Some of the world's most famous entrepreneurs include:

- Henry Ford – founder of the Ford Motor Company, which introduced the mass assembly of affordable cars
- Bill Gates – founder of Microsoft, one of the world's largest and most influential tech companies
- Larry Page – co-founder of Google, the world's number one search engine and one of the largest companies in history
- Steve Jobs – co-founder of Apple
- Oprah Winfrey – influential talk show host, who has also created a successful business empire
- Ted Turner – media mogul and founder of CNN
- Jeff Bezos – founder of Amazon
- Mark Zuckerberg – co-founder of Facebook.



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FIGURE 2.3.6 Steve Jobs (1955–2011), co-founder of Apple

The fourth industrial revolution

Every industry throughout the world is being transformed by the rapid development of technologies that connect the physical world to the digital world. This is also known as Industrial 4.0, at the heart of which will be 5G.

Examples of Industrial 4.0 technologies include:

- advanced automation and robotics, including collaborative robots or 'cobots'
- artificial intelligence (AI)
- nanotechnologies (working at a molecular level), such as nanoelectronics or nanobiotechnology
- touch interfaces, augmented and virtual reality systems
- blockchain technology.

Some of these technologies are an extension of computerisation, but many are seen as disruptive technologies with the potential to replace or 'disrupt' traditional business and marketplace operations.

For example, Amazon has used e-commerce to disrupt traditional bricks-and-mortar retailers, and Uber has used peer-to-peer technology to disrupt the taxi industry by providing a service and a shift to the sharing economy.

Businesses that fail to realise the potential of new technologies and how they can be integrated to improve efficiency or to target new markets run the risk of losing market share to more innovative competitors.



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FIGURE 2.3.7 Augmented reality is an example of Industrial 4.0 technology.

Importance of ethical decision-making and corporate social responsibility

In a general sense, ethical decision-making involves an understanding of the issues involved, and a careful weighing up of the consequences and impacts of the course of action to be taken. In deciding which action or option to take, you need to ensure that it:

- produces the most good and least harm
- respects the rights of all stakeholders
- treats all people equally
- minimises environmental impacts.

Corporate social responsibility (CSR) goes beyond a company's obligations to its shareholders to consider the interests of *all* stakeholders, including the general community. Corporations also need to consider their impacts on the environment. CSR has been around since the 1990s, when the media's coverage of the sweatshops supplying Nike goods brought the issue of labour exploitation to the public's attention. More recently, the 2013 fire at Rana Plaza, Bangladesh, which killed more than 1100 workers involved in producing fashion apparel for iconic brands and stores, again alerted the public to the issue of worker exploitation and the consequences of our consumption practices. In the United States and the United Kingdom, companies have legal obligations to report on CSR. Overall, changing consumer attitudes and expectations, combined with increased social activism, have led to more comprehensive and transparent CSR actions by companies. See the Spotlight box below to learn how one company addresses CSR. For more information on ethical decision-making and CSR, refer to Chapter 8, section 8.3.



Spotlight: Unilever's Sustainable Living Plan

Seven out of every 10 households around the world have at least one Unilever product in a cupboard, and every day 2.5 billion consumers use goods produced by the company. Unilever is a London-based multinational company that owns more than 400 brands, including foods, beverages, cleaning agents and personal care goods. Unilever employs more than 169 000 people and had an operating income of over US\$10 billion in 2018.

If you examine the company's vision statement, there is no mention of 'maximising shareholder value'. Rather, its corporate vision states that to be successful the company must demonstrate 'the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact'.

The Unilever Sustainable Living Plan (USLP) is seen as being central to its business model. It sets out how the company will achieve growth while meeting its environmental responsibilities. Unilever also seeks to have a positive social impact. The USLP has three goals:

- to help more than a billion people improve their health and wellbeing
- to halve the environmental footprint of its products
- to source 100 per cent of its agricultural raw materials sustainably and to enhance the livelihood of people across its value chain.



FIGURE 2.3.8 Unilever, the manufacturer of iconic brands such as Magnum ice-creams, is committed to demonstrating the highest standards of corporate behaviour.



The Unilever Sustainable Living Plan



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Consequences of business decisions for the consumer and the broader community



Business decisions impact on all stakeholders, including employees, suppliers, lenders, consumers and the broader community. What appears to be a small change by Coca-Cola Amatil outlined in the following Spotlight box highlights the company's CSR and the public's growing commitment to sustainable waste management.

Spotlight: Coca-Cola Amatil joins the plastic straw ban

Coca-Cola Amatil will enter the paper straw market this year in a move to reduce consumption of plastic straws.

'We're serious about playing our part in reducing unnecessary plastic packaging,' Coca-Cola Amatil managing director Alison Watkins said in a statement.

Previously, Coca-Cola Amatil would distribute free plastic straws to over 115 000 outlets in Australia for promotional events.

Now the soft drink behemoth will sell paper straws to clients online, sourced principally from Australian company BioPak.

The move is part of Coca-Cola's plans to make all its packaging 'fully recyclable' by 2025.

'It's an exciting move to see such a large company making a big change like that,' said Eva Mackinley, founder of The Last Straw, a group advocating for the eradication of plastic straws.

Gary Smith, BioPak chief executive, said demand for Chinese-manufactured paper straws had 'exploded' in the last six months, with sales of paper straws increasing tenfold since June. 'The media, the [ABC's] War on Waste and people's attitudes more generally have all contributed,' he said.

Clean Up Australia managing director Terrie-Ann Johnson said paper straws were a 'step in the right direction' but they could disintegrate, contributing to the choking and killing of marine life. Clean Up Australia would like to see a move towards reusable straws and greater innovation in packaging that makes the straw unnecessary.

Source: Based on Charlotte Grieve, 'Coca-Cola Amatil joins the plastic straw ban', *Sydney Morning Herald*, 14 January 2019.



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FIGURE 2.3.9 Plastic straws and single-use shopping bags, as with all plastics, are major environmental hazards.

Anti-slavery laws

Consumers and shareholders are increasingly placing more pressure on companies to ensure that their products, including the supply chain (production of raw goods and manufactures), are not tainted by exploitative labour practices such as slavery.

In 2018, Australia was the second country in the world to enact modern anti-slavery and trafficking legislation. 'Modern slavery' is a term used to refer to a range of exploitative practices, including slavery and slavery-like practices/conditions (such as debt bondage, servitude, forced marriage and forced labour), and human trafficking (also referred to as trafficking in persons). Globally, it is estimated that around 40 million people are victims of modern slavery.

While modern slavery in Australia is comparatively rare, it is more likely that slavery and child labour have been part of the global supply chain for goods and services sold in Australia by Australian companies. The law requires companies in Australia with a turnover of \$100 million or more to publish annual statements outlining the risks of slavery in their supply chains and what action they have taken to address these identified risks. A criticism of the law is that there is no financial penalty for companies that ignore or break the new regulations.

Understanding the text

- 1 Identify the four types of businesses based on the nature of business ownership.
- 2 Distinguish between online and on-demand businesses. What do they have in common?
- 3 Define a global business. How might it differ from an offshore business?
- 4 State what a government business enterprise is. Give examples.
- 5 Define a not-for-profit business or organisation. Give examples.
- 6 Distinguish between small, medium and large businesses.
- 7 Define the term 'globalisation'.
- 8 Outline how changes in transport and communications technologies have accelerated the process of globalisation.
- 9 Outline the changes in government policy that contributed to the growth in world trade.
- 10 State how changes in consumers' tastes and preferences have contributed to globalisation.
- 11 Define the term 'competitive advantage'.
- 12 Outline the five ways a business can maintain a competitive advantage.
- 13 Define the concepts of entrepreneurship, innovation and productivity.
- 14 Identify the ways entrepreneurial success can be measured.
- 15 Outline technological advances and explain how they could impact business competition.
- 16 Explain how Amazon and Uber have disrupted traditional business and marketplace operations.
- 17 Explain what is meant by the term 'ethical decision-making' and describe its relationship to corporate social responsibility. Give examples of corporate social responsibility.
- 18 When deciding which action or option to take, what do businesses need to consider to protect the environment?
- 19 Outline the mechanisms put in place that require businesses to report on exploitative practices in their supply chains.

Activities

- 1 Study the Spotlight box 'Apple's cash mountain and how it avoids tax' on pages 100–101. As a class, discuss the proposition that such tax avoidance practices are unethical and should be banned.
- 2 Investigate a not-for-profit business or organisation. Why was the business or organisation established? What are its principal aims and activities? What have been its recent achievements?
- 3 Study the Spotlight box '5G transforming the business environment' on pages 102–103. Outline how 5G technology will transform the business environment.
- 4 Study the Spotlight box 'The globalisation of labour' on page 103. State the potential impact of globalisation on employment in Australia.
- 5 Study the Spotlight box 'Some famous entrepreneurs on page 106'. Select one of the entrepreneurs listed. Investigate what they are famous for and identify the personal qualities that were the key to their success. Also, undertake research to identify additional entrepreneurs, especially women.
- 6 Study the Spotlight box 'Unilever's Sustainable Living Plan' on page 107. Undertake research to find an example of another corporate sustainability plan and write a brief description of the plan using the Unilever Spotlight box as a model.
- 7 Study the Spotlight box 'Coca-Cola Amatil joins the plastic straw ban' on page 108. Using the internet, find other examples of firms taking action to minimise their environmental impact. Share these with your classmates.

2.4 Current issues

In this section, you have the opportunity to investigate a major economic event or development that has affected Australian consumers and businesses. We focus on its causes, impacts and responses. A range of issues are highlighted, including historical and contemporary cases of industry deregulation such as the 1997–99 crisis in Asia and the GFC in 2008–09, the impact of Google and Facebook and issues with online food delivery services.

You might, of course, choose to investigate another major event or development using the following scaffold:

- Describe the nature of the economic event or development.
- Identify and describe the causes of the event or development.
- Outline the impacts of the event or development on consumers and business.
- Outline the response of governments and authorities to the event or development.

Present the findings of your research as a written report.

Deregulation of domestic aviation in 1990

In 1952, the Menzies government realised that, as a large country with a small population, Australia needed to ensure the success of its aviation industry. The 'Two Airlines' legislation was introduced, allowing only two airlines to operate flights between state capital city and major regional city airports. The two airlines were the government-owned Trans Australian Airlines (TAA –rebranded Australian Airlines in 1986) and the privately owned Ansett. The policy ensured that passengers were charged the same fare (set by the government) and that each airline had the same fleet. The domestic aviation duopoly acted as a legal barrier to new entrants in the Australian aviation market.

In 1990, the Howard government deregulated the domestic aviation market and directed that Qantas and TAA/Australian Airlines merge, giving Qantas access to domestic routes. The aim of the deregulation was to enable other operators to enter the market to increase efficiency and consumer choice through

greater competition. Australia now has five main domestic airline carriers: Qantas Domestic, Virgin Australia, Jetstar, Tiger Airways and Rex. Deregulation provided many benefits, including:

- lower average air fares
- more people travelling by air
- increased and sustained competition
- more efficient carriers
- improved quality of service
- continuing aviation reform.

In 1992, the government relinquished ownership of Qantas; it was privatised, but the sale of the national carrier

had provisions. Foreign ownership was limited to 49 per cent, corporate headquarters were to remain in Australia, and at least two-thirds of the Qantas board must be Australian citizens.



Shutterstock.com/Ryan Fletcher

FIGURE 2.4.1 Deregulation allowed Qantas to access domestic routes. Qantas was privatised in 1992.

Media deregulation in 2017

Government regulation of Australia's media goes back to the 1930s when radio licences were issued to operators, and likewise for television in the 1950s. There was no regulation of newspapers until reforms were implemented in the 1980s.

Before the reforms by the Hawke/Keating government, media businesses had been able to accumulate media outlets across all platforms – radio, screen and print. This kind of concentrated influence was not considered to be in the public's best interest, and in 1987 media ownership legislation was introduced to limit ownership to one type – print, radio or newspaper. Cross-media ownership was limited; you could be one or

other, but not both. The idea was to create diversity by allowing dominance within one medium, but not dominance across many mediums. Ownership of more than two TV licences was abolished and replaced with broadcast licences that limited reach to 75 per cent of the population; foreign media ownership was limited to 15 per cent. The '75 per cent reach' rule specified that a single person or company could not be in control of commercial television licences that reached more than 75 per cent of Australia's population. This resulted in television licences being broken up into metropolitan (Nine, Seven, Ten, etc.) and regional (Prime, Win, etc.) networks.

Attempts were made in the 1990s by the Howard government to liberalise the media ownership laws, but it was not until 2007 that two major changes occurred. The foreign ownership cap that had been increased to 25 per cent was scrapped, and the cross-media restrictions were changed to allow ownership of two out of three media types, known as the 'two out of three' rule. The goal was to maintain competition and prevent mergers between existing media corporations across platforms that would result in the dominance of one proprietor.

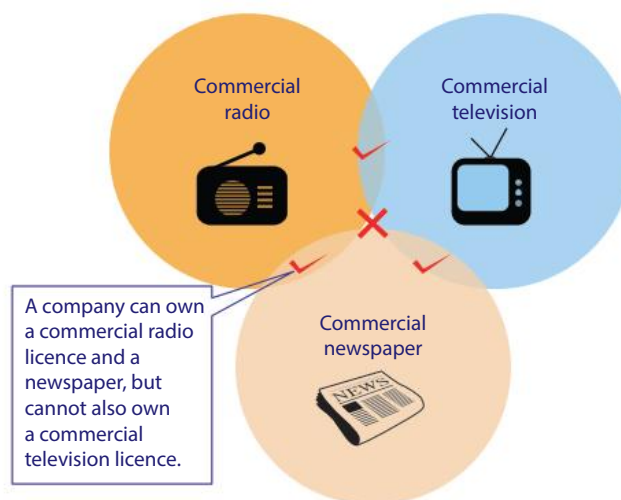


FIGURE 2.4.2 Pre-2017 media ownership laws: the 'two out of three' rule

The Gillard government in 2011 attempted a rethink of the regulation, given that the media environment now included the internet. The proposed industry-regulation model was rejected by the media companies as an imposition on freedom of the press.

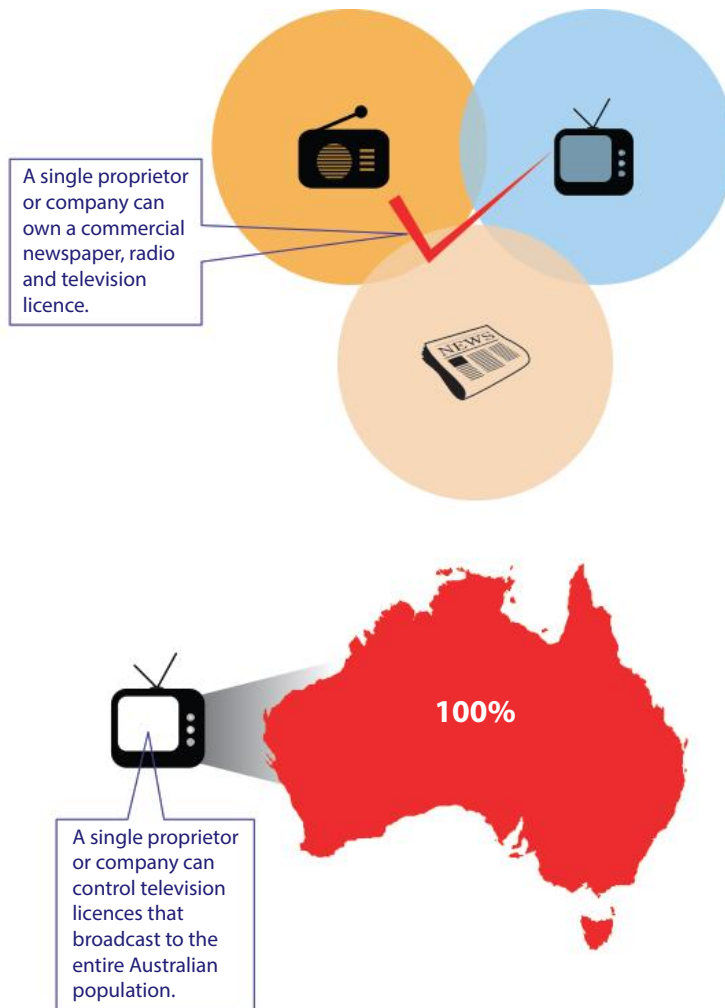


FIGURE 2.4.3 The 2017 media ownership reforms scrapped the 'two out of three' ownership and '75 per cent reach' rules.

In 2017, the Turnbull government's deregulation bill was passed, which abolished the 'two out of three' ownership and '75 per cent reach' rule restrictions reflecting the 1980s' law drafted before the internet.

The media industry had been demanding these changes to allow broadcasters and publishers to keep pace with changes in the media environment, which now includes traditional platforms (print, radio, screen) and online content enterprises/streaming services, such as Google, Apple, Netflix and Stan.

It is expected that the reforms will lead to mergers among the large media companies, leading to further concentration of media in Australia and reducing diversity of voices.

Spotlight: History of media regulation in Australia

Although regulation and deregulation over the last 30 years were supposed to open up the Australian media to greater diversity, the largest media proprietors have been the greatest beneficiaries of attempts at reform.

‘If we are looking particularly at print, the two largest proprietors, or even if you take the top three, have a 98 per cent reach of audience across Australia. That is tremendously influential.

‘Now, some might say that’s not such a big deal because people don’t read newspapers anymore, but they are reading the content that ends up online, either directly through those organisations’ news sites or through the way their information is aggregated and used by other digital sites that the audience might be looking at.

‘That makes them very powerful.’



Cartoon by Nicholson from The Australian www.nicholsoncartoons.com.au

FIGURE 2.4.4 In the 1990s, the Howard government attempted to liberalise the media ownership laws.

Source: ‘The history of media regulation in Australia’, ABC News, 6 October 2015.

Google and Facebook’s impact on Australian media

In December 2017, the government directed the Australian Competition and Consumer Commission to undertake a public inquiry into the impact of digital platforms on competition in media and advertising services markets, in particular in relation to the supply of news and journalistic content. A preliminary report was issued in December 2018 containing 11 recommendations and eight areas for further analysis.

Overall, the view reached by the ACCC was that Google has substantial power in the market when it comes to online search, advertising search and news referrals. In 2017, 90 per cent of searches from Australian computers and 98 per cent of mobile searches used Google. Facebook also has substantial power in relation to markets for social media, display advertising and online news referral. It was launched in Australia in 2004 and has a global reach of 2.2 billion active users. It started showing advertisements on its sites in 2007 and earned US\$13 billion in advertising revenue in the second quarter of 2018. For Facebook users, there is no option to opt out from advertisements’.

While not all online advertising revenue goes to digital platforms, a large proportion flows to Facebook and Google. The ACCC is concerned about Google and Facebook’s dominance and impact on businesses and consumers, including:

- Australian media businesses’ ability to monetise their content – in other words, to be able to make money from their website or app content by placing an advertisement. The downturn in advertising revenue in traditional media (see Figure 2.4.5) has led to cuts in journalist positions
- concerns regarding the extent to which consumers’ data is collected by Google and Facebook and used to enable targeted advertising. The lack of transparency in determining the order in which advertising and news appear raises questions. Could consumers be facing ‘filter bubbles’ or ‘echo chambers’ and less reliable news?

The preliminary recommendations and areas for further investigation include:

- creating an ombudsman to investigate consumers' complaints, and issues such as defamatory comments and fake ads
- introducing a new regulatory body to monitor how the digital platforms rank and display advertisements and news content, and the prices they charge for advertising
- proposing changes to the Privacy Act to force digital platforms to be clearer with their terms and conditions, and to allow consumers to opt out of targeted advertising
- offering consumers a choice as to the internet browser and search engine on their computer or mobile devices.

Other suggestions in the report are specific to news publication. Currently, there is a mismatch between the high standards placed on traditional news publishers and broadcasters and the low-level requirements faced by digital platforms. Google and Facebook are more than just distributors; they function just like news media in selecting and publishing content, and the ACCC considers a greater level of regulation is justified.

The final report is due in mid-2019.

Follow the weblink to read the article 'Global internet giants crushing Australian media'.



Global internet giants crushing Australian media

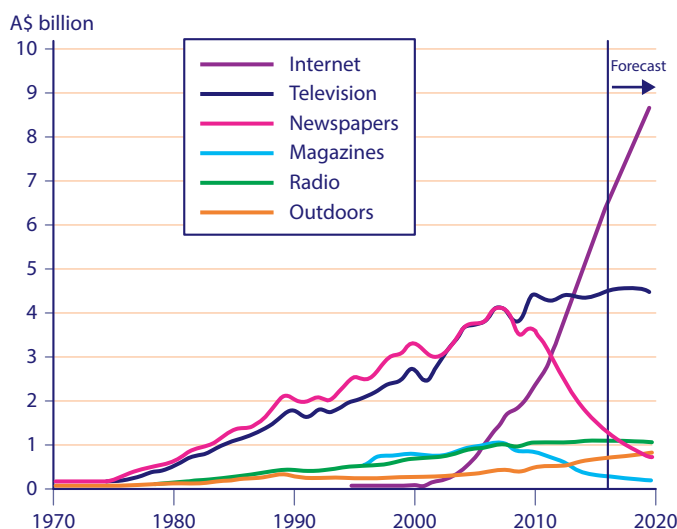


FIGURE 2.4.5 Australia's changing advertising spend, 1970 to 2019

Source: <https://www.abc.net.au>; Morgan Stanley Research Estimates.

Financial crises

Economic shocks, particularly financial crises, can be very disruptive and threaten the very existence of companies that don't prepare for such a possibility.

In recent decades, there have been two such crises – the Asian financial crisis (1997–99) and the global financial crisis (2007–08). See the following Spotlight box.

Spotlight: The global financial crisis (GFC)

The global financial crisis (2007–08) was the world's most serious financial crisis since the Great Depression of the 1930s. It had its origins in 2007 with a crisis in what is referred to as the subprime mortgage market in the United States and subsequently developed into a full-blown international banking crisis sparked by the collapse of the large US investment bank Lehman Brothers in September 2008.

The collapse of Lehman Brothers contributed to a collapse in confidence in the banking system worldwide. Massive bailouts of financial institutions, combined with a range of monetary and fiscal policy



FIGURE 2.4.6 The subprime mortgage crisis in the United States quickly developed into a full-blown international banking crisis.

Despite these interventions, the financial crisis was followed by a global economic downturn, what US economists call the Great Recession. In Europe, the crisis resulted in the near-collapse of the banking system. Ireland, Greece, Italy and Spain were especially hard hit by the crisis.

In the early 2000s, home loans were easy to get in the United States. Lenders were so keen to sign up new loans they paid little attention to the ability of people to meet the monthly repayments on their mortgage. This created a large pool of homebuyers. This, in turn, drove up house prices as demand quickly outstripped the supply of homes. The rapid increase in the value of properties encouraged many homeowners to borrow against their equity in their homes. Many saw the increase in value as a windfall profit. This 'bubble' in values would eventually burst and property prices start to fall. The mortgage default rate began to rise in late 2006 and peaked in early 2010.

The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, two large US home loan lenders, had to be taken over by the US government in September 2008. A few days later, US investment bank Lehman Brothers filed for bankruptcy. A number of other large financial institutions were set to fail. Despite trillions of dollars paid out by the US government, it became difficult for people to borrow money. As a result, housing prices plummeted.

While government intervention prevented the collapse of large financial institutions, stock markets plunged worldwide (see Figure 2.4.7).



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The crisis also played a key role in the sudden collapse in consumer confidence and the failure of businesses. One of the worst-hit sectors was the US automobile industry. Had it not been for the intervention of the Obama government, carmakers such as General Motors would have gone bankrupt. Unemployment peaked at 10 per cent in October 2009.

Australia escapes the worst of the GFC

Fortunately, Australia did not experience a significant economic downturn during the GFC. The pace of economic growth did, however, slow significantly. Unemployment rose sharply and there was a period of increased uncertainty.

The relatively strong performance of the Australian economy during the GFC was due to a range of factors, including the following:

- Australian banks had very little exposure to the US housing market and US banks.
- High-risk loans were only a small share of total lending in Australia.
- Australia's economy was supported by large, and increasing, resource exports to China, whose economy rebounded quickly after the initial GFC shock.

Also important was the response of the federal government and the Reserve Bank. The RBA quickly lowered interest rates, and the Australian government undertook expansionary fiscal policy (including cash handouts to households and large-scale capital works programs, such as Building the Education Revolution) and provided guarantees on bank deposits. Additionally, regulators imposed stronger banking regulations.

Online food delivery

Research in 2017 by Morgan Stanley showed that revenue growth for the online food ordering and delivery service industry had increased over the past five years. Australians have embraced the convenience of online food ordering and delivery as they become increasingly time poor due to work and family commitments. The new research is showing that multinationals such as Deliveroo (which started in the United Kingdom in 2013) and Uber Eats (which started in the United States in 2014), along with local operator Menulog (established in Australia in 2006 and merged with British company Eat Now in 2015), are expanding in Australia.

How does it work?

The way it works is the food aggregators (Uber Eats, Menulog and Deliveroo) sign up restaurants to an online and mobile app platform that allows consumers to order takeaway food and drink to be either picked up or delivered. If delivered, a third-party contractor driver with their own bicycle, scooter or car will be paid a fee per delivery.

How much do the food aggregators charge restaurants?

Each service has different charges and commissions, the table below compares the different services in Australia.

TABLE 2.4.1 Commission and fees charged by online food delivery operators

SERVICE	RESTAURANT CHARGED	FEE PAID BY THIRD-PARTY DELIVERY CONTRACTOR	CAN RESTAURANT USE THEIR OWN DELIVERY DRIVER?
Deliveroo	Commission reportedly around 30–35%	'Administration fee' 4%	Yes, and restaurant will be charged a lower commission
Uber Eats	Commission of up to 35%	'Service fee' of 30% (using car or scooter; 35% using bike)	No
Menulog	Commission 14%	Recently launched delivery service in Sydney and Melbourne. No fee charged	Most restaurants use their own drivers

Which service is the market leader in Australia?

Menulog is currently the market leader, with \$500 million of transactions generated from almost 9000 restaurants each year. Uber Eats is fast catching up, currently available to 47 per cent of the population, but is expected to approach 60 per cent over time. In 2018, Foodora ceased operations in Australia and Deliveroo received \$20.7 million financial support from its UK parent company.

Future growth of the online food ordering market?

Morgan Stanley estimates that since Menulog delivered its first meal in Australia back in 2006 the overall online takeaway food market now contributes \$1.5 billion to the wider \$18 billion takeaway food market. It is projected to grow to over \$4 billion by 2025.

The online market grew by 30 per cent in 2017 and is forecast to rise from about \$1.5 billion in 2017 to \$4.2 billion by 2025. Online penetration of takeaway food is forecast to reach 23 per cent in Australia by 2025, compared to the current 10 per cent. In other words, almost a quarter of the population will be using this service by 2025.

How much do courier/delivery drivers earn?

Research in 2018 by *Choice* reveals that each service used a different payment and fee structure, as summarised in Table 2.4.2, for the contract engaged as couriers to collect and deliver online orders.

TABLE 2.4.2 Driver pick-up and delivery payment schedule by online food delivery operators

SERVICE	PICK-UP PAYMENT	DROP-OFF PAYMENT	DISTANCE PAYMENT	DRIVER CHARGES
Deliveroo (*)	\$3.50	\$1.80	Plus, variable pay based on distance and time	4% admin fee
Uber Eats	\$5.50	\$3.50	Plus \$2.20 per km	30–35% commission
Menulog	\$8.00 (min)	\$8.00 (min)	Up to \$20 for long distance	No charge

(*) Some Deliveroo drivers may also be on an older-style fee structure and be paid on a per-delivery basis, reportedly \$9–\$10.

A survey in 2018 by the Transport Workers' Union found that one in four delivery riders work full-time hours, while over 26 per cent work more than 40 hours a week. However, as contractors they are not entitled to sick leave or workers compensation if they are injured at work. Three-quarters of those surveyed said they earned less than the minimum wage – some as low as \$6.67 per hour – and almost half reported knowing someone who had been injured on the job.

For some contractors, working as a delivery driver or rider has many advantages. It provides choice and flexibility to fit personal and study commitments or may be used as a second income stream.

What is a 'dark kitchen'?

A development arising from the online food ordering and delivery platform is the use of restaurants that only exist on the food delivery app. These 'dark kitchens' or 'super kitchens' are commercial purpose-built spaces with multiple 'kitchens' and each is allocated to a different restaurant brand.

Some restaurant owners see these 'ghost kitchens' as unfair competitors, as they do not incur any of the costs and overheads of a restaurant or shop. Others see them as an opportunity to operate separately from their restaurant and provide different offerings to their online customers.

Deliveroo has its own dark kitchens, with one already operating in Melbourne and two more 'supersized sites' to open. Deliveroo takes a larger cut of restaurant takings when it uses dark kitchens, although it won't reveal how much.

Is this aggregator model sustainable and fair?

The sudden collapse of Foodora in 2018, and Deliveroo getting bailed out by its UK parent company in 2017 to the tune of over \$20 million, raises questions about the sustainability of these companies' business model.

The bottom line is these companies charge restaurants large commissions and rely on couriers (contractors) who are offered few protections and may earn less than \$7 an hour. Many restaurants are turning away from using this service or questioning its economic benefits.

Follow the weblink to read the articles "'Frenemies': Restaurants stuck with online delivery giants as business partners' and 'Foodora owes \$8 million to former delivery workers'.



Online food
delivery articles

Understanding the text

- 1 State the government's reasons for restricting domestic aviation to a duopoly in the 1950s.
- 2 Identify the mechanisms that acted as barriers to competition in the domestic aviation market.
- 3 Outline the benefits provided by deregulating domestic aviation in the 1990s.
- 4 Outline the regulation of the media in the 1980s. Explain the government's cross-media ownership legislation.
- 5 Identify how media ownership laws were liberalised in the 1990s.
- 6 Outline the mechanisms that were abolished in the 2017 deregulation of the media. Explain why the industry was demanding these changes.
- 7 Identify the focus of the Australian Competition and Consumer Commission's inquiry into the impact of digital platforms on competition in media and advertising services markets.
- 8 Outline the preliminary findings of the ACCC inquiry.
- 9 Explain how Google and Facebook are impacting traditional media and advertising services markets in Australia.
- 10 State why competition policies in the media are necessary in the Australian context.
- 11 Give examples of financial crises that have proved disruptive to the Australian economy and businesses in recent decades.
- 12 Describe the 'food aggregators' model of operation and give examples of service providers.
- 13 Outline the concerns and issues surrounding food delivery contractor drivers.

Activities

- 1 Investigate other Australian industries that have been deregulated, such as the dairy, wheat and energy industries. Working in groups, select one deregulated industry to investigate and write a report that includes:
 - a reasons for deregulation
 - b benefits for consumers and producers in the industry
 - c any unexpected outcomes or issues that negatively impacted consumers and businesses.
- 2 Draw a timeline and outline the regulation of media from the 1930s to the present day.
- 3 Compare the aims of media reforms in the 1980s and the deregulation in 2017. Write a report on the advantages and disadvantages of deregulation for consumers and businesses.
- 4 Study the Spotlight box 'History of media regulation in Australia' on page 113. Explain what is meant by the term 'media diversity' and why it is important. Analyse the cartoon. Who is the main character and what is the context of his statement?

- 
- 5 Work in groups to conduct a survey in your class to identify the different ways that students get their news. Discuss the group results and rank the reliability of these traditional and online news feeds.
 - 6 Use the internet to investigate the final report from the ACCC inquiry into the influence on media of global companies such as Google and Facebook. Prepare an article for your school newspaper and justify your views of the ACCC's findings.
 - 7 Using the weblink provided in this section, study the online article 'Global internet giants crushing Australian media'. Write a report on how global internet companies such as Google and Facebook are influencing and impacting Australian media, and justify the need for regulation of digital media platforms.
 - 8 Debate in class why competition policies in media are necessary in the Australian context.
 - 9 Study Figure 2.4.5. Write a report on how the internet is impacting traditional media markets.
 - 10 Study the Spotlight box 'The global financial crisis (GFC)' on pages 114–15. Outline the nature, causes and impacts of the global financial crisis, and responses to the crisis.
 - 11 Using the weblink provided in this section, study the online articles "'Frenemies': Restaurants stuck with online delivery giants as business partners' and 'Foodora owes \$8 million to former delivery workers' and complete the following tasks.
 - a Outline what has happened to the takeaway food market since the introduction of the online food delivery service.
 - b Outline the advantages and disadvantages of food delivery services to consumers and business.
 - 12 Debate in class the sustainability and fairness of the aggregator model for online food ordering and delivery.
 - 13 Work as a class to brainstorm the issues currently facing the Australian economy and businesses. Rank these in terms of their importance.
 - 14 Select one of the contemporary economic events or developments identified in the previous activity. Undertake research in order to complete the following questions:
 - a Describe the nature of the economic event or development.
 - b Identify and describe the causes of the event or development.
 - c Outline the impacts of the event or development on consumers and business.
 - d Outline the response of governments and authorities to the event or development.



3

EMPLOYMENT AND WORK FUTURES

CONTENT OVERVIEW

- 3.1 Work and wellbeing
- 3.2 The workplace
- 3.3 Rights and responsibilities in the workplace
- 3.4 Current issues

CONTENT FOCUS

In this core topic, we examine the contribution that work makes to the individual and society. You will learn about the changing nature of work and your workplace rights and responsibilities. In doing so, you will develop skills in analysing a range of perspectives in your consideration of work and work futures.

The skills you will develop in this core unit of study include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What contribution does work make to the individual and society?
- How is the nature of work changing?
- What are your options, rights and responsibilities in the workplace?

GLOSSARY OF KEY TERMS

affirmative action

Strategies that promote equal employment opportunity; for example, extra training for women so that they are eligible for a promotion.

Australian Council of Trade Unions (ACTU)

The main organisation representing unions nationally.

award

A legal document that specifies the minimum conditions under which a person is employed. It covers matters such as wage rates, holidays, sick leave, overtime and other minimum conditions for a whole industry or type of job.

award rates

The rates of pay set by an award. These are a set of minimum wages that are legally binding on employers and workers. Also known as award wage.

blue-collar worker

Traditionally, a worker who performs manual labour in return for a weekly wage rather than a salary. Compare with white-collar worker.

business group

A group of employers who share similar interests and common goals and which aims to promote and represent the members' opinions and concerns.

casual employment

Temporary work that does not offer the same level of protection as a permanent job. Casual workers are often entitled to a loading on top of the pay rate received by a permanent worker. This is intended to compensate for missing out on sick leave, holiday pay and other benefits.

contractor

A person who has their own business and sells their services or skills to others.

deregulation

The removal of government regulation from an industry or a market to increase efficiency and improve competition.

discrimination

When someone is not treated as fairly as someone else in a similar situation or is treated differently because they belong to a particular group or have certain characteristics.

dismissal

When an employee's contract of employment is terminated by an employer. In most cases, the employee is entitled to receive notice of the dismissal and to be paid for the period of notice and any pay and leave that are owing.

employee

A person working under the control or direction of another, according to a contract of employment and in return for a wage or salary.

employee entitlements

What an employee is legally entitled to receive, in addition to monetary payment, in return for employment. These entitlements include annual, sick, parental, bereavement and long service leave.

employer

A person or organisation who employs workers under a contract of employment. Employers exercise some control over workers and are responsible for paying wages or salaries and providing a safe working environment.

employer association

An organisation that represents and assists employers by promoting and representing their opinions and concerns in collective bargaining sessions and before industrial tribunals, courts, commissions and committees.

enterprise agreement

A negotiated deal about the conditions under which employees are employed within a business. There are three types of enterprise agreements made under the *Fair Work Act 2009*. The Fair Work Commission checks and approves enterprise agreements to ensure basic minimum terms and conditions are upheld.

enterprise bargaining

The process that employers and employees use to negotiate a set of rules and conditions for their workplace and which results in an enterprise agreement. Also known as workplace bargaining, collective bargaining, over-award bargaining and company bargaining.

equal employment opportunity

The legal requirement that everyone who has the necessary skills, experience and qualifications to do a job should be given an equal chance of getting that job.

Fair Work Commission

An independent national workplace relations tribunal established under the *Fair Work Act 2009*. Its functions include setting minimum wages and employment conditions, supporting enterprise bargaining and approving enterprise agreements, and resolving disputes and unfair dismissals.

fringe benefits

Employment benefits that are additional to a salary or wage and legal entitlements.

full-time employment

Traditionally means a regular job. Permanent work that is about eight hours a day, five days a week and 48 weeks of the year with four weeks, paid annual leave.

glass ceiling

The concept of an invisible barrier that prevents women (and others) from reaching the highest levels of management.

green ban

A refusal by employees to work, or allow work to proceed, on a project that may result in damage to the environment – either natural or historical.

harassment

Any unwanted or uninvited behaviour that is offensive, embarrassing, intimidating or humiliating. Harassment is a form of discrimination.

income tax

A government tax charged on what a person or company earns from work or business each year. The amount of income tax a person or company pays is dependent on how much they earn.

industrial dispute

A disagreement between employers and employees. Some common subjects for industrial disputes are wages and conditions, work health and safety, unfair dismissals and environmental issues.

industrial relations

The relationship between employers and employees.

labour force

The entire population over the age of 15 who are available for work; made up of both the employed and the unemployed.

living standards

Also known as standard of living. The amount of money, and material and non-material goods that people have in a society.

minimum wage

The lowest amount that can legally be paid to an employee under an award or agreement.

negotiation

When two parties discuss what they want in order to reach an agreement.

part-time employment

Permanent employment where the employee works a set number of weekly working hours, but fewer hours than a full-time employee. It is an important factor in Australian industry, especially as many part-time jobs are in the fast-growing services sector. Many part-time workers receive the same benefits as those received by full-time workers but on a pro rata basis; that is, in proportion to the number of hours worked.

payment summary

A form that is used for taxation purposes and shows an employee's gross (before tax) pay, net earnings (after tax and other deductions but not personal deductions), tax and other deductions. Each employee receives a payment summary from his or her employer at the end of the financial year. This payment summary must be included in the employee's income tax return.

personal deductions

An employee's work-related expenses; that is, expenses incurred in the course of earning an income.

redundancy

When employees are laid off on a permanent basis because their work is no longer required by the employer due to economic, technological or other reasons.

self-employed

Working for yourself and not for an employer.

self-esteem

Your own personal evaluation of yourself and your abilities.

sharing economy

An economic model using online platforms such as an app or website to connect consumers with people renting, leasing, or selling goods or services.

strike

The withdrawal of workers' services in order to pressure an employer or third party (such as a government) to yield to demands or as a protest against terms or conditions.

superannuation

The money put aside during an employee's working life for use when the employee retires.

tax

A compulsory financial charge that is imposed by governments on such items as income, goods and property and is used for public spending and administration.

trade union

An organisation of employees that acts collectively for the mutual protection and assistance of the employees and is concerned with wages and conditions of employment.

unemployed

That part of the workforce who are able and willing to work but unable to find jobs.

unemployment

The situation that arises when a person who is actively searching for work is unable to find it.

unskilled work

Work that lacks specialist training or ability and generally involves simple, manual tasks that can be learnt in a short time.

white-collar worker

A worker who is employed to do non-manual work (such as in a professional, administrative, technical or clerical position) and is paid a salary rather than a wage. This term originates from the time when men were the traditional holders of such positions and wore a suit, white shirt and tie to work.

workers compensation

A type of insurance that provides payments to workers who suffer an injury or illness caused by their work.

workforce flexibility

The ability of employers and employees to take advantage of different types of employment; for example, full-time, part-time and casual.

work health and safety

Practices and regulations concerning the physical and mental wellbeing of persons engaged in work.

3.1 Work and wellbeing

'Wellbeing' is an abstract concept that is often defined in terms of a person's 'quality of life'. But it is much more than the material possessions one has or one's standard of living (as determined by a person's income or wealth). Wellbeing relates to how you feel and whether you believe your life is worthwhile. Work is central to the wellbeing of individuals and society, and is integral to the nation's economy.

How work benefits an individual's wellbeing

Work enables people to achieve their goals, and is a means by which they can contribute to the wellbeing of their family and community. The essential goods and services that we require for living and the material comforts we enjoy must be produced through work.

Work enables people to earn an income and, as a result, to consume and save, and access other elements of wellbeing such as housing, health, education and leisure activities. It also helps them save a nest egg for retirement. Unpaid (voluntary) work is also important. It provides services, products and opportunities that otherwise might have been provided at a higher cost or not at all. Volunteering provides people with a range of non-material rewards, such as a sense of achievement and usefulness.

How work benefits broader society

In addition to being central to the wellbeing of individuals, work is an important contributor to the community's wellbeing and the national economy. Work is a major input into the creation of wealth in Australia.

Work supports society in general through the goods and services it creates and provides, such as education and training, infrastructure and social benefits. Work builds social networks and friendships, shared values and social cohesion in the community. Work also provides tax payments from households and businesses. This tax revenue contributes to the cost of national defence, maintaining law and order, building infrastructure such as roads, hospitals and schools, and supports the needs of those requiring special help; for example, the aged, the unemployed and those with a disability.

Work and quality of life

Relationship between work and people's quality of life

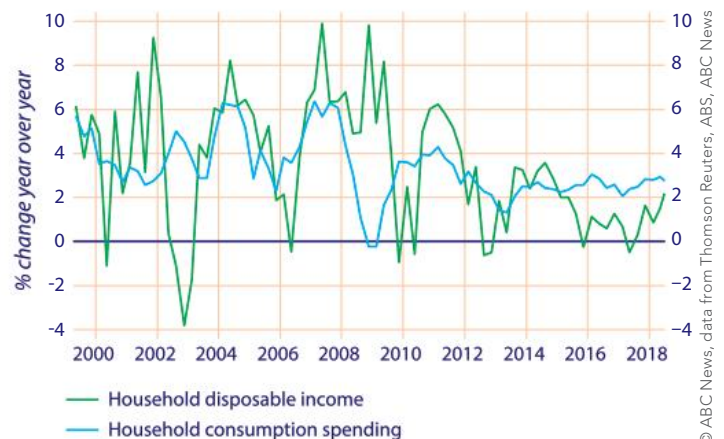
The nature of the relationship between work and people's quality of life is influenced by factors such as disposable income, a person's health, their superannuation savings and the effectiveness of household financial management.

Disposable income

Disposable income, as noted in Chapter 1, is the income that we have left after taxes have been paid. In 2015–16 (the last year in which this data was collected by the ABS), the average disposable household income was \$1009 per week. This is a significant increase from the \$843 per week recorded in 2005. During this 10-year period, housing and property values increased significantly, contributing to the average net worth (wealth) of Australian households rising from \$433 500 in 2005–06 to more than \$936 000 in 2015–16. Increasing property values have fuelled much of this increase in wealth. The property booms of 2015 and 2017 greatly increased household debt as people borrowed heavily in order to enter the housing market or borrowed against the increased equity they had in existing properties. This strengthening of household wealth was accompanied by an increase in indebtedness, with three out of four households (74 per cent) in debt compared to 24 per cent of households in 2004. This debt has been accompanied by a decline in household savings, as shown in Figure 3.1.2. If house prices were to fall sharply (as they did in 2018–19), this indebtedness may result in widespread economic hardship.



FIGURE 3.1.1 Work is central to the wellbeing of individuals and society, and is integral to the nation's economy.



Source: Stephen Letts, 'Households are now spending more than they are earning – and that's not sustainable', ABC News, 9 September 2018.

FIGURE 3.1.2 Since 2015, the rate of household consumption spending has exceeded the growth in disposable income. Households are now spending more than they are earning – and that is not sustainable.

Household economic wellbeing

One way of measuring household wellbeing is to look at the nation's economic growth. Household economic wellbeing can also be determined by examining disposable income (addressed above), consumer spending and confidence, household debt, net financial worth (difference between assets and liabilities) and unemployment.

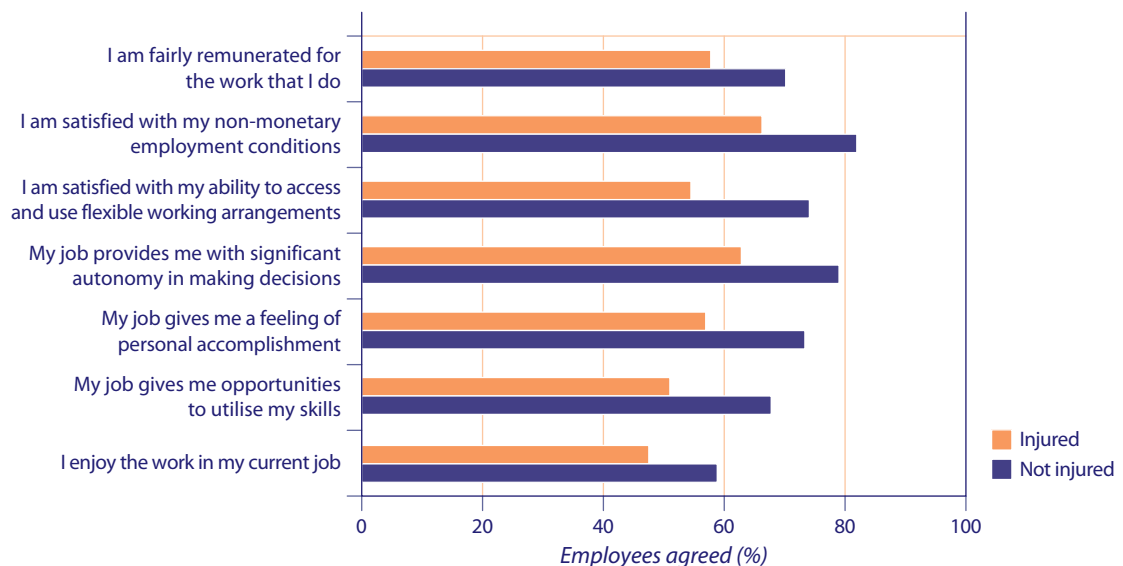
Households with high levels of debt and lack of savings are most vulnerable during economic uncertainty or if facing unemployment or reduced employment. In Australia a distinguishing feature of the housing market is that most homes are owner-occupied, which means that if housing prices drop or the economy declines, household financial stability is threatened and net financial worth decreases.

Debt-to-income ratio (DTI) measures the ability to make the monthly repayments for money that has been borrowed. For example, if you pay \$1500 per month for your mortgage loan, \$100 per month for a car loan and \$400 a month for your living expenses (utilities, food, petrol, etc.), your monthly debt payments are \$2000 ($\$1500 + \$100 + \$400 = \$2000$). If your gross monthly income is \$6000, then your debt-to-income ratio is 33 per cent (\$2000 is 33 per cent of \$6000). Generally, borrowers with a DTI higher than 43 per cent are more vulnerable and may run into difficulties with their repayments.

Health

Workplace injuries have a direct effect on the health and wellbeing of employees. Those injured at work or who became ill due to the nature of their work (for example, stress-related illnesses) often experience low job satisfaction. Job satisfaction is, of course, an important contributor to a person's overall wellbeing.

Figure 3.1.3 shows that employees who were injured or who became ill due to work were less positive than other employees on measures relating to workplace conditions, including pay, non-monetary employment conditions, and access to and use of flexible work arrangements.



Source: Australian Public Service Commission, 'How the workplace affects employee health and wellbeing', 2018, <https://www.apsc.gov.au/how-workplace-affects-employee-health-and-wellbeing> Creative Commons BY 3.0 Australia

FIGURE 3.1.3 Elements of job satisfaction as rated by those injured at work and those not injured

Superannuation accrual

Superannuation is central to people's wellbeing, especially in retirement. Throughout an employee's working life, they compulsorily accumulate superannuation savings. These savings (even if supplemented by a full or part age pension) are designed to support retirees in the years after they leave the workforce. The self-employed (including small business operators and contractors) are encouraged (via the taxation system) to put aside money (savings) to support them in retirement. Unfortunately, women remain disadvantaged when it comes to accumulating retirement savings (see 'The gender superannuation gap' in section 3.4).

Household management

The ability to effectively manage one's personal and household finances has an impact on personal wellbeing. Spending money on things such as gambling, smoking (tobacco and e-cigarettes), recreational drugs, alcohol, and consumer or luxury items such as the latest fashion or new mobile technology, may erode your ability to maximise your wellbeing. Careful budgeting (see Chapter 11, section 11.3) will help you maximise your wellbeing and make the most of your income.

Work, self-esteem and living standards

The principal reason why people work is to gain the economic benefits of earning an income that comes from being employed. This income supports the individual or household and allows them to not only purchase goods and services for day-to-day living, but also to build savings for future living needs and wants.

Working and earning an income contribute to an individual's quality of life, which can be measured by material and non-material **living standards**. *Material living standards* are physical or tangible products and services that can be measured in dollar terms and include your house, car, quality of food eaten, healthcare cover, education and so on. *Non-material living standards* cannot be measured in dollar terms and include clean air and water (environment), low crime rates (law and order), free speech, free elections (democratic government) and leisure time (leave entitlements from work). It can be argued that the more access an individual has to goods and services that satisfy needs and wants, the more likely it is that life will be better.

Working is not, however, only about financial security and living standards; it also supports health and wellbeing. Work contributes to a sense of purpose, identity and self-worth **self-esteem** and provides opportunities for social interaction, personal growth and skills enhancement. Meaningful work and job satisfaction have also been linked with individuals' happiness and confidence. Returning to work following injury or illness can also assist in the individual's recovery.

Income earned from employment has implications beyond the benefits gained by the individual. The income can be used to support family, friends and the wider community. Loss of work or unemployment can have a negative impact not only on the individual's self-esteem and standard of living, but also on the wider community.

The importance of work beyond economic benefits has seen the rise of social enterprises, a community response to assist the unemployed and support their wellbeing and self-esteem. These organisations use business strategies to broaden economic participation that is equitable, stable and sustainable (see the Spotlight box *The Big Issue*). For example, they run cafes to train and employ homeless or disadvantaged or unemployed youth. See section 3.4 for more information on unemployment.

Not all work is paid work. In Australia, more than 30 per cent of the population have participated in voluntary activities in the community. The most common reasons why individuals volunteer include helping others in the community, personal satisfaction and doing something meaningful.

Spotlight: *The Big Issue* – Australia’s first social enterprise

The Big Issue – a homeless street press publication – was launched in 1991 in London and in 1996 in Melbourne. Premised on the importance of creating work for those who are homeless and long-term unemployed, its motto is ‘working, not begging’.

Social enterprises, a fast-growing sector in Australia, respond to social problems with market-based business ideas and practices.

The Big Issue aims to be a self-sustaining business that engages sellers in ‘genuine’ work. Sellers buy *The Big Issue* magazine for half the market price (\$3.50) and sell it on for the full price (\$7), thereby making \$3.50 per sale.

Perhaps unsurprisingly, *Big Issue* sellers welcome the chance to work ... Sellers spoke powerfully of social relationships they made with regular customers, *The Big Issue* staff, and their local community. Having meaningful and positive interactions was central to the significance of their work.

At times, sellers had to manage negative interactions with the public, from sneers of ‘get a real job’ to feeling lonely and ignored. They might just have one of the hardest sales jobs in the country.



AAP Image/Joe Castro

FIGURE 3.1.4 *Big Issue* sellers get social contact and dignity out of their work, but it’s not a secure pathway out of unemployment, poverty and homelessness.

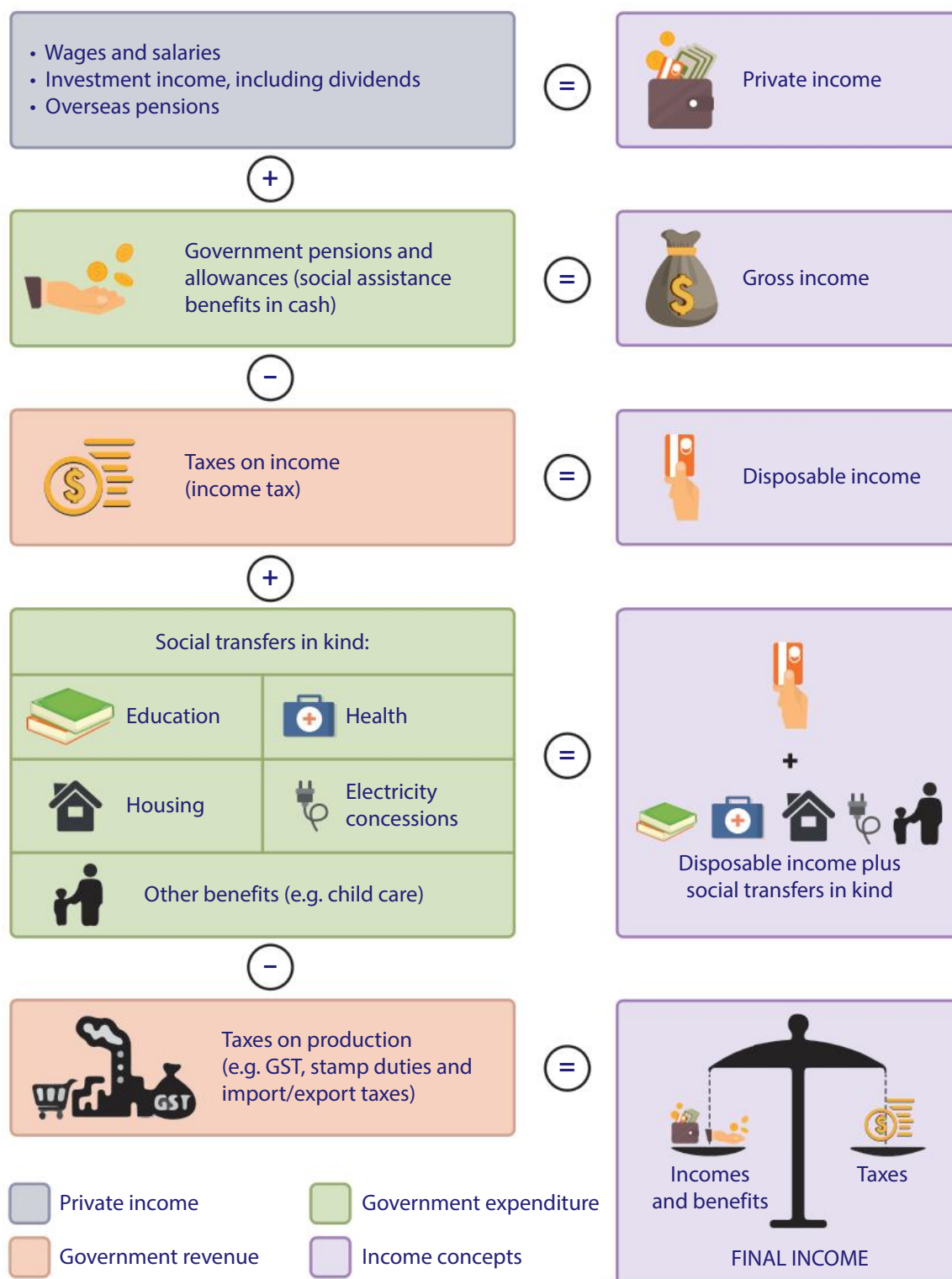
Source: Jessica Gerrard, ‘This is what the lives of *Big Issue* sellers tell us about working and being homeless’, *The Conversation*, 22 September 2017, CC licence.

Redistribution of income

The distribution of income (see the Spotlight box ‘Inequality and wellbeing’) and the ability of the government to redistribute income via the taxation system, from richer to poorer households, combined with government spending and social transfers, are central in ensuring that all Australians enjoy an acceptable standard of living, a key element of wellbeing. Overall, the government’s spending and taxes on welfare and social transfers reduce income inequality by more than 40 per cent in Australia.

Income redistribution involves direct taxes (examples include personal income tax, company tax, capital gains tax and fringe benefits tax) and indirect taxes (examples include GST and excise duties on tobacco, alcohol, luxury cars, fuel and gambling). This tax revenue is used for a wide range of government responsibilities, including social welfare-related spending such as the age pension, unemployment benefits and disability support (which includes the National Disability Insurance Scheme (NDIS), as well as social transfers that include goods and services the government subsidises or provides for free. These social transfers include ‘public goods and services’ such as education, health, housing, electricity concessions and child-care rebates. Consumption of these public goods and services is not dependent on an individual’s ability to pay.

Components of final income



Source: Australian Bureau of Statistics, 6537.0 - *Government Benefits, Taxes and Household Income, Australia, 2015-16* CC BY 4.0

FIGURE 3.1.5 Components of final income showing redistribution of income through taxes and social transfers

Figure 3.1.5 shows how household income is increased directly by the federal government through social assistance benefits in the form of cash payments, such as the age pension and Family Tax Benefit, and indirectly by government expenditure on public goods and services. On the other hand, household income is reduced by taxes on personal income (direct taxes) and by taxes on production (indirect taxes), which are passed on in the prices households pay for goods and services.

Spotlight: Inequality and wellbeing

All Australians don't share the same standard of living. There are some glaring inequalities in Australia that ultimately impact on wellbeing. If, for example, you had a household income of around \$4000 a week after tax, and \$4 million in property, superannuation and other assets, you would, according to the Australian Council of Social Service (ACOSS), be in the top 20 per cent of households. At the other end of the scale, a weekly after-tax income of \$735 and wealth of around \$30 000 would put you in the bottom 20 per cent.

The gap between the richest and the poorest is massive and increasing. With net wealth of \$2.9 million, the wealthiest 20 per cent of Australian households (around two million households) were almost 100 times wealthier than the poorest 20 per cent, who had on average just \$30 000. The wealthiest 5 per cent were 200 times wealthier, and the wealthiest 1 per cent 466 times wealthier, than the poorest 20 per cent.

The gap in incomes between the highest- and lowest-earning households was less dramatic than the difference in wealth. With income averaging \$3978 a week, the top 20 per cent of households earned five times as much as the average bottom 20 per cent, who earned just \$735 a week. The highest 5 per cent, on \$6063 a week, earned eight times the disposable income of the lowest 20 per cent.

Top 1% and 5%

Top 1%	
Wealth:	Income:
\$14 million	\$11 682 a week

Australian households' average wealth

Top 20% of households	Middle 20% of households	Bottom 20% of households
\$2.9 million	\$570 000	\$30 000

Australian households' average disposable income

Top 5%		Top 20% of households	Middle 20% of households	Bottom 20% of households
Wealth:	Income:			
\$6 million	\$6063 a week	\$3978 a week	\$1779 a week	\$735 a week

Source of data: ACOSS and UNSW Sydney, *Inequality in Australia 2018*, ACOSS, Sydney, 2018.

FIGURE 3.1.6 Snapshot of income and wealth inequality in Australia

Understanding the text

- 1 Explain what is meant by the terms 'wellbeing' and 'standard of living'.
- 2 Outline the social and economic benefits of work.
- 3 Outline the factors affecting people's quality of life.
- 4 Explain what is meant by 'disposable income'.
- 5 Outline the difference between material and non-material living standards.
- 6 State how workplace injuries and illnesses stemming from the nature of people's work impact on their job satisfaction.
- 7 Explain why access to superannuation is seen as an important contributor to a person's wellbeing.
- 8 Explain why effective household management is considered essential.
- 9 Identify the social costs of unemployment.
- 10 Explain what is meant by 'social enterprises'. Give examples of social enterprises.
- 11 Outline how Australian governments ensure that all Australians have an acceptable standard of living. Give examples of 'public goods and services'.

Activities

- 1 Study Figure 3.1.2. Describe the trend in household consumption relative to household disposable income since 2015.
- 2 Study Figure 3.1.3. Compare the aspects of job satisfaction of those injured to those who are not injured. What overall trend emerges?
- 3 Study Figure 3.1.5. Write a paragraph on how unemployment can affect your disposable and final income.
- 4 Now write a paragraph on how mismanagement of household finances can affect your disposable and final income.
- 5 Study Figure 3.1.6. Write a report outlining the extent of income and wealth inequality in Australia.
- 6 Working in pairs, undertake research to identify local social enterprise or community volunteering activities that your school could support.

3.2 The workplace

Why do people work?

The principal reason people work is to gain the economic benefits that come with paid employment. In exchange for their expertise, skills or time, they earn an income. This income supports the individual economically. It allows them to purchase goods and services and to build savings for future living expenses and incidentals.

Comparison of types of work

There are certain advantages and disadvantages to the different types of employment available. A full-time job, for example, provides you with a level of job security that is not available with a casual job. Table 3.2.1 outlines the advantages and disadvantages of different types of employment.

TABLE 3.2.1 Advantages and disadvantages of different types of employment

EMPLOYMENT TYPE	ADVANTAGES	DISADVANTAGES
Full-time work	• Job security • Employee entitlements, such as annual, sick, long service and parental leave • Possibility of fringe benefits, such as a car, bonuses or profit sharing	• Hours may be long and rigid
Part-time work	• Employee entitlements on a pro rata basis • Flexible working hours that may fit in better with family commitments or lifestyle • Opportunity to experience more than one job at a time or pursue other interests; for example, study	• May not provide adequate income • Few senior management positions are part-time
Casual work	• Readily available • Often unskilled work, or using skills that can be mastered quickly • Usually for a designated time frame • Paid a loading to compensate for not having leave entitlements	• No employee entitlements, such as paid annual leave or sick leave • Less job security; can be dismissed at any time • May not provide adequate income • May have to work on weekends and/or public holidays
Self-employed	• You are your own boss • Determine your own salary and working conditions	• Responsible for all business decisions • Stress of creating and maintaining a successful business

Types of employment

An employee is a person who works for a private business, a government department or other organisation and is rewarded with a wage or salary. In Australia, approximately 86 per cent of people who work are employees. Employers are people or organisations who hire others to work for them and pay them for their efforts. The self-employed are people who operate their own businesses and earn their income by selling goods and services.

There are also those people who undertake *voluntary and unpaid work*. Technically, these people are not considered employed, but they do make a valuable contribution to our society. Unpaid work involves no monetary transaction and covers work performed in the household and community. Basically, there are two types of unpaid work. One is unpaid household work (for example, cleaning, shopping and child care) and unpaid work by persons in a family business or on a farm. The second type of unpaid work is volunteer and community work that is provided free of charge. Examples of this kind of work are unpaid aged care and volunteer work for charities.

Once employed, you will work either full-time, part-time or on a casual basis. The Australian Bureau of Statistics defines **full-time employment** as working 35 hours or more per week. This includes people who have worked two or more part-time jobs that in total add to 35 or more hours per week. If fewer than 35 hours per week are worked, this is considered to be **part-time employment**. **Casual employment**, although often thought of as the same as part-time work, is different. A casual employee is employed on a short-term or irregular basis and is not entitled to either paid holiday leave or sick leave. Australia has one of the highest levels of casual employment in the world. Latest figures show that more than a quarter of the workforce are casual workers.

An apprenticeship (or traineeship) combines training, which can be on and off the job, and paid employment. Apprenticeships can be part-time, full-time or school-based and are available in a wide range of industries. Depending on the qualifications undertaken, it can take 12 months to four years to complete an apprenticeship. The working conditions for apprentices are the same as for other employees. Wages and conditions must be in accordance with the industry **award**, approved **enterprise agreement** or the national **minimum wage**.

Sources of income

Strictly speaking, income is the money earned from working and the returns on investments. However, there are many different ways to earn an income. These are listed in Table 3.2.2.

TABLE 3.2.2 Sources and types of income

SOURCES	TYPES OF INCOME
Working for an employer	Wage, salary, fee, commission
Working for yourself; that is, running your own business	Profit
Payments from the government	Social security
Money placed in savings or term deposit accounts or invested in bonds	Interest
Investing in shares, also known as stocks, securities or equities	Dividends
Renting out property	Rent
Creating or inventing something new, such as writing a book or composing music	Royalties
Playing professional sports or being a professional gambler	Prize money
Participating in the sharing economy, such as Airbnb, Uber, Airtasker and Deliveroo	Rate or fare or payment <i>minus</i> the facilitator's service fee

In a commercial economy, most people make a living by working for an **employer**. In Australia, nearly 86 per cent of people who work are classified as employees. An **employee** is a person who receives income in the form of a wage, salary, fee or commission.

Wages

A wage is the money paid by an employer to an employee for a period of work. The period is usually a week, and the number of hours worked by the employee will determine the amount of wages the employee receives. For example, a person working 38 hours a week at \$22.50 an hour will be paid \$855.00 ($38 \times \$22.50$) for that week's work.

Generally, no worker is required to work more than eight hours a day as part of a normal day's work, but people can work longer without breaking labour laws. Each hour worked beyond eight is considered overtime and must be paid at a higher hourly rate to compensate for the longer hours. So, if a person works for 10 hours, eight hours will be paid at the normal wage rate and two hours will be paid at the overtime rate. Overtime rates usually start at one and a half times the normal hourly wage rate. This is called *time and a half*. For example, if your normal rate is \$22.50 an hour, then the overtime rate would be \$33.75 an hour ($\$22.50 \times 1.5 = \$33.75$).

Overtime is increasingly common in Australia and many workers are expected to work a 'reasonable' amount of overtime. Many workers also work for a wage rate known as a penalty rate. This rate is applied based on *when* a person works rather than *how many* hours are worked. For example, a person who works Monday to Friday during normal working hours may be asked to work on the weekend or during a public holiday. The penalty rate for working on the weekend or public holiday may be *double time* (twice the normal hourly rate of pay) or some other variation to compensate for working outside normal working hours.

People who receive wages are usually those employed in unskilled or semiskilled jobs and are often known as **blue-collar workers**. These include factory workers, shop assistants, restaurant and cafe workers, office cleaners and butchers.

Salaries

A salary is paid to people who are employed on a yearly basis. This means their rate of pay is based on an amount per year rather than an amount per hour or week. Salary earners are employed on this basis because their job usually requires flexible working hours rather than a normal nine-to-five arrangement. Generally, people who receive a salary are employed in skilled jobs. They include managers, teachers, administrators and other professional people, and are known as **white-collar workers**.

Some salaried jobs offer workers flexitime. Flexitime is a system that allows workers to start or finish at times that suit themselves. For example, a worker may prefer to start at 7.30 a.m. and finish at 3.30 p.m. Another may



FIGURE 3.2.1 Construction workers laying the rails for the Newcastle light rail. Wages are paid to employees who work for an hourly rate of pay.



FIGURE 3.2.2 Teacher, Sydney. Salaries are paid to people who are employed on a yearly basis.



FIGURE 3.2.3 Medical specialists, Sydney. Fees are paid to professionals for a service provided.



FIGURE 3.2.4 Commission payments are a fee or percentage of the sales achieved by the employee.

prefer to start at 9.30 a.m. and finish at 5.30 p.m. Both workers are on the job for the same number of hours, but at times to suit themselves. A variation on flexitime is where workers are allowed to accumulate extra hours of work over a period of time and then apply for a day off (called a *flexiday*). In other instances, the flexitime might be built into the daily work hours so that people work a nine-day fortnight and, over a two-week period, have a rostered day off (called an *RDO*).

Fees

A fee is usually a set charge by a professional for the completion of a job or task. Professionals (such as accountants, doctors, dentists and solicitors) receive fees. These people often follow a schedule of fees, which may be set by a professional association (for example, the Australian Medical Association). Most doctors charge about the same for a simple consultation and most accountants charge the same fee for filing a tax return.

Fees are also paid to people in the performance and creative arts professions, such as musicians, artists and actors. Many famous people also charge fees for speaking at conferences or special events. All these people will usually sign a contract or agreement, which states what activities they must perform in order to earn their fees.

Commissions

A commission is usually paid to those who act as an agent, or go-between, between buyers and sellers. When a product is sold, the agent will be paid a commission. This is usually a percentage of the selling price. Examples of people who work on commission are car salespeople and real estate agents. Retail salespeople often have a commission built into their payment conditions. This means that their weekly income may be determined by the total sales they achieve during the week. This arrangement may not suit people who want a regular income. Many businesses employ people on a low base salary and allow the employees to 'top up' their income by earning a commission from the sales they make.

Alternative sources of income

Profits

Rather than being employed by someone else and receiving a wage, salary, fee or commission, people may be **self-employed** (that is, have their own business) and receive their income by making a profit. Business owners usually employ other people to help them make a profit. Profit is the amount of income that is left over after all the business's expenses (such as wages, rent and cost of materials) are paid for. To make a profit, businesses need to ensure the money received for their products is greater than the cost of all their expenses.

Social security

At some point in their life, people may find that they are unable to work or are unable to find work. In Australia, the federal government provides a range of social security payments that ensure all Australians have enough money to pay for the basic necessities of life.

Some of these payments are:

- unemployment benefits – Newstart Allowance
- the age pension
- the invalid pension.

Social security payments are considered a source of income.

Interest and dividends

A further source of income is the money received from investing savings. The return on invested money is regarded as income.

A common way to save money is with a bank. Most people in Australia have bank accounts. When a person saves money in a bank account, the bank pays interest to the account holder in return for the use of the money in the account. Banks use account holders' invested savings in a number of ways; the most common is to lend the money to other people.

Another common way to invest money, and one that is gaining increasing popularity, is by purchasing shares. The Australian share market, or the Australian Securities Exchange, is where shares in a public company can be bought and sold. When a public company makes a profit, the shareholders in the company normally receive a percentage of the profit based on the number of shares they own. This payment is known as a dividend.

Banks and the share market (see Figure 3.2.5) are only two of the many places where savings can be invested.

Rent

Rent is the money paid for the use of someone else's property – usually a house, townhouse, flat or apartment. There are, however, many different types of property that can be rented and therefore provide the owner with rental income. Factory buildings, for example, are often rented from a developer or property investor.

Royalties

Royalties are a type of income and are paid to a person who produces a piece of work (such as a song, a book or an invention). A copyright or patent is granted to protect the creator's intellectual property. For example, the group 5SOS receives royalties from the publisher that prints the words and music to their songs and sells them to the public, from any group or singer who records their songs and from radio stations that play their songs. Another example is JK Rowling, the author of the *Harry Potter* books. Rowling receives royalty payments from the publisher of her books. The author would also receive royalties from the film company that makes the *Harry Potter* movies, unless it has bought the rights to the books.



FIGURE 3.2.5 The share market is one of the many places where savings can be invested.



FIGURE 3.2.6 Greg Chalmers claims victory in the 2011 Emirates Australian Open at The Lakes golf course, Sydney. Professional sportspeople such as golfers earn their income from prize money and sponsorships.

Prize money

A small number of people earn their income from prize money. Professional sportspeople, such as golf and tennis players, earn their income in this way. Prize money may also be gained from gambling or game shows. This money is only considered to be income if the person receiving the prize money is a professional gambler or game show contestant and earns this type of money regularly.

Spotlight: Monetisation and the internet

Have you heard about Ryan, the seven-year-old whose YouTube channel has about 19 million subscribers? On his channel, *Ryan ToysReview*, which is largely aimed at children, Ryan plays with toys and reviews them. Last year, it was estimated that Ryan of *Ryan ToysReview* earned \$31 million from advertisers. That makes him a very wealthy social media influencer. In addition to his YouTube channel, Ryan has deals with leading US department stores. So, how can you monetise your passion using the internet?

You begin by selecting your platform, such as YouTube, Twitch, Bloggs, WordPress, Twitter or Medium. You can make money on these internet platforms by running advertisements, sponsorship deals, direct donations and subscriptions or selling your own goods. But, your earning potential depends on the platform used and the number of followers (see Table 3.2.3).

TABLE 3.2.3 How many followers you need to hit the earning milestones

PLATFORM	\$1 PER MONTH	\$500 PER MONTH	\$2000 PER MONTH	\$20 000 PER MONTH
Instagram	5000	50 000	100 000	500 000
YouTube	1000	25 000	50 000	250 000
Twitch	50	10 000	40 000	200 000
Writing	1	1000	4000	40 000

Source: <https://medium.com/s/story/how-to-make-a-living-on-the-internet-959e7a90a69a>.

However, subscribers do not translate to views. Looking at YouTube, it is anticipated that only 20 per cent of subscribers watch each new video, so it would require about 125 000 total video views per month to hit \$500 per month and this would take two or more years to reach. Regarding online video gaming, globally around 338 million people regularly watch games live-streamed on Twitch, Facebook and YouTube gaming. To make money on Twitch, you need as few as 50 followers to give you access to monetisation features, which include:

- direct subscription – followers pay you a monthly subscription
- revenue – followers support and cheer you on by spending ‘bits’ (internal currency)
- game sales – 5 per cent commission for each game purchased by followers.

Video gaming is very lucrative in the entertainment industry, with sales reaching \$100 billion in 2016. Recent data from the United States reveals a link between video gaming and unemployment, particularly among young men. See the Spotlight box 'Is there a link between male youth unemployment and video games?' in section 3.4 to explore the impact of online video games and participation in the workforce.

Changing nature of work

Most young people, as they move towards the end of their education, can confidently look forward to a role in the workforce for the next 30 to 40 years. Unlike their parents or grandparents, they will probably have more than one occupation or career during that time. Because of the impact of technology, it is now predicted that an average worker in the 21st century can expect to have four or five career changes throughout his or her working life. In addition, a worker may experience periods of full-time work, part-time work, casual work, self-employment and perhaps even periods of unemployment. Because of this, people must have broad skills that will help them to adapt quickly to changes in the workplace.

A few decades ago, employed people – particularly male workers – typically worked in full-time wage and salary jobs with regular working hours. They often expected to remain in the same job for a long period of time. This situation has changed, with the emergence of different forms of employment and different working arrangements. Over the last decade, there has been strong growth in casual and part-time employment, and many people now have flexible working hours or have a working pattern that differs from the five-day working week. For an overview of the different work arrangements that are operating in 2018, see Figure 3.2.7.

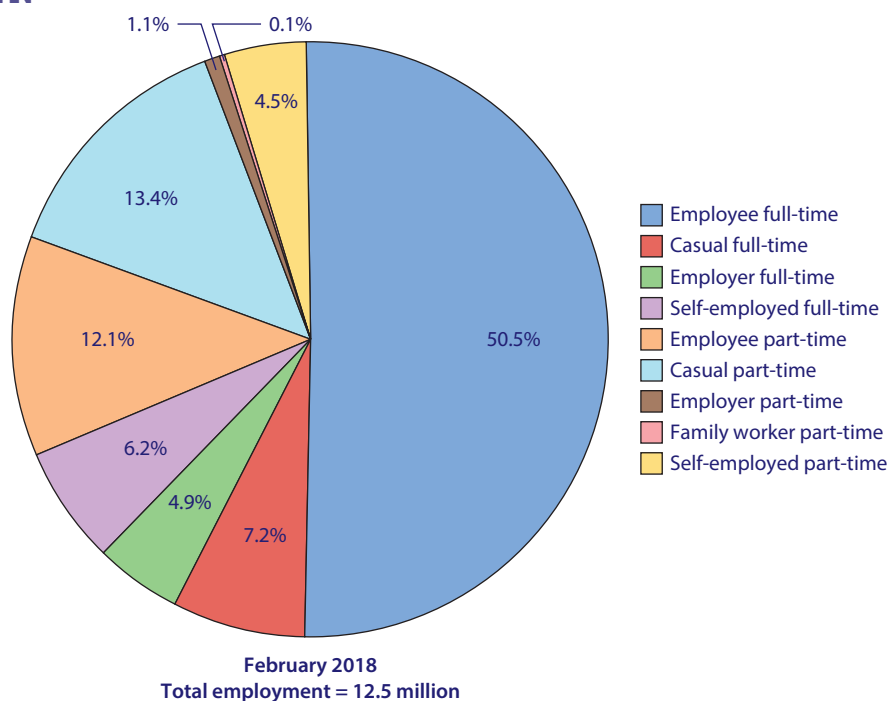


FIGURE 3.2.7 What does work look like in Australia in 2018?

Australian Bureau of Statistics data adapted by Australian Industry Group Economics Research.

Spotlight: Flexible work arrangements

Access to flexible work arrangements helps employees to balance their work and other commitments, such as caring for family or undertaking study. The *Fair Work Act 2009* (Cwlth) provides employees with the right to request flexible work arrangements, such as part-time hours, teleworking, working from home or an alternative workplace, choosing start and finish times, or time off in lieu of overtime payment.

From an economic perspective, flexible work arrangements benefit employers by helping them to retain productive employees. From a social perspective, flexibility provides greater opportunity for individuals to balance non-work

commitments and maintain continuous employment. This is particularly the case for mothers returning to work after having children and for others with carer responsibilities. Between 2006 and 2012, the proportion of employees with an agreement with their employer to work flexible hours increased by a third, from 23 per cent to 31 per cent. A study by the Fair Work Commission (FWC) in 2014 involving more than 3000 enterprises found that more than half had flexible work arrangements and practices such as flexible start and finish times and RDOs (see Figure 3.2.8).



FIGURE 3.2.8 Availability of flexible work practices to employees in 2014 FWC study

Over recent decades, the Australian **labour force** has changed significantly. New technology has contributed to this change. Other contributing factors are:

- the increasing numbers of women in the workforce
- sustained periods of relatively high unemployment
- the government's restructuring of the economy, such as reducing tariffs on imported goods, **industrial relations** reforms, and changes to standards and regulations in certain industries (for example, the banking industry)
- the increased ability to sell our products globally due to the internationalisation of product markets
- the adoption of new management strategies by employers that emphasise **workforce flexibility**, which often means increased use of part-time and casual employees.

Changes within industry sectors

Since 1901, employment in the various industry sectors has changed, as shown in Figure 3.2.9. Although the graph shows three industry sectors, industries are commonly classified into five sectors, as follows:

- *primary* – industries that exploit natural resources and produce raw materials; for example, farming
- *secondary* – industries that process raw materials and manufacture finished goods; for example, the production of cars, food and clothes
- *tertiary* – industries that distribute goods and provide services other than those provided by the quaternary and quinary sectors (see below); for example, supermarkets, hairdressing and travel agencies

- *quaternary* – industries that provide information-based services; for example, teaching, journalism and banking
- *quinary* – industries that provide household services; for example, carpet cleaning, child care and restaurants.

In 1966, close to 40 per cent of Australian workers were employed in the primary and secondary sectors. By 2017, just 51 years later, that proportion had decreased to just 11.4 per cent. Employment has grown significantly in the services sector, especially in the accommodation, food services, and property and business industries. (The property and business industry includes services such as property managers and developers, real estate agents, and technical, computing, legal, accounting and marketing services.) Factors contributing to this growth include the increase in part-time and casual work, and the increase in services that replace work previously done in the home, such as child care, cleaning, gardening, maintenance and food preparation.

Another important influence has been the recognition that many industries within the services sector have the potential to earn export income (that is, earn money by selling our services to people or organisations outside Australia). For example, over the last 25 years, Australia's tourism and education industries have been actively promoted overseas. This has resulted in greater tourist dollars for Australia and an increase in full fee-paying foreign students, especially tertiary students.

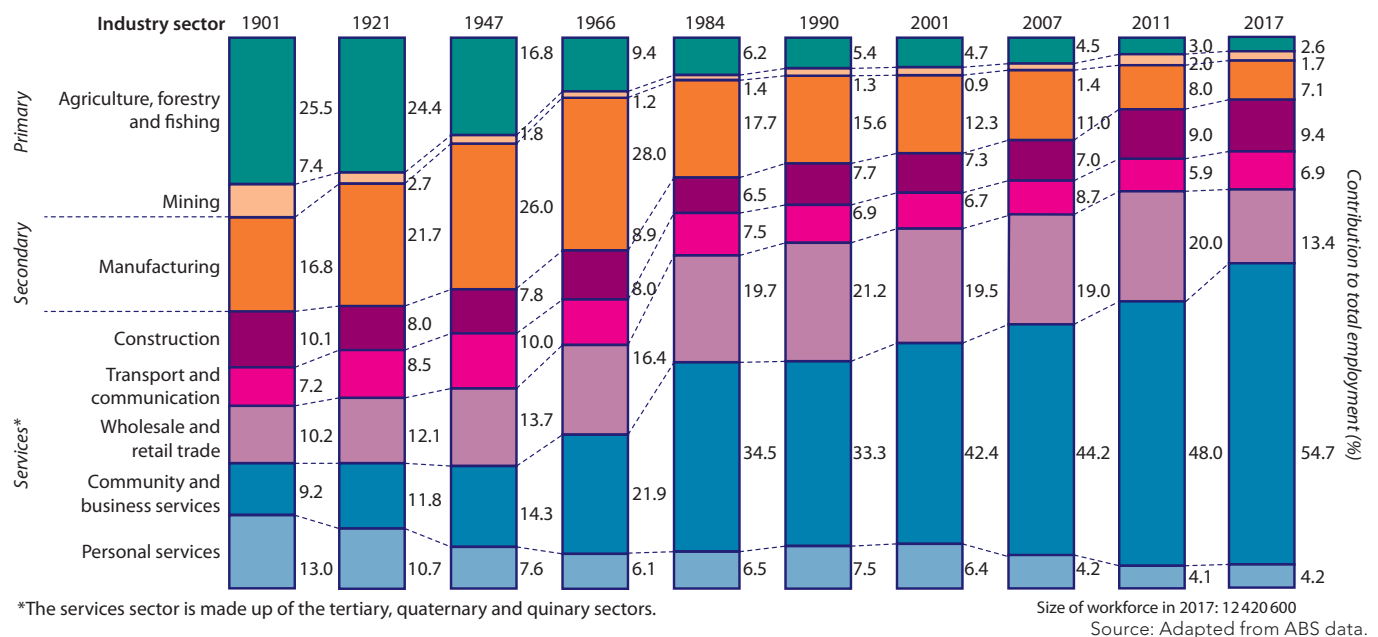
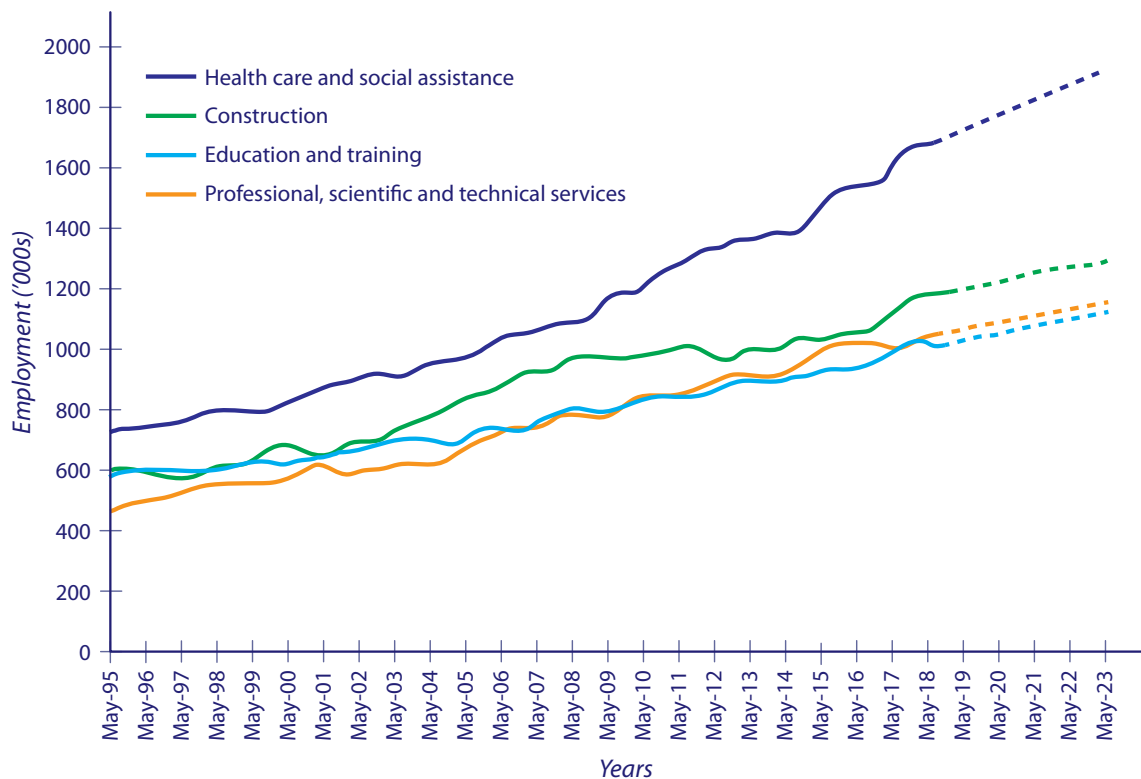


FIGURE 3.2.9 Changing structure of the Australian workforce, 1901 to 2017

The shift in employment towards services industries will continue, with health care making the largest contribution to employment. This is reflecting our ageing population and the increasing demands on health services. It is projected that four industries – health, construction, education and professional services, as shown in Figure 3.2.10 – will account for two-thirds (66.4 per cent) of total employment growth over the five years from 2018 to 2023.



Source: Adapted from ABS data.

FIGURE 3.2.10 Projected employment to May 2023

In addition to changes in the proportion of people employed in different industries, there have been changes in the types of goods produced and how they are produced. This has led to a shift in the sorts of jobs that employers now offer. These jobs generally require employees with a greater level of skill. Technology has been one of the main reasons for these changes. Computerisation, mechanisation and automation have been introduced into the workplace. The result has been a reduction in the demand for labour and creation of new types of work.

All these broad patterns of industrial change have had an effect on the jobs available today. This employment shift has, in general, reduced the opportunities for blue-collar workers; for example, labourers, tradespeople, and plant and machine operators. It has also increased the opportunities for white-collar workers; for example, managers and administrators, salespeople and personal service workers.

Trends in types of employment

The structure of the Australian labour market has changed over recent decades in response to changes in labour supply and demand. The most significant trend is the increase in part-time employment, now accounting for one-third of total employment (see Figures 3.2.11 and 3.2.12).

As a student, you may already have a part-time job or know someone who works part-time. It is not uncommon for people to work in a number of part-time jobs in any one week. The trend towards part-time employment is a continuation of a longer-term trend and is not unique to Australia. Most comparable countries show a similar increase.

The large increase in part-time employment over the last two decades has occurred at a time of significant underlying changes in the economy, and in society more generally. Two main reasons for the changes are the increases in:

- the demand for part-time labour
- the supply of part-time labour.

Table 3.2.4 summarises factors that contribute to the increase in part-time employment.

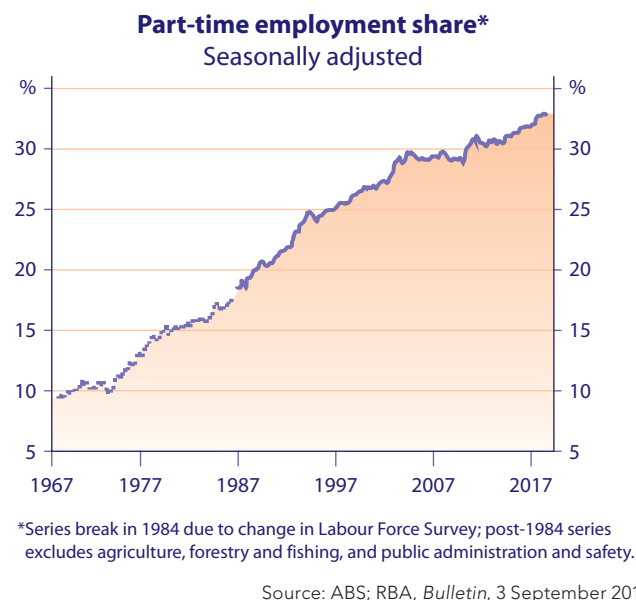
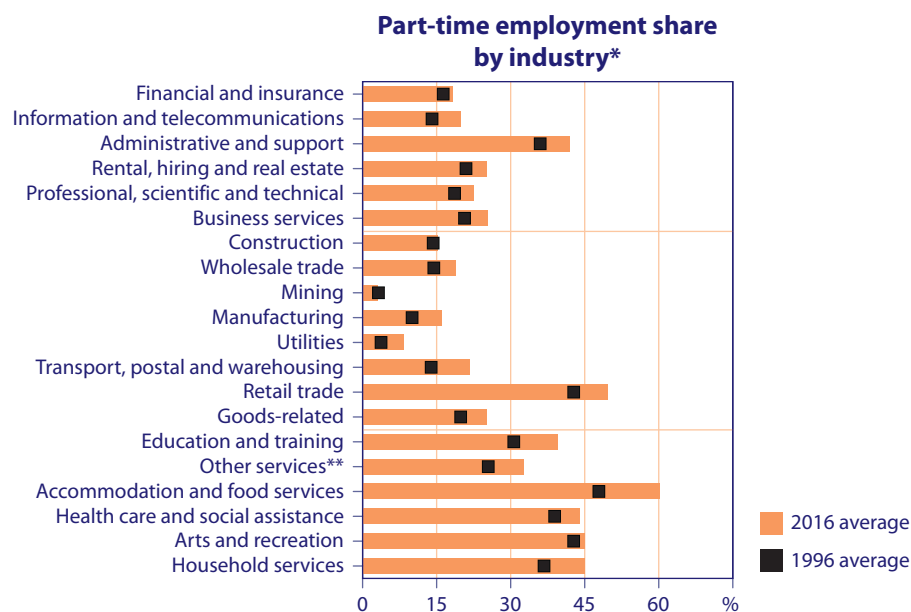


FIGURE 3.2.11 Growth of part-time employment, 1967 to 2017

TABLE 3.2.4 Factors contributing to the supply of and demand for part-time employment

CHANGES IN DEMAND	CHANGES IN SUPPLY
• The Australian economy has been restructured, with significant growth in the services sector as traditional full-time jobs, such as in manufacturing industries, have declined. • Employment opportunities have increased in property and business services, health and community services, and retail trade. The nature of these jobs involves irregular hours, which has meant greater demand for part-time employment. For example, 60 per cent of employment in the accommodation and food services industry is part-time. • Companies use the flexibility of part-time employment to respond to cyclical business demands by changing the hours worked rather than changing employees. • The workplace has been deregulated, leading to greater workforce flexibility. • New technologies have been introduced.	• Participation of women in the labour force has increased from 40 per cent in 1970 to 60 per cent in 2017. • Part-time work allows women to balance work and family responsibilities. • Leave options and cost or lack of quality child care can influence parental choice to work part-time. • Part-time employment is used as a source of short-term jobs by young people (those aged 15–24 years) while participating in full-time and part-time education or as a stepping stone to full-time work. • Older workers have the strongest preference for part-time work as they transition from full-time work to retirement or cite illness or caring for a family member.

Part-time employment has risen across all industries, including those traditionally dominated by full-time work such as construction and manufacturing. The most noticeable increase in part-time employment has been in industries that are more low paying, such as administration, retail, and accommodation and food services.

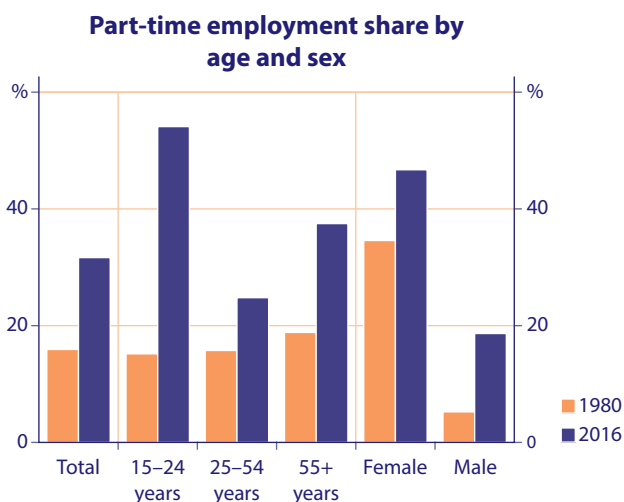


Source: ABS; RBA, *Bulletin*, 3 September 2017.

FIGURE 3.2.12 Part-time employment share by industry, average, 1996 and 2016

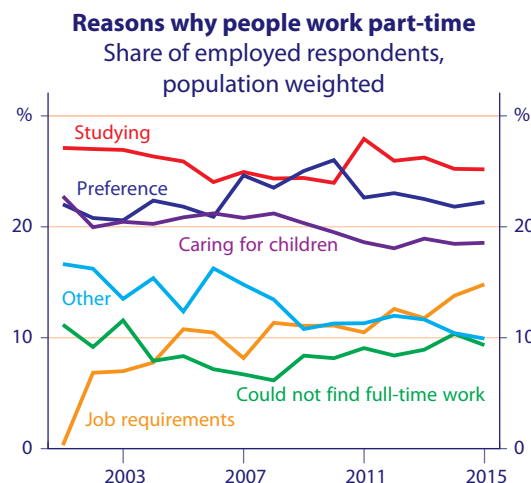
The main reasons given for working part-time include raising children and undertaking study. This is reflected in Figure 3.2.13, with the share of part-time employment higher for those aged 15–24 years. Part-time employment for younger workers increased from less than 15 per cent in 1980 to over 50 per cent in 2016. The increase in the number of young people seeking part-time work while studying occurred after the decline in full-time employment opportunities in the 1980s' and 1990s' recessions, particularly for younger males.

Many people may choose to work part-time, as shown in Figure 3.2.14, allowing them to combine work with other activities. Closer analysis reveals that in 2015 around 10 per cent of workers could not find full-time employment, and for 15 per cent of people part-time hours were a requirement of the job.



Source: ABS; RBA, *Bulletin*, 3 September 2017.

FIGURE 3.2.13 Part-time employment share by age and sex, 1980 and 2016



Source: Graph 3 from <https://www.rba.gov.au/publications/bulletin/2017/sep/3.html>. Sources HILDA Release 15.0; © 2017 Reserve Bank of Australia

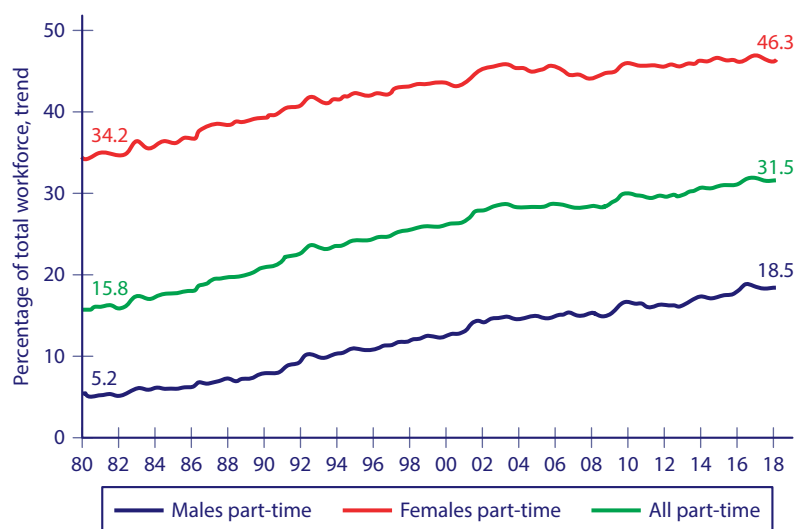
FIGURE 3.2.14 Reasons why people work part-time 2001 to 2015

Spotlight: Employment – a gender-based perspective

The ABS comparative statistical snapshot of women and men in the Australian labour market in January 2019 reveals strong gender elements (see Table 3.2.5).

TABLE 3.2.5 Women and men in the Australian labour market, January 2019

MEASUREMENT	MEN	WOMEN	DESCRIPTION
Employment	6 767 900	5 983 900	Number of women employed increased by 2.4% over the past 12 months.
Part-time employment	1 255 100	2 753 600	Women account for 68.7% of all part-time employment (see Figure 3.2.15 for part-time work trends from 1980 to 2018).
Unemployment rate	4.9%	5.2%	Australian females unemployed is 326 000 compared to 347 500 unemployed males.
Underemployment rate	6.2%	10.4%	More females as a percentage of the labour force are currently working but want and are available for additional hours.
Participation rate	70.9%	60.7%	Male participation slipped from 71.2% over the past 12 months. See 'Shifting the balance in the workplace' for more information on participation rates.
Employment growth projections	5.6%	8.8%	Over the next five years to May 2023, growth in female employment is expected to outpace male employment, driven by strong increases in female full-time employment. See below for more information.
Business operators	65.1%	34.9%	Women business operators as a share of all business operations increased by 2% over the past 12 months.
Business owners	19.8%	12.1%	Men and women who operated their own business.

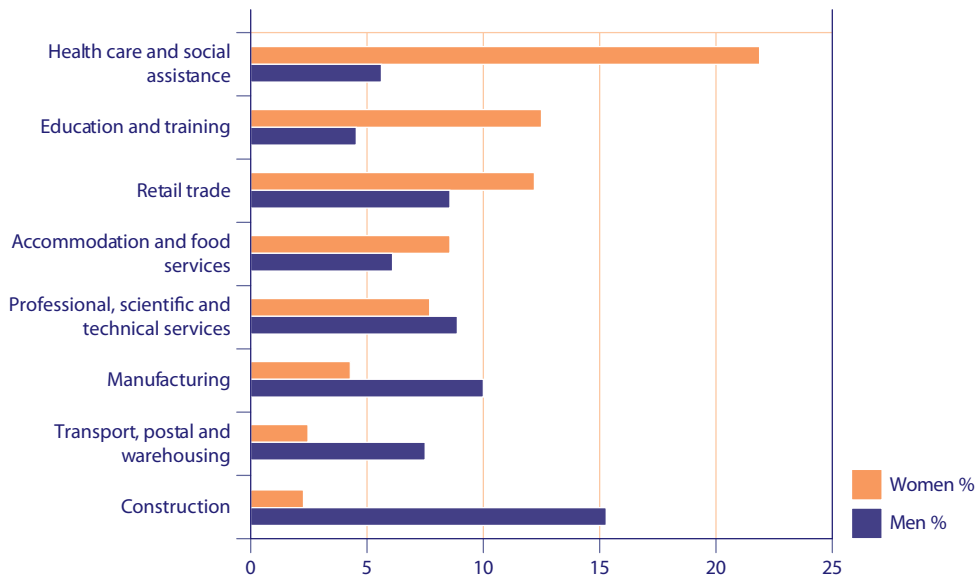


Source: Australian Bureau of Statistics data adapted by Australian Industry Group Economics Research

FIGURE 3.2.15 Part-time work by sex, 1980 to 2018

There are also substantial gender-based differences in particular industries. Figure 3.2.16 shows men's and women's top five industry shares in 2017. In some sectors, such as manufacturing, transport and construction, men represent the majority of employees; in others, such as health and education, women clearly dominate. It is the areas of health care and social assistance that are projected to continue to grow and add significantly more jobs compared to any

other industries. Industries such as wholesale trade and agriculture, forestry and fisheries, which have a small proportion of female employees, are expected to lose jobs over the next five years to May 2023.



Source: ABS, *Labour Force, Detailed, Quarterly*, cat. no. 6291.0.55.003, November 2017.

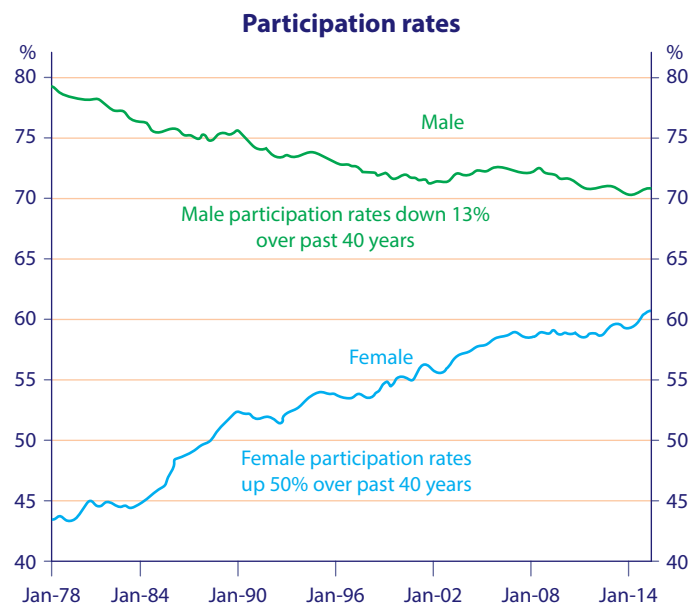
FIGURE 3.2.16 Men's and women's top five industry shares, 2017

Shifting the balance in the workplace

It has been expected that one sex or the other will dominate certain workplaces. This has largely come about because of the nature of the work and the perception that males are better at some tasks, while females are better at others. For example, nursing was once thought to be a career suitable for women, while transportation has traditionally been regarded as a male industry. This has often led to the development of unique workplace cultures where accepted attitudes and patterns of behaviour may be different from those of the wider community.

Advances in the design of equipment, improved child-care facilities, a new appreciation of the value of the female perspective in decision-making and a breakdown

of some traditional attitudes mean that workplaces are changing. The balance is slowly but steadily shifting



Source: CBA, accessed via Business Insider, '4 charts that shows the increasing dominance of women in Australia's workforce', 9 Jan 2018, <https://www.businessinsider.com.au/australia-jobs-growth-for-women-2018-1>

FIGURE 3.2.17 The steady increase in female labour force participation over the past four decades, in stark contrast to male labour force participation which continues to trend lower

within society, as women are encouraged to apply for senior management positions in major companies and break through what is referred to as the **glass ceiling**, which is the invisible barrier that can prevent women from achieving promotion to senior business and administrative roles.

While female participation in the labour force has grown over the decades (shown in Figure 3.2.17), women continue to be under-represented on company boards and in chief executive positions (see the Spotlight box below).

Spotlight: Why women are not in line for top jobs in corporate Australia

According to a census of senior executives by the women's lobby group Chief Executive Women (CEW), females are largely being kept well away from the roles which would take them all the way to CEO.

The CEW survey found nearly a quarter of senior executives are women, but that number is misleading.

Only 12 per cent of the revenue-generating 'line' roles, which are a stepping stone to the chief executive's job, are occupied by women.

Chief financial officers (CFO) have a reasonable chance to be promoted to CEO, but only 12 per cent of CFOs are female.

By contrast women dominate human resources and corporate affairs — two roles which generally will not lead all the way to the top.

However, diversity can look very different in the public sector.

Five of the nine-member senior executive team at Australia Post, including chief executive Christine Holgate, are women.

Nicole Sheffield is a member of that team and has no doubt why things are different.

'The public sector does better in gender diversity, or in all diversity, because it actually reflects the community,' Ms Sheffield told the ABC.

'It works hard in reflecting society.'

In the private sector, only one company in the top 200 has more female senior executives than men, and that's aged care provider Estia Health.

Source: Andrew Robertson, ABC News, 11 October 2018, <https://www.abc.net.au/news/2018-10-11/why-women-do-not-land-ceo-jobs/10364306>.

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Emergence of the sharing economy

Sharing economy

When people share skills, services or goods for a fee, this is called the **sharing economy**. Numerous online apps and websites connect consumers with people renting, leasing or selling goods or services.

Examples of sharing economy services that can generate a source of income include:

- offering short-term rental of a room or whole house or unit using Airbnb or Stayz
- making a car and driver available for 'ride-sharing' services using Uber, GoCatch or SheSafe
- providing personal, creative or professional services, such as creating websites or assembling furniture using Airtasker, offering pet sitting using Mad Paws, or delivering food and drink orders using Uber Eats or Deliveroo.



FIGURE 3.2.18 Uber Eats home delivery service is an example of an income derived from the sharing economy.

While it is free to sign up as a host or service provider, each online platform requires a service fee to be deducted from the ridesharing fare, accommodation charge or negotiated cost. For example, Airtasker takes 15 per cent of the negotiated bid for a task completed, ridesharing Uber deducts 27.5 per cent from the gross fare, and food delivery services take a 30 to 35 per cent cut of the order cost and pay the rider \$9–\$10 per delivery.

The cost of supplying, cleaning and maintaining goods – for example, accommodation rented out or ridesharing motor vehicles – can quickly eat into any earnings made by the provider. In addition, consumers' ratings and feedback on the service or goods provided are available online and this can impact bookings and future income.

Spotlight: Uber and Airbnb

Uber is a transnational corporation based in San Francisco, United States. Uber offers peer-to-peer ridesharing, a 'taxi-type' service, food delivery, bicycle sharing and other services. The company now operates in 785 cities worldwide. Its platforms are accessed via its websites and mobile apps. Uber has been so dominant in the sharing economy that changes in affected industries are referred to as 'Uberisation'. Traditional service providers such as taxis campaign against Uber because it is seen as a threat to their business model and profitability.

Airbnb, a privately owned global company, is also based in San Francisco. The company operates an online accommodation service. Members can use the service to arrange or offer accommodation, primarily homestays. The company does not own any of the accommodation listed; as a broker, it receives a commission from every booking.



FIGURE 3.2.19 'Uberisation' is the term used to describe the growing influence of the sharing economy.

Changes in the nature of work and workplace arrangements

Spotlight: The office of the future

'We have consistently underutilised beauty in our workplaces. It's not just aesthetics; we are talking about how an office space makes you feel,' says the principal of Hassell architects, Domino Risch.

Angela Ferguson, managing director of architects and designers Futurespace, says, 'The best workplaces of 2019 and beyond will be places where people feel inspired and motivated.'

Offices will also be healthier, author Juriaan Van Meel told the recent Worktech19 Copenhagen conference, and wellbeing will be a focus for many organisations. Office interiors will feature greenery, natural light and natural materials such as wood to inspire thinking, driven by the concept of ‘biophilia’ – humans’ innate tendency to seek connections with nature. As well as improving productivity and wellbeing, exposure to the natural world is said to increase happiness.

Woodside’s new 32-floor headquarters in Perth, the Unispace-designed Mia Yellagonga, is an example of a ‘healthy office’. It features 8000 plants and adjustable sit-to-stand motorised desks, collaborative work settings and an open internal staircase connecting all floors to get staff moving more.

Technology will remain the centrepiece of offices, but it will be subtly hidden. At Mia Yellagonga, staff gain access via a fingerprint reader. Futurespace’s Ferguson says voice-activated access systems are on the horizon.

Digital workplace consultant James Dellow says Australian workers will see robotic security guards and personal assistants by 2030 to 2050. He also predicts that augmented and virtual reality, foldable screens and digital ink will take over from papers and laptops. The biggest change, Dellow says, will be the ability for employees in different locations to attend meetings in holographic form without being physically in the same place.

Property marketer Andrew Hoyne says external factors will disrupt the workplace even further. He predicts that when driverless cars take over, office buildings will turn their basement car parks into event halls, entertainment areas, food precincts, swimming pools and cinemas. In the past people thought of workplaces as areas of commercial activities,’ he says. ‘Imagine if they were destinations in their own right. If employees think about work as more than just clocking in and out, it will make an enormous contribution to productivity.’

At South Eveleigh, the former Australian Technology Park in Sydney, new tenant Commonwealth Bank, in partnership with Mirvac, has built a precinct with high-speed Wi-Fi, sports facilities, parks, play areas and community centres. Importantly, this precinct allows the nearby university population to join activities. The aim: to target Millennial talent, seen as the key to changes in offices.

‘The workers of 20 years’ time will want different things,’ Futurespace’s Ferguson says. ‘They would have been born with technology and they won’t want to sit in an office. Going to an office from nine to five would be abhorrent to them.’

Source: Su-Lin Tan, ‘Behold, the office of the future’, *AFR*, 6 May 2019, <https://www.afr.com/leadership/workplace/behold-the-office-of-the-future-20190329-p518wf>.



FIGURE 3.2.20 The nature of work is changing rapidly. Is this the workplace of the future?

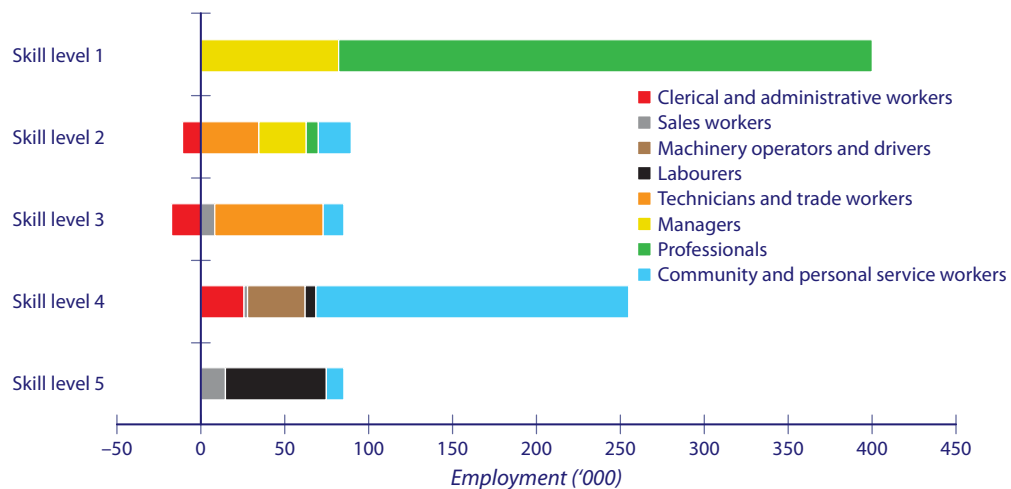
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Changes in employment and skills

Employment and skills

Employment growth for the next five years is projected to be greatest for white-collar workers or skill level 1 professional occupations requiring university qualifications, such as registered nurses and software programmers (see Figure 3.2.21). The second-largest contribution to employment is projected to come from skill level 4 occupations driven by the community and personal service workers group. Occupations such as aged and disabled carers, child carers and education aides will make a positive contribution to employment growth.

The effects of automation can be seen in the projected decline in employment growth for skills level 2 and 3 clerical and administrative occupations. Occupations with the greatest declines will be in manual work, such as secretarial (32.5 per cent) and mail sorters (13.2 per cent).



The Australian Bureau of Statistics classifies occupations according to five skill levels commensurate with the following qualification(s) or where relevant work experience with training may be a substitute for formal qualifications:

- Skill level 1: Bachelor Degree or higher qualification
- Skill level 2: Advanced Diploma or Diploma
- Skill level 3: Certificate IV or Certificate III with at least two years' on-the-job training
- Skill level 4: Certificate II or III
- Skill level 5: Certificate I or secondary education

Source: Department of Jobs and Small Business, 2018 Employment Projections, five years to May 2023. Data sourced from Australian Bureau of Statistics

FIGURE 3.2.21 Australian share of employment by sector

Spotlight: The new work order

The world of work is changing fast. Consider the following facts:

- Seventy per cent of young people currently enter the workforce in jobs that will be radically affected by automation.
- Forty per cent of Australian jobs are at risk of automation in the next 10–15 years.
- Sixty per cent of students are being trained in jobs that will be radically changed by automation.
- Digital literacy is critical – more than 50 per cent of today's youth will need to be able to use, configure or build digital systems in the next 2–3 years.
- Entry-level roles for young people are disappearing. In the past 25 years, the Australian economy lost 500 000 secretarial jobs, 400 000 labouring jobs, 250 000 trade jobs and 100 000 machinery jobs. It did, however, gain 700 000 professional jobs.

Forces shaping the future of work

Over the past three decades, innovative and active businesses have applied existing technologies such as the internet, social media, mobile technology, cloud computing and data analytics to improve business outcomes and growth. Today, technologies such as robotics, 3D printing, drones, genomics, self-drive cars, virtual and augmented reality and wearables, previously seen as 'emerging' technologies, are transforming Australian businesses and workplaces.

Employment trends and patterns are shifting, as we have discussed in the preceding sections. The increasing demand for skilled workers has seen the percentage of skilled workers in the labour force rising from 47 per cent in 1990 to 66 per cent in 2014. Conversely, low-skill occupations are declining, and the percentage of unskilled men aged 15–64 exiting the workforce increased to 28 per cent in 2014 from 20 per cent in 1990.

Research indicates that in Australia 40 per cent of jobs that are highly manual and routine are at risk of automation; existing technology could support 11 per cent of service jobs to be delivered from overseas; and currently 30 per cent of workers are participating in flexible work arrangements involving the sharing economy and multiple employers.

These technological and global forces will impact and shape the future of work. The following two Spotlight boxes describe some of the benefits and requirements of automation in the workplace.

Spotlight: Rio Tinto, Pilbara

With technology evolving to become more efficient, reliable and faster, Rio Tinto's Operations Centre in Perth was opened in June 2010 to bring together and manage all individual automated operations previously undertaken onsite. The centralised operation reduces employee safety risks and exposure to hazards with operating heavy equipment and allows for job sharing and collaboration in a less remote location.

Rachael Eppen, Autonomous Haulage System (AHS) coordinator, manages a team of nine people in the Perth centre, coordinating the efficient deployment of autonomous trucks.

I wish everyone in the company could see the innovative technology we're working with here. The stuff we can make happen 1500 kilometres away is pretty spectacular.

Source: Committee for Economic Development of Australia, *Australia's Future Workforce?*, CEDA, Melbourne, 2015, p. 70.

Skills required for the automation centre are different from a traditional mining operation. Driving a haul truck is a very routine task, and the autonomous operation requires higher skills for complex problem-solving and decision-making. The 'employee of the future' will need good operational and systems knowledge that includes programming and analytical skills.



FIGURE 3.2.22 An autonomous haulage truck drives through a pit at Rio Tinto Group's West Angelas iron ore mine in Pilbara, Western Australia.

Getty Images/Ian Walidie/Bloomberg

Spotlight: How Australian industrial warehouses will employ a new robot workforce

In another three years, it is forecast that industrial warehouses across the main cities will be as much as 200 000 square metres in size ... Today, 10 out of 27 Amazon distribution centres are larger than 90 000 square metres, according to Colliers International.

...

To cope with the sheer size of these sheds robots will be used extensively, and due to the size, the sheds themselves will be located a fair distance from the current industrial zones that dot Sydney and Melbourne.

The robots, who don't care where they live and work, will be, in the simplest form, machines programmed to look for a bar code and deliver the item straight to the truck.

Source: Carolyn Cummins, 'How Australian industrial warehouses will employ a new robot workforce', *Sydney Morning Herald*, 19 October 2015.

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Shutterstock.com/August Phunitiphat

FIGURE 3.2.23 Automated warehouses employ large robot workforces

Impact of globalisation and future work

Australia has benefited from globalisation and outward-looking free trade and international investment policies. Looking beyond our shores, some of the most rapid changes relating to globalisation and exposure to world markets have been the reductions in global poverty and an increase in living standards in countries including China, South Korea, India and Vietnam. The transfer of manufacturing and assembly of goods requiring relatively low-skilled labour means countries in Asia now have increased engagement with international trade.

Globalisation means that Australian workers face increasing competition from overseas workers.

Technological advances have resulted in the service sector becoming tradable; for example, the use of offshore call centres for customer service. As educational attainment and skills increase in Asian countries, Australia is vulnerable to losing work to offshore providers. Local workers with low skills will be most at risk of being displaced by technological and digital advances. However, technology is also enabling jobs in the digital economy that are not fixed to a particular location, allowing workers to move within and between countries.

The growth of Asian economies means that Australia is well placed geographically. It can continue to export natural resources; however, to succeed in the 21st century, it needs to be part of the global flows of technology, innovation and knowledge. Australia needs to build on its success in areas such as education, tourism and health, and find ways of selling more goods and services to Asia's expanding middle class. Education and training are key to ensuring that Australian workers are equipped with the knowledge and skills to adapt to technological progress and the demands of future work.



Understanding the text

- 1 Outline the reasons why people work. Does all work involve paid employment?
- 2 Distinguish between part-time and casual employment.
- 3 Explain what being self-employed means.
- 4 List and define the various forms of income.
- 5 Explain the difference between interest and dividends.
- 6 Outline flexible work arrangements that help employees.
- 7 List the five different industry sectors and give an example of a job in each sector.
- 8 Outline the main trends in the types of employment.
- 9 Outline the factors that have contributed to the increase in part-time labour. Provide examples.
- 10 Describe the trends in employment that have occurred over the last few decades.
- 11 Explain what is meant by the term 'glass ceiling'.
- 12 Explain what is meant by the term 'sharing economy'. Give examples.
- 13 Outline the ways offices of the future will inspire and motivate employees.
- 14 Identify the ways in which the Australian workforce is changing.
- 15 Outline how the nature of work is changing.
- 16 Outline the forces shaping the future of work.

Activities

- 1 Study Table 3.2.1. Write a discussion outlining the advantages and disadvantages of different types of employment.
- 2 Review the following examples of types of income. Which would you prefer? Write a report justifying your selected example:
 - a \$40 000 salary per annum (p.a.)
 - b \$20 000 base salary p.a. plus 5 per cent commission on expected sales of \$500 000 p.a.
 - c 10 per cent commission on expected sales of \$500 000 p.a.
 - d \$1000 weekly rent from an investment property
 - e 6.5 per cent interest p.a. on a bank deposit of \$500 000.
- 3 Study the Spotlight box 'Monetisation and the internet' on pages 134–135. Investigate the various ways in which the internet is being monetised. How many of these were you aware of before beginning your research? Are there any that will appeal to you? What might be the social costs of such a trend?
- 4 Work in groups to design a survey tool to investigate flexible work arrangements available to employees in local businesses. Survey your family, neighbours and local businesses. Compare and discuss your findings with other groups in your class.
- 5 Study Figure 3.2.9. Using data from the graph, write a report outlining the changing structure of the Australian workforce, 1901–2017.
- 6 Study Figure 3.2.10. Using data from the graph, describe the anticipated growth in employment.
- 7 Study Figure 3.2.11 and Table 3.2.4. Analyse the trend in part-time employment between 1967 and 2017. Write a report outlining factors that contribute to the increase in part-time employment.
- 8 Study Figure 3.2.12. Identify the industries with the highest and lowest shares of part-time employment.
- 9 Study Figure 3.2.13. Using data from the graph, describe the share of part-time employment by age group.
- 10 Study Figure 3.2.14. Outline the trends and the reasons why people work part-time.
- 11 Study the Spotlight box 'Employment – a gender-based perspective' on pages 141–142. Write a report on the extent to which men and women are represented in the Australian labour force.
- 12 Study Figure 3.2.16. Using data from the graph, outline the extent to which men and women dominate selected industries.
- 13 As a class, brainstorm the reasons for the changes in the participation rates for men and women.

- 14 Study the Spotlight box 'Uber and Airbnb' on page 144. Investigate a sharing economy economic activity such as Uber or Deliveroo. Outline the nature of the employer–employee relationship. What are the advantages and disadvantages of working as a contractor? Why do traditional service providers such as taxi drivers resent the growth of the sharing economy? Why do apartment building residents object to the existence of Airbnb rentals in their buildings?
- 15 Study the Spotlight box 'The office of the future' on pages 144–145. Investigate the changing nature of workplaces. Using the internet, find examples of contemporary office design. Brainstorm as a class the types of facilities you would like to have in a workplace.
- 16 Study Figure 3.2.21. Outline the changes in the share of employment by sector and skills level.
- 17 Study the Spotlight box 'The new work order' on page 146. Using the data supplied, write a report outlining how automation is changing the nature of work. What are the implications of these changes for the desired education level of school leavers?
- 18 Study the Spotlight boxes 'Rio Tinto, Pilbara' and 'How Australian industrial warehouses will employ a new robot workforce' on pages 147–148. Using the internet, investigate examples of automation and its impact on employment levels and the nature of the work performed.

3.3 Rights and responsibilities in the workplace

Imagine that you have been able to find a job with a great workplace environment and have started on your initial career path. At this stage, you should appreciate that you are entering into one of the major agreements or contracts of your life and, as an employee, you can expect to have certain rights and responsibilities. It is an employer's responsibility to ensure the employee's rights are met, and vice versa. The rights and responsibilities of employees and employers are listed in Table 3.3.1.

TABLE 3.3.1 Rights and responsibilities of employees and employers

EMPLOYEE RIGHTS	EMPLOYER RIGHTS
You can expect from your employer: - the minimum award wage or adequate pay for your work - a fair and just workplace free from bullying, sexual harassment and discrimination - workplace protection, including safe working practices, adequate workers compensation in the event of an accident or illness resulting from your work, and the employer's compliance with the <i>Work Health and Safety Act 2011</i> (NSW) - benefits such as sick leave, annual leave, maternity leave and superannuation.	Your employer can expect that you will: - attend work regularly and punctually - fulfil your job requirements, as outlined in your job specification - behave in a way that supports the culture of the workplace, such as working cooperatively and happily - obey the rules of the workplace and not engage in negligent or unsafe work practices that are likely to cause injury.
EMPLOYEE RESPONSIBILITIES	EMPLOYER RESPONSIBILITIES
You are responsible for: - understanding and knowing the conditions of your employment, including your rate of pay, working hours, and entitlements to breaks and leave - working in a way that is not harmful to the health and safety of yourself or others - accounting for money or equipment received to do your work - not misusing confidential business information acquired from your work - knowing what to do if you think your employer is not meeting their responsibilities.	Your employer is responsible for ensuring: - you receive all your entitlements in terms of pay and conditions - your work environment is safe and provides appropriate protective equipment, if necessary, and information about the hazards and risks from your job - you receive instruction, training (including an induction) and supervision so you are able to work safely - workers are free from discrimination and bullying.

Contractors

Contractors are not employees; they have their own business and sell their services or skills to others. They can be called 'independent contractors', 'sub-contractors' or 'subbies', and are hired for a specific job or a specific task. They can sub-contract the job or some of the work to another contractor and can be working at the same time for more than one client. For example, a plumber could be hired as a contractor and work for different clients across several building sites. Another example is the workers in the sharing economy, where most are hired as contractors rather than as employees.

The difference between a contractor and an employee depends on many factors but, generally contractors work for themselves, are free to accept or refuse work, control their own time, provide their own tools, pay tax and GST to the ATO, and do not receive paid leave. In contrast, employees work for someone else's business, perform work under the control of their employer, are paid a wage or salary with income tax deducted by the employer, and receive employee entitlements such as sick leave and annual leave.

The role of trade unions and employer groups

As a member of a workplace, you will come across a number of different parties who all have a role to play. As an employee, you will have to interact with your co-workers and employer on a daily basis. You may have dealings with the union representative or be a member of the union. Your employer may have dealings with one of many *employer groups*. These include various **employer associations** (for example, if a business sells clothes, it may belong to the Australian Retailers Association) and specific business groups. A **business group** is made up of businesses that come together because of similar interests; for example, Women's Network Australia. Each of these parties has important roles to play in your employment relations.

Trade unions

A **trade union** is a group of workers who unite to promote and defend wage rates and working conditions through common ideals and actions. The use of combined strength and unity gives a union a lot of power, which it can use when dealing with employers or promoting a particular point of view on broader social issues (see Figure 3.3.1).

The main aims and objectives of trade unions are to:

- improve the wages of workers
- provide job security, especially against unfair dismissal by an employer
- gain better working conditions; for example, work hours and leave provisions
- provide the widest possible range of benefits for their members.

Union action, however, can sometimes mean labour is withheld for reasons other than those listed above. In the 1970s, for example, the Builders' Labourers Federation (which has since been deregistered) banned the demolition of historic buildings in The Rocks area in Sydney and instituted what are called **green bans**.



FIGURE 3.3.1 Trade unions seek to improve the working conditions of their members.



FIGURE 3.3.2 Left: The arrest of Builders' Labourers Federation secretary Jack Munday during the green bans to save Sydney's historic Rocks precinct, 1973. Right: The Rocks today.



FIGURE 3.3.3 The logo of the ACTU

The first Australian trade unions were formed in the 1830s as craft-based organisations (groups of people from the stonemasonry, printing and carpentry industries). The aims of these unions were the protection of workers and improvements in working conditions. Hours of work in these early times could range from 50 to 90 hours a week, and working conditions were often unsafe, with poor light and uncomfortable premises. In 1856, a group of building workers gained a work agreement that gave them a 48-hour week. Since that time, trade unions have continued to campaign for a reduced working week.

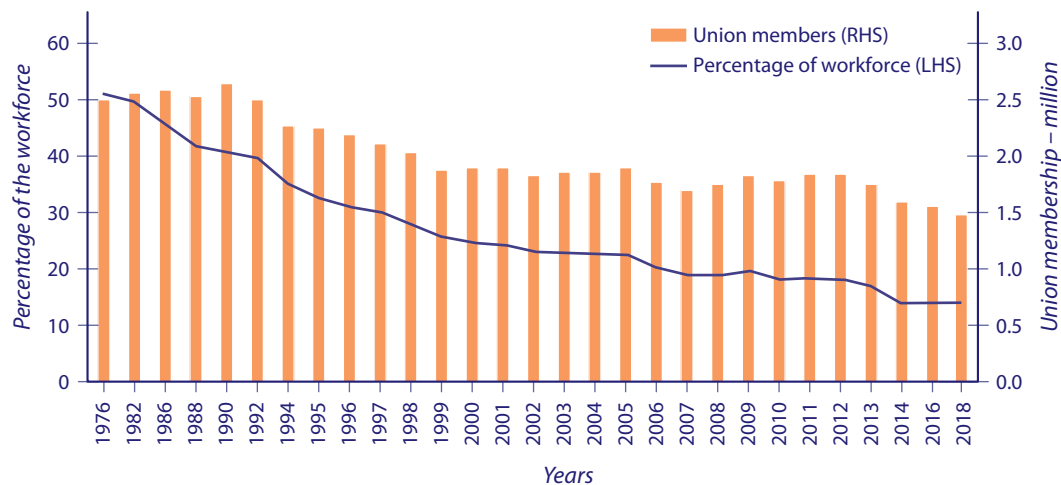
All the early unions had primarily local concerns. They dealt with problems on an individual or company basis. The need for a larger and more effective union movement soon became obvious as companies and industries grew beyond state boundaries. In 1904, the Commonwealth *Conciliation and Arbitration Act* was passed, and in 1927 the **Australian Council of Trade Unions (ACTU)** was formed. Individual unions are affiliated (associated) with the ACTU.

The ACTU has had many achievements since 1927. Some of these are:

- an affiliated membership that has grown to well over four million
- securing the 40-hour week in 1948
- increasing annual leave from two to three weeks in 1963
- equal pay for equal work by women in 1972
- maternity leave (1973 for public sector employees and 1994 for all employees)
- the Prices and Incomes Accord in 1983. (Commonly referred to as the *Accord*, it dealt with issues such as wage claims, price levels and taxation.)

Union membership has declined because economic restructuring contributed to a decline in the heavily unionised manufacturing sector and the expansion of industries in which the rate of union membership has traditionally been low. Although union membership has been steadily declining since its peak in the 1950s (when 60 per cent of the workforce was unionised), to around 15 per cent in 2018, unions continue to be a strong force in a number of industries.

Attitudes to trade unions vary. Those considered to be 'anti-union' claim that workers have good wages and conditions and that the introduction of **enterprise bargaining** means that unions are no longer relevant because workers can now negotiate as individuals. Those considered to be 'pro-union' argue that unions are needed to maintain hard-won wages and conditions. Indeed, there could be more improvements. Many pro-unionists see workers' right to **strike** as being necessary to protect and improve their working conditions.



Source: Parliament of Australia, 'Trends in union membership in Australia', 15 October 2018, based on data from 1976–1993; ABS, *Trade Union Members*, cat. no. 6325.0, 1994–2013; ABS, *Employee Earnings Benefits and Trade Union Membership*, cat. no. 6310.0, 2014–2016; ABS, *Characteristics of Employment*, cat. no. 6333.0[1].

FIGURE 3.3.4 Trade union membership in Australia, 1976 to 2018

Employer associations and business groups

Employer associations are in some ways similar to trade unions. They were originally created by employers as a counter party to unions, to represent employers in the making of awards through the federal conciliation and arbitration system; that is, through the Australian Industrial Relations Commission (AIRC). Today they continue to represent employer interests and remain as associations with a lot of power. Like trade unions, they have a formal structure, full-time officials and executive committees.

There are two types of employer associations:

- *industry associations* – these cover particular industries
- *umbrella associations* – these cover a diverse range of industries.

Employer associations have a number of roles. They provide representation for employers at National Wage Case hearings and advice (especially to small business) on such matters as awards, unfair dismissals and discrimination. They provide a forum for discussion of issues (for example, maternity provisions) on a national level. Employer associations also conduct research into industry issues and are very active in lobbying (that is, applying pressure) for legislative and institutional change with respect to their industries.

Some examples of powerful Australian employer associations are:

- National Farmers' Federation
- Metal Trades Industry Association
- Australian Chamber of Commerce and Industry
- Business Council of Australia.

Business groups are groups of business enterprises or businesspeople that have combined to pursue common goals. These goals may be the pursuit of free trade and less government intervention or better work practices.

Business groups do not necessarily play an adversarial role against unions or only represent employers, as employer associations do. Their main aims and objectives include the promotion of collective bargaining and the provision of specialised services to both employers and employees.

The activities of business groups are wide and varied. For example, they aim to:

- promote industry, trade and commerce
- promote unity of purpose and action by employees in all matters affecting their welfare and interests
- represent employers, industry, trade and commerce before courts, tribunals, commissions or committees

- represent the interests and views of employers, industry, trade and commerce at government level
- provide advice on workplace issues; for example, dismissals, training, equal employment opportunity/**affirmative action**, and safety laws and procedures
- provide information on laws, awards and regulations; for example, anti-discrimination legislation
- provide assistance with **negotiation** of enterprise agreements
- improve the relationship between employers and employees
- provide advice on industrial relations changes.

Government's role and responsibilities

Australia's employment industrial relations laws have in recent years moved from a state/territory-based system that operated separately, to the current unified federal system. The federal government has the overarching responsibility for workplace relations under the *Fair Work Act (2009)* (FWA). The legislation includes rules and obligations that apply to employers, employees and unions, and includes unfair dismissal (see 'Unlawful and unfair dismissal' in this section for more information), protection of employees and contractors, and employment agreements.

Under the federal *Superannuation Guarantee (Administration) Act 1992*, employers are required to make superannuation contributions on behalf of their employees to an approved superannuation fund. Employers that fail to make the compulsory contributions can be taxed or charged.

Employment matters that the states and territories are responsible for include long service leave entitlements, workplace health and safety, anti-discrimination laws, and the terms and conditions of employment of state government and local government employees.

Changing roles of employees in the workplace

The role of employees in the workplace is changing. Most positions are changing into more dynamic and flexible roles, and many distinctions of employee types are becoming less well defined. The result of this process is more flexible workplaces and in many respects more rewarding and engaging forms of employment.

Spotlight: Google motivating its workforce

When it comes to innovation, Google has long been a benchmark against which other companies measure themselves. From its search engine origins, the company expanded into everything from mobile operating systems to self-driving cars and balloon-based internet access.

While founders Larry Page and Sergey Brin are undoubtedly clever, much of the innovation at Google is employee-driven. The internet giant has been a leader in encouraging employee innovation.

Here are some of the ways it got to that position and what it's doing to maintain that position.

The most famous of Google's employee innovation initiatives is its '20 Percent Time' policy, which allows employees to dedicate 20 per cent of their working hours to projects they think will most benefit Google. [It crafts] spaces that foster collaboration and innovation – the office has plenty of fun features, and employees are never more than 150 feet from food. Google frequently brings in inspiring outside speakers to talk to its staff. Perhaps most importantly, though, Google does a lot of work around empowering its employees across the board. It regularly surveys employees and then enlists volunteer employee teams across the entire company to solve the biggest problems.

Source: Based on Stuart Thomas, 'How Google encourages innovation among its employees', *Engage Me*, 13 September 2017.

Intrapreneurs

Businesses recognise the value of encouraging employees' creativity, motivation and innovation to act as intrapreneurs to develop ideas, solutions or products that would benefit the company. Here are some ways that workplaces can foster employee initiative and intrapreneurship:

- Encourage employees to step beyond their comfort zone.
- Host brainstorming sessions.
- Emphasise individuality over conventionality.
- Allow ideas time to incubate.

Spotlight: Australia Post – innovating with our people

Part of our innovation strategy is to empower our people to come up with new ideas. Our main focus is on improving the customer experience.

We held two Hack Dayz in 2017/18 with more than 800 Australia Post employees and partners involved across both events. These events gave our people opportunities to test out ideas, develop prototype solutions, and learn about design-thinking and lean innovation. We also had five cohorts, made up of about 80 people in total, participate in our internal incubator, INC.

In September 2017, we held our second innovation showcase to celebrate the inventive work that is happening across our business. At this event, our people heard from our teams working on important customer problems, such as carding for the vision impaired and improving the returns process.

Source: Australia Post, *Annual Report 2018*, p. 47.

Obligations of employers

Employers have a number of very important responsibilities to workers and the government. These are prescribed in law and include:

- wages and entitlements – minimum conditions of employment often established by the relevant industrial award or enterprise agreement
- long service leave entitlements
- workers compensation – insurance to cover workers if they are injured at work or become ill due to their work
- taxation and superannuation obligations
- workplace health and safety obligations
- checking the workers' entitlement to work in Australia
- complying with anti-discrimination laws, which prohibit discriminatory practices in the workplace
- record keeping – records of employment must be kept for at least seven years.

Income tax

Most income earners pay **income tax** out of their wages or salary before they receive it. The employer deducts the tax from the money to be paid to the employee and sends it directly to the Australian Taxation Office (ATO). This is known as the *PAYE* system of income tax. (PAYE stands for 'pay as you earn'.)

At the end of the financial year (30 June), each employee receives a **payment summary** showing how much they earned for the year and how much tax has been deducted. The employee then sends the payment summary to the ATO together with a completed tax return, which is a form showing relevant details, including income, **personal deductions** and other deductions. The ATO then processes the return and checks to see if sufficient tax has been paid. If the employee has not paid enough tax, the ATO will notify the employee of the amount owing and when it needs to be paid. If too much tax has been paid, the ATO will pay the employee a tax refund.

Superannuation

Superannuation is a special way to save throughout your working life so you will have some money put aside when you retire. As the population gradually ages, increasing importance is being placed on the provision of retirement income through superannuation. This is because, as the population ages, the number of retirees will grow and it will be increasingly difficult to provide age pensions for more and more people. The concern is that there will be fewer people in the workforce paying taxes to support the increasing number of aged people.

For many people, their employer makes most, if not all, of their superannuation contributions under the Superannuation Guarantee system. This scheme was introduced by the federal government in 1992 at 3–4 per cent of a person's wage or salary. It has since been increased a number of times. In 2014, the employer contribution rate reached 9.5 per cent, and is planned to increase gradually from 2021 to 12 per cent in 2025. Basically, the employer is required by law to deposit money into a superannuation fund on the employee's behalf. The fund is usually run and managed by another business, but the fund account is in

the employee's name. (Think of it as being like having an account with a bank.) Superannuation is therefore closely linked to employment.

The nature of an employee's job and the amount of the wage or salary received can affect the person's ability to accrue sufficient superannuation for retirement. In turn, this may influence the age at which the person can afford to retire. This is of great concern to our federal government. In addition to the Superannuation Guarantee system, the federal government introduced a co-contribution scheme. This scheme applies to low-income earners and tries to encourage these people to make personal contributions by matching dollar for dollar every personal contribution made up to \$1000 in a given year.



FIGURE 3.3.5 Saving for your retirement involves investing in superannuation.

Who is eligible for superannuation?

Most employees in Australia are eligible for superannuation, including full-time, part-time and casual workers. An employee *is not* eligible for superannuation, however, if he or she:

- earns less than \$450 in any month
- is under 18 years of age and works 30 hours or fewer each week
- is paid to do domestic/private work for 30 hours or fewer each week.

Because of these factors, most young casuals do not receive superannuation. However, for any type of employment, if the job is covered by an award, the employer may have to pay larger amounts (that is, greater than the current 9.5 per cent) into the employee's superannuation fund. An award may also oblige an employer to pay superannuation for workers who earn less than \$450 a month.

Can employees make their own contributions?

Workers can also make their own payments into their superannuation fund if they want to. There are, however, limitations on the amount for high-income earners.

Their money put aside is looked after by the superannuation fund so that it can grow. The money will keep growing until the employee retires. Upon retirement, the money is paid to the employee either in one big amount (often referred to as a *lump sum* payment) or in lots of small amounts. Approximately 35 per cent of full-time and part-time employees make personal contributions to superannuation. In comparison, the proportion of casual employees making personal contributions to superannuation is just 6 per cent.

How much will employees receive?

The amount of superannuation an employee will receive depends on how much the employer puts into the superannuation fund, how much the employee wants to contribute, how long the money stays in the fund and how much interest it earns.

The law says that an employer must make superannuation payments for an employee at least once a year. The employer must pay at least 9.5 per cent of the employee's usual wage into the superannuation fund.

Superannuation is not taken out of a person's pay. It is an extra benefit on top of the pay. For example, if you earn \$500 each week, your employer will pay about \$47.50 extra into your superannuation fund for each week you work. When you start work, your employer should give you an application form to fill out to join a superannuation fund.

When can superannuation be accessed?

Generally, someone cannot access their superannuation until they retire from the workforce between the ages of 55 and 60, depending on when they were born. The savings are 'preserved', which means they cannot be touched until the person reaches retirement age. However, in certain special circumstances it may be possible to access the superannuation before retirement. One such example is if someone experiences financial hardship, which means they must have received a Commonwealth income support payment for the last 26 weeks and show that immediate family living expenses cannot be met.

Australian Government Paid Parental Leave scheme

The Australian Government's Paid Parental Leave scheme was introduced on 1 January 2011 for working parents of children born or adopted after this date. Eligible parents or primary carers can be provided with a maximum of 18 weeks' government-funded pay at the national minimum wage (\$740 per week or \$19.49 per hour, effective 1 July 2019).

Employees can access Paid Parental Leave, which complements other employer-provided leave or birth or adoption leave entitlements. An eligible employee can choose to receive Parental Leave Pay before, after or at the same time as employer-provided paid leave such as recreation or annual leave and employer-provided parental leave.

Pay as you go (PAYG) withholding tax

PAYG instalments are generally paid by business owners, investors and sub-contractors who earn a certain amount of income. To reduce making a large tax payment at the end of the financial year, as a business owner and investor you can make regular PAYG payments (usually quarterly) to the ATO.

After you have lodged your income tax return, the ATO will let you know if you need to start paying PAYG instalments, how often and how much you need to pay. If you no longer meet the requirements, the ATO will remove you from the PAYG instalments system.

Company taxes

All companies in Australia are required to pay taxes. **Taxes** are the compulsory payments that are made to governments by individuals, businesses and other groups. In Australia, federal taxes are collected by the ATO on behalf of the federal government. The government then spends this income on public goods and services, such as social security and welfare, defence, health and education.

Most taxes are federal taxes, but there are also state and local government taxes (see Table 3.3.2). The key tax obligations for businesses are addressed in more detail below:

- Company tax is a tax on company profits. The base rate for company tax is 27.5 per cent (otherwise 30 per cent). This base rate will progressively reduce to 25 per cent in the next three financial years.
- Goods and services tax (GST) is a national, broad-based, value-added tax of 10 per cent on most goods and services consumed in Australia. Businesses that have paid GST on goods and services required for their business operation can claim the GST back from the ATO as a tax credit.
- Capital gains tax (CGT) is a tax on capital gain. If a business sells an asset, such as real estate or shares, and the difference between the buying price and the selling price is a net gain, the company will pay a 30 per cent tax on the difference, the capital gain.
- Fringe benefits tax (FBT) is a tax payable by the employer for benefits paid to an employee in place of wages or salary, such as a car, car parking space or low interest loan. The tax to be paid is calculated on the taxable value of the fringe benefit provided.

TABLE 3.3.2 Overview of the different types of taxes in Australia

TAX	DESCRIPTION	LIABILITY TO PAY
Income tax	Federal government tax levied on salary and wages	Payable by the person or company who earns the income
Company tax	Federal government tax levied on company profits	Payable by the business, but passed on to the consumer in the prices we pay
Goods and services tax (GST)	Tax on goods and services, currently 10 per cent	Payable by the business, but passed on to the consumer in the prices we pay
Excise duty	Tax applied to the production of certain goods, such as cigarettes, alcohol and petrol	Payable by the business, but passed on to the consumer in the prices we pay
Payroll tax	State government tax on businesses with a wage bill of over \$900 000	Payable by the business at a rate of approximately 5.45% of the total wage bill
Stamp duty	State government tax on certain transactions, such as the sale of a house or car	Payable by the purchaser of the asset
Rates	Local government tax on the value of a property	Payable by the owner of the property
Capital gains tax (CGT)	Federal government tax on the money someone receives when they sell an asset and have made a gain	Payable by the seller of the asset
Fringe benefits tax (FBT)	Federal government tax on benefits, such as a car or low-interest loan, paid to the employee	Payable by the employer

Legal issues in the workplace

As discussed in the previous section, a factor in determining whether your workplace has a good working environment is your working conditions. Many of these conditions are governed by legislation that protects employees and their rights. Here we discuss a number of legal issues relating to workplace conditions.

Work health and safety

An important legal issue in the workplace is **work health and safety** (WHS). As you are aware, it is your employer's responsibility to provide workplace protection, including safe working practices and adequate workers compensation in the event of an accident or illness resulting from your work.

There is always a chance that accidents or illness will occur in the workplace. Even though some workplaces are more dangerous than others (for example, a steelworks or chemical factory), it is considered important that safe work practices exist in all workplaces. The *NSW Work Health and Safety Act 2011* (WHS Act) sets out the obligations of the employer in providing a safe working environment in relation to employees' physical and psychological health and safety. Examples of ensuring physical safety in factories are the regular checking and maintenance of all machinery, and ensuring employees wear protective clothing and are provided with adequate training. An example of ensuring the psychological safety of employees in a hospital emergency ward would involve providing staff with stress-management training and techniques.

Employees are also expected to do their part by not engaging in unsafe work practices that are likely to injure themselves or others. For example, where workers are required to lift heavy objects, there are clear guidelines about correct methods of lifting.

Each workplace is also expected to have a WHS committee, consisting of representatives of the employees and the employer who discuss possible unsafe practices and working conditions and ensure the workplace meets the requirements of the WHS Act.

Employer obligations also exist under the *Workers Compensation Act 1987* (NSW). **Workers compensation** legislation ensures employees are compensated (and, if necessary, rehabilitated) in the event they are injured or fall ill in the course of their work. All employers are required to take out a special insurance policy to cover their employees for workers compensation. These insurance policies are administered by iCare – an agency of the NSW government.

The increasing costs of work-related injuries have prompted the NSW government to reform the workers compensation scheme. The changes, effective from June 2012, focus on getting injured workers back to



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FIGURE 3.3.6 Hazardous workplaces are common, and care needs to be taken.

work as soon as possible, improving benefits for seriously injured workers, and removing claims for injuries such as those arising from an accident during the journey to or from work, or from nervous shock, and lump sum payments for pain and suffering.

Discrimination and anti-discrimination laws

Discrimination means treating some people differently from others because they happen to belong to a particular group; for example, because they are female, or because they are from a particular ethnic group. It is against the law for people to be discriminated against because of their gender (including transgender), pregnancy, race (including colour, nationality, descent, ethnic or religious background), marital status, disability, sexuality or age, or their relationship to, or association with, a person of a particular gender, race or marital status, for example.

Discrimination in employment means treating a person differently or unfairly in the workplace. This is against the law and there is special legislation dealing with certain types of workplace discrimination.

There are both federal and NSW laws stating that it is against the law to discriminate against people or treat them unfairly. These laws are the *NSW Anti-Discrimination Act 1977* and the *Commonwealth Racial Discrimination Act 1975*, *Sex Discrimination Act 1984*, *Disability Discrimination Act 1992*, *Equal Opportunity for Women in the Workplace Act 1999* and *Australian Human Rights Commission Act 1986*.

This means that in New South Wales all employees and anyone who applies for a job are entitled to fair treatment from their employer or potential employer. In particular, the employer must provide **equal employment opportunity** and not treat employees unfairly or harass them because of their:

- gender, including pregnancy
- race, including colour, ethnic or ethno-religious background, descent or nationality
- marital status
- disability
- age
- sexuality
- transgender (commonly known as transsexuality)
- responsibilities as carers.

Despite these laws, discrimination and **harassment** still exist in our workplaces, often because of traditions and workplace cultures. (For a discussion of this, refer to 'Shifting the balance in the workplace' in section 3.2.)

Three groups in particular who have experienced discrimination are:

- *Women*. Almost half of Australian workers are women. On average, however, women's incomes are less than men's incomes. Australia's national gender pay gap has hovered between 14 per cent and 19 per cent for the past two decades. Looking at full-time total remuneration, the gender pay gap is 21.3 per cent based on the Workplace Gender Equality Agency's 2018 data. This means that men working full-time earn nearly \$25 717 a year more than women working full-time. This is despite the laws that have been passed in relation to equal pay for equal work in 1972, equal pay for work of equal value in 1986, and equal opportunity for women in the workplace in 1999. Despite the many improvements over the last few decades, women are still paid lower wages than men and have to accept higher levels of part-time work. Women from non-English speaking backgrounds are even worse off.
- *Aboriginal and Torres Strait Islander peoples*. Discrimination against Indigenous Australians has been occurring for over 200 years. Despite some changes in recent years, they are still heavily discriminated against. The unemployment rate for Indigenous Australians is five times that of other Australians. As well, few Indigenous Australians are employed in management and professional positions.
- *Migrants*. Migrants often face language barriers and a lack of recognition of the qualifications they have received from their country of origin. They may also experience discrimination because of their race.

Role of the Fair Work Commission

The **Fair Work Commission** is Australia's national workplace relations tribunal and its role is to assist employees and employers to maintain fair and productive workplaces. The Commission is an independent body that operates under the *Fair Work Act 2009*.

Some of the Commission's responsibilities include:

- setting minimum wages in awards and undertaking an annual review of the national minimum wage
- creating and changing modern awards to ensure they provide a fair and relevant minimum safety net of terms and conditions. Awards provide pay rates and conditions of employment such as leave entitlements, overtime and shift work. Most modern awards relate to particular industries or occupations; there are currently 122 awards
- approving enterprise agreements
- acting as the independent umpire in **industrial disputes**, including unfair dismissal claims (see 'Unlawful and unfair dismissal' in this section).

Individuals can come to the Commission if they believe they have been:

- unfairly dismissed
- discriminated against, victimised or unfairly treated under the provisions of the Fair Work Act
- bullied at work and want an order to prevent that from happening.

Penalty rates

Changes to Sunday penalty rates

As part of the four-yearly review of modern awards, the Fair Work Commission reviewed penalty rates in a number of awards in the hospitality and retail sectors. Cuts to Sunday penalty rates came into effect in June 2018 for some retail, hospitality and pharmacy workers. Depending on the industry, the penalty reductions ranged from 10 per cent to 15 per cent. In real terms, people on the award wage would now earn around \$16 less for working on Sunday. Table 3.3.3 summarises the arguments for and against the changes to the penalty rates.

TABLE 3.3.3 The arguments for and against the changes to the penalty rates

ARGUMENTS FOR	ARGUMENTS AGAINST
• Employers will be able to afford to hire more staff. • More venues will be able to open on Sundays. • Technology and lifestyle changes mean that we live in a 24/7 world. • Increased opening hours would mean that businesses would make more money and hire more staff. • Prices for meals could be reduced with removal of Sunday surcharges. • A portion of hospitality employees study during the week, thus working on Sundays is not an inconvenience.	• There will be less money for people who work on Sundays, many of whom might already live from week to week. • There are no guarantees that employers will hire more staff. • Double pay is fair compensation for missing family events and being unable to engage in sports and a normal social life. • Wage cuts reduce income, and therefore, spending. • Casual employees with children will have less time at home.

The reduction in Sunday penalty rates will have an impact on students who are working and studying, and on women, who are over-represented in the retail and food services industries. The Spotlight box 'A tale of two workers – Ed and Gabby' illustrates these concerns.

Spotlight: A tale of two workers – Ed and Gabby

Ed works for a small, family run fast food business in Sydney. His boss stopped putting him on Sundays because of the cost. He has to work extra shifts to make up the lost money. 'My study day is now Sunday'. Ed fears the changes will affect some of the lowest-paid workers, who study or care for someone during the week.

Gabby is a retail worker and has been in the industry for 5 years. Her workplace will not be passing on the penalty cuts. Gabby said that made her feel valued at work. 'I think it is important that people see the value of industries such as hospitality and retail'.

Source: Penny Timms, 'Sunday penalty rate changes take effect this weekend', ABC News, 29 June 2018.



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FIGURE 3.3.7 Cuts to penalty rates reduce the take-home pay of many workers in the retail, hospitality and pharmacy sectors.

Unlawful and unfair dismissal

Unfortunately, at some stage in your working life, you may be asked to leave your job. Your employment can be terminated for many reasons and in different ways. The most usual way is **dismissal**. If you find you are being dismissed from your job, you should be aware of the legal issues involved. There are two types of dismissal that are wrong: *unlawful dismissal* and *unfair dismissal*. The Fair Work Commission is responsible for dealing with both types of dismissal.

Unlawful dismissal

Unlawful dismissal happens when a person's employment is ended for an unlawful reason. It is against the law for an employer to end a person's employment because of:

- the employee's race, gender, sexuality, age, disability, marital status, family responsibilities, pregnancy, religion or political belief

- the employee joining or not joining a trade union
- the employee being temporarily absent from work because of illness or injury or undertaking voluntary emergency activity such as SES
- a complaint against the employer being filed by the employee
- reasons that are unrelated to the employee's ability to do the job
- the employee's absence from work during parental leave.

It is also against the law for an employer not to give an employee the right amount of notice of dismissal. If the correct notice is not given, the employer is legally bound to pay the employee extra to cover the notice period. The employer must give:

- one week's notice if the worker was employed for one year or less
- two weeks' notice if the worker was employed for between one and three years
- three weeks' notice if the worker was employed for between three and five years
- four weeks' notice if the worker was employed for more than five years.

Unfair dismissal

More than 40 per cent of applications made to the Fair Work Commission are related to claims of unfair dismissals. Unfair dismissal occurs when a dismissal is not illegal but is 'harsh, unreasonable or unjust'. To work out if a dismissal is unfair, all the circumstances of the dismissal must be considered. This includes considering if:

- the employee was given a reason for the dismissal
- the employee was given a chance to respond
- there was a good reason for the dismissal
- the employee was warned about any poor work performance
- the employee's response was taken into account before the termination was executed.

Dispute resolution

Remember, employees can be dismissed if they cannot do their job, fail to follow instructions, or do not use skill and care while working. An employer can also dismiss employees if there is no longer any work for them.

Unfair and unlawful dismissal application and process

Employees can apply to the Fair Work Commission if they believe they have been:

- unfairly dismissed
- discriminated against, victimised or unfairly treated under the provisions of the Fair Work Act
- bullied at work and want an order to prevent that from occurring.

An employee must lodge the correct application form, pay the application fee (\$73.20, which can be waived in cases of serious financial hardship) and submit the application within 21 days of the dismissal taking effect. After the application has been received, it will be assessed and the Commission can undertake a range of actions, including:

- referring an application to a staff conciliator to help resolve the dispute informally
- issuing directions about how an application is to be dealt with
- requiring people involved in an application to appear before the Commission
- inviting submissions (verbal or in writing)
- taking evidence
- conducting conferences
- holding hearings
- making decisions and orders, including dismissing an application in certain circumstances.

Conciliation and mediation

All applications involving termination of employment are initially referred to conciliation as an informal, quick and flexible method of resolving the dispute. Conciliation is usually held by telephone and takes approximately 90 minutes. The conciliation is hosted by an independent conciliator who is part of the Fair Work Commission. The conciliator does not give legal advice or make decisions.

The role of the conciliator is to help the two parties (employee and employer) reach a resolution by:

- leading discussions
- providing guidance
- exploring issues
- exploring alternatives and possible outcomes.

If the two parties fail to reach an agreed settlement, the dispute will proceed to a formal hearing or conference, unless the employee withdraws the application. It is preferable that a resolution be reached, as the formal hearing requires legal representation for both parties, lots of preparation and can be costly.

The Commission will make and publish a decision at the end of the proceedings. The decisions are binding and must be adhered to by all parties. For example, if a dismissal is deemed to be unfair, the Commission can determine re-instatement of the job or a financial compensation, depending on the particular circumstances of the dismissal.

Redundancy and retraining

Another method of being asked to leave your job is through being made redundant, which is also known as being retrenched. **Redundancy** occurs when employees lose their jobs because their work is no longer required by the employer due to economic, technological or other reasons.

Employees who are made redundant can expect to receive all of the following:

- unused long service leave and sick leave
- unused holiday pay and leave loading
- termination or severance pay
- other redundancy payments
- redundancy pay from their superannuation fund.

Unlike employees who are dismissed, employees who are faced with redundancy are given the choice of accepting the redundancy. If an employee accepts the redundancy, it is known as *voluntary redundancy*; that is, the employee voluntarily accepts to be made redundant. As an incentive, employers often provide a redundancy package. These packages, which are usually quite generous, must include the payout of entitlements listed above as well as termination or severance pay, which is a lump sum covering wages or salary for a specified time. Employees covered by the national workplace system are entitled to severance payments (based on their years of service) starting from two weeks' salary up to a maximum of 16 weeks' salary. Packages may also include payment for unpaid bonuses or loss of fringe benefits or the provision of specialised services to help employees find a new job or retrain.

If the employee does not accept voluntary redundancy, the employer should try to redeploy the employee; that is, find the employee another job within the organisation. If this is not successful, the employee may need to accept *involuntary redundancy*, which is usually less generous than the voluntary package.

Role of the Fair Work Ombudsman

The Fair Work Ombudsman is a separate organisation from the Fair Work Commission. The Ombudsman plays an important role in ensuring that workers receive their correct wages and leave entitlements. It can provide advice on the minimum entitlements in modern awards and the Fair Work Act. In cases of serious non-compliance, inspectors from the Fair Work Ombudsman office can investigate possible breaches of workplace laws.

Understanding the text

- 1 Outline your rights and responsibilities as an employee.
- 2 What are your employer's expectations of and responsibilities to an employee?
- 3 Outline how contractors and employees are different.
- 4 Explain what a union is. What are their principal aims and objectives?
- 5 Outline the origins and achievements of the union movement.
- 6 Outline the achievements of the ACTU.
- 7 Outline the role of employer associations and business groups.
- 8 State, in general terms, how the role of employees in the workplace is changing.
- 9 Explain the role of an intrapreneur in the workplace.
- 10 Outline the obligations of employers.
- 11 Explain what is meant by a PAYG system of income tax.
- 12 Explain what superannuation is and how it accumulates throughout your working life. When can you access your superannuation? What determines the amount of superannuation you have?
- 13 List the range of legal issues relevant to the workplace.
- 14 Outline employers' responsibilities in terms of the health and safety of their employees.
- 15 Outline the employees' responsibilities in regard to the health and safety of themselves and their co-workers.
- 16 Outline the employer's obligations under the *Workers Compensation Act 1987* (NSW).
- 17 Outline the actions that would be regarded as discriminatory in the workplace.
- 18 Outline the role of the Fair Work Commission.
- 19 Explain why attempts to cut penalty rates for some workers are so contentious.
- 20 Explain what is meant by 'unfair dismissal'. Outline the rights of employees if they think they have been sacked unfairly. What procedures must be followed before an employee can be dismissed?
- 21 Outline a worker's entitlements if an employer made them redundant.

Activities

- 1 Study Table 3.3.1. Write a report outlining the rights and responsibilities of employees and employers.
- 2 Investigate one Australian trade union. Find out about its origins and history, who it represents and its recent achievements. Present your findings as an oral report.
- 3 Investigate one Australian employer or business association. Find out about the range of industries it represents and the nature of the activities it engages in. Evaluate the association's effectiveness. How, for example, has it been able to influence public policy?
- 4 Study the Spotlight box 'Google motivating its workforce' on page 154. Outline the nature of Google workplaces. What is meant by the term 'employee-driven'?
- 5 Study the Spotlight box 'Australia Post – innovating with our people' on page 155. Outline the purpose of the Hack Dayz held by Australia Post.
- 6 Study Table 3.3.3. Write a discussion outlining the arguments for and against cutting penalty rates.
- 7 Study the Spotlight box 'A tale of two workers – Ed and Gabby'. Outline the impact of the cuts to penalty rates for Ed and Gabby.
- 8 Conduct a class debate on the topic 'Penalty rates are a burden on small business and are a disincentive to employ people'.

9 Using the media or the internet, investigate one of the following workplace disputes:

- a a case involving a workplace accident
- b a case of unfair dismissal
- c a redundancy-based dispute
- d a case of workplace discrimination.

Outline the nature of the workplace dispute. Were the relevant laws and/or procedures followed? What was the outcome of the dispute?

3.4 Current issues

There are many work-related issues that can be investigated. While some of these are one-off events, others are more enduring. In this section, we look at wage fraud, the gender gap in superannuation, age discrimination, youth unemployment, and recent employment issues such as wage stagnation and casual conversion.

Wage fraud

In recent years, a series of well-publicised scandals revealed widespread, and often deliberate, underpayment of workers in some sectors of the Australian economy. In a practice referred to as 'wage fraud', companies such as 7-Eleven turned a blind eye as franchisees developed elaborate schemes to cheat workers. In some instances, employees were forced to engage in a cash-back scheme: a practice whereby workers were paid the correct wages into their bank accounts but were forced to give back half their pay in cash to the franchisee. If they refused, they lost their jobs. Some staff were effectively paid as little as \$10 an hour – well below the **award rate** of more than \$24 per hour.

One in four stores were found to have ongoing payroll issues. Franchisees were accused of flouting penalty rates as well as not paying the minimum wage. Overtime rates for shifts exceeding 10 hours were also not being paid. One 7-Eleven operator was fined \$335 000 and the company was forced to compensate affected workers more than \$110 million.

7-Eleven is not alone in underpaying workers. Unpaid overtime is another form of wage fraud and is widespread in the hospitality industry.

The gender superannuation gap

The wellbeing of women workers in retirement is threatened by Australia's gender pay gap. This gap has been stuck between 15 per cent and 19 per cent for two decades, with women still paid less than men in many industries.

The pay gap results in a much bigger superannuation gap of around 47 per cent when women retire. This lack of retirement savings is largely the result of smaller pay packets and disrupted work patterns when women take time off to care for others, especially children. On average, women currently retire with \$90 000 less than men.

The disparity between men and women's workforce participation and economic security is summarised in the statistical snapshot in the Spotlight box 'Gender workplace statistics at a glance, 2018–19'.



FIGURE 3.4.1 7-Eleven franchisees were accused of widespread wage fraud.

Shutterstock.com/TK Kurikawa

Spotlight:

Workforce

- Women

- Women comprise 47.0% of all employed persons in Australia; 25.6% of all employed persons are women working full-time, and 21.4% are women working part-time* (ABS 2019, Labour Force).
- Women constitute 37.3% of all full-time employees and 68.1% of all part-time employees (ABS 2019, Labour Force).
- The workforce participation rate** is 61.1% for women and 71.3% for men (ABS 2019, Labour Force).
- The workforce participation rate among those aged 15–64 years is 74.0% for women and 83.3% for men (ABS 2019, Labour Force).

** Participation rate is the sum of the employed and unemployed divided by total population from age 15 onwards.

- The full-time average weekly ordinary earnings* for women are 14.0% less than for men (ABS 2019, Average Weekly Earnings).
- Among non-public sector organisations with 100 or more employees, the gender pay gap for full-time annualised base salary is 16.2%, and 21.3% for full-time annualised total remuneration (WGEA 2019, Data Explorer).
- The adult full-time average hourly ordinary time cash earnings** for non-managerial women are 11.4% less than for non-managerial men (ABS 2019, Employee Earnings and Hours).
- The median undergraduate starting salaries for women are 4.8% less than for men. This gap widens to 14.6% for postgraduate (coursework) graduates (QILT, 2018).
- Average superannuation balances for women at retirement (aged 60–64) are 42.0% lower than those for men (Clare, R, 2017).
- 55.0% of people aged 65 years or more and receiving the aged pension are women (DSS Demographics, 2018).

** Cash earnings used comprise regular wages and salaries in cash, including amounts salary sacrificed. Estimates of hourly cash earnings have only been produced for employees with a link between earnings and hours. For more information, refer to: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6306.0>.

Source: Australian Government Workplace Gender Equality Agency, 15 August 2019, <https://www.wgea.gov.au/data/fact-sheets/gender-workplace-statistics-at-a-glance-2018-19>.

..

It has often been stated that older workers face discrimination when it comes to getting a job. This was certainly the case during the economic restructuring of the Australian economy in the 1990s and early 2000s, but does it still apply? In the 1990s, middle-aged males displaced from manufacturing found it difficult to secure employment in the rapidly expanding service sector. Today, you will still hear complaints from older workers that age discrimination is happening in the workplace. Despite laws making it illegal to discriminate against anyone based on their age, a study in 2017 found that a third of Australian employers

were still reluctant to employ mature workers. However, many companies have been supportive; for example, nearly a third of Bunnings' Hardware workforce is aged over 50. At health-care group Bupa, 26 per cent of its workforce was above 50 and the company's research found that employees aged over 60 took fewer sick days than younger staff.

Even though research supports the anecdotal evidence of age discrimination, the problem is overstated. The age at which men and women are retiring keeps rising. In the 1980s and 1990s, less than one worker in 10 was over 55. Today, it's almost one in five.

Since 2000, the participation rate for men aged 55–64 has increased from 60 per cent to about 67 per cent. Since the 1980s the participation rate for women aged 55–64 has risen from 20 per cent to 80 per cent.

For men over 65 years of age, the participation rate has increased from 10 per cent in 2000 to almost 20 per cent today. For women in the same age group, the rate has increased from less than 2 per cent to about 10 per cent.

Older people are staying longer in the workforce. The reasons for this are complex but include the following:

- The high cost of housing means that many people reaching retirement age still have substantial mortgages and they don't want to retire until these are paid off.
- The government has lifted the age pension age to 65 for women, and is now phasing in an increase to 67 for both sexes. It has also raised the age at which you may access your superannuation savings.
- Because we are living longer, some people decided to delay their retirement. Also, older workers are much healthier than earlier generations.
- There is greater acceptance by employers of flexible work practices – including allowing workers to shift from full-time to part-time; that is, there has been an increase in semi-retirement.
- An increasing percentage of people work in the services sector, in jobs that are less physically demanding.

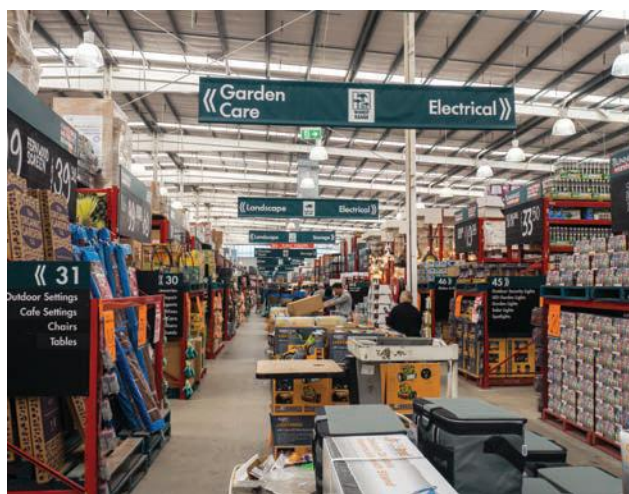


FIGURE 3.4.2 Bunnings is one employer that has no hesitation in employing older workers.

Use of AI and robotic technology

It is expected that by 2030, the use of robotics will take over more than 20 million manufacturing jobs globally, particularly in low-skill areas. Other industries are also expected to be disrupted, such as the impact of driverless cars on the transport and trucking workforce. Aided by advances in artificial intelligence, machine learning and engineering, robots will also play a bigger role in the service sector, such as retail, health care and hospitality.

Investment in robotic technology in Australia is low compared to countries such as China, Japan, South Korea, Germany and the United States, which have large manufacturing, automotive and electronics industry sectors. Australia's labour force has become less dependent on manufacturing, but the productivity gains of automation and robotic technology are recognised by companies such as Australia Post (see the Spotlight box 'Australia Post invests in \$300 million automation plan') and the mining industry.

An area where Australia has the potential to thrive is mining automation solutions. Remote operation of equipment in the Pilbara from Rio Tinto's Iron Ore Operations Centre in Perth (see the Spotlight box 'Rio Tinto, Pilbara' in section 3.2) is an example of the opportunities to develop technologies ranging from resources to space exploration.

Spotlight: Australia Post invests in \$300 million automation plan

Australia Post processes more than one million parcels per day and 2.6 billion letters per year. In 2018, Australia Post announced a \$300 million national investment plan for the installation of new equipment that will process more than 10 000 parcels per hour. This automation technology, including the continued installation of letter-sorting machines, reduces the need for manual handling and employment of mail sorters.



FIGURE 3.4.3 Australia Post's Melbourne parcel facility

Australia Post

Unemployment: social and economic implications

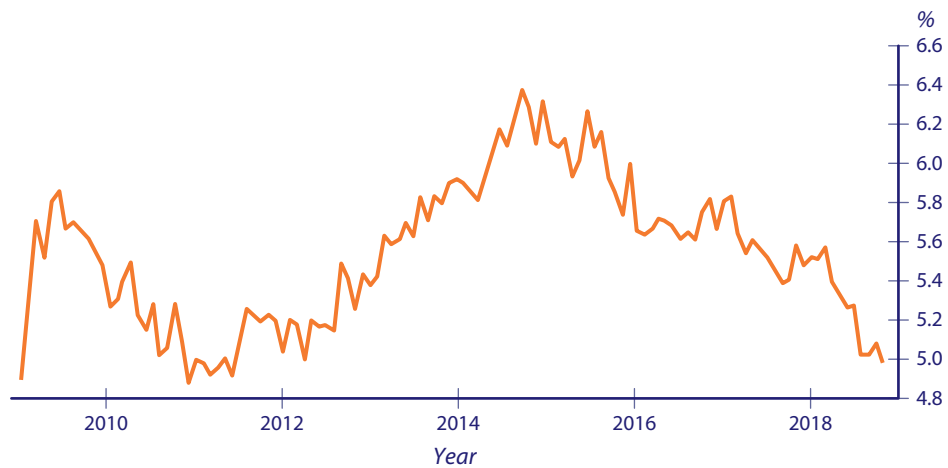
Unemployed is defined as people who are not in a paid job, but available for work and actively looking for work. The following three types of **unemployment** are not measured but are a useful way of thinking about the issue.

Cyclical unemployment is described as medium in nature (one to 12 months) and occurs with changes in economic activity over the business cycle. An economic downturn means lower consumption of goods and services; businesses experiencing weaker demand may therefore have to lay off existing workers. The opposite occurs when economic demand strengthens.

Structural unemployment occurs when there is a mismatch between the skills of those looking for work and the jobs available, or the jobs are too far away. Those affected can remain unemployed for a long period, as it takes time to acquire the new skills or to move to a new region for work that matches their skills. Structural unemployment can exist during strong economic conditions.

Frictional unemployment is generally for less than one month and occurs when people change jobs or move in or out of the labour market. People may need time to find the right job and, likewise, companies may take time in selecting the right person to fill a vacancy.

Australia's unemployment rate is reported by the Australian Bureau of Statistics and is currently around 5.2 per cent (see Figure 3.4.4). It reached an all-time high of 11.22 per cent in December 1992, during the last financial recession' and recorded, the lowest rate of 3.98 per cent in February 2008.



Source: Business Insider, 24 January 2019; ABS cat. no. 6202.0.

FIGURE 3.4.4 Australia's unemployment rate, 2009 to 2018

The main cost of unemployment is personal – the impacts it has on the unemployed. Individuals can become dispirited and suffer a loss of self-esteem and confidence. This may impact on their motivation to work. The longer they are unemployed, the more they are likely to lose their skills, and this becomes an economic loss. The whole economy suffers from people being unemployed. The economic costs include:

- loss of economic output – the unemployed could be producing goods and services, and if they are not, then GDP is lower than it could otherwise be
- loss of tax revenue – unemployed people are not earning an income, so they don't pay income tax, and government revenues fall
- increase in government expenditure – the government has to pay out additional New Start allowances
- loss of profits – profits are likely to be higher when more people are employed earning incomes. If businesses are making less profit because of unemployment, they may have less funds to invest.

The overall economic impacts of unemployment depend on three factors:

- the rate of unemployment (the proportion of the workforce unemployed)
- the participation rate (in times of high unemployment, some workers give up looking for work and simply withdraw from the workforce)
- the duration of high unemployment rates.

Youth unemployment

Australia's jobless rate for those aged 15–24 was around 12.5 per cent in 2018 – more than double the general unemployment rate of 5 per cent. The jobless rate for those in the 15–19-year age group was even higher, at 18 per cent.

Of course, not all jobless young people are looking for a full-time job. Nearly 70 per cent of unemployed 15–19-year-olds are in full-time education, along with a quarter of jobless 20–24-year-olds. It is not, therefore, unusual for there to be a higher rate of youth unemployment compared to the rest of the working population. Many young people typically tend to combine work and study.

What is of concern is the level of unemployment among early school leavers who are not engaged in any form of post-school education and training. See the Spotlight box 'Is there a link between male youth unemployment and video games?', which looks at the unexpected economic consequences for young unskilled males addicted to video games. These young people have few, if any, formal workplace qualifications and little experience. Given the trend towards a knowledge-based economy, there are fewer and fewer jobs available for the low skilled. The young, low-skilled worker is the first to be shown the door during economic downturns.

The snapshot from the anti-poverty group the Brotherhood of St Laurence shows the regions that had the highest rates of youth unemployment in each state or territory, according to Australian Bureau of Statistics Labour Force Survey data, at December 2018 (see Figure 3.4.5). For example, Coffs Harbour had the highest youth unemployment rate in New South Wales, with a rate of 23.3 per cent.

Youth unemployment rates vary widely within states, and even within regions. In many parts of Australia, a lack of entry-level jobs makes it difficult for young people – especially those without formal qualifications – to gain the work experience that employers want.

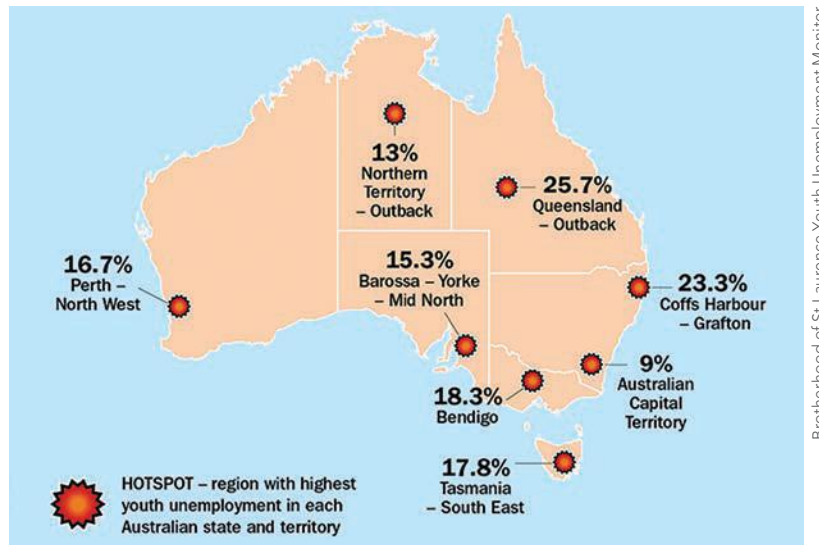


FIGURE 3.4.5 Hotspots of youth unemployment in each state or territory in December 2018

Spotlight: Is there a link between male youth unemployment and video games?

In 2017, Aguiar, Bils, Charles and Hurst published their research results that looked at the declining participation of young men in the American workforce in the period 2000 to 2015. Could the decline in working hours for young males be a consequence of the economic recession in America during this period?

What they found was that the employment rate for a particular cohort of young men aged 21 to 30 without college qualifications dropped from 82 per cent to 72 per cent. The economic situation was not the reason for the drop, but an increase in leisure hours. These young men had increased their recreational computer use and video gaming by nearly 50 per cent in the period 2004 to 2015. Unemployed young men on average spent 60 per cent of their leisure time playing video games in the same period. This was not seen in the case of young women or older men.

Compared to their peers, these young men were not moving out; more than 50 per cent were still living at home or staying with relatives, and they were not getting married at the same rate as their peers. For every hour not working, there was an associated increase in the time spent on leisure activities. In other words, they were cutting back on their working hours or not working to spend more time on video games. At the same time, the quality of the graphics, narrative complexity and social interaction innovations of video games had increased over the years, and video games were relatively affordable.

The researchers concluded that for younger men high-quality gaming and recreational computer use is a distinctively leisure luxury. For many individuals, such activities develop into a habit or addiction. For these young men, their consumption of video games has been insulated by remaining at home or cohabitating. But the loss of earnings, lack of skills and lack of work experience during early adulthood raise many social and economic concerns.

Source: <https://scholar.princeton.edu/sites/default/files/maguilar/files/leisure-luxuries-labor-june-2017.pdf>.

Wage stagnation

Spotlight: Why are Australian workers getting the smallest pay rise since WWII?

In the 1970s and 80s, the headlines screamed ‘Strikes Strikes Strikes!’. Soaring inflation plagued the economy, fuelled by a damaging spiral of rising prices and rising wages chasing the cost of living.

Most workers were unionised, militant workers and strong unions won big pay rises, and gains were passed on to all employees by industrial tribunals through a centralised wage fixing system.

In short, high wages growth was an economic problem. Today, Australia has the opposite problem.

Even the Reserve Bank, once the wages cop looking to curtail pay rises, is advocating for higher pay.

‘The underlying issue is the lack of income growth,’ Reserve Bank governor Philip Lowe told the House of Representatives Economics Committee last month. ‘Many people borrowed, I think, assuming incomes would grow at the old rate and they haven’t, they’re having more difficulty, they’ve got less free cash and so they can’t spend in a way.’

A world away from the days of double-digit inflation, wages growth has almost halved this century – from already contained levels. The most cited measure – the wage price index – grew 2.3 per cent last year.

That’s up from a record low of 1.9 per cent in 2017, but still less than two-thirds of the average wage growth of 3.5 per cent-plus that was seen during the decade-and-a-half to 2013.

How did we get here?

In part, low wages growth is a symptom of systematic action by business to cut labour costs.

It is also the outcome of deliberate policies aimed at curtailing employee bargaining power and stopping the wage inflation problems of the past.

The centrepiece of the changes – initiated by Labor and continued by the Coalition – was the shift from centralised wage fixing to workplace-level pay setting through ‘enterprise bargaining’.

No longer do pay gains won by the strong flow on to the weak, or substantial wage rises in booming sectors of the economy flow on to areas where demand and profits are not as strong.



ABC News: Alistair Kroie

FIGURE 3.4.6 The Wage Price Index is only just up from its record lows and barely above the rising cost of living.

Last decade, during the biggest resources boom in Australia's history, soaring pay rates for employees in resources and construction sat alongside sub-inflation pay rises for workers in sectors such as hospitality and retail.

Economy-wide wages breakouts have disappeared

During the early years of enterprise bargaining, there were often restrictive work practices to trade away and employees could gain decent pay rises in return for delivering greater flexibility and efficiency without losing core benefits – a win-win.

However, two decades on, enterprise bargaining has all-but collapsed.

'The system we have is, in fact, killing off collective bargaining and wages are stagnating as a result,' said Josh Bornstein, who heads the employment law practice at Maurice Blackburn.

Why is collective bargaining in free fall?

One of the reasons is that union membership has fallen dramatically – just 10 per cent of private sector workers are now covered by unions – diminishing the capacity of employees to collectively bargain.

Australia also has some of the toughest laws against industrial action in the developed world.

Large workplaces and secure employment are also in decline – in part, because of a shift in the industry base away from factories and mass employment, in part because of strategies increasingly used by business to cut labour costs.

'The biggest cost to most companies is their wage bill,' said Warren Hogan, a professor at the University of Technology Sydney Business School and formerly chief economist at ANZ.

Corporate efforts to cut labour costs have spawned a new lexicon: casualisation, outsourcing, offshoring, franchising, independent contracting, labour hire, gig work.

The aim of these strategies is to increase flexibility and reduce risk: fewer workers in secure, full-time jobs allows a business to better meet peaks and troughs in demand and not be stuck with fixed labour on the books when hard times come.

Employees who once would have enjoyed permanent tenure are now on short-term contracts. Core parts of a business that once would have been done by directly employed staff are now competitively tendered.

Business and employer groups are worried

They argue that limiting the flexibility of business will cruel competitiveness leading to job losses, while pay rises that are not matched by productivity gains will ultimately also cost jobs, cut living standards, and hurt the economy.

A concern for productivity growth is well-placed. But if low wages growth becomes entrenched, it will also pose a threat to productivity and risks locking Australia into a low-wage, low-productivity spiral.

Low wages growth is putting a cap on future productivity increases, says Alison Pennington, because cheap wages crowd out productivity raising investments. 'If you were an employer who had access to an abundant supply of cheap, skilled labour, why would you choose to invest in new technologies, or new software, or invest in upskilling the workforce when all the firms in your industry are all competing on labour costs?' she said.



FIGURE 3.4.7 The profit share of GDP has increased since the mid-1970s, while the share of national income going to wages has fallen.

Source: Stephen Long and Michael Janda, ABC News,

<https://www.abc.net.au/news/2019-03-28/why-workers-are-getting-the-smallest-pay-rises-since-wwii/10942530>.

ABC News: Alistair Kroie

Modern awards and casual conversion

In October 2018, most modern awards were amended by the Fair Work Commission to include a clause to give the right to casual employees to request conversion to permanent employment.

If a 'regular casual employee' has worked for 12 months, a pattern of hours that is ongoing and without significant adjustments, the clause entitles the employee to request in writing that their employment be converted to permanent full-time or part-time employment.

The employer must consult with the employee who has made the request and a response in writing must be provided within 21 days. If a request is refused after consultation, the employer must set out reasonable grounds for the refusal.

Also, in October 2018, many modern awards were amended to clarify minimum engagement periods for casual (and part-time) employees. For those awards that did not already stipulate minimum engagement periods, a clause was inserted stating that the minimum engagement period for casual (and part-time) employees is now two hours.

National minimum wage, or a 'living wage'?

A function of the Fair Work Commission is to review the national minimum wage for employees not covered by an award or agreement. The annual review is conducted in the second half of the financial year from March to June and involves submissions from interested organisations and individuals and research by the Commission's expert panel. The Commission's decision comes into operation on 1 July the following financial year. The 2019 increase was equivalent to a 3.5 per cent pay rise, in excess of the rate of inflation of 1.8 per cent.

Representatives of the business sector such as the Australian Chamber of Commerce and Industry have argued that Australia has one of the highest minimum wages in the OECD and that a freeze or a small increase to the minimum wage would assist struggling small businesses and support further employment of unemployed or under-employed workers. On the other hand, trade unions such as the ACTU have argued that the minimum wage should be a 'living wage' reflecting the 1907 'Harvester Judgment'. In 1907, an arbitration court decided that wages should be based on the cost of living for a worker and his family. The ACTU has argued that the latest increase to the minimum national wage is still well below the living wage target (60 per cent of the median full-time wage) and that low-paid workers are further exposed to the cuts in the Sunday penalty rates.

Understanding the text

- 1 Explain what is meant by the term 'wage fraud'.
- 2 Explain why there is a gender gap in superannuation. How big is this gap?
- 3 Outline the extent to which older Australians have been able to remain active in the workforce despite claims of age discrimination. Why are many older workers delaying retirement plans?
- 4 Outline technological advances and explain how they could impact business operations.
- 5 Define the term 'unemployment'.
- 6 Explain the reasons why unemployment occurs.
- 7 Outline the extent and nature of youth unemployment. Why is the extent of the problem often overstated? Why are early school leavers especially vulnerable?
- 8 Explain the link between video games and unemployment.
- 9 Outline the reasons for wage stagnation. Why is this a problem for employees, businesses and the economy?
- 10 Explain the term 'living wage'. Why do the unions argue that this should be the minimum wage?

Activities

- 1 Use news papers or the internet to investigate examples of wage fraud. Outline the nature of the fraud. Identify those responsible and those affected, and note any penalties imposed. Were the workers compensated for their loss? Identify any other examples of workers being cheated out of their entitlements.
- 2 As a class, discuss the ethical and social issues of wage fraud and avoidance of paying overtime to employees.
- 3 Study the Spotlight box 'Gender workplace statistics at a glance, 2018–19'. Outline the long-term impact of lower superannuation balances on women's retirement and economic security.
- 4 As a class, discuss whether there appears to be a relationship between age, job status and personal superannuation contributions.
- 5 Study the Spotlight box 'Australia Post invests in \$300 million automation plan' on page 169. Use the internet to find other examples of technology and automation in Australian businesses and share them with the class.
- 6 Investigate the issue of youth unemployment. Outline the social consequences of youth unemployment. Present your findings to the class as an oral report.
- 7 Study the Spotlight box 'Is there a link between male youth unemployment and video games?' on pages 171–172. What do you consider to be a reasonable amount of time per day or per week for playing computer recreational games? Discuss with your class what might be the social and economic costs of being addicted to video games or computer-based games.
- 8 As a class, brainstorm work and work futures current issues. Select one of these for study. Prepare a written report outlining the nature of the issue with a focus on its social and economic consequences. Present your findings as a written report.



LAW, SOCIETY AND POLITICAL INVOLVEMENT

CONTENT OVERVIEW

- 4.1 The role and structure of the legal system
- 4.2 Law reform, political action and decision-making
- 4.3 Participation in the democratic process
- 4.4 Current issues

CONTENT FOCUS

In this core topic, we develop your understanding of the ways in which laws affect individuals and groups and regulate society. You will also learn about how Australian citizens participate in the democratic process. In doing so, you will examine various legal and political systems and the strategies used to resolve legal and political issues.

The skills you will develop in this core unit of study include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- How are laws made and how do they affect individuals and groups, and society more generally?
- How do Australian citizens participate in the democratic process?
- What strategies can be used to resolve contentious legal and political issues?

GLOSSARY OF KEY TERMS

activist

An individual who takes direct action, usually in support of, or in opposition to, one side of a controversial issue.

amendment Act

An Act of parliament to make changes to an existing statute law.

anarchy

When there is no law or government, people are free to do as they please and society is unable to function.

ballot paper

A paper listing the names of the people (candidates) who are seeking a place in parliament, and on which the voter marks his or her choice or choices.

Cabinet

The group of senior ministers in a government who determine government policy.

case

A proceeding in a court of law.

chief minister

The senior minister in an Australian territory.

civil law

Laws that govern the legal relationship between individuals and organisations.

codification

Making common law into statute law.

common law

Also known as judge-made law. These are laws that are established by the decisions of judges.

conservative

Political parties or individuals who are averse to change and hold traditional (family) values. They reject, or seek to minimise, government intervention in people's lives, and especially in the economic environment.

constitutional democracy

A democracy based on a constitution, or set of rules.

council

The government body that administers the affairs of a local area, such as a city or a shire.

criminal law

Laws to protect the general public from harm.

current issues

Issues that are of relevance and significance today. Also known as contemporary issues.

customary law

The legal system developed by the Indigenous people of Australia.

democracy

Government by the people, either directly or through elected representatives. Also a form of society that favours equal rights, freedom of speech and a fair trial, and tolerates the views of minorities.

direct action

Action that is either planned or spontaneous; for example, marches and sit-ins.

direct democracy

Citizens making policy rather than having elected representatives making policy for them; for example, a show of hands or a secret ballot (vote) on an issue.

division of powers

The sharing of power between the three levels of government in Australia: federal, state and local.

donkey vote

A ballot paper where the voter has simply numbered the candidates in the order in which they appear on the ballot paper.

duty of care

Responsibility to ensure your actions do not harm other people or their property.

electoral commissioner

The official who is responsible for the conduct of elections, including ensuring that electoral laws are obeyed.

ethics

Values that relate to doing what is believed to be right.

family law

The body of law that deals with family issues, such as marriage, de facto relationships, same-sex relationships and the relationship between parents and their children.

Federation

The term given to the founding of the Australian nation in 1901. The individual colonies gave up some of their powers and responsibilities to form a new federal government.

Greens

A political grouping of people whose aim is the protection of the environment.

independent

A member of parliament who does not belong to a political party.

indictable offence

A serious offence that requires a full trial with a jury. Examples are armed robbery, murder and serious drug offences.

informal vote

A ballot paper that has not been filled out correctly or has been defaced in some way. Voters sometimes do this on purpose as a form of protest.

judge

A highly trained legal professional who presides over District, Supreme and High Courts. The judge's role is to advise the jury and pass the sentence.

jury

A group of people chosen randomly from the community to determine the guilt or non-guilt of the accused in serious criminal law matters.

legally binding decision

An order that is given by a court and must be followed.

lobby group

A group of people organised to further a cause or interest that they have in common. Also known as interest groups and pressure groups.

mayor

Head of a local council that has the status of a city or shire.

ministry

Ministers; the executive government; members from both houses of parliament chosen from the party, or coalition of parties, with a majority in the lower house to administer the country or state, and who are formally appointed by the governor-general or state governor as ministers of state.

optional preferential proportional representation

A system where, for the election of one candidate, the voter only needs to indicate a preference for the candidate of his or her choice, but may also mark a preference for all or some of the remaining candidates on the ballot paper.

parliament

An assembly of elected representatives that forms the legislature of a state or nation. It may have both an upper and a lower house, or only one house.

policies

Aims or plans for action on a particular issue.

political power

A broad term that refers to the wide range of influences involved in the governance of a country. It includes political participation, which may include being a member of a political party through to voting in an election.

preferences

Choices or options.

preferential voting

A system of voting in which a voter shows an order of preference for candidates, giving the number one to his or her first choice through to the last number to the last choice.

premier

The leading minister of the state government. The premier's duties include being a member of the Cabinet or ministry, a member of the executive council and chief minister.

president

The head of a local council that has the status of a shire.

prime minister

The leader of the political party that can command majority support in the House of Representatives.

progressive

Political parties (and individuals) proposing moderate political and social change by governmental action.

referendum

A specific vote by the people to change an aspect of the Constitution.

repeal Act

An Act of parliament to remove a piece of legislation from the law.

representative democracy

A system of government that allows electors to choose representatives to make political decisions for them.

sit-in

The act of sitting in the seats, or on the floor, of an institution or public place as a form of organised protest.

social norm

The standards of behaviour practised by the majority of the members of a society.

statute law

Laws made by parliament.

summary offence

A less serious crime that is dealt with by the Local Court. An example is shoplifting.

trade union

An organisation of employees that acts collectively for the mutual protection and assistance of the employees and is concerned with wages and conditions of employment.

4.1

The role and structure of the legal system

Nature of laws

The law should aim to achieve justice. The nature of justice and therefore laws is determined by three factors.

- 1 *Equality*. This is the idea that the law does not discriminate. Instead, it treats everyone in the same way. No-one is considered to be above the law.
- 2 *Fairness*. A key aspect of fairness is that the law does not have a particularly harsh effect on an individual. A key right that helps to ensure fairness is the right of appeal. Individuals who can show that the decision made was not a fair one have the right to have the decision re-examined by the legal system. For example, let's assume that Jack has been found guilty of armed robbery. It is his first offence. The judge

has sentenced him to 20 years in prison. This is a much harsher sentence than other people charged with a similar offence and with similar circumstances (first offence and so on) have received. Jack would have the right to appeal this sentence to a higher court.

- 3 *Access*. We must have fair and responsible access to the legal system in order for justice to be served. Having legal information available and in multiple languages is crucial. For example, a recently arrived migrant with only limited English who is required to attend court but is not given access to an interpreter is not being treated in a just way.

With the rights above comes the responsibility to always act truthfully when dealing with the law. Of course, we also have the responsibility to follow the law and to know the law. We cannot, for example, argue that we didn't know something was against the law.

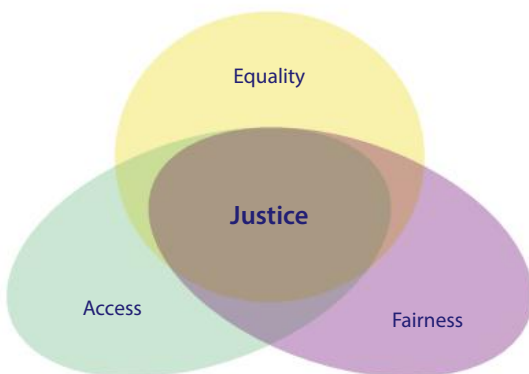


FIGURE 4.1.1 Justice requires equality, fairness and access, and is the ultimate right of everyone who deals with the legal system.

Spotlight: The Justice Marcus Einfeld case

The case of Justice Marcus Einfeld highlights the important concept of equality and the responsibility to be truthful. Justice Einfeld was a former Federal Court judge and a leading figure in the law. He was widely respected but he was still convicted, showing that no one is above the law.

In 2009, Justice Einfeld was found guilty of perjury – the crime of being untruthful when dealing with the legal system. Einfeld had received a speeding ticket from a speed camera in 2006, but had written to the authorities to say that another person was driving the car. He did this via an affidavit and the fine and demerit points he incurred were reversed. An affidavit is a special legal document that is like a promise that you are telling the truth. What Einfeld stated in the affidavit was not true, and it was later discovered that he was in fact driving the car. By lying in the affidavit, Einfeld was in effect lying to the court, and he received a maximum three-year prison sentence.

Laws exist to regulate our society. They are designed to protect us, and our property, and to ensure that everyone in society behaves the way the community expects them to. Without laws, there would be **anarchy**. This would mean that people could do whatever they liked, whenever they liked and to whomever they liked. Therefore, we need to have laws to help us survive in such a complex society.

Spotlight: Rules versus laws

We are all familiar with rules. Parents usually have rules for their children, dictating how late they can stay up or how much screen time they can have. However, rules are not laws. A rule is specific and applies only to some people some of the time. For example, one school may require students to wear a tie with their uniform, while another school may require students to wear a hat. These rules only apply to students who attend that particular school and apply only when they are wearing their school uniform. When they get home and change their clothes, this rule no longer applies.

Rules vary greatly because each family or organisation has different expectations of what behaviour is acceptable. They also have different needs for rules. For example, the rules for cricket aren't the same as those for netball because the games are quite different. The law, however, is not specific. It applies to all of us all of the time. For example, the *Traffic Act 1909* (NSW) is the law that governs the use of roads in New South Wales by all road users, all of the time.



FIGURE 4.1.2 Rules apply to certain people at certain times, such as these ones that apply only to people who are using this particular pool.

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Laws, values, morals and ethics

The laws that are made in a society are a very close reflection of that society. They reflect the moral and ethical values that the society holds and are influenced by the main social, economic, religious and political factors of the time.

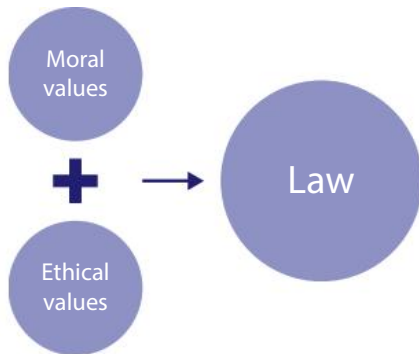


FIGURE 4.1.3 Influences on law

Morality can be considered as doing 'good things'. We divide morality into private and public. *Private morality* refers to the values that we each have personally. For example, one person may consider it immoral to swear, while another person may consider this to be acceptable. *Public morality* refers to the values that are held by society as a whole. These will often become laws. For example, our society considers it immoral to steal from another person, and so theft has been made illegal.

Ethics relate to what is 'right' rather than what is 'good', and we sometimes consider these to be duties. Sometimes, what is right may not be what is good. For example, a lawyer has an ethical duty to try to win a legal case for his or her client. This could mean the lawyer has to try to stop the court from punishing the client even though the lawyer knows the client is guilty. It would be considered unethical for lawyers not to try their hardest to win cases for their clients.

Role and responsibility of governments

In Australia, we live in a **democracy**. This means that our society is based around the idea that a government's power is derived from the will of the people and is exercised by them either directly or indirectly. This takes place through a system of representation – we elect individuals to represent us in **parliament**. This usually involves electing a member of a political party whose **policies** we agree with. (Australia's political parties are discussed in section 4.3.)

The form of democracy we have in Australia is known as **representative democracy**. In this type of democracy, we, as citizens, elect representatives to make political decisions for us. In a country the size of Australia, it is not physically possible to exercise **direct democracy** (except in a referendum – see section 4.2); there are too many complex and frequent issues to be dealt with. Representative democracy, therefore, is the option that suits us best.

Our representative democracy is also a **constitutional democracy**. This is a form of representative democracy in which the powers of the majority are embedded in constitutional provisions designed to guarantee the rights of all citizens. These citizenship rights are a core component in a constitution and can be amended to reflect social change. Constitutional democracy is the basis of Australia's political system.

Democracy is founded on a belief that all people are created equal and have certain rights that are inalienable; that is, they cannot be surrendered or transferred.

Structure of government in Australia

Every Australian is a member of a local community. There is no single central authority or government that makes all the decisions for all Australians. In Australia, areas of responsibility

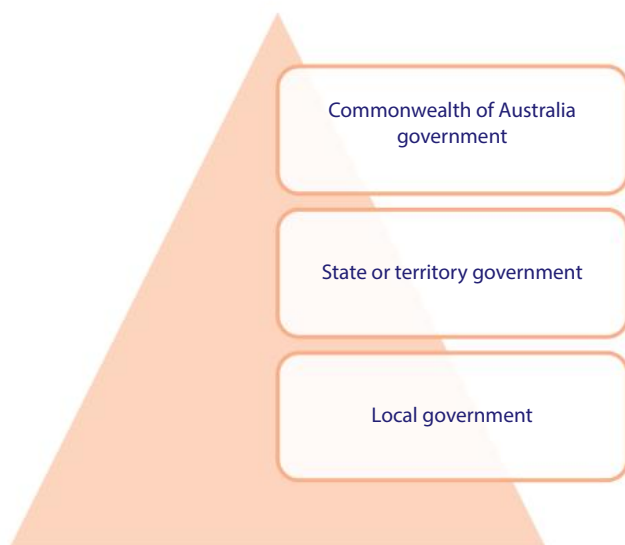


FIGURE 4.1.4 The three tiers of government in Australia

or jurisdiction are divided between the federal (national), state and local governments and their bureaucracies. This is referred to as the **division of powers** and is a key feature of Australia's system of government. This ensures that issues are addressed at the level most equipped to do so. For example, local planning issues and waste disposal are best dealt with at the local level. Issues such as education, health care, and law and order are best dealt with at a state level because the cost of providing these services is often well beyond the resources available to a local community. Issues such as national defence and relations with other countries are best dealt with at the national level.

The actions of all three levels of government have an impact, to some extent, on all individuals and communities. All three levels of government work together to meet the collective needs of Australian communities.

The federal government

The federal government, or Commonwealth government, decides on matters that affect the whole country. These responsibilities were given to the government in 1901 under the Australian Constitution and are shown in Figure 4.1.5.

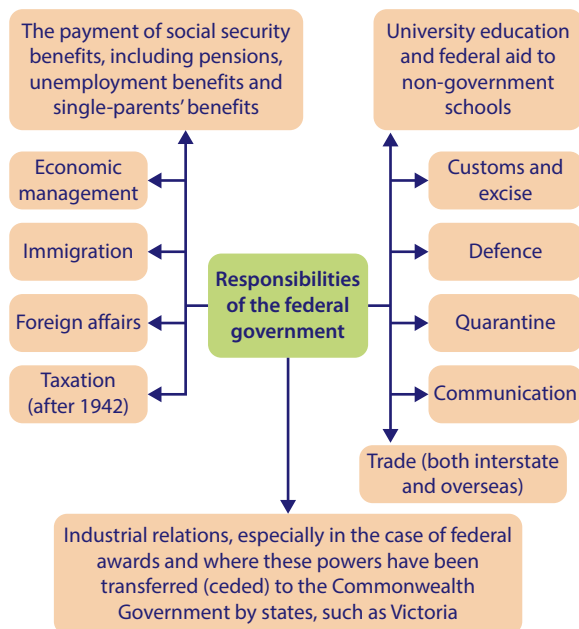


FIGURE 4.1.5 Responsibilities of the federal government

The political leader of the federal government is called the **prime minister**. To become prime minister, a party leader must be able to rely on a majority of votes in the lower house of parliament: the House of Representatives. The prime minister appoints a **ministry**, the members of which have responsibility for the various functions of government. The most senior ministers are members of the **Cabinet**, which is responsible for all the major decisions made by government.



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FIGURE 4.1.6 The two houses of the federal government, the Senate (centre) and the House of Representatives (bottom), meet in Canberra, the nation's capital.

State governments

Each Australian state and territory has its own government with its own responsibilities. The responsibilities of the state and territory governments are shown in Figure 4.1.7.

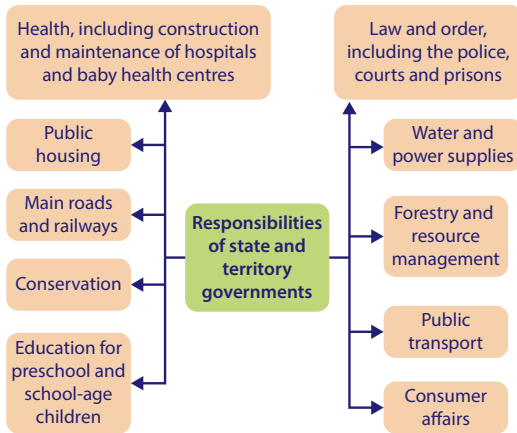


FIGURE 4.1.7 Responsibilities of the state and territory governments



FIGURE 4.1.8 Parliament House of New South Wales, Macquarie Street, Sydney



FIGURE 4.1.9 Responsibilities of local governments

The political leader of each state government is called the **premier**. In the Northern Territory and the Australian Capital Territory, the political leader is called the **chief minister**.

All state governments, with the exception of Queensland, have two houses of parliament. The NSW government, which consists of the Legislative Assembly and the Legislative Council, meets in Parliament House in Sydney's historic Macquarie Street.

Local government

Local government is the third tier of government. An individual local government is called a **council** or **shire**. Each council is responsible for a much smaller area than the federal or state governments. The responsibilities of local governments are shown in Figure 4.1.9.

Each local government area is governed by its own elected council. The elected head of the council is called the **mayor**. In shires, the elected head is called either the **president** or the mayor.

The Australian court system

Australia has a hierarchical court system. This means that the courts are graded into inferior and superior courts (see Figure 4.1.10). Each of the courts deals with different matters and has certain powers. Within the courts, there are various professionals who ensure the smooth running of **cases**. Each person in the legal system has a particular task to fulfil.

For many legal matters, the courts are the final place to resolve legal disputes, not the first. Courts are expensive and time-consuming places to have legal problems resolved. Therefore, people are encouraged to use all their other legal options first. However, when all else fails, the courts can be used to reach a **legally binding decision** that must be obeyed.

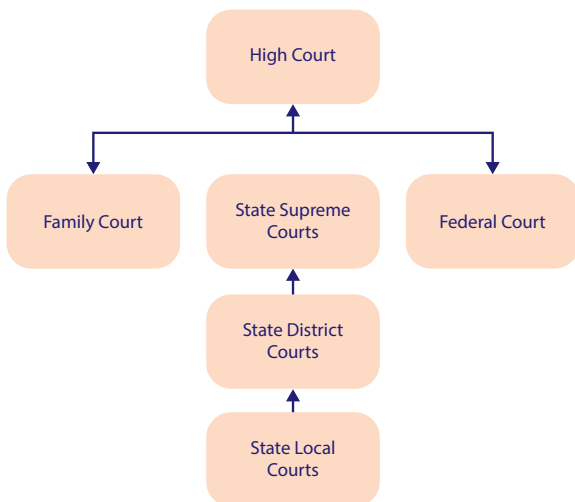


FIGURE 4.1.10 The court hierarchy in Australia

Courts in New South Wales

In Australia, most legal matters are the responsibility of state governments. As a result, most of our courts are state courts.

New South Wales, like all the other states, has a hierarchical court structure. This means that courts are 'ranked'. The position of a court within the hierarchy indicates the type of case that will be dealt with by the court. Table 4.1.1 shows the main courts of New South Wales.

TABLE 4.1.1 Main courts of New South Wales

COURT	POSITION IN HIERARCHY	MAIN ROLE
Local Court	Inferior court	This court is presided over by a magistrate and deals with less serious issues. It deals with more minor criminal law matters called summary offences . In civil law matters, it deals with cases involving damages of up to \$100 000.
District Court	Intermediate court	This court is presided over by a judge and deals with more serious criminal cases called indictable offences . In these cases, a jury of 12 people is used to reach a verdict. In civil law matters, it usually deals with cases with damages of up to \$750 000. This court also deals with all incidents involving damages resulting from motor vehicle accidents.
Supreme Court	Superior court	This is the most senior court in the state. It deals with the most serious criminal and civil cases and those involving very difficult points of law.

Federal courts

When a legal matter involves an aspect of federal law, it will be dealt with by a federal court. **Family law** is one such matter and is dealt with by the Family Court of Australia. Matters involving taxation, immigration, copyright and companies are dealt with by the Federal Court of Australia.

The High Court of Australia

The High Court of Australia is the most senior court in the country. It has two main areas of responsibility:

- It deals with all cases concerning the Australian Constitution. This is known as the court's original jurisdiction and it is a very important role. The High Court has responsibility for ensuring that the federal parliament does not exceed its powers. For example, in 2017 it ruled that numerous members of parliament were not eligible to be in parliament because they held dual citizenship with other countries and this was against the Constitution.
- The High Court is also the final court of appeal for Australia. When a court makes a ruling, its decision may be appealed to a higher court if there is a good reason. For example, a person convicted by the NSW District Court could appeal to the NSW Supreme Court if there was new evidence to show that they did not commit the offence. The High Court is the final step in any appeal. Once its decision has been reached, it cannot be appealed.



FIGURE 4.1.11 Located in Canberra, the High Court of Australia is the country's most senior court.

Legal personnel and juries

Role of legal personnel

Judges and magistrates



FIGURE 4.1.12 Judges are highly respected members of the community. Their role is to advise juries on legal issues and to pass sentences on those found guilty.

Judges and magistrates are the presiding officers of the court. Magistrates preside over local courts and are referred to as 'Your Honour'. In a criminal law matter, their role is to determine whether the accused person is guilty or not guilty. If they are found guilty, the magistrate then issues a sentence. In civil law matters, they must arrive at a verdict and then decide on what compensation should be made, if any.

Judges sit in the District and Supreme Courts, the High Court, and in some specialist courts, such as the Family Court. They are referred to as 'Your Honour' and usually have considerable legal experience. Criminal cases in these courts involve juries – whose task is to determine innocence or guilt. The role of the judge is to instruct the jury on legal matters and, if the jury finds the accused guilty, impose a sentence. In civil matters involving a jury, the judge fulfils a similar role.

Lawyers

In every court case there are two opposing legal teams. In criminal cases, the role of the prosecutor is to prove to the court that the accused person has committed a crime and should be punished. The defence lawyer is there to help the accused person show the court that they are innocent, or if shown to be guilty, to minimise the sentence imposed by the court.

Role and selection of juries

Juries are an important part of our legal system. They date back to medieval England when villagers were given the opportunity to pass judgment on their peers. In the Australian legal system, the jury consists of a group of 12 adults who are drawn at random from the community.

In New South Wales, the Office of the Sheriff of New South Wales has responsibility for administering jury duty. Two important pieces of legislation, the *Jury Act 1977* (NSW) and the *Jury Amendment Act 2010* (NSW), outline all the rules and procedures around juries and their selection.

The role of the jury is to determine whether an accused person is guilty of a crime. In order to convict a person, the jury must be satisfied that the evidence presented to it shows that the person is guilty beyond reasonable doubt. This means that if a juror (a member of the jury) has some doubt about the accused person's guilt, then the juror must find the accused not guilty of the charges.

Juries are used in all criminal trials (cases heard in the District or Supreme Courts), unless the accused wishes to forgo their right to a trial by jury. They have no role in passing a sentence. In some serious civil matters, juries of four or six people are sometimes used. In cases tried in NSW courts, the jury must reach an agreement of at least 11–1 for a verdict to be made. If the jury fails to reach this level of agreement, the judge will order a new trial with a new jury.



FIGURE 4.1.13 A jury is a random selection of citizens who are required to give a verdict in serious criminal cases.

In recent years, there has been much debate among the legal profession about whether juries should remain part of the legal system. Some argue that juries do not have the legal expertise to make fair judgments and that jurors often let their personal views get in the way of making just decisions. Others, however, claim that the system ensures that biased jurors are removed and that it is important for members of society to participate in the legal system by acting as jurors.

Statute law and common law

Making laws

Statute law is now the most common form of law-making in Australia. It involves parliament passing a bill, which is a proposed law or a change to an existing law. Statute law is considered very stable because it requires a new law to amend or change it. Laws made in this way are usually called legislation. The process for passing a bill in the Australian Parliament is summarised in Figure 4.1.14.

Making statute law can be a lengthy process and involves considerable debate. Each member of parliament (MP) may speak either for or against the bill before it is voted on. In the Commonwealth and NSW Parliaments, where there are two houses, both the upper and lower house must agree to the bill. This means there are many checks and balances to ensure that the bill will be of benefit to society.

In addition to being voted on, the bill must receive royal assent. This means that the governor-general (in the case of federal laws) or the governor (in the case of state laws) must approve the bill. Their role is to ensure that bills do not breach the Constitution – the laws governing the rights and responsibilities of government.

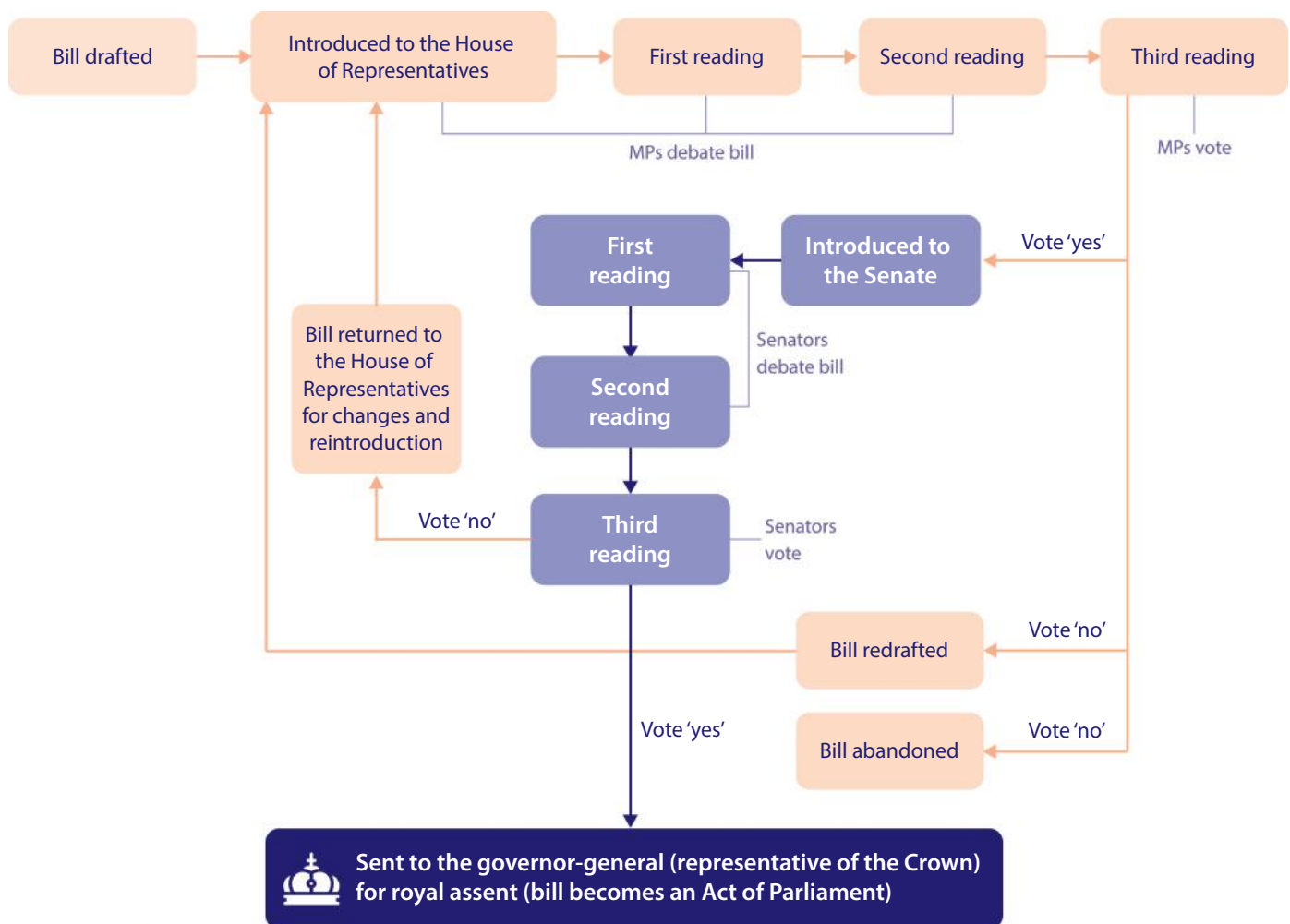


FIGURE 4.1.14 The passage of a bill through parliament

Spotlight: Case law – *R v. Rispen* [2018] NSWDC 403

This case was heard in the NSW District Court. The defendant in the case, Darren Rispen, pleaded guilty to supplying large amounts of illegal drugs. This was an offence against section 25 of the *Drug Misuse and Trafficking Act 1985* (NSW). The judge in the case, Judge Hatzistergos, used this statute law along with the *Crimes (Sentencing Procedure) Act 1999* (NSW) to determine that Rispen should be sentenced to a maximum of 15 years' imprisonment.

Common law is unique to those legal systems that adopted English common law, the legal system developed from the 11th century in Britain. Common law is based on the rulings of judges, and we therefore sometimes refer to it as judge-made law. This type of law is used when there is no appropriate statute law. When the judge makes a decision in relation to the matter, all lower courts must follow the decision. This is known as *following precedent*.

Common law is more easily changed than statute law. A decision by a higher court can abolish precedent, and parliament can also pass new statute law to overrule common law. To ensure important common laws are not lost, parliaments often act to make common law into statute law. This process is known as **codification**.

Spotlight: Case law – *Donoghue v. Stevenson* [1932] AC 562

This case is one of the most famous common law cases of all time. Mrs Donoghue visited a cafe with her friend and ordered a ginger beer. While she was drinking the ginger beer, a semi-decomposed snail floated to the surface.

Mrs Donoghue suffered severe gastroenteritis and launched legal proceedings against the ginger beer manufacturer. It was the first time a consumer had tried to sue a manufacturer for failing to provide safe goods. Initially, Mrs Donoghue lost the case and several appeals. However, she continued to fight until eventually the House of Lords – the highest court in Britain – agreed to hear her case.

Lord Atkin agreed with Mrs Donoghue, stating that consumers have the right to expect that the goods they use are safe. His decision set an important precedent – that every person and business must ensure that their actions do not cause harm to others; a concept now known as **duty of care**. Lord Atkin's decision has become an important part of common law in Britain, Australia and other nations of the Commonwealth.



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FIGURE 4.1.15 *Donoghue v. Stevenson* established the important concept that consumers are owed a duty of care by suppliers of goods and services.

Customary law

Customary law refers to the legal system and practices that were developed by the Indigenous people of Australia. The customary law of Aboriginal and Torres Strait Islander peoples has been in existence for thousands of years.



There is no one customary law in Australia; instead, each of the more than 500 Aboriginal and Torres Strait Islander nations developed their own unique customary law. However, there are a number of features common to all groups, including the importance of the Dreamtime to the establishment of customary law, as well as the significance of land, water and family.

Unlike in European legal systems, there is no concept of personal ownership of land in customary law. Instead, individuals are custodians of the land and water for future generations, and this informs much of the customary laws.

When Europeans invaded Australia, there was no recognition that Indigenous Australians had a legal system. This view was partly based on the fact that customary laws were not written; instead, they were passed down through song, stories and dances. However, in more recent times there has been growing recognition of the place of customary law in Australia. For example, New South Wales has introduced a special legal process called circle sentencing for Indigenous people in certain circumstances (this is discussed in greater detail in Chapter 9, section 9.3).

Types of law

Generally, laws can be classified into two main types:

- **Public law.** These are laws that deal with the standards of behaviour that society expects from its government and people and those who work within the government. Public law includes **criminal law**, as well as laws that relate to how governments operate (constitutional and administrative law).
- **Private law.** These are laws that deal with the way individuals interact with each other. Private law includes laws that regulate the behaviour of people towards each other and the behaviour of businesses. This type of law is commonly referred to as **civil law**.



Getty Images/Asanka Brendon Ratnayake/Anadolu Agency

FIGURE 4.1.16 Police have responsibility for enforcing the criminal law.

TABLE 4.1.2 Criminal law versus civil law

CRIMINAL LAW	CIVIL LAW
• Criminal law exists to protect the general public from harm. When a person breaks a criminal law, he or she is considered to be harming all members of society. Therefore, the police, on behalf of society, investigate the matter and bring the case against the accused. The prosecution (which represents society) is required to prove <i>beyond reasonable doubt</i> that the accused has committed a crime. • Criminal law is divided into a number of different categories. This includes crimes against people, such as homicide and assault, and crimes against property, such as theft.	• Civil law governs the legal relations between individuals and organisations. Civil law matters are launched by individuals or organisations who feel that they have been wronged by the actions of other individuals or organisations. There is no criminal activity, and the police are not involved. • In civil law, the person or organisation bringing the case is referred to as the plaintiff. They have the responsibility of proving that the defendant (the person or organisation they are accusing) has wronged them in some way <i>on the balance of probabilities</i>.

Domestic and international law

Domestic laws are those laws that apply within a specific geographic region. For example, in Australia, many laws are state-based. An example is the *Traffic Act 1909* (NSW), which is the traffic law that applies in New South Wales. Some laws are at a federal level and apply to the whole of Australia, such as the *Disability Discrimination Act 1992* (Cwlth).

International laws are very different. International law is a special type of law used to regulate the relations between countries. Unlike domestic law, international law is voluntary and countries have the power to choose whether they wish to be bound by the law. Many countries agree to international laws because they receive benefits from participating in them. International laws are called conventions, treaties or declarations.

Understanding the text

- 1 Explain why we have laws.
- 2 Distinguish between a rule and a law.
- 3 What is a democracy?
- 4 Explain the difference between a direct democracy and a representative democracy.
- 5 What is the type of democracy we have in Australia?
- 6 Describe the three tiers of government in Australia.
- 7 Explain what is meant by a hierarchical system of courts.
- 8 Outline the role of the Local Court.
- 9 Describe the functions of the High Court of Australia.
- 10 Describe the purpose of the jury.
- 11 Explain the difference between statute law and common law.
- 12 Why is common law considered less stable than statute law?
- 13 Describe the main features of Aboriginal and Torres Strait Islander customary law.
- 14 Differentiate between public law and private law.
- 15 What is the role of the plaintiff in a civil law case?

Activities

- 1 As a class, discuss what would happen if your school had no rules at all. What does this suggest about the importance of laws to society?
- 2 Write a short report on the key features of justice.
- 3 Write a short response on the way morals and ethics influence the law.
- 4 Write a paragraph outlining the responsibilities of each level of government in Australia.
- 5 Conduct a class debate on the topic 'Australia does not need three levels of government'.
- 6 Research your local council. Find out:
 - a where the local chambers are
 - b the issues that are high on the local government's current agenda
 - c the type of activities your council undertakes
 - d the name and duties of the local mayor/president.

- 7 Copy the table below. In the first column, list the activities that you may be involved in during a typical week; for example, watching television, going to school and playing soccer. How many of these activities do you think are part of a political process? Who oversees (has responsibility for) each activity? In the second column, list who has responsibility for each activity. An example has been included.

ACTIVITY	RESPONSIBILITY
Put out the rubbish for collection	Council's responsibility to pick it up

- 8 Gather photographs and text that depict the roles and responsibilities of the three levels of government in Australia. Glue these onto display sheets with the headings 'Roles and responsibilities of federal government', 'Roles and responsibilities of state and territory governments' and 'Roles and responsibilities of local governments' and hang them around the classroom.
- 9 Find out who the local federal or state member of parliament is for the electorate your school is in. In a small group, compile a list of questions you would like to ask him or her; for example, questions relating to their roles and responsibilities or the policies their political party has on issues important to you. Invite them to attend your school to answer the questions or email the questions to their parliamentary email address.
- 10 Consider the following examples and decide which court would be used in each scenario.
- Rex is charged with drink-driving.
 - Zoe is a vet and Felix has failed to pay her bill of \$8000 after she operated on his dog.
 - Mary has been charged with manufacturing a large quantity of drugs.
 - Queensland argues that the federal government does not have the power to make a law that it disagrees with.
 - Josh was found guilty of an offence in the District Court but has new evidence that he claims proves he did not commit the offence.
- 11 Review Figure 4.1.14. Write a short report on the passage of a bill through the federal parliament. Why do you think it can be difficult for a bill to pass?
- 12 As a class, discuss whether juries are relevant today. Create a list of the advantages and disadvantages of juries.
- 13 Based on the list you created in activity 12, do you think juries should continue to be used? Justify your answer.
- 14 Study the Spotlight box 'Case law – *Donoghue v. Stevenson* [1932] AC 562' and complete the following questions:
- Outline the facts of the case.
 - Explain why this case is considered so important.
 - Do you think the decision of Lord Atkin was fair? Justify your response.

4.2 Law reform, political action and decision-making

Changing laws

Effective laws are those that reflect the wishes of the majority of society. This majority view is referred to as the **social norm**. The norms of a society come from the moral and ethical views that are widely held by the members of that society. These social norms change as social values change. It is very important that the laws reflect these social norms; when most people agree with the laws that are made, the laws will be respected and can, as a result, be enforced. It is therefore important that laws can be changed when the moral and ethical values of society change.

Changing statute law

In order to change a statute law, a new bill must be passed by the relevant parliament. These bills are known as *amendments* and must go through the same process as any other bill. Such amendments are very common and often make small changes to the legislation. However, sometimes these amendments create very significant changes, reflecting a major change in social norms.

Changes to the law relating to marriage are a recent example of such a significant change. Marriage is a federal power and is covered by the *Marriage Act 1961* (Cwlth). This Act defined marriage as a union between a man and a woman. Therefore, under this legislation same-sex marriage was not permitted. However, by the 2000s this law was increasingly out of step with the social norms that had developed in Australia around same-sex relationships. Ultimately, after much pressure and a survey of all Australian voters, the federal parliament passed an **amendment Act**, the *Marriage Amendment (Definition and Religious Freedoms) Act 2017* (Cwlth). The key point of this Act was to change the definition of marriage. The 2017 law changed the definition from 'a man and a woman' to 'two people'. As a consequence, same-sex marriage became legal, with the first same-sex marriage in Australia taking place on 15 December 2017.

Sometimes legislation is not needed at all. In this case, rather than an amendment Act being passed, the parliament can pass a **repeal Act**. This means that the legislation is no longer in force. It is common to repeal Acts that have been replaced with different ones or that cover things that are no longer relevant.

Changing common law

Changing common law is a relatively easy process, which is why some people are critical of it. As you have learnt, common law is created through the decisions of judges. This process is affected by the hierarchical structure of Australian courts. A lower-court judge can make a decision that creates a common law. However, that law can be changed by the decision of a judge in a higher court.

For example, let's assume that a common law was made by the decision of a single judge of the High Court in relation to copyright. First, for this decision to remain valid, there must have been no statute law appropriate to the case. Let us assume that there was not and that the judge's decision has now created common law about this aspect of copyright. Six years later, there is another case being heard in relation to a similar copyright matter. This time, the case is being heard on appeal to the full bench of the High Court, meaning that all seven justices of the High Court are hearing the case. In this case, the court takes a different view from the original single judge. Is the full bench a higher court than a single judge? Yes, and therefore the common law will be changed in accordance with the ruling of the full bench.

Sometimes parliaments are not pleased with a judge's decision that has created common law. Under our legal system, statute law takes precedence over common law. Consequently, the parliament can pass a statute that changes an aspect of the common law.

Influencing and evaluating politicians

Individual actions

Individuals can influence decision-making processes. They can, for example, write or meet with their local member of parliament or councillor (a representative on the local council), or write a letter to a newspaper or phone a talkback radio program. They can also engage in **direct action** (protests and demonstrations, such as **sit-ins**), but must be careful not to break any laws. It is also important to note that every Australian citizen has the right to stand for election.

Lobby groups

A **lobby group**, also known as an interest group, is a group of people who campaign on a cause or interest that they have in common. There are various types of lobby groups, such as **trade unions**, community-based groups, and professional or trade associations. (A professional or trade association is a group made up of people from a particular profession or trade.)

Lobby groups are major players in the political life of all democratic countries. People with similar views often work together to achieve a common objective. They do this by raising the public's awareness of an issue or by trying to influence, either directly or indirectly, decision-making processes. Lobby groups regularly use political parties to influence the decision-making process.

Many lobby groups have close links with political parties, such as trade unions with the Australian Labor Party, business groups with the Liberal Party, and farming organisations with the National Party.

Spotlight: GetUp!

GetUp! was founded to give individuals a voice on issues that they are passionate about. It is a politically progressive organisation. Its concerns include a range of community-based issues and it is active in supporting local action groups with their campaigns. It is not affiliated with any political party, but is most concerned about community – and therefore national – values. It relies on people power to effect change in communities. Along with over one million members, it includes a team of expert strategists. These strategists coach local **activists** on the best ways to promote issues and bring about change. This involves raising the public's awareness of issues.

GetUp! campaigns on a range of issues, including environmental justice, human rights, economic fairness and democracy. Some examples of its activities include lobbying against funding cuts to public hospitals, stopping Adani's Carmichael coalmine because of the threat it poses to the Great Barrier Reef and damage to groundwater aquifers, and seeking racial justice for Aboriginal, Torres Strait Islander and multicultural communities. It also campaigns to defeat conservative members of the Coalition parties and for the establishment of an anti-corruption watchdog to keep politicians honest and their spending transparent.

The key to GetUp!'s success is that it provides a participatory outlet for individuals from all age groups and walks of life. It has a strong online presence, so people can visit its website and see how the campaigns they have an interest in are proceeding.

GetUp! supports democracy by offering individuals the opportunity to have a voice and influence the development or implementation of public policy.



FIGURE 4.2.1 A GetUp!-organised candlelight vigil in Hyde Park, Sydney. Activists are campaigning for the closure of the Manus Island and Nauru offshore detention centres.



GetUp!

CROSS-CURRICULUM PRIORITIES

Richard Milnes/Alamy Live News

The media

Newspaper, television, radio and social media via the internet play an important role in bringing issues to the public's attention. They are also the main means by which politicians communicate with the public and provide a forum for members of the public to comment on issues.

Spotlight: Talkback radio

Talkback radio is a popular way for members of the general public to give voice to their concerns about **current issues**.

With the possible exception of the ABC, talkback radio has a tendency to appeal to an older, conservative demographic. Talkback stations such as Sydney's 2GB have been accused of running a far-right political agenda and, while attracting only a fraction of the available daily radio audience, tend to set the political agenda of the day. Critics of the format argue that it has too much influence over governments and that it simply acts as an 'echo chamber' for the existing prejudices of its audience. Some accuse the talkback radio hosts of Sydney's 2GB of wanting to be political players. Alan Jones and Ray Hadley, for example, actively campaigned for the overthrow of Malcolm Turnbull as prime minister, and Chris Smith went as far as using his program to organise and promote anti-carbon tax rallies in Canberra.

Some talkback radio hosts take an element of a complex issue and provide commentary in a form that is likely to provoke a response from listeners, who obligingly phone in to give a carefully vetted opinion. An example of this is the issue of global warming. Some talkback commentators deny that global warming is an issue. Some refer to it as a 'hoax', simply reject the science, and claim that it is part of some vast international left-wing conspiracy. In some instances, the truth may be twisted (or ignored) and a caller's point embraced at the expense of other factors. As each caller rings in, an anecdote or idea may be treated as fact. Talkback radio can persuade listeners who rely on this medium as their main source of information on a topic to believe what may not be true or may be only partially true. This is one reason why it is important to understand the purpose or motive of a talkback program and the opinion offered.

Some talkback radio hosts have been accused of 'cash for comment'. This means that undisclosed sources, such as political parties or candidates and in some instances corporations, may pay money for the radio station or announcer to support a particular point of view or issue. These radio stations and talkback hosts typically choose which callers are put to air, giving the impression that the majority of the listeners support or oppose a particular issue.

Two talkback radio hosts you might wish to investigate further are Derryn Hinch and his stance on naming certain criminals and the results of his actions, and Alan Jones, who is seen by many to be promoting right-wing politicians and causes.



FIGURE 4.2.2 Controversial talkback radio host Alan Jones

Alamy Stock Photo/Greg McNevin

Referendums

Constitutions are difficult to change. Because they outline the way in which a nation is governed, they can only be changed with the consent of the people, from whom all power is derived. In a democracy such as Australia, it would be inappropriate for a government to alter the rules under which it exercises power.

However, like all laws in Australia, the Constitution needs to be updated from time to time to better reflect the needs and aspirations of Australian society.

Any change requires a **referendum**. This is a specific vote by the people to change an aspect of the Constitution. In Australia, the Constitution requires that a majority of people in a majority of states must agree to the change. This means that more than 50 per cent of all Australians must agree, together with a majority of people in at least four of the states.

Before a referendum can be held, the federal parliament must first pass a bill that contains the proposed change. If parliament agrees to the change, then the referendum will go ahead. Usually this involves asking the people a question to which they answer 'yes' or 'no'. Very few referendums have been successful in Australia – just eight from 44 proposals to date.

Spotlight: The 1967 referendum

The 1967 referendum on Aboriginal people was the most successful in Australian history, with more than 90 per cent of Australians voting 'yes'. This referendum asked the people to vote on changing sections 51 and 127 of the Australian Constitution to enable the federal government to make laws on behalf of Aboriginal people (until then, Aboriginal matters were the concern of each state) and to include them in the Census. These changes meant that Aboriginal people would gain the same rights as the rest of the Australian population and would become classed as Australian citizens.

As a result of the successful referendum, section 127 of the Constitution was repealed and section 51(xxvi) was changed to read:

(xxvi) the people of any race, ~~other than the aboriginal race in any State~~, for whom it is deemed necessary to make special laws

(Note: Any deletion to the Constitution is made by striking out the deleted section. Additions are shown by inserting the new text in bold.)

This referendum profoundly changed the status of Australia's Indigenous peoples. It reflected the changing views Australians had towards Aboriginals and Torres Strait Islanders. All the major political parties campaigned for Australians to agree to the change. It was argued that Australians had a moral and ethical duty to ensure that Indigenous Australians enjoyed the same rights as all other Australians.



Understanding the text

- 1 Explain why it is important that laws can be changed.
- 2 Outline how parliament changes statute law.
- 3 Describe the process of changing common law.
- 4 Describe some of the actions that you can take to influence the decision-making process.
- 5 Describe what a lobby group is.
- 6 List the ways in which an interest group, the media or political parties can bring about political change.
- 7 Explain what a referendum is and what is required for a successful referendum in Australia.

Activities

- 1 In small groups, discuss whether you think the law really reflects the social norms of our society. In particular, consider those laws that relate to young people.
- 2 Conduct a class debate on the topic 'Do you think parliament should be able to pass legislation to change common law?'
- 3 Think about a local issue that concerns you. What action would be most appropriate for you to take to influence decision-making about this issue? Write a paragraph justifying your answer.
- 4 Survey a group of adults, which may include your parents or teachers. Find out whether they belong to an interest group. If they do, find out whether the group tries to influence governments in any way.
- 5 Identify an issue in the local area. Outline the steps you would take to establish an interest group based on this issue. Brainstorm the strategies your group could use to achieve its objectives.
- 6 Access the GetUp! website and research the goals and aims of this group. Write a report outlining these and investigate a recent GetUp! campaign. Include a summary of this campaign in your report.
- 7 A successful referendum is rare in Australia. Some people have argued that the process should be simplified. With a partner, make a list of advantages and disadvantages of doing this. Examine your list and write a paragraph either in support of or against simplifying the process.



GetUp!

4.3 Participation in the democratic process

An important part of living in a democracy is that we, as citizens, have the right to speak up about issues that concern us. Not only can we freely voice our opinions, we can also do something about changing the situation if we can persuade a majority of people to support our point of view. Alternatively, we are free to protest if the government does something (or proposes something) that we disagree with. Simply stated, we undertake political action in order to make things better or to prevent them from getting worse. By engaging in political action, we hope to influence the decision-making processes of those who represent us. When there is an issue that you feel strongly about, there are a number of actions you can take to influence decision-making processes. These include joining a political party, taking individual action, becoming an activist in an interest group and contacting the media.

The right to vote

In Australia, it is the right and responsibility of all citizens aged 18 years and over to vote in federal, state and local government elections. This normally involves casting a vote for the candidate representing

the political party the voter believes is best equipped to run the country, state or local government area. Federal elections must be held at least once every three years. The 1901 Constitution did not mention how the voting process was to operate in Australia. After **Federation** in 1901, voting was still voluntary and it was not until 1924 that voting in federal elections became compulsory.

Conducting elections

Elections are central to the democratic political process. Australia has a highly regarded electoral system, the key features of which are outlined below.

Methods of voting

There are two different methods of counting votes in elections at the state and federal levels. These systems are first-past-the-post and preferential voting.

First-past-the-post voting system

With the first-past-the-post system, the candidate who receives the most votes wins. This system was initially used for federal elections, beginning with Federation in 1901, and continued as the main form of voting in federal elections until 1918. It is no longer used in political elections in Australia and has been replaced by preferential voting at federal, state and local government levels. Under the first-past-the-post system, the voter puts an 'X' in the box next to the preferred candidate's name and leaves the other boxes blank. The candidate with the most votes (or 'X's next to his or her name) is declared the winner.

This system is the most straightforward way of voting.

Preferential voting system

Preferential voting is a more complicated voting system. It replaced the first-past-the-post system for federal elections in 1918. It is now used for federal, state and local elections throughout Australia, with the notable exception of Tasmania, where the *Robson rotation* is used. The Robson rotation requires that **ballot papers** for elections for both houses of the Tasmanian Parliament are printed in batches of equal numbers. Each batch has the name of a candidate or candidates in different positions in the party column. For example, Candidate A may appear first on some ballot papers but will appear elsewhere on other ballot papers. The position of first is equally distributed among all candidates so that no one candidate is advantaged or disadvantaged.

In preferential voting, voters must show their **preferences** by giving each candidate a number. The most preferred candidate is given the number 1, the next preferred candidate is given the number 2, and so on until all the candidates have been numbered. For the vote to count, all candidates must have a number against their names. If the ballot paper is incomplete, has a number repeated or missing, or is illegible, it is considered an **informal vote** and is not counted. When an elector simply numbers the candidates sequentially down the ballot paper, it is called a **donkey vote**.

To win a seat in parliament under this system of voting, a candidate must receive 50 per cent of the vote plus one vote. This means that if there are 3000 voters, a candidate needs 50 per cent of these votes (1500 votes) plus one vote, or 1501 votes. This may occur after the first round of votes is counted. If it doesn't, the candidate with the fewest votes is eliminated from the counting. This candidate's votes are then redistributed to all the remaining candidates; that is, the next preferred person gets the eliminated person's votes. If this still does not produce a winner using the rule of 50 per cent plus one, the same procedure is repeated: the person with the fewest votes after the redistribution will be eliminated and that person's votes will be reallocated to the candidate who received the elector's second preference. This will continue until a winner is decided.

This system seems complicated but does have advantages. It ensures that the most widely preferred candidate is elected and the supporters of minor political parties and independent candidates can still have an influence on the outcome of the vote.

Those who oppose this system of voting argue that it is unfair and that the most preferred candidate may not be elected. They also claim that it takes longer to decide and it is complicated and hard to understand. Some also argue that small political parties exert more influence than they deserve under this system.

Most political parties in Australia hand out 'how to vote' cards showing voters how to allocate their preferences. Ultimately, however, each voter has the right to distribute their preferences in the way he or she chooses.

Optional preferential and proportional voting

Some states have an optional preferential system of voting, which is another form of preferential voting. When the optional preferential voting system is used, the voter can select just one candidate or allocate preferences.

In New South Wales, the method of voting used for the Legislative Council (the upper house) is known as **optional preferential proportional representation**. The names of all candidates are shown on the ballot paper, and if a candidate has been endorsed by a registered political party, the candidate's affiliation (association) with that party is also shown.

A 'group' or party must consist of at least 15 candidates before it can have a group voting square above the thick black line. Candidates not included in a group are shown in a column on the extreme right of the ballot paper. These are generally referred to as the 'ungrouped candidates'.

The group or party determines the order of candidates within their group on the ballot paper, but the position on the ballot paper of the group or party is determined by a draw conducted by the **electoral commissioner**.

There are two ways to vote using this system:

- *Above the line.* This is done by placing the number 1 in one of the group voting squares located above the thick black line on the ballot paper. This will record a vote for the first candidate in that group, with the preferences going to the other candidates in that group.
- *Below the line.* Persons voting below the line must select their own order of preferences by placing the numbers 1 to 15 in the squares next to the names of 15 candidates in order of their preference. Persons can vote for additional candidates by placing consecutive numbers, beginning with the number 16, in the squares next to the names of those additional candidates.

To be elected, candidates generally need to obtain a quota (about 4.5 per cent) of the total formal votes cast in an election. The quota is determined by using a formula set out in the electoral legislation. Those candidates who receive a number of first preference votes that is equal to or greater than this quota are elected. The quota figure remains the same for the whole count. Any votes a candidate receives above the quota are known as surplus votes and may be redistributed to the remaining candidates according to the voter's next preference. The process continues until all 21 members of the Legislative Council have been elected.

Australia's major political parties

Political parties are the chief means by which **political power** is exercised in Australia. They draw together people who have similar political ideas. While these people may not agree on all matters, the party does provide a means for people of broadly similar interests to meet and to develop and promote their ideas. They also offer the best chance for implementing these ideas if the political party is in a position to form a government.

Two major political parties dominate Australia's political system: the Australian Labor Party and the Liberal Party of Australia with its coalition partner, the National Party. Smaller political parties include the **Greens**.

The Australian Labor Party (ALP)

Before the 1890s, workers in Australia relied on trade union organisations to negotiate improved living and working conditions. At this time, the major political parties (the Free Traders and the Protectionists) represented the interests of employers. The parliament could therefore be used to oppose the workers' demands and act to weaken the power of organised labour; that is, the trade unions. To better represent their concerns, in 1891 workers decided to form their own political party, the Australian Labor Party (ALP). The ALP became a federal party when the former Australian colonies federated in 1901.

Australia's first Labor government took office in May 1904, with JC (Chris) Watson as the first Labor prime minister. Other famous Labor prime ministers include Andrew Fisher, John Curtin, Ben Chifley, Gough Whitlam, Bob Hawke, Paul Keating, Kevin Rudd and the first (and, to date, only) female prime minister, Julia Gillard. Traditionally, the ALP sees itself as a representative of working families. It is seen the more **progressive** of Australia's two major political parties.



Getty Images/Brook Mitchell

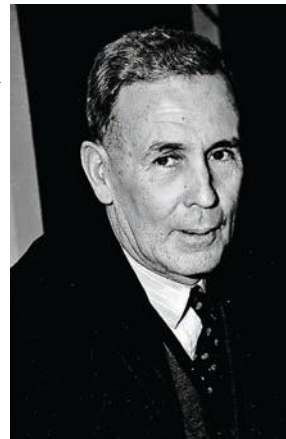
FIGURE 4.3.1 Anthony Albanese became the leader of the Australian Labor Party after the 2019 federal election. The ALP is the more progressive of Australia's two major political parties.



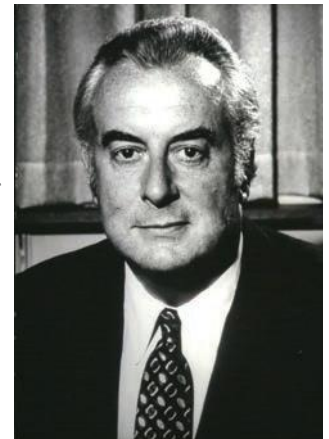
Australian War Memorial H16067



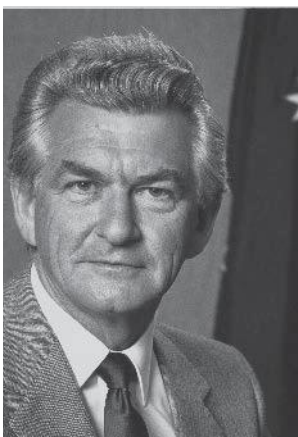
National Library Australia, Portrait of John Curtin, Prime Minister of Australia, 1941-1945



Farifax Syndication/F.J.Haimarick



Alamy Stock Photo/Keystone Press



National Library Australia, Bob Hawke, Prime Minister of Australia 1983-1991, photo by Michael Jensen



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FIGURE 4.3.2 Famous Labor prime ministers: (top row, left to right) Andrew Fisher, John Curtin, Ben Chifley, Gough Whitlam, (bottom row, left to right) Bob Hawke, Paul Keating, Kevin Rudd and Julia Gillard, Australia's first and so far only female prime minister



FIGURE 4.3.3 Prime Minister Scott Morrison at the 2019 Liberal Party federal election campaign launch. The LP is one of Australia's two major political parties.

The Liberal Party (LP)

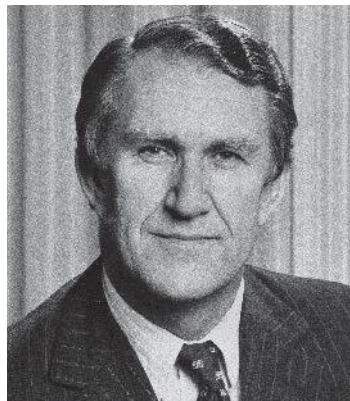
The Liberal Party was formed by Robert Gordon Menzies in 1944. Menzies believed that the non-Labor parties should unite to present to the Australian people a strong alternative government.

In the federal election of 1949, the Liberals, in coalition with the Country Party, won the right to form a national government with Menzies as prime minister. Menzies went on to become Australia's longest serving prime minister – 18 years in total, a record that remains today. Other famous Liberal Party prime ministers include Malcolm Fraser and John Howard.

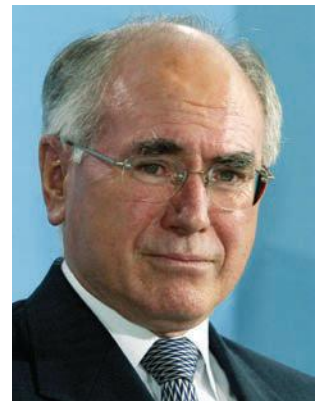
The Liberal Party has traditionally been seen as supportive of big and small business, which they see as the cornerstones of a prosperous nation. The Liberal Party (along with its National Party colleagues) is seen as the more **conservative** of the two major political parties.



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National Archives Australia A6180, 6/178/2



Alamy Stock Photo/dpa picture alliance archive



Getty Images/Scott Barbour



Shutterstock.com/360b

FIGURE 4.3.4 Famous Liberal prime ministers: (top row, left to right) Robert Menzies, Malcolm Fraser, John Howard, (bottom row, left to right) Tony Abbott and Malcolm Turnbull

Independents

An **independent** politician is one who has no affiliation with a political party. This means that they are able to vote based on their own ideology. In federal government, the majority parties often try to persuade independents to vote with them so they can have a bill passed. This is because, to change a law or introduce a new law, a majority is needed.

Forming a government

In Australia's federal parliament, political parties generally provide the government and the opposition. For a government to be formed, one of the major parties needs to have a required 76 seats in the House of Representatives (the lower house). The party that wins the second largest number of seats forms the opposition. In some elections, no political party can claim 76 seats because a number of independents may win seats. Independents are not connected to any political party but may be popular candidates in their electorate. If this is the case, a hung parliament results. In this situation, the governor-general asks the party leader with the largest number of seats (elected members) to try to form a government. The party leader, in such a situation, will seek the support of one or more of the independent members or members of small parties, such as the Greens. If no one party controls both houses of parliament, it is important to have the support of minor parties or independents for either side to be able to change laws in parliament.

Once a government is formed, the leader of the majority political party becomes the prime minister. The prime minister appoints members of their party to make up their ministry. The ministers have the responsibility for the various functions of the government. The prime minister and senior ministers make up the Cabinet. This group is the main decision-making body of the government. The role of the Cabinet is to direct government policy and prioritise national issues. This includes deciding which proposed laws (known as bills) should be introduced into federal parliament. An example of this could be if Cabinet decides to introduce a bill to do with Indigenous Australians – in this case, the minister for Indigenous Australians and the National Indigenous Australians Agency (NIAA) will meet to decide on the issue.

Other roles of the Cabinet are to direct a government department to investigate an issue and make recommendations to address it, to explore how current policy or law is interpreted and enacted, to decide whether an amendment (a change to an existing law) is required, or to consider current policy and identify if a new law is required.

A policy outlines what a government intends to do and the method it intends to use to achieve it. A policy may also outline what a government does not intend to do and how it may prevent or annul an issue. Policies are not law, but these policies can lead to new laws.

Spotlight: The role of the governor-general

The role of the governor-general is unique within Commonwealth countries. A Commonwealth country is one that was once – and may still be – affiliated with Britain. As a sovereign state, Australia's governor-general position was established in 1901 when the Constitution was ratified.

The governor-general is appointed by the monarch (Australia's head of state) on the recommendation of the prime minister. He or she represents the Queen, carrying out most of her constitutional and ceremonial duties within the Commonwealth of Australia. The governor-general chairs the federal Executive Council and is commander-in-chief of the Australian Defence Force. Other responsibilities include (formally) appointing ministers, judges and ambassadors; giving royal assent to legislation passed by parliament; issuing writs for election; and awarding of Australian honours.

Separation of powers

In Australia, there are three branches of power. These are the legislature, the executive and the judiciary. The legislature is the parliament, or the law-making body in Australia. The executive is the head of state, his or her advisers, and the relevant departments and agencies. This is also called the government. The judiciary is the courts and magistrates who run it. The judiciary enforces the laws made by the legislature.

The reason why we have these three agencies is to maintain a balance of power. It is also known as checks and balances. In other words, if only one of these agencies had full power, and there were no other agency to check on it, the agency would be more likely to be open to corruption. This would be against the principles of a democracy.

Understanding the text

- 1 In Australia, who can vote?
- 2 How often are federal elections held?
- 3 When did voting in federal elections become compulsory?
- 4 Name and explain the two main methods of voting used in Australia.
- 5 Outline what is meant by the separation of powers.

Activities

- 1 Find out more about our electoral system by accessing the websites of the NSW Electoral Commission and the Australian Electoral Commission. Using these sites as resources, test your understanding of our electoral processes by conducting your own classroom ballot. You have the opportunity to elect one person from your class to represent young people in the wider community. Follow the steps below:
 - a Select five volunteers to be your candidates. Each candidate is to prepare and present a three-minute campaign speech on issues of interest to young people.
 - b Construct a ballot paper with the five names. The order of candidates should be determined by drawing names out of a hat or another random method. As each candidate is selected, add his or her name to the ballot paper until all five candidates have been selected at random.
 - c Conduct the ballot using the first-past-the-post voting system and count the votes. Write down the name of the winner.
 - d Now use the preferential voting system to count the votes from the same ballot. Was the result the same in each case? If not, explain why this may be the case.
 - e As a class, discuss the advantages and disadvantages of each of the voting procedures used.Alternatively, from the Australian Electoral Commission site download the materials required for running a simulated election in your classroom.
- 2 As a class, discuss the idea that compulsory voting does not follow the ideals of a democratic society.
- 3 Write an exposition on the topic 'A true democracy would not make voting compulsory'.
- 4 As a class, you need to make a decision on how much homework you should be given each day. In order to make this decision, follow the procedure outlined below:
 - a Individually, each student writes his or her preference for the amount of homework (hours per week) on a piece of paper. This is to be shared with no other student at this stage. It is a secret ballot.
 - b One student is asked what his or her preference is. The teacher states that this is the final decision. (Students should complain!) As a class, discuss the advantages and disadvantages of this type of decision-making system.



NSW Electoral
Commission
Australian Electoral
Commission

- c The teacher then asks all students to submit their secret ballot. Two students, selected at random, count the votes and announce the majority.
 - d The approach used in part c, above, represents the system of democracy – where majority opinion rules. As a class, discuss the advantages and disadvantages of this system as it applies to how much (or how little!) homework you, as a class, should be expected to do.
- 5 Access the ALP website and complete the following tasks:
 - a Outline the origins of the Labor Party.
 - b When was the federal Labor Party formed?
 - c What are the ALP's links with the trade union movement?
 - d Who is the current leader of the federal Labor Party?
 - e Who can be a member of Young Labor?
 - f Who was the first female Labor politician?
 - 6 Write a one-page report outlining the values and objectives of the ALP.
 - 7 Access the Liberal Party's website and repeat activities 5 and 6 for the Liberal Party.
 - 8 Study the Spotlight box 'The role of the governor-general' on page 199. Write a paragraph outlining the governor-general's role.
 - 9 Why do you think the separation of powers is considered such an important aspect of democracy in Australia?



Australian Labor Party



Liberal Party of Australia

4.4 Current issues

In this section, you have the opportunity to investigate a current issue in order to account for differing points of view and the role of active citizenship. Two issues are offered as examples. Read the examples and investigate the range of opinions or perspectives related to the issues of Aboriginal constitutional recognition and access to bail.

Spotlight: Aboriginal constitutional recognition



The Australian Constitution was enacted in 1901 as the founding document of the new nation. It recognised the amalgamated states and territories as a nation. This was a time when the continent was believed to be 'terra nullius' – or land that belonged to no one before the arrival of the Europeans. The existing Indigenous population was portrayed as a dying race and therefore not considered as human, let alone worthy of citizenship. This racial group was most certainly not considered as a focus when the details of the Constitution were being debated.

Since that time, government policy has radically changed – from Indigenous people not being recognised as citizens (until 1967), to self-determination, including government policies that aim to 'close the gap' between the Indigenous population and mainstream society in areas such as health, education, wealth and employment.

Support for various Indigenous issues is raised at every election, often followed by a widely broadcast public ceremony, funding initiative or government action by the incoming government. Often, however, this leads to little long-term, effective change. An example of this is the National Apology to the Stolen Generations. The Australian Government honoured Aboriginal and Torres Strait Island peoples as 'the oldest continuing cultures in human history'. This shows that, in theory, government recognises the significance of our first peoples. Further government policies and actions, both private and government-run, recognise that Indigenous Australians should

have the same rights and responsibilities as the majority groups within our diverse population. However, as of 2019, Indigenous Australians were still not recognised in the federal Constitution. Indigenous Australians are recognised as Australian citizens in the state constitutions of Victoria, New South Wales and Queensland.

Why is constitutional recognition important?

Twenty-first century Australian society is a very different society from the one reflected in the 'birth certificate of a nation' – the Australian Constitution. We, as a nation, pride ourselves on ethnic diversity, tolerance and equality, yet our Constitution does not reflect this. In fact, it has no protection against racial discrimination. As the make-up of our population has changed from the times of British rule to the ethnic diversity evident today, it is timely that the Constitution be amended to reflect contemporary society. This would make it a useful working document rather than just a historical artefact.

Australia is an official member of the United Nations and a signatory of the United Nations Declaration on the Rights of Indigenous Peoples. The Declaration is an important piece of international law, as it sets the standards for the survival, dignity and wellbeing of all Indigenous peoples. Specifically, Article 15 outlines the rights of Indigenous peoples to have their dignity and diversity of cultures respected, and places expectations on signatories to take action in conjunction with Indigenous peoples to combat prejudice and to promote tolerance, understanding and good relations.

In order to change the Constitution, a referendum needs to be held where all citizens vote either 'yes' or 'no' to the amendment proposed. For a referendum to be successful, it must secure a majority vote of the Australian population and the approval of a majority of states and territories.



FIGURE 4.4.1 Indigenous Australians are becoming increasingly assertive in their insistence that their grievances be addressed. These include constitutional recognition.

Spotlight: Access to bail

There has been a significant increase in the number of prisoners in New South Wales. For example, by 2018 there were around 13 500 prisoners in the state, more than 4 800 of whom were being held on remand.

Remand is a special type of detention used to hold a person who has been charged with an offence but who has not yet been tried in the courts. In other words, they are people who are accused but who have not yet been found guilty. Often, when a person is charged with an offence they are released on bail with certain conditions (such as reporting to police regularly) until their case can be heard before the courts. Bail involves the accused, or a person who supports them, providing a sum of money that is held by the court and is returned once the person has shown up for their court case. If the person runs away, the money is lost and the court will have the accused person arrested.

Bail can be denied where there is a concern the person will flee, where they are thought to be a serious threat to the safety of the community, or where there is a strong indication they will try to interfere with the witnesses who will give evidence in the case against them. In these circumstances, remand is used.

However, there has been a change in New South Wales from a presumption for bail to one against, in many categories of crime. This means that in the past the prosecution had to show why someone should *not* receive bail,

but now the defence must show why the accused *should* get bail. This is particularly a problem for individuals who do not have legal representation, because they are less able to understand the legal process and typically less able to obtain bail, resulting in the high number of people on remand.

Activities

- 1 Read the information about the Australian Constitution found on the Parliamentary Education Office website and then complete the following tasks:
 - a Recount why the Australian Constitution was enacted.
 - b Discuss as a class if the document applies to 21st-century Australian society. Give reasons for your answers.
 - c Read the United Nations Declaration on the Rights of Indigenous Peoples. Do you think Australia implements this? Discuss in groups.
 - d Do you think the Constitution should be changed to include all citizens? Give reasons for your answer.
- 2 Study the Spotlight box 'Access to bail' and complete the following tasks:
 - a Outline the purpose of remand.
 - b Explain the reasons why people who represent themselves face challenges around bail.
 - c Do you think remand is a fair concept, given that the accused has the presumption of innocence? Explain your response.
 - d As a class, discuss how the needs of the accused and of society might be achieved in the pursuit of justice for both victims and the accused.



Parliamentary
Education Office
– Australian
Constitution



United Nations
Declaration on
the Rights of
Indigenous
Peoples



5

OUR ECONOMY

CONTENT OVERVIEW

- 5.1 Performance of the Australian economy
- 5.2 International trade and the Australian economy
- 5.3 Global influences on the Australian economy
- 5.4 Current issues

CONTENT FOCUS

In this option, we focus on Australia's place in the global economy. You will learn about the ways Australia's economic performance is measured, its major trade patterns, the impact of changes in our economy and how these changes impact on consumers, businesses and the broader society. You will also investigate some of the global influences on the Australian economy.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- How is Australia's economic performance measured?
- Who are Australia's major trading partners and what goods and services are traded?
- What changes are occurring in our economy and how do these affect consumers, businesses and the broader society?
- What global factors impact on the Australian economy?

GLOSSARY OF KEY TERMS

absolute poverty

The condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing).

baby boomer

A term used to describe a person who was born between 1946 and 1964.

billion

One billion dollars is 1000 million dollars, or \$1 000 000 000.

bonds

The means by which governments and corporations borrow money from the public.

broker

Someone who buys and sells shares on behalf of an investor.

Budget

A government's estimate of revenue and spending for each financial year.

capital

Manufactured resources; for example, machines, factories and offices. Capital is one factor of production.

comparative advantage

The ability to carry out a particular economic activity more efficiently than other trading partners.

economic cycle

The tendency of economies to move, over time, through periods of boom and slump. The economic cycle consists of expansion followed by contraction in economic activities, which then merges into the next phase of revival or growth and so on. The peak of the

economic cycle is usually referred to as a *boom*, and the trough as a *recession*.

economic growth

The long-term expansion in the productive potential of the economy to satisfy the wants of individuals in the society.

equality of opportunity

The principle that everyone, irrespective of factors such as their socioeconomic status, gender, ethnicity and age, can realise their full potential via education and employment.

equity investment

Becoming a part-owner (or shareholder) in a corporation through the purchase of shares (or stocks).

exchange rate

The price at which a currency is bought and sold.

exports

Goods, services and capital assets sold overseas.

financial stability

The state in which the financial system (including markets and financial institutions) is able to resist economic shocks and to function effectively.

fiscal policy

The means by which government adjusts its spending levels and tax rates to influence a nation's economy.

goods

Items that are tangible (able to be touched), such as coal and iron ore, motor vehicles and bottles of wine.

gross domestic product (GDP)

A measure of economic activity within Australia. It is the total value of all goods and services produced over a given time period (usually a year), excluding the value of imports.

imports

Goods, services and capital assets purchased from overseas.

international trade

The export and import of goods and services.

labour

An input in the production process: the total of all human physical and mental effort used in the creation of goods and services.

labour rights

Workers' rights, including the rights of women in the workplace, through enforcing a minimum wage, equal pay and paid parental leave; supporting the rights of trade unions; and providing protection against discrimination.

laissez-faire system

An economic system in which transactions are free from government intervention or regulation.

managed funds

Funds provided by banks, insurance companies and other financial institutions that enable someone to combine their money with other investors into a single fund that is overseen by a fund manager.

market economy

An economic system in which the laws of supply and demand determine the production of goods and services.

mixed economy

An economy in which there are elements of both public and private enterprise.

monetary policy

The Reserve Bank's setting of the interest rate in the money market, or what is referred to as the 'cash rate'.

portfolio

The collection of shares owned by an individual or business.

progressive taxation

The extent to which governments redistribute wealth across society by imposing higher rates of tax on the wealthiest individuals and companies compared to those on lower incomes.

quality of life

The standard of health, comfort and happiness experienced by an individual or group.

quintile

A statistical value representing 20 per cent of the total population.

recession

A period of economic decline during which trade and industrial activity are reduced, generally defined by a fall in GDP in two successive quarters.

relative poverty

A condition where household income is low compared to that of other households.

Reserve Bank of Australia (RBA)

The RBA issues the nation's banknotes and has a duty to maintain Australia's economic prosperity. Using monetary policy, the RBA aims to control inflation to an average of 2–3 per cent.

service

An intangible good that is provided by an individual or organisation; for example, legal advice or a haircut.

shares

Shares represent part ownership for an individual or shareholder in a public company. Examples of public companies include IBM, Microsoft, Apple and Coca-Cola.

social mobility

The movement of individuals, families, households or other categories of people within or between social levels in a society.

social spending

The quantity and quality of government spending on public services such as health care, education, and social protections such as the provision of income support.

standard of living

A person's quality of life; a person's economic, social and personal wellbeing.

traders

Individuals who buy and sell currencies and other forms of financial investments (securities).

trillion

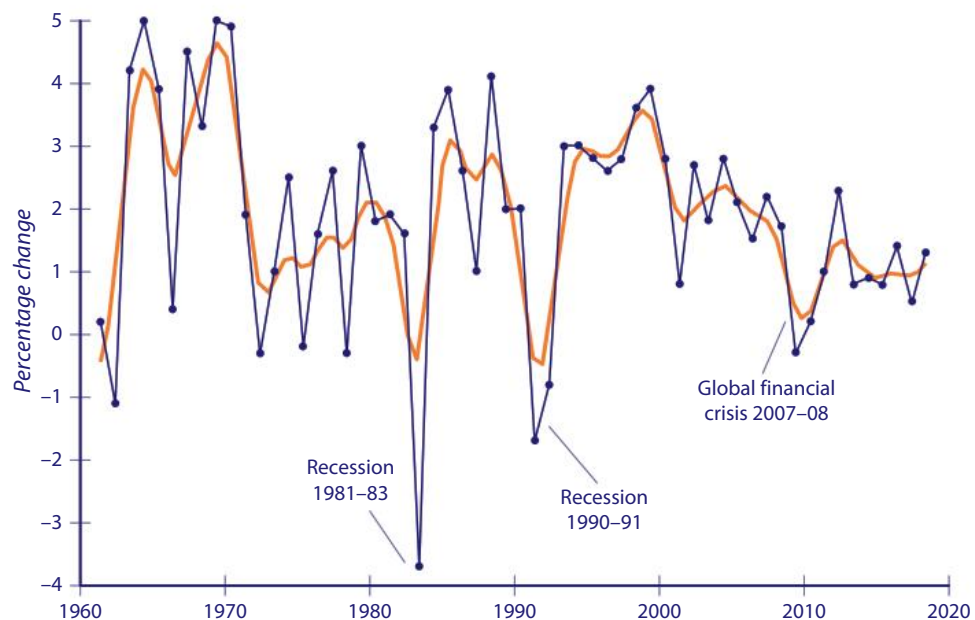
One trillion dollars is one million million dollars, or \$1 000 000 000 000.

unemployment

The situation that arises when a person who is actively searching for work is unable to find it.

5.1 Performance of the Australian economy

Australia's economic performance is among the best in the developed world. The nation has not experienced a serious recession (an economic downturn) since 1991 – a record unmatched by any other developed country. Figure 5.1.1 shows Australia's rate of economic growth since 1960. Note the downturns (short recessions) in 1960, 1981–83 and 1990–91. Figure 5.1.2 shows Australia's GDP growth and annual percentage change in GDP, from 2000 to 2017.

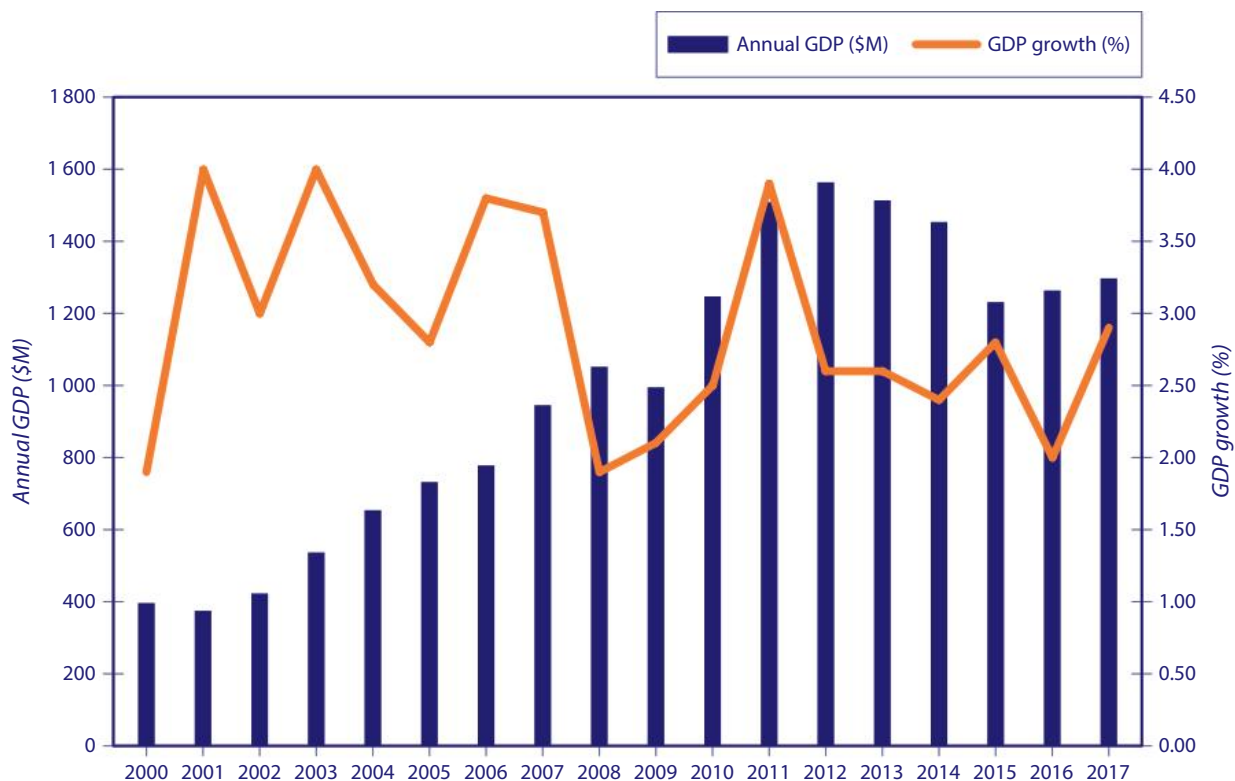


Source: ABS.

FIGURE 5.1.1 Australia's rate of economic growth, 1960 to 2018 (GDP per capita)

Economic growth occurs when there is a long-term expansion in the productive potential of the economy to satisfy the wants of individuals in the society. Sustained economic growth within an economy has a positive impact on the national income and level of employment, which results in higher living standards. The factors essential for economic growth are outlined below.

The two principal 'levers' that authorities can use to manage economic growth are fiscal policy and monetary policy.



Source: ABS.

FIGURE 5.1.2 Australia's GDP growth and annual percentage change in GDP, 2000 to 2017

Fiscal policy is the means by which governments adjust their spending levels and tax rates to influence a nation's economy. Increasing spending and cutting taxes can stimulate economic growth (that is, it is expansionary). Reducing government spending and increasing tax rates can dampen economic growth; that is, it is contractionary (see Figure 5.1.3).

Fiscal policy types, objectives and tools

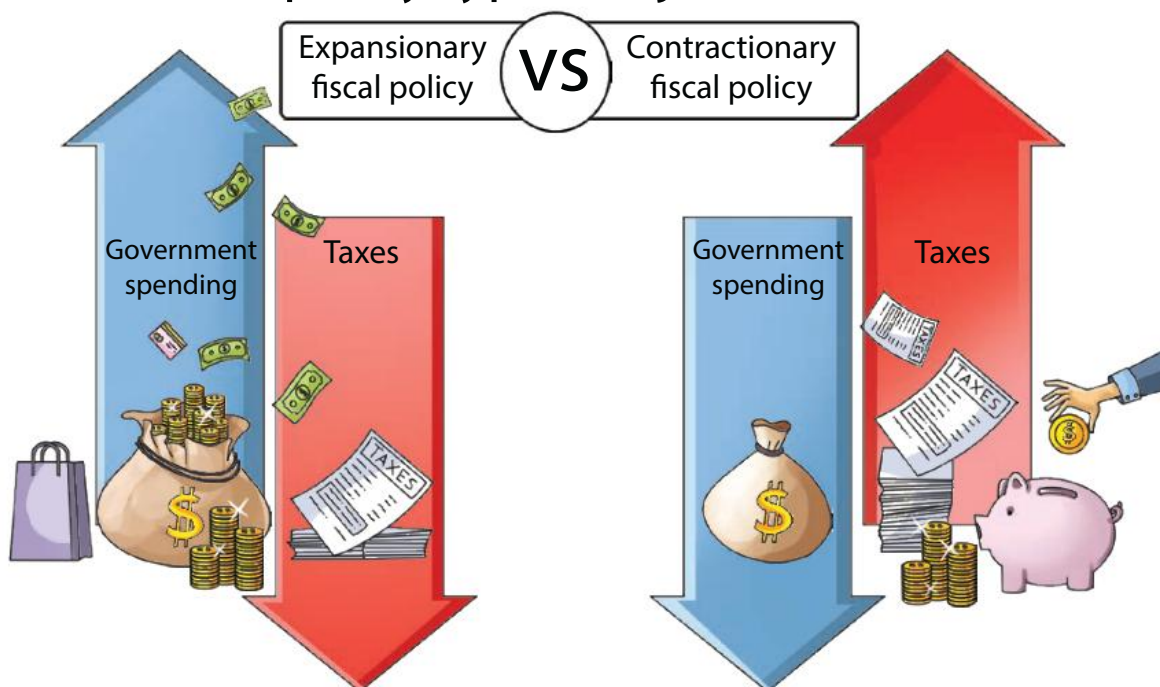


FIGURE 5.1.3 Fiscal policy settings can be either expansionary or contractionary.

Monetary policy is the responsibility of the Reserve Bank of Australia. **Monetary policy** involves setting the interest rate in the money market, or what is referred to as the 'cash rate'. The cash rate influences other interest rates in the economy, affecting the behaviour of borrowers and lenders, economic activity and, ultimately, the rate of inflation.

In determining monetary policy, the Reserve Bank seeks to maintain price stability, full employment, and the economic prosperity and welfare of the Australian people. To achieve this, the RBA has an inflation target and seeks to keep consumer price inflation in the economy to 2–3 per cent, on average, over the medium term. Controlling inflation preserves the value of money and encourages strong and sustainable growth in the economy over the longer term.

Spotlight: Australia's economic scorecard

Australia is the world's 13th-largest national economy, as measured by **gross domestic product (GDP)** – the total value of all goods and services produced in a period of time, typically a year. The country's total GDP was \$1.4 **trillion** in 2018. This is a remarkable achievement for a country of 25 million people. In terms of GDP per capita (the GDP divided by the country's population), Australia is ranked eighth.

In terms of medium wealth per adult, Australia was ranked the second – wealthiest nation in the world in 2018, just ahead of Switzerland but behind Iceland. Total wealth was A\$8.9 trillion in mid-2016.

In terms of the Human Development Index (HDI), which is the index used by the United Nations (UN) to assess the progress of a country, Australia was ranked third in 2018, just behind Norway and Switzerland.

Australia has experienced the longest run of uninterrupted **economic growth** in the developed world – the last recession (as measured by two consecutive quarters of negative GDP growth) occurred in 1990–91 – three decades ago.

Spotlight: The nature of the Australian economy

In Australia, we have a **mixed economy**. It is also sometimes referred to as a *modified market economy*. We do not have a **laissez-faire system** (where the market is left to sort itself out) or a centrally planned (command) system (where the government controls everything). We have an economy where the market runs itself, but with some influence and participation by the government. For example, governments have intervened in the energy sector – interventions designed to promote renewable energy production (solar, wind and stored hydro) while trying to keep the electricity supply reliable and affordable.

Factors affecting Australia's economic performance

The factors influencing the rate of economic growth include:

- *Human resources.* The quality and quantity (skills, creative abilities, training and education) of available human resources. A shortage of skilled **labour** hampers the growth of an economy.
- *Natural resources.* The resources that are produced by nature, either on the land or beneath the land. They include the country's climatic and environmental conditions and its reserves of oil, natural gas,

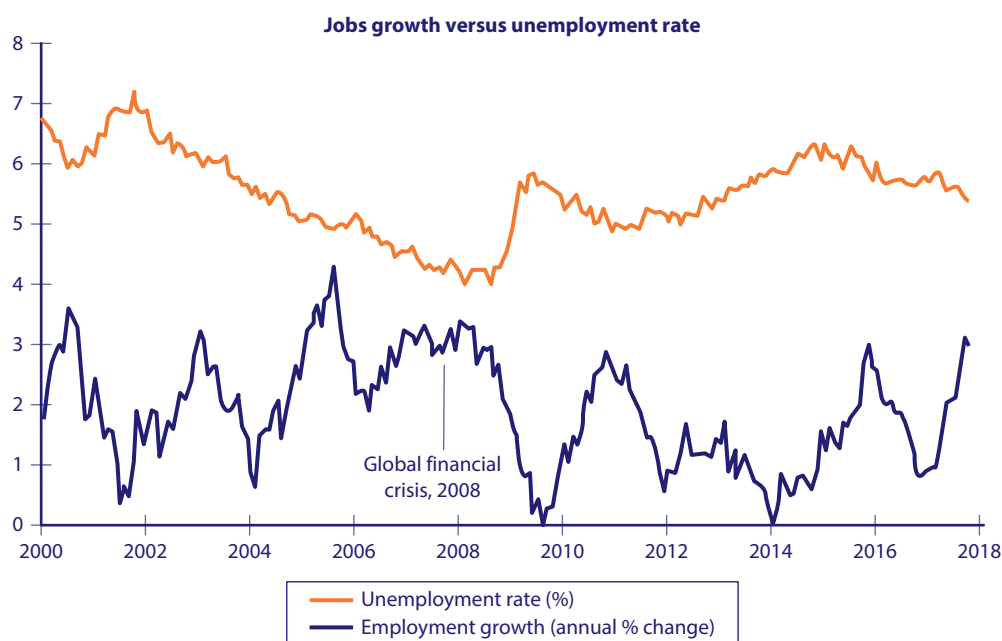
metals, non-metals and minerals. The efficient use or exploitation of natural resources depends on the skills and abilities of human resources, and the availability of technology and **capital**.

- **Capital formation.** Involves the bringing together of the land, buildings, machinery, energy, transportation and communication infrastructure required to produce goods and services.
- **Technology.** Technological advances increase productivity – the quantity and quality of goods and services produced with limited resources.
- **Social and political factors.** Progressive social attitudes and political stability are important for sustained economic growth. Social factors include the customs, traditions, values and beliefs of a society.

Key indicators of economic performance

There is a range of indicators that provide an insight into the performance of an economy. These include:

- **Changes in the gross domestic product.** GDP is generally considered to be the most important measure of the economy's current health. When GDP increases, it is a sign that the economy is strong (see Figure 5.1.1). Two consecutive quarters of negative GDP growth is an indicator that the economy is in a 'technical recession'.
- **Unemployment rate.** The **unemployment** rate measures the number of people looking for work as a percentage of the total workforce. An unemployment rate of 3–5 per cent is generally seen as an indicator that the economy is strong.



Source: AMP Capital, in Canstar, 'Australia's unemployment rate falls but is "not leading to higher wages"', 16 November 2017, <https://www.canstar.com.au/superannuation/australias-unemployment-rate-falls-5-4-october/>.

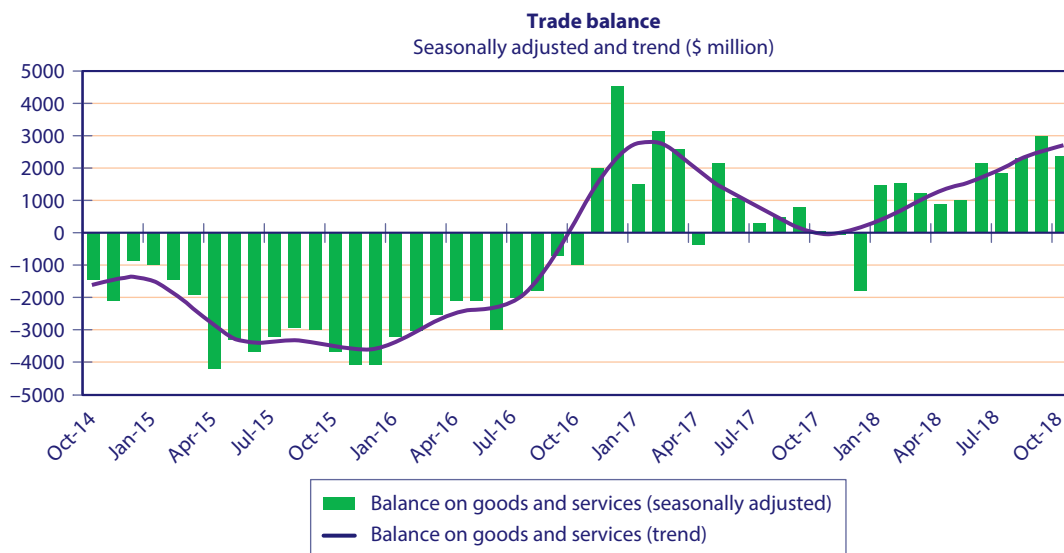
FIGURE 5.1.4 Australia's rate of jobs growth and the unemployment rate, 2000 to 2018

- **Consumer Price Index (CPI).** The CPI is a measure of the increased cost of living, or inflation. The CPI is calculated by measuring the costs of essential goods and services. The inflation rate is then determined by the average increased cost of the total basket of goods over a period of time. The Australian Bureau of Statistics (ABS) publishes both a national rate and one for each of the state and territory capitals.
- **Inflation rate.** A high rate of inflation erodes the value of money more quickly than the average consumer's income increases. This decreases consumer purchasing power and standard of living. Deflation is the condition in which the cost of living decreases. While this might sound like a good thing, it is an indicator that the economy is in very poor shape.

- *Incomes and wages.* Earnings should increase regularly to keep up with the rising cost of living (inflation). Declining or stagnating earnings is a sign that employers are cutting pay rates, laying off workers or reducing the hours worked; all of which are indicators of an economy in trouble.
- *Exchange rate.* A country with a strong currency can sell its products overseas at higher prices and import products more cheaply. There are, however, advantages in having a weak dollar. When the Australian dollar is weak (compared with the value of other countries' currencies), this can attract more tourists and international students and encourage other countries to buy more Australian goods and services. As the dollar depreciates, the demand for Australian products increases.
- *Interest rates.* Interest rates represent the cost of borrowing money and are largely based on the cash rate determined by the Reserve Bank of Australia, which determines the rate at which money is lent from one bank to another. The cash rate changes as a result of economic trends. In times of economic downturn, the Reserve Bank will cut the cash rate to stimulate economic activity. If the economy grows too quickly and inflation increases above the target of 2–3 per cent, the Reserve Bank will lift the cash rate. This results in banks lifting their mortgage interest rates, thereby taking money out of the economy, reducing economic activity.
- *Corporate profits.* Strong corporate profits usually go hand-in-hand with a rise in GDP because they reflect an increase in sales.
- *Balance of trade.* The balance of trade is the difference between the value of **exports** and **imports** and shows whether there is a trade surplus (more money coming into the country) or a trade deficit (more money going out of the country). See the Spotlight box 'Australia's balance of payments'.

Spotlight: Australia's balance of payments

Australia's balance of trade – the difference between the value of the nation's imports and the value of its exports – is an important economic measure. Until 2017, Australia generally ran a negative balance of trade (see Figure 5.1.5). This is only important if imports don't contribute to the future generation of wealth. Aircraft, for example, while expensive to purchase, generate considerable economic wealth over their lifespan.



Source: DFAT, 'Australia's trade balance', January 2019. <https://dfat.gov.au/trade/resources/trade-statistics/pages/australias-trade-balance.aspx>, CC BY 3.0 Australia.

FIGURE 5.1.5 Australia's goods and services trade balance (seasonally adjusted), October 2014 to October 2018

- *Share market.* While not the most important indicator, the share market often catches the headlines. Because stock prices are based, at least in part, on what companies are expected to earn, the market can indicate the economy's direction if earnings estimates are accurate. A collapse of share market prices is an indicator that the economy could be in trouble.
- *Manufacturing activity.* Factory output is another indicator of the state of the economy. An increase is an indicator of increasing demand for consumer goods and, in turn, a healthy economy. Increases in manufacturing activity will boost employment and possibly wages.
- *Retail sales.* Retail sales are closely studied by economists because they provide an insight into the state of consumer confidence. Strong retail sales indicate a high level of consumer confidence and directly increase GDP.
- *Inventory levels* (that is, goods in warehouses). High inventory levels may indicate two different (and conflicting) trends: either that demand for goods is expected to increase, or that there is a current lack of demand.
- *Building approvals.* Building approvals (both residential and commercial) provide an insight into future economic activity. A high number of approvals indicates that activity in the construction industry will increase, lifting employment and GDP.
- *Housing market.* A sustained drop in house prices can indicate a number of things. It may indicate that the supply of homes exceeds demand or that prices are seen as unaffordable. It may also mean that prices are inflated (known as a housing bubble) and that a correction is needed. Falling prices can affect consumer confidence, which impacts on economic activity.

Spotlight: Role of government

The government influences the operation of the Australian economy through laws and taxes to make the market as fair as possible; it also participates through its own businesses, such as Australia Post, Snowy Hydro and NBN Co. The government is also an employer through its business operations, provision of services (such as health and education) and general operations (administration of government). The federal **Budget** can also affect the economy. Government spending can, for example, be increased during a recession to promote economic growth. The **Reserve Bank of Australia**, a statutory body, implements policies to ensure, among many objectives, that Australia maintains **financial stability**.

Standard of living and quality of life

A person's **standard of living** is determined by their wealth – the material goods they have been able to accumulate – and the income they enjoy. It also includes (measurable) factors such as the availability of employment, the affordability of housing, the inflation rate, the hours of work required to purchase necessities, and life expectancy.

A person's **quality of life** is a broader concept. It includes non-economic factors such as the amount and quality of leisure time a person has, affordable access to quality health care, the quality and availability of education, the quality of infrastructure, economic and political stability, political and religious freedom, environmental quality, the climate and personal safety.

Standard of living can be measured using a range of quantitative (measurable) indicators, including GDP per capita, life expectancy, education levels and income. Quality of life can be measured using qualitative

(subjective) measures of how people perceive the quality of the life they experience. It includes things that are difficult to measure, such as political freedoms, social opportunities and guarantees of personal security, human rights, the nature of governing institutions, the quality of the environment and the level of social participation. These aspects include the capacity of the individual to exercise their rights, especially economic, cultural and social rights.

Impacts of the global economy

Australia's economic wellbeing is closely linked to the increasingly integrated nature of the global economy. As a trading nation, Australia depends on the demand for the goods and services it has a **comparative advantage** in – coal, mineral ores and natural gas, and services such as tourism and education.

Of particular relevance is the economic rise of Asia, and in particular the growth of the Asian middle class (see the Spotlight box below). The rapid economic development of the countries of South and East Asia has lifted hundreds of millions of people out of poverty. These people have the same lifestyle expectations as many of those living in the countries of the developed world, including Australia. They represent a vast potential market for Australian goods and services. Australian entrepreneurs have the opportunity to grow their enterprises to meet the demands of this growing middle class.

There are also risks. The more Australia is integrated into the global economy, the more it is exposed to any economic downturn in countries such as China and India. We are increasingly exposed to events beyond our control.



Spotlight: The rise of the Asian middle class

The world's middle class is growing rapidly. There were about 3.2 billion people in the global middle class at the end of 2016. Of the 140 million people joining the middle class annually, the overwhelming majority (an estimated 88 per cent) live in Asia. China and India alone claim more than 20 per cent of the global consumer middle class – with a combined total of 362 million people; more than in all of Western Europe.

Households entering the middle class will want to purchase consumer goods, as well as services including tourism, entertainment, health, education and transport. Middle-class consumption is today estimated at US\$35 trillion, or about US\$12 000 per head, evenly divided between developed and developing countries.



Alamy Stock Photo/robertharding

FIGURE 5.1.6 The growth in Chinese tourism reflects the economic power of the rapidly increasing Asian middle class.

Spotlight: Investigating the performance of the Australian economy using key indicators

The economic data included in this textbook highlights the state of the Australian economy at a particular point in time. To see how the Australian economy is performing today, you need to undertake research. Using the internet and websites such as the Australian Bureau of Statistics, identify the most recent performance indicators for the Australian economy. Of particular interest are:

- gross domestic product
- GDP per capita
- unemployment rate
- Consumer Price Index
- balance of payments
- Human Development Index (and ranking).

Comparison of its performance with one other economy in the Asian region

It is important to know how the Australian economy is performing compared to other economies, especially those of our neighbours in Asia. Using the list above, investigate the performance of a selected Asian economy compared to that of Australia. To communicate your findings, draw up a table such as the one shown below.



PERFORMANCE INDICATOR	AUSTRALIA	SELECTED ASIAN COUNTRY
Gross domestic product		
GDP per capita		
Unemployment rate		
Consumer Price Index		
Balance of payments		
Human Development Index (and ranking)		

Spotlight: The nature of economic change

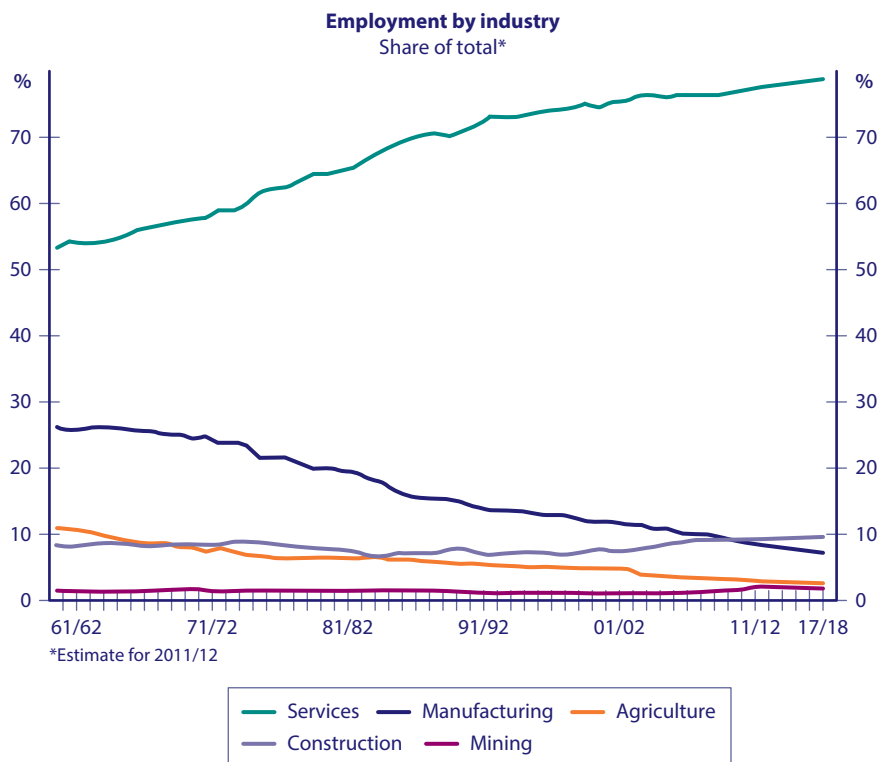
The nature of any specific national economy is the result of the interaction of a set of factors, including a people's culture, values, education, technological evolution, history, social organisation, political structure and legal systems, as well as a country's geography, climate and natural resource endowment. These factors provide the context or set the conditions under which an economy functions.

The Australian economy, like any economy, is dynamic. It changes over time. The factors driving change include technological change and the process of globalisation, a key feature of which is the emergence of the nations of South and East Asia as centres of global economic power.

The Australian economy has changed significantly over the past 50 years. There has been a shift away from agriculture and the production of goods (manufacturing) towards the provision of services, especially business and financial services and personal services. The mining sector has also expanded, a process driven by the growing demand for Australian minerals and ores by China and the other expanding economies of South and East Asia. Large-scale mechanisation, however, means that while production of agricultural and mining products has

increased significantly with fewer inputs of labour, labour-intensive manufacturing has moved to low-cost countries in South and East Asia. This largely accounts for the decline in manufacturing employment.

The share of services has risen in terms of consumption, production, employment and exports. This shift towards services is a common feature of economic development; as economies become wealthier and incomes rise, consumers spend a greater share of their income on services compared to goods. These changes in the structure of the Australian economy are shown in Figure 5.1.7.



Source: ABS; RBA, <https://www.rba.gov.au/speeches/2012/sp-dg-070312.html>.

FIGURE 5.1.7 The changing structure of the Australian economy, 1961–62 to 2017–18

Shutterstock.com/Jaroslav Pachy sr



FIGURE 5.1.8 The use of large-scale machinery reduces the demand for labour in the mining sector of the economy.

Shutterstock.com/Thomas Wyness



FIGURE 5.1.9 The use of large-scale machinery reduces the demand for labour in the agricultural sector of the economy while allowing for increased production.

Spotlight: Two centuries of economic change

In the 1800s, the Australian economy was dominated by primary production, with only a small manufacturing sector. Agriculture accounted for around one-third of total output, and the share of mining increased dramatically beginning with the gold rushes of the 1850s. Service industries were nonetheless also important, accounting for around half of all activity, with relatively strong demand for services linked to the long distances between Australia's population centres and the relatively high income earned from agriculture and mining.

The 1900s saw the rise of manufacturing, followed by the expansion of service industries. By the 1950s, the manufacturing industry's share of total employment had risen to around 26 per cent, from 15 per cent at the turn of the century. Since the 1960s, however, manufacturing share of total economic activity has declined. Today, it accounts for only 7 per cent of employment (see Figure 5.1.7).

Service industries have grown strongly over the past 50 years, rising from around 56 per cent of total employment in the 1960s to almost 80 per cent today. In the 1950s, services were closely linked to manufacturing, with wholesale trade and transport supporting the production and distribution of manufactured goods. Since then, the share of distribution services has fallen steadily – a trend consistent with the declining relative importance of manufacturing and also agriculture. In contrast, the fastest growing service industries in recent years have been business services, including financial and professional services, and social services such as health and education.



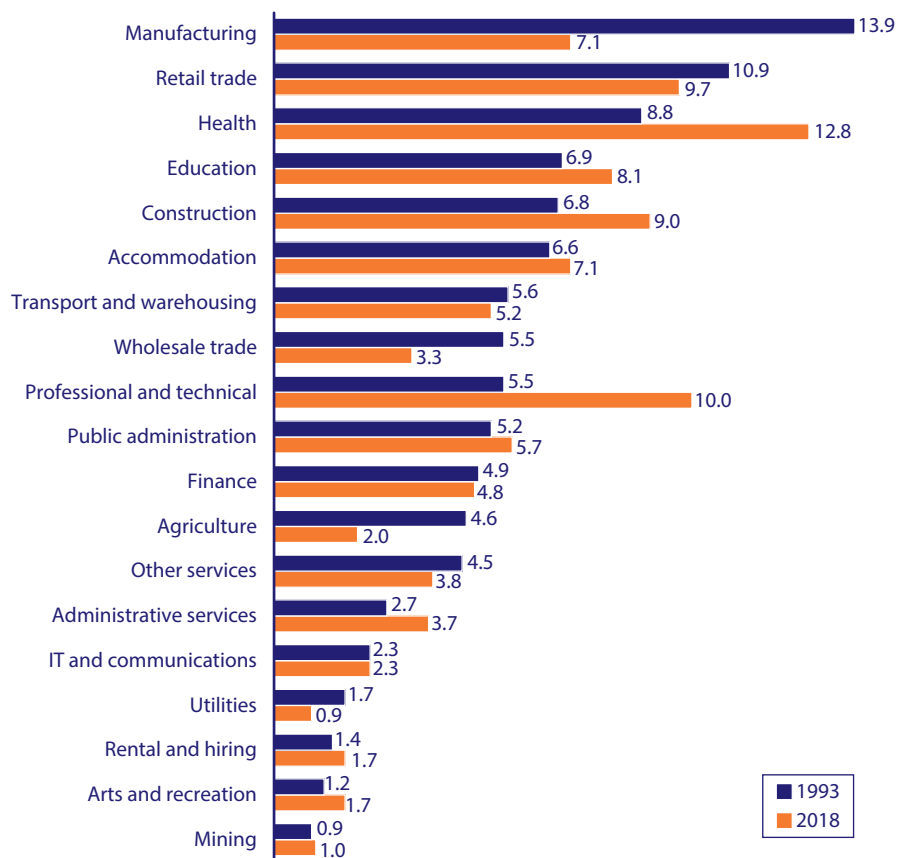
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FIGURE 5.1.10 Car manufacturing in Australia began in 1948 with the first Holden coming off the assembly line. The last Australian-made car rolled off the assembly line in 2017. Australian manufacturing could not compete with the high-volume, high-tech car manufacturing plants in South and East Asia, Europe and North America.

Spotlight: Changing structure of employment in New South Wales

The economic changes outlined in this chapter are reflected in the changing structure of employment in Australia. Figure 5.1.11 shows the changing structure of employment in New South Wales. The strongest performing sectors of the economy (as expressed by jobs growth) are the health, construction, professional and technical services. The biggest declines have been in manufacturing, wholesale trade, agriculture and utilities.

The growth in health-related employment (including aged care) is largely associated with the ageing of the population – the post-Second World War **baby boomer** generation are nearing the end of their life cycle.



Source: ABS; NSW Treasury.

FIGURE 5.1.11 Comparative bar graph showing industry share of employment in New South Wales: change 1993 to 2018 (%)

Spotlight: Sydney's economic transformation

The changes evident in the Australian economy are reflected in the changing economic character of Sydney, the country's largest city. This economic change involved a major long-term shift in the productive base of the city's economy and associated changes in the pattern of employment. It has involved job losses in manufacturing industries and job gains in the service (or non-goods) sector, especially the business and information services sectors of the economy.

Following the internationalisation of financial markets, Sydney (and, to a lesser extent, Melbourne) developed as the focus of foreign capital investment in Australia. But it is Sydney, rather than Melbourne, that has gained most from its association with the global economy. Sydney is now the favoured location for corporate headquarters. Two-thirds of transnational corporations (TNCs) have chosen Sydney rather than Melbourne as the site of their Asia-Pacific headquarters.

Today, Sydney's economy is dominated by information-intensive industries. The finance and insurance sectors represent a 16.2 per cent share of the city's economic output. This is forecast to increase to 21 per cent within a decade. By 2026, just three service industries (finance, professional services, and information media and telecommunications) will together account for more than 40 per cent of the city's economy.

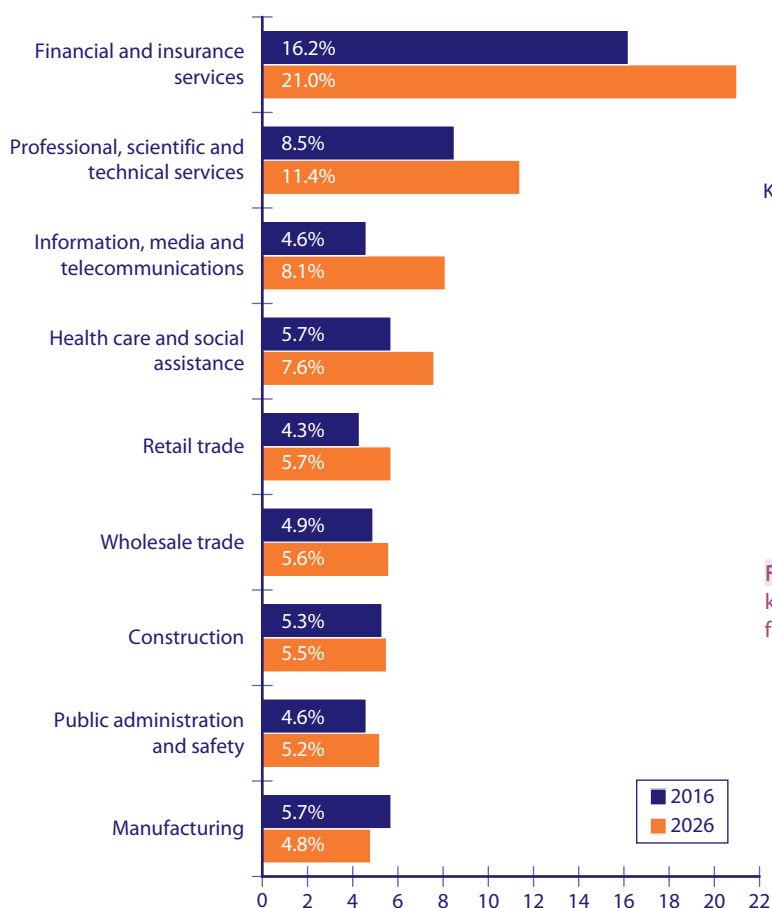
The financial services industry is one of the fastest growing sectors of economic activity in the country. This growth is underpinned by Australia's government-mandated Superannuation Guarantee system. Since its introduction by the Keating Labor government in 1992, employers have been required to put aside a percentage of their workers' earnings as a form of retirement savings. This requirement increased to 9.25 per cent in 2013 and will increase further until it reaches 12 per cent of salary by 2021–22.

Since the introduction of the Superannuation Guarantee, more than \$2.2 trillion in retirement savings have accumulated. This vast pool of retirement savings – the fourth largest of its type in the world – needs to be managed. This has attracted the world's largest investment managers, primarily from the United States and Europe. Seventeen of the top 20 global investment managers have an established presence in Australia. Of the three remaining top 20 investment managers, two have established distribution arrangements for their products into Australia.



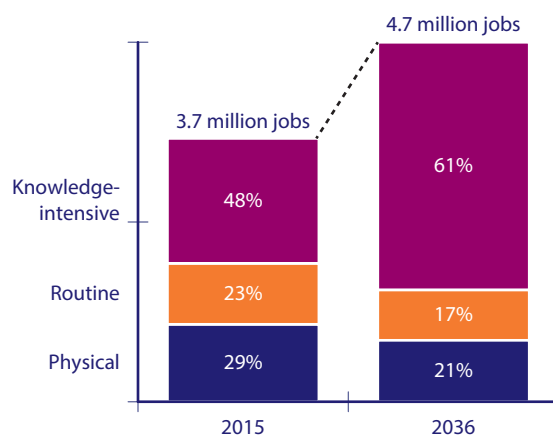
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FIGURE 5.112 Australia's economic growth has transformed Sydney into a global financial centre.



Source: Grant Kleeman, *Global Interactions 2: HSC Geography*, © 2012, Pearson Australia.
Data source: SGS Economics and Planning.

FIGURE 5.113 Sydney: percentage share of income generated by sector of economic activity, 2016 and 2026



Source: Grant Kleeman, *Global Interactions 2: HSC Geography*, © 2012, Pearson Australia. Data source: SGS Economics and Planning.

FIGURE 5.114 Employment in New South Wales' knowledge-intensive industries will boom in the period from 2015 to 2036.

Understanding the text

- 1 Outline Australia's economic record since the early 1990s. Why is this record significant?
- 2 Define the term 'economic growth'. What are the benefits of sustained growth?
- 3 Distinguish between monetary policy and fiscal policy. Who is responsible for each?
- 4 Outline the factors affecting Australia's economic performance.
- 5 List the key indicators of economic performance. Which do you consider the most important? Explain why.
- 6 Explain what is meant by 'standard of living' and 'quality of life'. What are some of the quantitative factors that contribute to people's quality of life?
- 7 Outline how the Australian economy has been affected by the country's integration into the global economy. What is meant by the term 'comparative advantage'?

Activities

- 1 Study Figure 5.1.1. Using data from the graph, describe the pattern of GDP per capita growth since 1960. Investigate the rate of growth experienced in the period since the graph was drawn.
- 2 Study Figure 5.1.2. Briefly describe the trends in Australia's GDP and the annual rate of increase. When was the rate of increase greatest/lowest?
- 3 Study Figure 5.1.3. Explain the difference between expansionary and contractionary fiscal policies.
- 4 Study the Spotlight box 'Australia's economic scorecard' on page 208. Outline Australia's economic standing and record relative to that of other countries.
- 5 Study the Spotlight box 'The nature of the Australian economy' on page 208. Describe the nature of the Australian economy.
- 6 Study Figure 5.1.4. Describe the trends in Australia's unemployment rate and the annual percentage change in employment growth since 2000.
- 7 Study the Spotlight box 'Australia's balance of payments' on page 210, and then complete the following tasks:
 - a Explain what is meant by the term 'balance of payments'.
 - b Describe the trend in Australia's balance of payments since October 2014.
 - c As a class, discuss possible reasons for the trend identified.
 - d Research task: Investigate the trend in Australia's balance of payments since October 2018. Graph the data.
- 8 Study the Spotlight box 'Role of government' on page 211. Outline the role of government in the operation of the Australian economy.
- 9 Study the Spotlight box 'The rise of the Asian middle class' on page 212. Outline the consequences of this development for the Asian economy.
- 10 Study the Spotlight box 'The nature of economic change' on pages 213–14.
 - a Outline the nature of the economic changes taking place in Australia over the last 50 years.
 - b Study Figure 5.1.7. Using data from the graph, describe what the data tell us about the changing structure of the Australian economy since 1961–62.
 - c Study Figures 5.1.8 and 5.1.9. What are the implications of such technological advances for employment in these sectors of economic activity?
- 11 Study the Spotlight box 'Two centuries of economic change' on page 215. Draw a timeline showing the key events in Australia's economic evolution.
- 12 Study the Spotlight box 'Changing structure of employment in New South Wales' on pages 215–16. Using data from Figure 5.1.11, outline the trends in employment in New South Wales between 1993 and 2018.

13 Study the Spotlight box 'Sydney's economic transformation' on pages 216–17 and then complete the following questions and tasks:

- a How has the productive base of Sydney changed over time?
- b Describe the nature of Sydney's economy today.
- c Account for the growth of the financial services industry.
- d Study Figure 5.1.13. Using data from the graph, describe the anticipated changes in employment opportunities in Sydney between 2016 and 2026.

5.2 International trade and the Australian economy

The weekly grocery shop at Coles or Woolworths is likely to include foods sourced from Canada, New Zealand, the United States, Malaysia, Argentina, Greece, Thailand, South Africa, China, France, Belgium, Peru and even Swaziland in Africa. It is increasingly evident that we now live in a global economy. Goods can be sourced from anywhere and sold anywhere. We are all now global consumers.

Australia's trade in goods and services

International trade (the export and import of goods and services) is the outcome of the decisions made by global consumers. Australia has a complex pattern of trade that has changed over time as our export base has broadened and diversified. International trade includes both goods and services. **Goods** are items that are tangible (able to be touched), such as coal and iron ore, motor vehicles and bottles of wine. **Services** are intangibles; they are provided by people, such as providers of tourism experiences, education providers, accountants and medical practitioners.

Australia's exports

Historically, Australia relied on the export of agricultural goods. This is no longer the case. For some years, minerals, ores and natural gas have accounted for a significant proportion of Australia's **exports** (see Table 5.2.1). The needs of a rapidly developing China created a demand for the commodities. Exports of services such as education and tourism have increased in importance and now make a major contribution to the Australian economy. In 2017, education was Australia's third-largest export by value, and tourism was ranked number five (see the Spotlight boxes 'Tourism' and 'Education').

Exports of manufactured goods have been slower to develop. As a country, we have traditionally relied on exporting minerals and primary products such as wheat, wool and beef to finance the import of manufactured goods from overseas. This trend is starting to change. Manufactured goods, especially sophisticated products such as pharmaceuticals, scientific instruments and wine, now account for a growing share of Australia's exports. China is Australia's largest single export market, followed by Japan, South Korea and the United States.



TABLE 5.2.1 Australia's top 10 exports, 2017 (A\$ million)

RANK	COMMODITY	VALUE	% SHARE
1	Iron ore	63 104	16.3
2	Coal	57 132	14.8
3	Education services	30 263	7.8
4	Natural gas	25 618	6.6
5	Tourism	21 281	5.5
6	Gold	17 620	4.6
7	Aluminium ores	8 426	2.2
8	Beef	7 451	1.9
9	Wheat	6 062	1.6
10	Crude petroleum	5 246	1.4
...			
Total exports		386 687	

Source: Data from Department of Foreign Affairs and Trade, 'Australia's goods and services by top 25 exports 2017', 10 September 2018.

Spotlight: Tourism

Tourism makes an important contribution to the Australian economy. In 2016–17, the industry contributed 3.2 per cent of the nation's GDP and accounted for 4.9 per cent of all employment – a total contribution valued at A\$110 **billion**.

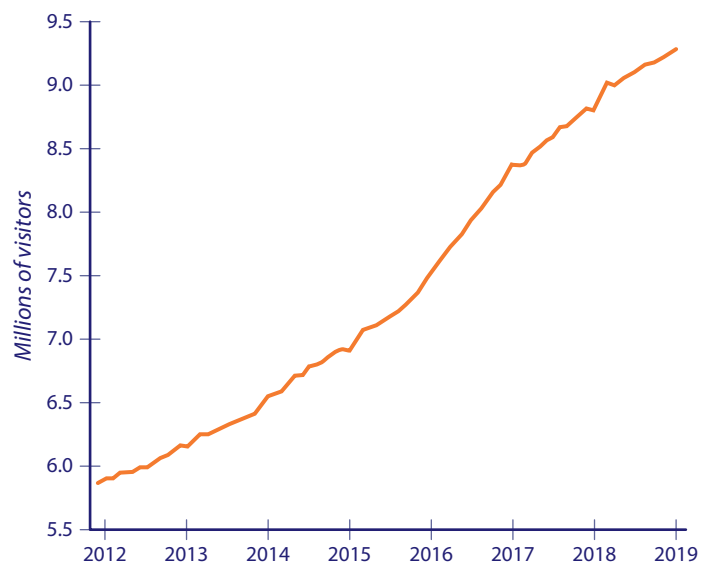
In the year to October 2018, there were 9.2 million international visitor arrivals, up from 7.1 million arrivals in 2015, and tourism contributed 5.5 per cent of Australia's total export earnings (see Figure 5.2.2 and Table 5.2.1).

China (including Hong Kong) was the largest source of tourists, with 1.73 million arrivals, followed by New Zealand (1.38 million), the United Kingdom (0.74 million), Japan (0.45 million), Singapore (0.44 million) and Malaysia (0.4 million).



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FIGURE 5.2.1 Italian backpackers taking a selfie in front of the Twelve Apostles on the Great Ocean Road, Victoria. International tourism is a major export industry.



Source: ABS.

FIGURE 5.2.2 Growth in international visitor arrivals, 2012 to January 2019

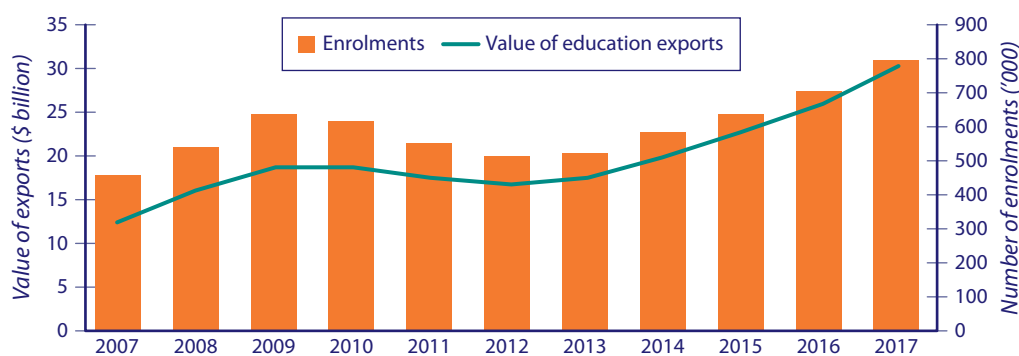
Spotlight: Education

International demand for Australian education has grown rapidly since the 1990s. This growth was reflected in the export value of the sector, which increased by \$2.1 billion in 2014 to a total of \$17.6 billion in 2018. Demand is strong across the higher education, vocational education and training, schools and English language sectors (see Figure 5.2.4).



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FIGURE 5.2.3 International students studying in Australia are one of Australia's most important export earners.



Source: Austrade, Annual Report 2017–18.

FIGURE 5.2.4 International student enrolments and value of education exports, 2007 to 2017

Australia's imports

The money earned from exporting goods and services offsets the cost of **imports**. Australia's principal imports are motor vehicles, petroleum-based products, machinery and transport equipment, telecommunications equipment, medical goods including pharmaceuticals, clothing and footwear, and electronic goods (see Table 5.2.2). Much of the clothing and footwear Australians buy comes from the developing countries of South and East Asia, especially China.

From a continental perspective, 56.6 per cent of Australia's total imports by value in 2017 came from Asian countries. European trade partners accounted for 18.5 per cent of imports, while 12 per cent (by value) came from North America. China is Australia's principal source of imports (17.94 per cent), followed by Japan (8.36 per cent), Thailand (5.81 per cent) Singapore (5.54 per cent) and Germany (5.3 per cent).

Given Australia's population is about 23.2 million people, its total imports of \$221.4 billion equal approximately \$9500 a year for every person in the country.



TABLE 5.2.2 Australia's top 10 imports, 2017 (A\$ million)

RANK	COMMODITY	VALUE	% SHARE
1	Personal travel (tourism)	38 959	10.6
2	Passenger motor vehicles	22 810	6.1
3	Refined petroleum	19 162	5.1
4	Ships, boats and floating structures	18 938	5.0
5	Telecommunications equipment and parts	12 784	3.4
6	Crude petroleum	9 493	2.5
7	Goods vehicles	8 814	2.3
8	Freight transport services	8 736	2.3
9	Computers	8 245	2.2
10	Pharmaceuticals	7 113	1.9
...			
Total imports		376 552	

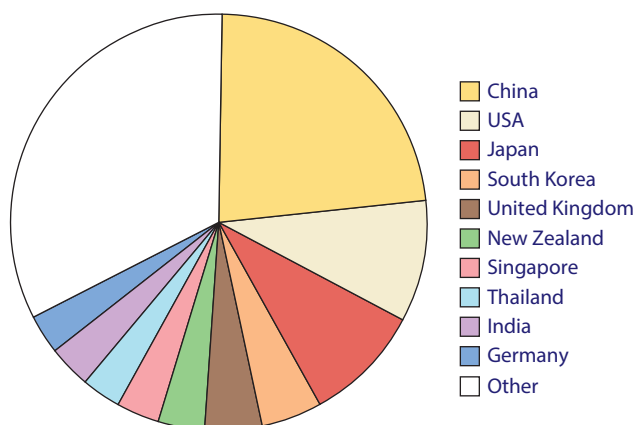
Source: Data from DFAT, 'Australia's top 25 imports, goods and services', 10 September 2018.

Australia's major trading partners

Australia's principal two-way trading partners in 2016 were China, the United States, Japan, South Korea and the United Kingdom, followed by New Zealand, Singapore, Thailand, India and Germany (see Figure 5.2.6).



FIGURE 5.2.5 Container terminal, Port Melbourne. Australia's economy is dependent on the trade in goods and services.



Total all countries: \$672 665 million

Source: Data from DFAT, 'Australia's trade in goods and services 2016'.

FIGURE 5.2.6 Australia's major trading partners, 2016 (A\$ million)

Interdependence of Australia with other global economies

Australia is a relatively open, trade-exposed economy. This means that changes in other countries' demand for our goods and services can have significant implications for our economy. For example, an increase in global demand for Australia's exports, if not matched by an increase in supply, will result in an increase in the price of those exports. Likewise, a decline in global demand will result in a decrease in price and, if sustained, a decline in Australia's terms of trade, which is one of the factors underpinning Australia's standard of living.

Changes in Australia's pattern of trade

Australia's major trading partners have changed over time. Over the past 100 years, the country's trade focus has shifted away from Europe to Asia and North America. The decision by the United Kingdom to increase its trading links with other European nations in the 1960s forced Australian exporters to develop new trading relationships. These links were found in the rapidly expanding economies of North-East and South-East Asia. By 2000, Australia's focus was firmly on the members of the Asia–Pacific Economic Cooperation group (APEC). Seven of Australia's 10 major trading partners in 2016 were members of APEC. Australia's top 10 trading partners are shown in Figure 5.2.6.

Spotlight: Asia–Pacific Economic Cooperation

The Asia–Pacific Economic Cooperation (APEC) group was established in 1989 as a response to the European Union's introduction of aggressive trade barriers. There are 21 member countries of APEC, representing a region of more than two billion people (one-third of the world's population) and accounting for more than half the world's trade. Members of this forum include Japan, the United States and the rapidly developing countries of Asia (including China, Hong Kong, Taiwan and South Korea). The Latin American nations of Chile, Peru and Mexico are also members of this trade forum.

Impacts of governments on international trade

The system of international trade that exists today dates from 1946, when the Bretton Woods Agreement took effect. This agreement sought to prevent further depressions and wars. It included institutions and rules intended to prevent national trade barriers being erected, as the lack of free trade was considered by many to have been a principal cause of the Second World War. In the years following the Bretton Woods Agreement, world trade expanded rapidly and the wealth generated lifted hundreds of millions of people out of poverty. Institutions such as the World Trade Organization (WTO) have established and enforced the rules governing world trade.

Despite the obvious benefits of world trade, some nations, most recently the United States under President Donald Trump, have waged what has been described as a 'trade war'. By imposing tariffs (taxes) on imported goods, the US Government has sought to protect its home-based manufacturing industries from cheaper imported goods, even though such actions increase the cost of these goods for American consumers. Because the Australian economy is so dependent on international trade, any such trade war can have serious implications for the Australian economy. For example, any slowing of the Chinese economy would result in a decline in Australian exports of coal and iron ore.

Barriers to the promotion of international trade

A trade barrier is the term applied to any government policy or regulation that restricts the international trade of goods and services. These barriers can take many forms, including tariffs, subsidies, and various import duties, licences and quotas. Non-trade barriers include import bans, packaging and labelling requirements, product standards, and work health and safety regulations.

Most trade barriers impose some sort of cost on trade that raises the price of the traded products. Economists generally agree that such barriers are detrimental and decrease overall economic efficiency. Free trade involves the removal of all such barriers, except perhaps those considered necessary for health or national security. In practice, however, even those countries promoting free trade often subsidise certain industries, such as agriculture and steel. The commercial interests of agricultural-based corporations and the political demands of sectional interest groups (for example, US and European farmers) often result in protectionist policies.

Trade liberalisation

Trade liberalisation involves reductions in the direct and indirect forms of industry protection. Over time, these forms of protection have been reduced as a result of trade liberalisation policies. The average level of tariffs applied to manufactured goods entering Australia is, for example, now less than 4 per cent. The Australian government is working to eliminate these non-tariff forms of protection in an attempt to boost the productivity and international competitiveness of the Australian economy. Some countries, however, are less willing to agree to reductions in the level of protection provided for their industries.

Free trade agreements

Free trade agreements (FTAs) are international treaties that reduce barriers to trade and investment. Australia's FTAs, both with individual countries and groups of countries, provide:

- better Australian access to important markets
- an improved competitive position for Australian exports
- more prospects for increased two-way investment
- reduced import costs for Australian businesses and consumers.

Australia's recently concluded FTAs include agreements with China, Japan, Korea and the Trans-Pacific Partnership countries.

Understanding the text

- 1 Define the term 'international trade'.
- 2 Distinguish between a 'good' and a 'service'.
- 3 Outline how the nature of Australia's international trade has changed over time.
- 4 Identify Australia's principal exports and imports.
- 5 Identify Australia's major trading partners.
- 6 Outline the extent to which the Australian economy is linked to those of other countries.
- 7 Outline how Australia's major trading relationships have changed over time.
- 8 On what agreement is the current system of world trade based? What was the motivation for establishing institutions and rules governing world trade? How has this order been challenged in recent years?
- 9 State the difference between tariff and non-tariff protection.
- 10 Explain how trade liberalisation can be achieved.
- 11 State what a free trade agreement is and outline the benefits of such an agreement to Australia.

Activities

- 1 Study Table 5.2.1. Construct a proportional pie graph showing Australia's top 10 exports in 2017. Include an 'Others' category.
- 2 Study the Spotlight box 'Tourism' on page 220 and then complete the following tasks:
 - a Outline tourism's contribution to the Australian economy.
 - b Identify the principal sources of inbound tourists.
 - c Using data from Figure 5.2.2, describe the growth in international tourist arrivals since 2013.
- 3 Study the Spotlight box 'Education' on page 221 and then complete the following tasks:
 - a Outline education's contribution to the Australian economy.
 - b Using data from Figure 5.2.4, describe the trends in international student enrolments in the period 2007–17.
- 4 Study Table 5.2.2. Construct a proportional pie graph showing Australia's top 10 imports in 2017. Include an 'Others' category.
- 5 What proportion is Australia's trade in goods and services with China, the United States and Japan? What is the total value of this trade?
- 6 Research task: Access DFAT's website. Locate the most recent export and import data. Identify any changes in the nature and direction of Australia's international trade. Present your findings as an oral report.
- 7 Investigate one of Australia's free trade agreements. What are the key features and benefits of the agreement?



DFAT

5.3 Global influences on the Australian economy

The Australian economy is closely integrated into the global economy. As a result, changes taking place internationally ultimately affect the economic wellbeing of Australians. An example is the trade war between the United States and China, which began in 2018 and threatened to bring about a worldwide economic downturn in the same way as events in the American home loan lending market led to an international banking crisis in 2008. The resulting global financial crisis is considered by many economists to be the most serious economic crisis since the Great Depression of the 1930s. Millions of jobs were lost, and property prices plunged. Many people lost their life savings (see the Spotlight box 'The global financial crisis (GFC)' in Chapter 2, section 2.4). These are examples of major economic shocks occurring within what is known as the **economic cycle**.

Interactions between the international and domestic business cycles

The economic cycle is the fluctuation in economic activity between periods of expansion (growth) and contraction (**recession**). Factors such as gross domestic product, interest rates, levels of employment and consumer spending can help to determine the current stage of the economic cycle. The economic cycle operates at a range of scales, from the regional to the national and global scales. The four stages of the economic cycle are shown in Figure 5.3.1.

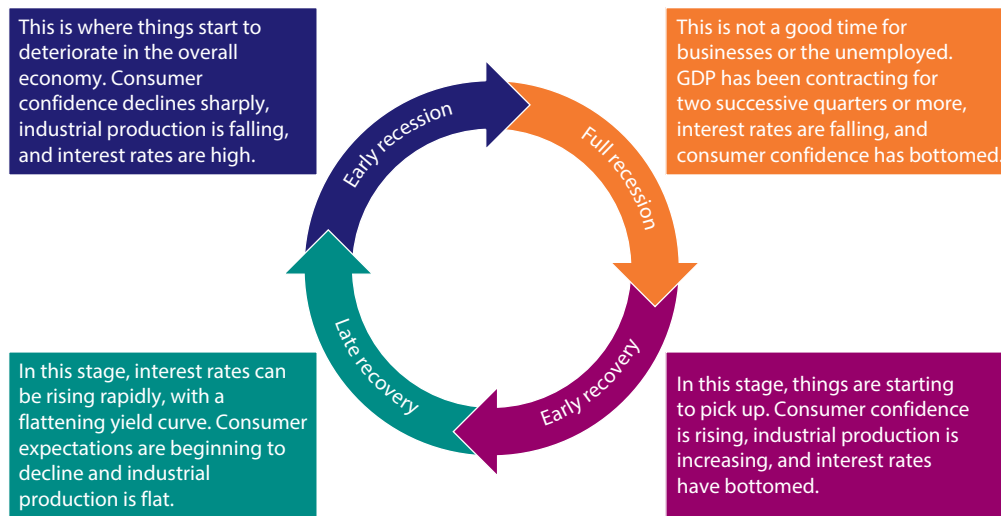


FIGURE 5.3.1 The four stages of the economic cycle

The last global economic downturn – the global financial crisis – occurred in 2007–08 (see Chapter 2, section 2.4). Due to a quick and effective response by the federal government, Australia was one of few developed nations to avoid a recession.

Impact of changes in the global economy

Changes in the global economy, especially those associated with the economic cycle (see Figure 5.3.1), have the potential to affect businesses and consumers worldwide. Economic downturns can, for example, have a negative impact on business and consumer confidence, interest rates and exchange rates. An improvement in economic activity can have a positive impact. These impacts are outlined below.

Business and consumer confidence

The levels of business and consumer confidence are considered important economic indicators because they measure the degree of optimism that businesses and consumers have about the overall state of the economy, and in the case of consumer confidence, people's personal financial circumstances. When consumer confidence is high, people are more likely to spend money on goods and services. This boosts economic activity. When confidence is low, the rate of saving tends to increase and economic activity declines. Consumer confidence tends to increase when the economy expands and decreases when it contracts.

Indicators of business confidence provide valuable information on future economic developments. The data on which business confidence readings are made include the results of business surveys focusing on production, orders and the stock of finished goods. Such data can be used to monitor current levels and anticipate future levels of economic activity.

Interest rates

Interest rates are the principal tool central banks use to manage the level of economic activity in an economy. Central banks, including the Reserve Bank of Australia, will reduce interest rates when a boost in economic activity is required. When the RBA wants to slow the rate of economic growth, perhaps to control inflation, it will increase interest rates.

The interest rate affects the cost of money borrowed by businesses and consumers. When interest rates are reduced, it becomes cheaper for businesses (and consumers) to borrow funds. Businesses will often take advantage of the 'cheaper' money to invest in expanding their production capacity. Consumers will often take advantage of the lower rates to buy goods and services or borrow funds to invest in property or shares. When interest rates are increased, businesses (and consumers) will reduce the amount of money they borrow.

In response to global economic shocks, such as the global financial crisis of 2008, central banks will slash interest rates. The increase in the supply of 'cheap' money will help counter any adverse economic effects of the shock.

When inflationary pressures increase, often in response to extended periods of strong economic growth, central banks will increase interest rates in an attempt to dampen economic growth. This, in turn, reduces inflationary pressures as businesses and consumers reduce their borrowing and spending.

Exchange rates

A country's **exchange rate** affects its trade in goods and services. A strong or appreciating currency makes a country's imports cheaper and its exports more expensive. A declining or depreciating exchange rate makes a country's exports cheaper, thus easier to sell on global markets. It also makes the goods and services it imports more expensive, thus making locally produced goods and services more attractive.

An example is international tourism. A strong Australian dollar makes international holidays more affordable (cheaper) for Australians travelling overseas. It also makes Australia a more expensive destination for foreigners. Australian tourism providers suffer in such circumstances. Fewer Australians holiday at home and fewer foreigners visit Australia. Conversely, a weak Australian dollar provides a benefit for Australian tourism operators. Fewer Australians travel overseas (because it is more expensive) and the number of international visitors increases because Australia becomes a more affordable destination.

Exchange rate variations can act as a buffer to global economic shocks. A depreciation of a currency (if this can be engineered) can boost economic activity by increasing exports and giving local producers of goods and services an advantage relative to foreign producers.

Australia's floating exchange rate is, however, relatively difficult to manipulate. The value of the currency is largely determined by the international demand for our major mineral exports and interest rate differences. If Australian interest rates are higher than those of other countries, money will tend to flow into Australia, boosting the exchange rate.

The rise of the global economy

In recent decades, many of the barriers that once separated countries, such as distance and cost, have started to disappear. As a result, people around the world have become increasingly connected through international trade, investment flows and the emergence of a global market for labour. The evidence of globalisation is everywhere. People on the other side of the world manufacture many of the clothes we buy and wear, and the decisions made in the boardrooms of New York affect employment opportunities in countries on the other side of the globe. Some of the factors that have promoted the growth of these global links are discussed below.

The global economy is becoming increasingly complex and sophisticated. A key element of this transformation is the emergence of global financial markets. Australia's financial institutions, and its people, are important players in this sector of economic activity.

Goods and services are not the only items bought and sold on the global market. Over the past 40 years, a rapidly growing market in finance and investment has emerged. The global financial market operates 24 hours a day, and individual markets within it are linked by a network of world cities in different time zones across the globe. The use of computer-based information technologies and communication networks enables **traders** to shift large sums of money around the world in seconds. Often funds are transferred from one country to another in order to take advantage of higher interest rates or to make money from the changing values of currencies. Funds may also be used to finance loans to banks and other businesses, or to purchase overseas assets such as shares and property.

The annual value of trade in the global financial market is enormous. In 2016, the volume of foreign currency transactions was around US\$1862 trillion (or US\$5.1 trillion a day!).

Drivers of globalisation

Changes in transport and communications technology

Over the past 50 years, new technologies in the area of telecommunications, transport and computers have slashed the cost and time taken to move goods, capital, people and information, and have vastly expanded the means of doing so. The introduction of specialised bulk carriers, oil tankers and container ships has helped to reduce the cost of transport and increase world trade. Similar advances in air transport have greatly reduced the cost and time involved in international travel. Recent developments in transport technology have made it possible for global businesses in the clothing industry to manufacture shoes and sportswear in South and East Asia and distribute these products quickly and easily to markets across the globe.

Developments in communications have also promoted the growth of a global market. Satellite and internet technologies have reduced the cost of international communications, making it easier to conduct business over long distances.

Changes in government policy

Many of the laws and regulations that once restricted the international flow of finance have been removed. Governments have also reduced the number of taxes (tariffs) and import restrictions (quotas) that are used to protect local industries and to restrict the flow of imported goods. Both of these changes have reduced the trade barriers between countries, which has had a significant influence on world trade and the activities of transnational corporations (TNCs).

Changes in consumers' tastes and preferences

A major factor promoting the growth of international markets has been the desire of consumers to gain access to products and services produced overseas. Businesses have catered to this demand by either importing products manufactured overseas or by expanding overseas themselves.

The growth of transnational corporations (TNCs)

TNCs (such as Amazon, McDonald's, Nike, Apple and Microsoft) have helped to speed up the process of globalisation. These businesses have enormous financial resources and can produce and sell their products anywhere in the world. TNCs also play an important role in the expansion of the global market through their heavy advertising and promotion of international brands.

Spotlight: Trade flows

A good or service transferred from a provider in one country to a consumer in another country is an export from the originating country, and an import to the country receiving that good or service. The value of imports and exports is accounted for in a country's balance of payments. If the value of exports exceeds the value of imports, the country has a favourable (positive) balance of payments.

International trade gives consumers the opportunity to access new products. Almost every kind of good or service can be found in the international market. Goods include food, clothing, oil, wine, stocks, currencies and even water. Services include tourism, education, banking and transportation. The top 10 goods traded are oil, motor vehicles, petroleum products, phones, integrated circuits (computer chips), automobile parts and accessories, pharmaceuticals, computers, gold and liquid petroleum gas. Tourism is the most traded service. The international trade of goods was valued at US\$32.4 trillion in 2017. The trade in services was US\$9.6 trillion (total world trade US\$42 trillion).

Increasing international trade has been central to the process of globalisation. Without international trade, consumers would be limited to the goods and services produced within their own borders.

The world's top 10 trading countries are the United States, China, Germany, the United Kingdom, Japan, France, the Netherlands, Hong Kong, South Korea and Italy.

The conduct of international trade is a complex process compared to domestic trade. When trade takes place between two or more nations, it is influenced by factors such as their currencies, government policies, judicial systems, laws and markets. To help facilitate trade between nations, international economic organisations such as the World Trade Organization have been established. Such organisations promote international trade and set the rules under which it takes place.



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FIGURE 5.3.2 The volume and value of world trade has almost doubled since 2000.

Spotlight: International financial flows

International financial flows (sometimes referred to as capital flows) are the movement of money for the purpose of investment, trade or business. They include the flow of capital within transnational corporations in the form of investment capital, capital spending on operations, and research and development.

On a larger scale, a government directs capital flows from tax receipts into programs (for example, the purchase of defence equipment) and operations (for example, aid programs) and through trade with other nations and currencies. Individual investors direct savings and investment capital into securities, such as stocks, bonds and mutual funds.

Foreign direct investment

Foreign direct investment (FDI) is any investment in the form of controlling ownership in a business in one country by an entity based in another country. It is different from foreign portfolio investment (FPI), which does not involve control. FDI includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intra-company loans.

Who invests in Australia?

Foreign entities had \$3.3 trillion invested in Australia at the end of 2017. Companies based in the United States and the United Kingdom are the biggest investors in Australia, followed by Belgium, Japan and Hong Kong. China is Australia's ninth-largest foreign investor, with 2 per cent of the total. However, the levels of Hong Kong and Chinese investment in Australia have grown significantly over the past decade.

Table 5.3.1 shows the top 10 foreign investors in Australia at the end of 2017.

TABLE 5.3.1 Top 10 foreign investors in Australia at the end of 2017

RANK	ECONOMY/COUNTRY	2017 (A\$ BILLION)	% OF TOTAL
1	United States	896.9	27.5
2	United Kingdom	481.4	14.7
3	Belgium	305.3	9.3
4	Japan	219.2	6.7
5	Hong Kong	116.6	3.6
6	Singapore	82.0	2.5
7	Luxembourg	81.0	2.5
8	Netherlands	79.0	2.4
9	China	65.0	2.0
10	Switzerland	53.7	1.6
...			
	All economies/countries	3266.4	

Source: DFAT, 'Foreign investment statistics', May 2018', CC BY 3.0 Australia

Foreign investment in Australia can be an issue of some public debate. Conservative media commentators often mount campaigns against Chinese investments in the Australian farming and telecommunications sectors and in infrastructure such as ports and gas pipelines. Progressive commentators point out the racial element of such campaigns. The same opposition does not arise in the case of investments from countries such as the United States and the United Kingdom.

Spotlight: Investing

Australia is a nation of keen share market investors, with one of the highest rates of share ownership in the world. The compulsory nature of Australia's superannuation system means that if we don't own shares directly, we almost certainly do via our superannuation funds. Today, the Australian Securities Exchange is among the top 10 exchanges in the world in terms of market capitalisation (value of business). The Australian share market, however, offers only a tiny proportion of the total volume of shares available on global markets. Many of the leading global companies (including Apple, Amazon, Microsoft, Facebook, Tesla, General Electric and Exxon Mobil) are listed on overseas stock markets, such as London and New York.

Individuals and businesses wishing to share in the growth of these companies need to invest in international shares; that is, shares in public companies listed on stock exchanges outside Australia. The benefits and risks associated with international shares are summarised in Table 5.3.2.

Shares are examples of **equity investments**. When someone makes an equity investment in a company, they become a shareholder in, and part owner of, the company. These types of investments have the potential for high growth in value. However, they can also be very risky because their prices can be highly volatile.



Alamy Stock Photo/xPACIFICA

FIGURE 5.3.3 The stock exchange on Wall Street, New York, is the world's largest.

TABLE 5.3.2 Benefits and risks of investing in international shares

BENEFITS OF INTERNATIONAL SHARES	RISKS OF INTERNATIONAL SHARES
• Can help to spread risk – overseas shares do not always rise and fall (fluctuate) at the same time as domestic shares. This can even out the gains and losses from share price fluctuations. • Provide access to a wider range of industries than those listed on the Australian Securities Exchange. • Offer higher average returns for long-term investments than domestic shares. Changes in exchange rates can result in large gains for investors when profits are converted back into Australian dollars.	• Many of the world's stock exchanges don't trade in small volumes. Therefore, it may be difficult for traders to sell shares when they need to. • International shares are more volatile than domestic shares; that is, their prices can rise and fall suddenly. • Losses can be larger due to changes in the exchange rate. Remember, a loss of US\$1000 on the New York Stock Exchange can be much larger when converted into Australian dollars. A depreciation of the Australian dollar would make these losses even larger.

Investors wanting greater security for their money often prefer interest-earning investments, which come in several forms, including bank deposits, **bonds**, debentures and bank bills. The advantage of interest-earning investments is that they provide a regular, predictable source of income and greater security than international share markets. Investors receive a regular interest payment rather than a dividend, which varies in size depending on market conditions. (Dividends are also discussed in Chapter 6, section 6.2.) The degree of risk associated with interest-earning deposits varies depending on the type of investment held. Generally, there is a trade-off between the rate of interest and the security of the investment; that is, the higher the rate of interest received on the investment, the higher the level of risk associated with the investment.



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FIGURE 5.3.4 Stock market data

Investors wishing to purchase international shares or bonds can do so in several ways. An investor can create and manage a **portfolio** by watching the market carefully and instructing a **broker** to buy and sell specific bonds or **shares**. This option is suitable for investors with a lot of time and a good understanding of global bond and share markets. Alternatively, individuals can invest in a **managed fund**, such as those offered by various banks, insurance companies and other financial institutions. These funds enable investors to combine their money with other investors into one fund, which is managed by a fund manager. Through this fund, an investor can invest in a variety of assets, including shares (Australian and international), property, bonds and/or debentures.

Some of the benefits of investing outside Australia include:

- *Increased diversification.* You can spread your investments over different countries and markets. A slow-down in economic activity in one country will have a smaller impact on your overall portfolio.
- *Higher growth.* International investing enables you to take advantage of opportunities for growth in other countries, especially in emerging markets.
- *More options.* You can invest in companies, industries and assets that are not available domestically.

Some of the disadvantages of investing outside Australia include:

- *Currency risk.* Foreign investments are typically held in the currency of the country where the investment is based. Income and capital gains (or losses) need to be converted into Australian dollars. This exposes the investor to the risk of exchange rate movements. An appreciation in the Australian dollar would reduce potential returns.
- *Political, economic and regulatory risk.* International investments are exposed to risks such as political and civil unrest, and economic and regulatory changes. As an investor, you need to understand the laws and regulations relating to foreign investments in the country in which you invest.
- *Selling time.* If you hold investments in other countries or in managed funds that invest internationally, it may take some time to sell these assets.

Spotlight: Global markets for labour

An important feature of globalisation has been the emergence of a global market for labour. The movement of people across national borders for work is becoming increasingly common. In the past, these movements have been described in terms of push and pull factors that drive migrant workers and immigrant labourers towards more developed countries. However, not all labour mobility is an outward movement towards more advanced economies. An increasing number of workers are moving to less-developed countries to provide the expertise needed to promote economic growth and improved standards of living. To this we can add the mobility of employees within transnational corporations.

The global labour market consists of three distinct components:

- 1 Those employed by multinational companies. These workers are connected through a global system of networking and production.
- 2 Immigrant workers. These workers move internationally to work in low or semi-skilled occupations. For the most part, these workers do not intend to stay permanently in the country or region in which they work. They also send most of their income back to their family in their country of origin.

- 3 Export-oriented workers. 'Export-oriented employment' refers to employment in transnational corporations' international industrial factories, usually located in developing countries. Such factories produce goods and services for sale in other countries. Some of these corporations have been accused of exploiting workers. This exploitation is widespread in the clothing and footwear industries.

An estimated 14 million foreign workers live in the United States; most of these come from Mexico, including 4 or 5 million undocumented (illegal) workers. It is estimated that around 5 million foreign workers live in north-western Europe, half a million in Japan, and around 5 million in Saudi Arabia. Other Middle Eastern countries also have a heavy reliance on immigrant labour.



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FIGURE 5.3.5 Construction workers play cards between shifts on a Dubai construction site. Immigrant workers often tolerate living conditions that would not be accepted in developed countries in order to earn money to send to their families in their country of origin.

Understanding the text

- 1 State what the term 'economic cycle' refers to.
- 2 Outline how measures of business and consumer confidence are used to gain an insight into the state of economic activity.
- 3 Explain how central banks can promote or dampen economic growth using interest rates.
- 4 Outline how exchange rates affect the level of economic activity in an economy.
- 5 Outline the nature of the global economy.
- 6 List the drivers of globalisation.

Activities

- 1 Study Figure 5.3.1. Describe, in your own words, the four stages of the economic cycle. At what stage of the economic cycle is Australia?
- 2 Study the Spotlight box 'Trade flows' on pages 228–29, then answer the following questions:
 - a What is meant by the term 'balance of payments'?
 - b What are the benefits of international trade?
 - c What is the role of the World Trade Organization?

- 3 Study the Spotlight box 'International financial flows' on pages 229–30, then complete the following tasks:
 - a Explain the term 'international financial flows'. What does it include?
 - b State what 'direct foreign investment' is. What does it include?
 - c Identify the largest investors in Australia.
- 4 Research task: Investigate a controversy surrounding the takeover of an Australian company by a foreign entity or the proposed purchase of Australian infrastructure by foreign interests. Present an oral report outlining the arguments for and against the takeover/purchase.
- 5 Study the Spotlight box 'Investing' on pages 230–32, then complete the following tasks:
 - a Explain why Australia has one of the highest rates of share ownership in the world.
 - b Outline the benefits and risks associated with the ownership of international shares.
 - c State what an interest-earning investment is. What are the advantages of such investments?
Explain the relationship between the interest rates received on interest-earning investments and the level of risk.
 - d Explain what a managed fund is. What are the advantages of these funds?
 - e Outline the benefits of interest-earning investments over international shares and managed funds.
- 6 Find examples of websites that provide up-to-date information about the prices of international shares. Select one internationally listed company and track the changes in its share price over a week. Draw a graph showing the trend in the share price. Compare the performance of your shares with those of other class members' shares.
- 7 Use the information provided in the Spotlight box 'Investing' to compare the advantages and disadvantages of investing money internationally and domestically. Conduct a class debate on the topic 'You are better off investing at home'.
- 8 Study the Spotlight box 'Global markets for labour' on pages 232–33, then complete the following tasks:
 - a Outline the features of the international market for labour.
 - b Distinguish between the three distinct components of the global labour market.
 - c Identify the largest concentrations of migrant workers.
 - d Select one of the countries listed and investigate the nature and extent of immigrant labour in the selected country.

5.4 Current issues

There are several contemporary issues affecting local economies in Australia. Examples include unemployment, environmental degradation, inflation, the setting of interest rates and the role of the Reserve Bank of Australia, and the place of multicultural corporations within the Australian economy. In each case, we can investigate the issue's causes, its impact on individuals and the economy, and government policy responses. In this instance, we focus on inequality in the distribution of income and wealth in Australia with a special focus on the experience of Aboriginal and Torres Strait Islander peoples.

Inequality in the distribution of income and wealth in Australia

Among the most pressing economy-based issues are the growing inequality in Australian society, poverty and Indigenous disadvantage.

Australia has long prided itself as the land of the 'fair go'; so much so, that it was one of the principles upon which the new nation was founded in 1901. From the earliest years of European settlement, Australians were keen to avoid the class-based divisions and inequalities evident in British society. But does the 'fair go' still apply? Is Australia a truly egalitarian society?

Unfortunately, the gap between those who have much and those who have little continues to grow.

Inequality means that those in the lower income groups don't enjoy the same access to opportunities as those in the higher groups. For example, those in the lowest groups find it more difficult to access higher education than someone in the highest group. Wealthier people can afford not to rely on services such as public schools and public hospitals. Instead, they use private schools and private hospitals. When this happens, they have less interest in supporting publicly funded schools and hospitals, leading to a more divided society.

Such inequalities undermine the fairness of our economic system and result in division within society. Countries with lower levels of inequality tend to have faster and more lasting economic growth. Countries with high levels of inequality often experience high levels of violence and imprisonment, and lower life expectancy.

The nature and extent of inequality evident in Australian society (see the Spotlight box 'Inequalities in the distribution of income and wealth') are the responsibility of policy-makers. Governments have the capacity either to reduce inequality or to increase it. Tackling inequality is therefore a political choice, not an economic problem.

What can be done about inequality? In the past, government policies have protected Australia from the worst forms of inequality. But Australia must be careful to avoid policies that increase inequality. For example, when we cut income support to the needy, people who rely on such payments slide further down the equality scale. Tax breaks for people on high incomes allow them to avoid paying their fair share of tax.

Inequality can be reduced through social spending, a progressive taxation system, and ensuring that workers' rights are protected and enhanced. **Social spending** refers to the quantity and quality of government spending on public services such as health care, education, and social protections such as the provision of income support. **Progressive taxation** is the extent to which governments redistribute wealth across society through taxes on the wealthiest individuals and companies. **Labour rights** refers to the degree to which governments support workers' rights, and particularly the rights of women in the workplace, through enforcing a minimum wage, equal pay and paid parental leave, supporting the rights of trade unions and providing protection against discrimination.

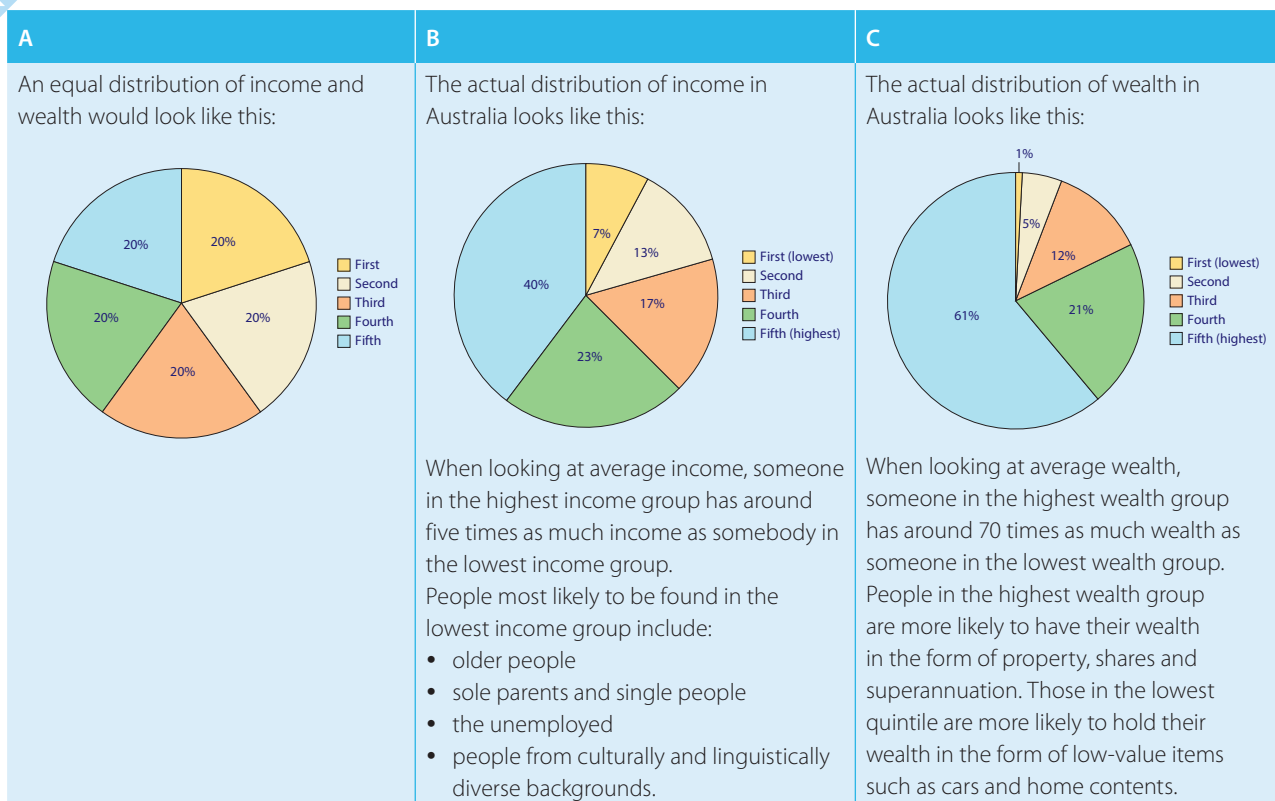
Spotlight: Inequalities in the distribution of income and wealth

Inequality in Australia is measured in two ways:

- income inequality – how much income is received by a person or household
- wealth inequality – how much wealth is held by a person or household.

When we study the distribution of income and wealth, we do so by focusing on the experience of people in each quintile of the population. A **quintile** is a statistical value representing 20 per cent of the total population. The first quintile represents the lowest (poorest) fifth of the population (1–20 per cent); the second quintile represents the second fifth (21–40 per cent) and so on. The fifth quintile is the wealthiest 20 per cent of the population.

If the distribution of income and wealth by quintile were equal, it would look like the distribution in Figure 5.4.1 (A). In Australia, the share of income is not equal; it looks like that shown in Figure 5.4.1 (B). In Australia, the share of wealth is not equal; it looks that shown in Figure 5.4.1 (C). Wealth inequality is higher in Australia than income inequality.



Source: Adapted from ACOSS, 'Inequality in Australia: A nation divided', 2015.

FIGURE 5.4.1 The distribution of income and wealth in Australia

Inequality is increasing

The gap between the poorest and wealthiest groups is increasing. The share of income and wealth going to the wealthiest 20 per cent of households has increased, while the share going to the poorest (and in the case of wealth also the middle) groups has decreased over the past two decades. Over the decade 2004–14, incomes for the top quintile of households grew by more than 40 per cent, while those for the lowest quintile only grew by about 25 per cent. In terms of wealth, the wealth of the top 20 per cent of households increased by 32 per cent in the period 2004–14. By comparison, the wealth of the poorest households increased by just 3 per cent.

Barriers to equality of opportunity

Equality of opportunity is the principle that everyone, irrespective of factors such as their socioeconomic status, gender, ethnicity and age, can realise their full potential via education and employment.

There exist a number of barriers that impact on **social mobility** in Australia. They include:

- discrimination barriers; for example, gender, ethnicity and age
- welfare trap barriers; for example, intergenerational welfare dependency
- employment barriers; for example, shortage of low-skilled jobs
- education barriers; for example, access to resources such as computers and textbooks
- health barriers; for example, chronic health conditions and disabilities
- housing barriers; for example, overcrowding and poorly maintained housing
- spatial and transport barriers; for example, distance from services and employment opportunities.

Social and economic problems of this scale can be very difficult to solve. There are, however, some steps that can be taken to help ensure that all Australians enjoy an acceptable standard of living. These include:

- providing incentives for the new knowledge-based industries to locate in those areas most seriously affected by the economic and technological changes
- retraining those who have been marginalised and demoralised by the decline in manufacturing employment
- ensuring that young people are better educated and therefore better able to fill the jobs being created in the new information-based economy
- redistributing income (via the tax system) from high-paid to low-paid Australians
- increasing government spending on health care, education, housing and public transport.

Spotlight: Poverty in Australia

No-one in Australia should live in a state of **absolute poverty**. Australia's social welfare safety net provides the means for people to access adequate food, clothing and shelter. However, there are people living on the streets of our large cities, and some people go without meals and struggle to pay for basic needs such as electricity and transport. How can this be? Australia enjoys one of the highest standards of living in the world. What is clear is that the wealth that underpins this high standard of living is not evenly distributed. Some people have a larger share than others (see the Spotlight box 'Inequalities in the distribution of income and wealth'). We call this **relative poverty**.



FIGURE 5.4.2 Homeless person sleeping rough on the streets of Sydney

Relative poverty occurs when people do not enjoy a minimum standard of living as determined by a government. In Australia, the minimum standard of living is defined by what is referred to as the poverty line. The poverty line is set at 50 per cent of median income. Using this measure, the Australian Council of Social Service (ACOSS) estimates that:

- 2.5 million Australians, or 13.9 per cent of the population, live below the poverty line
- 40.1 per cent of Australians relying on social security payments live below the poverty line
- 61.2 per cent of people who are unemployed are living below the poverty line
- 33.2 per cent of people below the poverty line came from a household with wages as their main income (they are referred to as the working poor)
- 13.8 per cent of people living in poverty live in capital cities, compared to 14 per cent outside capital cities. Tasmania has the highest proportion of its population living below the poverty line (15.1 per cent). The Australian Capital Territory has the lowest (9.1 per cent).

Impacts of poverty and inequality

Inequality and poverty have economic implications. These include lower consumer spending and social unrest. High levels of poverty result in people not having the resources to invest in education and health care. This has human resource implications and puts a brake on economic growth. If inequality puts a squeeze on the middle class, it can reduce the demand for goods and services (which impacts on economic growth).

Increasing inequality can also erode people's trust in, and support for, institutions and the existing political order. This can result in civil unrest and the rise of political extremists. This is made worse when the wealthy use their social and economic networks to exclude 'outsiders' from economic opportunities.

Government policy responses

There are a number of interventions that governments can make to reduce inequality. These include:

- increasing the progressive nature of the tax system. This involves redistributing income and wealth from the wealthy to the poor via taxation and government spending. In effect, it means imposing higher rates of taxation on the rich than on the poor
- investment in the country's social infrastructure— its education and health-hcare system
- improvements to the welfare safety net, especially for the disadvantaged, including those with disabilities, the aged, single mothers and the unemployed.

Spotlight: Indigenous disadvantage

On almost every indicator of human wellbeing, Indigenous Australians are disadvantaged relative to the population as a whole. This disadvantage increases with the degree of remoteness. It is especially apparent in terms of health, education, employment and imprisonment.



Health

Two hundred and thirty years of dispossession, discrimination, poverty and idleness feed behaviours that affect quality of life. Drug and alcohol addiction and abuse have become embedded in many Indigenous communities, with serious consequences. Heavy drinking brings on health problems and leads to violence, which often triggers assaults, self-harm and family breakdowns.

As a result, Indigenous Australians generally have poor health compared with other Australians. Heart disease is a major cause of premature death, and diseases such as diabetes, liver and kidney problems, and cancers linked to smoking, are more prevalent in Indigenous Australians. The health of Indigenous people prior to their contact with Europeans was much better, as they had a more nutritious diet and an active lifestyle.

Life expectancy is a broad indicator of a population's long-term health and wellbeing. The life expectancy for an Indigenous male born in 2010–12 was estimated to be 69.1 years, which is 10.6 years less than for non-Indigenous males. For an Indigenous female, it was 73.7 years, some 9.7 years below non-Indigenous females. At the 2016 Census, just 5 per cent of Indigenous Australians were 65 years or over, compared to 16 per cent of the non-Indigenous population.

Health surveys of Aboriginal and Torres Strait Islander people reveal that:

- one in six Aboriginal and Torres Strait Islander people have asthma (twice as high in remote areas)
- one in eight reported diseases of the ear and/or hearing problems
- one in eight had heart disease
- they were three times more likely than non-Indigenous Australians to have diabetes.

Education

Gaining an educational qualification improves the life prospects for all young people. In 2016, only 65.3 per cent of the Aboriginal and Torres Strait Islander population aged 15–64 had attained Year 12 or Certificate Level II or above, compared to 89.1 per cent of the non-Indigenous population. There are still a significant number of Indigenous students who are failing to meet basic literacy and numeracy standards (as measured by the NAPLAN test).



Alamy Stock Photo/Penny Tweedie

FIGURE 5.4.3 Aboriginal children learn about dental hygiene.

Employment

There is a considerable gap between the labour force outcomes of Indigenous and non-Indigenous Australians. In 2016, 46.6 per cent of Indigenous Australians were employed, compared with 72 per cent for non-Indigenous Australians. In 2016, the unemployment rate for Indigenous people of working age was 18.4 per cent, 2.7 times the non-Indigenous unemployment rate (6.8 per cent).

Imprisonment

Indigenous Australians are massively over-represented in Australia's criminal justice system. While Indigenous people make up only 3 per cent of the total population, they make up more than 28 per cent of the country's prison population.

With high levels of alcohol and substance abuse, lack of services of any kind, high unemployment rates, low levels of education and a high incidence of child abuse, it is not surprising that there is a high rate of reoffending. Repeat offending and reincarceration is a large contributor to this high rate of imprisonment.

Understanding the text

- 1 Outline the origins of the 'fair go'. Is it still appropriate to refer to Australia as an egalitarian society?
- 2 Outline the impacts of inequality and its economic implications.
- 3 Identify the ways governments can address the issue of growing inequality. What actions should governments avoid?
- 4 Explain what is meant by the terms 'social spending' and 'progressive taxation'.
- 5 Describe the extent to which inequality has increased in Australia.
- 6 Explain what is meant by the terms 'social mobility' and 'equality of opportunity'. Outline the barriers to social mobility. What actions can be taken to ensure that all Australians have an acceptable standard of living?
- 7 Outline the economic implications of poverty and inequality. How can governments respond?

Activities

- 1 Study the Spotlight box 'Inequalities in the distribution of income and wealth' on pages 235–36 and then complete the following tasks:
 - a Identify the two ways in which inequality in Australia is measured.
 - b Using data from Figures 5.4.1 (B) and 5.4.1 (C), write a report describing the distribution of income and wealth in Australia.
- 2 Study the Spotlight box 'Poverty in Australia' on page 237. Write a report outlining the nature and extent of poverty in Australia.
- 3 Study the Spotlight box 'Indigenous disadvantage' on pages 238–39 and then complete the following tasks:
 - a Outline the extent of the disadvantage experienced by Indigenous Australians.
 - b Access the latest *Closing the Gap* report. Outline the progress being made in reducing the disadvantage experienced by Indigenous Australians.
 - c Research task: Investigate an Indigenous-based organisation or program designed to address issues of Indigenous disadvantage. Prepare an oral report outlining the nature of the initiative and the success it has had in reducing disadvantage.



6

INVESTING

CONTENT OVERVIEW

- 6.1 Reasons for investing
- 6.2 Investment options
- 6.3 Investment planning
- 6.4 The financial services industry
- 6.5 Current issues

CONTENT FOCUS

In this option, we explore the range of investment options available. In doing so, you will develop an appreciation of the need to analyse information and data in order to make informed investment decisions. You will also have the opportunity to study the role and responsibilities of the financial services industry.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- Why do people invest?
- What investment options are there?
- How can we ensure that we make informed investment decisions?
- What are the roles and responsibilities of the financial services industry?

GLOSSARY OF KEY TERMS

All Ordinaries Index

A measurement of the average movements in the share price of a selection of major Australian companies.

capital gain

Occurs when the sale price for an asset is greater than the initial cost.

capital loss

Occurs when the sale price for an asset is less than the initial cost.

collateral

An asset promised to a lender in case the borrower is unable to meet the loan repayments.

comparison rate

A true rate of interest. It includes both the interest rate and any fees and charges.

conflict of interest

A situation that has the potential to undermine the impartiality of a person because of a potential clash between their self-interest and their professional responsibilities.

diversification

Spreading investments over a range of asset sectors with the aim of reducing risk.

dividend

A payment made to a company's shareholders.

equity

The value of an investment less the amount of money owing on the investment.

equity loan

A loan where the equity in an asset is used as collateral for the loan that is taken out to buy further assets.

ethical investing

Investing in assets that are considered to be morally sound; for example, those that are not socially and environmentally harmful.

gearing

Borrowing for the purpose of investment, such as purchasing a share portfolio or using a mortgage to purchase a house.

income

Regular payments from an investment; for example, interest on cash or bonds, dividends on shares or rent from properties.

investment

An asset purchased with the intention of producing a capital gain or income, or both, for the owner.

investment portfolio

The range of investments held by an individual.

mortgage

A loan used to fund the purchase of a property.

negative gearing

An investment financed with borrowed funds where the interest on the borrowing exceeds the income from

the investment. Often used by investors to reduce their taxable income.

return

The amount of money received from an investment each year. It may consist of income and/or capital growth and is usually expressed as a percentage.

risk

The level of uncertainty associated with a particular investment. Generally, the higher the level of risk, the higher the potential return.

term deposit

Money invested for a fixed period of time. Interest is paid at regular intervals.

unit trust

An investment where a number of individuals place their money with a professional manager who manages the total fund on their behalf. Sometimes referred to as a pooled investment or managed fund.

6.1 Reasons for investing

The terms 'saving' and 'investing' are often confused. Saving is the act of safely storing money for later use. Investing is using money or capital in the anticipation of increasing wealth.

Individuals invest for a variety of reasons. Short-term goals of investing could be the purchase of a car, holiday, new sound system or television. Long-term goals could include the funding of retirement or the education of children. Investing could simply be for the general accumulation of wealth – to become rich.

Businesses invest their profits to fund future projects and major purchases, such as a new factory or office building. Business operations that generate large amounts of money use short-term investments as a way of making even more money instead of using a general savings account, which earns little interest.

The return on an investment is the profit generated by that investment. It is made up of any change in value of the investment that an investor receives. It can be measured either in absolute terms (for example, in dollars) or as a percentage of the amount invested. A loss instead of a profit is described as a *negative return*.

Rate of return is a profit on an investment achieved over a period of time (typically a year), expressed as a proportion of the original investment. In this case, the rate of return is referred to as *annual return*.

Some of the reasons people invest are outlined in Table 6.1.1.

TABLE 6.1.1 Some of the reasons people invest

REASONS	ELABORATION
Grow your money	Most investments offer a return on your money over the longer term. This return allows you to build your wealth over time.
Save for retirement	While you are working, you should be saving for retirement. This can be done by placing your retirement savings into a portfolio of investments, such as stocks, bonds, property or even precious metals. At retirement age, you can live off funds earned from these investments rather than relying on the age pension. Australia's Superannuation Guarantee system ensures that all Australian workers participate in this type of investment.
Earn higher returns	In order to grow your money, you need to put it in a place where it can earn a high rate of return. The higher the rate of return, the more money you will earn. Investment vehicles tend to offer the opportunity to earn higher rates of return than savings accounts.
Achieve financial goals	Investing can help you reach your financial goals faster. If your money is earning a higher rate of return than a savings account, you will be earning more money over the long term and at a faster rate. Your investment goals might include buying a house or car, or paying private school fees for your children.
Start and expand a business	Many investors like contributing to the establishment of new businesses and building them into successful enterprises that can provide them with a strong, ongoing return on their investment.
Be part of a new venture	New ventures need the backing of money, and they look to investors for that backing. Some investors like to have the opportunity of investing in a new product, technology or service.
Reduce taxable income	As an investor, you may be able to reduce your taxable income by investing pre-tax income into a superannuation fund. In the case of real estate investments, it is possible that the costs involved exceed the rent received, even while the property increases in value. When a loss is generated from an investment, you may be able to deduct that loss against any gains from other investments. This can lower the amount of your taxable income. (This is often referred to as negative gearing – see the Spotlight box 'Negative gearing' in section 6.2.)
Support philanthropy	Many investors like investing in people and good causes. These investors feel rewarded when helping others achieve their goals. Some value the feeling that they are making a difference to the wellbeing of humanity more generally; for example, supporting refugees, Indigenous causes and the plight of drought-affected farmers.

Some investments we make are compulsory; the government mandates them. The best example of this type of investment is Australia's Superannuation Guarantee. Introduced in 1992 by the Keating Labor government, the scheme requires employers to contribute a fixed percentage of an employee's wages or salary into an approved superannuation fund. This figure now stands at 9.5 per cent and is planned to increase gradually from 2021 to 12 per cent in 2025. By mid-2018, Australians had \$2.7 trillion in superannuation assets, making it the fourth-largest such fund in the world.

People are also encouraged by a range of tax-based incentives to supplement compulsory superannuation contributions with voluntary contributions. This may include diverting some of their wages or salary into superannuation contributions under what is referred to as salary sacrificing. This diversion of income reduces their overall tax liability.

Classes of investment

The two main classes of investment are:

- *fixed income investment*, such as bonds and fixed bank deposits
- *variable income investment*, such as equities (or shares in public companies) and property ownership.

In economics, **investment** means creation of capital or goods capable of producing other goods or services.



FIGURE 6.1.1 Investing is using savings in the anticipation of creating even more wealth.

Income and capital gains

Income is money received from an investment while it is owned. A **capital gain** is made on an investment when it is sold for more money than it cost to buy. A **capital loss** occurs when an investment is sold for less money than it cost. For example, an apartment costing \$400 000 is purchased as an investment. It produces an income, in the form of rent, of \$1000 a month. If the property is sold for \$500 000 some years later, it has made a capital gain of \$100 000. If it is sold for \$350 000, it has made a capital loss of \$50 000.

Financing investments

Unless an inheritance or some other windfall (for example, a gift or a lottery win) is received, investing is achieved through saving, borrowing or a mixture of both.

Property is the most difficult market to enter. Very few people can afford to buy property from savings alone. Banks and other lenders will, under some circumstances, lend the full value of the property. Generally, however, they will lend a percentage of the value of the property in the form of a **mortgage**. This means the property is promised to the mortgagee (lender) if the mortgagor (borrower) is unable to pay back the loan. The property is **collateral** for the loan. Mortgages may be taken out over a relatively long period of time, often 25–30 years. They can, however, be paid out earlier.

Gearing, also known as *leveraging*, is when loans are given for the purposes of investing. If the income gained from the investment is less than the repayments on the loan, this is called **negative gearing** (see the Spotlight box ‘Negative gearing’ in section 6.2).

Homeowners can use the **equity** in the home they own or are paying off to purchase an investment property. This type of loan is often referred to as an **equity loan**. It works like this. You bought a home in 2000 for \$300 000. To finance your purchase, you borrowed \$200 000. You used your savings (\$100 000) to pay the balance. At this point, your equity in the home is \$100 000. Four years later, thanks to a property boom, your home is worth \$600 000. Your equity is now \$400 000 plus any amount you have been able to pay off your mortgage.

Banks will lend you money using the \$400 000 equity in your home as collateral. Buying an asset often makes good sense, especially if it increases in value. Borrowing money using your equity in a property to fund the consumption of goods and services (or paying off credit cards) is not a good practice because it does not normally involve the purchase of an asset that will increase in value.



FIGURE 6.1.2 Homeowners often use home equity loans to purchase properties, which are then rented out. This enables the investor to take advantage of the capital they have invested in their home.

Understanding the text

- 1 Explain the difference between saving and investing.
- 2 Distinguish between short-term and long-term investment goals. Give an example of each.
- 3 Explain why businesses invest.
- 4 State what is meant by the terms 'return on investment' and 'rate of return'.
- 5 Identify the one type of mandatory investment that Australian workers are required to engage with. Why is this significant?
- 6 Distinguish between a fixed income investment and a variable income investment.
- 7 Distinguish between a capital gain and a capital loss.
- 8 Outline the ways that an investment portfolio can be funded.
- 9 State what collateral is.
- 10 State what is meant by the terms 'gearing' and 'negative gearing'.

Activities

- 1 Working in groups, compile a list of your short-term and long-term investment goals. Share your group's list with the rest of the class.
- 2 Study Table 6.1.1. Construct a diagram highlighting the reasons why people invest.
- 3 Use the internet, or the finance or property section of a major daily newspaper, to find examples of advertisements promoting property as a form of investment. Glue these examples into your notebook. What information does each advertisement include?
- 4 Access the website of one of Australia's major banks. Investigate the conditions under which the bank will grant equity loans to a potential investor.

6.2 Investment options

There is a range of investment options. These include cash, fixed-interest investments, property and shares.

Cash

Bank savings accounts are just that: savings, not investments. They simply store money, and because savings account interest rates are very low, they don't keep pace with inflation. In other words, they are not a good way to make money.

However, putting money in an investment account, such as a **term deposit**, is a simple way to begin investing. Term deposits are held for a fixed period of time, whether it is months or years, and pay a fixed amount of interest at regular intervals.

Larger amounts of money can be invested in cash investments (such as bank bills) issued by state and federal governments, banks and large corporations. Generally speaking, the more you invest, the higher the rate of interest you are entitled to.



FIGURE 6.2.1 Cash-based investments are the safest form of investment but offer only small returns.

Fixed-interest investments

Fixed-interest investments (bonds) are agreements to pay a certain amount of money at a fixed date in the future (the maturity date) and periodic interest payments (coupons). In this sense, they are much like term deposits. However, bonds can be sold before the end of the investment term. The price is determined by an interest rate that can change each time the bond is sold, but the amount paid at maturity does not change. The higher the interest rate, the lower the price.

Businesses often use cash and fixed-interest investments so that a little extra money is earned until funds are required. For example, some clothing stores only make two major purchases a year (summer and winter stock). The money received between these spending periods could be invested instead of earning little interest in a bank savings account.

Property

Property (real estate) is often favoured over other forms of investment because it is an actual thing rather than a piece of paper representing promised money or a few shares among thousands in a company over which the investor has little control.

Property investments include residential property, such as an apartment or house, and business property, such as a warehouse, factory, hotel, office block or retail outlet.

Negative gearing is a major incentive for those investing in property. When an investment property is negatively geared, the investor is able to reduce or even minimise his or her taxable income (see the Spotlight box 'Negative gearing').

Advantages and disadvantages of investing in property

The advantages and disadvantages of property as a form of investment are outlined in Table 6.2.1.

TABLE 6.2.1 Advantages and disadvantages of an investment in property

ADVANTAGES	DISADVANTAGES
• The property market is generally considered to be more stable than other markets. • The income is more certain because you receive a negotiated rental payment from the tenants. In the case that the rental income is higher than the mortgage repayment, you do not need to put in any extra funds to pay off the loan. Any surplus can be used to cover the property costs incurred; for example, council rates, body corporate levies. • If the property is in a good location, the property value will increase over time and generate more profit. • Expenses associated with the investment property, such as property maintenance, council rates and fees charged by a managing agent, can be claimed back as a tax deduction at the end of the financial year. • You can use any equity in an investment property to secure another loan or to purchase another investment property.	• The initial costs of entry into the property market are relatively high. • It may take some time to sell a property. This is an important consideration if you are facing financial hardship and you need to sell the property quickly. In such circumstances, you may need to sell it at a loss. • After you purchase the property, you may not be able to rent it immediately. It may take some time to find tenants. If this is the case, you may need extra funds to cover expenses such as mortgage repayments, rates and maintenance costs. • Tenants may move out after their contract expires and it typically takes some time to find another tenant. During this time, owners need to cover the difference between the rental income and the repayments on the mortgage. • There is no guarantee that properties will always increase in value. The property cycle is characterised by booms, periods of stagnation and the occasional decline.



FIGURE 6.2.2 Property is one of the most popular forms of investment in Australia.



FIGURE 6.2.3 New-build apartments such as these are popular with investors seeking to reduce their tax through negative gearing.

TABLE 6.2.2 Home loan interest rates, November 2018

FINANCIAL INSTITUTION	VARIABLE RATE %	INVESTMENT RATE %	1-YEAR FIXED %	2-YEAR FIXED %	3-YEAR FIXED %
AMP	5.58	5.24	4.60	4.60	5.04
ANZ	5.36	5.96	4.24	3.90	4.14
Bendigo Bank	5.58	6.11	4.29	3.89	4.09
Citibank	5.71	5.71	4.09	4.09	4.29
Commonwealth	5.37	5.95	4.04	3.94	4.04
HSBC	5.33	5.34	3.70	3.75	3.95
Macquarie	5.36	5.97	3.88	3.79	3.81
NAB	5.24	5.80	3.99	3.89	4.09
Newcastle Permanent	5.35	5.69	3.89	3.94	3.99
St George Bank	5.36	5.92	4.64	4.34	4.44
Suncorp	5.77	5.61	3.94	3.74	3.94
Westpac	5.38	5.93	4.29	4.09	4.49

Spotlight: Negative gearing

Negative gearing occurs when the deductions associated with an investment property are greater than the income the investor receives in a 12-month period (the financial year). The loss that is made on the property investment can be offset against any income the investor has from employment or other investments. When the investor's tax return is submitted, the investor may be entitled to a refund.

Consider the following example. You purchase an investment property for \$500 000, which rents for \$600 a week. You have borrowed 100 per cent of the purchase price using your equity in your existing property as collateral. Your cash flow position is shown in Table 6.2.3, with expenses in brackets.

TABLE 6.2.3 Investment balance sheet

INCOME	
Annual gross rent: 52 weeks x \$600.00	\$31 200.00
EXPENSES	
Property expenses	(\$15 580.00)
Interest on loan: \$500 000.00 @ 4.0%	(\$20 000.00)
Total expenses	(\$35 580.00)
Annual cash flow	(−\$4 380.00)

As an investor, you will need to find \$4380.00 from your other sources of income to cover the deficit. But this amount and any depreciation you may be entitled to can be deducted from the tax payable on other income. Depending on your marginal tax rate and your other sources of income, this could result in quite a sizeable tax refund.

Even though there is a tax benefit from negative gearing, few investors would want to keep dipping into their own pockets year after year. Over time, inflation-linked increases in rent will help to cover your expenses. In addition, you should get a capital gain from rising property prices to compensate for any loss you make. Remember, there is no point continually making a loss. Even though you reduce your tax, you will want to make a profit from your investment in the long run.

Negative gearing of property has been the centre of a lively political debate focusing on housing affordability. Attempts to modify its tax benefits provoke protests from investors (see Figure 6.2.4). Those opposed to negative gearing argue that it forces up the price of properties beyond the reach of first homebuyers. First homebuyers are forced to compete for homes and apartments against investors, some of whom own multiple properties. Those in favour of negative gearing argue that without it, there would be a shortage of properties for rent. This would force up the cost of renting. The advantages and disadvantages of negative gearing are outlined in Table 6.2.4.

Negative gearing can also be applied to other forms of investment. It is, for example, possible to negatively gear a parcel of equities (shares). In this instance, the investor borrows a sum of money to purchase equities and then claims the interest on the loan as a tax deduction. Share prices tend to be much more volatile than property prices, so this type of investment is generally seen as being more risky (see 'Shares' in this section).



FIGURE 6.2.4 Cartoonists draw attention to the issue of negative gearing.

TABLE 6.2.4 Advantages and disadvantages of negative gearing

ADVANTAGES	DISADVANTAGES
- You can purchase an asset that may increase in value over time. - You can reduce the amount of tax you are required to pay. - Investment in property and shares helps promote national economic growth. - Investment in property helps to increase the stock of housing for those who rent accommodation.	- The asset may not increase in value or could actually fall in value; for example, the share market is very volatile. - The property you purchase may prove difficult to rent, while you are required to continue making the loan repayments. - Interest rates could increase, putting a strain on your household budget. - The loss you need to make to reduce your tax has to be funded out of your other sources of income. - Some economists believe that negative gearing helps to force up property prices, which prevents low-income earners from entering the property market.

Shares

Shares (or stocks or equities) represent part ownership of a company. They give the investor the right to a share of the profits of the company, which is paid out as a **dividend**. Dividends are the income derived from the investment, and when shares are sold, a capital gain or loss occurs. Australian shares are bought and sold at the Australian Securities Exchange (ASX) by licensed traders and brokers on behalf of investors.

Share markets tend to be quite volatile, especially over the short term. Economic recessions, a company collapse, political instability, global conflicts, terrorism and rising oil prices can result in falling share prices. This is often referred to as a 'bear market'. The resolution of a conflict, falling oil prices, economic growth and increasing company profits can result in a surge in share market activity and an increase in share prices. This is sometimes referred to as a 'bull market'.

While some investors speculate on short-term movements in share prices, the majority of investors are interested in long-term movements or trends. The long-term trends of the US and Australian share markets are shown in Figures 6.2.6 and 6.2.7.

Over the long term, the share market has been a good way of increasing wealth. It also gives investors a sense of being a part of an enterprise that contributes to nation building and the creation of jobs and wealth.



Shutterstock.com/EyeofPaul

FIGURE 6.2.5 The Australian Securities Exchange in Bridge Street, Sydney



FIGURE 6.2.6 Trends in the US share market, Dow Jones Index, 2014 to 2019



FIGURE 6.2.7 Trends in the Australian share market, 2014 to 2019. The All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange.



FIGURE 6.2.8 While some investors speculate on short-term movements in share prices, the majority of investors are interested in long-term movements or trends.

Company	Last sale	+ or -	No. sold 100s	Closing quotes: buy and sell	Div. yield %	P/E ratio	52-week high and low
XXXXXXXXX	.64	-2	1425	.64 .65 buy sell	8.59	13.3	.68 .48 high low
The company's name, abbreviated by ASX, which supplies the stock price information.	Refers to the price at which the stock was last tracked.	The change in price from the previous day's close.	The volume of shares traded on the market during the course of the day.	The highest bid to buy and the lowest offer to sell a stock recorded at the close of the day's trading.	The return on investment. This is calculated daily by dividing the annual dividend per share of a company by its share price.	The price earnings ratio of a stock is calculated daily by dividing the share price by the company's earnings per share, including abnormals.	This represents the highest and lowest sales recorded during the past 52 weeks of trading.

FIGURE 6.2.9 Reading the share market report in a daily newspaper

TABLE 6.2.5 Sample share market report

SAMPLE OF A SHARE MARKET REPORT				52 WEEKS	
Company	Last sale (\$)	+ or –	No. sold (100s)	High (\$)	Low (\$)
AMP	2.67	+6	75 926	5.47	2.28
BHP	33.41	+8	411 238	35.68	26.93
CBA	70.97	+33	28 183	82.66	65.23
Harvey Norman	3.26	+3	23 848	4.54	3.04
NAB	24.90	–3	69 122	30.66	24.52
Westpac	27.70	+2	71 724	32.45	25.65
Wesfarmers	47.42	–3	17 388	52.77	40.29
Woolworths	29.42	+7	13 457	31.48	25.59

Spotlight: Share market game

You have been given \$100 000 to purchase a small selection of shares. Use the ASX website and/or a current newspaper to select your portfolio of shares. Enter the details of your share portfolio into a spreadsheet similar to the format shown in Figure 6.2.10.

Each week, update the share prices in the current price column in the spreadsheet. Keep a copy of each week's update, either by printing it out or saving each week under a different name.

	A	B	C	D	E	F	G	H	I	J
1	Share portfolio as at 13/2/2019									
2										
3	Stock name	ASX Code	Date of purchase	Brokerage cost (\$)	Share purchase price	Number purchased	Total cost	Current share price (\$)	Present value (\$)	Net gain/(loss) (\$)
4										
5	BHP Group		1/7/18	\$50	\$36.34	400	\$14,536.00	\$36.42	\$14,568.00	\$32.00
6	CBA		1/7/18	\$50	\$77.66	300	\$23,298.00	\$73.33	\$21,999.00	-\$1,299.00
7	NAB		1/7/18	\$50	\$30.64	400	\$12,256.00	\$24.21	\$9,684.00	-\$2,572.00
8	Westpac		1/7/18	\$50	\$31.40	500	\$15,700.00	\$26.20	\$13,100.00	-\$2,600.00
9	Rio Tinto		1/7/18	\$50	\$92.02	200	\$18,404.00	\$95.02	\$19,004.00	\$600.00
10	Myer		1/7/18	\$50	\$0.61	1,800	\$1,098.00	\$0.37	\$666.00	-\$432.00
11	Woolworths		1/7/18	\$50	\$31.48	220	\$6,926.00	\$31.88	\$7,013.00	\$87.00
12	Flight Centre		1/7/18	\$50	\$70.53	100	\$7,053.00	\$42.31	\$4,231.00	-\$2,822.00
13	TOTALS			\$400.00			\$99,271.00		\$90,265.00	(\$9,006.00)
14										

FIGURE 6.2.10 Sample Excel spreadsheet for a share portfolio

Managed investments

Fund management accounts provide an opportunity for many investors to combine their funds to purchase cash investments, bonds, property or shares so that larger returns are achieved. Income and gains made on the investments are given back to the various investors according to the proportion of the fund that each investor owns.

There are several advantages to investing in a managed fund instead of investing directly:

- pooled funds give greater purchasing power
- diversification (see 'Diversification and timing' in section 6.3)
- start-up costs are less
- the fund is professionally managed, which reduces paperwork and time for individual investors
- regular contributions are easily made.

The main disadvantage of using a managed fund, instead of investing directly, is the reduced control of where and when the funds are invested.

Understanding the text

1 Summarise the various savings/investment options by copying and completing the table below.

INVESTMENT OPTIONS	FEATURES
Cash: • Savings account • Term deposit	
Fixed interest	
Property	
Shares	

2 Explain how fund management accounts differ from other investment options.

3 Outline the advantages of managed investments.

4 What is diversification? Outline how it can be used to reduce overall risk when investing.

5 Summarise the risks associated with the different types of investment by copying and completing the table below.

INVESTMENT OPTION	LEVEL OF RISK (HIGH, MEDIUM OR LOW)
Property	
Term deposits and fixed-interest accounts	
Shares	
Managed funds	

Activities

- 1 Using the property section of a Saturday newspaper or a property website, collect advertisements relating to investments in property. Make sure you include a mix of property types. What information and images are used to attract potential investors? Develop a wall display highlighting the different types of property. Use annotations to note the types of information and images used by the advertisers.
- 2 Study Table 6.2.1. Write a discussion outlining the advantages and disadvantages of property investments.
- 3 Study the Spotlight box 'Negative gearing' on pages 247–48 and then complete the following tasks:
 - a In your own words, explain what negative gearing is.
 - b Outline how negative gearing can be used to reduce a person's tax liability.
 - c Write a discussion outlining the advantages and disadvantages of negative gearing.
 - d Study Figure 6.2.4. Write a sentence or two outlining the point each cartoonist is seeking to make.
- 4 Study Figures 6.2.6 and 6.2.7. Explain why the share market is often described as a good long-term investment. What risks are there in using the share market as a short-term investment strategy?
- 5 You have \$5000 to invest. Access the websites of at least five major banks and/or credit unions and locate information on their term deposit accounts. Copy and complete the following table.

FINANCIAL INSTITUTION	NAME OF TERM DEPOSIT ACCOUNT	INTEREST RATE	BANK CHARGES AND CONDITIONS OF USE

Based on the information collected, select the term deposit that offers the best return. Justify your selection.

- 6 Study Table 6.2.5 and answer the following questions:
 - a Which company had the largest volume of shares traded on the market during the course of the day?
 - b Which company had the smallest volume of shares traded?
 - c Which company experienced the greatest variation in its share price over the last 52 weeks?
 - d Which company experienced the smallest variation in its share price over the last 52 weeks?
- 7 Undertake internet research to identify the best investment options for the following people:
 - a a young couple saving to fund the deposit on their first home
 - b a middle-aged person planning for retirement
 - c a 30-year-old person who has just inherited \$300 000
 - d a newly retired couple
 - e a 20-year-old student planning a European working holiday when he or she completes university.
- 8 You have saved \$5000 and have decided to develop your own investment plan. Working in groups, brainstorm the range of issues you will need to consider. Develop a mind map highlighting the points raised in your group's discussion.

6.3 Investment planning

Successful investors plan their investments rather than act on a whim. Where investors decide to invest depends on three main factors:

- the goals of the investor
- the time period being considered for the investments
- the level of risk the investor is willing to take.

An **investment portfolio** can be established after considering these factors.

The three scenarios presented in the Spotlight box 'Investment planning scenarios' provide a guide to what could be considered according to the goals of the investor and the time frame he or she has in mind. If the investor can tolerate a high level of risk, a more aggressive approach may be attempted with a strong emphasis on shares, no matter the stage of life. On the other hand, if the investor is reasonably cautious, shares might be avoided altogether.

Spotlight: Investment planning scenarios

Scenario 1: Young and single

Young, single investors usually have short-term goals, such as buying a car. Hence, the emphasis would probably be towards the less risky investments of cash and fixed interest. When investors buy their first home, it provides an entry to the property market. After short-term goals are met, and with retirement in mind, the investor may then place emphasis on shares. Shares are often seen to be the most appropriate form of investment when considering the long term.

Scenario 2: Married with children

When investors become parents, the cost of educating their children may be a consideration. The family would also need to continue investing for retirement. Therefore, in this example, less of the investment portfolio would be in cash and fixed interest, with most of the investments in property and shares. If the children were to attend private schools, a more evenly balanced portfolio might be considered to allow ready access to funds to pay school fees each year.

Scenario 3: Approaching retirement

As investors approach retirement, less risky investments may be desired in order to protect funds from a sudden downturn in a particular market.

Risk and return

When planning an investment strategy, it is important to consider the level of risk involved.

Risk refers to the uncertainty of how much money an investment is going to make (or lose). Factors influencing risk include investor confidence, interest rate uncertainty and unexpected changes in the financial market.

Return refers to the amount made on an investment through income and capital gains. In general, the greater the level of risk, the higher the potential return on an investment will be (see Figure 6.3.1).

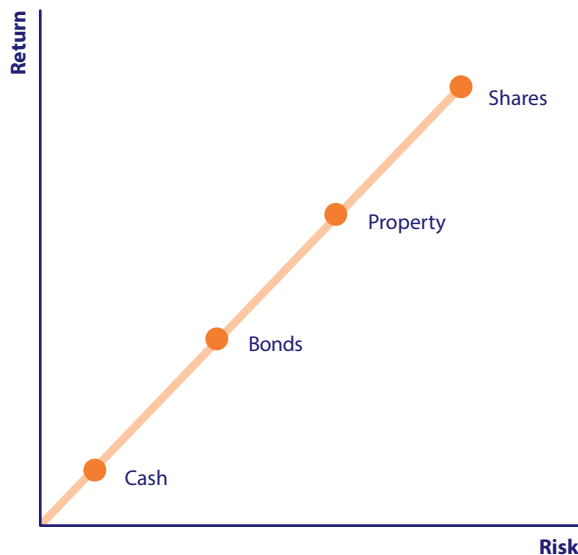


FIGURE 6.3.1 The relationship between risk and return

Property

Property investments, which carry a medium level of risk, generally require large financial commitments and have many associated costs, particularly at the initial purchase stage. Stamp duty, legal fees and agency commissions are just a few of the costs involved. Then there is the ongoing maintenance of the property and the risk of bad tenants, or indeed the lack of tenants, for the property. Usually an investor cannot sell just part of a property, and it can take months to find a buyer prepared to pay the price the investor is willing to accept.

These risks for the property investor are somewhat balanced by the benefits. Property can be used as collateral for a loan (mortgage), which can provide cash reasonably quickly. Property has the potential to achieve capital gains and, if the property is leased, income from rent. Due to all the costs involved with property, it needs to be kept for quite a few years for the returns to outweigh the costs.

Cash and fixed interest

Cash investments have little risk, and consequently they provide a modest return. They are most useful for investors who want ready access to funds. Bonds fluctuate in value as interest rates change, so the returns are potentially higher than for cash investments, but they could also be lower. There are very few costs involved with cash and fixed-interest accounts.

Shares

Shares, particularly international shares, are the most risky investment of all. However, of all the investment categories, shares provide the best chance of achieving high returns; although this means the chance of losses is higher too. As with property, shares offer both income and capital gains, but dividend payments are not as certain or consistent as rental payments. Over long periods of time, shares have historically provided the best returns of all the investment options.

Investors use brokers to buy and sell shares on their behalf. Brokers can charge commissions and/or transaction fees. They charge more if the investor also seeks advice.

Developments in technology have allowed investors to monitor their share portfolios via the internet. Companies such as BT maintain extensive web-based support for investors.

Managed funds

Risks can also be reduced by using managed funds. These provide greater diversification through the sheer number of investments a fund can make compared with an individual investor.

Spotlight: Compound interest

You have probably studied compound interest in Mathematics, so you may already know how it works. However, it is not until you start calculating the impact of compound interest on money invested that you realise how important it is in terms of creating future wealth.

If you invested \$1000 today and added another \$100 a month at an interest rate of 5 per cent, you would have \$17 327 after five years, \$41 428 after 10 years and \$129 578 after 20 years (see Figure 6.3.2).

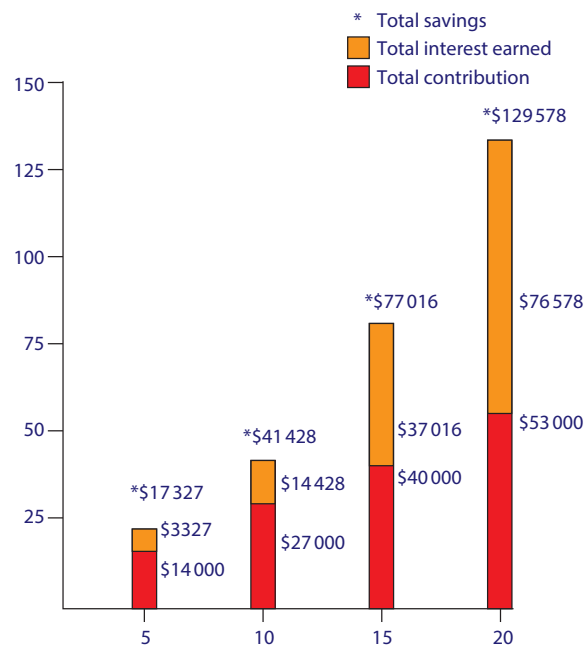


FIGURE 6.3.2 Impact of compound interest on money invested



FIGURE 6.3.3 Diversification of investments helps to reduce the risk.

Diversification and timing

Diversification is an important way to reduce overall risk in investing. This means that the investor invests in a variety of investment types and in various investments within each type. Diversification also improves the consistency of returns in the long term. Risk, particularly with shares, can be reduced by time. As noted previously, shares may be volatile over the short term, meaning their price can rise and fall in value quite drastically. Over time, these fluctuations do not have as much of an impact because diversification spreads the risk while, overall, the shares increase in value. Some investors attempt to buy investments when prices are low and sell when they are high. This is good in theory but is rather risky in practice. Generally, only highly skilled traders manage to time markets effectively.

Monitoring returns

To effectively manage an investment portfolio, all costs of the investments and their sources of income would need to be recorded, along with other relevant information, such as the dates the investments were acquired and how much of each investment has been bought, sold and is currently held. The most difficult part is recording returns on the investments owned. Basic market information is required to assess returns on investment, such as prices of shares and bonds. From this information, returns on investments can be calculated. However, what is important in measuring the performance of investments is how well they perform in relation to how the market performs overall. For example, the share market has an index called the **All Ordinaries Index**. The percentage change of the All Ordinaries Index over a period of time can

be compared to the percentage change in the value of a share portfolio over the same period of time to evaluate how well an investor's portfolio is performing in relation to the overall market.

There are many sources of information available. Indices such as the All Ordinaries Index can be found in daily newspapers and on websites such as Standard and Poor's. Cash, bond and share prices can also be found in the daily papers and on the internet through investment advisers, banks and other fund managers. There are also many useful investment magazines.



Standard and Poor's

Modifying investments to maximise long-term gains

Regularly recording data about investment fluctuations allows investments to be monitored and portfolios to be adjusted accordingly. If one area of an investor's portfolio has outperformed other parts of the portfolio, the balance of the portfolio has shifted. For example, if shares were initially only 20 per cent of a portfolio and then they perform very well so that the dollar value they represent becomes 30 per cent of the portfolio, the situation would need to be reassessed. The investor would need to determine whether investments should be changed to return to the original percentages or to accept the new balance of the portfolio.

Keeping informed about financial issues by reading the financial section of daily newspapers or internet updates, or by some other means, can alert investors to changes that will affect their portfolios. For example, if economists are predicting interest rate rises, it may not be the ideal time to buy property with a mortgage.

When personal circumstances change, the investor's portfolio would probably need to be adjusted. In the case of a job loss, it would be wise to move to safer investments of cash and fixed interest until a new job is found.

Spotlight: Truth in lending

Truth in lending refers to the idea that the real or total cost of borrowing money should be readily available to the investor.

Many investors borrow money (often using the equity they have in their home and investment properties as collateral) to establish or expand their investment portfolio. Comparing interest rates used to be difficult because some financial institutions disguised the real cost of borrowing money by adding various fees and charges.

Truth in lending legislation was passed in New South Wales in 2000. This legislation meant that, from 1 July 2003, credit providers became obliged to tell consumers more about the real cost of the money they borrowed. This involved the introduction of a new **comparison rate**, which includes both the interest rate and any fees and charges, shown as a single percentage figure or rate.

The law now requires credit providers to provide consumers with lists of comparison rates for a standard range of loan amounts and terms for their fixed-term credit products. Any advertisement for a fixed-term consumer credit product that includes an interest rate must also show a comparison rate.

Comparison rate schedules must be made available at the offices or branches of any credit provider or broker where credit products are available or advertised.

Potential borrowers should also receive a comparison rate schedule when they are given a credit application form.

If loans are advertised on the internet, customers must be given access to the relevant comparison rate schedule.

The rules cover all personal credit arrangements or loans that:

- *have a fixed-term* – that is, they are for a specific amount that is repaid over a specified time. These include home loans and personal loans. However, open-ended credit arrangements, such as credit cards, are not covered by the new regulations
- *are primarily for personal or domestic purposes* – business loans are excluded.

These rules apply to banks, credit unions, building societies, finance companies, retail stores and other businesses, and government bodies offering credit.

Responding to changing personal circumstances and economic conditions

Your investment strategies are likely to change over time. They will, for example, change in response to your changing personal and economic circumstances. During late adolescence, your investment decisions are likely to be driven by your immediate needs, such as the purchase of a car and the wish to move out of home and live independently. In the family formation stage of the life cycle, the aim of home ownership is likely to drive investment decisions. Later in life, your attention is likely to shift to the need to secure an acceptable standard of living in retirement.

Your investment decisions are also affected by your economic circumstances. Those on modest incomes have few, if any, investment options. All their income is needed to pay for the basics, such as mortgage or rent, food, clothing and utilities (water and electricity). Those on higher incomes have the opportunity to put some money aside as savings or to pay for things such as private school fees and holidays.

Some people are fortunate enough to inherit wealth. These people have the option of spending this money on consumption (for example, real estate, luxury cars, holiday homes) or investing the proceeds with the aim of generating additional wealth.

Whatever your personal or economic circumstances, you need to determine whether your investment decisions are designed to realise a short- or long-term return. Meeting short-term aims might make investments promising a quick return more attractive. Long-term aims focused on securing a retirement income might make investments offering a return over a longer time frame more attractive.

The state of the economy can also affect investment conditions. In periods of strong economic growth, wages increase and people have more money to invest, if they choose to do so. During economic downturns, the opportunity to invest often declines as people struggle to pay their bills. Increased levels of unemployment increase the level of welfare dependency.

Understanding the text

- 1 Outline the factors that determine where people invest.
- 2 Explain what is meant by the terms 'risk' and 'return'. What is the relationship between risk and return?
- 3 State what is meant by the term 'diversification' and its relationship to risk.
- 4 List the types of records investors need to maintain.
- 5 Explain how the All Ordinaries Index is used to evaluate how well an investor's portfolio of investments is performing.
- 6 Identify where an investor can find information relating to the performance of their investments.
- 7 Why is it sometimes necessary to adjust an investment portfolio? How does monitoring an investment assist in this regard?
- 8 Explain why an investor must be informed about market conditions.
- 9 Outline how your investment plans might be modified as your personal and economic circumstances change.

Activities

- 1 Read the three scenarios in the Spotlight box 'Investment planning scenarios' on page 254. Construct a timeline showing how your investment strategies may change over your lifetime.
- 2 Study Figure 6.3.1. Write a paragraph showing the relationship between return and risk.
- 3 Study Figure 6.3.2. Using data from the graph, describe the impact of compound interest on money invested.

- 4 Visit a range of investment institutions in your local community. Gather information on investment products that maximise long-term returns. Construct a table showing the advantages and disadvantages of each investment product you researched.
- 5 Use an Excel spreadsheet to develop a hypothetical investment plan. Make sure you have an appropriate mix of investments. You have a \$400 000 lottery win to invest.

6.4 The financial services industry

The financial services industry includes all the businesses that manage money, including banks, credit unions, credit card providers, insurance companies, stockbrokers, superannuation companies, investment funds and investment advisers. Financial service providers tend to cluster in local, national, regional and international financial centres, including cities such as Sydney, Hong Kong, London, New York and Tokyo.

In recent decades, Sydney has emerged as a global financial and business services centre, and employment within the industry is growing quickly. The finance and insurance sectors now command a 16.2 per cent share of Sydney's economic output. This is forecast to increase to 21 per cent within a decade. By 2026, just three information-service industries (finance, professional services, and information media and telecommunications) will together account for more than 40 per cent of the city's economy. Manufacturing in Sydney now accounts for only 5.7 per cent of the city's employment.



FIGURE 6.4.1 In recent decades, Sydney has emerged as a global financial and business services centre.

Driving this growth has been Australia's compulsory superannuation system. The vast pool of funds, totalling \$2.7 trillion by the end of 2018, needs to be managed. This has attracted the world's largest financial institutions to Australia. A majority of these institutions established their headquarters in Sydney, as did many of the Australia-based providers in the industry.

Types of financial institutions

There are eight main types of financial institutions.

Retail banks

Retail banks are probably the banks you are most familiar with. Your savings accounts are held at a retail bank, which focuses on consumers (or the general public) as customers. These are the banks that give you debit and credit cards, offer personal loans, and are the ones with branch locations across the suburbs of Australian towns and cities.

Commercial banks

Commercial banks focus on the needs of business customers. Businesses, like individuals, need cheque and savings accounts. But they also need more complex services, and amounts involved (and the number of transactions) can be much larger. They need to accept payments from customers via debit and credit cards and they rely heavily on lines of credit (overdraft facilities) to manage cash flow.

Investment banks

Investment banks help businesses work within the financial markets. If a business wants to go public (list on the stock exchange) or raise capital from investors, it will often use an investment bank.

Central banks

Central banks manage a country's monetary system for the government. For example, the Reserve Bank is the Australian central bank responsible for managing economic activity and supervising banks.

Credit unions

Credit unions are similar to banks, but they are typically not-for-profit organisations owned by their members (most banks, on the other hand, are owned by investors). Credit unions provide a range of products similar to retail and commercial banks. The principal difference is that credit union members generally share something in common (the place in which they live, their occupation or the organisations they belong to). Many credit unions have been transformed into mutual banks.

Mutual banks

Mutual banks are similar to credit unions in that they are owned by members (or customers) instead of outside investors. Mutual banks, most of which were originally credit unions, now offer a wide range of financial services, including transaction and savings accounts, loans, credit cards, financial advice and insurance (see the Spotlight box 'Teachers Mutual Bank'). Table 6.4.1 lists Australia's largest mutual banks.

TABLE 6.4.1 Australia's largest mutual banks

RANK	INSTITUTION
1	Credit Union Australia Bank (Qld)
2	Heritage Bank (Qld)
3	Newcastle Permanent (NSW)
4	People's Choice Credit Union (SA)
5	Illawarra Mutual Bank (NSW)
6	Greater Bank (NSW)
7	Beyond Bank Australia (SA, ACT, WA & NSW)
8	Teachers Mutual Bank (NSW)
9	Police and Nurses Bank (WA)
10	Bank Australia

Building societies

Building societies are less common than they used to be, but they are still important. One of the largest such institutions is the Newcastle Permanent Building Society. This type of bank was important in making home ownership a reality for many Australians, using deposits from customers to fund home loans. Many of these institutions are also now mutual banks.

Finance companies

Finance companies, unlike banks or credit unions, do not accept deposits. They just loan money. Car retailers, furniture and appliance stores will often offer consumers a line of credit through a finance company.

To the list of financial institutions we can add a diverse range of financial advisers, mortgage brokers, fund managers, superannuation providers (both not-for-profit industry funds and for-profit retail funds) and insurance companies.

Biggest players in Australia's financial sector

Australia's banks play a major role in the country's financial system. Apart from traditional banking services, banks provide a range of financial products, including home loans, credit cards and funds management. Many also offer a financial advisory service. There are 53 Australian banks.

TABLE 6.4.2 Australia's 10 largest financial institutions

RANK	INSTITUTION
1	Commonwealth Bank
2	Westpac Bank
3	Australia and New Zealand Banking Group (ANZ)
4	National Australia Bank (NAB)
5	Bank of Queensland
6	Macquarie Bank
7	Bendigo Bank
8	AMP Bank Ltd
9	Suncorp Bank
10	Bankwest

Spotlight: The big four

Australia's four largest financial institutions are well known and play an important role in the Australian economy.

Commonwealth Bank

The Commonwealth Bank is a multinational bank with a presence across New Zealand, Fiji, Asia, the United States and the United Kingdom. Founded by the Australian Government in 1911, the bank is based in Sydney. It employs around 51 800 staff and operates more than 11 000 branches.

It is the largest of the banks in Australia and offers a diversified range of financial products and services. It currently provides retail, business, institutional banking, and wealth management products and services to its 16.6 million customers.

Westpac Bank

Westpac was Australia's first bank, established in 1817 as the Bank of New South Wales (BNSW). In 1982, it became Westpac Banking Corporation when BNSW merged with the Commercial Bank of Australia. It provides banking products and financial services through five divisions: Consumer Bank, Business Bank, BT, Westpac Institutional Bank and Westpac New Zealand. The bank employs around 35 000 staff. Headquartered in Sydney, Westpac serves 13 million customers.

Australia and New Zealand Banking Group (ANZ)

Founded in 1835, ANZ Bank is one of the largest Australian banks and provides various banking and financial products and services to retail, high net worth, small business, corporate, commercial and institutional customers. The bank's Wealth Australia division is comprised of the Insurance and Funds Management business

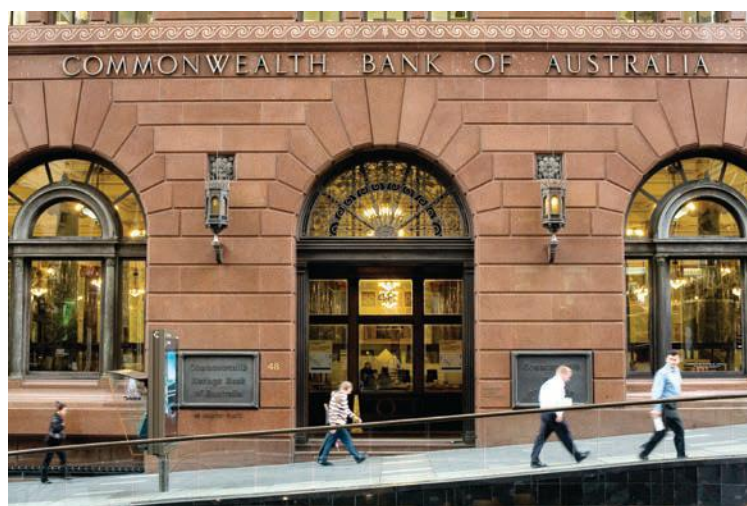


FIGURE 6.4.2 Commonwealth Bank building in Martin Place, Sydney. The historic landmark building has featured on Commonwealth Bank moneyboxes since 1921.

Alamy Stock Photo/Hemis

units, which offer insurance, investment and superannuation solutions. The bank operates in 34 markets across the United States, Europe, Australia, New Zealand, the Asia–Pacific region and the Middle East. It employs around 50 000 staff and is headquartered in Docklands, Melbourne.

National Australia Bank (NAB)

National Australia Bank was formed by the merger of the National Bank of Australasia and the Commercial Banking Company of Sydney in 1982. The bank provides banking products and services to individuals and businesses. Headquartered in Docklands, Melbourne, NAB operates through 820 banking centres and has a presence in New Zealand, the United States, Asia and Europe. NAB employs around 35 000 staff and serves around eight million customers around the world.



FIGURE 6.4.3 Financial institutions act as an intermediary. They take funds from savers and lend them to those who wish to borrow.

Spotlight: Banking is big business

The Commonwealth Bank (CBA) is the largest company in the country. In 2017, the bank posted a full-year profit of \$9.8 billion. The CBA was followed by Westpac (\$8.1 billion), NAB (\$6.6 billion) and ANZ (\$6.4 billion). The total profit for the big four banks was \$30.9 billion; that is, \$12 036 for every Australian.

Australia's seven largest authorised deposit-taking institutions (including the big four) hold roughly \$4.6 trillion in assets – around two and a half times the size of Australia's \$1.8 trillion economy.

Spotlight: Teachers Mutual Bank

The Teachers Mutual Bank was founded in 1966 by teachers, for teachers. Originally named the Teachers Credit Union, the bank has grown from just 29 members and \$644 in deposits to over 200 000 members and more than \$7 billion in assets.

Today, the bank is one of Australia's largest mutual banks, comprising three brands: the original Teachers Mutual Bank, UniBank and Firefighters Mutual Bank.

The bank is recognised as one of the World's most ethical companies. Its approach to ethical investing includes the refusal to lend to, or invest in, large-scale greenhouse gas pollution from fossil fuel exploration, extraction, production and use.

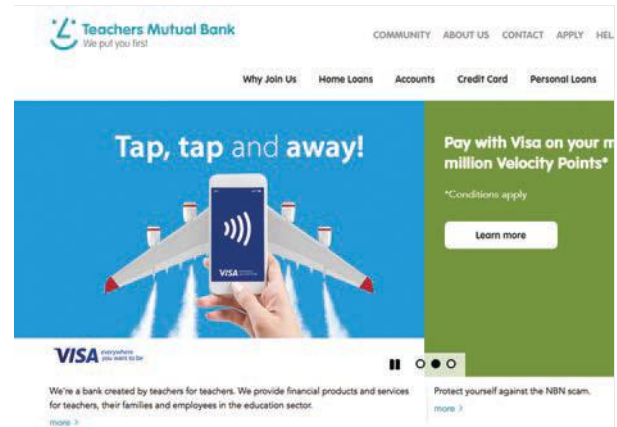


FIGURE 6.4.4 Teachers Mutual Bank is one of Australia's largest mutual banks.

Role and responsibility

The financial sector plays an important role in the functioning of the Australian economy. Financial institutions act as an intermediary or go-between. Simply put, the financial sector sits between savers and borrowers. It takes funds from savers (for example, through deposits) and lends them to those who wish to borrow, be they households, businesses or governments. It also acts as a means by which people pay for the goods and services they consume. When people choose not to use cash, they use debit cards or credit cards. The transactions are made possible by the financial institutions that provide this service.

Financial institutions make a profit by charging a higher rate of interest for the money they lend than the rate of interest they pay to depositors. They also make money by charging a fee for the services they provide; for example, account-keeping fees and commissions.

In recent years, financial institutions, especially banks, have been criticised for the manner in which they do business. Some have accused the banks (and other institutions) of unethical and, in some cases, illegal behaviour. This led to the Banking Royal Commission (see section 6.5), an inquiry into the conduct of Australia's financial institutions. In a response to the findings of the royal commission, the Australian Banking Association has revised the industry's code of practice.

Banking Code of Practice

The Banking Code of Practice sets out the standards of practice and service in the Australian banking industry for individual and small business customers. The latest version of the code came into effect on 1 July 2019 (see Table 6.4.3).

The code provides safeguards and protections for banking customers. It complements the law and, in some areas, sets higher standards than the law. The code was first introduced in 1993. Since then, it has undergone various revisions – responding to emerging issues and the changing needs of customers – to ensure it remains relevant.

The code was developed in close consultation with key stakeholders, including consumer groups, government, regulators and the banking industry.

TABLE 6.4.3 Banking Code of Practice

Trust and confidence

- We are committed to earning and retaining the trust of our customers and the community.
- We are committed to making promises and keeping them to deliver good customer and community outcomes.
- We will comply with all laws relating to banking services.
- We will protect your privacy.
- We recognise our role in society and our impact on the wider community.

Integrity

- We will act honestly and with integrity.
- We will be fair and responsible in our dealings with you.
- We will build and sustain a culture based on strong ethical foundations.

Service

- We will deliver high customer service and standards.
- We will ensure banking services are accessible, inclusive and provided to you in a fair and ethical manner.
- We will raise awareness of the basic (low, or no fee) banking products that we may offer.
- We will take a responsible approach to lending.
- We will work to help you if you are experiencing financial difficulty.

Transparency and accountability

- We will communicate with you in a clear and timely manner.
- We will be accountable in our dealings with you.
- We will be transparent in our communications with you.

Source: Australian Banking Association, *Banking Code of Practice*, September 2018.

Role of government agencies

The Australian Securities and Investments Commission (ASIC) acts as a regulator of the financial services industry.

As an independent Commonwealth Government body, ASIC enforces and regulates company and financial services laws that protect Australian consumers, investors and creditors. ASIC's authority and scope are determined by the *Australian Securities and Investments Commission Act 2001* (Cwlth). ASIC, which reports to the Treasurer, is responsible for the administration of all or parts of the following legislation:

- *Corporations Act 2001* (Cwlth)
- *Insurance Contracts Act 1984* (Cwlth)
- *National Consumer Credit Protection Act 2009* (Cwlth).

Other government agencies that play a role in regulating the financial services industry include:

- the Reserve Bank of Australia
- the Australian Prudential Regulation Authority
- the Australian Competition and Consumer Commission.



ASIC

Understanding the text

- 1 State what the financial services industry is and what it includes.
- 2 Outline Sydney's role as a global finance and business services centre. What has driven the growth of the sector over the last three decades?
- 3 Distinguish between retail and commercial banking.
- 4 State the role of central banks.
- 5 Outline the role of investment banks.
- 6 Explain how credit unions and mutual banks differ from other players in the financial sector.
- 7 Describe the role of finance companies.

- 8 Outline the roles and responsibilities of the financial sector.
- 9 State the purpose of the Banking Code of Practice.
- 10 Outline the government agencies responsible for the regulation of the Australian financial services industry.

Activities

- 1 Select one of the mutual banks listed in Table 6.4.1. Using the internet, investigate the origin of at least one of these institutions. What services do they offer?
- 2 Identify a major Australian retailer that offers to finance the purchases of its customers. Under what conditions is this finance offered? Identify the possible risks associated with this type of lending.
- 3 Study the Spotlight boxes 'The big four' and 'Banking is big business' on pages 261–62 and then complete the following tasks:
 - a Tally the total number of employees employed by the largest four banks.
 - b In which Australian cities are the headquarters of the big four banks located? What does this suggest about the relative economic importance of these cities?
 - c State the total annual profits of the big four banks. Investigate the total profits for their most recent reporting period.
- 4 Study Table 6.4.3. As a class, discuss why such codes of practice are required. Are they effective? Is there anything you would add to the Banking Code of Practice? Develop a code of practice for your classroom.

6.5 Current issues

There are two key current issues in the area of investing. One of these is the unethical, and in some cases illegal, conduct of Australia's largest financial corporations as exposed by the Banking Royal Commission. The other is the issue of ethical investing.

Banking Royal Commission

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (known more widely as the Banking Royal Commission) was established in late 2017 by the federal government to inquire into and report on misconduct in the banking, superannuation and financial services industry.

The royal commission heard evidence of unethical behaviour by Australia's major banks and financial planners, including allegations of bribery, the forgery of documents, and the failure to verify the financial capacity of people to meet the repayments on the loans offered to them. Some institutions were accused of lying to industry regulators and charging deceased clients fees for investment advice.

The conduct of the big four banks – Commonwealth Bank, Westpac, ANZ and National Australia Bank – was examined. These are four of the five largest corporations in Australia. They hold an enormous amount of power over the Australian financial system. Other companies investigated included AMP and BT.

Over recent decades, banks discovered that it was very profitable to sell their customers financial advice and financial products. If they could charge customers for financial advice, and if that advice resulted in their financial products being used, then all the better. It would prove to be very profitable for the banks.

Because the banks' financial advisers were offered financial incentives to promote their own banks' investment products, they often failed to act in the best interest of their customers. There is obviously a **conflict of interest** in banks providing personal financial advice to customers while also selling them financial products.

It was not just poor financial advice that affected bank customers. The royal commission heard of numerous examples of dishonest and unethical behaviour by bank employees. Hundreds of millions

of dollars have been paid out by the banks to customers affected by poor conduct in connection with home and car loans, insurance and the issuing of credit cards. The poor conduct included fraudulent documentation, processing or administration errors, and breaches of responsible lending obligations.

As a result of the royal commission, the government's regulation of the sector was greatly increased and the penalties for illegal behaviour were increased substantially.

Responding to poor investment advice

If you are unhappy with any aspect of the advice or service you receive from a financial adviser, try, in the first instance, to talk it over with the adviser.

If you are still not happy (or your adviser refuses to meet with you), you can make a complaint through the adviser's internal dispute resolution system. The adviser's financial services guide will explain how you can do this. Having lodged your complaint, you should receive an acknowledgement letter from the adviser's internal dispute resolution unit within 14 days. Under the law, they have 45 days to give you a final response.

If you are still unhappy with the response, you can contact an external dispute resolution service. The business must tell you which scheme it belongs to.

You can also complain to the adviser's industry association and/or professional body.

The Australian Securities and Investments Commission is the federal government agency responsible for the oversight of the industry. The ASIC website provides a wealth of useful investment advice.



ASIC

Ethical investing

Ethical investing is investing on the basis of what is morally right. It is also referred to as *socially responsible investing*. Investments are selected on the basis of social, environmental and moral principles.

It usually involves investing in company shares, particularly through financial products such as **unit trusts** and superannuation. However, ethical and socially responsible principles can be applied to all areas of investment.

Negative screening

Negative screening is choosing not to invest in particular companies because you consider them to be unethical in some regard. Some companies that could be considered unethical include those that make guns, alcohol or cigarettes, produce a high level of pollution, or have a poor health and safety record for their employees.

Positive screening

Positive screening is investing in companies considered to be ethically or socially responsible. This can include companies that are in the business of waste recycling or environmental improvements (such as producing water-saving devices), or in areas of social support (such as finding jobs).

Positive screening can also relate to the way companies operate. For example, investors may prefer companies that provide family support for their employees, are involved in the community or have a general reputation for honesty and fairness.

Issues with ethical investing

Ethical investing presents a number of issues, including the following:

- Consideration of ethical issues when investing may lead to reduced returns (see section 6.3).
- Certain investments could be promoted as ethical as a marketing ploy and may not, in fact, be ethical.
- Use of the terms 'ethical' and 'socially responsible' could make it appear that investments that do not use these terms are unethical or socially irresponsible.
- Slight contradictions can occur within an investment portfolio. For example, a socially responsible fund may choose not to invest in tobacco companies but may invest in retailers who sell cigarettes.



Spotlight: Future Super focused on ethical investing

Future Super is a superannuation provider promoting ethical investments.

In deciding where to invest, the company's investment experts analyse companies on Australian and overseas share markets (as well as fixed-interest and property investments) to identify stocks that pass its strict ethical investment criteria. It also identifies companies with superior environmental, social and ethical credentials. The company's investment team then uses this information to create the Future Super portfolio. In doing so, the investment team selects the ethical stocks they believe will produce superior financial returns. The team also looks for positive industries such as solar farms and other impact investments to add to the portfolio.

Future Super's negative screening process excludes companies engaged in the following activities:

- fossil fuels
- gambling
- tobacco
- armaments and militarism
- nuclear
- live animal exports
- old growth logging
- animal cruelty
- slave labour
- corruption
- intensive agriculture
- environmental destruction
- polluting
- social harm
- harmful financing
- poor corporate governance.

Future Super's positive screening process actively seeks out companies involved in the following activities:

- renewable energy
- recycling
- resource conservation
- social infrastructure
- sustainable timber instruction
- health care and wellbeing
- education
- efficient transport
- green IT
- sustainable products
- strong labour standards and corporate governance
- flexible finance
- ethical treatment of people and animals
- production of healthy foods
- social wellbeing.



Future Super

FIGURE 6.5.1 Future Super promotes ethical investments.

Understanding the text

- 1 Outline why the Banking Royal Commission was established. What did the royal commission uncover?
- 2 Outline the actions you can take if you are not happy with the quality of investment advice you receive from an adviser.
- 3 Outline the role of ASIC.
- 4 Explain what is meant by the term 'conflict of interest'.
- 5 Explain what is meant by the term 'socially responsible investing'.
- 6 Explain the difference between negative and positive screening.
- 7 Outline the issues you need to consider if you wish to invest ethically.

Activities

- 1 Research task: Investigate the findings of the Banking Royal Commission. What actions has the federal government taken to ensure that the unethical and/or criminal actions of the banks and other financial institutions are not repeated?
- 2 Working in groups, compile a list of arguments for and against investing in a company that produces landmines. Conduct a class debate on the topic 'The only thing to consider when making an investment is the profitability of the company'.
- 3 Research task. Ethically questionable industries include:
 - alcohol
 - genetic engineering and genetically modified food
 - defence and armaments
 - energy
 - gambling
 - tobacco
 - uranium.

Other issues to be taken into account when considering ethical investing are:

- animal rights
- labour relations
- environmental issues
- Indigenous issues
- overseas activities
- taxation.

Select three of the above industries and/or issues. For each industry and/or issue selected, find one company that has a reputation as being ethical and one that has a reputation as being unethical. Explain what makes each company good or bad from an ethical investing point of view.

- 4 Using the internet, investigate the role of ASIC. Write a report outlining the findings of your research.



7

PROMOTING AND SELLING

CONTENT OVERVIEW

- 7.1 The selling process
- 7.2 Targeting consumers
- 7.3 Selling techniques
- 7.4 Current issues

CONTENT FOCUS

In this option, we investigate the promotion of goods and services. In doing so, we consider a range of social, ethical and environmental considerations. You will analyse the strategies that sellers use to promote products and maximise sales. You also have to evaluate the impact on consumers.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What impact does the promotion of goods and services have on our consumption decisions?
- What are the social, ethical and environmental considerations that influence the way goods and services are promoted? Which of these are likely to impact on our consumption decisions?

GLOSSARY OF KEY TERMS

advertising

The promotion of a good or service in order to increase sales and profits or to inform the public.

direct marketing

Contacting householders personally, by name, via businesslike phone calls, emails or letters.

ethical

Relating to ethics, which are a set of morals that help govern human conduct.

focus group

A group of potential consumers, chosen at random, who give their opinions about a campaign developed to promote a particular good or service.

guerilla marketing

A flexible, non-traditional way of promoting a brand name.

junk mail

Advertising flyers delivered via the letterbox.

marketing

Promotional campaigns, including advertising, to make products known to consumers.

market research

The gathering of information about the needs and desires of potential consumers.

mass marketing

Promotional campaigns targeting a large proportion of the population.

naming rights

The right of a company to include its own name in the name of a competition or sporting facility in return for the company financially supporting or sponsoring the event or venue.

niche marketing

Promotional campaigns targeting quite small groups of potential customers.

product endorsement

The use of sporting stars and media personalities to promote a good or service.

product placement

The prominent display of products in movies or television programs.

self-regulation

Ethical standards and complaint resolution procedures put in place and maintained by an industry group.

sponsorship

Brand strengthening via the funding of elite sporting personalities and teams.

target market

A specific demographic or social group to which an advertiser wishes to appeal.

telemarketing

The promotion of goods and services via the telephone.

7.1 The selling process

The selling process involves both the promotion of a good or service and the sale of a product to a buyer. This process sounds simple and straightforward but there are, in fact, a lot of factors involved. Some of

these factors are not always obvious or clear. First, a product can be a good, such as a chocolate bar or a watch, or a service, such as insurance or a subscription for an online newspaper or magazine. In other words, a product can be tangible or intangible, permanent or consumable. Second, a consumer can almost always choose between different brands of a particular product. For example, if you want to fly to Melbourne, you can choose between Qantas, Virgin and Tiger. Similarly, if you want to buy a soft drink, there are many different brands to choose from. (Refer to Chapter 1 for more information about goods and services.)



FIGURE 7.1.1 Times Square in New York City is famous for its illuminated advertising signs. Such advertising involves the promotion of goods and services.

Factors that differentiate products

A number of factors influence consumers to choose one product over another (see Figure 7.1.2). You will already be familiar with some of these factors from your reading of Chapter 1.

Service

The quality of the service provided by a retail outlet or service provider is an important consideration for many consumers. After-sales service is also an important consideration for products that require ongoing maintenance; for example, motor vehicles. 'Service' can also refer to how well the product does the job it is designed for.

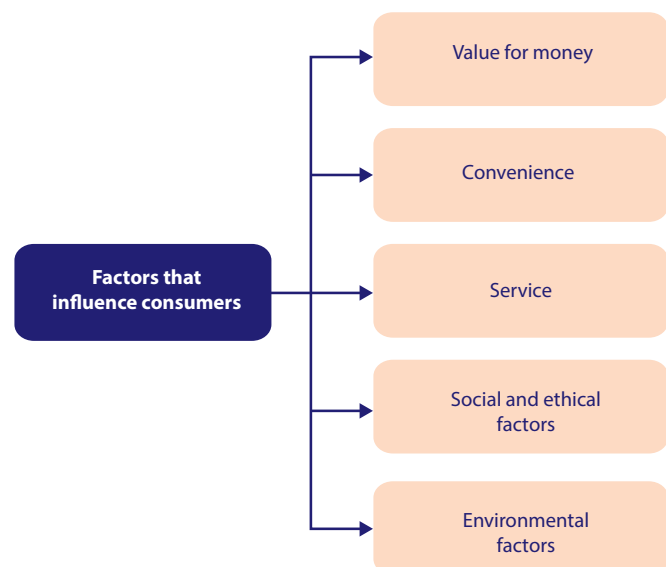


FIGURE 7.1.2 Differentiating between products: the factors that influence consumers to choose one product over another

Convenience

Many consumers are inclined to buy the product that is readily available. Comparison shopping, for example, takes time. People may also be unwilling to wait for a product to be ordered and delivered.

Value for money

Some buyers will choose to buy the cheapest product, while others will choose whichever brand is on sale or offered as a 'special'. Some consumers will choose the brand that represents 'good value' because it lasts longer, is of higher quality or has more features than other similar products.

Social and ethical factors

Status and fashion are important considerations for some consumers. Teenagers, for example, will often buy a particular brand of clothing or footwear if it is seen as 'cool' or is worn by friends. Many surfwear and sports brands, such as Rip Curl, Calvin Klein and Nike, have become 'must haves' for fashion-conscious teenagers even though other brands may be cheaper and of equal or better quality.

Many older consumers are also very brand conscious. Fashion labels such as Armani, Hugo Boss, Louis Vuitton and Prada are popular with some people because of the status they represent. People will often buy a particular make or model of car because it is associated with an image that they want to display. For example, BMW, Audi and Mercedes-Benz are often linked with wealth and success, while classics such as the V8 Holden, Ford GTA and Holden ute are associated with masculinity and personal power.

For some consumers, **ethical** issues are important. They may, for example, refuse to buy particular brands of make-up because the products have been tested on animals.

Environmental factors

People are becoming much more aware of the impact their consumption practices have on the environment. Producers have responded by introducing products that are 'environmentally friendly'. Examples of these products include unbleached paper products made from recycled paper and phosphate-free detergents (see Figure 7.1.3).

Environmentally friendly brand names include Planet Ark, Earth Choice and EarthSmart. These products are promoted in ways that appeal to the concerns of the environmentally aware consumer.

Product promotion strategies

Increasing the sales of a particular product usually depends on some form of promotional activity. Such promotions are used to inform, persuade and remind potential buyers about the benefits and features of the product.

The aims of a promotion may be to:

- introduce a new product
- sell more of an existing product
- attract new customers
- demonstrate the advantage of one product over alternatives
- improve the company's image.

Some of the strategies that companies use to raise the profile of their products include:

- advertising
- product endorsements and sponsorships



FIGURE 7.1.3 Producers target the environmentally aware consumer by promoting a range of environmentally friendly products.

- event sponsorship and venue naming rights
- product placements
- guerilla marketing
- direct marketing and junk mail
- special promotions
- personal selling
- publicity.

Advertising

Advertising is all around us: on television, radio and the internet; in newspapers and magazines; on billboards, buses and trains; at sporting events; and on many items of clothing and a range of personal and household products. Every day, we consciously or unconsciously absorb messages developed by advertising agencies on behalf of companies providing a range of goods and services. There is little doubt that these messages influence the behaviour of consumers. An effective advertising campaign can result in a boost in both sales and profit. Some advertising is informative. It provides us with information about new goods and services or allows us to compare the features of competing products.

Central to the advertising process is the brand name, logo or slogan associated with particular products or companies. Often a well-known brand is associated with an image that appeals to particular groups of buyers. Advertising plays an important role in creating and promoting this image and in developing brand recognition within a particular group. Nike, for example, uses imagery that appeals to young, active, fun-loving consumers.

Sometimes the brand names become so well known they are widely used as the *generic* name for a class of product. Examples include Glad Wrap, Panadol and Kleenex (see also 'Different brands and products' in Chapter 1, section 1.2).

Often the logos used by companies are instantly recognised by consumers. The McDonald's golden arches, Nike's swoosh, Coca-Cola's bottle and Qantas's flying kangaroo are examples of logos that are known worldwide.

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Shutterstock.com/Tomas Ragina



Shutterstock.com/attilaValentina

FIGURE 7.1.4 Iconic logos of Apple, McDonald's and Coca-Cola. Logos are used to prompt instant recognition in consumers.

Packaging is an important part of the advertising process. The packaging, wrapping or container is designed to appeal to consumers. An eye-catching design will help a product stand out on the supermarket shelf.

Advertisers are always looking for new ways to promote a product. Some of the most recent innovations include the increased use of celebrity endorsements, naming rights for major events and sporting facilities, direct marketing, junk mail and guerrilla marketing.

Spotlight: Advertising goes digital

The development of the internet, the growing popularity of social media and advances in smartphone technologies have transformed the advertising industry. Newspaper classifieds, magazines and television once attracted the bulk of advertising revenue. Today more than half of all advertising expenditure is devoted to digital platforms.

Digital advertising accounts for 53.7 per cent of the total ad spend (A\$8.5 billion). Within the digital advertising sector, video-based advertising is the fastest growing medium. It now accounts for 7 per cent of the total ad market. Free-to-air television and pay television account for 22.1 per cent of expenditure. Radio accounts for 7.4 per cent.

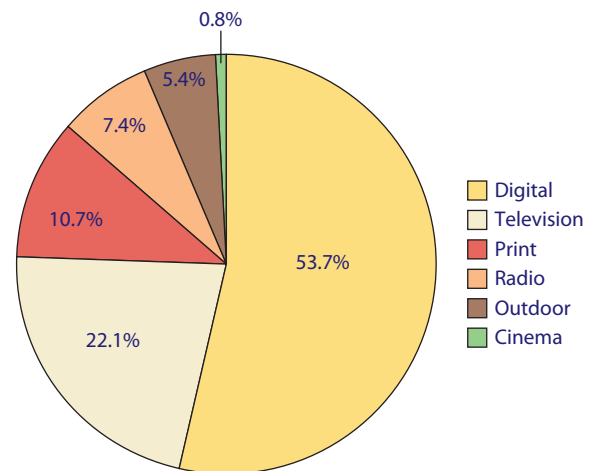
The profitability of traditional media forms (especially newspapers and, to a lesser extent, television) is threatened by the shift to digital advertising.

The shift to digital **marketing** has resulted in a revolution in marketing strategies. Important developments include:

- *Market segmentation.* This data-driven process involves targeting specific markets. Internet and smartphone users generate a lot of data when they act as a customer by either making an online purchase or visiting the websites of particular brands. Commercial interests use the data to reach a known audience directly. They also use it to inform decisions about where to buy advertising 'space' – the sites likely to be visited by a particular demographic.
- *Behavioural advertising.* Like market segmentation strategies, this practice involves the collection of information about a user's online activity over time, on a particular device and across different, unrelated websites. This data is used to deliver advertisements tailored to that user's interests and preferences.
- *Push-and-pull digital marketing.* Put simply, pull digital marketing involves consumers actively seeking marketing content, while push digital marketing occurs when advertisers send messages without that content being actively sought by the recipients.

Advertisers can also collect data from real-world customer interactions, such as bricks-and-mortar store visits. Data-driven advertising enables brands to identify their loyal customers and deliver a much more personal communication.

All these approaches allow marketers to publish targeted ads in front of a defined audience (internet searchers) that have either searched for a particular product or service or visited a website for some purpose. To test the effectiveness of this approach, analyse the products advertised on the internet sites you visit. Which of these are related to a product or service you have searched for in the past?



Total Australian advertising market: \$8.5 billion

Source: IAB Australia, 'Total Australian advertising market – 2H FY2018'.

FIGURE 7.1.5 Advertising expenditure by type of media, 2018

Product endorsements and sponsorships

Sporting stars and media celebrities are often used to promote products. Well-known personalities may be paid for recommending products (this is known as **product endorsement**) or they may be supported by a company financially while training and performing in return for promoting the company's products (this is known as **sponsorship**). Well-known people are linked with a particular product or company by various means; for example, by appearing in the company's advertisements and wearing or using the company's



FIGURE 7.1.6 Actor George Clooney is the celebrity face of Nespresso, the internationally successful Swiss coffee retailer.

products. Advertisers use this strategy in an attempt to increase brand recognition and convince consumers that the product is superior to, and the company more trustworthy than, other products and companies. Notable examples include George Clooney (Nespresso), LeBron James (Nike), Rihanna (Puma) and David Beckham (H&M). (See Figure 7.1.6.)

Event sponsorship and venue naming rights

Companies seek to increase public recognition of their brands by buying the **naming rights** for major sporting and cultural events. Examples of recent corporate sponsorship of sporting events and cultural institutions include Lexus's sponsorship of the Melbourne Cup, Telstra's sponsorship of both the National Rugby League and the Australian Ballet, Toyota's sponsorship of the Australian Football League, Vodafone's sponsorship of the Super Rugby series, Qantas's sponsorship of the Australian Rugby Union, and Mazda's sponsorship of Opera Australia.

Buying the naming rights for major sporting venues is another way companies make sure that a brand name is regularly mentioned in the media. In 2002, Telstra acquired the naming rights to Stadium Australia in Homebush and it became Telstra Stadium. In early 2008, the stadium's name was changed to ANZ Stadium after ANZ Banking Group agreed to pay around \$31.5 million over seven years to Stadium Australia Group, which owned the venue at the time.

Spotlight: Plain cigarette packaging

The decision of the Australian Government to mandate plain cigarette packaging enraged the big tobacco companies. The removal of all branding colours, imagery, corporate logos and trademarks was seen as a threat to the right of companies to advertise their products. The tobacco companies, fearing that the action might spread to other countries, took the government to the High Court of Australia in an effort to have the law overturned. The High Court upheld the law, and plain cigarette packaging was introduced Australia-wide in late 2012. Cigarette companies are also legally required to include information about the toxic nature of cigarette ingredients and graphic photographs of diseases associated with smoking.



FIGURE 7.1.7 Plain cigarette packaging was introduced Australia-wide in 2012.

Getty Images/Kyodo News

Product placements

Product placement involves having products displayed prominently in movies or television programs. Companies usually pay for such placements (see the Spotlight box 'James Bond and product placement').

Dutch beer company Heineken paid more than US\$45 million for the privilege of having James Bond take a sip from a bottle of its beer in an early scene of *Skyfall*. This payment amounted to almost a third of the film's estimated US\$150 million production budget.

Spotlight: James Bond and product placement

Product placement in movies is big business – just ask James Bond.

Since 1962, the 26 Bond films have showcased some of the world's most famous brands. The owners of these brands may either pay the producers of the Bond films to have their products featured or agree to spend millions on worldwide marketing campaigns that promote both their products and the film. The latter are referred to as 'promotional partners'.

In *Die Another Day* (released in 2002), Ford, the owner of Aston Martin, paid the film's producers \$63 million to replace BMW as the official Bond vehicle supplier.

In *Spectre* (released in 2015), the brands showcased include Crockett & Jones (handmade shoes and boots), Sanders and Sanders (shoes), John Varvatos (men's fashion), Macallan (Scotch whisky), Burberry (clothing), Persol (sunglasses), Missoni (clothing), Gillette (shavers), MAC (cosmetics), Chateau Angelus (French wine producer), N. Peal (cashmere clothing), Range Rover (motor vehicles), Aston Martin (motor vehicles), Belvedere (vodka), Arsenal Dueller (firearms), Heineken (beer), Bollinger (champagne), Tom Ford (fashion), Omega (watches), Mulberry (women's fashion), Matchless (motorcycles) and Globe-Trotter (leather travel goods).

Brand placement can result in a big increase in sales in the months following the film's release. Product placement is not new. One of the first product placements was James Dean's use of an Ace comb in *Rebel Without a Cause* (1955). Shops sold out of the comb within days of the film's release. Coca-Cola, which first used this technique in *It's a Mad, Mad, Mad, Mad World* (1963), continues to use product placement as a way of increasing brand recognition.



Shutterstock.com/Martien van Gaalen

FIGURE 7.1.8 Product placement in movies increases sales and profit. James Bond's *Spectre* featured Heineken beer at a cost of US\$45 million for the Dutch brewer.

Guerilla marketing

Guerilla marketing is an unconventional and very flexible way to promote a brand name. For example, when one company sponsors a major sporting event, a company sometimes seeks to have its brand name publicised by unconventional means. This might include, for example, the distribution of T-shirts bearing the company's brand name or logo. In some cases, it involves temporary rebranding such as in Figure 7.1.9.

Direct marketing

Direct marketing is carried out via **telemarketing** (selling over the telephone), mail and email. It involves contacting householders personally, by name, via phone calls, letters or emails that market products. For example, real estate agents will often phone or write to householders directly to try to get them to buy or sell property. This personal approach is often seen as more successful than general television or newspaper advertising.



Getty Images/Matt King for Caltex

FIGURE 7.1.9 In 2018, Caltex Australia changed the branding on some of its outlets to 'CahillTex', as a tribute to player Tim Cahill, to promote its association with the Socceroos' FIFA World Cup campaign.

Junk mail

The use of advertising flyers (**junk mail**) has increased significantly over the last decades. Delivered via the letterbox or email inbox, this form of advertising is especially popular with supermarket chains, hardware

stores and real estate agents. While some people object to this type of advertising, others use it as a way of finding out about special offers at retail outlets.

Special promotions

Special promotions are used to boost normal sales. Often these promotions are limited to selected items. These items might be hard-to-sell stock or goods that have been purchased from the manufacturer under a special pricing deal. Sometimes special promotions are used to increase store 'traffic'. People attracted by the special promotion may be encouraged to buy full-priced goods once they have entered the retail outlet.



FIGURE 7.1.10 Advertising flyers, delivered directly to your home, have become an important form of advertising over the last decades.

Examples of special promotions include:

- 'specials' in all kinds of retail outlets, especially supermarkets
- discounts on the recommended retail price; for example, Target often advertises a '20 per cent off' sale on specific categories of goods, such as underwear
- prizes or gifts with particular purchases
- free samples used to introduce new products; for example, samples of washing detergents are sometimes distributed via letterbox drops
- demonstrations of new products in retail areas
- bonus coupons/vouchers to be used for future purchases at a store; for example, a coffee shop may offer a customer a voucher for a free coffee once the customer has purchased a certain number of coffees
- 'two-for-one' or 'buy one and receive 50 per cent off the second' offers
- interest-free offers; for example, retailers such as David Jones offer their account holders two years interest-free terms on purchases of electrical goods and furniture costing more than \$500
- sponsorship of charities or non-profit organisations; for example, McDonald's McHappy Day promotion, when a percentage of the day's sales goes to support the activities of Ronald McDonald House.

Personal selling

Personal selling is a form of direct selling involving door-to-door or in-store promotion of a particular product. Telemarketing is another type of personal selling. Pay television and mobile phone access is often promoted by door-to-door selling, as are product lines such as Tupperware and Amway. Unlike advertising, personal selling allows consumers to ask questions and clarify issues about the product. Therefore, the salesperson needs to have a thorough understanding of the product, the needs of the customer and the selling process. However, the seller can also pressure a potential buyer into making a purchase or may suggest adding accessories to the initial purchase.

Salespeople in retail outlets also use personal selling. The attitude and skill of a salesperson can make or break a sale. Upselling is a technique used by many salespeople to promote add-on sales and increase profits. We have all been asked whether we want fries or a drink with our burgers when we visit McDonald's. Upselling at the hairdressers might mean that the hairdresser suggests that you purchase a special shampoo and conditioner in addition to a haircut.

Publicity

Publicity is free media coverage given to a company by media outlets (for example, newspapers and radio stations), especially when the company releases a new product or buys blocks of advertising space or

time with the media outlet. For example, in the weekend newspapers, there are always a large number of real estate advertisements for houses for sale, which are paid for by the real estate industry. In the same sections of the newspapers, there are also often feature articles about real estate issues. This amounts to free publicity for the real estate industry. The aim is to generate interest in real estate, thereby creating more business for the industry and more advertising for the newspaper.

Spotlight: Sails, not sales

In early October 2018, the Sydney Opera House management rejected an application from the promoters of a horse race to use the sails of the World Heritage listed Sydney Opera House as an advertising billboard. The Opera House management argued that the proposal contravened its policy preventing the building's commercialisation – an outcome that would risk its World Heritage listing.

Alan Jones, a Sydney radio host and racehorse owner, was outraged. Jones, responding to a front-page story in the *Daily Telegraph*, the right-wing Sydney tabloid newspaper, called for the sacking of the Opera House's chief executive, Louise Herron. The NSW premier, Gladys Berejiklian, fearful of upsetting Jones, ordered Herron to approve the request from Racing NSW to use the sails of the Opera House to advertise the race. Two days later, the prime minister, Scott Morrison, supported the decision, calling the Opera House 'the biggest billboard Sydney has'.

The public did not support the premier's stance. A petition signed by 235 000 people was presented to the NSW Parliament. An opinion poll found that 81 per cent of those surveyed did not support the premier's decision.



FIGURE 7.1.11 The proposal to use the Sydney Opera House sails as an advertising billboard resulted in a widespread community backlash.

Spotlight: The role of gender in product promotion

Males and females are frequently portrayed in advertising in ways that appeal to certain sections of the population. Often this portrayal reinforces existing ideas about the sexes and their relationships. This occurs because advertising often involves the use of stereotypes – exaggerated pictures or images of particular groups. There is often some truth at the heart of a stereotype, but the image has been distorted to such an extent that it would not be considered to be true by most people.

Stereotypes are often applied to the sexes. For example, one stereotype about the sexes in childhood might be that all girls love dolls and all boys want to play with toy guns. In advertisements, women are often portrayed as beautiful, tall and thin. What isn't mentioned is that for many women such a look is unachievable, unrealistic and often potentially unhealthy. More alarmingly, women (and sometimes men) are exploited in sexually suggestive ways to sell products. There is



FIGURE 7.1.12 Sexually suggestive advertising is often used to 'grab' the attention of consumers.

usually no association between the product and the women and/or men being exploited – the sexually suggestive image is just used to ‘grab’ your attention.

Advertising also presents images of masculinity that are unachievable for many males. For example, men are often portrayed as wealthy, good looking, well dressed and athletic. Alternatively, they may be portrayed as ‘one of the boys’ or part of a male sports team.

What is the impact of presenting these images of males and females? Many critics argue that they encourage and maintain traditional gender relationships and stereotypes and undermine the confidence of those in society who do not resemble the people they see in advertisements.

More generally, critics of advertising often point to the use of sex and sexual innuendo, which they see as offensive and unnecessary. Some advertising campaigns have drawn protests from churches, women’s groups or parenting associations. Threats of boycotts and legal actions have had only limited success and often simply result in even more exposure for the brand.

Understanding the text

- 1 State what the selling process involves.
- 2 List the factors that distinguish one good or service from another. Explain each factor in a sentence or two.
- 3 Explain why companies advertise.
- 4 Outline how packaging is linked to advertising.
- 5 Explain why companies use sporting stars and media celebrities to promote their products.
- 6 Explain what the term ‘product placement’ means.
- 7 Define the term ‘guerrilla marketing’.
- 8 Compare junk mail with direct marketing.
- 9 List the main aims of promotional activities.
- 10 Outline the strategies used to raise the profile of a product in the minds of consumers.
- 11
 - a State the role of special promotions.
 - b Give examples of special promotions. Include examples from your own experience as a consumer.
- 12 Define the terms ‘personal selling’ and ‘upselling’.
- 13 Explain why media outlets are keen to give free media coverage to some producers of goods and services.
- 14 ‘Advertising often challenges views about males and females.’ Do you think this statement is true or false? Explain your answer.
- 15 Define the term ‘stereotype’.
- 16 Explain why stereotyping presents a false view of most people.
- 17 Find three examples in the text of gender stereotyping and explain the link between advertising and these stereotypes.
- 18 Explain how advertising reinforces existing gender stereotypes.
- 19 Outline two problems that arise from the way males and females are often portrayed in advertising.

Activities

- 1 Working in groups, compile two lists:
 - a a list of the goods that members of your group purchased in the last week
 - b a list of the services purchased in the last week.

Try to remember the factors that influenced your decision to buy each good and service. Share your reasons with your group.
- 2 Imagine you have decided to buy the goods listed below. Which of the five factors that differentiate products, discussed in this section, would be the most important to you when deciding which brand to buy? List the factors from most important to least important for each of these goods:
 - a a laptop computer
 - b a pair of jeans
 - c dishwashing detergent.
- 3 In groups, construct a mind map identifying as many forms of advertising as you can think of.
- 4 a Using magazines, create a collage of well-known logos.
b Which of these logos appeal to you and why?
- 5 Over a five-day period, collect the junk mail delivered to your home.
 - a Compile a list of the companies that use this method of advertising.
 - b What types of goods and/or services dominate?
- 6 Collect examples of special promotions from the print media. Identify the types of special promotions represented.
- 7 In groups, brainstorm a list of sporting stars and media celebrities who you have seen promoting products and services. List the products endorsed against the name of the personality.
- 8 In pairs, compile a list of sporting competitions and venues sponsored by companies.
- 9 Study the Spotlight box 'James Bond and product placement' on page 275. The next time you watch a movie, list the examples of product placement you observe.
- 10 Access the Optus website. Compile a list of the activities sponsored by Optus.
- 11 Study two television advertisements in detail. Identify the presentation of genders in the advertisements by copying and completing the table below.



GENDER REPRESENTATION	ADVERTISEMENT 1	ADVERTISEMENT 2
Gender		
Age		
Race		
Clothing		
Hairstyles		
Make-up		
Stance/walk		
Gestures		
Facial expression		

- 12 Copy the following list into your notebook. Study television advertisements over a three-day period. Every time you see a woman or girl in an advertisement, decide which words below describe the image of the female presented. Record each impression by putting a tick next to the appropriate word. Add other words that you think might be appropriate. Which descriptions occur most frequently?
- | | | |
|----------------|-------------|-------------|
| intelligent | attractive | sexy |
| well organised | adventurous | independent |
| stupid | nurturing | responsible |
- 13 Study the Spotlight box 'Sails, not sales' on page 277. Conduct a class debate on the topic 'The Sydney Opera House sails should not be used as an advertising billboard'. Write an exposition outlining your perspective or point of view on the issue.
- 14 Collect a selection of advertisements from magazines popular with young people. Each advertisement should show one or more males and/or females. Working in groups, complete the following tasks:
- Identify the product being advertised.
 - Describe how the female(s) or male(s) are pictured in the ad.
 - Evaluate whether this is a positive or negative image of females or males.
 - Decide how the advertisement is trying to influence the reader.
 - What do you think of such ads?
- 15 Perform this role-play task in groups. Present one or more well-known television commercials with the male characters played by females and vice versa. Discuss how each original advertisement portrays males and females.

7.2 Targeting consumers

For a company's products to be successfully promoted, the company must know who it is selling to; that is, who is going to buy and use its products. Companies use different types of promotions to target specific groups of consumers. For example, children's television viewing times will feature advertisements for products that appeal to young children and adolescents, such as toys and snack food. Having been made aware of the products, children will often try to persuade their parents to buy the products.

Teenagers may also be targeted by advertisements featuring personalities popular with young people. This approach is often used to sell products such as clothing, music and fast food, which are largely bought by this age group. These promotions often take place in the media popular with teenagers; for example, fashion and recreational magazines (such as *Girlfriend* and *Surfing World*) and television programs (such as *Married at First Sight*, *The Voice*, *Australian Ninja Warrior* and *Modern Family*).

Products directed towards adult consumers are often advertised during television programs that are popular with adults, as well as in newspapers and magazines read by adults. Publications such as *Woman's Day*, *New Idea*, *Australian Women's Weekly* and *Cosmopolitan* are popular with women. *Wheels Magazine* and *Time* are examples of magazines popular with men.

Advertising on social media platforms is particularly effective with specific age groups. Increasingly sophisticated analysis of people's internet search behaviour is used to customise the ads people are exposed to. Visit the Rip Curl website, for example, and it is likely that ads for the brand will soon appear on your Facebook page and on the pages you visit while browsing the internet.

Target markets

As you can see from the examples given, most product promotions will be targeted so that they appeal to specific age and social groups; for example, middle-aged men, the affluent, professional women and the aged. Each specific group is called a **target market**.

A **mass marketing** approach recognises that some products (for example, food and household items) are used by a large proportion of the population. This kind of marketing is usually informative and aimed at a wide variety of people in the community, not just at specific groups. **Niche marketing**, on the other hand, targets quite small groups of potential consumers. The aim here is to sell a particular product in a relatively small or exclusive market. Such products include luxury cars, ski equipment and adventure holidays. The price of these products is rarely an issue; the image promoted and reinforced by the advertisement is more important.



FIGURE 7.2.1 Advertisers increasingly use technology, such as smartphone apps, to attract young buyers.

Processes used to identify target markets

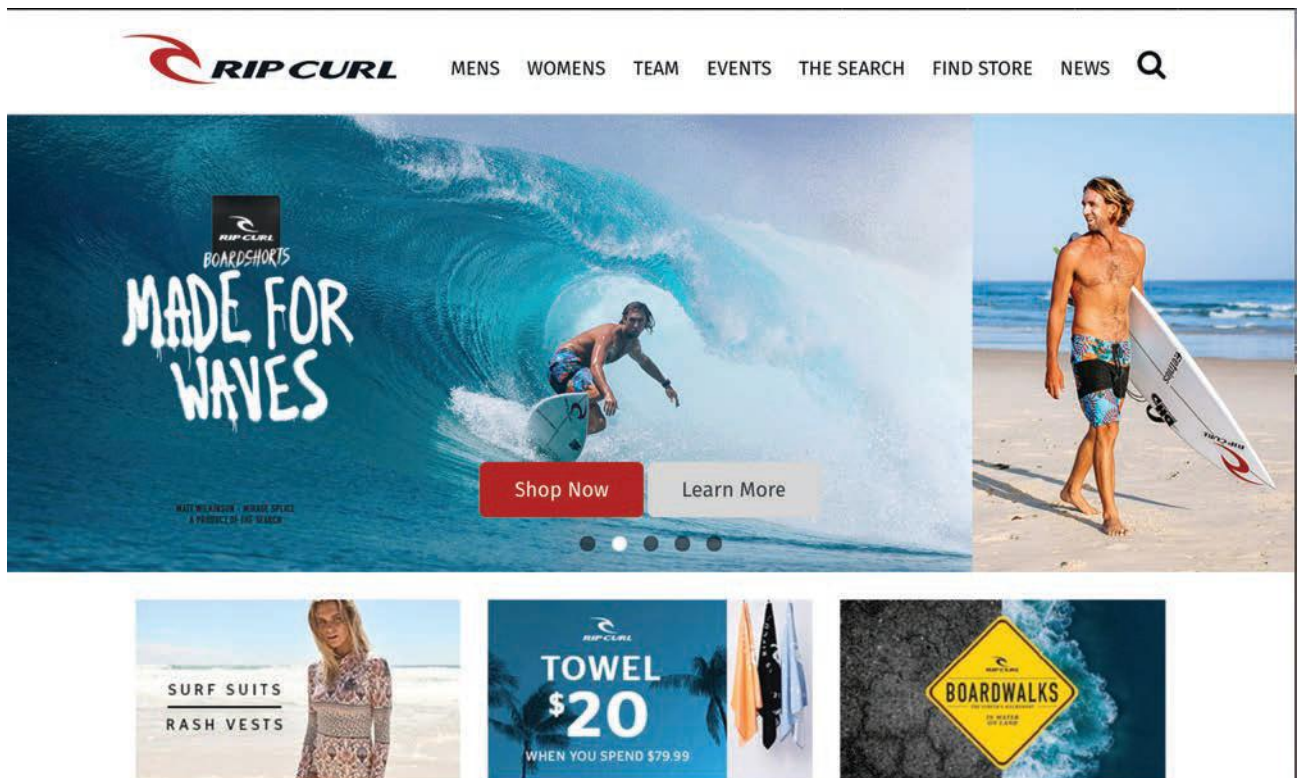
The processes involved in gathering information about a potential market are complex and may include market research, surveys, focus groups and the analysis of internet search data.

Companies usually undertake **market research** to gather information about the needs and desires of potential consumers. This information is then used to develop promotional campaigns that reach and engage the targeted market.

Surveys can be done in person or via the telephone. The researcher will normally ask a number of questions that identify the demographic and/or social group the person belongs to, and then ask the person to respond to questions about the product or service being promoted.

A **focus group** is a group of potential consumers, chosen at random, who are brought together and asked to respond to a campaign developed to promote a particular good or service. Advertising agencies use focus groups to ensure the campaigns they develop appeal to the target market. They can also be used to check whether there is a demand for the actual goods or services being sold.

Internet search data analysis is rapidly replacing traditional methods of market research. Internet search engine providers such as Google harvest vast amounts of data from those using their search engine. This data is an important asset that search engine providers use to attract advertising revenue. Advertisers use this data to tailor their advertising to targeted audiences.



Rip Curl

FIGURE 7.2.2 Rip Curl is easily recognised by its target market – young people.

Legal and ethical issues associated with product promotion strategies

Many people criticise advertising because it can have such a strong effect on people's lives. They are concerned by how much advertising we are exposed to every day – on television, radio and the internet; in cinemas, newspapers and magazines; and on billboards and buses. These people believe that advertisements brainwash us to buy things we don't really need. Often this type of promotion uses sex to sell or is deliberately aimed at groups in society who may be easy targets; for example, children.

Because of such criticisms, it is not surprising that product promotion strategies are subject to legal regulation and control. This can involve the banning of promotions for certain products. For example, cigarettes cannot be advertised at all, and television channels are only permitted to use a certain amount of air time for product commercials. Governments have also encouraged the advertising industry to monitor the behaviour of advertisers to ensure they behave responsibly in terms of the amount and kind of advertising shown. The codes of practice on which **self-regulation** is based are the responsibility of the Australian Association of National Advertisers (AANA). Ad Standards (see the Spotlight box 'Ad Standards') is the industry-based body that handles consumer complaints and disputes between advertisers. It considers complaints about any form of published or broadcast advertising. This includes complaints about:

- discriminatory portrayal of people (race, nationality, sex, age, sexual preference, religion, disability or political belief)
- violence
- language
- portrayal of sex, sexuality or nudity
- exploitative and degrading images
- health and safety.

There is also a separate advertising Code for Advertising and Marketing Communications to Children. The code includes reference to sexualised imagery or suggestions, promotion of unsafe or dangerous behaviour/activity, any association with alcohol, and promotion of inactive lifestyle combined with unhealthy eating habits.

If Ad Standards considers an advertisement to be inappropriate for any of these reasons, the company will generally agree to withdraw or change the ad. If the company does not, it risks being reported to government or media bodies, which may impose penalties on the company.

Complaints can also come directly from individuals or groups who are offended by an advertisement. There have been a number of instances where large companies have been forced to withdraw promotional material following a negative, or adverse, public response.

Unethical promotional strategies

Although deliberately misleading advertising is illegal, there are a number of ways that consumers can be influenced unfairly. They can, for example, be persuaded to buy goods and services that they neither need nor can afford. The following are examples of unethical promotional strategies:

- *Bait-and-switch advertising.* This involves advertising a product for sale when there is little or no stock on hand. The customer is then persuaded to buy a more expensive product.
- *Sale price manipulation.* Sometimes goods may be marked with a sale price that is, in fact, higher than the regular price. Customers are tricked into thinking they are getting a bargain.
- *Special prizes or offers.* This method involves receiving a phone call or letter notifying you that you have won a special prize. Before you can collect the prize, you have to purchase another product.
- *High-pressure door-to-door selling.* The products offered may be acceptable, but the selling method is forceful. Consumers are pressured into signing an agreement to buy on the spot or to commit themselves to home trials.



FIGURE 7.2.3 Advertising in magazines is usually aimed at specific target markets.

Spotlight: Ad Standards

Ad Standards (named the Advertising Standards Bureau until 2018) was established by the advertising industry to handle complaints about advertising in Australia. The industry's self-regulation system is funded by a levy on advertising in Australia.

Ad Standards supports two key bodies – the Ad Standards Community Panel and the Ad Standards Industry Jury. These independent bodies were established to determine consumer and competitive complaints against the advertising self-regulatory codes.

Ad Standards originally only considered complaints under the Australian Association of National Advertisers (AANA) Code of Ethics. Today, its role has expanded to include a range of additional codes and initiatives. These are:

- the AANA Code for Advertising & Marketing Communications to Children
- the AANA Food & Beverages Advertising & Marketing Communications Code
- the AANA Environmental Claims in Advertising & Marketing Code
- the AANA Wagering Advertising & Marketing Communications Code.

Members of the public can lodge a complaint about any advertising to Ad Standards.

Once the complaint is received, Ad Standards will assess it and, if it falls under the scope of any of the AANA codes, the complaint will be forwarded to the Ad Standards Community Panel for assessment. The panel consists of 20 members of the community who are independent of the advertising industry or any related interest group. The community members come from a broad range of age groups and backgrounds.

The panel meets twice a month to consider any complaints and make a determination based on whether the advertisement breaches any of the provisions under the codes and initiatives. Advertisers have the opportunity to provide a submission to the panel.

If the panel upholds the complaint, the advertiser is asked to remove or amend the offending advertisement.

Spotlight: Warning – advertising can harm your bank balance

To people around her, Katie seemed to have it all – youth, beauty and a good job. She was always well dressed in the latest fashions and had a great social life, including eating and drinking out five or six times a week at the trendiest restaurants and bars. What Katie's friends and colleagues didn't know was that she was also anxious and miserable as she had a stack of overdue bills and several credit cards that had run out of credit due to her love of spending money – often on things she didn't need or want.

In desperation, Katie asked for help from Creditline Financial Counselling Services, a community-based group that receives at least six calls a day from young women who have been trapped by the cycle of overspending and mounting debt and don't know what to do about it. Another group, Debtors Anonymous, also has plenty of clients needing financial counselling and strategies to help curb overspending. Overspending can become as much of an addiction as drugs or alcohol, and the causes of the addiction need treatment just like other disorders.

Counsellors say that young women are easy targets for advertising campaigns pushing the message that to be part of the 'in' crowd, you have to spend a lot of money on clothes, make-up and the high life. To make matters worse, part of their message is that you have to have these things *now*; it's not cool to save up – credit cards are a much easier option.

Fortunately, Katie's story has a happy ending. With help, she is now starting to look at her lifestyle and learn to make some much-needed changes in her spending habits. Katie now appreciates that she has become a victim of the advertising she is exposed to. With help, she has been able to think about the messages that advertisements communicate and decide for herself how best to spend her money.



Alamy Stock Photo/age fotostock

FIGURE 7.2.4 Advertising can sometimes encourage people to spend more than they can afford.

Understanding the text

- 1 Outline why companies undertake market research.
- 2 Explain the difference between mass marketing and niche marketing.
- 3 Explain the processes that are used to gather information about a potential market.
- 4 **a** Define the term 'self-regulation' in relation to advertising.
b Give one example of how the advertising industry regulates itself.
- 5 Outline the different types of unethical promotional strategies.

Activities

- 1 Use magazines to find examples of advertisements that target:

- a teenage boys
- b teenage girls
- c affluent people
- d homeowners
- e active people who like the outdoors.

Describe the main types of imagery used in each group of advertisements.

- 2 In groups, brainstorm a list of the brands popular with teenagers. Select five of the brands identified. What images are used to appeal to the targeted market?
- 3 a Copy the following table into your notebook. Complete the table by selecting the word/s that you associate with each product from the following list: safe; Australian; value for money; luxurious; fun-loving.

PRODUCT	ASSOCIATED WORD/S
Coca-Cola	
Kmart	
Qantas	
Vegemite	
BMW	

- b Imagine you are introducing a new product for teenagers. Write down at least five words that you would want associated with this product.
- 4 Study Figure 7.2.2 and then answer the following questions:
- a What type of image is used in this advertisement? (Consider age, gender, race and appearance, for example.) Why do you think this type of imagery is used?
 - b What type of person *is not* in the advertisement? Why do you think this is?
 - c What is happening in the advertisement?
 - d Who would this advertisement appeal to?
 - e Who would this advertisement not appeal to?
 - f Is this advertisement an example of mass marketing or niche marketing?
- 5 Study the Spotlight box 'Ad Standards' on page 283. Outline the role of the agency.
- 6 Study the Spotlight box 'Warning – advertising can harm your bank balance'. In groups, discuss the following questions:
- a What do you think is an ideal lifestyle for young adults? What sort of lifestyle do you see yourself having when you leave school?
 - b How much is marketing responsible for overspending and how much is it the person's own fault?
 - c Should the government put restrictions on advertisers to stop forms of marketing that may encourage people to overspend?
 - d What steps could Katie take to ensure she doesn't get into financial trouble again?
 - e Where would you go for advice on money matters?

7.3 Selling techniques

In order to sell its product, a company will first develop selling strategies and then put them into practice. To determine whether these strategies have been successful, it will be necessary to monitor and evaluate their outcomes; that is, the sales achieved.

Developing and implementing selling techniques

As you have learnt, the first step in developing and implementing a selling technique is to identify the target market for the product. Once the target market is established, the company uses a variety of techniques to introduce its product to the market and to encourage consumers to buy it. These include:

- *brand name, logo and packaging* – the design, colour and images associated with the product that are intended to appeal to the target market
- *advertising* – decisions about what forms of advertising will be used; for example, billboards, magazine and television advertisements, letterbox drops, social media and the use of celebrity faces
- *special promotions* – these include items 'on special'; special promotions of new products; giveaways in stores or elsewhere; and add-ons or other deals
- *personal selling* – part of the selling campaign might involve personal phone, email or in-person contact
- *publicity* – the product may be promoted by gaining free publicity.

As well as these promotional strategies, other factors form part of the selling techniques used by companies. In relation to goods sold in shops, the shop layout and furnishing affect how well the goods sell. If the layout is roomy, attractive and well lit, sales will be higher than if it is difficult to move around the shop and locate items. For example, the lighting used for fruit and vegetables is often soft and warm to display the colour of the goods in the best possible way.

Music is another factor used in stores to create an atmosphere that encourages shoppers to buy. Clothes shops for young people often play the sort of music that appeals to the target audience, whereas bookshops may play classical music, which appeals to a quite different audience.

The position of specific items in a store is also very important. If the item is put at the checkout, at the end of an aisle or at eye level, people are more likely to buy it. Often such purchases are made on impulse (that is, on the spur of the moment) or in preference to another brand that may be more difficult to find. Companies pay shops a lot more to have their goods displayed in these key areas.

Monitoring and evaluating selling techniques

Companies keep detailed records to track (monitor) the volume and value of sales on a weekly, monthly, quarterly, six-monthly and an annual basis. This data can be analysed in a number of ways. For example, personal logins by sales staff on computerised cash registers can be used to track the sales performance of individual staff. Underperforming staff can be given extra training or dismissed if their performance does not improve.

Sales of a good or service during special in-store promotions can be calculated to determine the effectiveness of the strategies adopted. Sales can also be analysed before, during and after media-based advertising campaigns to determine whether the promotion is making a difference to sales.

Comparing sales of a product (or products) to previous years is also useful, especially if new long-term marketing strategies have been adopted. If the marketing campaign has been successful, sales should have gone up.

Sales can also be compared on a store-by-store basis or on the basis of which groups of people (markets) are purchasing the product. Advertising resources can be reallocated or increased to boost sales in specific stores or markets. For example, a product might have been targeted at both young boys and girls, but mostly boys are buying the product. The advertiser needs to find out why the product isn't

appealing as much to girls and come up with a marketing strategy that will increase sales to girls; that is, marketing that will better target girls.

Consumer surveys and focus groups can also be used to gather information about brand recognition; in other words, how well people know a particular brand. The Nike swoosh is a good example of successful brand recognition. An effective promotion should boost brand recognition within the targeted market. Surveys and focus groups can also be used to gather information about the effectiveness of different selling techniques. For example, a producer may reconsider using telemarketing to sell its goods if there is consumer resistance to this kind of selling.

Understanding the text

- 1 Outline the first step in the selling process.
- 2 Explain the link between the name, logo and packaging of a product and the sales of that product.
- 3 List five important selling techniques.
- 4 Explain the connection between music and lighting in stores and the sales of a product.
- 5 Explain why companies are prepared to pay more to have their goods displayed at the checkout of shops.
- 6 Define the term 'impulse buying'.
- 7 Explain why companies keep records of sales of their products.
- 8 Give one reason why companies would want to analyse these sales figures.
- 9 Explain the connection between in-store promotion of a product and poor sales figures for that product.
- 10 Explain the link between a new sales strategy and higher-than-usual sales.
- 11 Give two purposes of a focus group or survey.

Activities

- 1 In groups, make a detailed study of how a particular brand of mobile phone is sold and report your findings to the class. You should do the following:
 - a Analyse the appeal of the name, logo and packaging.
 - b Identify the target audience it is appealing to.
 - c Compile a summary of the kind of advertising used for this product; for example, radio, television, magazines, newspapers, billboards, cinemas and use of personalities.
 - d Comment on the nature of the advertising. For example, is price used to promote the product? Who is it designed to appeal to?
 - e Comment on the amount of advertising and its timing (that is, when it occurs).
 - f Describe the special offers associated with the sale of the product.
- 2 View an hour of television in the afternoon and another hour in a mid-evening time slot. Compare the types of products advertised in these time slots.
- 3 Having worked through this chapter, analyse some of the techniques used by McDonald's to sell its fast food. Think about:
 - a brand identification
 - b advertising
 - c special promotions
 - d personal selling.
- 4 Funburger is a standard product available from a chain of fast-food outlets. On three occasions in 2019, there were special promotions involving a giveaway with every Funburger purchased. Study the

table below, which shows special monthly promotions. Analyse the sales figures and comment on the effectiveness of the promotion. Answer 'true' or 'false' for each of the following statements:

- a The two-for-one promotion was the most successful.
- b You would recommend the free soft drink promotion next year.
- c The free toy offer should not be repeated next year.
- d The two-for-one offer should be extended to two months.

FREE WITH EACH FUNBURGER	SALES 2019	SALES 2018	INCREASE (%)
Free soft drink offer	\$554 378	\$498 076	11.3
Two-for-one offer	\$605 987	\$465 009	30.3
Free toy offer	\$366 221	\$381 335	-3.7

- 5 Your group is the sales team for an Australian company that has just developed a new product. You wish to target the teenage market.
- a Prepare and present a multimedia presentation describing the product (including its name, price and logo) and the strategies you plan to use in selling the product. Include a magazine-style advertisement that you have designed to promote the product.
 - b Design a survey form to enable other students to rate the product, its logo and price and the promotion strategies. The ratings could range from poor to excellent, for example.
 - c Present your product and sales strategy to the class.

7.4 Current issues

Role of social media in advertising

Social media has transformed the way goods and services are promoted. Social media networks use user-generated data to deliver highly relevant advertisements based on the user's interactions within a specific platform. In many instances, when the target market aligns with the user demographics of a social platform, social advertising can provide huge increases in sales at a lower cost.

The different types of social media platforms on which ads can be found are:

- social networking (for example, Facebook, LinkedIn)
- microblogging (for example, Twitter, Tumblr)
- photo sharing (for example, Instagram, Snapchat, Pinterest)
- video sharing (for example, YouTube, Facebook Live, Periscope, Vimeo).



FIGURE 7.4.1 Social media has transformed the way goods and services are advertised.

Shutterstock.com/Vasin Lee

Social media has proved a great way for goods and service providers to reach out to consumers in a spontaneous way. It is an excellent way of raising brand awareness – Facebook alone has over two billion users. It provides a rapid way of reaching a market with no need to wait for a magazine or flyer to be printed and distributed. It enables existing customers to share their passion for a brand with friends. It also promotes engagement, as consumers have the means by which they can interact directly with the brand, in near real time. Posts can be viewed, liked, commented on or shared in seconds. Social media advertising reaches those on the go; it can be viewed on all devices, especially those mobile devices that now dominate the media landscape.

The three most common social media platforms used by marketers are:

- **Facebook.** This is the biggest. Facebook allows advertisers to run ads – paid posts or promotions. They can reach a particular audience, area or consumer type.
- **Instagram.** A photo - and video-sharing platform for mobile devices. A short video advertisement is a good way to promote a brand. Advertisers can create a post with the image or video and use a hashtag to enable others to find it easily.
- **YouTube.** The video-sharing website is an increasingly popular place to advertise a good or service. YouTube earns advertising revenue from Google AdSense, a program that targets ads according to site content and audience. YouTube advertisers only pay when the viewer shows interest in the promotional video.

Each social media platform has its own merits and offers a different service for a brand or agency running a promotion to use. Some are more visual than others and give more options to share to other platforms. The use of hashtags helps consumers to access promotions quickly rather than scrolling through thousands of posts.

Facebook Dominates the Social Media Landscape

Monthly active users of selected social networks and messaging services*

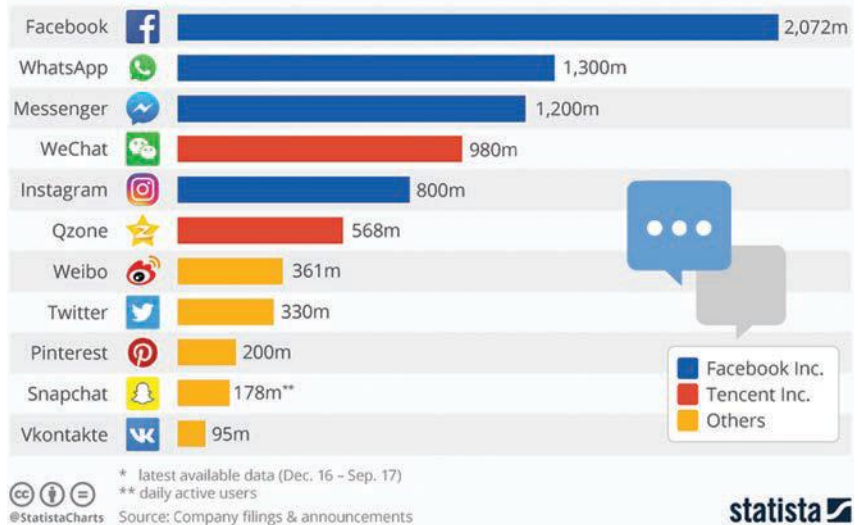


FIGURE 7.4.2 Facebook continues to dominate the social media landscape.

Spotlight: Google AdSense

Google AdSense is the Google program used to post advertisements based on website content, the user's geographical location and other factors. AdSense specialises in creating and placing banner advertisements on websites. Such ads prove effective because they are less intrusive and the content of the advertisements is often relevant to the website. Many websites use AdSense to generate revenue from their web content. Google AdSense is now the most popular advertising network.

Advertising targeting young people

One of the most sensitive advertising-based issues is advertising targeting young people, especially children. Television and, increasingly, the internet are important sources of information for children about products. Critics argue that young people are especially vulnerable to advertising because they lack the knowledge and experience to fully understand its persuasive nature. Very young people can't distinguish between the commercials and the programs they like to watch.

Critics claim that advertisements targeting children should be banned. Of particular concern are ads promoting fast foods and sugar-laden products such as soft drinks. The concern here is that such ads contribute to childhood obesity.

Others argue that advertising is a part of life and children must learn to deal with it. They also argue that parents have a role in helping children to deal with advertising. Critics respond by arguing that governments are responsible for protecting children from potential harmful effects of advertising. They often use the bans on cigarette and alcohol advertising as examples of appropriate interventions. Those opposed to government intervention argue that it is not the role of governments to decide what children should be exposed to.

Given that advertising can play an important part in a young person's education, advertising should convey information in a truthful and accurate manner. Advertisers should recognise that young people learn practices from advertising that can impact on their health and wellbeing. Also of importance is young people's personal and social development, which remains the primary responsibility of parents. Advertisers should foster the parent-child relationship in a constructive manner.

The use of Indigenous cultural and intellectual property

Indigenous cultural and intellectual property (ICIP) involves the legal and moral rights of Indigenous people to their heritage and culture. Heritage includes all aspects of cultural practices, traditional knowledge, and resources and knowledge systems developed by Indigenous people as part of their Indigenous identity.

ICIP rights include:

- Indigenous languages
- sites of Indigenous significance (including sacred sites and burial grounds)
- literary, performing and artistic works (songs, music, dance stories, ceremonies, symbols, language and designs)
- types of knowledge, including spiritual knowledge
- Indigenous ancestral remains and genetic material
- documentation of Indigenous people's heritage in archives, films, photographs, video and audio tapes, and all forms of media.

Indigenous Australian arts and cultural knowledge has been passed down in cultural practice, including ceremonies, on-country transmission, paintings, songs, dances and stories, for many generations. Significantly, ICIP rights are collective. Indigenous cultural expression and knowledge originate from a clan group rather than from individuals. This can make it difficult, under existing laws, to protect Indigenous cultural and intellectual property.

For years, Indigenous imagery has been reproduced on all manner of goods, and Australian companies have used Indigenous words and motifs as brands and logos. In many instances, the commercialisation of ICIP has been done without respect for Indigenous cultures, and without consent or Indigenous legal authorisation. The benefits derived have not been shared with Indigenous communities. This commercialisation is leading to the gradual erosion of Indigenous cultural heritage.

Advertisers need to act cautiously if they wish to draw on this cultural and intellectual property. They should recognise that:



- all Aboriginal people are entitled to respect for their culture
- all Aboriginal cultural heritage, including cultural expression, is the intellectual property of Aboriginal people
- Aboriginal people have the right to protect and manage the use of their cultural heritage and expression
- Aboriginal people have the right to benefit from any activities that use their cultural heritage and expression.

When seeking to draw on elements of Indigenous heritage and culture, it is important to negotiate with the owner/s using the appropriate protocols, which include a written agreement outlining the conditions of consent and an acknowledgement of the owner/s of the cultural heritage or expression. Additionally, the project should not result in damage to Aboriginal cultural integrity; and the collected information remains the intellectual property of the people who provided it.



FIGURE 7.4.3 Michael Jagamarra Nelson and Imants Tillers collaborated on *Hymn to the Night* (2012) as a way of healing a rift that arose when Tillers drew imagery from Nelson's painting *Five Stories* (1984).

Michael Jagamarra Nelson and Imants Tillers, 'Hymn to the Night' (2012), Fireworks Gallery

Understanding the text

- 1 Outline the impacts of social media on the promotion of goods and services. Which platforms are the most widely used by advertisers? Why?
- 2 Outline the arguments for and against advertising targeting young people.
- 3 Explain what is meant by the term 'Indigenous cultural and intellectual property'. What does it include?
- 4 Outline the steps advertisers should follow when drawing on ICIP.

Activities

- 1 Study the range of issues outlined in this section of the text. As a class, brainstorm other issues relating to the promotion and selling of products. Select one of these issues and undertake research using media and internet sources. Prepare a brief oral report outlining your findings.
- 2 Write a report outlining the impact of social media on the way goods and services are advertised. Which are the most accommodating social media platforms?
- 3 Conduct a class debate on one of the following topics: 'Advertising should be banned from children's television programs' or 'The advertising of fast food and sugar-based products such as soft drinks should be banned'.
- 4 Hypothetical: A popular brand of surfwear has started promoting boardshorts with Aboriginal cultural motifs. In what circumstances would this be inappropriate? In what circumstances would this be acceptable?



8

RUNNING A BUSINESS

CONTENT OVERVIEW

- 8.1 Being an entrepreneur
- 8.2 Planning for success
- 8.3 Business operations
- 8.4 Maintaining financial records
- 8.5 Current issues

CONTENT FOCUS

In this option, we explore the entrepreneurial attributes and dispositions that contribute to business success. In doing so, you will examine the considerations involved when planning and running a business. You will also investigate key issues and processes related to the various aspects of running a business.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What entrepreneurial attributes and dispositions are needed to run a successful business?
- What are the key issues and processes related to the running of a business?

GLOSSARY OF KEY TERMS

assets

The equipment, stock, bank deposits and anything else the business owns.

balance sheet

A statement of the assets, liabilities and capital of a business.

bankruptcy

Occurs when a business can no longer pay its creditors. It may occur voluntarily or be ordered by the court. Sometimes referred to as insolvency.

capital

Wealth in the form of money or other assets available for the purpose of starting a company or investing.

cash flow statement

A document showing the movement of cash into and out of a business.

creditors

Suppliers of goods and services to businesses, especially where these are supplied on credit, not cash.

demography

The study of a population. It includes the size and distribution of the population as well as details of individuals within the population, such as age, sex, marital status, household type and place of birth.

dividend

A payment made to a company's shareholders.

entrepreneur

A person who engages in business activities, especially those that involve risk, in order to make a profit.

financier

A person or organisation who provides finance (capital) to entrepreneurs.

franchise

A business for which there is an agreement for the use of a brand name and operating systems in exchange for a fee.

franchisee

The owner of a franchise.

franchisor

The business firm that provides the goods, services and expertise for a franchise. (For example, McDonald's Australia is the franchisor of the individual McDonald's restaurants in Australia. Each individual restaurant is owned by a franchisee.)

goodwill

The monetary value of the reputation of an existing business.

incorporated association

A non-profit organisation involved in a commercial activity. Profits are returned to the association, not passed on to members.

inputs

Goods and services used in the production process.

inventory

List of goods ready to be sold or raw materials to be turned into goods to be sold.

leasing

Using equipment or property for a specified period of time in return for a fee or rent.

liability

The degree of financial responsibility for any losses incurred by a business or individual.

overdraft

A bank account facility that allows you to withdraw more funds from an account than you have deposited. You are charged interest for using these funds.

partnership

Where two or more people share responsibility for the operation of a business.

private company

A business that is not listed on the stock exchange and has 50 or fewer shareholders.

profit and loss statement

An accounting report showing the amount of revenue (sales) a business received and the expenses it incurred and the resulting profit or loss in a given period of time.

prospectus

A legal document issued by companies that are offering shares or bonds for sale. The role of the prospectus is to provide company information to potential investors and make them aware of the risks of investing in the company.

public company

A company listed on the stock exchange. Any member of the public can become a shareholder.

risk management

The processes involved in identifying, controlling and minimising the impact of uncertain events.

self-employed

Working for yourself and not for an employer.

shareholder

A person who owns shares in a business.

sole trader

A business with a single owner who is responsible for every aspect of the operation of the business.

SWOT analysis

An assessment of a business's strengths, weaknesses, opportunities and threats.

target market

A specific demographic or social group to which an advertiser wishes to appeal.

8.1 Being an entrepreneur

The *Macquarie Dictionary* defines an **entrepreneur** as 'one who organises and manages any enterprise, especially one involving considerable risk'. Entrepreneurs are able to see opportunities where others do not. They then bring together all the resources required to take advantage of these opportunities. This usually involves establishing a business or enterprise.



FIGURE 8.1.1 Young entrepreneur and her stall selling vegan cupcakes at the monthly vegan market at Entertainment Quarter, Sydney



Shutterstock.com/Nils Verseemann

FIGURE 8.1.2 Young entrepreneurs: Brewhouse Coffee Roasters, Bendigo, an urban-style cafe in regional Victoria

Attributes and dispositions shared by entrepreneurs

Adventurous, determined, energetic, competitive, confident, ambitious, optimistic, innovative and resourceful are just some of the characteristics often possessed by an entrepreneur. Not all of these attributes are necessary to be successful in business, but the more of these characteristics entrepreneurs possess the greater the likelihood of their success. Table 8.1.1 expands on some of these characteristics.

TABLE 8.1.1 Some characteristics shared by entrepreneurs

ATTRIBUTE	DISPOSITION
Focus	Entrepreneurial talents, skills, ideas and energies are directed towards the entrepreneur's own goals.
Risk-taking	Having exceptional self-confidence enables entrepreneurs to take risks in starting a new business.
Innovation	Entrepreneurs are more open to new and challenging environments and see these as opportunities to be creative with solutions or new products.
Initiative	Putting into action their vision, entrepreneurs plan and set goals, use contacts and networks, seek feedback and learn from their mistakes.

Entrepreneurs can find great personal satisfaction in seeing their ideas come to fruition, under their own control. Being **self-employed** gives people the chance to make much more money than they could as someone else's employee. However, it also carries a financial risk. If the business is unsuccessful, the entrepreneur will lose the funds invested in the business. If money has been borrowed from family and friends, their funds could also be lost. Running a business often means long hours, hard work, uncertainty and stress. Even though self-employed people are their own bosses, they have to deal with the demands of customers, suppliers, regulations and **financiers**.

Individual entrepreneurs: some examples

Successful entrepreneurs such as Elon Musk (Tesla and SpaceX), Jeff Bezos (Amazon) and Travis Kalanick and Garrett Camp (Uber) are well known, but let us look at some local entrepreneurs, and the qualities and capabilities that contributed to their success.

Naomi Simson

Naomi Simson founded RedBalloon in 2001, in the front room of the family home, with little more than \$25 000, an old computer and a clear focus. RedBalloon was an experiment to test an innovative online experience retailer. Simson did not have it easy; the first two years were slow, and customer feedback about their experience with RedBalloon was mainly negative. She persevered and RedBalloon now offers more than 5000 experiences from which customers can select, and generates over \$20 million in revenue per annum.



Getty Images/Don Arnold/WireImage

FIGURE 8.1.3 Naomi Simson, founder of RedBalloon

Emma Welsh and Tom Griffith

Emma Welsh and Tom Griffith founded Emma & Tom's in 2004. They were childhood friends sharing the same vision. Proudly Australian owned, the environmentally and socially responsible company is driven by a philosophy embracing healthy food and minimal processing techniques. Starting with four juices, the company's focus, risk-taking and use of technology has seen the range expand and revenue increase 30 per cent per annum in the last five years. Emma & Tom's now employs 50 staff and distributes to more than 5000 outlets in Australia and to overseas markets.



Fairfax Syndication/Erin Jonasson

FIGURE 8.1.4 Emma Welsh and Tom Griffith, founders of Emma & Tom's, a supplier of healthy foods

Mark 'Dion' Devow

Mark 'Dion' Devow started Darkies Design in 2010 to produce Aboriginal-themed clothes for mainstream, sports and promotional use in collaboration with Indigenous artists and designers. His focus was to support the creative arts and be a strong role model for fellow Indigenous business owners. Capitalising on his networks, in 2017 he established Yerra, a consultancy and recruitment company assisting Indigenous Australians in the Australian Capital Territory.



AAP Image/Mick Tsikas

FIGURE 8.1.5 Mark 'Dion' Devow, founder of Darkies Design



Understanding the text

- 1 Define the term 'entrepreneur'.
- 2 List the attributes and dispositions (or characteristics and skills) that entrepreneurs require.
- 3 Identify the advantages and disadvantages of being self-employed.

Activities

- 1 As a class, brainstorm the names of successful entrepreneurs in addition to those listed in this section. Select one entrepreneur who is of interest to you. Using the internet, construct a short biography of the entrepreneur, focusing on his or her success in building and running a business.
- 2 In small groups, analyse the needs of your local community. Which of these needs represents a commercial opportunity for an entrepreneur? Discuss your group's findings with the rest of the class. As a class, evaluate the business opportunities with the greatest likelihood of success.

8.2 Planning for success

Selecting business opportunities

A number of factors need to be taken into consideration when identifying opportunities for small businesses. These are shown in Figure 8.2.1.

Identifying a business opportunity involves a level of risk. The challenge is to find a good or service for which there is already an unmet demand or for which a demand can be created using a promotional campaign. Entrepreneurs may gain inspiration from successful commercial ventures in other countries. Sometimes a venture has grown out of the introduction of a new technology. In other instances, the business idea is something no-one else has thought of. Whatever the idea, it is essential that any new business opportunity be thoroughly evaluated before investment **capital** is put at risk.

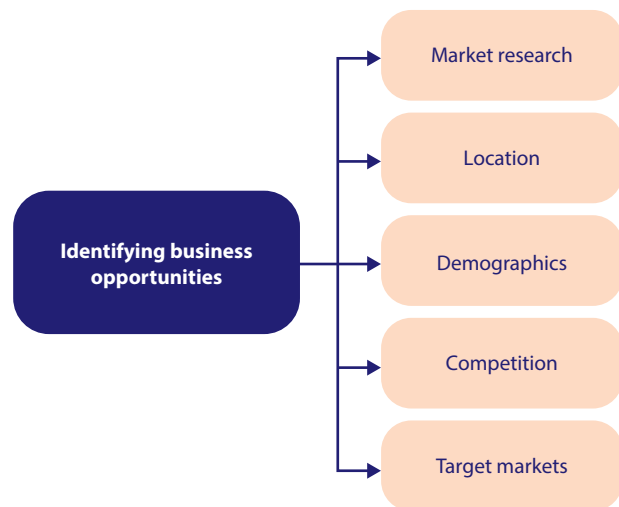


FIGURE 8.2.1 Factors to consider when identifying business opportunities

Market research

Once a small business opportunity has been identified, market research is required to investigate various aspects of the business, such as location, competition and demographics.

Market research could involve talking with or surveying potential customers and competitors. It could mean contacting trade or professional organisations for advice about the business and the locations being considered. Market research could become as formal as obtaining data from the Australian Bureau of Statistics (ABS) about the demographics of the people in the area and the other businesses in the district.

Location

Where will the business be located? Where are the potential customers? How far are they willing to travel? Does the business need to be in a retail area, close to a great number of people and easily noticed? Does it need to be close to suppliers? Can the business have a base at the entrepreneur's home? Is it going to be an internet-based business? How much will the location cost? All these questions need to be investigated by the entrepreneur before setting up a business.

Demographics

Demography provides details of the size of a particular population and its characteristics. The following are just some of the questions that can be answered by researching demographics. How many people will be able to access the business? How old are they? Where do they live? What gender are they? What ethnic group do they belong to? What are their interests? What are their jobs? How much do they earn? How many households are two-income households? Finding answers to these types of questions is an important part of establishing a small business.

Competition

What business(es) will be competing against a new one? Are there more customers than the existing business can cater for? What will attract customers to a new business instead of the established business? Will the new product be cheaper? If so, will it be due to cheaper costs or less profit? Will the product be of superior quality? Will the business be more convenient for customers, or offer them better services? How does the competing business market its product?

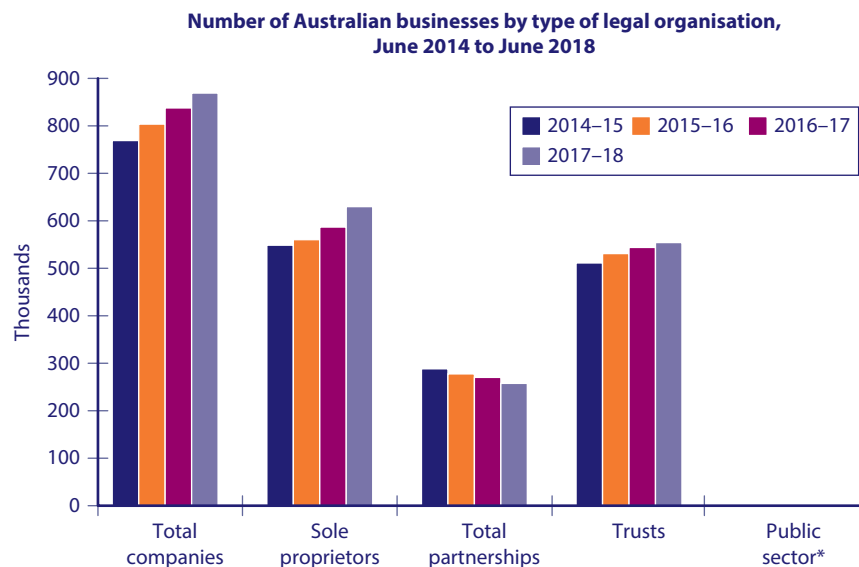
One way to look at these questions is through a **SWOT analysis**, or test. (SWOT stands for strengths, weaknesses, opportunities and threats.) The SWOT test should be conducted on competitors. It should then be compared with a SWOT test on the business to be established. This exercise should find the factor or factors that will make the new product sell more than the competitors' products.

Target markets

After investigating the potential location, demographics and competition, the entrepreneur needs to target a particular market, which is known as the **target market**. For example, the product may be of particular interest to young people, such as skateboard clothing and equipment. It may be a prestige product, such as taps made of gold, which only the very wealthy would buy. Once the target market has been determined, a marketing campaign can be developed to appeal to that market.

Key features of organisational structures

More than 2.31 million actively trading businesses were operating in Australia in June 2018, an increase of 3.4 per cent from June 2017. Businesses can be organised in many ways, as shown in Figure 8.2.2, but what are the key features of each structure?



*Note, the figures for Public sector businesses are too low to register on the graph. They are: 2014-15: 494; 2015-16: 411; 2016-17: 393; 2017-18: 375.

Source: ABS, Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017, cat. no. 8165.0

FIGURE 8.2.2 Different types of businesses in Australia

Sole trader

Sole traders are people who operate businesses on their own and may or may not have employees (see Figures 8.2.3 and 8.2.4). Sole traders control and manage the business and treat its income as their own. Income tax is assessed on the owner's total income. The owner is personally responsible (liable) for all debts incurred by the business, and the ability to borrow money is limited by the owner's ability to provide security for a loan.

Some examples of businesses that are often owned by sole traders are hairdressers, plumbers, dentists, takeaway shops and jewellery stores.

The advantages and disadvantages of being a sole trader are outlined in Table 8.2.1.



FIGURE 8.2.3 Dog grooming service, an example of a sole trader



FIGURE 8.2.4 This hairdressing business is another example of a sole trader.

TABLE 8.2.1 Advantages and disadvantages of being a sole trader

ADVANTAGES OF BEING A SOLE TRADER	DISADVANTAGES OF BEING A SOLE TRADER
• Sole traders keep any profit. • It is relatively easy to establish. • Sole traders are their own boss. • It provides a sense of personal satisfaction. • Sole traders work the hours they want to.	• Sole traders have unlimited liability. • There is limited access to finance to 'grow' the business. • Sole traders pay income tax rather than company tax. • The 'life' of the business is limited. • It is difficult to take time off.



FIGURE 8.2.5 Medical practices are often operated as a partnership between medical professionals.

Partnership

When two or more people are in business together, it is called a **partnership**. A partner acting alone in the name of the business binds the other partners to his or her actions. For example, if one partner makes an order for \$20 000 worth of goods, all the partners are responsible for the payment of those goods.

The main advantage of a partnership is that two or more people are contributing to the running of the business. Sometimes partnerships begin with one person providing the money and another doing all the work.

Partnerships are not taxed as a business entity. A partner's income from the partnership is added to his or her income from other sources. Tax is paid on the partner's total income.

All partners have unlimited liability for any debts incurred by the business. This means the partners' personal assets can be sold to repay any money owed by the business. Raising finance is easier for a partnership because the assets of all partners can be used as security.

As with the sole trader structure, a partnership is a relatively easy way to organise a business. Examples of professions where businesses are often run as partnerships include architects, accountants, lawyers and doctors.

The advantages and disadvantages of partnerships are outlined in Table 8.2.2.

TABLE 8.2.2 Advantages and disadvantages of forming a partnership

ADVANTAGES OF A PARTNERSHIP	DISADVANTAGES OF A PARTNERSHIP
• Partners share any losses. • There may be more capital to establish the business. • The work is shared between partners, giving each a chance to specialise. • Partners keep all the profit. • There are more people to make decisions. • It is easier for a partnership to borrow money.	• Partners must share the profit. • There is the possibility of disagreements among partners. • All partners are responsible for the actions of any other partners. • Partners have unlimited liability. • If a partner leaves or a new partner joins the business, the partnership agreement must be renegotiated.

Companies

Unlike partnerships and sole traders, a company exists separately from its owners. Hence, the company itself earns all the profits and is responsible for all the debts. Individuals become owners, or **shareholders**, of the company by purchasing shares. The profits the company makes can be passed on to the owners through a payment called a **dividend**. If a shareholder no longer wants to be part of the company, the shareholder sells all of his or her shares.

The main advantage of forming a company is that the owners of the company are only responsible for the debts to the extent of the amount they originally paid for their shares. The main disadvantages are the costs and paperwork involved in establishing, and then running, a company.

Private companies

A **private company** is limited to 50 shareholders. A board of directors is elected to run the company. If there are only a small number of shareholders, they usually take on the role of directors. A private company has 'Pty Ltd' (short for 'proprietary limited') at the end of the company name. This means that liability is limited to the company, and does not extend to its owners. Shares in a private company are not sold to the public.

Public companies

There is no limit to the number of people who can own shares in a **public company**. Such companies must be listed on the Australian Securities Exchange and are run by a board of directors elected by the shareholders.

The board then appoints executives to manage the daily affairs of the company. A public company usually has 'Ltd' after its name, meaning that the shareholders have limited liability.

The advantages and disadvantages of forming a public company are outlined in Table 8.2.3.

TABLE 8.2.3 Advantages and disadvantages of forming a public company

ADVANTAGES OF FORMING A PUBLIC COMPANY	DISADVANTAGES OF FORMING A PUBLIC COMPANY
• More capital (supplied by the shareholders) is available. • Borrowing money is easier. • The liability of shareholders is limited. • It is a legal entity. • Specialised people and shareholders can be employed to run different elements of the business. • Ownership and control can change frequently without a new agreement being entered into. (This is referred to as perpetual succession.)	• Many government regulations must be considered. • Limits are placed on the board of directors. • Owners (shareholders) do not always have control over the decisions made. • It can be expensive to set up, maintain, organise and wind up. • The company may become too large and inefficient. • The company's financial affairs are available to the public.



FIGURE 8.2.6 Public companies are run by their shareholder-elected boards. They are held publicly accountable for their actions at the company's annual general meeting.

Incorporated association

According to the NSW Fair Trading website, forming an **incorporated association** allows a small non-profit community-based group an easier and relatively inexpensive means of establishing a legal entity instead of forming a company. An incorporated association may sell goods and services, but profits are returned to the association, not passed on to members. An incorporated association is a legal entity that would suit, for example, a sporting or gardening club that wished to trade.

Trust

Trusts can be expensive to set up and administer. Most trusts are established to preserve family assets and reduce tax. A trust consists of a trustee that holds the property or assets for the beneficiaries, who are usually members of the family.

A family business can be set up as a trust to allow family members to benefit from the enterprise without being directly involved in the day-to-day running of the business.

Arranging finance

Starting a business can be a very costly exercise. A sole trader has the least costly set-up and a company has the most expensive. Finance could be obtained from:

- private sources, such as personal savings or a loan from family or friends
- a bank or finance company in the form of a loan, **overdraft** or mortgage (see Chapter 1, section 1.4)
- issuing a **prospectus** for the sale of shares to form a company
- suppliers who are willing to be **creditors**, meaning they are not paid until after the goods have been delivered.

Also, **leasing** equipment or buying through a hire-purchase agreement (see Chapter 1, section 1.2) can avoid huge up-front costs when establishing a business.

Applying for a business loan

To obtain money from an external source, such as a bank, the entrepreneur needs to disclose to the source how the money will be used; for example, for research costs or the purchase of equipment. The business needs to demonstrate that it is capable of making repayments on the loan and has clear strategies in place.

When an entrepreneur applies for a business loan, the bank or finance company requires certain documents to be provided with the application, such as:

- financial statements that show assets, income, expenses and cash flow; for example, bank statements, tax returns and business activity statements (BAS)

- proof of identification, such as a driver's licence or passport, if the entrepreneur is a new customer
- a partnership agreement or company registration, if applicable
- a business plan, cash flow projections and lease agreement if the business is yet to start or has been trading for less than 12 months.

Some tips that help when meeting with the lender or bank representative for a loan application include 'dress to impress', be prepared with the documentation and business plan, be confident in answering questions and, if unsuccessful, request feedback to make changes and avoid refusal in future loan applications.

Establishing a business

The entrepreneur must decide whether to start a business from scratch or to buy an existing business. When buying an existing business, the price usually includes goodwill. **Goodwill** is what is paid for the reputation of the existing business.

The advantage of establishing a new business is that there are no inbuilt problems (such as a bad reputation) or hidden costs (such as equipment that has not been maintained adequately). On the other hand, it also means a good reputation has to be established and equipment needs to be acquired. If the business requires a shop to be fitted out, this can be a considerable expense.

A **franchise** is a business for which there is an agreement for the use of a brand name and operating systems in exchange for a fee. **Franchisors** often have very strict requirements to ensure their reputation is being upheld by a **franchisee**. For example, at a chain of franchised fast-food outlets, the food, decor and service are expected to be the same at every outlet (see Figure 8.2.7).

The advantages and disadvantages of franchises are outlined in Table 8.2.4.

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Fairfax Syndication/JAMES DAVIES

FIGURE 8.2.7 Bakers Delight and Jim's Mowing are examples of franchise businesses.

TABLE 8.2.4 Advantages and disadvantages of a franchise

ADVANTAGES OF A FRANCHISE	DISADVANTAGES OF A FRANCHISE
• Less start-up capital is needed. • Owners receive specialised training. • Advertising costs are shared. • Advice is available from the franchisor. • Bulk buying can reduce costs. • There is established goodwill and market recognition.	• The range of products and services sold is determined by the franchisor. • The franchisee is levied fees and charges by the franchisor to cover costs such as advertising. • The franchisee has little say in how the business is promoted. • It is difficult to expand. • Products must be sourced from suppliers specified by the franchisor. • If the franchisor becomes insolvent, the franchisee may still be liable for costs and payments while being unable to operate the franchise.

Whether establishing a new business or purchasing an existing business, further issues the entrepreneur must consider include staffing, equipment and identifying an appropriate location.

Staffing

Before commencing operations, the staffing needs of a business must be assessed. If staff are required, there are a number of steps involved:

- designing job descriptions, including roles, desirable characteristics, wages and other conditions
- recruitment
- interviewing
- hiring.

A lot of administration is involved with hiring staff. Wages, superannuation and taxes must be paid. Staff entitlements, such as sick leave and holidays, need to be monitored. Facilities, such as toilets and drinking water, have to be provided. One of the most difficult aspects of having employees is being aware of, and complying with, all the laws involved.

Equipment

If a new business is being established, the premises will be virtually empty. There may be toilets within or nearby, a kitchen and perhaps some light fittings, but usually much will need to be done. This could include connecting utilities (such as gas, electricity and telephone), painting, adding or changing light fittings, and laying or changing floor coverings. Once these basics have been completed, the entrepreneur must organise stationery and any other equipment required to produce or sell the product.

Location

Location is extremely important. Decisions must be made regarding proximity (nearness) to customers and suppliers, rent costs and size of property. Retail premises can range from very expensive for locations with a high number of people passing by (such as in a shopping centre) to relatively cheap locations, far away from passing crowds.

Running a business from home can be very convenient in terms of time and comfort. There are disadvantages, however, such as domestic distractions, a lower professional image and a sense of isolation. If running a business from home, it is advisable to keep the business in a separate part of the house. Working from home is best if the business involves consultancy undertaken at clients' premises.

Factors contributing to the success or failure of small businesses

To start a small business in Australia is fairly easy when compared to other countries. According to the World Bank, Australia is ranked seventh in the world when it comes to starting a business and sixth when it comes to getting credit. However, small businesses have a higher rate of failure, with up to 40 per cent of new sole trader businesses not surviving after three years of operation. One in three small businesses fail due to financial mismanagement that includes cash flow problems, inadequate credit or inability to borrow further funds. So, as a small business owner, what issues do you need to consider to succeed? Use the checklist in Table 8.2.5 to identify factors contributing to the success or failure of a business.

TABLE 8.2.5 Checklist of factors contributing to the success or failure of a business

ISSUE	FACTORS CONTRIBUTING TO SUCCESS	FACTORS CONTRIBUTING TO FAILURE
Product	High-quality, reliable, safe, durable, well-designed for intended use, no faults, can be distinguished from the competition	Poor quality, unreliable, poorly designed, faulty, imitation of competitor's product
Location	Visible and accessible to passing trade, good reputation and safe, competitor is not close (for example, supermarkets) or needs to be close to competitor (for example, 'Auto Car Alley')	Not visible or accessible to passing trade, poor reputation, unsafe, poor street lighting at night, the business competitor may be too close or too far



> ISSUE	FACTORS CONTRIBUTING TO SUCCESS	FACTORS CONTRIBUTING TO FAILURE
Inventory	Warehouse and supplier well located and accessible	Warehouse and supplier too far, adding time and cost for deliveries
Supplier	Reliable, supportive of your business, keeps you informed of back orders, uses reliable carrier	Promises but does not deliver, wrong items sent or damaged, deliveries go missing, unreliable carrier
Customer satisfaction	Repeat customers, 'word-of-mouth' customers, positive feedback on surveys and social media	Few repeat customers, no recommendations, no customer feedback sought, negative online comments and reviews
Management	Organised, good knowledge of business and competitor, well-trained staff, business goals reviewed, plans for contingencies and emergencies, monitors cash flow, up-to-date financial records	Poorly organised, lacks business knowledge and understanding of competitor, no planning, inadequate staff training, staffing problems, cash flow not monitored, poorly kept financial records
Marketing and sales	Cost-effective marketing strategy and promotion, sales targets set and reviewed	Ineffective marketing, poor promotion, poor sales

Spotlight: Starting a small business – Gorgeous Flowers

Tina is a sole trader, starting her business Gorgeous Flowers from scratch. In this interview, Tina explains how she started her business, some of the problems she has faced and how she has succeeded.

Interviewer: Why did you decide to open a florist business?

Tina: I trained as an accountant, but my passion was always flowers. I had always wanted to open my own business. It's one of those things that I wanted to try for myself, and if I was successful, great; if I wasn't, well at least I tried.

Interviewer: How much experience did you have before opening your own business?

Tina: Even when I worked as an accountant, I would do arrangements as a hobby and enter flower shows and competitions. I also completed several floristry courses and gained a reasonable amount of industry experience helping a friend with her wholesale flower business and working part-time for other florists. Overall, I had over 10 years' experience in the industry before I opened my shop.

Interviewer: Why did you choose this site for your new shop? How important is location?

Tina: I used to work close by in an office and had always thought this was a great location. It was reasonably close to the wholesale flower markets and lots of new homes and offices were going up. But all of the shops in the mall that were accessible to the passing trade and close to the parking were occupied. So, when this shop became vacant, I quickly moved to see about leasing the space and opening our shop. To answer the second question, location is everything!

Interviewer: From where did you get your finance to start your business?

Tina: Finance is never easy. We (my husband and I) put together as much money as we could ourselves; and the balance came from borrowing money from the bank, by using some of the equity in our house.

Interviewer: How many staff do you employ? What sort of people do you look for to work in your business?

Tina: We employ the equivalent of three people as well as myself and my daughter, who helps when she can. When employing people, we look for a combination of knowledge of flowers, artistic techniques, great communication and customer service skills, and the ability to make sales. Floristry is a very personal industry. We need discretion and compassion when dealing with customers' personal matters, which can be joyous or very sad. We are fortunate to have staff with both of these qualities.

Interviewer: Do you get much business from your website?

Tina: Our website is used by our corporate customers and interstate customers. We have an email program we use for sending to clients, without 'spamming', reminders for Xmas and Valentine's Day. Having a good site is a great way to let people know about our business, products and services.

Interviewer: Do you enjoy being your own boss? Do you get time to enter competitions anymore?

Tina: It's good, but you do feel the pressure financially and because your employees depend on your business for their livelihood. I don't enter competitions or exhibitions as much as I used to, although it's important from a business perspective to see what is happening, which flowers are trending and to see what other creative and artistic florists are doing.

Interviewer: Can you give the readers any tips on starting their own business?

Tina: Be prepared to work very hard! If you are looking for a relaxed lifestyle, owning a small business is not for you. Look at ways of value adding or diversifying your business, but stay focused on what you do best. Try to keep your staff motivated as much as possible. You can't do everything; working as a team is important for the success of your business.



Shutterstock.com/Shuang Li

FIGURE 8.2.8 As noted by Tina, location is critical for the success of a business such as a florist.

Understanding the text

- 1 Explain what market research is. In what ways can it be conducted?
- 2 Outline the factors that an entrepreneur may consider when deciding where to locate a business.
- 3 State why an entrepreneur may be interested in the demographic profile of a community.
- 4 Explain what a SWOT analysis is.
- 5 State what is meant by the term 'target market'.
- 6 State what a sole trader is.
- 7 Explain how a partnership differs from a sole trader.
- 8 Explain how a company's profits are distributed.
- 9 Outline the main advantage of forming a company.
- 10 Distinguish between a private company and a public company.
- 11 Outline the sources of finance for setting up a company.
- 12 Explain how companies can avoid huge up-front costs when establishing a business.
- 13 Explain what is meant by the term 'goodwill'.
- 14 Outline the advantages and disadvantages of establishing a new business.
- 15 Outline the factors that need to be considered when establishing a business.

Activities

- 1 Three of Australia's best-known market research organisations are Roy Morgan Research, Nielsen and IbisWorld. Select two of these organisations and compare their websites. Write a paragraph outlining the services provided by these two organisations.
- 2 In groups, construct and analyse a list of commercial activities that have been copied from elsewhere in the world. Can you think of any that are uniquely Australian? Are there any that are unique to your local area?
- 3 As a class, plan to operate a barbecue to raise funds to sponsor a child living in a developing country. Conduct a SWOT analysis of the proposed commercial activity. What are the strengths, weaknesses, opportunities and threats that you need to take into account when planning the activity?
- 4 Study Table 8.2.1. Write a discussion outlining the advantages and disadvantages of being a sole trader.
- 5 Use the Yellow Pages website to find three examples of sole traders and three examples of partnerships for each of the following types of businesses:
 - a architects
 - b doctors
 - c solicitors
 - d accountants.
- 6 Study Table 8.2.2. Summarise the advantages and disadvantages of partnerships.
- 7 Study Table 8.2.3. Outline the advantages and disadvantages of forming a public company.
- 8 Study Table 8.2.4. Outline the advantages and disadvantages of a franchise. If possible, interview a franchisee to gain their perspectives on the advantages and disadvantages of such enterprises.
- 9 In groups, brainstorm the names of franchises you are familiar with. Classify them according to categories, such as clothing, personal services and business services.
- 10 Access the Franchise Council of Australia website and investigate franchise businesses for sale. Identify two businesses and compare how they are promoted to potential franchisees.
- 11 Invite the owner of a local franchise business to speak to your class about the advantages and disadvantages of operating this type of business.
- 12 Using the classified section of a major metropolitan newspaper or online websites such as SeekBusiness or Gumtree, select a 'business for sale' that you would like to buy. Justify your choice by answering the following questions:
 - a What interests you about this particular business?
 - b What qualities or interests do you have that would enable you to run this business successfully?
- 13 Invite a local sole trader and a partner in a local business to speak to your class about the nature of the business each person operates and the business challenges they face.
- 14 Access the federal government's business.gov.au website and complete the following tasks:
 - a Outline the steps involved in starting up a business.
 - b Assess the types of grants and assistance provided for people setting up a business.
- 15 Access the MAUS Business Systems website. Working in pairs, investigate the site and compile a list of the information that would assist a person starting a new business.
- 16 Refer to the list of Australia's top 50 companies in the sharemarket report of a major daily newspaper. Identify the companies that you recognise. In groups, discuss those companies and construct a list of them according to the goods and services they provide.



Roy Morgan
Research
Nielsen
IbisWorld



Yellow Pages



Franchise Council of
Australia



business.gov.au



MAUS Business
Systems

8.3 Business operations

Regulations

In Australia, all three levels of government regulate the operations of businesses. Businesses often refer to the regulations as 'red tape'.

Federal government

All businesses should have an Australian Business Number (ABN) or Australian Company Number (ACN). These numbers identify the business/company for tax purposes and for dealing with government agencies. When doing business with other businesses, the ABN/ACN needs to be printed on all invoices. An ABN is available from the Australian Business Register (ABR) website. An ACN is available from the Australian Securities and Investments Commission (ASIC).

Sole traders and partnerships need to register their business names with ASIC, unless they are operating under their surnames. A company only needs to register a business name if the name it operates under is different from its company name. Companies also need to submit annual returns, including financial statements, to ASIC.

Taxes that are administered by the federal government include:

- income tax
- goods and services tax (GST)
- fringe benefits tax
- sales tax
- customs and excise duty.

Sole traders and partnerships do not pay income tax as a business. The individuals who own the business pay tax on the profits. Companies pay their own income tax.

Federal employment laws include:

- the *Fair Work Act 2009* (Cwlth)
- anti-discrimination legislation
- superannuation legislation
- work health and safety (WHS) legislation.

Many of the federal laws are administered by the states. See Chapter 3 for more information on income tax and federal employment laws.

State government

SafeWork NSW is the regulatory authority in New South Wales established to achieve safe workplaces by administering the *Work Health and Safety Act 2011* (NSW). The Work Health and Safety Act describes how businesses should generally keep a safe and healthy workplace. (Refer to Chapter 3, section 3.3, for more information on state workplace laws.) The *Workers Compensation Act 1987* (NSW), regulated by State Insurance Regulatory Authority NSW, makes it compulsory for employers to take out insurance to cover employees for work-related injuries.

NSW fair trading legislation aims to protect consumers from businesses behaving unjustly. These laws govern warranties, misleading advertising, safety standards and many other issues. (Refer to Chapter 1, section 1.3, for more information on the role of NSW Fair Trading.)

Some businesses, such as hair salons, real estate agents, builders and solicitors, require licences to operate. These are obtained from the relevant licensing authority. For example, food businesses must be licensed by the NSW Food Authority and meet national food safety laws.

Local government

Businesses need to comply with town planning laws, including fire regulations as well as regulations concerning building structures, parking and health. These laws are administered by local government. Local government inspectors visit business premises to ensure that relevant laws and regulations are being complied with.

Zoning of land by local governments determines the use of property. For example, permission is unlikely to be granted for a commercial activity to be conducted in an area zoned residential.

Local governments also issue various licences. For example, cafes might need a licence to have tables, chairs, umbrellas, heaters and other obstructions on a footpath. Local governments also issue permits for billboards and other forms of signage.

Marketing strategies and selling products

Once a business is established and legal concerns are understood by those involved, marketing strategies need to be developed to sell the goods or services produced.

A business must define its marketing objectives; that is, whether it aims to sell more of the same products, offer a new or improved product or target a new range of customers.

The four Ps of marketing are product, price, promotion and place. *Product* decisions include:

- what products to sell
- what the products will look like or consist of
- what packaging the products should be in
- what extras are to be included or offered with the product.

When a small business is setting the minimum *price* for a product, the price is usually equal to the cost of creating the product. The price of the product needs to be competitive. If the product is of a higher quality than competing products, it may be possible to charge a higher price.

When we think of *promotion*, we usually focus on advertising, but promotion actually involves much more. It also includes public relations (such as being involved with charities and sponsoring local community groups and/or activities), attending trade shows and the way salespeople relate to potential and existing customers.

Advertising ranges from signs in a shop window to a huge television campaign. Newspaper and radio advertisements, catalogues, brochures, billboards and 'freebies' (such as product samples) are all forms of advertising.

When advertising, the business needs to be selective about where, when and to whom to advertise. For example, if the business is selling furniture, it wouldn't want to advertise in teenage magazines. If the business is selling swimwear, it wouldn't be wise to have the most forceful campaign as winter began.

The *place* of marketing generally starts at the business premises. Customers need to have easy access to the business and its products, so access, parking, visibility, signage, opening hours, delivery options, and store layout and lighting are important factors to consider.

Spotlight: Using social media for marketing and selling

Popular social media sites such as Facebook, Twitter, LinkedIn and YouTube can be used to promote your business or sell your products or services. They can be used to expand your networks, increase the reach of your market and improve your collaboration with more people. You can engage with your customers to get feedback about your brand and business and advertise your products and services. But the online exposure means greater potential to attract bad publicity, and competitors could study your business. It's easy to get carried away when using social media in your business, so you need to be aware of the 'pros' and 'cons' before you start.

Advantages of social media

There are many ways in which social media as a marketing strategy can benefit your business and help you connect, engage and grow. These include:

- increasing your brand exposure and awareness
- building customer loyalty
- reducing marketing costs
- increasing sales
- monitoring the competition
- gaining customer feedback
- conducting market research about your customers
- improving networking opportunities with customers and other businesses.

Disadvantages of social media

Social media may not suit every business and not all social media platforms may be right for your business. Launching your social media presence without proper planning could be a waste of time, effort and money. Below are some of the possible disadvantages you should be aware of:

- If you do not have a clear marketing or social media strategy, the benefits for your business cannot be reviewed or measured.
- Additional qualified resources may be needed to manage your online presence.
- Social media is immediate and needs daily monitoring.
- If your social media presence is not actively managed, you may not see any real benefits.
- There is a risk of unwanted or inappropriate behaviour on your site, including bullying and harassment.
- There is increased exposure (online) to attract risks, including negative feedback, information leaks or hacking.
- False or misleading claims made on your social media channel by your business or by a customer can be subject to consumer law.
- Customer posts and testimonials that are misleading or deceptive to other customers, particularly about competitor products or services, may result in your business being fined.

To help manage the risks of using social media for promoting your business or selling your products and services, you need to have a social media strategy and processes in place.

Ethical decision-making and corporate social responsibility

Terms such as 'ethical investing', 'environmental, social and governance' (ESG) and 'corporate social responsibility' (CSR) are gaining greater acceptance and are now seen as a vital part of operating a successful business. When you purchase a product, you hope that it is not made using child labour, or in unsafe working conditions with unfair wages. You hope that the product is sustainable to produce and environmentally safe to dispose of. There is a growing expectation by shareholders, interest groups and the community for businesses to demonstrate ethical practices and social responsibilities.

Ethical decision-making involves a company's code of conduct, policies and procedures, and management systems that ensure that actions, processes and decisions are:

- not breaking the law
- transparent
- fair
- mutually respectful with employees, customers and the public.

Corporate social responsibility generally means that businesses are accountable for not only the economic consequences of their activities but also for the social and environmental implications.

The 2017 Banking Royal Commission exposed misconduct and problems in the banking and financial services industry. Bank customers and shareholders are calling for greater transparency, accountability and ethical processes. Growing social activism is also influencing investor decisions. For example, protesters at the 2015 Transfield Services annual general meeting pressured shareholders to consider the moral implications of their investment – Transfield was involved in Australia’s detention centres (see Figure 8.3.1). Some funds will not invest in fossil fuels such as coal or in companies that produce weapons, alcohol or tobacco. Environmental concerns have seen protests regarding the Adani coalmine in Queensland (see Figure 8.3.2). For more information on the importance of ethical and socially responsible management, see Chapter 2.



FIGURE 8.3.1 Pro-refugee protester outside the Transfield Services annual general meeting in Sydney on 28 October 2015



FIGURE 8.3.2 Protesters against Adani’s Queensland Carmichael coalmine gather in front of the sacred Nimbin Rocks.

Advisory and support organisations for small business

Various organisations and services provided by federal and state government agencies to support small businesses are listed in Table 8.3.1.

TABLE 8.3.1 Support for small businesses

ORGANISATION	SERVICE	SUPPORT
Department of Industry, Innovation and Science	Business Checklist (online)	Templates and tools to help start a business
	Home Based Business (online)	How to set up and run a home-based business
	Insurance and Workers Compensation (online)	Guide on various business insurance requirements
Department of Jobs and Small Business	New Enterprise Incentive Scheme (NEIS) (online)	Provides small business training and connects business owners with mentors
Australian Competition and Consumer Commission (ACCC)	For Business (online)	Advice on advertising, anti competitive behaviour, rights and protections, franchising, industry codes and treating customers fairly
Office of the Australian Small Business and Family Enterprise Ombudsman	Dispute support (online)	Guide on low-cost dispute resolution service and information to better understand and manage business disputes
Australian Securities and Investments Commission (ASIC)	Money Smart – Self-employed (online)	Guidance about cash flow, tax, retirement savings and income protection for self-employed people (sole traders)
Office of the NSW Small Business Commissioner	Small Business (NSW)	Information on the NSW Government’s small business programs and other resources, including ready-to-use, relevant information for people who are starting, running and growing a business
Service NSW	Service NSW (online and office locations)	Assign a Business Concierge to help navigate through any government licences and permits for the business

Understanding the text

- 1 Explain why businesses need to register for an Australian Business Number (ABN) or Australian Company Number (ACN).
- 2 Outline the basic provision of the Workers Compensation Act.
- 3 Identify the issue addressed by the Work Health and Safety Act.
- 4 Explain why we have fair trading legislation.
- 5 Outline how the responsibilities of local government affect the operation of a business.
- 6 List the four Ps of marketing.
- 7 Outline the product-related decisions a business must make.
- 8 Outline the factors that need to be taken into account when setting the price of a product.
- 9 'Promotion involves much more than just advertising a product.' Explain this statement.
- 10 Explain what is meant by 'place' in terms of selling a product.

Activities

- 1 Contact your local council and ask for information relating to the zoning of commercial activities and the regulations governing the operation of businesses in your local area. Use this information to assess:
 - a where fast-food outlets can be located in your local area
 - b what council regulations are relevant to the operation of fast-food outlets.
- 2 Working in groups, select a product popular with people of your age group. Investigate and evaluate how the product is promoted. Consider issues such as packaging, imagery/personalities used in advertising campaigns and the type of advertising used. Discuss your group's findings with the class.
- 3 Working in groups, select a product and develop a marketing plan using the four Ps as a guide. Present your group's plan to the rest of the class using a multimedia presentation.
- 4 Access the website of the Australian Securities and Investments Commission and write a report outlining the role and history of ASIC.
- 5 Access the SafeWork NSW website and complete the following tasks:
 - a Write a paragraph outlining the role of SafeWork NSW.
 - b List SafeWork NSW's objectives.
 - c List the Acts of Parliament that are administered by SafeWork NSW.
 - d Access the frequently asked questions section of the website and outline the WHS responsibilities of businesses. List the types of workplace hazards businesses need to focus on.
- 6 Access the website of NSW Fair Trading and complete the following tasks:
 - a Outline the role of NSW Fair Trading as it relates to consumers, business and trader services, associations and cooperatives.
 - b Access the Youth section on the website. Select one particular topic provided to help young people make informed consumer decisions and list the key consumer rights identified under the topic. (This part of the site also has useful links to other sites, including Scamwatch – a website on how to recognise, avoid and report scams.)



ASIC



SafeWork NSW



NSW Fair Trading
NSW Fair Trading
(Youth)
Scamwatch



8.4 Maintaining financial records

Purpose and use of financial records

By law, all Australian businesses are required to keep business records. Creating and keeping good records will help you to manage cash flow, demonstrate your financial position when applying for a loan, complete and lodge your tax return and superannuation records, and make informed decisions about the operation of the business.

Table 8.4.1 lists the range of business records that Australian businesses are required to keep. Electronic records are generally accepted by government departments such as the Australian Taxation Office (ATO) and ASIC, but hard copies may be required, particularly if the electronic data is lost or corrupted.

TABLE 8.4.1 Records kept by businesses

RECORD	EXAMPLES
Financial	Receipts and invoices; staff hours and payments; bank statements; register of business assets; tax returns and activity returns; loan or financing contracts
Legal	Business registration; leases; supplier contract; insurance
Employee	Bank account, tax file number, superannuation details; contact details; work performance; work injuries
Policy and procedures	Workplace health and safety plan; conduct code; operations and training manuals
Other	Customer quotes; customer complaints; disputes; marketing/promotion strategy and outcomes

Profit and loss statement

A **profit and loss statement**, also known as a *revenue statement*, is an accounting report that shows the amount of revenue (sales) the business receives, the expenses it has incurred and the resulting profit or loss, over a period of time. A profit and loss statement does not show the cash movements of a business. The profit and loss statement includes purchases made on credit and sales for which money has not yet been received. It also includes items that have been used but not yet paid for, or even charged. For example, electricity bills only arrive every three months, so a profit and loss statement would include an estimate for the electricity used by the business although it has yet to be charged for it.

A profit and loss statement measures whether the costs of the business are greater or less than its income.

$$\text{Revenue} - \text{expenses} = \text{profit or loss}$$

If revenue is greater than expenses, the business is making a profit over the period of time that has been measured. If expenses are more than revenue, the business is making a loss over the time period. Profit and loss statements are usually completed for a financial year for external reporting purposes, such as for the ATO.

A business often completes profit and loss statements on a monthly basis to monitor how it is performing. Many businesses make losses for quite a few months, or even years, before they make profits because their set-up costs are so high.

Balance sheet

A **balance sheet** lists all the assets, liabilities and capital of the business. It is a financial snapshot of the business that can be taken at any point in time. **Assets** are the equipment, stock (the products that the business sells and that are currently in its possession), bank deposits and anything else the business owns. **Liabilities** are what the business owes to lenders and suppliers. Suppliers are referred to



FIGURE 8.4.1 Balance sheets include both assets and liabilities.

as *creditors* if they sell to the business on credit instead of cash. Capital is the money or other assets that have been contributed to the business by the owners. It is what the business owes the owners.

The assets are listed on the left side of a balance sheet and the liabilities and capital are on the right side. Ideally, the totals on the left and the right should be equal.

$$\text{Assets} = \text{liabilities} + \text{capital}$$

Cash flow statement

A **cash flow statement** differs from a profit and loss statement in that it simply shows the movement of cash into and out of a business. It enables the business to know whether there is enough cash to cover payments when they are due, or whether more borrowing is required.

Businesses need to avoid having too much cash on hand. The extra cash is worth more if it is put towards making a profit instead of being idle.

A cash flow statement starts with the amount of cash that was available at the beginning of a time period, such as the first day of a month. The cash coming in (receipts) are then listed, followed by the cash going out (payments). The total, then, should be the cash that is available at the end of a time period, such as the last day of a month. If cash is operated from one bank account, the closing cash position should be the balance of the bank account on that day.

Taxes

The tax system in Australia is quite comprehensive. The goods and services tax, in particular, can be a deterrent for entering business. However, if the business maintains records as well as it should, tax records only require a little more work.

Cash flow statements are easily adapted for GST reporting in the *business activity statement* (BAS). The profit and loss statement and balance sheet are required for income tax purposes. Wages records are needed to deduct tax from employees' pay. Other records are required for fringe benefits tax, customs duty (tax on goods bought from other countries), payroll tax, land tax, stamp duty and council rates.

Spotlight: Key aspects of running a business

Running a business can be very complicated and time-consuming. The following are some key factors that the entrepreneur needs to monitor constantly.

- Customers are the number one concern of any business. It is important to understand what customers want from the products and attempt to meet those wants.
- Keep a close eye on competitors.
- Cash needs to flow to keep the business alive.
- Look after employees to keep them interested and productive.
- Keep costs down and sales moving up.
- Manage risks where possible.
- Be organised, efficient and continually plan ahead.
- Business must always comply with legislation.
- Finally, the entrepreneur should constantly be learning, through networking and seeking professional advice, to find ways to improve, particularly in the area of technology.

Strategies to minimise risk and avoid insolvency and bankruptcy

As a business becomes more established, it is necessary to keep an eye on the future to avoid **bankruptcy** or insolvency. *Insolvency* occurs when the business can no longer pay its debts. Once a business is declared bankrupt by a court, its assets are sold. The money received from their sale allows debtors to be paid at least some portion of what they are owed.

Maintaining good records enables the business to keep track of growth. If the business is growing, it could mean it can expand. However, expansion needs to be done carefully so that the business does not overextend itself; that is, so that it doesn't have too much debt compared to its income.

A business needs to budget for the replacement of ageing equipment and for changing the appearance of the business as fashions change. For example, a clothing store needs to keep up with fashion not only with its clothes but with the design, lighting and general layout of the store. It also needs to ensure the clothes racks, shop counters and cash register are kept in good condition.

Stock or inventory management can make or break a business. As sales volumes increase, it is important to have stock ready to meet demand. On the other hand, if sales are dropping, it is important not to have stock that the business will be unable to sell.

Table 8.4.2 lists additional strategies that businesses can put into place to minimise risk and avoid insolvency and bankruptcy. Look for warning signs. Is the bank indicating insufficient funds, are your suppliers sending you reminders for payment, are you finding it hard to get credit? Take action early and seek professional financial advice to review your business's finances.

TABLE 8.4.2 Strategies to minimise risk

STRATEGY	ACTION
Reduce overheads	Look at changing your insurance, mortgage or electricity provider to save money.
Monitor cash flow	Issue invoices promptly and follow them up regularly. Ensure you have enough capital for day-to-day and cyclical business operations.
Recover debts	Ensure your clients are paying their bills as per the trading terms you have with them. Implement a solid billing and debt collection system.
Avoid over-trading	Only accept orders that you can fulfil.
Inventory management	Review the stock held, and return to the supplier or discount excess stock for a quick sale.
Payment plan	Renegotiate your credit limits and payment dates with suppliers. Have all your bills set to the same date to avoid late fees. Avoid getting more loans and credit cards, which would increase your debt.

Risk management and insurance

All organisations face events that cause disruption to their business. Fire, flood and technological failures are some of the most common. **Risk management** can be defined as the processes involved in identifying, controlling and minimising the impact of uncertain events. Well-managed businesses act to minimise potential sources of risk.

Insurance is one of the most common ways businesses seek to protect themselves. Insurance provides protection against unexpected financial loss. Legislation requires workers compensation insurance for employees and compulsory third-party insurance for motor vehicles owned by the business. It is also advisable to have:

- building insurance (if the premises are owned by the business)
- contents insurance
- comprehensive insurance for motor vehicles
- public liability insurance (protects the business from claims made in regard to negligence).

Ways businesses respond to changing economic conditions

The economic circumstances in which businesses operate can change rapidly, and it is important that they have the flexibility to respond to these changes. Periods of reduced economic activity occur from time to time. Consumer confidence falls, spending declines and unemployment increases. In these circumstances, businesses need to review and update their business plan. This might involve undertaking a SWOT analysis and a review of the business's financial situation – its sales, cash flow and the rate at which its stock is moving. It may also be necessary to review its debtor and creditor terms. Other strategies include a review of its pricing and the rate at which it innovates. Businesses should always be aware of the following:

- *Exchange rates.* These can impact on the general trading environment and not just direct costs. Exchange rates could affect how easy or profitable it is to do business with another country. A depreciating exchange rate makes it easier to sell goods and services into foreign markets. An appreciating exchange rate makes it more difficult.
- *Interest rates.* High interest rates increase the cost of raising capital that entrepreneurs can invest in their business. Low interest rates make it more affordable.
- *Competitors.* What are their strengths and weaknesses?
- *New technologies and innovations.* These could change the nature of the market and increase or reduce the demand for existing products or services.
- *The pricing strategies of competitors.* The only way a business can compete against discounting by competitors is to compete on the basis of quality. Supplying a superior product provides some protection against discounting.

To counter the impact of any downturn, businesses can develop new marketing strategies, especially those that promote consumer loyalty. Loyalty cards and point systems (especially those linked to airline loyalty schemes such as the Qantas Frequent Flyer Program) are particularly effective.

Government assistance is often considered a last resort but can be justified in situations where competition is limited. Government interventions can ensure that there is a 'level playing field' where businesses can compete fairly.

Understanding the text

- 1 Outline the benefits of keeping detailed business records.
- 2 State what a profit and loss statement is. What does it include?
- 3 Identify the circumstances under which a business will make a loss.
- 4 Outline how the preparation of a monthly profit and loss statement assists a business.
- 5 State what a balance sheet is.
- 6 Define the terms 'assets', 'liabilities', 'creditors' and 'capital'.
- 7 Explain the purpose of a cash flow statement. What does such a statement include?
- 8 State the types of records a business needs to keep to meet the requirements of the taxation system.
- 9 Outline the strategies that businesses use to minimise risk and avoid insolvency and bankruptcy.
- 10 Outline the various ways businesses respond to changing economic conditions. What must they always be aware of?

Activity

The features of a balance sheet are listed in this section of the text. Using the internet, access the balance sheet of a public company and identify as many of these features as you can. Annotate the balance sheet with explanations of the features identified.

8.5 Current issues

Today's businesses need to be adaptable if they are to meet increasing online and global competition. They need to maintain customer loyalty, drawing on the benefits of social media and making the most of technological advances. The recent demise of menswear retailer Roger David (see the Spotlight box 'Roger David shuts its stores, ending a seven-decade empire') was attributed to global competition, stagnant sales and rising fixed costs. In examining these and other current issues being faced by Australian businesses we investigate possible solutions. In the second part of this section, we look at setting up and running a simulated or school-based business.

Spotlight: Roger David shuts its stores, ending a seven-decade empire

Menswear retailer Roger David closed its 57 stores in December 2018, blaming global competition, stagnant sales and rising fixed costs. Roger David had been selling suits and men's fashion since 1942 and had more than 100 stores at its peak. Roger David is the latest in a long line of retailers that are either struggling or out of business, including Laura Ashley, Toys 'R' Us, Gap, Esprit, Dick Smith and many others.

Global competition

The 2017 launch of Amazon in Australia was hyped as a potential game changer and disruptor to retail markets with its free delivery for purchases over \$49, 30-day returns policy if you change your mind, and an extensive range of goods and competitive pricing. Traditional bricks-and-mortar retailers are seen as being under threat due to their higher cost base compared to online retailers. But retailers most at risk from Amazon and other overseas online retailers are small to middle-size enterprises that specialise in electronics, apparel and cosmetics and have limited digital presence.

Research shows that 'pure-play' retailers using their website to sell goods are not as effective as 'multi-channel' online retailers (see Figure 8.5.1). Multi-channel retailing is the practice of selling goods on more than one channel; for example, online store, marketplace (for example, Amazon), catalogue, social media (for example, Facebook) and traditional retail (bricks-and-mortar) outlet.

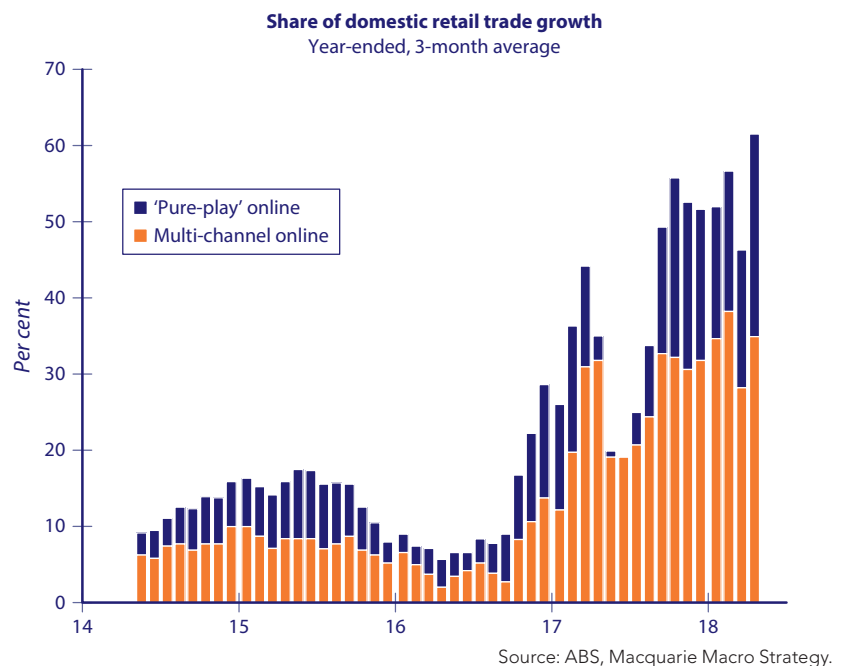
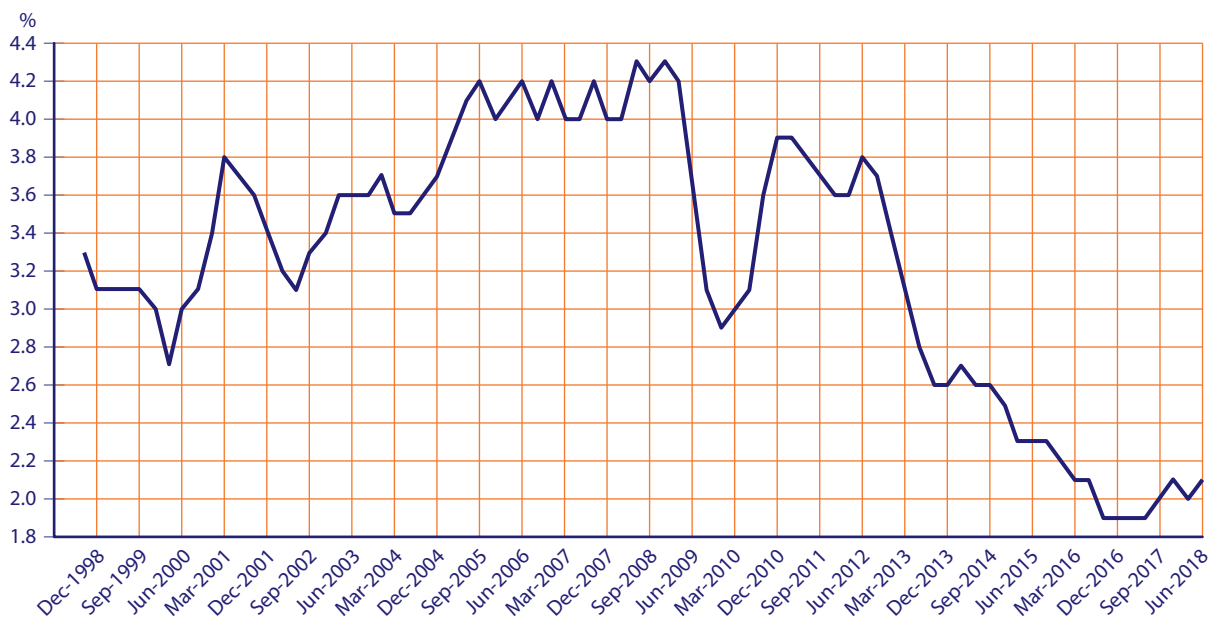


FIGURE 8.5.1 Consumers are shopping in more than one location, online and offline.

The full force of Amazon's scale and capability is yet to be felt, but many of Australia's leading retailers see increased global competition as an opportunity to revitalise their e-commerce practices. Considering that the Australian market is becoming more competitive, and saturated by overseas online retailers, local businesses should shift their attention to online retail opportunities in growing markets such as South-East Asia and China. Producers of wine, honey and milk products have been exporting to these markets, and lessons can be learnt from their experiences.

Stagnant wage growth

Data compiled by the ABS has confirmed minimal wage growth in Australia. In real terms, wages have not grown since 2013 (see Figure 8.5.2). What this means is that stagnant wage growth has put a strain on the cost of living for households. Even though interest rates are low, the lack of wage growth means that it is taking longer to repay loans, the value of the debt is staying higher longer, and household budgets are under pressure, affecting spending decisions and discretionary purchases.



Figures show annual growth in total hourly rate of pay, excluding bonuses, for all industries and public and private sectors.

Source: ABS Wage Price Index.

FIGURE 8.5.2 Annual wage growth has halved.

Tax cuts would stimulate some consumer spending; however, according to the Reserve Bank of Australia (RBA), businesses need to take advantage of new technologies to reduce costs, increase productivity, and attract higher skilled and higher paid employees.

Cash flow

Cash flow is the lifeblood of all businesses. To improve cash flow and reduce time and cost in chasing up money owed, more businesses are using electronic methods that incorporate a 'buy now, pay later' (BNPL) service. Examples of BNPL service providers include Afterpay, Certegy Ezi-Pay, Zip Pay, Oxipay, BrightePay and Openpay. These services are essentially digital moneylenders. Participating retailers add the BNPL service to the list of accepted payment methods on their online billing page and make this option available to customers for in-store sales. Looking at Zip Pay, it offers credit of \$200, \$500 or \$1000 to eligible customers to use at participating retailers. In 2017, Zip Pay was used by more than half a million customers to make \$230 million in purchases from 7700 merchants across Australia. By January 2019, almost 1.6 million shoppers had used the BNPL digital payment service in the preceding 12 months. Figure 8.5.3 reveals the age composition of those using this service.

The BNPL service is not only provided for the purchase of low-cost items such as clothing; it can be extended to high-value purchases, subject to negotiations between the shopper and the service provider. The potential disadvantages of such services remain with the customer and credit provider, but the retailer reaps the benefits of prompt payment.

Shopping experiences

Web-based experiences and services are being introduced into the traditional bricks-and-mortar business to provide both the customer and retailer with a wealth of information on in-store browsing and purchases. Products are tagged with Bluetooth technology, and as the customer picks up an item information is transmitted to an analytical system. Using a mobile phone app, the client is able to see a passive browse history of products that they have interacted with in-store. The data gathered on the customer's browsing and purchases provides the retailer with the ability to engage and 'personalise' the shopping experience for the customer.

What about online shopping? How can online retailers differentiate their product? Australian retailers The Iconic and Vinomofo are market leaders and have tapped into positive social media customer experiences and reviews through innovative shipping. Strategies include same-day delivery where possible, 'click and collect' from designated locations, flat-rate shipping cost or free for bulk orders, and use of technology-enabled parcel lockers.

Social media

Sharing online takes on a new meaning for retailers such as the US-based Abercrombie & Fitch. New store refurbishments see dressing rooms as a suite of rooms for friends to gather, control the environment, recharge devices and enjoy the social aspects of shopping. Taking selfies, uploading, sharing and enlisting the advice of online friends can now be extended to in-store purchases.

Other ways that social media has impacted traditional shopping include:

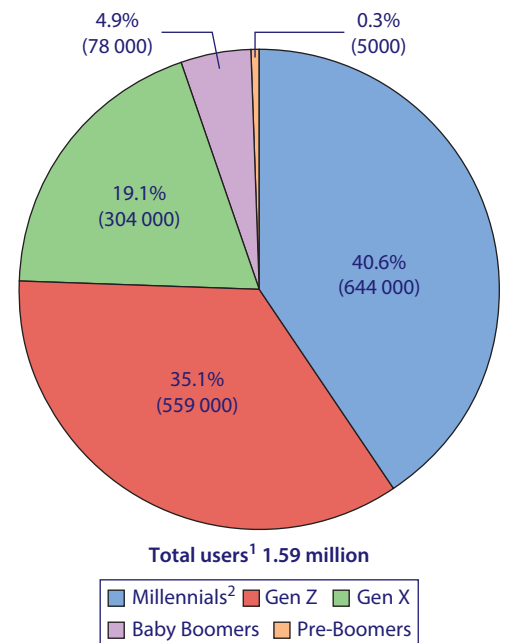
- 'pop-up' stores and obscurely located stores that can only be located through social media; for example, Bangkok's 24 Kilates sneaker store
- Instagram places pressure on shops to be functional and photogenic.

What this means for conventional shopping is more engaging outlets with shorter leases and more frequent and cheaper refurbishments.

Customer loyalty

Mobile-based loyalty apps like Stocard and Stampede have replaced the need for plastic cards and increased the visibility of loyalty reward programs and exclusive deals. Research by Nielsen in 2017 found that 48 per cent of consumers reported that they would spend more if they were going to be rewarded. The Australian clothing and lifestyle brand Country Road has implemented a successful loyalty and mobile strategy to better connect with customers and increase store visits and sales. Through the application of predictive analytics using customer data, and location notifications through the Stocard app, Country Road can engage with tailored offers, specific to the customer's profile, when the customer is within a certain radius of a store.

In the United Kingdom, brand trust is the second most important factor after price when consumers decide where to shop. Research in 2017 found that 57 per cent of consumers buy from or boycott brands based on personal belief, social or political issues. Retailers can build brand trust and connect with consumers through company values and activities demonstrating corporate social responsibility.



1 Buy now, pay later includes Afterpay, Zip Pay, Zip Money
 2 Gen Z (born 1991–2005); Millennials (born 1976–90);
 Gen X (born 1961–75); Baby Boomers (born 1946–60);
 Pre-Boomers (born pre- 1946)

Source: 'Over 1.5 million users of 'Buy-Now-Pay-Later digital payments'. Published March 18, 2019 by Roy Morgan.
<http://www.roymorgan.com>

FIGURE 8.5.3 BNPL usage, February 2018 to January 2019: market composition by generations

However, inauthentic CSR claims will be scrutinised and shared on social media platforms, ultimately undermining customer trust. Having a great product or service is no longer enough to maintain customer loyalty. Customers want to see company values and how they are applied in the company's operation, product and service delivery.

Understanding the text

- 1 Outline the challenges facing Australian businesses.
- 2 Outline the impact of global competition on traditional Australian retailers.
- 3 Distinguish between 'pure-play' and 'multi-channel' retailers. Which have proved the most successful?
- 4 State how Australian businesses can respond to the competition from online businesses such as Amazon.
- 5 Outline the impact of stagnant wage growth.
- 6 Define the term 'cash flow'. Why is it considered the 'lifeblood' of businesses? How are firms seeking to maximise their cash flow?
- 7 Outline how technology is being used to 'personalise' the shopping experience.
- 8 Outline how social media is being deployed by businesses.
- 9 Outline the importance of customer loyalty.

Activities

- 1 Study the Spotlight box 'Roger David shuts its stores, ending a seven-decade empire' on page 315. Using the media, investigate other examples of retailers experiencing adverse business conditions. What is the cause of their troubles? What is being done to address the problems encountered? Share your findings with the rest of the class.
- 2 Study Figure 8.5.1. Using data from the graph, describe the trends in 'pure-play' and 'multi-channel' retail trade since 2015.
- 3 Study Figure 8.5.2. Describe the trends in annual wage growth since 1998. As a class, discuss the reasons for the trends identified and possible consequences.
- 4 Setting up a school-based business: Working in pairs with your classmates, form a partnership to operate a food stall or lunchtime barbecue. Develop a business agreement that includes the name of the business and the roles and responsibilities for each partner. Issues to consider include finance administration, supply of **inputs**, promotion, production and the distribution of profits. After operating the business, analyse some of the problems you encountered. What were the benefits of operating the business as a partnership? Could the business be operated as a sole trader? Justify your answer.
- 5 Setting up and running a simulated business: There are various online tools to help you set up and run a simulated business. For example, Generation Entrepreneur, established in 2014, has engaged many students to develop and realise their business ideas. Read the following article about the business initiative of students at Sydney Girls High School.



Generation
Entrepreneur

Girls get down to business

Laura Sullivan

Most teenagers spend their school holidays at the beach, the movies or shopping – but students at Sydney Girls High School will be learning how to build their own business.

The students will participate in Startup Bootcamp, run by Generation Entrepreneur and backed by the City of Sydney Council.

The program runs through January and February. The students from Sydney Girls High School participated in Generation Entrepreneur's previous program, Initiate 48, where they came up with two business ideas, Common Cents and Munchline. Students Cherise Hoang, Gillian Cheng, Christina Li and Joyce Wang came up with the idea for Common Cents, which offers immersive workshops and tools to give high school students financial literacy and skills to set themselves up for moving out of home and buying a house.

Students Anna Liang, Brooke Liu, Isabel Fan and Michell Zhou set up Munchline – an online lunch ordering system that reduces congestion and wait times at school.

'Both our businesses address real life issues for high school students, and it's been exciting to see them develop from concept to actual businesses,' Isabel said.

Source: Laura Sullivan, 'Girls get down to business', *Inner West Courier*, 27 November 2018.

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An alphabetical summary of simulation and online tools available to schools and students is provided in Table 8.5.1. Follow the weblinks to access these websites. Working individually or in a group, learn how to run a business in a fun and competitive environment.

TABLE 8.5.1 Online business simulations

TOOL	SERVICES
ASIC MoneySmart Digiactivity	Online resource on how to start your own business (an Indigenous resource) for individual or group work.
Blue Ocean Strategy Simulation (BOSS)	Allows students to test new strategies and methods while respecting market realities.
Capsim – Entry Level	Students compete in teams or as individuals with 1–5 products in two market segments.
Edumundo	Several interactive management simulations and business games are available to increase student learning through a mixture of competitiveness, decision-making, intelligent feedback and fun.
Industry Masters	Offers a range of cloud-based business simulations.
SBS Small Business Secrets classroom clips	Short video clips from various local businesses sharing their entrepreneurial experiences and strategies for success.
Smartsims	Business simulations to teach key concepts of business as students run their own company.
The Business Strategy Game	One to five class members are assigned to operate an athletic footwear company that produces and markets both branded and private-label footwear and competes head-to-head against footwear companies run by other members of the class.



ASIC MoneySmart
Blue Ocean
Strategy
Simulation
Capsim
Edumundo
Industry Masters
SBS Small
Business Secrets
Smartsims
The Business
Strategy Game



9

LAW IN ACTION

CONTENT OVERVIEW

- 9.1 Contact with the law
- 9.2 Rights and responsibilities of individuals
- 9.3 Resolving disputes
- 9.4 Current issues

CONTENT FOCUS

In this option, we focus on the rights and responsibilities that individuals have when they come into contact with the law. In doing so, you will learn about the legal rights and responsibilities of individuals in society. You will also examine the range of options available for dispute resolution.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What are our rights and responsibilities when we come into contact with the law?
- How can disputes be resolved?

GLOSSARY OF KEY TERMS

actus reus

This means 'guilty act'. It is the legal principle that in criminal matters the prosecution must prove that the accused committed the crime voluntarily.

age of majority

Eighteen years of age. This is the age when a person is considered an adult.

assault

Intentionally causing harm to someone or threatening to cause harm to someone.

burden of proof

In a legal case, the obligation of a party to prove that an act took place. In criminal law, the burden of proof rests with the prosecution; in civil law, it rests with the plaintiff.

conciliation

The use of a neutral third party (conciliator) to help parties in dispute resolve a problem. If the disputing parties are unable to reach an agreement, the conciliator makes a decision.

contract

A written or verbal agreement between two parties, who may be either individuals or organisations.

defence lawyer

The lawyer whose role is to assist an accused win a case.

defendant

The party accused of wrongdoing.

discretionary power

The power to exercise personal professional judgement in making a decision. The police have such a power when they issue a warning instead of charging a person with an offence.

doli incapax

The legal concept that a person below the age of 14 cannot typically be held liable for crimes.



guarantor

A person who promises to pay the money owing in a contract if the person who signed the contract does not pay what he or she owes.

judge

A highly trained legal professional who presides over District, Supreme and High Courts. The judge's role is to advise the jury and pass the sentence.

jury

A group of people chosen randomly from the community to determine the guilt or non-guilt of the accused in serious criminal law matters.

legal capacity

The legal rights and responsibilities associated with a person's age.

liability

A legal duty to do something or to refrain from doing something.

mediation

The use of a neutral third party (mediator) to help resolve a legal dispute between two parties.

mens rea

This means 'guilty mind'. It is the legal principle that in criminal matters the prosecution must prove that the accused committed the crime with intention, recklessness or negligence.

negligence

A lack of 'duty of care' resulting in harm being caused.

plaintiff

In a civil law case, the party who has accused another party of wrongdoing.

presumption of innocence

The belief that a party accused of a crime is innocent unless it is proven that the party has committed the crime.

prosecutor

A lawyer or police officer whose role is to convince the court that the accused has committed the crime with which he or she has been charged.

public behaviour laws

Laws that regulate how we behave in public places.

strict liability

A legal concept whereby the prosecution must only prove *actus reus* and not *mens rea*; that is, there is no need to prove intention, recklessness or negligence. It is used for traffic offences, fare evasion, the sale of alcohol to someone under 18, and a number of other social and economic offences.

tort law

A civil wrong.

warning

A verbal or written notice issued by the police to a person who admits to committing a minor offence. The notice is a formal caution to the offender not to commit the offence again. The warning is usually recorded, and if the offence is committed again the offender is charged.

witness

A person who testifies or gives evidence in a court of law.

9.1 Contact with the law

The nature of legal capacity in Australia

As we become older, society grants us more and more legal rights. Once we reach the age of 18, we are considered old enough to have all the legal rights of an adult. While age brings rights, it also brings responsibilities, including legal responsibilities. The legal rights and responsibilities that come with the age of a person are known as the person's **legal capacity**.

Eighteen is often seen as a critical age in Australia because it is the age at which the law recognises that a person is an adult. This is known as the **age of majority**. At this age, all the legal rights associated with adulthood, such as the right to vote, are granted. These rights bring



FIGURE 9.1.1 Once we reach 18, our legal rights and responsibilities increase.

many legal responsibilities. For example, people aged 18 or older are legally responsible for all their actions, and should they commit a criminal offence, they will be tried in an adult court. If convicted, they will be sent to an adult prison. While 18 years of age is seen as the most important age, many other legal rights and responsibilities come at an earlier age (see Table 9.1.1).

TABLE 9.1.1 Ages for different rights and responsibilities

Conviction for criminal offences	After the age of 10, a person can be charged with a criminal offence. However, a child aged between 10 and 14 has only limited legal responsibility and the prosecution must first prove that the child knew the actions were wrong.
Receive a criminal record	A criminal record is a file of all criminal offences a person has committed. A person under 16 years of age will not receive a criminal record, except for very serious crimes such as murder or sexual assault. All offences committed after a person turns 16 years of age are recorded.
Leave home	In New South Wales, there is no set age for leaving home. However, the law recognises the legal guardianship of parents and guardians until a child is 18. Generally, children can leave home at 16 as long as they have a safe place to live and are able to support themselves.
Leave school	In New South Wales, all children must start school when they turn six years old. They must stay at school until they finish Year 10 and/or turn 17 years of age.
Work full-time	It is illegal to employ a person full-time while they are still of school age.
Work part-time	There is no minimum age to start working part-time, although many businesses have their own rules.
Vote	In federal, state and local elections, a person must be 18 years old to vote.
Sue or be sued	A person under the age of 18 cannot sue another person unless an adult agrees to guarantee the costs of the case should the child be unsuccessful. A person under 16 years of age can only be sued if the case is also brought against the person's parent or guardian.
Learn to drive	In New South Wales, a learner's permit for a car can be obtained at 16 years of age, and for a motorcycle at 16 years and six months.
Get married	Eighteen is considered the marriageable age in Australia. If both partners are younger than 18 (but older than 16) years of age, a marriage can take place with the permission of the parents or guardians of both partners and a special court order.
Drink alcohol	It is an offence for a person under the age of 18 to buy or consume alcohol and to drink alcohol in a public place.
Buy tobacco	In New South Wales, it is an offence to sell or supply tobacco to a person under the age of 18.
Consent to medical treatment	At 14 years or older, children can give their own consent for medical treatment, including abortion, without their parents' or guardians' permission.
Have sex	In New South Wales, at the age of 16 a young person can legally have sex with a person of the opposite or same sex. This age is known as the <i>age of consent</i> .

The law recognises the need to protect the rights of young people. While they can become involved with all the different areas of the law, there are some areas where young people are more likely to come into contact with the law. Such areas include:

- family law
- criminal law
- public order offences.

Young people have special rights in criminal law matters. There are also special programs to help young criminals change their behaviour.

Family law is another area of law that has become more concerned with the needs of children. The Commonwealth *Family Law Reform Act 1995* requires that Family Court **judges** take into account the best interests of children when making their decisions. For example, when parents divorce, the court considers what is best for the child when deciding with which parent the child should live. When reaching their decision, judges consider the wishes of the child and who can best care and provide for the child. In most cases, the court will order that both parents must share the responsibilities of raising the child.

The law places certain restrictions on the type of activities young people can participate in. For example, a person under the age of 18 is not allowed to enter areas of a club or hotel where there is gambling (including poker machines). Laws such as these are known as **public behaviour laws**. Young people may also be asked for identification to prove that they are at least 18 before being sold alcohol or allowed to enter hotels or casinos.

Young people and contact with the criminal law

Proving a crime was committed

When a person is charged with a criminal offence, it is the responsibility of the prosecution to prove to the court that the accused person is guilty. This is known as the **burden of proof**. The prosecution must prove their case *beyond reasonable doubt*. This means that if the **jury** (or the magistrate in less serious cases) has doubt, they must find the person not guilty.

In order to prove a person's guilt, the prosecution must show that the elements of the crime have been met. These are:

- **mens rea** – this means that the accused had a guilty mind; it must be proven that the accused committed the illegal act (or omission) with intent, recklessness or negligence
- **actus reus** – this means 'guilty act'; the prosecution must show that the accused was the person who committed the crime.

For example, if you hit another person with a cricket bat, there is *actus reus* for **assault**. However, the prosecution would have to show that you had intended to hurt the person. If you were playing a game of cricket and accidentally hit someone, then there is no *mens rea*. It is possible for a person to have *mens rea* but not *actus reus*. In such a situation, the crime is known as conspiracy.



Alamy Stock Photo/Russell Blake

FIGURE 9.1.2 Young people can start to learn to drive from the age of 16 in New South Wales.



Shutterstock.com/Lisa S

FIGURE 9.1.3 *Actus reus* is the guilty act – in other words, actually committing a criminal offence.

Responsibility of young people in criminal law

In Australia, in every state and territory and at federal level, there are laws that prevent any child under 10 years of age from being charged with a criminal offence. Between the ages of 10 and 14, a special legal concept called *doli incapax* exists. *Doli incapax* is a presumption that a person of this age is incapable of crime. The courts will only allow a person aged 10–14 to be convicted of a criminal offence if the prosecution can prove that the child was aware that what they were doing was wrong.

Spotlight: Case law – *R v. LMW* [1999] NSWSC 1343

In this case, a 10-year-old boy (known as LMW) was charged with the crime of manslaughter (an unlawful killing). The defendant had pushed a six-year-old boy, Corey Davis, into the Georges River, knowing that Corey could not swim. The case raised many questions around *doli incapax*. Initially, the defence argued that LMW should not be charged, as he was so young. However, the prosecution was able to show the jury that LMW did understand the difference between right and wrong, and the case was able to proceed to trial. The boy was ultimately found not guilty of the crime after a jury found that Corey's drowning was the result of 'an act of bullying that went wrong'.

Beyond the age of 14, criminal responsibility is said to exist. This means that the child can be held legally responsible for any criminal acts they commit. Where the accused person is under the age of 18 (or where they committed the offence when they were under 18 and are below 21 when charged), the case will be heard in the Children's Court.

Spotlight: Shoplifting – what should you know?

Shoplifting is one of the most common crimes committed by young people. Some people don't consider it a crime at all. However, it is a significant offence that is dealt with by the *Crimes Act 1900* (NSW) and costs the community and the retailing industry billions of dollars each year. Many people argue that the very term 'shoplifting' downplays the seriousness of the offence and that 'shop stealing' is a more appropriate term.

Many young people claim to be 'victims' when store security officers accuse them of stealing. So, what are your rights? If there is a reasonable suspicion that you have stolen from a shop, the store employees can detain you until police arrive.

You cannot, however, be searched by store employees, nor can violence be used against you. You have the right to take legal action against a store that breaches these rights. Once the police arrive, they may lawfully conduct a search.



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FIGURE 9.1.4 Shoplifting is an offence commonly committed by young people.

If you are found to have stolen something, the police may use their **discretionary power** to issue a **warning**. However, where the items are valuable or if this is a second offence, it is likely that you will be charged with stealing. The maximum penalty that can be issued for stealing goods with a value of less than \$2000 is up to two years in prison and/or a fine.

Apart from being accused of a crime, children can also come into contact with the criminal law as a **witness** to crime or as a victim of crime. A very old British case, *R v. Brasier* (1779) 1 Leach 199, established that a child could legally give evidence in court, but only as long as the judge was satisfied that the child understood the difference between right and wrong. However, the use of children as witnesses in criminal cases has always been challenging. In the case *R v. Brown* [1977] Qd R 220, the judge allowed a child to give evidence even though it had not been established that the child understood the difference between right and wrong. Brown successfully appealed their conviction on the grounds that the judge was wrong in failing to do this.

In more recent times, courts have developed better systems to support children who appear as witnesses. Better preparation of child witnesses, including providing information, in a child-friendly manner, about the courts and the roles of court personnel, has been put into place. Child witnesses are usually allowed a support person, called a 'court companion'; this is a person trusted by the child, to provide them with emotional support.

Many courts now allow child witnesses to give their evidence via closed-circuit television (CCTV). This means that they do not have to appear inside the courtroom itself, but instead do so from a different room, often where they can sit with a support person. There are some who claim the use of CCTV is problematic. On the prosecution side, some have argued that with CCTV the jury cannot see the size of the witness and this may be important in some cases where the prosecution wants to highlight the vulnerability of the child. Some prosecutors have also argued that juries are often less inclined to believe a witness who is not present in the room. Similarly, some defence lawyers argue that witnesses who appear on CCTV tend to make the accused appear more guilty and the evidence more believable. However, a study conducted in Western Australia found that only 15 per cent of jurors said that their verdict would have been easier to decide if the child giving the evidence was present in the room.

Children are also often victims of crime, and this brings them into contact with the criminal law. When a crime is committed against a more vulnerable person, such as a child, it is said that the crime has been aggravated. This means that the offence is considered more serious and the punishment will be increased accordingly.

Spotlight: Case law – *R v. Jie Hua Yu* (2000; unreported)

The law recognises that children are especially vulnerable and need special protection. For this reason, there are many laws designed to specifically ensure the safety and wellbeing of children. In recent years, there has been a problem with parents locking their children inside cars while they leave to go shopping, for example.

This case related to such an incident. In this case, Mrs Yu had left her one-year-old son locked in her car in the car park of a Sydney hotel. While she was away, doctors estimated the temperature inside the car reached 65 degrees Celsius, and Mrs Yu's son later died in hospital.

Mrs Yu was charged with manslaughter, which is a serious criminal offence where a person's **negligence** causes someone's death. A jury took less than one hour to find Mrs Yu guilty of the crime.

Criminal law has been slow to recognise the rights of children as victims of crime. This has led to many crimes against children going unpunished. However, this is beginning to change with the creation of laws that better protect children, as the Royal Commission into Institutional Responses to Child Sexual Abuse has highlighted.

Spotlight: The Royal Commission into Institutional Responses to Child Sexual Abuse

In 2013, the Commonwealth government created a royal commission to examine the issue of abuse of children by adults working in child-related organisations such as schools, youth groups and care homes. A royal commission is a very powerful legal body that has the power to call witnesses and take evidence. If it finds a crime has been committed, it can refer the person to the police.

The royal commission, which ran for over four years, examined more than 42 000 individual cases and 2575 referrals to police were made, leading to many convictions of people who had abused children, in some cases more than 40 years ago.

In October 2018, the prime minister, Scott Morrison, delivered an apology on behalf of Australia to the victims of child sexual abuse, recognising the failure of institutions to protect children and the failure of the law to ensure their rights.

Punishments for crime

Most people tend to think of prison as the punishment that offenders receive for committing criminal offences. However, only a small number of people found guilty of a crime go to prison. Instead, many other punishments are available (see Figure 9.1.5), with prison tending to be used for repeat offenders and those who have committed very serious crimes.

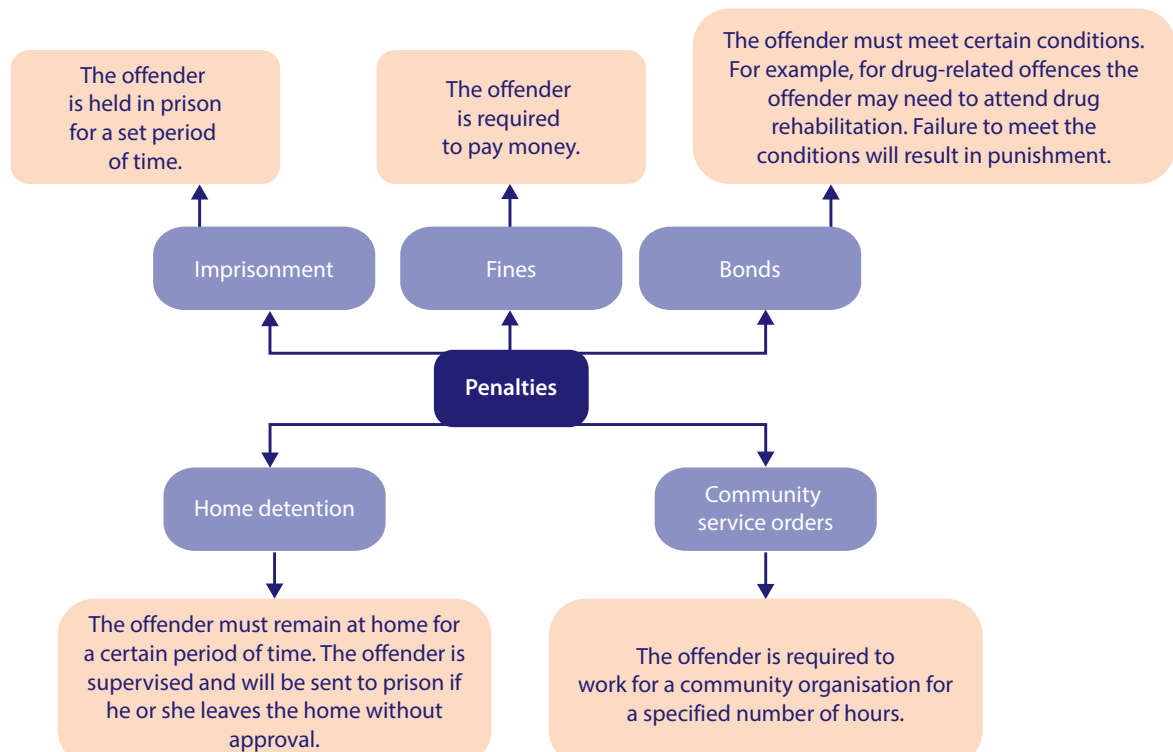


FIGURE 9.1.5 Types of punishments used in Australia

In 2018, there were around 13 500 prisoners held in NSW prisons. This included more than 4800 prisoners who were being held on remand. Prisoners held on remand are those who are yet to have their cases heard before a court but who have been denied bail. This may be for a number of reasons, such as that they are considered a risk to society or there are concerns that they may abscond (fail to turn up for their case).

There has been a growth trend in the number of prisoners in New South Wales in recent years. For example, there were more than 4 per cent more prisoners in 2018 than in 2017, representing more than 540 more prisoners. This is mostly due to tougher sentencing being handed out by the courts and more accused criminals being denied bail, and so being held on remand.

Aboriginal people are over-represented in the NSW prison population. In late 2018, there were 3394 Indigenous persons imprisoned in New South Wales. This represented 29 per cent of the total prison population. Criminologists argue that 'over-policing' of Aboriginal and Torres Strait Islander people accounts, at least in part, for this over-representation.

There were more than 300 juvenile offenders held in detention in 2018. Juveniles are held in detention centres that are separate from adult prisoners. In these centres, there is a focus on education and rehabilitation.



NewsPix/Sam Rutlyn

FIGURE 9.1.6 Goulburn Correctional Centre is a maximum security prison dealing with the most serious offenders.



Young people and contact with the civil law

Civil laws regulate the behaviour of people towards each other. In civil law, there is neither criminal activity nor any police involvement. However, civil and criminal legal action can be taken in relation to a single incident. This is often the case with traffic accidents (see the Spotlight box 'Civil and criminal liability' for an example).



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FIGURE 9.1.7 Car accidents often give rise to both criminal and civil action.

Spotlight: Civil and criminal liability

Stephen and Karen were involved in a car accident. Stephen ran a red light and then smashed into the side of Karen's car. This caused considerable damage to Karen's car and resulted in Karen requiring hospital treatment.

Stephen, like any other driver on the road, is required to exercise a duty of care towards other motorists. By not stopping at the red light, he failed to exercise this duty. For this reason, Karen is able to take a civil law action against Stephen, suing him for the cost of repairs and her medical treatment.

In addition, Stephen is criminally **liable** for his actions. The *Motor Traffic Act 1909* (NSW), requires drivers to stop at red lights. Therefore, Stephen will also be charged by the police for the same incident. In a traffic offence, the principle of **strict liability** is used. This means that the police only need to prove *actus reus* and not *mens rea*.

Young people and contracts

A **contract** is an agreement between parties that is legally binding. Those who sign a contract must do whatever they agreed to do in the document.

The law does not place a minimum age on entering into a contract. However, it does expect that contracts will not attempt to exploit young people. If they do, a court can declare them void (that is, make them no longer legally binding).

While the law attempts to protect the rights of young people, it also requires them to take responsibility for their financial actions. If a person does not fulfil the contractual agreement, then, regardless of the person's age, he or she can be held accountable by the other signatories of the contract. For example, the person could be taken to court and required to meet the obligations specified in the contract. Therefore, it is very important to know exactly what you are signing when entering into a contract. Many young people

have been caught out by mobile phone contracts because they did not read the fine print of the contract.

When we sign a contract, we become *a party to the contract*. This means we are now liable for the contract; that is, we are legally required to do what the contract states. For example, Anton buys a new smartphone and signs a contract with a telephone company. Anton and the company are now signatories to the contract. The contract requires Anton to pay a monthly rate of \$45 plus additional penalties if he exceeds his data limit. The contract is for 12 months. By signing, Anton is required (liable) to pay the \$45 plus the cost for any additional data for 12 months from the date of signing. These requirements are known as the *terms* of the contract. In this contract, the terms would also include details of the phone service to which Anton is entitled, such as his data limits.

Before a contract becomes legally binding, a number of important steps must be taken. These are known as the *elements of the contract*, and are as follows:

- *The offer*. This is simply one party offering something to the other party.
- *The acceptance*. This is the acceptance of the offer that has been made. During this stage, there would be some negotiation between the parties.



FIGURE 9.1.8 Contracts for mobile devices are often the first contracts young people enter into.

- *The consideration.* This legal principle states a contract should benefit all the parties involved. For example, if a contract is signed to buy a car, it is expected that the purchaser will receive the car (the purchaser's benefit) while the seller will receive money from the purchaser (the seller's benefit).

If these three steps have not been followed, the contract will not be legally binding and the parties will not have to fulfil the terms of the contract.

Many businesses are reluctant to enter into contracts with young people because they have few assets and the business is concerned about their capacity to pay. This is especially the case for loans or ongoing contracts for services such as internet connections. Consequently, when attempting to obtain a loan or enter into some contracts, the purchaser may need a **guarantor**. This is a person (most commonly a parent) who guarantees to repay the loan or the contract price if it is not paid by the signatory on the contract.

Young people and tort law

Civil law encompasses a wide range of different areas of law. In addition to contract law, as outlined above, the other common type of civil law that young people come into contact with is **tort law**.

Tort law is a very complex area of the law and involves a 'civil wrong'. Torts are not criminal offences; instead, they happen when the action of one person causes an inconvenience to another person or breaks another person's rights. Figure 9.1.9 shows the four types of torts.

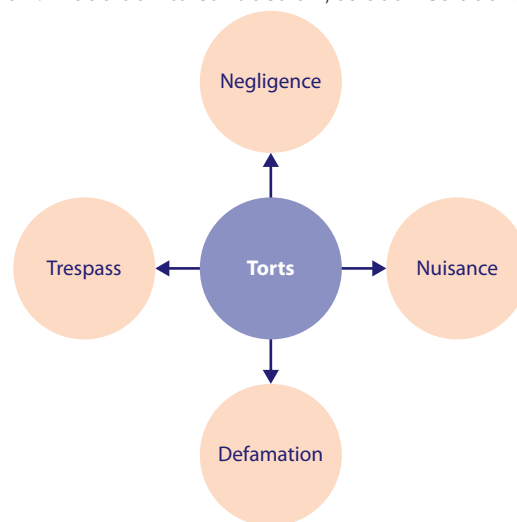


FIGURE 9.1.9 There are four types of torts.

- 1 *Negligence.* This is a common tort and revolves around the concept of 'duty of care'. This is a legal concept that states that every person and organisation has a responsibility to ensure that their actions do not cause harm to others. For example, if we ride a skateboard inside a shopping centre and knock a person over, we may have broken this tort. This is because a reasonable person would say that to ride a skateboard inside a shopping centre would be likely to cause an accident and result in someone being hurt.
- 2 *Nuisance.* This involves one person interfering with the rights of another. For example, if you were to play music very loudly late into the night, this would interfere with your neighbours' right to enjoy peace and quiet.
- 3 *Defamation.* This involves damaging another person's reputation by publishing or broadcasting things about them that are untrue. For example, if you were to write something on a social media platform about another person that was untrue, and this damaged their reputation, you may have defamed them. If the thing said is true, no defamation has taken place, but the law requires the person making the broadcast or publishing the information to prove that it is correct.



iStock/Getty Images Plus/bernardbodo

FIGURE 9.1.10 Playing very loud music may constitute the tort of nuisance.

- 4 *Trespass*. This usually involves being on another person's property without permission. It can include trespass against a person, although this is usually dealt with by the criminal offence of assault. To unlawfully detain a person is considered a trespass against them. For example, this may take place when a security guard at a shopping centre detains a suspected shoplifter without proper reason.

Business negligence

When people or organisations fail to exercise their duty of care, they are said to be negligent. This applies to businesses as well. For example, in 2018, a Sydney woman brought a case against a chemist shop after she fell in the shop. The woman tripped over a stool that had been left in the aisle by an employee of the shop. As a result of the fall, the woman suffered a serious break to her leg that resulted in considerable medical expenses and she needed to take a large amount of time off work. The shop argued that the woman was to blame and that she was not keeping a proper lookout, and this caused her fall. Using CCTV footage, the woman's lawyers were able to show that the aisles of the shop were crowded and that there were trip hazards. They argued that the shop owed a duty of care to provide a safe place free of such hazards. In the end, the chemist agreed that they had acted negligently and paid the woman \$82 000 to cover her medical and legal expenses and lost income.



FIGURE 9.1.11 Businesses have a duty to ensure that their customers are safe.

In another case, in 2015, a woman in Newcastle was badly hurt when she fell in a shopping centre car park. She was walking through the poorly lit car park at night. She was not aware that a small trench had been dug across the car park. It had been filled in, but there was a gap where the fill had settled. The woman's lawyers argued that the accident was the result of the poor lighting and that the trench was not properly filled. As a result, she received \$95 000 in damages.

When there has been a case of negligence, the most common remedy for the victim of the negligence is to sue the negligent party. When a party wants to sue another for negligence, the law requires the accusing party to prove two key factors:

- *that the accusing party was owed a duty of care by the negligent party* – in the cases outlined above, the chemist shop and the supermarket both owed the shoppers a duty of care to make sure they were safe while on the premises
- *that the negligence has resulted in the accused party suffering an actual injury or hardship* – a hardship includes loss of money. For example, in both the cases above, there was an actual injury but also loss of money due to medical expenses and, in the first instance, lost income from being off work.

Other remedies may include the business being required to fix a problem. For example, imagine you have taken your car to a tyre shop for some new tyres to be fitted. The shop incorrectly fits the tyres and one of your wheels falls off while you are driving. This causes extensive damage to your car. The tyre shop has been negligent and may be required to fix your car.

Understanding the text

- 1 Define the term 'legal capacity'.
- 2 Explain the meaning of the term 'age of majority'.
- 3 Explain how family law has become more sensitive towards the needs of children in more recent times.
- 4 In your own words, explain the term '*doli incapax*'.
- 5 Explain the circumstances that may lead to a person under the age of 14 being tried for a criminal offence.
- 6 Explain the circumstances in which children are allowed to act as witnesses in criminal trials.
- 7 Describe the way the legal system assists children who are witnesses in court.
- 8 Define the term 'beyond reasonable doubt'.
- 9 Explain the elements that must be proven in a criminal trial.
- 10 Explain the reasons for the increase in the number of NSW prisoners in recent years.
- 11 Differentiate between civil and criminal law.
- 12 Explain what a contract is.
- 13 What does becoming 'party to a contract' mean?
- 14 Outline the elements of a contract.
- 15 Explain what a guarantor is.
- 16 What is a tort?
- 17 Describe the tort of nuisance.
- 18 Outline the legal concept of trespass.

Activities

- 1 As a class, discuss whether young people aged over 15 but under 18 should be allowed to vote. Consider the advantages and disadvantages of this proposition. Write an exposition arguing either in favour of or against the proposition.
- 2 Consider the list of responsibilities and rights as outlined in Table 9.1.1. With a partner, consider whether any of the ages for these rights and responsibilities should be changed. Explain your reasons.
- 3 Take on the role of a youth worker. You have been tasked with making a fact sheet for young people about their rights and responsibilities regarding shoplifting. Use digital presentation and editing software to produce your fact sheet.
- 4 Prepare a list of advantages and disadvantages of using CCTV for children to give evidence in court cases. Using your list, write a short argument either in support of or against its use.
- 5 Study the Spotlight box 'Case law – *R v. Jie Hua Yu* (2000; unreported)' on page 325. Do you think it was right that Mrs Yu was found guilty of manslaughter? Explain your response.
- 6 Working in groups, study Figure 9.1.5. Assign each member of your group a different type of punishment. Each person should research their assigned punishment, describing it and identifying the types of crime it is used for. Report back to the rest of your group.
- 7 Using the information in the Spotlight box 'Civil and criminal liability' on page 328, explain how both types of law can exist at the same time in relation to the same instance.
- 8 Take the perspective of a consumer advocate. Prepare a script for a short radio advertisement or a magazine advertisement providing information to consumers about their rights in relation to contracts.
- 9 With a partner, write a hypothetical example of a case involving defamation.
- 10 Write a short report describing the concept of negligence. Include examples to help explain the concept.



9.2 Rights and responsibilities of individuals

Australians are entitled to many rights that are protected by our legal system. In many countries, the rights of citizens are outlined in a constitution or a bill of rights. For example, in the United States the rights of citizens are outlined in a special part of the US Constitution called the Bill of Rights. The Australian Constitution, however, contains few references to rights. Most of our rights have been developed either through statute law or common law. Some other rights come to us through international law.

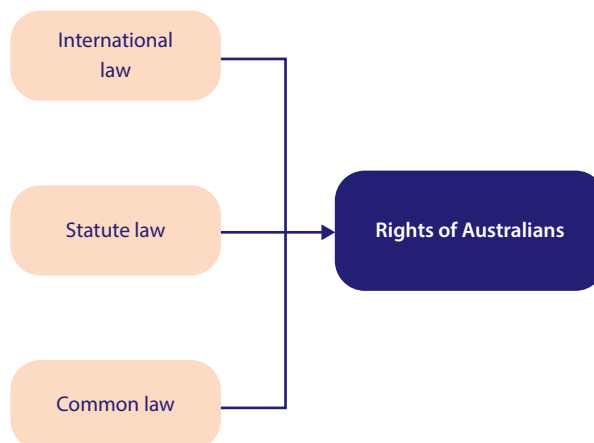


FIGURE 9.2.1 Sources of rights in Australia

Commercial rights and responsibilities

Australian citizens have various rights as consumers. In addition to these rights, we also have certain responsibilities as consumers. For example, when we enter into an agreement to purchase a product or service, we have the right to expect that we will receive what we pay for. However, we also have the responsibility to pay the agreed price for the product or service.

Legislation, such as the *Fair Trading Act 1987* (NSW), outlines the rights consumers have and the responsibilities businesses have towards their customers. The Department of Fair Trading is the NSW government department that oversees this legislation. At a federal level, the Australian Competition and Consumer Commission (ACCC) helps protect the rights of consumers.

Spotlight: Case law – *ACCC v. Valve Corporation (No. 3)* [2016] FCA 196

The Valve Corporation is one of the world's largest online gaming companies, operating a game distribution platform known as 'Steam'. Valve Corporation is based in Washington in the United States. In 2016, the ACCC took legal action against Valve in the Federal Court. The ACCC argued that the company was misleading its consumers about their rights to refunds and remedies for faulty products.

Valve had stated that because it was based in the United States it was not required to meet the same obligations towards Australian consumers as a business in Australia was. Therefore, the usual protections available to Australians did not apply; it said, for example, that no refund was possible under any circumstances. The ACCC argued that this was not the case and the company must comply with Australian consumer protection laws as it was selling its services and products in Australia. The ACCC argued that the information on the Valve website was misleading and aimed at discouraging Australian consumers from trying to obtain refunds.

The Federal Court agreed with the ACCC and the company was fined \$3 million. Valve appealed the decision but was unsuccessful and the fine stood.

Family law rights and responsibilities

Families are complex and there is no such thing as a 'typical family' in Australia. Many different types of families are recognised under Australian family law. Table 9.2.1 describes the different family structures in Australia.

TABLE 9.2.1 Family types recognised in Australia

FAMILY TYPE	DESCRIPTION
Nuclear family	A couple who are married or in a de facto relationship and living with their child(ren)
Single-parent family	One parent living with his or her child(ren)
Extended family	Parents and their child(ren) plus other relatives, such as grandparents or an aunt and uncle, living in the one household
Blended family	A couple living with their own child(ren) from previous relationships
Married couple	A couple who have married; this can be a man and a woman or a same-sex couple
De facto couple	A couple who have lived together for more than six months and share a relationship but are not married

The Australian census defines a family as being two or more people living in the same household who have a relationship to each other. While all the family units seen in Table 9.2.1 are considered to be families, each family type is treated differently under the law. Married families are covered by federal law – the *Family Law Act 1975* (Cwlth). De facto relationships are dealt with by state laws – the *Property (Relationships) Act 1984* (NSW). While there are important differences between these two laws, fundamentally both types of families have very similar rights and responsibilities. Included in these responsibilities is the expectation that, if there are children in the family, both parents will be involved in raising the children.

The recognition of same-sex relationships was slow to develop in Australia. In fact, until the 1980s it was considered a criminal offence to engage in homosexual sex. In 1999, homosexual couples in New South Wales were given similar rights to other de facto couples. On 9 December 2017, same-sex couples were granted the same marriage rights as all other Australians. On this date, the definition of marriage in the Marriage Act was changed from being a union between a man and a woman to being a union between two people.

Domestic violence

Each member of a family has the right to live free of violence or the fear of violence. Unfortunately, in as many as 30 per cent of Australian families violence of some sort exists. Violence within the family is known as *domestic violence*. In the past, the law did very little to protect family members against domestic violence. However, there are now numerous statute laws that prohibit domestic violence and give police considerable power for dealing with it when it has occurred.

When police are called to a domestic violence incident, they must automatically seize any firearms, regardless of whether the person has a licence allowing him or her to possess a firearm. The police must also report the matter to a magistrate, who can issue an *apprehended violence order* (AVO). An AVO is a special court order that prohibits a domestic violence offender from going near his or her victim. If the offender approaches the victim, the police can arrest the offender. These measures have helped to increase the number of violent family members being charged and convicted of harming other members of their family.

Parents and their children

Regardless of the type of family they live in, the law places special responsibilities on parents. It requires them to exercise care and responsibility over their children, and parents can be held responsible for the actions of their children. The law also requires that parents ensure their children are educated, receive proper medical care and live in an environment that will not cause the children physical or emotional harm.

When parents fail to fulfil these responsibilities, the law will step in to protect the children. The *Children and Young Persons (Care and Protection) Act 1998* (NSW) entitles the police or authorised officers of Community Services to remove children from their home and place them into care when they are subject to, or are at risk of being subject to:

- neglect; for example, being left to care for themselves for long periods of time or not being adequately fed or housed
- emotional, physical or sexual abuse.

A child can also be placed into care when the child's relationship with the parents has broken down and cannot be repaired.

The law recognises that parents need special rights in order to effectively care for their children. These rights include the right to make choices about the education and medical care their children receive and the right to discipline their children. The discipline must not be excessive, however, otherwise the parents may be charged with assault.

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FIGURE 9.2.2 The law provides specific rights and responsibilities to parents about care for their children.

Spotlight: Little Mary and Jodie

A famous case involving conjoined twins occurred in Britain in 2002. The twins were born very weak and one of the babies, Mary, could not survive on her own. Unfortunately, the heart of her twin sister, Jodie, was being placed under enormous strain because it was pumping blood through the bodies of both babies. Doctors wanted to separate the twins. This would ensure the survival of Jodie but would result in the death of Mary.

The twins' parents could not bring themselves to agree to the surgery. Doctors asked the courts to order the operation. When the judge made his decision, he recognised the rights of parents to make decisions relating to the medical care of their children. However, he also stated that parents must act in the best interests of their children, and in this case the best interests of the children would be for the operation to go ahead. The judge ordered the doctors to operate on the twins. Jodie survived the operation, while her sister died.

Divorce

The number of marriages ending in divorce in Australia continues to grow, and the law has had to respond to this increase. The enactment of the Commonwealth Family Law Act in 1975 made it much easier to obtain a divorce. The Act also established the Family Court of Australia. This is a special court that deals with issues associated with the breakdown of marriages.

One of the most important rights of family members during a divorce is the distribution of property and the payment of maintenance. When a couple intend to divorce, they can either agree how their property will be distributed or, if this is not possible, they can ask the court to decide this for them. The court will consider the contribution each partner has made, and the current and future needs of each partner and the children, if there are any.

If a divorcing couple have children, the courts can be asked to decide which parent the children should live with. These decisions are known as *parenting orders*. Children now have a much greater say in this process. Courts have adopted an 'in the best interests of the child' approach to parenting orders. This means that the courts consider factors such as where the children will be educated, where their friends and

grandparents live, what the children want, and which parent can best provide financially and emotionally for them. It is now common for the court to order that the children spend time with both parents.

Rights and responsibilities at work

During the 20th century, governments realised that the law had an important role in the workplace, and various workplace laws were enacted. The role of such laws is to ensure that the rights and responsibilities of employers and their employees are protected.

Employers have many responsibilities towards their employees. These responsibilities exist to ensure that the rights of employees are maintained at all times.

There are both state and federal laws that deal with employment issues. These laws are referred to as industrial relations laws. The main legal rights of employees in Australia are outlined in Figure 9.2.3. One of the most important rights the law gives an employee is the right to a safe workplace, including a workplace free of harassment and bullying. Australian employees are fortunate that there is considerable statute and common law to protect them from illness and injury. In New South Wales, a special government agency, SafeWork NSW, ensures that employers provide safe working conditions for employees.

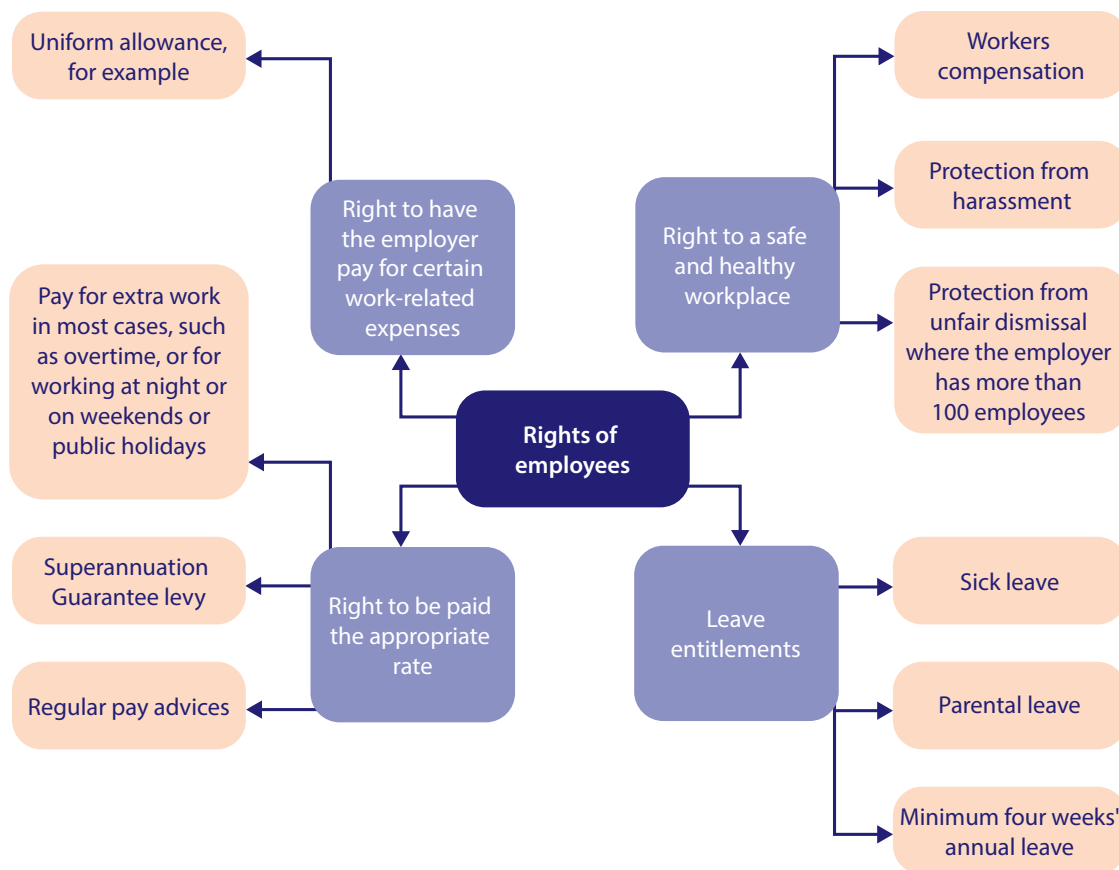


FIGURE 9.2.3 Some of the legal rights of employees in Australia

While employees have rights to ensure that their employers treat them fairly, they must also accept certain responsibilities (see Figure 9.2.4). Failure to abide by these responsibilities can result in an employee being dismissed. For example, an employee who refuses to follow the reasonable instructions of a superior is likely to be dismissed.

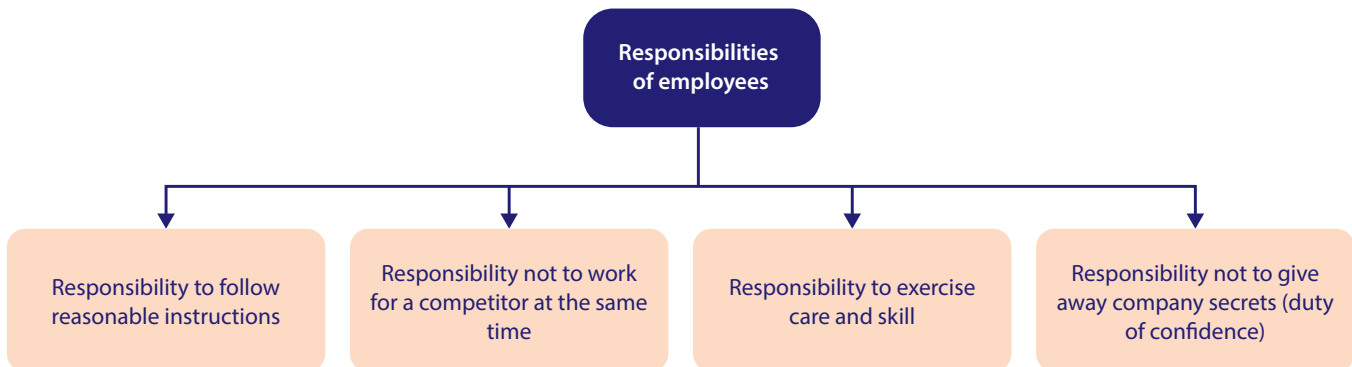


FIGURE 9.2.4 Some of the legal responsibilities of employees in Australia

Rights and responsibilities of individuals during legal proceedings

The legal system must balance the rights of all those involved in legal proceedings. In criminal cases, the law must achieve a fine balance between protecting the rights of the victim and at the same time ensuring that the offender is given a fair trial. Equally, in civil law matters, both the plaintiff (the person bringing the case) and the defendant have rights and responsibilities. Finally, we must also ensure that witnesses are treated fairly and with respect.

The law exists to protect the rights of the innocent and to ensure that people are not convicted unless they are guilty. For this reason, every person who is accused of a crime is considered to be innocent unless it can be proven that he or she is guilty of the crime. This is known as the **presumption of innocence**. It is for this reason that the **prosecutor** must convince the court that the accused person committed the crime, rather than the **defence lawyer** having to convince the court that the accused is innocent.

To ensure that innocent people are not convicted of a crime they did not commit, accused persons have several rights, including:

- the right to remain silent, although there are proposals for juries to be told if the defendant chose to say nothing in their defence
- the right to not be detained unless they have been formally arrested
- the right to have their interviews with police recorded
- the right to not have their past convictions mentioned during their trial. This is to ensure that the jury or judge is not influenced by the past actions of the accused.

The law must also protect the rights of the victim. In recent years, there has been a greater focus on these rights. A victim's rights include:

- the right to have the police investigate any allegations the victim makes
- the right to protection from the accused person
- the right to be made aware of the progress of the case
- the right to make a victim impact statement.

A *victim impact statement* is a relatively new legal concept. Once a person has been found guilty of a crime, the victim, or the victim's family, has the right to make a statement to the court before the judge or magistrate passes sentence. These statements provide an opportunity for victims to express how the crime has affected their lives. It is regarded as an important right for victims, as it enables them to have a greater role in the legal process.

Witnesses who give evidence in legal cases are entitled to several important rights as well. The most important is the right to give their evidence free from fear of revenge. Witnesses have the right to protection should giving evidence place them or their family in danger. In return, witnesses have the responsibility to ensure that their evidence is true and unbiased. Failure to do so is a criminal offence, and is known as ‘perverting the course of justice’.

Spotlight: Lady Justice

Outside many court houses, it is common to see a statue of Lady Justice. Inherited from the British legal system, this practice represents the rights and responsibilities granted by the legal system. The statue always has the following features:

- Justice is portrayed as a woman with her eyes closed or blindfolded, showing that justice is to be applied without fear or favour.
- She holds a set of scales to balance the evidence before making a decision.
- She carries a sword to administer justice to wrongdoers.

FIGURE 9.2.5 The statue of Lady Justice on top of London’s most famous court house, the Old Bailey



Alamy Stock Photo/Jonathan Buckmaster

In civil matters, the **defendant** and the **plaintiff** have similar rights and responsibilities to the victim and the accused in criminal matters. Both must ensure that they present evidence that is accurate and true, and each has the right to cross-examine the witnesses called by the other side.

Protections provided by the law

The main function of the law is to protect the rights of members of society. Some of our rights are said to be universal. This means that every person is entitled to them. These rights are often referred to as *fundamental human rights*; that is, they are inalienable (cannot be denied). An example is the right to live free of religious persecution.

The primary role of the United Nations is to promote the fundamental human rights of all the world’s people. This responsibility is contained in Article 1 of the UN Charter, which is the document that established the United Nations. While governments are not, under international law, permitted to deny people their fundamental rights, some governments refuse to extend these rights to some or all of their people.

Other rights are known as *international legal rights*. These are the rights that citizens receive as a result of international laws being passed. These rights are often created through international agreements (or treaties) between nations. For example, the right of women to be treated equally was established by the Convention on the Elimination of all Forms of Discrimination against Women (1979). Governments are not obliged to sign a treaty. If a government does not sign a treaty, its citizens are not protected by it.

Convention on the Rights of the Child

In 1989, the Convention on the Rights of the Child was created. Since then, 196 countries have entered into the treaty. This represents every member nation of the United Nations except the United States and Somalia. Three non-members have also signed the treaty. It was the first international treaty written specifically to protect the rights of children. The Convention, for example, holds that all children should be free from discrimination and exploitation.

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FIGURE 9.2.6 The Convention on the Rights of the Child, created in 1989, was the first international treaty to specifically deal with children's rights.

In 2002, the Convention was extended to protect children from being forced into military service and prostitution. The United States has refused to sign the treaty, which outlaws the execution of children. Some US states still reserve the right to execute people as young as 16.

Australia has agreed to the conditions of the Convention, and many laws have been made to ensure that its principles are adhered to. This means that the rights of Australian children are protected by both Australian law and international law.

Understanding the text

- 1 Differentiate between rights and responsibilities.
- 2 Explain the sources of rights in Australia.
- 3 What are commercial rights?
- 4 Describe what a de facto relationship is.
- 5 Differentiate between a nuclear family and an extended family.
- 6 Outline the rights and responsibilities of parents towards their children.
- 7 Describe the rights of family members during divorce proceedings.
- 8 Explain the concept of presumption of innocence.
- 9 Outline how the rights of the accused and victim are balanced.
- 10 Describe the purpose of a victim impact statement.
- 11 Outline the rights and responsibilities of a witness.
- 12 Differentiate between fundamental and international legal rights.
- 13 Outline the key features of the Convention on the Rights of the Child.

Activities

- 1 Study the Spotlight box 'Case law – *ACCC v. Valve Corporation* (No. 3) [2016] FCA 196' on page 332. Explain why Valve Corporation was fined. Do you think that Valve Corporation's argument was valid? Justify your response.
- 2 Study the Spotlight box 'Little Mary and Jodie' on page 334. Do you agree with the court's decision? Explain your answer and share your opinion with the class.
- 3 Write a report explaining the key rights and responsibilities of workers.
- 4 Visit the SafeWork NSW website. Outline the role of this government agency in protecting workers' rights.
- 5 Conduct a class debate on the topic 'Should the accused have fewer rights in our legal system?'
- 6 Take on the role of a defence lawyer. You have been approached by a father whose son has been charged with a criminal offence. Prepare the text of an email to the father outlining his son's rights and responsibilities.
- 7 Some international law experts argue that international treaties are not effective because countries can refuse to sign them. Others say that not all treaties suit every country and that it is correct that international law is voluntary. As a class, discuss the advantages and disadvantages of making international laws voluntary.



SafeWork NSW

9.3 Resolving disputes

Range and effectiveness of different ways to resolve disputes

Australian law makes available a range of options to help people resolve legal disputes. The resolutions available will differ depending on whether the dispute is a criminal matter or a civil matter.

Law enforcement agencies

The police

The key role of the police is to enforce criminal law and traffic law. However, the police play a crucial role in resolving a wide range of disputes, such as domestic disputes and conflict between neighbours. Often this role requires the police to protect people and property and to assist people to reach agreement. For example, the police will often respond to a person's complaint about a neighbour's loud music. While this is not a criminal matter, by dealing with the issue the police can prevent the problem from worsening.

Courts

The courts provide a major role in resolving disputes. However, they should be viewed as a last resort in dispute resolution as they are expensive and cases often take a long time to come to a conclusion. The Local, District and Supreme Courts all have a part to play in dealing with disputes involving civil law.



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FIGURE 9.3.1 The main role of the police is to enforce criminal law and traffic law, but they also assist in resolving many different disputes.

Tribunals

Due to the expense of the court system, a range of alternatives to the courts is now available. Tribunals are one of these alternatives. They provide a cheap and quick way to resolve legal disputes. There are a considerable number of tribunals, dealing with a range of legal areas. For example, the Consumer, Trader and Tenancy Tribunal deals with consumer law, while the Administrative Appeals Tribunal deals with disputes between individuals and federal government departments.

Tribunals differ from courts in a number of important ways, including the following:

- Tribunals usually hear matters on specific areas of law.
- Legal representation is usually prohibited or restricted. This keeps costs to a minimum.
- Tribunals are less formal than courts.
- Tribunals do not have the same evidence rules as courts. This allows them to take into account factors that courts would not.

In comparison with courts, tribunals are more concerned with ensuring that fairness is achieved. Courts must ensure that legal rules are followed and that their decisions are legally correct. Sometimes this can mean that a decision is legally right but may not be fair. Tribunals are less restricted by legal rules, meaning that decisions can be based on ensuring a fair outcome. Tribunal decisions are legally binding.

Other enforcement agencies

Many government departments have special law enforcement powers. For example, the Australian Taxation Office has special powers to enforce taxation laws. It can bring criminal prosecutions to individuals and businesses that fail to meet their obligations under Australian taxation laws.

The Australian Border Force is the government agency that deals with protecting Australia's borders and making sure that only legal items are imported and exported from Australia. It has extensive powers to search people and items and to seize illegal materials.

Alternative dispute resolution methods

Community conferencing

Community conferencing can be used for a person aged between 10 and 17 who commits a criminal offence, including assault, robbery, break and enter, property damage and disorderly conduct. Importantly, it is only an option when the person has confessed to the crime. It cannot be used for serious crimes, such as murder or sexual assault, or serious driving offences.

The victim, the offender, the families involved and friends of the offender and victim are invited to attend the conference. Police, the offender's lawyer and professionals such as social workers and community leaders (for instance, Aboriginal elders or church leaders) can also attend. The victim has the right to refuse to participate in the conference and can also veto (stop) the outcome of the conference if he or she disagrees with it.

A community conferencing session has several aims:

- to encourage discussion between the young person who has committed the crime and the victim of the crime
- to show the offender that the crime has harmed other people
- to find a way to help compensate the victim for the harm caused by the offender
- to provide support to the young offender with the aim of preventing the person from reoffending and becoming a hardened criminal
- to come to an agreement about a punishment that is appropriate to the crime. For example, a young person charged with graffiti offences may agree to clean graffiti from public areas for a number of hours.

Mediation

Mediation is one of the most popular ways of resolving relatively minor legal disputes and is also used extensively in family law disputes. It involves using a neutral third party, known as the mediator, to help those in dispute talk through their concerns. Mediators do not make a decision as a judge would. Instead, they use their mediation skills to encourage both sides to openly discuss what they want and what they are willing to concede (give up). The ultimate aim of mediation is for the people in dispute to reach an agreement that is acceptable to everyone.



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FIGURE 9.3.2 Mediation is very common in family law disputes.

Conciliation

Conciliation is similar to mediation in that it aims to resolve disputes by having all sides talk through their concerns, guided by a neutral third party (conciliator). Unlike mediation, if the parties in the dispute cannot reach an agreement, the conciliator can make a ruling.

One of the main advantages of mediation and conciliation is that they do not aim to produce winners and losers in the way that a court does. Instead, successful mediation and conciliation result in both parties reaching a compromise that means they both win. In most cases, lawyers are not part of the process. This helps to reduce costs and make the process less intimidating.

The results of mediation and conciliation are not legally binding. This means that if participants do not do as they said they would, they are not breaking the law. Despite this, in most cases the agreements are honoured. Participants in mediation and conciliation can still access the court system if they are not satisfied with the outcome.

Dispute resolution in Aboriginal and Torres Strait Islander communities

Indigenous Australians have a long and complex legal tradition that is very different from that of European origins. This is typically referred to as customary law and, since European arrival in Australia, it has had very little recognition. This is beginning to change, however.

In customary law, mediation plays a very significant role. Rather than handing out punishments to a person who has broken traditional law, customary law aims to have a family member talk to the offender and help them understand their error. Where mediation did not work, conciliation with tribal elders was adopted. In cases of serious offences, punishments were used and these were often administered by the victim or their family. These features of customary law are now playing a greater role in the justice system in Australia.



Spotlight: Circle sentencing

In 2018, 24 per cent of all prisoners in New South Wales were Indigenous. Indigenous people make up less than 3 per cent of the state's population. One strategy that has been used to reduce the rate of Indigenous imprisonment has been circle sentencing. This process is only used for Indigenous offenders who have committed relatively minor offences.

Under the scheme, Indigenous offenders are taken out of traditional courtrooms and meet with community leaders, police and magistrates, who decide collectively on a suitable punishment. There is also an emphasis on working with the extended families of offenders to assist in their rehabilitation.

Understanding the text

- 1 What is the role of the police in dispute resolution?
- 2 Explain why courts should be considered a last option for resolving disputes.
- 3 Outline the aims of community conferencing.
- 4 Explain the difference between mediation and conciliation.
- 5 Explain how tribunals differ from courts.
- 6 Write a definition of customary law.
- 7 Outline the main features of Aboriginal and Torres Strait Islander customary law.

Activities

- 1 Conduct a mediation role-play involving a dispute between two neighbours. The dispute concerns a dead tree branch that has knocked over part of a fence. The neighbour from whose tree the branch came claims the fence was rotten and needed replacing and wants the other neighbour to pay half. The other neighbour claims the fence was fine and refuses to pay any of the cost of the new fence.
- 2 Write an extended response on the topic 'Assess the advantages and disadvantages of the various methods for resolving disputes used in New South Wales'.
- 3 Write a paragraph explaining how contemporary law in New South Wales has adopted features of Aboriginal and Torres Strait Islander customary law for Indigenous people.



9.4 Current issues

Laws are often seen as a reflection of the societies that make them. Therefore, in a diverse society such as Australia there is going to be debate about the nature and appropriateness of our laws. In recent years, we have seen debate on a range of legal issues, such as:

- cyberbullying
- abortion
- euthanasia
- the legalisation of some drugs
- pill testing
- contracts and young people.

In this part of the course, you are required to undertake research into an issue currently facing the legal system in Australia. To undertake this research, you should adopt a research action plan, using the steps outlined below:

- 1 Select a topic. Identify a legal issue that is of importance today. Careful examination of the print and digital media will give you ideas. It would be useful to collect a media file.
- 2 Identify the stakeholders in this issue; that is, determine who has something to gain or lose from the issue and who has opinions on the topic.
- 3 Consider what the experts have to say on the issue, and whether their view is biased in any way. Another country may have faced the same legal issue. Consider how the issue has been resolved in other countries.
- 4 Come to a conclusion. Establish your view on the issue, based on the research you have done.
- 5 Prepare your answer using a report format. Discuss the legal issue and its relevance to the community.

Conducting online research into legal issues

There are many useful and reliable websites that can assist you in researching legal issues. Two of the most useful are:

- the Australasian Legal Information Institute website, which contains references to recent cases and legal issues
- the website of the NSW Attorney-General's Department, which provides links to many different legal institutions, including the Legal Aid Commission and the Law Reform Commission.



Australasian Legal
Information Institute
NSW
Attorney-General's
Department
Legal Aid
Commission
Law Reform
Commission



10

TRAVEL

CONTENT OVERVIEW

- 10.1 The nature of tourism
- 10.2 Planning a trip
- 10.3 Developing an itinerary
- 10.4 Solving problems related to travel
- 10.5 Current issues

CONTENT FOCUS

In this option, we focus on what we need to do when planning for travel and how to solve the problems people typically encounter when travelling. In doing so, you will study the factors you need to consider when planning travel. You will also learn how to develop an itinerary and a travel budget.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What do we need to consider when planning travel?
- How do I respond to problems that arise when travelling?
- How do I go about planning an itinerary and a travel budget?

GLOSSARY OF KEY TERMS

accommodation rating

Accommodation (usually hotels, motels and serviced apartments) is rated depending on the services provided. Five-star hotels are considered to be the most luxurious.

consulate

The representative of a government in another country. The consulate's role is to help citizens of their country while in the foreign country.

domestic tourism

Travel within the country in which the traveller lives.

ecotourism

Sustainable tourism that aims to minimise the impact of the visitor on the environment.

exchange rate

The price at which a currency is bought and sold.

free independent travel

A type of travel where travellers take responsibility for all aspects of planning and guiding their own travel experiences.

itinerary

A plan for a trip that outlines when (dates and times), how and where a person will travel.

mass tourism

Tourism that is planned to cater for large numbers of people; there is little scope to individualise travel options.

passport

An official document allowing a person to travel overseas across international borders.

sharing economy

An economic model using online platforms such as an app or website to connect consumers with people renting, leasing, or selling goods or services.

travel agents

Businesses whose role is to advise consumers about travel and help them to plan their trip.

travel insurance

Special insurance for travellers that helps to cover medical, legal and other costs should they get into trouble or fall ill while travelling.

travel warnings

Warnings issued by the Australian Department of Foreign Affairs and Trade (DFAT) informing travellers of potential risks in foreign countries.

visa

An approval granted by a foreign country for a person to travel into the country on certain conditions.

10.1 The nature of tourism

Until very recently, tourism was a luxury that very few could afford. Travel was usually associated with work, migration or religious pilgrimages. The period of sustained economic growth in the second half of the 20th century saw more and more people able to afford to travel. Tourism is now one of the world's most important industries, creating employment for millions of people and generating billions of dollars in economic activity.

The United Nations defines a tourist as a person who is going to be away from his or her home for at least 24 hours and who is travelling for one or more of the following reasons:

- recreation
- business
- education
- sport
- religion
- to visit family or friends.

Travelling as a tourist does not always involve international travel; that is, visiting another country. In fact, most Australians choose to travel within Australia rather than overseas. Travel within one's own country is known as **domestic tourism**.

Different forms of tourism

There are many reasons why people travel and it is these reasons that will determine the destination, the method of travel and the experiences that travellers will have when they reach their destination. Consider, for example, how the experiences of religious pilgrims travelling to Nepalese temples will differ from those of young Australians heading to Canada for a skiing adventure.

Mass tourism

Mass tourism is a form of tourism that caters for large numbers of people doing similar activities. This type of tourism is sometimes referred to as package holidays, as most of the arrangements are made by a travel company. Touring by coach or cruising is a common form of mass tourism. The company manages all the accommodation, flights, activities and often meals.



FIGURE 10.1.1 Tourism has developed into an enormous industry generating billions of dollars in economic activity.

Shutterstock.com/Gordon Bell

Free independent travel

Since technology has made it easier for people to organise their own travel experiences, there has been a significant growth in **free independent travel**. Independent travellers make their own arrangements and tailor travel experiences to their own tastes and budgets.



Cultural tourism

Increasingly, travellers are seeking out cultural experiences as part of their travel. Authentic experiences based around learning about different cultures are high on many people's wish lists for their travel. Activities include food experiences, home stays with locals, language classes, art experiences and much more.



Here in Australia, experiences that focus on learning about the unique culture of Aboriginal people have developed into a major industry. More than 400 000 people engage in Indigenous cultural tourism in New South Wales every year, generating significant economic activity and job opportunities. However, there remains a significant gap between the interest in engaging in Aboriginal tourism experiences and actually engaging in them. For example, research by Tourism Western Australia found that 33 per cent of visitors to the state from overseas wanted to go on tour with an Indigenous guide, but only 1 per cent actually did. Government strategies to help Indigenous communities develop tourism businesses, and providing more information to visitors about experiences, will gradually help increase this form of tourism.

FIGURE 10.1.2 Aboriginal cultural tourism is increasing.



Ecotourism

Travellers are becoming increasingly aware of the impact of their travel and are seeking out experiences to minimise their impact. For example, nearly 3 per cent of the world's carbon emissions that are leading to climate change come from air travel. Many airlines now offer their travellers the chance to reduce this impact by purchasing carbon offsets, which help fund projects that reduce greenhouse gas emissions. Nature-based tourism is also becoming more popular. This involves authentic experiences for tourists in nature and often mixes low-impact accommodation, such as glamping (luxury camping), with wildlife experiences.

Spotlight: Ecotourism Australia

Ecotourism Australia is a not-for-profit organisation that promotes **ecotourism**. It examines tourist businesses and assesses them on their strategies to minimise environmental impacts, educate visitors and engage in practices that are environmentally and culturally sensitive. Businesses that meet the requirements can be certified (see Figure 10.1.3) and are allowed to display the certification in their marketing.



FIGURE 10.1.3 Ecotourism certification

Understanding the text

- 1 Define the term 'tourism'.
- 2 Differentiate between international and domestic tourism.
- 3 Outline the differences between mass tourism and free independent travel.
- 4 Explain what cultural tourism involves.

Activities

- 1 Read the following scenarios and, with a partner, decide what form of tourism would suit each person. Give reasons for your selection.
 - a Pedro is a passionate traveller who likes to spend lots of time in just a few places when he travels. He has travelled extensively.
 - b Stephanie has recently retired. She has never been overseas before and wants to travel to Africa, but is nervous about being in a different place.
 - c Noor is planning a trip to Tasmania, where she wants to experience the natural wonders of the state.
 - d Alex has always wanted to learn Italian. He has just left school, is planning a gap year to Italy and wants to learn all about Italy.

10.2 Planning a trip

Travel options: identifying a destination

When someone plans to travel, the first question they need to consider is where they should go. Sometimes this is an easy decision; for example, when they are visiting friends or relatives. However, when someone wants to travel for recreation and leisure, they have a wide variety of options.

As the travel industry has expanded, the number of potential destinations has grown to such an extent that choosing a place to have a holiday can, at first, seem quite daunting. When planning to travel, three main factors will influence a person's final decisions about where to go and what to do while there (see Figure 10.2.1).

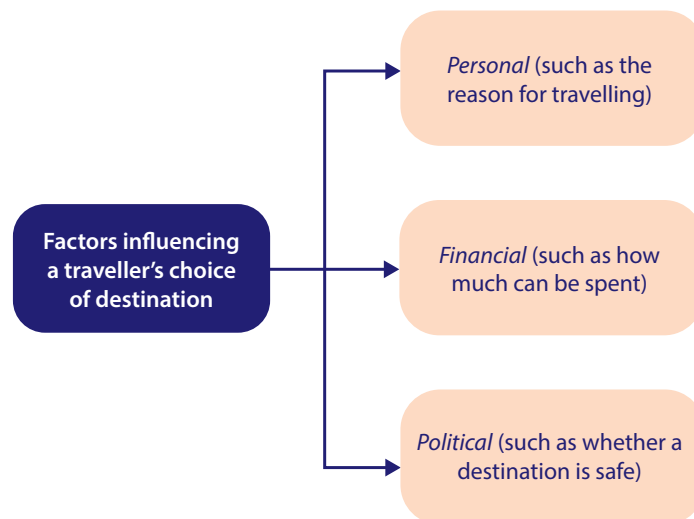


FIGURE 10.2.1 Factors that influence travellers' choice of destination

Personal factors

We all have a 'comfort zone'; that is, the set of experiences and surroundings that do not make us feel uncomfortable. This comfort zone differs from person to person. Some people will avoid being placed in situations that are unfamiliar or stressful, while others will actively seek out such experiences. Travel can be one of the most stressful experiences a person will have. For some people, travelling in a foreign country that has a very different culture, where they don't speak the language and where the customs and traditions seem alien to them, is the best holiday imaginable. For others, such experiences may go well beyond their comfort zone. Understanding what your own comfort zone is will help you to choose the right destination for you.

The reasons for travel will, of course, also influence the decisions made. If a person wants to relax, a tropical island resort may be ideal. However, if they want a cultural experience, taking in historic sights, then a trip to Europe or Egypt may be more appropriate. Other personal factors to consider include health issues. For example, some people have allergic reactions to extreme weather conditions and so these people would need to avoid destinations where those weather conditions would be experienced.

Financial factors

The cost of travel varies enormously. Overseas travel is generally more expensive than domestic travel, and the cost of an organised tour is usually more than one that is planned by the traveller. Therefore, the choice of destination will be largely determined by how much the traveller can afford to spend. For some, a short trip to a luxury hotel or resort is more appealing than a cheap overseas trip staying in youth hostels.

Political factors

Many political issues will have an impact on the decision about where to travel. A destination will become less desirable when it presents a real or potential threat of political unrest, terrorist attacks or civil war. For example, terrorist attacks in France and Belgium in 2015 and 2016 saw visitor numbers drop there dramatically. Paris, one of the most visited tourist destinations, had a 12 per cent decline in numbers in 2017, following terrorist attacks in 2016. Images of armed soldiers patrolling the streets scared many people away. Interestingly, when international visitor numbers decline, domestic tourism often increases. Other political factors to consider include whether a country's government welcomes visitors.

Identifying transport options

There is a range of transportation options available to travellers, including travel by air, sea, rail and road. Travellers can also decide whether to travel by themselves or as part of a group. Each of these options has both advantages and disadvantages, and travellers must consider their own personal and financial situation when deciding how best to travel.

Air travel is fast and enables travellers to cross the world in a day. For example, it is now possible to fly non-stop from Perth to London in 18 hours. However, air travel

Getty Images/ALAIN JOCARD/AFP



FIGURE 10.2.2 French soldiers on guard at the Eiffel Tower in Paris, following terrorist attacks. Such images reduced tourism to Paris dramatically.

Shutterstock.com/motive56



FIGURE 10.2.3 Modern jets are fast, safe and reliable, and allow us to travel long distances in short amounts of time, but air travel is usually expensive.

is usually more expensive than coach or rail travel. Therefore, where time is a major consideration, most travellers will use air travel, but when cost is a more important issue, other options may be considered. Of course, living on an island continent means that for Australians who want to travel overseas, travel by air is often the only option.

Travel by road still remains a popular means of travel. Road trips, where people drive between destinations, have always been popular. Today, the rise in luxury caravans and motorhomes has seen a surge in this type of travel. It allows people to visit many different locations and to travel at their own pace. A major disadvantage, of course, is the time it takes, as travel by road is typically a slow-paced option.

In some parts of the world, rail travel is very common. In Europe, for example, high-tech trains, such as France's TGV, which travels at over 300 kilometres per hour, offer passengers a comfortable and reliable means of travelling internationally. Another advantage of train travel is that travellers can depart and arrive in the heart of cities, whereas airports are often a long distance from city centres.

Ferries are also common forms of travel in many parts of the world. While they are slower than aircraft, they offer comfort, with cabins and restaurants. Car ferries allow people to take their cars with them. Cruising has become a very popular type of travel, where the means of travel is also the destination. Cruising is interesting as a travel option because it often combines all the elements of travel. It offers accommodation, the means of travel as well as activities, making it the ultimate package holiday.

Travel options: identifying travel planning options

The internet

The internet is widely used by travellers as a source of information about possible destinations. The internet also enables many smaller travel providers (such as holiday apartment letting agencies and fishing tour companies) to promote their products to a worldwide market. This means that tourists access unique experiences that are vastly different from the typical holidays of the past.

Unfortunately, a simple search using a common search engine such as Google will produce literally millions of potential travel sites. It is important, therefore, to do some research so that you can refine your search by using place names or the type of travel experience you wish to engage in. If you want to visit New York and stay in budget accommodation, for example, a search using 'New York accommodation and budget' will help you find a good deal of relevant information.

There are also many websites that help travellers find specific holiday types. For example, many sites are devoted to ecotourism. As people have become more aware of the environment, ecotourism has become very popular.

The sites dedicated to ecotourism help travellers find opportunities for *sustainable tourism* (that is, tourism that does not destroy the environment) in their destinations. There are also sites providing information for travellers with disabilities and other special needs.

Spotlight: The sharing economy

As the internet has developed, new technology platforms have emerged that have greatly disrupted the travel industry. It is now much easier for ordinary people to enter the tourism industry and offer goods and services. This began with accommodation sharing platforms such as Airbnb and Stayz. These platforms allow people to list their homes and apartments for rent to holiday-makers and have had an impact on the way that people plan and book their accommodation. Other sites have affected the way people plan and purchase their airline tickets, and this has changed the way that airlines now operate.

Travel agents

One of the biggest disadvantages of using the internet as a source of information is determining the reliability of the information. It is easy to make a place look and sound much better on a website than it is in reality. Using the internet to arrange travel can also be time-consuming and means that travellers have to do all the research and planning themselves. For this reason, **travel agents** remain a popular source of information, although they have become less important as technology has developed.

The role of travel agents is to help travellers plan and book all their travel needs. Most agents are experienced travellers and can offer advice on the best destinations, accommodation and modes of travel. Some travel agents charge a fee for their services, although typically they receive a commission from the airlines and tour and accommodation providers for selling their products. Travel agents usually have brochures available from the major travel providers, such as airlines, resorts and hotels, cruise lines and tour operators.

Family and friends

One of the best ways to find out about travel destinations is to speak to people who have travelled. Family and friends can offer advice based on their first-hand experiences, such as when and where to visit, where to stay (and, of course, where not to), good places to eat and other useful tips about the destination.

Key considerations when planning a trip

When we think about organising a trip, most of us immediately think about where we want to go, how we will get there and what we will do once there. However, there is much more to think about before we go anywhere.



FIGURE 10.2.4 Passports are essential for all international travel.

Official requirements and documentation

When travelling overseas, it is essential to consider what documents you will need. You must have a **passport** to leave and re-enter Australia, and you will need to show this when entering a foreign country. Your passport is a document that confirms your citizenship and gives important details, such as your address and appearance. An Australian citizen wishing to travel overseas will need to apply several weeks in advance for a passport.



Australian
Passport
Office

Spotlight: Applying for a passport

The Australian Passport Office is part of the Department of Foreign Affairs and Trade. The office manages passports for all Australian citizens. In order to obtain a passport, you must first prove your citizenship – this is usually done with a birth certificate or, for people born overseas, their citizenship certificate. You must then prove your identity using various items, including a driver's licence, Medicare card and other items that detail your identity. Applicants then attend a post office and have a short interview to confirm all their details and present photographs.

For more information about applying for a passport, visit the Australian Passport Office website.

An official **visa** is required in order to visit many countries. A visa is a document giving the holder permission to enter a country. You will need to apply for a visa at the **consulate** or embassy of the country to which you intend to travel. This can take many weeks, so ensure you plan well ahead of the departure date. There are a wide variety of visas available for different countries; for example, tourist visas and working visas (documents that give permission for a person to work while visiting). If you fail to obtain the right type of visa, or overstay the length of time the visa is issued for, you may be expelled from the country or even be arrested.

For some countries (such as New Zealand and most European nations), there is no need for Australian citizens to preapply for a visa. Instead, the visa is issued at the point of arrival in the country. There are still restrictions, however, such as not being allowed to work and having a time limit on the stay. It is very important to find out all this information beforehand and to check whether the rules have changed. For example, it may now be necessary to have a visa for a country that may not have had that requirement in the past.

Medical requirements

One of the most terrifying things that can happen to a traveller is to fall seriously ill or be involved in an accident while travelling. To avoid illness, seek the advice of a doctor about any diseases you should be vaccinated against before travelling. Most doctors suggest that people travelling overseas should be vaccinated against hepatitis A. Hepatitis A is a common disease and is often called travellers' disease. It is caused by eating foods that have not been prepared hygienically. For many destinations, especially in the developing world, a range of other vaccinations is essential to provide immunisation against illnesses such as malaria.

If you need to take special medication with you when travelling, you should carry a prescription or a letter from your doctor. Drugs that are legal in Australia may be illegal overseas, and you may be breaking the law if you do not have the necessary medical documentation.

To avoid illness while travelling, find out if the water is safe to drink. If you have any doubts, drink only bottled water or boil the water before drinking it. Take care with foods such as salads, as these are often washed in water, and avoid ice in drinks as well. If you require glasses or contact lenses, it is advisable to take a second pair, or at least carry your prescription so you can obtain replacements.

Accidents are difficult to avoid, but you should consider the types of activities you will be doing while away and plan accordingly. For example, if you intend to hike, camp or engage in a potentially dangerous activity, make sure you have a first-aid kit.



FIGURE 10.2.5 Vaccinations are important for many destinations.

Language

Not being able to communicate while travelling is frustrating and can make travelling extremely difficult. If you are going to visit a foreign country where English is not the native language, do some research and find out if English is widely spoken. Often in large cities where there are many tourists (such as Bangkok or Paris) many people speak English, but in the countryside English is less commonly spoken. It may be worthwhile to do a short course or, at the very least, purchase a phrase book or download a language translation app to your device. Most experienced travellers know that if you make an effort to speak the language, local people are more willing to offer assistance.

Culture

Each country has its own culture. Behaviour that is considered normal and acceptable in one country may be considered impolite or even offensive in another. For example, when visiting a cathedral in Australia, it may be acceptable for tourists to wear casual clothing, but do this in Spain or Southern Italy and you will cause great offence and may be asked to leave. If you receive good service in a restaurant



FIGURE 10.2.6 Millions of tourists visit Venice each year, resulting in enormous crowds.

around 4.5 million people visiting the tiny Italian city each year. The city has now created Respect Wardens to patrol the streets and remind tourists to respect the heritage city and its culture. Limits on the number of tourists are also being considered. Figure 10.2.7 summarises the typical experiences of people living in major tourist destinations. This is often referred to as the *index of irritation*.

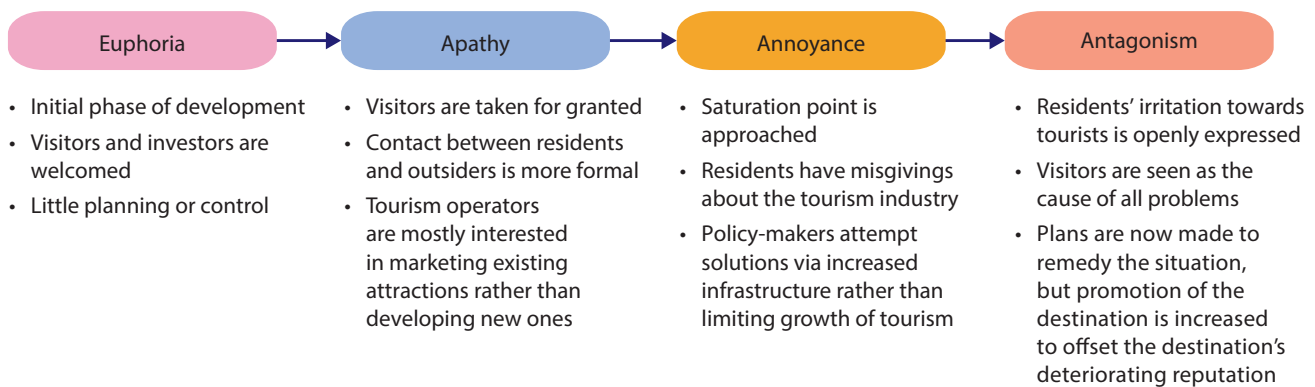


FIGURE 10.2.7 The index of irritation

Political stability and travel warnings

The world is not always a safe place for travellers, and some destinations we may want to visit are dangerous places. Surveys of travellers show that safety and political stability are key issues in their consideration of a destination.

In Australia, the Department of Foreign Affairs and Trade (DFAT) is responsible for making travellers aware of any potential dangers in foreign countries. DFAT regularly produces **travel warnings** for places that it considers unsafe. These warnings are posted on the DFAT website, issued to the media and sent to travel agents. In some cases, these warnings simply tell travellers to be alert, and are usually associated with health risks; for example, an outbreak of a tropical disease, such as dengue fever. In other instances, they warn against travel to particular countries or regions or suggest that Australians avoid places frequented by foreigners; for example, nightclubs, bars and particular tourist attractions.

Spotlight: Smart Traveller

The Smart Traveller website is operated by the Department of Foreign Affairs and Trade and is designed to help Australians travelling overseas. It provides useful information to travellers on different countries and lists all warnings that are current. The site contains important information about local laws and customs that travellers need to be aware of. Every country has its own laws, and these must be followed regardless of what the law in Australia is. For example, in some countries it is illegal for unmarried couples to share the same room.



Where there is extreme danger, such as the real threat of terrorism or civil war, DFAT will instruct all Australians to cancel their travel plans to that destination. It may also ask Australians currently in this destination to leave. It is essential to check the DFAT website before travelling to ensure your intended destination is considered safe.

Travel insurance

Travel insurance is designed to protect against the cost of difficulties experienced while travelling, such as medical bills or loss of luggage. DFAT suggests that all travellers should take out insurance. There are a wide variety of travel insurance policies and it is important to carefully select the policy that best suits your needs. The most expensive, but also the most comprehensive, policies cover the cost of medical treatment and evacuation and the loss of luggage and equipment due to theft or misplacement.

Travel insurance also covers the costs associated with cancelling a holiday. For example, should you break a leg the day before departure and can no longer travel, the insurance company will reimburse you the money you lost from cancelling your holiday.

When choosing an insurance package, make sure that you check the 'fine print' to see what you are actually covered for. The cheapest policy is not always the best to choose. In many cases, insurers will refuse to cover illnesses and injuries that existed before your travel unless you have specifically informed them, so it is important to always be truthful.

Spotlight: Insurance – don't leave home without it!

The Department of Foreign Affairs and Trade recommends that all travellers take out travel insurance. It publishes real-life examples of Australian travellers, such as the ones below, which illustrate the importance of having insurance and knowing what you are covered for.

- 1 A young traveller to Malta decided not to take out insurance as she was visiting family. Unfortunately, she had an accident while cycling that left her needing medical treatment. The bill came to more than \$4000.
- 2 A 69-year-old traveller had to be evacuated from a cruise ship after suffering a reaction to her medication. She needed hospital treatment in New Caledonia (an island in the Pacific) and was left with a \$60 000 bill. The traveller had not informed her insurer of her medical condition and so was left uninsured for the bill.
- 3 An 18-year-old traveller to Bali had her alcoholic cocktail spiked with a poison. She was rushed to hospital and after two weeks of treatment recovered. In Bali, the legal drinking age is 21, so her insurance company refused to pay the \$25 000 hospital bill because she had been illegally drinking.

Understanding the text

- 1 Explain how personal factors impact on travel decisions.
- 2 Describe how political factors influence travel decisions.
- 3 Outline the impact of the internet on travel.
- 4 Describe the role of travel agents.
- 5 Explain the purpose of a passport.
- 6 What is a visa?
- 7 Outline some of the steps travellers can take to reduce their risk of falling ill.
- 8 Describe how travellers can reduce their cultural impacts when travelling overseas.
- 9 Explain the features of the index of irritation.
- 10 Describe how political instability affects tourism.
- 11 What is the purpose of a travel warning?

Activities

- 1 Write a short report explaining what influences you the most when you think about where you would like to travel.
- 2 Copy the table below and complete it considering the advantages and disadvantages of different modes of travel.

MODE OF TRAVEL	ADVANTAGES	DISADVANTAGES
Air		
Road		
Rail		
Sea		

- 3 Consider each of the following scenarios and decide which mode of transport would best suit each traveller. Explain your choice.
 - a Abdul has to travel interstate for an urgent meeting.
 - b Peter and Julie have recently retired. They are keen to see as much of Australia as possible.
 - c Jacqui is looking for a no-fuss holiday where she can just relax after working hard all year.
 - d Hamish is studying at university in Sydney and wants to visit a friend in Brisbane. He has a very tight budget for the trip.
 - e Zoe lives in Melbourne and is looking to take a holiday in New Zealand. She wants to see as much of the country as possible, but only has two weeks.
- 4 Think about the different options for planning a holiday. Which method would most suit you for domestic travel and which for international travel? Give reasons for your choice.
- 5 Access the Australian Passport Office website. Prepare a short presentation on the steps involved in applying for a passport. You may wish to make a short film or digital presentation.
- 6 Examine Figures 10.2.6 and 10.2.7. Using these sources, describe the way that tourism can negatively impact on local residents.
- 7 Divide the class into small groups. Select three countries (one from Asia, one from Africa and one from South America). Using the Smart Traveller website, outline the travel warnings for each destination and the precautions travellers should take when visiting this destination. Present your findings to the class.
- 8 Write a short report, using examples, on why travel insurance is essential when travelling overseas.



Australian
Passport Office



Smart Traveller

10.3 Developing an itinerary

An **itinerary** is a travel plan. It includes the times and dates of travel and the places a person is travelling to. It also gives information about where the accommodation is and the person's means of travel, and may include information about how to find certain locations.

Making decisions about your itinerary

Figure 10.3.1 summarises the many questions you should ask yourself before making decisions around your itinerary. The key questions to consider include:

- Where will I stay?
- How will I get around?
- How long will I stay?
- What will I see and do?

The answers to these questions will ultimately come down to how much time and money you have available to you. Some people have quite a lot of money to spend but are time poor; that is, they can only be away from home for a short time. These people will need to consider what they want to see and do on their trip and plan carefully in order to fit everything in. They may also need to travel by the fastest means available, such as by air. On the other hand, some people have plenty of time but have less money to spend. These people will need to find cheaper ways to travel. They may, for example, opt to travel as the locals do: by bus or train.

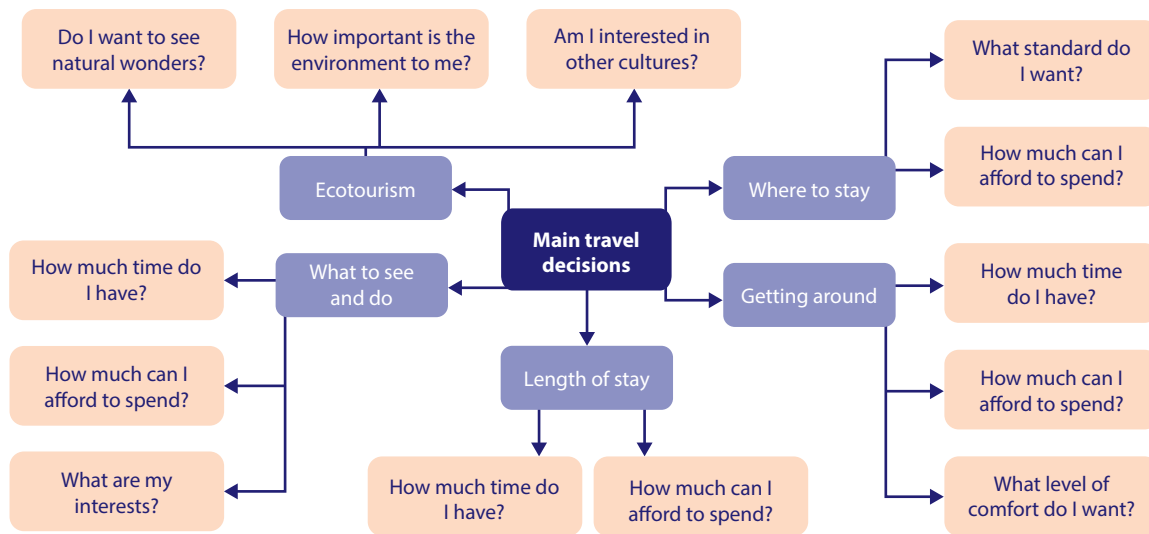


FIGURE 10.3.1 Questions to ask yourself when planning your itinerary



FIGURE 10.3.2 Trains and buses are usually cheaper but slower than planes, so they are popular choices for people with time but less money, such as backpackers.

visit the reef. While this is a much longer journey, Phoebe is able to have three weeks away for about the same cost as Qui Lin's three days.

Of course, many other factors will influence our travel decisions. For example, our personal tastes and interests will affect what we want to see and do while away. For some people, a chance to hike through wilderness, camping and being part of nature, may be the ultimate holiday. For others, relaxing in a luxury resort, with all their needs taken care of, will be their preferred option, despite the cost.



FIGURE 10.3.3 Each person will seek out different experiences on their holiday, and asking yourself what you want to do on your holiday is essential.

Our expectations of comfort will also affect our decisions. There is often a wide range of accommodation types to choose from. Most accommodation is given an **accommodation rating** based on a stars system. In the past, five-star hotels were considered the most luxurious; however, there are now hotels that are awarded up to seven stars due to their quality of service and rooms. In such a hotel, we can expect to find room service, pools, a gymnasium and restaurants, for example. However, we should also expect to pay more for these facilities. The fewer the stars, the cheaper the accommodation will be, but the fewer the services we will be offered.

Apart from hotels, there are many other accommodation options available. Serviced apartments provide some of the features of a hotel (for example, having your apartment cleaned daily), but provide the comforts of an apartment, such as a kitchen and multiple rooms. The increase in the **sharing economy** has also led to an increase in private homes and apartments being available for short-term rental. These can often be more affordable but do not come with any of the services of hotels, such as cleaning and restaurants. Hostels offer budget accommodation, sometimes with shared rooms and facilities. Such accommodation is basic but affordable.

Different classes are common on most forms of travel as well. For example, some airlines offer up to four levels of service on international flights. The standard of service, the amount of space and the level of comfort are to some extent determined by the class of ticket a person purchases. Of course, these improvements in standard result in very different prices. A typical flight from Australia to Europe and return is around \$2500 if flying the cheapest economy class and more than \$25 000 if flying first class, where passengers may even have their own private suites.



FIGURE 10.3.4 Luxury resorts and hotels offer many high-quality services, but are expensive.



FIGURE 10.3.5 Hostels offer basic accommodation, but are more affordable.



FIGURE 10.3.6 A private first-class suite on a plane can cost more than 10 times the amount of an economy-class seat.



Understanding the text

- 1 Explain what an itinerary is.
- 2 Explain how time constraints may affect your travel decisions.
- 3 In what ways do budget considerations determine how and where we travel to?
- 4 Explain how our expectations of comfort and service affect the way we travel.
- 5 Outline the star rating system used by accommodation providers.
- 6 Explain the advantages of different forms of accommodation.

Activities

- 1 You are a travel agent. A young couple has come to see you about a holiday to an island destination that is no more than five hours, flight time from Sydney. They do not mind whether it is a domestic or international destination, but they are keen to have some adventure and are interested in nature. They have allowed for two weeks and want to spend no more than \$15 000 on travel, accommodation and activities. In a small group, prepare an itinerary for the couple. You will need to research where you would suggest the couple visit, how they should get there, and some of the possible places to stay and things to do. Remember, you have to stay within their budget.
- 2 Using the internet, compare the prices of travelling from Sydney to Singapore on an airline flying economy, premium economy, business and first class. Evaluate whether the cost of flying in business and first class is reasonable. Consider the level of comfort, the services offered and the price.

10.4 Solving problems related to travel

Travel is meant to be relaxing and fun, but it can also be very stressful when things go wrong, especially when you are in a foreign country. Travellers face a range of potential problems.



FIGURE 10.4.1 If travelling overseas, you will need to exchange Australian dollars for the local currency of the countries you are visiting.

Financial problems

As you know, it is important to have a budget for travel and to think carefully about costs. When travelling overseas, you need to pay for goods and services in the currency of the country you are visiting. To do this, you buy the foreign currency using Australian dollars.

Spotlight: Calculating the value of our currency

In the news, we often see and hear references to our currency's value. Typically, the value of the Australian dollar (A\$) is given in relation to the US dollar (US\$). If the value of the Australian dollar is represented as A\$1 = US\$0.70, it means that one Australian dollar is worth 70 US cents. This means that when we exchange Australian dollars we get fewer US dollars in return. In the example here, if we exchange A\$100 we will receive US\$70.

You can also use credit cards to make purchases while overseas. The card provider converts the charges into Australian dollars. Problems arise when you are uncertain about the **exchange rate**; that is, the difference between the value of the Australian dollar and the local currency. It is important to be aware of the rate and to convert purchases into Australian dollars before deciding whether to buy something. You should also check the fees you may be charged. Many banks and credit card providers charge an international fee on transactions you conduct overseas using your cards and accounts.

It is also important to have your money available in a variety of forms. If you intend using a credit or debit card to access your money, make sure you have more than one card-based account. If the card is damaged, you can use the other while you wait for a replacement card. It is also a good idea to let your credit card provider know that you will be overseas and the countries you will visit. If you intend to use ATMs, make sure your card is accepted in the country you are travelling to.

Remember that developing countries don't enjoy the same level of access to electronic banking as we have in Australia. If using credit cards, ensure you have sufficient credit. Many financial institutions will temporarily extend your limit if you explain that you are going overseas.

Problems with travel documentation

If your passport, ticket, credit card or money is lost or stolen, it can be a major problem. Without a passport, it is impossible to leave or enter a country, and not being able to present your passport when asked to do so by authorities can lead to legal problems.

If your documents are stolen or lost, the first step to take is to notify the local police. To obtain a new passport, you need to contact the nearest Australian consulate or embassy. Embassies are located in the capital cities of foreign countries and there are often consulate offices in other major cities, such as Los Angeles. In countries where there is no Australian embassy, another country's embassy may be able to provide assistance. The embassies and/or consulates of the United Kingdom or Canada are often the best ones to approach if there is no Australian representative. You should always find out where to go for consular assistance before travelling. It is a good idea to make a copy of your passport and leave this with a trusted friend or relative in Australia.

Legal problems

When in a foreign country, you must obey the laws of that country. Activities that are legal in Australia, such as women wearing shorts or the consumption of alcohol, may be illegal in other countries. For example, to drink alcohol in Saudi Arabia is a serious crime. Make yourself aware of local laws before travelling. A travel guide and the Smart Traveller website are good sources of such information.



FIGURE 10.4.2 You must always follow the laws of the country you are visiting, even if they are different from those of Australia.

Shutterstock.com/mattomedia Werbeagentur

If you find yourself in legal trouble, you have the right to have the Australian embassy or consulate made aware of your arrest. The Australian Government cannot arrange for you to be released; however, it will notify your family, help arrange (but not pay for) a local lawyer, and offer you advice and some personal items, such as supplementary food.

Spotlight: Getting help from the Australian Government while overseas

The Department of Foreign Affairs and Trade is responsible for providing consular assistance to Australians overseas. It operates a 24-hour emergency line, which can be contacted from within Australia or anywhere in the world by SMS or phone. Details are available on the Smart Traveller website. It is a good idea to register your travel plans with DFAT before travelling, in case of emergency. This can be done through the Smart Traveller website.



FIGURE 10.4.3 When driving in other countries, you need to be prepared for different rules and signage.

your responsibility to know and understand the road rules of the country you are visiting. They will almost certainly be different from the ones at home.

Cultural problems

Travelling to another country can mean experiencing very different cultural behaviours from those we are used to. Learning about these cultural expectations before travelling will help to ensure you have a pleasant visit and one that is less likely to result in legal problems. Travel guides and the advice of people who have travelled to the destination before will help you avoid some of the problems.

Also, try not to highlight the economic differences between yourself and your hosts. This is one way of avoiding theft and cultural embarrassment. For example, displaying expensive watches, jewellery and camera equipment should be avoided.

Understanding the text

- 1 Describe what an exchange rate is.
- 2 Describe how you can avoid running into financial problems.
- 3 Explain what you should do if your passport is lost or stolen when travelling.
- 4 Outline some of the strategies that can be used to reduce the risk of theft.
- 5 Outline the assistance that the Australian Government can provide to Australians travelling overseas.
- 6 Explain what you should do if you are arrested overseas.
- 7 How can travellers make themselves aware of cultural differences?

Activities

- 1 Using the daily newspaper, the financial report on the nightly news, the internet or an app, convert the following purchases into Australian dollars:
 - a a meal in a New York cafe costing US\$45 (US dollars)
 - b a bus ticket in Auckland costing NZ\$6 (New Zealand dollars)
 - c a new jacket from a Paris department store costing €160 (euros)
 - d a pair of new shoes from a Tokyo designer store costing ¥20 000 (yen)
 - e dinner at a resort in Fiji costing F\$210 (Fijian dollars)
 - f two books on the life of King Henry VIII from a London bookstore costing £40 (British pounds).
- 2 Select one of the following countries: Kuwait, Vietnam, Tanzania or Russia. Using the Smart Traveller website, research the laws of the country that travellers need to be especially aware of. Focus on those things that might be different from here in Australia.
- 3 Taking on the role of a travel writer, write a short 'Handy hints for travellers' guide. Your guide should contain no more than 10 to help people avoid getting into trouble when travelling overseas. Consider ways to avoid financial, legal, cultural and theft problems.



Smart Traveller

10.5 Current issues

Tourism is very dynamic – it is constantly changing. New destinations are developed, while others become less popular. Consumers' tastes are always changing, as are our expectations of what we want from the travel experience. In this part of the course, you are required to undertake research into an issue currently of importance to tourism.

Such issues may revolve around changing tastes; for example, the growth of ecotourism and culturally sensitive tourism. Economic issues include the impact of exchange rates and economic trends on the number of people travelling. Issues related to political stability include the impact of terrorism or war on people's travel plans. There are also health issues, such as outbreaks of disease in certain destinations, and technological issues, such as the development of larger planes or faster trains.

To undertake this research, you should adopt a research action plan, incorporating the following steps:

- 1 Select a topic. Identify an issue that is of importance at the present time. Careful examination of the print and electronic media will give you ideas. Developing a media file may assist you in this step.
- 2 Identify the causes of this issue and what its impacts will be in relation to how people travel and where they visit. Is the issue isolated to particular travel destinations or is it worldwide? Does it affect all travellers or just some?

- 3 Consider what the experts have to say on the issue. Is it likely to have a long-term impact? If so, why? Why is it affecting tourism and in what ways?
- 4 Come to a conclusion. What is your view, based on the research you have done on the issue? Do you think this is a positive or negative issue for tourism? What are the implications for the travel industry?
- 5 Prepare your discussion of the issue and its relevance to tourism using a report format or a PowerPoint presentation. Consider the use of visual materials, such as maps, photographs and graphs.



Climate change and tourism: a contemporary issue

Climate change is the result of human activities that lead to the burning of fossil fuels, such as coal and oil. When these are burned to provide energy, they release large amounts of carbon dioxide into the atmosphere. This disrupts the carbon cycle and results in changes to our climate.

Many tourism industries are dependent on climatic conditions. For example, more than 120 million people per year go skiing for a holiday globally. This industry is worth many billions of dollars, but with climate change leading to warmer temperatures, many ski resorts are left without their one main attraction – snow.

Peter Schatz Alamy Live News



FIGURE 10.5.1 This ski resort in Germany is normally covered in snow, but due to warm weather the only snow is that made by snow machines.

Climate change is also impacting on other destinations. The Great Barrier Reef, off the coast of Queensland, is estimated to have a value of \$56 billion to the Australian economy. Of this amount, \$29 billion is associated with the tourism that the reef attracts. Coral reefs are very fragile environments that require very specific climatic conditions to exist. The temperature of the water they grow in must never fall below 17–18 degrees Celsius and rarely ever exceed 33–34 degrees Celsius. However, as the Earth warms, ocean temperatures are also increasing, causing corals to become distressed, which leads to a phenomenon known as coral bleaching. The corals lose their colours and turn white. In 2016, nearly 30 per cent of the reef was bleached, leading to a major downturn in tourist numbers as the reef lost one of its main attractions.

Shutterstock.com/Darkydoors



FIGURE 10.5.2 Coral bleaching events have damaged the Great Barrier Reef, reducing its attractiveness to visitors.

Technology and tourism: a contemporary issue

Technology has always been a major factor in the way tourism develops and changes. The advent of the steam train was to have a profound effect on the development of mass tourism, and the emergence of large jet planes extended this to a global scale. Longer-range aircraft have also made it possible to travel further faster, opening up new travel destinations and reducing travel times.

In contemporary times, the emergence of the internet and mobile devices has seen a major change in the way people plan their holidays. It is estimated that more than 40 per cent of people now plan their own holidays using travel apps on mobile devices such as smartphones and tablets. These apps have also enabled the sharing economy to transform the nature of accommodation, allowing ordinary people to offer their homes as short-term holiday accommodation.



Alamy Stock Photo/Uwe Deffner

FIGURE 10.5.3 A new generation of aircraft, such as the Boeing 787-9 Dreamliner, allows passengers to fly from Perth to London non-stop.

Understanding the text

- 1 Outline some of the major challenges facing contemporary tourism.
- 2 Explain how climate change has had an impact on tourism.
- 3 Describe how technology has transformed the way we plan and book holidays.

Activity

- 1 Divide the class into small groups and investigate a contemporary issue facing tourism.
 - a What is the nature of the issue?
 - b What are the causes of the issue?
 - c Explain how the issue impacts on tourism.
 - d Provide some specific destinations that have been affected by this issue.

Remember that your issue may have a positive or a negative impact on tourism.



11

TOWARDS INDEPENDENCE

CONTENT OVERVIEW

- 11.1 Moving from home
- 11.2 Arranging accommodation
- 11.3 Managing finances
- 11.4 Major purchases
- 11.5 Community involvement
- 11.6 Current issues

CONTENT FOCUS

In this option, we investigate the financial, consumer, legal and employment issues that might affect you in the future. You will have the opportunity to examine the range of strategies you can use as you move towards independence. You will also learn about the role of community organisations and how you can make a contribution to society.

The skills you will develop in this option include developing inquiry questions, gathering and processing information, evaluating alternatives, developing and implementing plans, formulating evidence-based decisions and reasoned arguments, and working independently and/or as part of a team.

FOCUS QUESTIONS

- What are the financial, consumer, legal and employment issues you will confront as you move towards independence?
- What strategies can you use to address such issues?
- What role do community organisations play and how can you make a contribution to society?

GLOSSARY OF KEY TERMS

affordable

That which can be afforded; within one's current financial means.

age discrimination

Illegal discrimination because of age. This is usually associated with the aged, but can also refer to discrimination against young people because of their age.

bad credit risk

The description applied to a person with a bad credit rating; that is, someone who does not pay his or her credit card, hire-purchase payments and/or loan repayments or is frequently well overdue with payments.

blacklist

A list of tenants who are considered to be unsuitable renters because they have broken the conditions of

previous tenancy agreements; for example, by not paying rent or by deliberately damaging rental accommodation.

bond

An amount of money that you must pay when you move into a rental property to cover unpaid rent or any damage you may cause to the property.

budget

A detailed plan of your finances, listing all income and expenditure. It is used to ensure you don't spend more than you earn.

classifieds

Advertisements that appear in newspapers and are arranged in columns under headings.



contract

A written or verbal agreement between two parties, who may be either individuals or organisations.

credit card

A card that allows you to buy items and pay for them later, over a period of time if necessary.

economise

Cut back on spending to save money.

fixed expenses

Expenses that cannot be changed; for example, rent.

guarantor

A person who promises to pay the money owing in a contract if the person who signed the contract does not pay what he or she owes.

guardianship

Legal responsibility of an adult for a child under 18.

hire purchase

An agreement that enables a customer to pay for a purchase in instalments over a period of time.

informal networks

Groups of people with similar needs or interests who can assist each other.

insurance

An insurance policy is a type of contract. In return for a regular payment, the insurance company guarantees that

you will receive a payment in the event of some specified problem happening to you or your property.

lifestyle plan

A plan of your commitments so that you can manage your time without too much stress. These plans may be short-term (such as weekly) or longer-term (such as yearly).

public housing

Affordable accommodation (houses and apartments) owned by the government and rented to people on low incomes.

repossession

Goods taken back by the hire-purchase company if you don't make your agreed payments on time.

residential tenancy agreement

A written agreement outlining the terms of the lease and the renter's (tenant's) responsibilities in relation to the rental property. It must be signed by the tenant and landlord when an apartment or house is rented; also known as a lease agreement.

shelters

Emergency accommodation run by community or church organisations.

variable expenses

Expenses that can vary; for example, clothes.

warranty

An agreement that outlines the conditions under which a consumer is entitled to have a good repaired or replaced.

11.1 Moving from home

Moving out of home is one of the most important steps young people take in their progress towards independent living. Often the decision to move out of home is based on a desire for greater freedom and independence. Some people, however, are forced to leave because of unacceptable circumstances in the home.

Reasons young people leave home

There are many reasons why young people decide to move away from home. Some of these include:

- *A need for independence.* When young people feel they are ready and able to take care of themselves, they will often move out of the family home. The age at which this occurs varies among individuals. It will depend on the person's relationship with their parents, their financial situation, and whether they are employed or still engaged in full-time education and training.
- *Opportunity for study.* Different universities and colleges offer different courses, so if someone wants to undertake a particular course of study, they may have to move to a city where it is available. Students living in rural and regional Australia almost always have to leave home to access higher education.
- *Opportunity for employment.* Many young people are forced to leave home to get a job. For example, school leavers in rural and regional Australia often move to large regional centres or capital cities to take advantage of the greater range of employment opportunities available there.
- *Financial pressure.* Sometimes families with very low incomes are simply unable to keep supporting children who are old enough to work and earn their own living. In some cases, young people who are able to establish independent lives can offer financial assistance to their parents.

- *Domestic violence.* In some cases, children are in danger if they don't move out of home because of parental conflict or abuse by family members. For more information on domestic violence, see Chapter 9, section 9.2.
- *The desire to live in a relationship.* Some young couples may be committed to a relationship and prefer to live together, away from their parents. Young people should think carefully before taking this step, as they need to be mature enough to cope with both living independently and a serious relationship.
- *Family breakdown.* At times, families break up due to conflict, illness, death or the development of new relationships. In such cases, independent living is often the only alternative available to members of the family.
- *Mental health issues.* Mental illness, often in combination with one or more of the factors listed above, can contribute to homelessness, which can result in further declines in a person's mental wellbeing (see the Spotlight box 'Young Australians sleeping rough' on page 385).

Major issues involved with independent living

There are, of course, many issues to consider before leaving home and establishing your own independent lifestyle. How would you answer the following questions if you had to move out right now?

- Am I mature enough to leave home? Can I make mature decisions about my life if I don't fully understand what the decisions involve and what their consequences will be?
- Can I afford to leave home? How much will it cost and where will the money come from?
- Where am I going to live? How do I go about arranging accommodation? What else do I need besides a roof over my head?
- Will I share with anyone? If so, with friends or with strangers?
- How will I look after myself? What practical skills do I have; for example, cooking, cleaning and managing a household budget?
- Will I be able to cope on my own? Am I confident enough to stand on my own two feet? Will I be lonely?
- Who can I turn to for help if I need it?

Spotlight: At what age can I leave home?

While you are under the **guardianship** of your parents until you turn 18, you don't have to live at home until that age.

In New South Wales, there is no law setting an age at which a person can leave home. If you have a safe place to go and you can support yourself financially, you can normally leave home at 16 years of age. For more information on this, see Chapter 9, section 9.1.



FIGURE 11.1 You need to be able to support yourself if you want to leave home before you turn 18.

Identifying documentation

Living independently means that you will need access to some important documents. These include a copy of your birth certificate, a photo ID (for example, a driver's licence), and your own Medicare card.

A birth certificate is an official copy of the birth registration held by the NSW Registry of Births, Deaths & Marriages. It is often used to help establish a person's identity. For a birth or adoption that occurred in New South Wales, you can apply online, by post or in person at a Service NSW office. Certificates are sent to you by the Registry, using registered post. You cannot get a certificate from a service centre. Further information, including the proof of identity required, can be found on the Service NSW website.

If you need to visit a doctor or receive medical attention at a hospital, you will need to present a Medicare card. You can obtain your own card when you turn 15. The first step of the process involves completing a form that removes you from your parents' card. Your own card will then be issued. Once this is done, you can create your own myGov account. You need to register your bank account details to receive Medicare benefits.

If you intend to travel internationally, you will need to apply for a passport. Passports are issued by the Commonwealth government's Department of Foreign Affairs and Trade (DFAT). You can access an application online but will need to lodge it in person at an Australia Post outlet. You will also need to supply copies of documents that establish your identity.



Organisations providing support

A number of government, religious and community-based organisations provide support for young people who are either forced to live independently or choose to do so. Many of these organisations provide general information about leaving home as well as more detailed information on services such as emergency **shelters** for homeless people. They also explain how to apply for **public housing**.

Organisations worthy of note include Create Your Future (CYF) and ReachOut Australia. The websites of these organisations feature a diverse range of information relevant to the needs of young Australians. Centrelink provides information on 'accommodation, renting and homeless issues'. Youth NSW is a web-based NSW government resource designed to meet the needs of young people. The St Vincent de Paul Society and Anglicare Youth Services are faith-based organisations supporting young people.



Understanding the text

- 1 List the factors that may result in a young person deciding to leave home.
- 2 Outline the main issues that you need to consider before leaving home and establishing an independent lifestyle.
- 3 Outline the identification documentation you will need to live independently.
- 4 What types of organisations provide support for young people who choose to leave home or are forced to do so?

Activities

- 1 Study 'Reasons young people leave home' in this section. Working in groups, decide which situations would give a good basis for independent living and which would give a more difficult start for people moving out of home. List the challenges a young person would face in each situation. Can your group think of any other reasons why young people may leave home?
- 2 Study the Spotlight box 'At what age can I leave home?' on page 366. What does the law say about the age at which young people can leave home?
- 3 Contact an organisation providing support to young people and invite a spokesperson from the organisation to speak to the class. Ask the spokesperson to outline the range of services provided by the organisation and the types of issues she or he deals with on a regular basis.
- 4 Access each of the websites listed under 'Organisations providing support' in this section and determine whether they are government, religious or community-based organisations.
- 5 List three forms of assistance each of the organisations provides that could assist young people moving out of home.
- 6 Complete this activity in groups. Imagine that you wish to establish a community-based organisation to support young people who have decided to leave home and live independently.
 - a List the types of support young people need. Reach agreement on which of these areas your organisation should focus on.
 - b Undertake research on each of these focus areas. Present this information in a form that can be used on a website.
 - c Brainstorm the best way of providing this assistance.
 - d Brainstorm ways in which you could fund your organisation's activities.
 - e Design a website for the organisation you wish to establish. Include links to the information collected and presented in part b.
 - f Present your website to the class for feedback on the design and content.
- 7 Access the websites of Create Your Future (CYF) and ReachOut Australia and complete the following tasks:
 - a Outline the types of information provided.
 - b Decide which of the two websites is the more informative. Which site is more likely to appeal to young people?

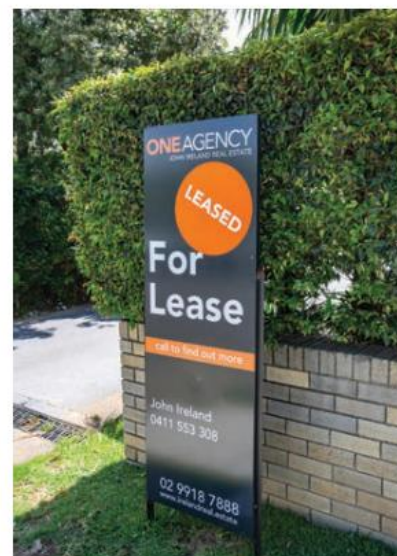


Create Your
Future
ReachOut
Australia

11.2 Arranging accommodation

Where you choose to live when you leave home will depend on a number of factors. A major consideration in finding accommodation is how much you can afford to spend. Another important factor is location. This will be influenced by where you are working or studying. The closer you are to where you need to go each day, the easier it will be for you. It will, for example, minimise the cost and time necessary to spend on transport. On the other hand, if the area where you work or study is expensive, it may be better to live in a cheaper area and spend a little more on transport.

Before you make a decision about where to live, compare similar types of accommodation in different suburbs to see what represents the best value for money. There are many different types of accommodation available and these options



Alamy Stock Photo/martin berry

FIGURE 11.2.1 Most young people rent accommodation when they leave home.

cover a range of prices. Talk to friends or family who may be renting to get some tips before you commit yourself to renting a property.

Types of accommodation

The types of accommodation commonly occupied by young people include rented houses or apartments (flats), a shared house or apartment, private board, and emergency accommodation such as shelters. These are outlined in more detail below.

Renting an apartment or house on your own is often the most expensive accommodation option because of all the initial costs and the fact that the rent is not shared. Costs may include the following:

- A **bond**. This is an amount of money (usually equivalent to four weeks' rent) that must be paid by the tenant to the real estate agent in case the tenant damages the property or cannot pay the rent.
- *Advance rent*. A tenant is usually expected to pay two weeks' rent in advance.
- *Deposits and connection fees*. When a tenant moves into a new place, they must pay to have the electricity, gas and internet connected, which can amount to hundreds of dollars. These services are known as utilities.
- *Furniture*. If the property is unfurnished, it may be necessary to buy large items (such as a fridge and a bed) as well as everyday items (such as crockery and bed linen).

Sharing an apartment or house is usually cheaper than renting by yourself because all the costs are shared between the members of the household. These costs include the bond and rent.

Private board is another, often cheaper, option. Private board involves living with a family or single person and paying a fixed amount to cover the cost of accommodation and meals.

Some young people have to move out of home on short notice because of real or threatened violence. If this happens, they may need to get help from government, community or religious groups who are able to arrange temporary or emergency housing, such as shelters.

Finding a suitable place to live

There are many ways to find a suitable place to live. The most common of these are explained below.

- *Internet and newspaper advertisements*. Advertisements for renting, sharing and private board can be found on the internet or in the **classifieds** section of most newspapers, either in printed form or on their websites. Dedicated websites such as EasyRoommate, Rent A Room and Flatmates are becoming increasingly popular.
- *Real estate agents*. Property managers in real estate agencies can advise you on what is available in your price range and preferred locations. You may phone them or visit them in person. Look at the advertisements in real estate agency windows or visit their websites. 'For rent' or 'For lease' signs on properties will also help you to find a flat or house.
- *Community noticeboards*. Many shopping centres, community centres, universities and colleges have noticeboards where advertisements for accommodation can be placed and read.

Accommodation classifieds	Page
Board and accommodation	68
Flats, units, townhouses to let	74
Houses to let	75
Share accommodation	75
Rooms to let	76
Rental services	76
Paddington \$500. Huge whole ground floor flat great character 4br + patio	
Windsor 18–29yo. Male or Female, lge room in unit, built-in fan, very cls shop + trans, \$150pw + exp, students ok	
Bondi m/f 25+ shr 3brm hse \$160pw	
Castle Hill 1brm f/f own kit \$175	
Manly 1 br, Air cond granny flat, fully s.c. with fridge, quiet st cls to trains + shops. N/s, no pets or kids \$165	
Darlinghurst F 21–27 years F/T, n/s to shr 3 brm t'house with 2 others \$85pw + \$450 bond	

FIGURE 11.2.2 Example of accommodation classifieds from a daily newspaper

- *Word of mouth.* **Informal networks** that develop, for example, among friends, workmates, students and teammates are a good way of exchanging information about needing or having accommodation to rent.

The **affordability** of accommodation is a key consideration. Will you have enough money to live on once you have paid your rent? See Chapter 1, section 1.4, for advice on budgeting.

Arranging a lease

Once you have found a house or an apartment to rent, you will normally be required to sign a lease agreement, known as a **residential tenancy agreement**. This is a written legal agreement (**contract**) between the person who rents the house or apartment (the tenant) and the person who owns it (the landlord). Landlords are usually represented by a real estate agent.



FIGURE 11.2.3 Before you rent a house or an apartment, you will have to sign a lease or residential tenancy agreement.

By signing a lease, you agree to look after the property and to pay a certain amount of rent for a set period of time (usually a minimum of six months) and at specified intervals (such as weekly, fortnightly or monthly). The lease protects you as the tenant because the landlord usually cannot raise the rent for the period of the lease or force you to leave unless they give you notice or you have breached, or broken, the agreement. There are, of course, penalties if you don't keep to this agreement. For example, you may incur a penalty if you do any of the following:

- fail to pay the rent
- leave before the lease period is finished
- fail to give notice before you leave.

Often these penalties involve the loss of part, or all, of your bond.

On signing the lease, you will be required to pay a refundable bond (usually the equivalent of four weeks' rent), which covers the cost of any damage or breakages that you may cause while you are renting the property. Provided you look after the property carefully and do not break any of the other conditions of the lease, the bond will be returned when you move out of the property.

When you sign up for the accommodation, you will be given a property condition report. This is a checklist of the condition of fixtures (such as the stove, walls and floors) in each room in the house or apartment. It will be completed by the landlord or real estate agent before you move in. You should also complete the condition report before you move in. If you wait until the furniture is in place, you might not notice existing marks and stains on the walls and carpets. When you move out, the landlord or real estate agent compares the condition report against the condition of the property. Any marks or breakages not on the original condition report will be seen as damage you caused, so it is important to take great care when completing the report. You can insist on being present when periodic and final inspections are carried out so that no misunderstandings occur.

Before you move in, you must also pay some rent in advance – usually two weeks. The lease entitles the owner or agent to inspect the property every three months and before the bond is returned when you move out. The owner or agent will deduct from your bond the cost of any repairs or maintenance; for example, steam cleaning the carpet if it is stained and you didn't have it cleaned before you moved out.

If you decide to leave the place before the lease is up, or if you do not pay the rent, the agent will normally take what you owe out of the bond and you will only get back what is left, if anything. If the

bond does not cover what you owe, and you do not pay the difference, you can be placed on a **blacklist**, or database, of bad tenants. This is very serious because most agents have access to this database, and if blacklisted, you will find it very difficult to rent another property.

If you decide to share a house or apartment with others who are already living in a rented property, you may not be required to enter into a lease or contribute to the bond, which would have already been paid. You will, however, need to pay your share of the weekly rent.

When you leave a rented property, it is a good idea to ask the real estate agent or landlord for a reference. You can use this to help you rent accommodation in the future.

Task sharing

Sharing accommodation with other young people is quite different from living at home. You don't, for example, have your parents or guardians to prepare your meals, wash your clothes or clean up after you. All the household tasks are the responsibility of those sharing the property.

When people don't do their fair share, other members of the household can become resentful. A lazy or untidy flatmate is often a source of conflict in shared accommodation. This conflict can be avoided by drawing up a list of essential household chores and then deciding who is going to be responsible for making sure that each task is completed on a regular basis. If you can keep to this agreement, you will greatly reduce the potential for conflict in the household.



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FIGURE 11.2.4 The success of shared accommodation depends on everyone doing their fair share.

Spotlight: Legal rights of tenants

There is no law setting the minimum age at which you can rent an apartment or house. However, finding a place to live may be difficult when you leave home, especially if you are under 18 years of age.

If you are under 18 and enter into a residential tenancy agreement, you are legally obliged to meet its conditions. This means that the landlord can instigate legal action if you do not pay the rent or if you damage the property. However, you may not be bound by the agreement if the landlord has taken advantage of your age, you did not understand the agreement when you signed it or the terms of the agreement are unfair.

A real estate agent or landlord can't refuse you accommodation just because you are under 18 years of age. This is called **age discrimination** and is against the law. It is also against the law to refuse accommodation on the grounds of race, gender, sexuality, disability, marital status or pregnancy. You can complain to the Anti-Discrimination Board if you think you have been discriminated against.

It is illegal for a real estate agent or landlord to ask for a **guarantor**; that is, a person who signs an agreement or contract with you and agrees to be responsible for any rent or bills that are unpaid.

Understanding the text

- 1 List the factors that need to be considered when finding accommodation.
- 2 Outline the various accommodation options available to young people.
- 3 Give reasons why renting a house or apartment on your own is considered the most expensive option.
- 4 What are the advantages of living in shared accommodation?
- 5 Describe the role played by shelters and other forms of emergency accommodation.
- 6 Outline the ways in which you can find a suitable place to live.
- 7 Define the term 'residential tenancy agreement'. Explain how residential tenancy agreements protect tenants.
- 8 a Define the term 'breach'.
b Under what conditions might you incur a penalty for being in breach of a lease?
- 9 a Define the term 'bond'.
b Under what conditions will your bond be returned?
- 10 a Define the term 'condition report'. Give a reason why the tenant should complete this report before moving in.
b Explain what would happen if there are more marks or breakages when the tenant moves out than are listed on the original condition report.
- 11 Summarise what may happen if you leave a rented property without paying the rent owing.
- 12 How can conflict be avoided in shared accommodation?

Activities

- 1 Think of some other factors that might affect your choice of accommodation. For example, do you have a pet?
- 2 Create a table that sets out the advantages and disadvantages of renting a house or apartment on your own, sharing a house or apartment, and private board. Present your findings to the rest of the class.
- 3 Explain what you could do if you don't know anyone who wants to move in with you.
- 4 Copy the table below and ask someone in your present accommodation for information to fill in the details. You may need to contact the suppliers to find out how much the connection fees are.

UTILITY	SUPPLIER	COST PER WEEK	CONNECTION FEE
Electricity			
Gas			
Internet			

- 5 In groups, brainstorm a response to the following question. Apart from money-related matters, such as living expenses, what other things would you be responsible for if you were living alone?
- 6 Access the 'Renting' page on the NSW Fair Trading website and use the site to complete these tasks.
 - a If the landlord gives you notice of an increase in your rent, what two actions could you take?
 - b Explain what is meant by a tenant's right to privacy.
 - c When is the agent or landlord allowed to enter the rental premises? Present your answer as a summary.
 - d Identify the organisations that provide tenants with advice about financial assistance and discrimination.



- ◀◀◀ e Explain the role of the NSW Civil and Administrative Tribunal (NCAT).

For more information on your legal rights and responsibilities, go to the following websites:

- Tenants NSW
- Youth Law Australia
- Redfern Legal Centre.

- 7 List the factors you would need to consider (for example, price and area/suburb) if you wanted to find somewhere to live. Study the advertisements on a rental listing website (such as Domain or Realestate.com). Select four or five advertisements that may suit your requirements and share them with your group.
- 8 Write your own advertisement advertising a room for rent, specifying the type of person you would like to share accommodation with.
- 9 Access the website of a local real estate agent. Investigate the types of accommodation for rent.
- 10 Locate copies of a standard residential tenancy agreement and a condition report (from a real estate agent, website, or friend or family member who rents). Using your present accommodation for the information you need (such as address and physical descriptions of the rooms), fill in the details on both forms.
- 11 In groups of four or five students, compile a list of the household tasks that would need to be undertaken in a shared house or apartment. As a group, develop a strategy for dividing these tasks between those occupying the household. Share your findings with the rest of the class. As a class, determine the strategy that is most likely to be successful.
- 12 Study the Spotlight box 'Legal rights of tenants' on page 371.
 - a Explain the relationship between the tenant, the real estate agent and the landlord.
 - b What forms of discrimination would be in breach of laws governing access to rental accommodation?
 - c What can you do if you think a real estate agent or landlord is discriminating against you?



Tenants NSW
Youth Law Australia
Redfern Legal Centre

11.3 Managing finances

Income and expenses

Before you move out of home, you need to make sure that your income is high enough to support an independent lifestyle. You also need to ensure that your income can be sustained at the same, or even higher, level – especially if you commit yourself to a lease or an agreement with others to share accommodation.

Your sources of income could include one or more of the following:

- an allowance received from parents or other family members
- proceeds of investments
- employment (full-time, part-time or casual)
- benefits received from the government; for example, Abstudy, Austudy, the Newstart Allowance or the Youth Allowance
- a scholarship or bursary from a university, government agency or large company.

Moving into your own place involves two different types of expenses:

- *Establishment costs.* These are the one-off expenses needed to access rented accommodation; for example, the bond, advance rent and the connection fees for the internet, gas and electricity. You might also need to buy large items, such as a fridge or a bed, when you are starting out. These costs are one-off, but they can be high and must be taken into account before you move into your own house or flat.
- *Ongoing expenses.* These are the costs incurred on a regular basis; for example, weekly, monthly or quarterly. These include rent, food and utilities.

Avoiding financial problems

One of the challenges of living independently is managing your finances so that you avoid financial problems. Strategies to meet this challenge include developing a household **budget** and spending your money wisely. See Chapter 1, section 1.4, for a discussion of budgets and consequences of poor financial management.

Household budgets

One way of keeping track of your household finances is to develop a budget (see the Spotlight box 'Designing a budget' in Chapter 1, page 54). This is a list of all your expenses and the estimated cost of each expense. Developing and following a budget should ensure you do not spend more than you earn.

A budget can be planned on a weekly, fortnightly or monthly basis. Usually it is a good idea to budget according to the timing of your income. For example, if you are paid weekly, compile a weekly budget. A budget should list all **fixed expenses** (those that you cannot change; for example, rent) and all **variable expenses** (those that may vary over time; for example, food and electricity).

Economising

Very few people are able to buy exactly what they want all the time. Most people will **economise** or cut down on some expenses in order to have enough money to purchase essential goods and services or to buy the occasional treat. You can economise in many areas, but not all. For example, you will not be able to economise on the fixed cost of rent, because this is part of your contractual agreement with the real estate agent or landlord. With variable expenses, you have much more control over what you spend your money on. You could economise on electricity and gas, for example, by making sure you turn off all the lights when you aren't using them and by limiting long showers and use of hot water generally.

Becoming a bargain shopper

You can make your income go further by being a wise consumer. Here are some ways to become a bargain shopper:

- *Food.* Shop at markets rather than at supermarkets; buy in bulk; choose generic brands or goods on special; and buy fresh food, especially vegetables and pastas, as they are much cheaper than pre-cooked packaged meals or takeaway food.
- *Entertainment.* Check newspapers and community advertisements for free or low-cost entertainment; join a local group that generates its own entertainment/activities for members, such as a local music or drama group or a local sports club.
- *Personal items.* To save money on personal items, such as clothes and gifts, buy specials, shop at less expensive retail outlets, such as factory outlet stores; buy second-hand clothing; make your own clothing; and avoid expensive designer brands.
- *Mobile phones.* Reduce the cost of having a mobile phone by finding the cheapest plan, limiting web browsing and downloads, and using prepaid access.
- *Transport.* If you need or want your own vehicle, consider buying a bike rather than a car. The costs of buying and running a car (such as insurance, petrol, registration and repairs) make a car an expensive transport option. Often the cheapest alternative is public transport, and if you use it every day, buy a weekly, monthly or yearly pass. Investigate the deals offered by transport companies.

Tax obligations

Once you start working and earning an income, your employer will withhold tax (PAYG withholding tax) from your wages, and report and pay the withheld amounts to the Australian Taxation Office (ATO). After the end of June each year (and before 31 October if you are lodging your own return), you will need to complete an annual tax return. You are able to claim a range of work-related expenses. This will reduce the amount of tax you are required to pay, and you may be eligible for a tax refund.

As an employee, you will be required to have a Tax File Number (TFN). You can apply for a TFN at an Australia Post branch, Centrelink office or online. You can lodge your tax return using the ATO website.



Tax File Number
ATO tax return

Insurance

Insurance is a way of making sure that your income and property are protected. By taking out an insurance policy, you are entering into a type of contract. In return for a regular payment, you receive an insurance policy. The policy entitles you to financial support if, for example, you fall ill, suffer an injury or experience a loss of property. Life insurance, income protection insurance and health insurance provide a degree of financial protection. Other types of insurance protect your belongings. Often several insurance companies will offer the same insurance cover but at varying prices.

Some examples of insurance for young people are:

- *Health insurance.* This covers your expenses if you are sick in a private hospital or if you need private dental, optical or physiotherapy treatment, for example.
- *Household contents insurance.* This protects your furniture and personal possessions against theft or damage. When you make an insurance claim, the insurance company will pay either the *replacement value* (a payment equal to the cost of a new item) or the *depreciated value* of the item (a payment equal to the cost of a new item *minus* the amount of value it has lost over time, which takes into account wear and tear).
- *Car insurance.* Comprehensive insurance covers your car for theft and, if you have an accident, damage to your car and the other car. Third-party property insurance only covers damage to the other car in an accident. Insurance payouts are usually equal to the market value of the car; that is, the depreciated value.
- *Personal insurance.* There is a range of personal insurance products on the market in addition to health insurance. These include:
 - *Total and permanent disability insurance* gives you cover and protection against total or permanent disability caused by an accident, illness or injury. In the event of a sustained permanent or total disability, you will be paid a lump sum benefit to help you with whatever expenses and adjustments are necessary.
 - *Income protection insurance* is designed to pay or provide you with a steady stream of income in cases when you sustained an injury or have had to stop working because of an accident.
 - *Life insurance* is perhaps the first type of insurance that was introduced. Its main purpose is to cover you for death. Life insurance pays a lump sum benefit to your beneficiaries when you die.

Understanding the text

- 1 List the sources of income that can support independent living by young people.
- 2 Distinguish between establishment costs and ongoing expenses.
- 3 List the factors you should take into account when creating a household budget.
- 4 Outline some of the ways you can economise to limit your variable expenses.
- 5 Outline how you can become a bargain shopper.
- 6
 - a Why do you need to insure your possessions?
 - b What would happen if your property was stolen or damaged by fire and you did not have it insured?
 - c Which type of car insurance provides the most protection – comprehensive or third-party property?
- 7 State your tax-related responsibilities once you start working.
- 8 Outline the types of personal insurance and what cover they provide.

Activities

- 1 In pairs, copy the table below, adding as many rows as you need. Complete the table by listing all the household expenses you can think of and when they would be due. The first one has been completed for you.

EXPENSES	TO BE PAID
Rent	Fortnightly

- 2
 - a Find a recipe for a meal (for example, lasagne) and cost the various ingredients by using a supermarket's online shopping website. Alternatively, visit a nearby supermarket.
 - b Compare the cost of the ingredients with the cost of a similar prepackaged or takeaway meal capable of feeding the same number of people.
- 3 Use the internet to identify an insurance company that offers household contents insurance.
 - a Find out how much the cover costs, the items it includes/excludes, any special conditions, and whether the policy offered meets the replacement cost or depreciated cost of any possessions stolen.
 - b List the types of information that the insurance company will require before it will give someone cover on their possessions.

11.4 Major purchases

Apart from the expenses already discussed, there will be a number of major items that need to be purchased when you move out of home and live independently. These may include a refrigerator, washing machine, television, sofa, bed, table and chairs.

Joint ownership

In some shared households, people pool their resources to purchase major household items. This is fine as long as all of you agree on what will happen if someone decides to move out. Will the person moving out agree to sell his or her share to those who remain? Likewise, those who remain must agree to pay the money necessary to buy out the other person's share. This agreement could be in writing, so that there

are no misunderstandings when one person decides to move out. You must also agree on the depreciated value of the good. To avoid complications, it is often best to avoid joint ownership of major household items; it may be better for each person to buy one major item.

Purchasing major items

Major items can be purchased new or second-hand.

New items

New items are sold by department stores and specialty stores; for example, electrical and furniture stores. The cheapest time to buy large household goods is when there are sales. Watch out for television and online advertisements as well as catalogues delivered via the letterbox. After Christmas, household items in furniture and department stores are usually on sale at reduced prices.



FIGURE 11.4.1 Moving into your own place often means that you need to buy major household items. These can be bought either new or second-hand.

Visit several shops to get an idea of the range of products available, the features of each and how each will meet your needs. For example, you may have a particularly small space for a fridge and so you will need to measure the space and find a model that will fit. Once you have found the make and model that suits you, shop around to find the best price. Use the internet or call each store and ask them for their best price on the item you want.

Remember that almost all stores will charge a delivery fee. You will probably have to pay this if you are buying a large, heavy household item, unless you have some way of getting the item home yourself.

If you don't have cash to buy the item, you can pay for it on a credit card or enter into a hire-purchase agreement through the store.

Payment options

Credit cards

A **credit card** means just that: if you have a job or a reliable income, a bank or other financial institution may give you a card with a pre-approved line of credit; for example, a credit limit of \$2000. You are able to spend up to this amount and, in return, you must repay a set minimum amount per month.

With some credit cards, you are required to pay interest from the date of the purchase. With others, you are given a short time to pay (that is, an interest-free period), after which you will be charged interest at a rate of about 15 per cent. So if you buy a television for \$500 and only pay off \$10 per month, after 12 months you will still owe approximately \$480 – almost the same as when you started – even though you have paid \$120 over the course of the year. The reason for this is that you will be charged interest until the item is paid for. Therefore, making only the minimum payment will always result in paying much more for an item than the original price.

If you buy many items on your credit card, the amount you have to pay back will increase. This may lead to you becoming trapped in credit card debt; that is, you will not be able to afford more than minimum payments and your repayments may be stretched over a very long period of time. The worst-case scenario is when you cannot make any payments at all – even the minimum. This may occur because you have lost your job, you have been injured and cannot work, or other expenses (such as rent) have increased more than anticipated.

If you cannot make even minimum payments, this will have serious consequences. The bank will send letters threatening legal action and the goods may be **repossessed**. Your credit card will be cancelled by the bank and you will be listed as a **bad credit risk** or attract a bad credit rating. This means that you will not be able to get credit with any financial institution and your ability to enter other financial agreements (such as a mobile phone agreement) may be affected. For more information on credit ratings, see Chapter 1, section 1.4.

Buy now, pay later

Buy now, pay later (BNPL) payment services are offered by retailers and service providers. They enable you to buy a product immediately and delay payment. You then pay off the product in instalments (often fortnightly) over several weeks or, with some high-value purchases, over a longer period of time.

BNPL services are often advertised as ‘interest-free’ or ‘0 per cent interest’, but the cost will add up if you do not make the repayments on time. Remember to check the terms and conditions before you sign up, as they can be different for each BNPL service.

Some of the things to consider before using these services include:

- *Late fees.* A late fee is usually charged every time you miss a payment or pay after the due date. These fees can add up over time.
- *Monthly account-keeping fees.* Some of these services charge you a fixed amount for every month you continue to use their service.
- *Payment processing fees.* You may be required to pay a fee for each payment, on top of your set repayment.

Lay-by

Large department stores allow you to pay off some items (such as small electrical appliances) in instalments. However, you cannot collect the goods until they have been paid for in full.

Consumer protection: warranties

New electrical goods and pieces of furniture are normally covered by a manufacturer’s **warranty**, which is a guarantee of quality. If the item breaks or malfunctions in any way, it can be returned to the store to be repaired or replaced at no cost to the purchaser. A warranty usually lasts for one year, but can often be extended by paying extra to increase the period of cover for another year or two. It is important to read the warranty’s fine print. You may find that not all problems with the product are covered under the warranty. Remember to keep your receipt as proof of purchase of the item.

When you purchase goods or services online from a business based in Australia, you are protected by the same Australian consumer law that applies when you make a purchase at a physical store.

If you buy online from an overseas business, Australian consumer law might not apply or may only offer you limited protection. This could make it difficult for you to benefit from a warranty or to get a refund, replacement or repair if the goods you receive are defective. Before purchasing from overseas, you should make sure you can get any repairs done in Australia.

Insuring your purchase

If you have not taken out insurance on your existing possessions when you move into your own accommodation, you should consider doing so if you buy new electrical goods and furniture. If, for example, you buy a new television for \$1000 on **hire purchase** and it is stolen or destroyed in a house fire, you will still be required to make the repayments. However, if you are insured, the insurance company will refund some or all of the cost of the television and you can use this money to repay the finance company. All these situations require proof of purchase, so make sure you keep all receipts when you buy goods. Also retain all the documents from your insurance company. If you are burgled, call the police so that you will have their report to back up your claim.

Second-hand items

You can make a limited amount of money go much further by buying second-hand goods. Sometimes you can secure a bargain; for example, items only a few months old but priced at around half the recommended retail price. There may be no warranty available, so you are taking a risk as to whether the items are in good working order.

Second-hand items can be purchased from second-hand dealers and garage sales and are advertised on websites such as the Trading Post and Gumtree, on community noticeboards and in local newspapers. Items bought in this way are often much cheaper than the recommended retail price.

Second-hand dealers operate like normal retail outlets and are more expensive than buying second-hand goods directly from the public, such as from garage sales. Second-hand dealers will usually deliver larger items to your home. There will normally be no delivery when purchasing goods directly from the public, and you will have to be quick to get the real bargains. Garage sales, for example, may start at five or six on a Saturday morning.

Consumer protection: second-hand goods

If you purchase second-hand goods from a supplier's shop or website, you should be aware that there are a number of consumer protections in place. The seller must guarantee that the second-hand goods are of an acceptable quality. This means that the goods are safe and free from defects, acceptable in appearance and finish, and adequately perform the job that the user would expect from the product. In the case of damaged, but still functional goods, the seller must alert the consumer to the defect. Second-hand products must also match their description (especially important for online sales), be fit for a particular purpose that the consumer makes known, have repair facilities and spare parts reasonably available, and come with undisputed possession. The relevant consumer protection law is the *Competition and Consumer Act 2010*.



FIGURE 11.4.2 Second-hand may not be second best.

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Alternatives to purchasing major items

One alternative to purchasing major items is the sharing economy. In the very simplest terms, the sharing economy involves the use of technology to facilitate shared access to goods or services by two or more parties.

In the sharing economy, individuals rent or 'share' things such as cars and bikes with other individuals in a peer-to-peer fashion. A good example of the sharing economy in Australia is GoGet, a car - sharing service operating in Sydney, Melbourne, Canberra, Brisbane and Adelaide. Rather than going to the expense of buying their own car (with all its ongoing costs), GoGet members can access a vehicle when they need one. GoGet members choose a rate plan and pay an annual fee. The fee covers fuel, insurance, maintenance and cleaning. The vehicles used are typically late-model hatchbacks, but the fleet also includes vans, utes and premium vehicles. Each vehicle has a home location, referred to as a 'pod', either in a car park or on a street. GoGet members reserve a car online or by telephone and use a key card to access the vehicle. The service is largely limited to highly populated urban neighbourhoods or cities.

Understanding the text

- 1 Apart from the major items mentioned at the beginning of this section, what other items do you think may be essential when you move out of home?
- 2 What are some of the problems associated with joint ownership of major household items?
- 3 Outline the options you have when buying major household items.
- 4 How can you make sure that you get 'value for money' when buying major household items?
- 5 Create a table outlining the advantages and disadvantages of buying household items:
 - a using a credit card
 - b using a buy now, pay later service
 - c second-hand.
- 6 Outline the protections in place when buying both new and second-hand goods.
- 7 Explain what is meant by the 'sharing economy'. How might this help with reducing your cost of living?

Activities

Complete the following activities in groups.

- 1 Create a list of household goods you would need before moving into rented accommodation.
- 2 Use advertising brochures from the major electrical and furniture retailers to find out how much you would pay for these household goods if you purchased them new.
- 3 Using online sites such as Trading Post or Gumtree, find out how much it would cost to buy these goods second-hand.
- 4 Think about some of the issues mentioned in this chapter. Brainstorm some of the factors, other than cost, that may influence your decisions about which items to buy.



11.5 Community involvement

Enrolling to vote

Voting in Australia is compulsory. As soon as you are 18, you need to enrol to vote. You can enrol to vote on the Australian Electoral Commission's website. Every time you move, you need to access the Commission's website and update your personal details.

Once enrolled, you should inform yourself about the political process and important issues and then exercise your responsibility to vote. See Chapter 4 for more information.



Contributing to the community

People of all ages offer their time and skills to assist in the delivery of a range of community services. These include lifesaving and emergency services (for example, the Rural Fire Service and SES), amateur sporting and recreation clubs, environment groups (for example, Landcare and Bushcare), event volunteering, charities, aged support services (for example, Meals on Wheels), church groups and youth groups.

Others choose to become involved in environmental and issue-based advocacy groups, such as Greenpeace and GetUp! (see the Spotlight box 'Taking a stand on issues'). An advocacy group (sometimes referred to as an interest group) can be defined as a group of people that seeks to influence public policy on the basis of a particular common interest or concern.

Without such voluntary contributions, many of the community activities and services we take for granted would not be available. You will also find that your voluntary contributions can be personally very rewarding. They will, for example, enable you to make new friends and develop a greater sense of self-worth through a realisation that you, too, can make a difference.

Spotlight: Taking a stand on issues

Over time, your interest in a range of political, social and environmental issues will hopefully increase. These may include issues such as climate change, whale hunting, logging of old growth forests, coalmining, human rights, refugees and asylum seekers, land rights for Indigenous Australians and equal rights.

You have the opportunity to influence the public debate regarding these issues and the decisions made by politicians and corporate executives.

Two of the most effective issue-based organisations operating in Australia are Greenpeace and GetUp!

Greenpeace

Greenpeace Australia is part of a larger global interest group promoting environmental awareness and action. With more than 30 million supporters and operations in 55 countries, it is a major player in the area of environmental protection. Many of its campaigns now focus on climate change and its effects. Specific initiatives include campaigning for a coal-free future, making renewable energy available for everyone, protecting oceans and forests, preserving the Great Barrier Reef, protecting the Antarctic, ending the oil age and defending democracy.

GetUp!

GetUp! is Australia's most successful progressive advocacy group. With a membership of more than one million Australians, it campaigns to influence political debate in the areas of environmental justice, human rights, economic fairness and democratic integrity. The organisation's values include a belief in fairness, compassion and courage.

GetUp!'s team of expert strategists mount campaigns around a number of contemporary issues, including a safe and healthy environment, protecting the Great Barrier Reef, the Adani coalmine in Queensland, defending refugee and asylum seekers, and marriage equality. GetUp!'s online activities include petitions, email writing campaigns and fundraising. Offline, the organisation meets with, and seeks to influence, local MPs, hands out how-to-vote cards at polling booths and stages rallies. It also targets sitting conservative politicians and seeks to defeat them at elections. GetUp! also uses the media to build greater awareness of the issues it campaigns on.

Right-wing radio hosts such as Alan Jones, Ray Hadley and Andrew Bolt, together with Rupert Murdoch's News Limited media outlets, attack GetUp! because it is seen as a threat to their conservative world view.



FIGURE 11.5.1 Anti-coalmining protest – an example of young Australians campaigning for a better future for all



FIGURE 11.5.2 GetUp! is Australia's most successful progressive advocacy group.



FIGURE 11.5.3 GetUp! activists



Greenpeace
Australia



GetUp!

Getty Images/SAEED KHAN/AFP

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Most volunteers get a great sense of satisfaction from helping others, as well as the opportunity to meet new people and make new friends with similar interests. This is important if you have moved to a new area or town away from family and friends.

Community groups have the following characteristics:

- *Organised.* A group has a structure with rules about how the group is organised and run. This is called a 'constitution'.
- *Self-governing and independent from any other organisation.* These bodies are typically independent and are free to appoint their own management committee.
- *Not for profit.* No one from within the group will profit from the group. For example, committee members should not be paid for their work and any profits generated should be reinvested in the group.
- *Voluntary.* The organisation is typically governed by a voluntary management committee and may rely on the support of volunteers to carry out its activities.
- *Public/community benefit.* The group will carry out activities that benefit a particular group of people within the community.

For community groups to be successful in achieving their goals, participants need to:

- work cooperatively to achieve a common goal
- allow for freedom of expression
- promote fairness
- establish clear policies and obligations
- maintain sensitivity towards the feelings of other volunteers
- celebrate the group's successes
- promote interactions among members of the group
- elect leaders committed to the values promoted by the group
- practise effective communication
- make smart decisions.

Seeking assistance

There are times when young people need to access the services provided by community groups.

Most communities, both small and large, have a number of groups that you can access if you need help when you move out of home. These include:

- religious organisations (such as St Vincent de Paul Society and Mission Australia)
- other charities (such as the Smith Family)
- service clubs (such as the Lions Club, Rotary and Surf Life Saving Australia)
- youth clubs (such as the YMCA)
- government departments (such as NSW Family and Community Services).

Groups such as these are contact points for those seeking emergency shelter or emergency financial assistance, those who are victims of domestic violence, and those who suffer from physical or psychiatric illness or from drug or alcohol abuse.



FIGURE 11.5.4 Young people like these lifesavers have an important role to play in community-based organisations.

Spotlight: Community welfare groups



Listed below are some of the community groups that you could contact to give or receive help:

- Anglicare Welfare Services gives a helping hand to those young people who are isolated, are being abused or are in conflict with their families. Its services include assistance for the unemployed and homeless, such as emergency accommodation.
- Baptist Community Services offers abused and neglected young people both accommodation and counselling programs to enable them to learn the skills to function independently in the community.
- Centacare Catholic Family Services is the welfare arm of the Catholic Church in Sydney. Centacare provides services that support the social and emotional wellbeing of communities, families and individuals.
- Mission Australia aims to assist young people at risk of abuse, drug addiction, and isolation from family and friends. Its programs focus on equipping its clients with the skills necessary to live socially connected lives.
- The Salvation Army, through its national network of youth services, provides a wide range of services for homeless and disadvantaged young people.
- St Vincent de Paul Society provides many services, including homeless persons' services, clothing and assistance centres, emergency accommodation, financial counselling, as well as drug, alcohol and gambling counselling.

Understanding the text

- 1 Why is it important to contribute your time and skills to community-based organisations? What benefits are there in volunteering?
- 2 What are issues-based advocacy groups?
- 3 Outline the characteristics that distinguish community groups from other types of organisations.
- 4 What must community groups do to be successful in achieving their objectives?

Activities

- 1 As a class, brainstorm the names of community-based organisations that young people might contribute to. Internet research using search terms such as 'not-for-profit organisations' or 'community-based organisations/groups' will assist you in this task.
- 2 Study the Spotlight box 'Taking a stand on issues' on pages 381–82. Select either Greenpeace or GetUp! Investigate the nature of the organisation and the issues it is concerned with. Outline the nature of the campaigns it mounts. Why do conservative interests object to the activities of such organisations?
- 3 Select one of the organisations listed under 'Seeking assistance' or in the Spotlight box 'Community welfare groups'. Investigate the nature of support it can provide as you move to independent living.
- 4 Investigate the purpose and contribution of *one* community organisation such as a union, charity, association or club, in which young people may become involved.
 - a Identify the goals and strategies of the selected organisation.
 - b Assess its effectiveness in achieving its objectives.
 - c Identify the actions individuals can take to assist the organisation to achieve its goals.
 - d Propose actions to improve the effectiveness of the organisation.

11.6 Current issues

There is a range of current issues affecting young Australians as they move from dependence to independence. These include homelessness, mental illness, drug and alcohol abuse, and workplace bullying and exploitation. Also important are lifestyle issues and the need to establish and maintain priorities.

Homelessness

Homelessness occurs when people are without a permanent place to live. Homelessness also includes those people living in homeless shelters, domestic violence shelters, vehicles, squatters taking shelter in abandoned buildings, as well as those living rough on the streets. Home, of course is more than just a physical space; it provides us with an identity and a sense of belonging. It also provides security and a place of emotional wellbeing. Being homeless is often linked to the state of people's mental health and family relationships (see the Spotlight box below).

Spotlight: Young Australians sleeping rough

It has been estimated that 44 000 young Australians sleep rough. This means that they have no safe place to sleep. Young people with a mental illness are 3.5 times more likely to become homeless. At this point, their prospects of positive health and social outcomes decline significantly.

The link between homelessness and mental health among young people works in both directions. Young people who are experiencing mental illness are at increased risk of homelessness, while those who are homeless are at increased risk of mental illness. In addition, almost half of homeless youth reported high levels of family conflict.

Couch surfing is often the first way young people experience homelessness. Many adolescents stay for short periods with relatives or friends, sleeping on couches, floors or in other insecure housing situations. Those who spend time away from home are much more likely to battle depression and to be at risk of suicide.

The Salvation Army and Youth Off The Streets are two organisations working with young people who are homeless, drug dependent and recovering from abuse.



FIGURE 11.6.1 Many young Australians are sleeping rough.

Mental health and wellbeing

Young people, just like the general population, can suffer from a range of mental health disorders. These include depression, anxiety, stress, schizophrenia and bipolar disorder. Each disorder can vary in its severity. The effect of such disorders can be severe for the individuals and families concerned, and its influence is far-reaching for society as a whole. If you are concerned about your mental health or that of a family member, the first stop should be your doctor, who can provide information about the available therapies and treatments (see the Spotlight box 'ReachOut').

Symptoms of mental illness include:

- feeling anxious or worried
- feeling depressed or unhappy
- being prone to emotional outbursts
- having difficulty sleeping
- experiencing changes in appetite and weight
- becoming quiet or withdrawn
- engaging in substance abuse
- experiencing feelings of guilt or worthlessness
- experiencing changes in behaviour or feelings.

Unfortunately, mental health disorders are linked to suicide and self-harm (see the Spotlight box 'Youth suicide').

Spotlight: Youth suicide

Sadly, the suicide rates among young Australians are increasing. This is despite a range of prevention strategies being implemented by governments and youth-focused mental health organisations. While suicide rates among young men remain higher than those of women, female suicide rates have doubled over the past decade. Aboriginal and Torres Strait Islander youth and youth in regional and remote Australia are most at risk.

Additional mental health services are needed for young people who are at risk of suicide. The more effective use of technology offers some hope for the future. Better online platforms, such as web-based counselling services, that could help people at risk of suicide are needed. Such technologies can be used to connect young people who exhibit suicidal behaviours and mental health problems with agencies best equipped to meet their needs.

The rise in suicide rates has also been accompanied by a rise in self-harm behaviours. Hospitalisations for self-poisoning among women, for example, have spiked in recent years. One of the myths around self-harm is that young people who engage in the practice are really just seeking attention. This is definitely not the case, and the behaviour needs to be taken seriously.

Key statistics include the following:

- Suicide is the leading cause of death for Australians between 15 and 44 years of age.
- Young Australians are more likely to take their own life than to die in motor vehicle accidents.
- A third of all deaths of young men are due to suicide.
- About 75 per cent of people who die by suicide are males and 25 per cent are females.
- The suicide rate among Aboriginal and Torres Strait Islander people is approximately twice that of non-Indigenous Australians.
- Suicide rates among lesbian, gay, bisexual, transgender, queer or questioning, intersex and asexual (LGBTQIA) youth are significantly higher than among the general population.

The causes of suicide are complex, but typically include:

- stressful life events
- mental illness
- physical illness
- drug or alcohol abuse
- difficult living circumstances and homelessness, often associated with family breakdown.

By contrast, there are protective factors that make us more resilient and can reduce suicidal behaviours. These include:

- supportive social relationships and family harmony
- a sense of control and purpose
- positive self-esteem
- links to good health services.

If you or someone you know needs help, call:

- Lifeline Australia – 13 11 14
- Kids Helpline – 1800 55 1800
- MensLine Australia – 1300 78 99 78
- Suicide Call Back Service – 1300 659 467
- Beyond Blue – 1300 22 4636.

Spotlight: ReachOut

ReachOut is Australia's leading online mental health organisation for young people and their parents. The organisation's website provides a range of tools and tips to help young people and their families get through anything from everyday issues to tough times.

ReachOut has changed the way people access help. The site's information is available for free anytime. Nearly two million Australians access the site each year.

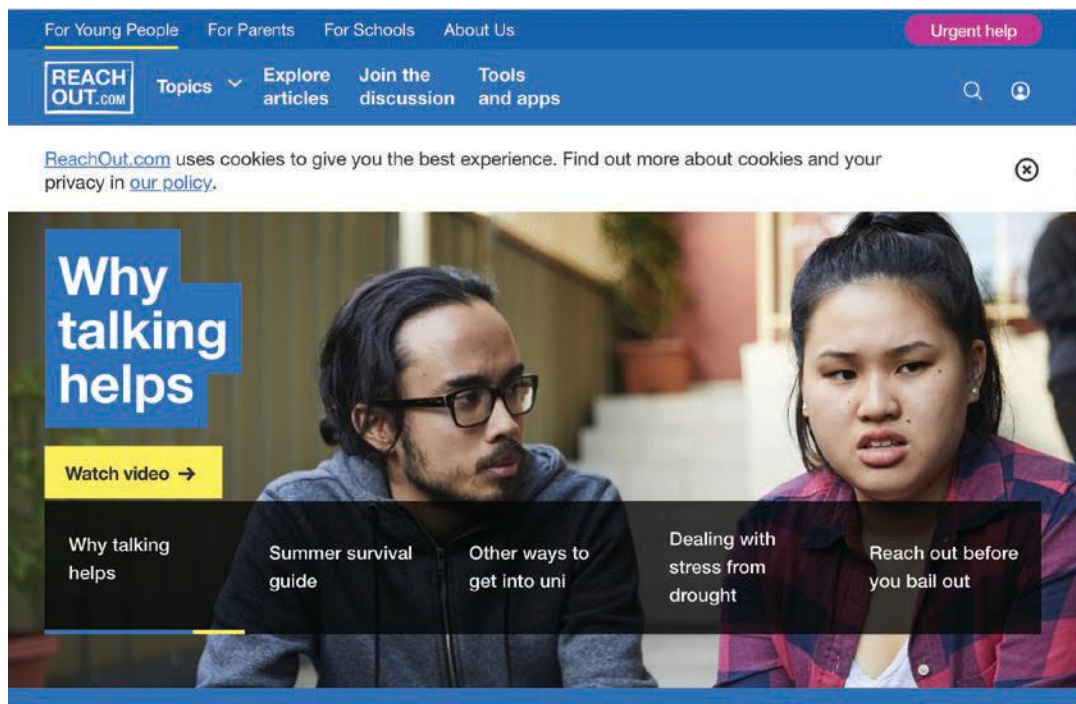


FIGURE 11.6.2 ReachOut is Australia's leading online mental health organisation for young people and their parents.



Substance abuse

Another health issue is drug and alcohol addiction. An addiction occurs when a person compulsively engages in behaviour (such as taking drugs) or in an activity (such as gambling), even though doing so causes them harm or interferes with their everyday life. Even when they know that what they are doing is harming them, addicts usually can't stop doing the thing they're addicted to without help and support.

Workplace bullying

Workplace bullying is any form of verbal, physical, social or psychological bullying carried out by an employer (or supervisor), another person or a group of people in a place of work. Some types of workplace bullying are criminal offences. If you experience violence, sexual assault or stalking in your place of work, you should report it to the police.

The Australian Human Rights Commission website lists the following examples of workplace bullying:

- repeated hurtful remarks or attacks, or making fun of your work or of you as a person (including your family, sex, sexuality, gender identity, race or culture, education or economic background)
- sexual harassment, particularly unwelcome touching and sexually explicit comments and requests that make you uncomfortable
- excluding you or stopping you from working with people or taking part in activities that relate to your work
- playing mind games, ganging up on you, or other types of psychological harassment
- intimidation (making you feel less important and undervalued)
- giving you pointless tasks that have nothing to do with your job
- giving you impossible jobs that can't be done in the given time or with the resources provided
- deliberately changing your work hours or schedule to make it difficult for you
- deliberately holding back information you need for getting your work done properly
- pushing, shoving, tripping or grabbing you in the workplace
- attacking or threatening you with equipment, knives, guns, clubs or any other type of object that can be turned into a weapon
- initiation or hazing – where you are made to do humiliating or inappropriate things in order to be accepted as part of the team.

If you are being bullied, you should do the following:

- Document everything that happens, including what you have done to try to stop it.
- Get support from someone you trust or contact support services, including the relevant union.
- Approach the bully if it is safe to do so. Tell them that their behaviour is not acceptable.
- Tell someone at your work (for example, a senior manager or supervisor). Larger workplaces usually have a process for making a complaint and resolving disputes.
- Become informed about your rights by using the information provided by:
 - SafeWork NSW – New South Wales' workplace health and safety authority – to get advice, or to make a complaint
 - the Australian Human Rights Commission – to get advice, or to make a complaint about discrimination, harassment and bullying covered by anti-discrimination law
 - the union representing your industry, which can give you advice on your options and your rights
 - Youth Law Australia for legal information, especially for young people
 - Heads Up – an excellent source of information on mental health in the workplace.

Workplace exploitation

Some employers seek to exploit young workers keen to earn money to support their changing lifestyle expectations. In many cases, these young workers are poorly informed about their workplace rights and entitlements. Examples of workplace exploitation include:

- underpayment, sometimes disguised as ‘cash in hand’ payments
- the expectation that you will work unpaid overtime
- the use of ‘trial’ shifts, unpaid internships and ‘work experience’.

To avoid being exploited, become informed about your workplace rights. If you think you are being exploited, you can contact the Fair Work Ombudsman or the union representing the industry in which you work.

Exploitation is most common in the hospitality sector.



FIGURE 11.6.3 Workplace exploitation is most common in the hospitality sector.

Lifestyle issues

It can be exciting to be living independently and to be able to make your own choices about everyday living and your lifestyle. These choices don't just relate to renting an apartment or buying furniture. You may need to adjust many aspects of your lifestyle to be happy and healthy and to feel in control of your life.

Maintaining priorities

All the activities involved in independent living – work and/or study, household tasks and community involvement – require quite a lot of time to do successfully. Having so many things to do can lead to stress and a feeling of being overwhelmed by responsibilities, tasks and choices. This is where time management is essential.

A good place to start is to create a weekly timetable, or short-term **lifestyle plan**, of things you must do and the amount of time each task will take. It is a good idea to first fill in the essentials (such as work and/or study and housework) and then see how much time is left over for entertainment and social activities. This will give you an idea of how many clubs and groups, for example, you have time to be involved with. Don't forget to allow some time for physical activity. Something like a daily walk or jog for 30–40 minutes is a good start. You also need some time every week for relaxation, such as watching television and reading. So don't completely fill up your program with set activities – leave a few gaps to catch your breath.

You should also think about your longer-term plans or goals (personal, financial, career or educational) for the rest of the year or the next three years. Ensure all the decisions you make in the present will help you to achieve your goals in the longer term.



FIGURE 11.6.4 You will have to plan your budget if you want to purchase items like the latest electronic device.

For example, you may want to compete in Sydney's City2Surf run in six months' time, but you need to be a lot fitter than you are now. Therefore, you will need to include appropriate training time in your present weekly schedule to achieve this longer-term goal. You may want to go on a long holiday for several weeks. If you are working, you will need to accumulate enough annual leave and discuss your plans with your supervisor, so that there won't be any problem about taking all your leave at once. You will also have to budget well for such a trip.

Understanding the text

- 1 Define the term 'homelessness'. What are some of its causes?
- 2 List the types of mental health disorders that young people may experience.
- 3 Outline the symptoms of mental illness.
- 4 Define the term 'addiction'.
- 5 Explain what workplace bullying is and outline the forms it can take.
- 6 Outline how you should respond to workplace bullying.
- 7 Why do young people need to manage their time effectively?
- 8 What is the difference between short-term and long-term plans? Why are they both important?

Activities

- 1 As a class, brainstorm the issues facing young people as they transition from dependence to independence.
- 2 Study the Spotlight box 'Young Australians sleeping rough' on page 385. Outline the nature and scope of youth homelessness in Australia.
- 3 Study the Spotlight box 'Youth suicide' on pages 386–87 and then answer the following questions:
 - a How do the rates of youth suicide vary from group to group in Australian society?
 - b What are the causes of suicide?
 - c What factors make people more resilient and minimise the risk of suicidal behaviour?
- 4 Investigate the services offered by at least one of the suicide prevention organisations listed in the Spotlight box 'Youth suicide'.
- 5 Study the Spotlight box 'ReachOut' on page 387. Investigate the information available on the ReachOut website. Outline the nature of the support it provides young people.
- 6 Using the media, find examples of workplace exploitation. Prepare an oral report outlining the nature of the exploitation and the response of authorities.
- 7 Research task: Investigate an issue affecting young people as they transition to independence. Outline the nature and extent of the issue. Identify the organisations providing young people with assistance. Evaluate the effectiveness of this assistance.
- 8 Create a short-term lifestyle plan by drawing up a weekly timetable of your activities now. Include all your:
 - a study commitments, including homework and study time
 - b household responsibilities; that is, chores
 - c sporting and community commitments
 - d hours of part-time/casual work
 - e social life and relaxation time.Remember that you don't need to fill in every slot. Leave some time with no commitments.
- 9 Imagine the school counsellor has asked you to come for an interview. She or he asks you about your long-term and short-term goals. Prepare a response, in note form, to share with a group or the whole class.



ReachOut

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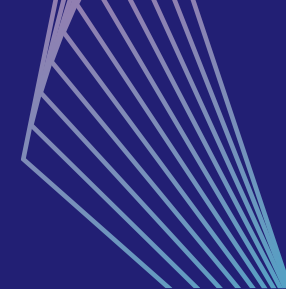
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