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COMMERCE. DOT.COM

Concepts and skills

3rd edition

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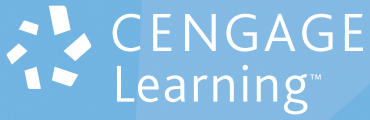

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Contents

Introduction v
About Commerce.dot.com vi
Outcomes viii
Introduction to Commerce 1

Chapter 1 Consumer choice 3
1.1 Commerce and choice 4
1.2 Consumer decisions 8
1.3 Consumer protection 20
1.4 Payment choices 30
Chapter review 36

Chapter 2 Personal finance 37
2.1 Spending and saving 38
2.2 Investing 44
2.3 Borrowing 46
2.4 Managing your finances 51
Chapter review 58

Chapter 3 Law and society 59
3.1 The legal framework 60
3.2 Areas of law 65
3.3 Using the legal system 76
Chapter review 79

Chapter 4 Employment issues 81
4.1 The workplace 82
4.2 Employment relations 96
4.3 Taxation and superannuation 111
Chapter review 116

Chapter 5 Investing 117
5.1 Investing: an overview 118
5.2 Investment options 123
5.3 Investment planning 129
5.4 Current issues in investing 132
Chapter review 133

Chapter 6 Promoting and selling 134
6.1 The selling process 135
6.2 Targeting consumers 143
6.3 Applying selling techniques 147
6.4 Current issues in promoting and selling products 149
Chapter review 151

Chapter 7 E-commerce 152
7.1 The scope of e-commerce 153
7.2 The e-commerce user 156
7.3 Current issues in e-commerce 163
Chapter review 165

Chapter 8 Global links 166
8.1 The global consumer 167
8.2 The global investor 170
8.3 Transnational organisations 174
8.4 International aid programs 182
8.5 Current issues in globalisation 184
Chapter review 185

ISBN 9780170251587

Chapter 9 Towards independence 186

9.1 Moving from home 187

9.2 Arranging accommodation 190

9.3 Managing household finances 195

9.4 Major purchases 198

9.5 Community involvement and lifestyle issues 201

Chapter review 203

Chapter 10 Political involvement 204

10.1 The nature and structure of government in Australia 205

10.2 Political action and decision making 208

10.3 Political parties 213

10.4 Participation in the democratic process 216

10.5 Interest groups 219

10.6 The media 222

10.7 Current issues relating to the political process 225

Chapter review 227

Chapter 11 Travel 228

11.1 Travel destinations 229

11.2 Planning a trip 232

11.3 Organising an itinerary 238

11.4 Solving travel problems 240

11.5 Current issues in tourism 242

Chapter review 243

Chapter 12 Law in action 244

12.1 Contact with the law 245

12.2 Rights and responsibilities 253

12.3 Resolving disputes 261

12.4 Current issues relating to the law 264

Chapter review 265

Chapter 13 Our economy 266

13.1 The economic cycle 267

13.2 Interest rates 273

13.3 Price changes 275

13.4 Current issues relating to changes in economic activity 277

Chapter review 280

Chapter 14 Community participation 281

14.1 Non-profit organisations 282

14.2 Active community participation 287

14.3 Goal setting 292

14.4 Achieving community outcomes 295

14.5 Current issues relating to community organisations 297

Chapter review 299

Chapter 15 Running a business 301

15.1 Being an entrepreneur 302

15.2 Planning for success 303

15.3 Business operation 310

15.4 Current issues in running a business 316

Chapter review 318

Useful websites 319

Acknowledgments 321

Index 322

ISBN 9780170251587

Introduction

This third edition of *Commerce.dot.com* has been written by a team of experienced classroom teachers to meet the curriculum-specific requirements of the NSW Commerce syllabus (Years 9 and 10) and has been updated to address the most recent changes in the economy, the law and the political arena. The book incorporates the four core topics – consumer choice, personal finance, law and society and employment issues – and the eleven content-specific, optional topics.

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.dot.com highlights the knowledge, understandings, skills and values students require to research and develop solutions to consumer, financial, legal, business and employment related 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.dot.com contains a diverse range of material in the form of explanatory text, case studies and Info.com.tech 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 case studies and special interest boxes, which illustrate these concepts, processes and issues within specific contexts. The Info.com.tech boxes are designed to extend students beyond the text and facilitate the development of ICT-related skills. A list of the websites referred to throughout the text is provided at the end of the book. All the case studies include questions to check students' understanding of the material.

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 section of the text features a 'key terms' box, 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. ICT-related skills are developed in context throughout the text.

The text is organised into short units, which facilitates the planning of learning experiences. Each chapter contains '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.

More details about the Commerce.dot.com learning and teaching package, including the Homework book and NelsonNetBook, can be found on the next two pages.

Grant Kleeman

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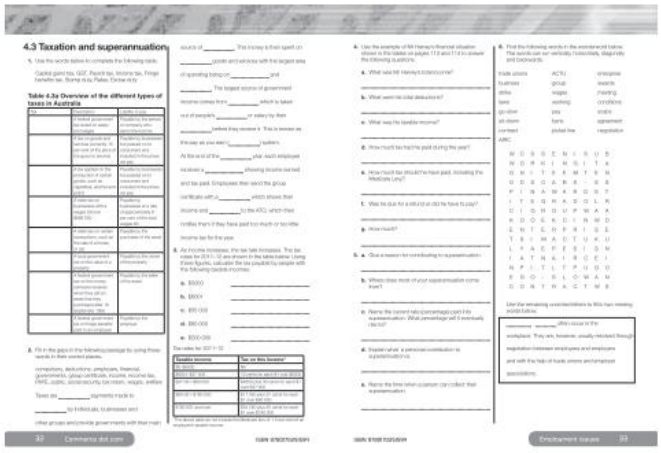
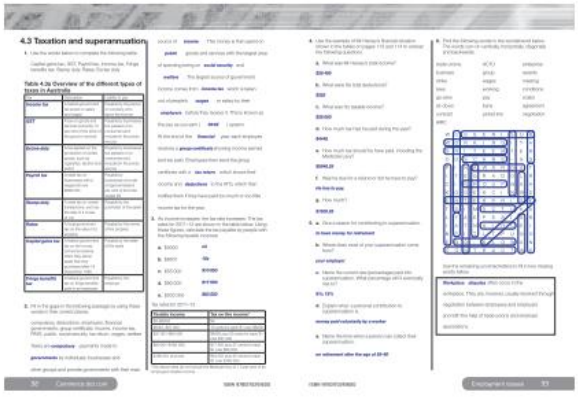
About Commerce.dot.com

Books and resources in the package

The textbook provides the content and questions and activities to cover all the requirements of the NSW Commerce syllabus. It also includes case studies with questions and special interest boxes.



The homework book is a fill-in workbook that provides a range of activities and extension material to complement and build on the student text.



The teachers' homework book contains all the activities from the homework book with the answers provided in a second colour.

Access to the NelsonNetBook is via a student access card, which is provided with every copy of the printed book. It is also available for digital-only purchase.

- The NelsonNetBook can be easily personalised with voice annotations, notes and links using the annotation toolbar provided.
- It can be used online and offline, on computers and tablets, so you can synchronise your online and offline updates.
- At the back of the *Commerce.dot.com* textbook is a list of all the websites referred to in the book. The NelsonNetBook has live links to these sites.
- Administration tools allow teachers to create groups and share annotations.

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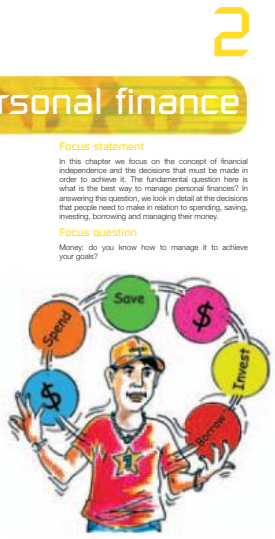
Features

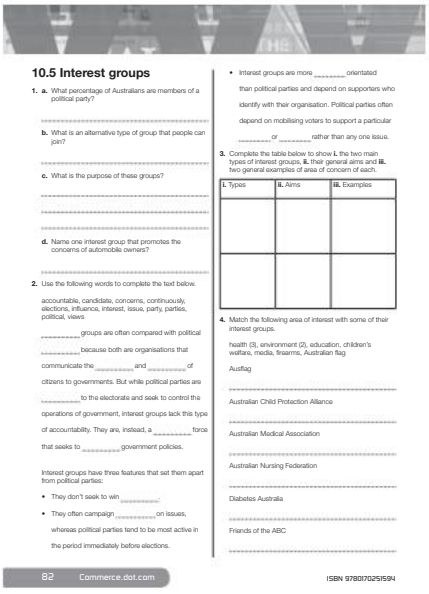
The 'Focus statement' clearly explains what the chapter is about.

The 'Focus question' asks students to think about the content of the chapter and what they may already know about this topic.

Specific chapter outcomes.



The homework book provides a wide range of activities to reinforce students' understanding of the text.



'Key terms' provide clear definitions of important terms.

A variety of stimulus material including photos and diagrams to support student learning.

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

Additional material of interest is highlighted in special interest boxes.

Case studies provide real-life examples of important concepts and are supported by questions to check that students have understood the key points raised.

'Info.com.tech' boxes help student develop their ICT skills and provide many opportunities for further research using the Internet.

'Understanding the text' questions are presented at regular intervals to check students' understanding of the key content.

Activities offer a wide range of tasks to develop higher-order skills.

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Outcomes

Stage 5 syllabus outcomes		Chapter														
		Core topics				Elective topics										
	A student:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
5.1	applies consumer, financial, business, legal and employment concepts and terminology in a variety of contexts	✓	✓	✓	✓	✓	✓									
5.2	analyses the rights and responsibilities of individuals in a range of consumer, financial, business, legal and employment contexts	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓				
5.3	examines the role of law in society	✓	✓	✓	✓			✓			✓		✓		✓	✓
5.4	analyses key factors affecting commercial and legal decisions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
5.5	evaluates options for solving commercial and legal problems and issues	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	
5.6	monitors and modifies the implementation of plans designed to solve commercial and legal problems and issues	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓		✓	✓
5.7	researches and assesses commercial and legal information using a variety of sources	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5.8	explains commercial and legal information using a variety of forms	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5.9	works independently and collaboratively to meet individual and collaborative goals within specified timelines	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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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, understandings, skills and values required to make sound decisions about the range of financial, business, legal and employment related issues that affect our lives. It develops our ability to live independently and achieve financial security.

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

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

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 operate in ways that 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 still live in what is best described as a *subsistence economy*. This means that they provide most of their own basic needs.

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Investigating current issues in Commerce

While studying Commerce you will be required to investigate current issues. When investigating a current issue you may want to use the following points to help you 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 the study of the issue has affected your own views on the issue.

Activities

1 As a class, discuss the issues listed on the right:

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?

2 If the world's population doubled within the next five years, what would be the consequences? In pairs, think of as many consequences as you can.

3 From the list, decide which current Commerce-related issues are long term and which are short term.

4 As a class, discuss which current issues from the list are most important and why.

Issues relevant to the study of Commerce

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

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1

Consumer choice

Focus statement

In this chapter we focus on our role as consumers. We will look at the types of decisions we make and how these affect the quality of our lives. Particular attention is given to the decisions we make when we purchase goods and services and to the issue of consumer protection.

Focus question

What options are available for solving consumer problems and issues?

In this chapter you will learn about:

- commerce and choice
- the decisions that affect the quality of our lives
- consumer decisions
- comparison shopping
- choosing where to buy goods and services
- the key factors affecting consumer decisions
- consumer protection
- the features of a simple contract
- consumers' legal rights and protective legislation for consumers
- organisations that provide assistance for consumers
- methods of payment for goods and services
- methods of keeping records
- changes in the consumption of goods and services over time
- the impact of technology on the consumption of goods and services.

1.1 Commerce and choice

Key terms

budget A spending and saving plan.

collective wants Goods and services provided for the community by governments.

consumer Anyone who buys goods and services.

contract An agreement (either written or spoken) between two parties; for example, a buyer and seller.

franchise Selling the rights to use a business name, image or management system.

good An item that is tangible. It can be seen or touched.

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.

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

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

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

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.

wants Luxury or non-essential goods and services.

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 summarises some of these important decisions.

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 DVDs, perfume 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** that we aspire to.

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 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.

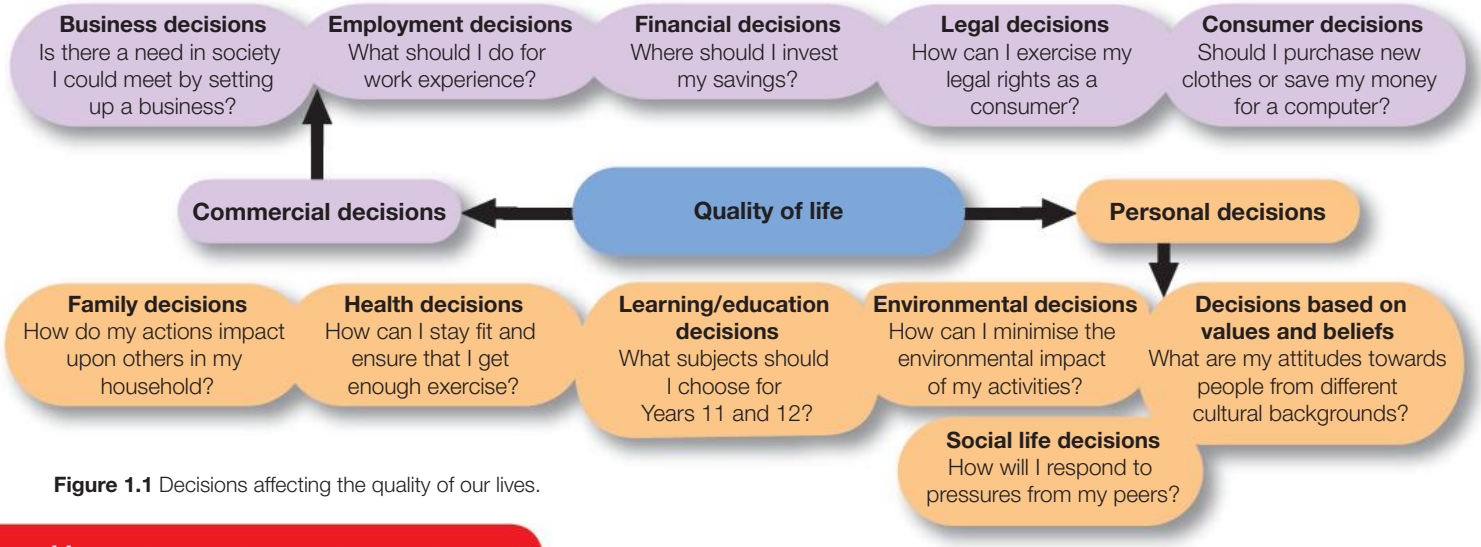

Figure 1.1 Decisions affecting the quality of our lives.

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Figure 1.2 Communities want first-class sporting facilities.

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 up 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.

Understanding the text

1. What are the main types of decisions that affect the quality of our lives?
2. How does a want differ from a need? Provide examples.
3. Distinguish between personal wants and collective wants.
4. Why must consumers choose which wants to satisfy?

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 that these students have? From 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.

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 going on a harbour cruise. This type of consumption creates employment for people in the services industry. Flexible work practices can help employees achieve a balance between work and leisure activities. 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 – primary, secondary, tertiary, quaternary or quinary (see Chapter 4, page 84). 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 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.

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:

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- 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 are discussed in Chapters 4 and 5.)

Obviously we cannot aim to save everything we earn. Some money needs to be set aside for everyday expenses, such as bus trips 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 Chapter 2 (pages 54–56) for information on how to develop 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 card, cheque, direct debit, lay-by, electronic funds transfer and other forms of payment. The advantages and disadvantages of each of these payment methods are outlined on pages 30–32.

Making investment decisions

Deciding where and how 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 5 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. Employees can minimise the amount of tax that they pay by deciding to 'package' their income (have their employer deduct 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 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 they employ.

Some of the key decisions that businesses 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 cost)? Each of these business structures has its advantages and disadvantages (see Chapter 15, pages 305–306). 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 that 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 15, page 304).

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Quantity to produce

Deciding how much to produce involves a delicate balance. Business owners have to estimate the demand for their product and make a decision about how much to produce. Overproduction will create a waste of resources, whereas underproduction might fail to meet the needs of consumers.

Distribution

Business owners need to decide how to distribute their product to customers. They may use a traditional shopfront or sell by direct mail, via the Internet or perhaps door to door. The advantages and disadvantages of the main distribution methods are discussed on pages 11–15.

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 on page 25.

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 21 million tonnes of rubbish. That is more than 600 kilograms per person, each year. 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 **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?

2 List five examples of flexible working practices and the advantages of working in this way.

3 Make a list of the key financial decisions that consumers need to make. Explain the importance of each of these decisions.

4 Outline the advantages of saving.

5 Describe the key business and legal decisions that affect the quality of our lives.

6 Outline the factors consumers can consider when assessing the environmental impact of their consumption decisions.

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Legal rights and responsibilities of consumers

Activity

Access the website of NSW Fair Trading. Write a short paragraph outlining the type of legal advice this site provides for consumers.

Activities

1 As a group, discuss the impact that commercial and personal decisions have on the quality of your life.

2 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 (page 4). Create a table with two columns: decisions and outcomes. In the outcomes column, summarise some of the advantages and disadvantages of each decision.

3 Conduct a class debate on the topic: People should not allow their commercial and business decisions to be influenced by personal issues and concerns.

4 In small groups, brainstorm your legal rights as a consumer.

5 In small groups, brainstorm the strategies that consumers can use to minimise the impact of their consumption decisions on the environment.

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1.2 Consumer decisions

Key terms

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

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.

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

customer loyalty programs Strategies used by retailers to reward customers for making regular purchases from their business. Examples are frequent flyer programs and store credit cards.

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

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

deregulation The removal of government laws and regulations.

disposable income A person's income after tax has been deducted.

durable good A good that has a long lifespan and doesn't need to be replaced frequently; for example, a fridge or dining table.

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

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.

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

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

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

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.

Types of goods and services

Consumers purchase two main types of goods – durable goods and non-durable goods – to meet their personal (individual) wants and needs. 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 for 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. 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 (watching a concert or getting a haircut) and are, therefore, not transferable.

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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, accountants and lawyers. *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, Coke, Quiksilver, Mambo, 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 not only used to promote individual products but also to build the reputation (and value) of companies.

Figure 1.3 When buying clothes, people will often look for brands that present an image they like.

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 Smart Buy', 'Black & Gold' and 'Select' brand 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.

Choosing what to buy

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 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?

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- *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 product is said to be reliable if it 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.

Understanding the text

1 **a** What is a good?

b Explain the key differences between goods and services.

2 Describe the difference between durable goods and non-durable goods.

3 Would you spend more time shopping for a durable good or a non-durable good? Explain your answer.

4 Define the terms *depreciation, complementary goods, substitute goods, producer services* and *consumer services*.

5 **a** What is a generic or own-label product?

b Why do retailers provide them?

6 **a** Define the term *impulse buying*.

b Describe the strategies that can be used to avoid impulse buying.

7 What is meant by the term *reliable*?

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Research before you buy

NSW Fair Trading may be able to provide you with extra information about particular types of purchases.

Activity

Browse through this site and write a summary of the types of consumer advice provided by NSW Fair Trading.

Activities

1 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.

2 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 televison.

3 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.

4 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.

5 Select 10 goods that you would purchase during a typical week and then copy and complete the table below.

Brand	Is this good a need or a want?	Is this good durable or non-durable?	What is a substitute to this good?	Is this a generic/ own-label good?

6 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.

7 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.

8 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 results.

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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 over the Internet, use door-to-door sales, visit the local markets or use the phone to 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 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 reduced 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 discussed in the boxes below and on pages 12 and 13.

General (corner) stores

General (corner) stores are small retail outlets that focus on selling everyday convenience items, such as milk and bread. 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.

Figure 1.4 Corner stores concentrate on selling convenience goods.

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 and in-store cafes, 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, IGA and Aldi. Some of the future trends in supermarket retailing are discussed in the article 'The Jetson's supermarket' on page 34.

Figure 1.5 Coles is one of Australia's big two supermarket chains.

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Department stores

Department stores are one of the oldest forms of retailing in Australia. David Jones, which opened in 1838, is Australia's oldest department store. As the name suggests, these retail 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, sportswear, fabrics and soft furnishings, 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 'free' gifts, are also used to encourage customers to return to the store for repeat purchases. David Jones and Myer are well-known examples of department stores in Australia.

Figure 1.6 David Jones is one of Sydney's up-market department stores.

Discount stores

Discount stores include Big W, Kmart and Target. Like department stores, discount stores offer a range of goods through specific product departments. The main difference is the focus that discount stores have on cut-price promotions and value for money. The prices offered by these outlets are usually cheaper than those offered by department stores. Discount stores rely on *self-service*, and customers 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 1.7 Big W is a discount variety store.

Category killers

Category killers are retail outlets that dominate the sale of one particular product type. Category killers include Officeworks, Toys 'R' Us, Bunnings Warehouse and JB Hi-Fi. They often operate out of 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 located in the suburban areas of Australia's large urban centres.

Figure 1.9 Officeworks is an example of a category killer retail outlet.

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

Figure 1.8 Independent specialty stores are usually managed by their owners.

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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 Auto Service and Donut King. Franchising is one of the fastest growing industries in Australia. The number of Australian-owned franchises continues to grow.

Figure 1.10 McDonald's is a franchised retail outlet popular with teenagers around the world.

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 at Haymarket and Flemington Markets 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, CDs 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 1.11 A periodic market at The Rocks, Sydney.

Shopping strips

Shopping strips 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.

Figure 1.12 Shopping strip precincts are usually found along major roads in older suburban areas.

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 used 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 1.13) 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 of planned centres, these centres represent a growing share of the overall market (between 20 and 25 per cent).

Figure 1.13 Major regional shopping centres, such as the Macquarie Centre, are examples of planned shopping centres.

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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), 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 the 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 shown in Table 1.1.

Table 1.1 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 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).

Internet shopping

The development of the Internet has transformed the way that consumers shop for goods and services. Recent research indicates that more than 60 per cent of Australians with access to the Internet purchase goods online. 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, travel goods, tickets and accommodation are the most popular items purchased online by Australians.

Important tips for Internet shopping

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. Note: 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.

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The largest shopping centre in the world

At the time of writing, the Dubai Mall was one of the world's largest shopping and entertainment destinations.

Activities

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:

1 Where is the centre?

2 How large is it?

3 What entertainment facilities are provided?

4 How do consumers move around the complex?

Internet shopping: online help

Useful advice about shopping on the Internet and avoiding fraud can be found on the MoneySmart webpage.

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Figure 1.14 eBay is a popular online shopping site that offers a broad range of products for purchase.

Table 1.2 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 Customs Service. • 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.	• Pay for anything up front. • Deal with retailers that will not supply a mailing address or contact details. • Forget to keep records of any orders or transactions conducted over the Internet. • 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.

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 25 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. The logo is now recognised by more than 90 per cent of Australian shoppers and 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 that 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 (see Figure 1.15).

AUSTRALIAN MADE®

Figure 1.15 Recognisable logos are used to identify products that are Australian made and owned.

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.

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Understanding the text

1 **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.

2 How has the hierarchy of shopping centres in Australia changed over time? Provide reasons to account for these changes.

3 **a** What is a customer loyalty program?

b Why do stores use them?

4 What is the main difference between discount stores and department stores?

5 Define the terms franchise and category killers.

6 What are the key advantages of planned centres over more traditional shopping formats, such as shopping strips?

7 What is direct marketing?

8 **a** What is Internet shopping?

b What are its advantages and disadvantages?

9 Describe some of the reasons why consumers may wish to buy locally rather than from overseas.

Activities

1 Create a table summarising the different types of retail formats, and give examples from your local area and 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.

2 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 stereo

d a car or boat for your family.

3 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.

4 As a class, brainstorm the reasons why independent stores may find it difficult to trade in competition with large planned centres and category killers.

5 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.

6 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.

7 Write a report outlining the steps that can be taken to avoid frustration and fraud when shopping online.

8 Conduct a class survey to identify the factors that influence decisions to buy locally, regionally, interstate or globally.

9 Design your own educational campaign to encourage consumers to buy locally rather than from overseas.

10 In groups of two or three, design and build your own 3-D model of a planned shopping centre. Include in your plan a location map, a detailed floor plan and an example of the type of store advertising that could be used. Present your plan and model to the class.

Key factors affecting consumer decisions

Every day, consumers and households make decisions about the goods and services they purchase. Figure 1.16 (page 17) 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 funds are lent to the customer by the store rather than a bank or financial institution. Customers can take the goods home and make regular payments to the retailer over a period of time. This is a common way of purchasing durable goods, such as cars, white goods and jewellery.

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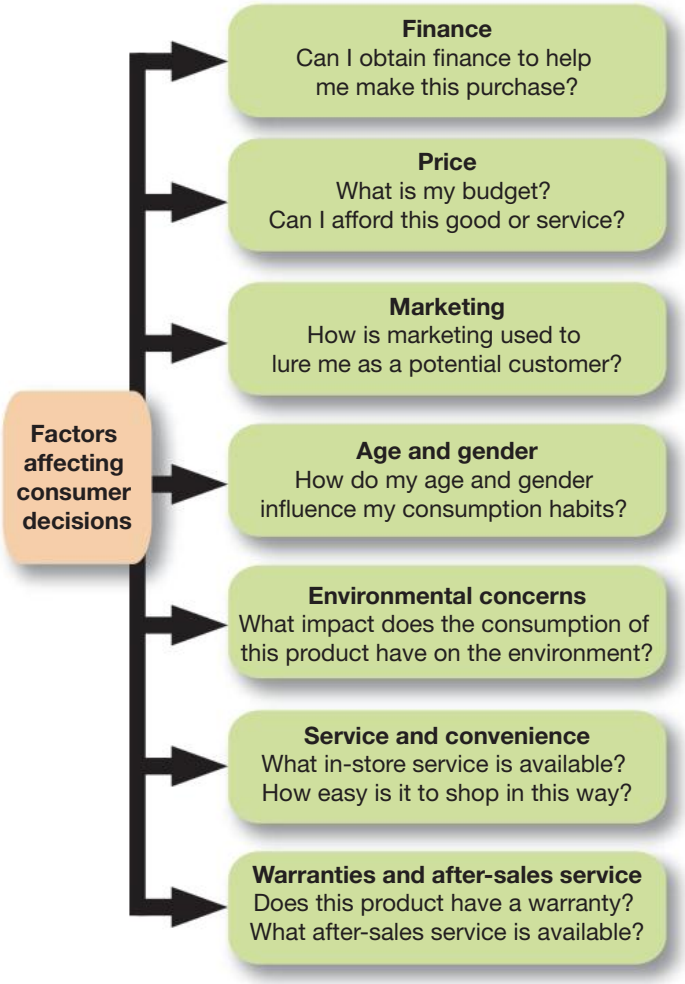

Figure 1.16 Factors affecting consumer decisions.

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 that you have 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).

Disposable income = gross income – tax

A number of 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 a 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 summarised below:

- 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 telling you 'The prices are only good today'.
- Be aware of hidden costs, including extra charges for delivery fees, installation charges, service costs and postage and handling fees. Add these charges to 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 box 'Unit pricing method' below). Bigger packages are not always better value for money than smaller ones.

Unit pricing method

Two packages of breakfast cereal are provided 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 weights 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.

Cost per unit = price ÷ weight

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

- box A – 833 ÷ 1000 = 0.833 cents per gram
- box B – 600 ÷ 750 = 0.800 cents per gram.

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

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Marketing

Retailers and manufacturers use the five 'Ps' of marketing (price, position, product, promotion and place) to alter the buying behaviour of consumers. Breakfast cereal manufacturers, for example, package their product 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 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.

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 (boys and girls often purchase different types of products), ethnic background and income. An example of the importance of demographics is the recent trend by manufacturers to cash in on the market known as 'the tweens'– girls aged 9 to 12. Tweens tend to be very aware of brand names and often purchase make-up, motivated by a desire to look older than they are. Recent attempts to market products to this age group have included Bratz dolls and accessories and One Direction merchandise. It is estimated that the tween market could potentially be worth more than $175 million a year to retailers.

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 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.

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 new, convenient shopping 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.

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Consumer information online

The website for the Australian Competition and Consumer Commission (ACCC) provides useful information for consumers.

Activity

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?

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 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.

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Hints for dealing with warranties and after-sales service

Keep the original packaging

Many manufacturers will only honour a warranty agreement if the products 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. 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.

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?

The 5 Ps of Marketing

Marketing is about more than just advertising. Businesses need to consider the 5 Ps when designing their marketing strategy:

Product – refers to the benefits/features of the product or service that customers can enjoy.

Price – this includes the pricing strategy for the products or services.

Promotion – the methods used to make customers aware of the products and services.

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

People – the staff and salespeople employed in the business.

Activities

1 As a class, discuss the advantages and disadvantages of different forms of finance.

2 Use the Internet or library to locate two specialist consumer magazines. Write a point-form summary of their comparison shopping advice for consumers.

3 Potato chips are available in a supermarket in the following package 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 sized package is the best value.

4 Design a campaign to encourage customers to think about packaging and the environment when they make decisions in the marketplace.

5 Use pictures from the Internet, magazines and other forms of media to create a collage of factors that influence consumer decisions.

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1.3 Consumer protection

Key terms

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

merchantable quality Fit for the purpose for which a good is bought.

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

The need for consumer protection: scams and rip-offs

Shopping can be enjoyable, but it can also be frightening, frustrating and stressful if you are unaware of your rights as a consumer. This section looks at some of the 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 has sold out before you get 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 $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.

Figure 1.17 Consumers must take care so that they get value for money when shopping.

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Online help for car buyers

If you are buying a second-hand car, it is essential 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.

Activities

1 Look up the PPSR website. Write a short report outlining the range of support and type of advice provided on this page.

2 Access the website of the Australian Competition and Consumer Commission. What advice does this site provide for consumers looking to purchase a new car? Write a report summarising your findings.

Shame file

A second-hand backyard car dealer who wound back the odometer on a car by more than 420 000 kilometres (the equivalent of almost 11 times around the earth), was prosecuted by NSW Fair Trading, after he sold the car for much more than the market value.

Unsolicited goods

One common mail scam involves sending people goods that they did not ask for (unsolicited mail) and then demanding payment for them. The goods – usually books, magazines and audio and video cassettes – 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. First, if you receive unordered goods, you 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 has two choices about how to respond. You can write to the seller and inform them that you do not wish to purchase the goods and would like the sender to retrieve them at their own expense. If the seller fails to collect within one month, the householder is entitled to keep the goods 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 with what company/business is the salesperson connected? 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 Dos and don'ts of door-to-door sales

Do	Don't
• Ask the retailer to provide some identification. • Make a quick call and check if the salesperson is employed by the company 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 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.

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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.

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 the Office of Fair Trading. Complaints about government departments and certain industries can be directed to the relevant ombudsman. See page 27 for further information. 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 1.18 Steps in resolving a consumer complaint.

The process of consumer redress: remedies and their outcomes

Figure 1.18 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.

Figure 1.19 Writing a letter of complaint.

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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 is given 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.

Activities

1 Copy the following table and then complete it using information from pages 20–22.

Name of scam	Description and details of the scam	Consumer rights and advice

2 Divide into small groups and conduct research into one of the scams discussed in this section. Use the 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.

3 As a class, discuss your or your family's experiences with consumer fraud.

4 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.

5 Write a letter to a supplier requesting that they collect unsolicited goods from your address.

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 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 1.21 (page 24).

Figure 1.20 Any agreement to buy or sell goods and services, whether it is written or spoken, is a form of contract.

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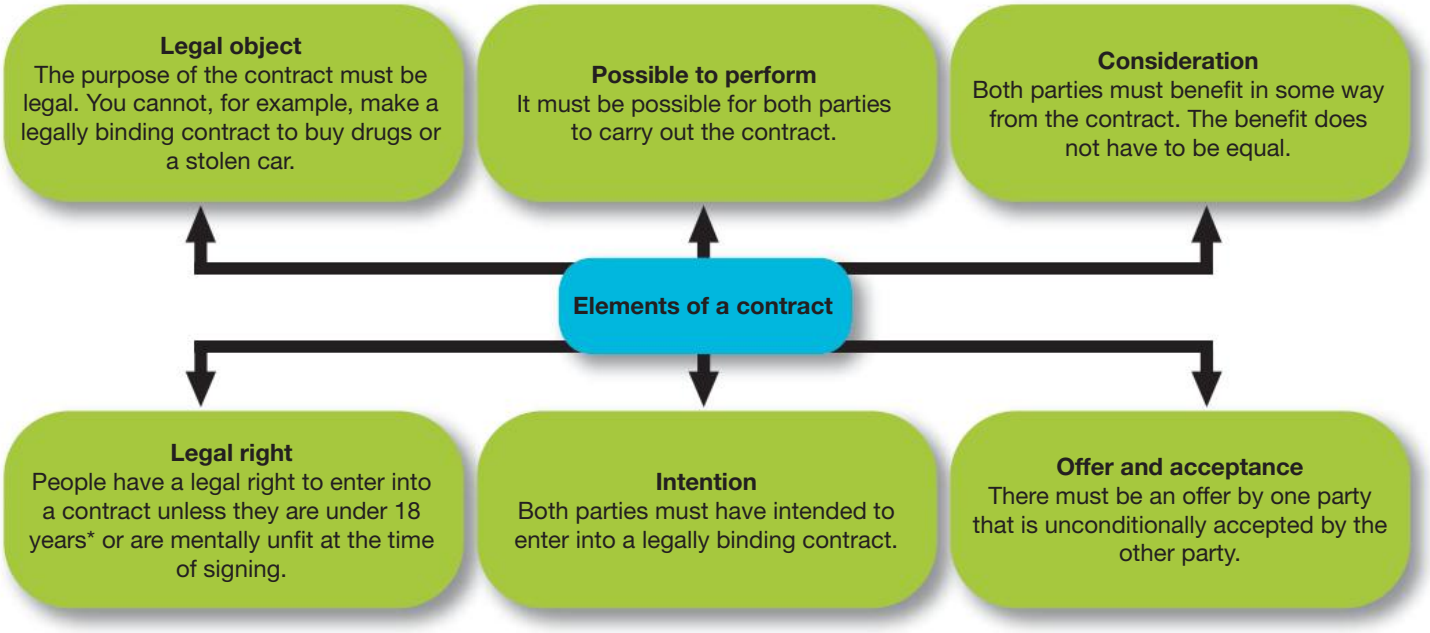

**There are some exceptions to this. For example, those under the age of 18 years must honour an apprenticeship contract.*

Figure 1.21 Six essential features of a contract.

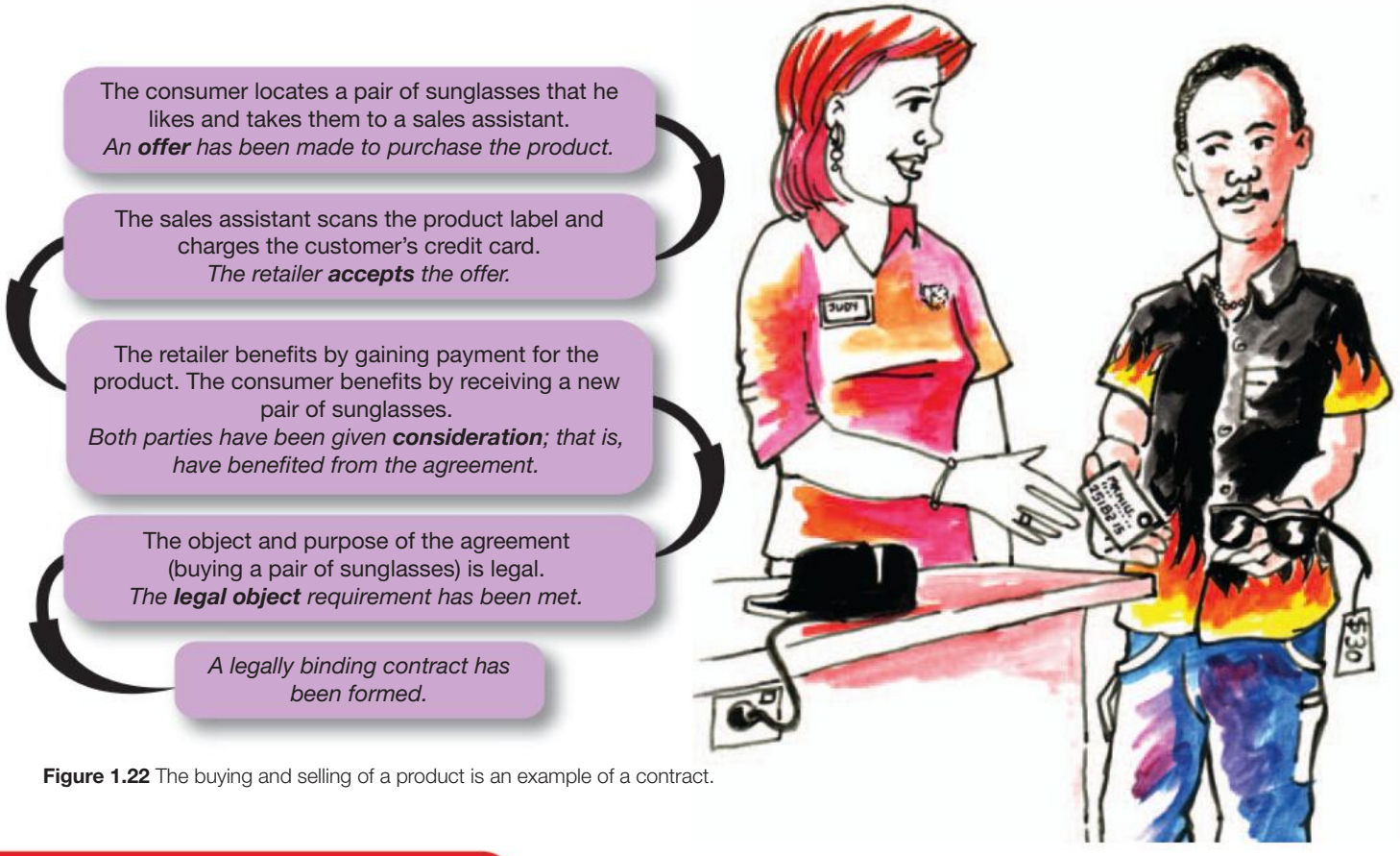

Figure 1.22 The buying and selling of a product is an example of a contract.

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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, airport 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 content and weight of the package. 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 any potential dangers the product may present.

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Consumer facts

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.

Activities

Access the NSW Fair Trading website.

1 What are your rights if you purchase a faulty product?

2 Does a retailer have to give you a refund if you change your mind about the purchase of a product? Explain your answer.

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:

- 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.

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Understanding the text

1 a Describe the six key elements of a contract.

b Explain why purchasing a pair of glasses is an example of a contract.

2 What is the purpose of the *Competition and Consumer Act*? List some of the issues dealt with by this law.

3 Outline the four important legal rights of consumers.

4 What is meant by the term *merchantable quality*?

5 Is it legal to display 'no refunds' signs in stores? Explain your answer.

6 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.

7 What is meant by the term *caveat emptor*?

8 Describe the problems consumers can create when they do not read product instructions carefully.

9 a What are ethics?

b Why is it important to be an ethical consumer?

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Contracts

Activities

1 Use the information on the Money Stuff website to design an educational poster informing consumers of the important features of a consumer contract.

2 Use one of the following websites to find out about contracts for mobile phones.

a Lawstuff

b NSW Fair Trading

List the typical features of mobile phone contracts and the types of problems that consumers have with them.

Activities

1 In groups of two or three, select one of the laws referred to in this chapter and use 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.

2 Using Figure 1.21 (page 24) 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.

3 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 the past three months Mike has been looking for a new lounge that would suit his unit. In the weekend paper he notices a sale of new lounges for $999. He raced to the store before the end of the sale period, but was told that all the lounges on sale had already been sold. There were only $3000 lounges left. Mike was furious, as there was no mention of limited stock in the original advertisement.

4 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?

5 Select one product that either you or your family have purchased recently and examine the packaging that has been used by the manufacturer. To what extent is this packaging necessary?

6 Write a report outlining the way in which businesses are responding to community demands for greater environmental standards by manufacturers.

7 Create a media file of articles that discuss ethical and responsible consumer practices. Use library or Internet resources to conduct your research. Discuss your findings as a class.

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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 gain extra help if you need it. In Australia, legal assistance for consumers can be obtained from government authorities at 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 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 details about each of these laws.

The Consumer, Trader and Tenancy Tribunal (CTTT) is a NSW court that aims to resolve consumer-related disputes as well as trader and tenancy-based matters (those involving rental property and housing). The CTTT deals with matters under eight main categories: 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.

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.

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.

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Which bike is right for you?

There are a number of companies that specialise in producing quality bikes to suit the individual needs of the rider. If you are thinking of buying a bike, you need to compare all the options and safety equipment that bike manufacturers can offer.

You may be able to find a review of different bikes in *CHOICE* magazine or you might have to look carefully at various models yourself.

Avanti Ventura is one example of an entry-level mountain bike and it has the following features:

Choice of colours are silver/red or charcoal

Size options are S/M/L/XL/XXL

Check out the Avanti website for more infomation.

ISBN 9780170251587

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.

Understanding the text

1 Copy the following table into your notebook and then complete it using the information on pages 27 and 29.

Consumer protection organisations	Federal government/ state government/ independent	Type of protection provided for consumers
NSW Fair Trading	State government	
Consumer, Trader and Tenancy Tribunal		
Australian Competition and Consumer Commission (ACCC)		
Ombudsmen		
ACA		
Other organisations		

2 What is consumer sovereignty and why does it need to be protected?

Figure 1.23 Manufacturers are required by law to provide accurate information about the contents of food products.

Info.com.tech

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 Consumers Online website.

The Australian Consumers' Association

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

Activities

Access the ACA website.

1 Describe the range of product reports available on the website.

2 What are the current consumer product alerts?

3 Draw a mindmap showing the range of campaigns that the ACA is currently involved in.

4 Make a list of the other consumer services provided by *CHOICE* magazine and the ACA.

Activities

1 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.

2 Conduct research and find out where organisations such as ACA and Kidsafe obtain their funding from. Why don't these organisations include paid advertisements in their publications?

3 As a class, find out what you can about the role of the ombudsman. What are the limitations of the ombudsman and when would a consumer need to use this service?

4 In small groups, select either a state or federal government authority from page 27 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?

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1.4 Payment choices

Key terms

e-commerce Electronic commerce; the use of electronic transactions by businesses and/or consumers for commercial purposes (see Chapter 7).

Methods of payment

Consumers can select from a variety of methods when deciding how they will pay for goods and services. Each method has advantages and disadvantages.

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. All shops accept cash, and some purchases can only be made using cash; for example, small-value items. 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.

Direct debits

Consumers can avoid the inconvenience of paying bills by mail or at the bank by setting up a direct debit from their regular savings or cheque account. Direct debit is a popular method of paying for household services (utilities, including gas, phone and electricity bills) as well as gym memberships and other regular payments.

Cheques

A cheque is a written instruction asking for funds to be transferred from your bank account into someone else's. Cheques are very convenient when paying for expensive items.

Table 1.4 Cheques: advantages and disadvantages

Advantages	Disadvantages
• Cheques are convenient and easy to use. • Security is a key advantage. When a cheque is marked 'not negotiable', it must be deposited into the payee's bank account. A crossed cheque cannot be stolen and then cashed by the thief or deposited in the thief's account. • An added security feature is that cheques can be 'stopped' (or cancelled) by your bank when they are lost or stolen. • For large purchases, cheques are less bulky than cash. • You can keep a record of your purchases by retaining the butt from each cheque.	• Cheques can 'bounce'. A bounced cheque is one that has been rejected by the financial institution because there are insufficient funds in the drawer's account. This can attract a 'dishonour' fee. • Many retailers do not accept cheques as a method of payment. • When a cheque is deposited into an account you need to wait for the funds to 'clear' before you can withdraw them. This may take a number of days.

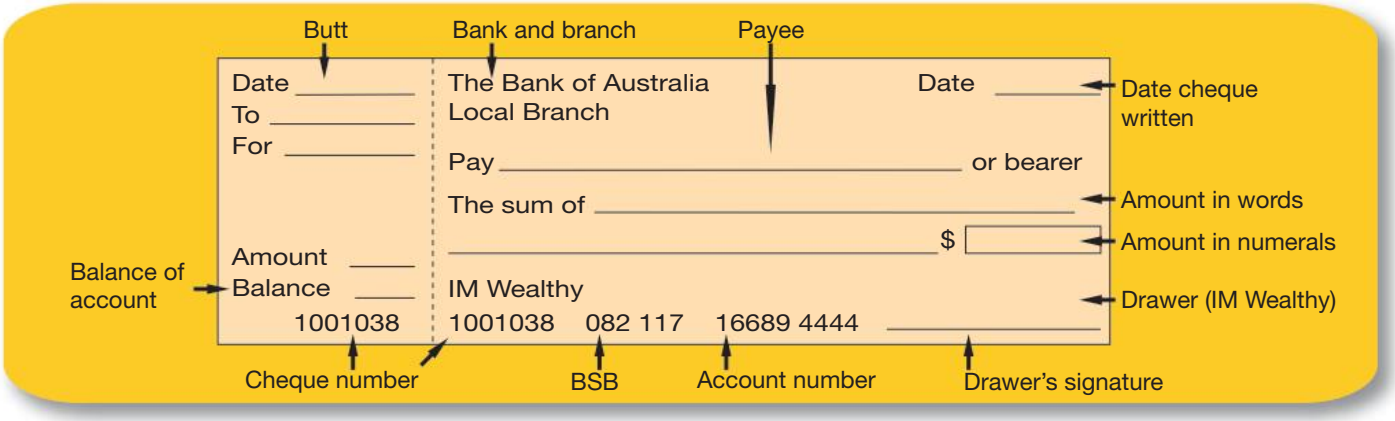

Figure 1.24 The key features of a cheque.

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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 1.5. See Chapter 2 (pages 47 and 48) for more information on credit cards.

Table 1.5 Credit cards: advantages and disadvantages

Advantages	Disadvantages
• It may take a long time to save enough cash to pay for an expensive item. A credit card allows you to buy a product now and pay it off in instalments. • Your money stays in the bank, earning interest until you pay your bill. • Credit cards are safer than cash. A card can be cancelled if lost. Cash, however, is difficult to trace. • You can build a positive credit history for the future. If you use your card responsibly you will generate a positive credit history, which can be used to help you obtain a larger loan in the future. • A credit card can be an important resource in an emergency. If your luggage is stolen when you are overseas or if you need to have your car towed, your credit card may be your only source of funds. • You can pay by phone or over the Internet with a credit card.	• Credit cards are convenient to use, making it easy to overspend and get caught in a 'debt trap' if you have not prepared a detailed budget. • Department store credit cards can have very high interest rates and should be used with great caution. Some companies pass the cost of using the card back to the consumer. • Many cardholders do not pay off their debts within the interest-free period and incur high interest charges.

Booking it up

Book up is a common method of payment used in rural communities and remote parts of the country. It is necessary because of the difficulties some isolated rural communities face in accessing banking facilities. As a part of this service, retailers offer small amounts of short-term credit to customers so that they can make purchases at their store. In return, customers need to provide some form of security, such as a debit card and PIN number or a social security cheque. This method has advantages for customers. However, it also creates a number of problems. In many cases, consumers lose the freedom to decide where they shop and can have problems accessing funds when the store is closed (see the box on page 32).

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.

Electronic funds transfer

Today, instead of papers and pens, electronic devices (such as telephones, computers and modems) are usually 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, 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 using the Internet. 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.

Figure 1.25 Using an ATM to withdraw money or transfer money between accounts is a type of EFT.

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EFTPOS

Electronic funds transfer at point of sale, better known as EFTPOS, has become a popular 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 a PIN (personal identification number). The main advantages and disadvantages of EFTPOS are listed in Table 1.6.

Table 1.6 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.

Services for Indigenous Australians and remote communities

Over the past 10 years, 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.

Understanding the text

1 Explain what it means when a cheque is dishonoured.

2 Explain why it is good practice to cross a cheque when you write one.

3 What advice does NSW Fair Trading provide for customers using credit cards?

4 Make a list of the main types of EFT used by businesses and consumers.

Activities

1 Draw up the following table in your notebook. Complete the table using the information on pages 30–32. 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		
Cheque		
Direct debit		
Credit card		
Book up		
Lay-by		
EFT (including BPay, EFTPOS and PayPal)		

2 You have decided to purchase a stereo for $499 from Consumer Electronics Pty Ltd. In your notebook, draw up a cheque to pay for the stereo using the following details.

- your bank — Best Bank
- branch — 43 Central Street, Sydney
- BSB — 012 010
- bank account — 90093652
- cheque number — 0003

The cheque should be crossed 'not negotiable' so that it can only be deposited into the payee's bank account.

3 Explain why payment systems such as book up might be necessary in a remote rural community. Use the Internet to find out more about the problems with book up and how to use it safely.

4 Your family has decided to purchase a new DVD player and television. You do not have the $2000 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

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b purchasing the goods on lay-by and paying them off in 25 weekly instalments

c paying for the goods 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 14 per cent per annum

e taking out a personal loan for 80 per cent of the purchase price at an interest rate of 15 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?

5 Explain to a classmate the difference between a credit card and a debit card and when you would use each.

6 Access the website of a bank and find out the following information:

a What is the current interest rate 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?

7 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 your bus fare

h paying off a mortgage (housing loan) or personal loan.

8 Read the box 'Services for Indigenous Australians and remote communities' on page 32. 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.

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 4, pages 111–114). The Australian Taxation Office 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 Chapter 2 (pages 54–56).

Understanding the text

1 Make a list of the types of records that should be kept by consumers on a weekly, monthly and annual basis.

2 Explain why it is important to keep records of your income and expenditure.

3 What checks should be made to ensure that your credit card and savings account statements are accurate?

Activities

1 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.

2 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.

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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:

- online and Internet shopping (pages 14–15)
- 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 developed in the future. The following articles look at two of the likely future developments:

- self-checkout supermarkets using new microchip price tags that enable customers to scan their own groceries in seconds
- smart cards that operate as a debit card, phone card and information storage system in one.

Figure 1.26 The development of new technology will change the way we shop.

The Jetsons supermarket

By Garry Barker

Vale the checkout chick. In the supermarkets of the future, groceries will check out themselves. All the customer will need is the strength to push a trolley, and a credit card with the strength to survive the swiping.

In the future every one of the 20 000 to 30 000 items stocked will carry a pinhead-sized microchip – about one-quarter of a square millimetre – in its label.

Radio frequency identification tags, as these microchips are called, are already used in the United States and Europe, mainly in warehouses and factories, although some American car fleet owners pay for their fuel using tags provided by oil companies. The E-Toll used on the Harbour Bridge is a form of such a tag.

Calvin Anderson, chief executive in Australia for Symbol Technologies, says the arrival of the technology is inevitable.

'The whole experience in the supermarket must change', he says. 'Today, it's a burden – not a good scene. There's noise, clutter and delays at the checkouts. Customers look at the queues and see a morning or an afternoon lost. So, let's reinvent what we do today and make it customer-driven, rather than just faster.'

The tag's chips need no batteries or other electrical connection. They are activated by the energy of a short-range radio beam transmitted by the checkout scanner.

Customers will simply load items into a trolley and push it to a scanning point where the radio beam will identify and record every package in a millisecond.

Swipe a card through a reader, tear off the receipt and push on through the gate to the car park or a restorative cup of coffee. If the store is crowded, staff could 'queue bust' using hand-held wireless scanners.

That is only one aspect of a wireless-borne revolution that is coming to every aspect of shopping, from the factory to the warehouse, the delivery truck, the shop and its accounting system, and even the customers' homes.

The chips will revolutionise production in factories and on farms, will allow tighter deliveries, less wastage and more efficient customer service …

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Smart cards: the future of shopping?

In the future, a single pocket-sized 'smart card' may be all that you need to do most of your shopping, take public transport, pay bills and access your banking online. It may also be able to carry your medical records, enabling a doctor to access your information at your next visit or an ambulance driver to access essential information in the event of an emergency.

What is a smart card?

Smart cards are like an 'electronic wallet' and are usually similar in size to a credit card. They feature an embedded computer chip that stores data and contain tamper-resistant security.

To read information from a smart card, there needs to be an accepting device (a bit like an eftpos machine). This device can exchange data with the card and electronically transfer money and/or personal information.

Perhaps the best example of smart cards currently is their use in several Australian states and territories for public transport. In these states individuals charge-up their smart cards with credits to pay for each trip.

Smart cards provide great potential for **e-commerce**, particularly for consumers that wish to make micro-payments for goods or services (such as photocopying a few pages, which may only cost 50 cents). For such low-value payments, where a credit card transaction seems unwarranted, smart cards offer a relevant alternative to business owners and consumers.

The West Australian Government predicts that smart cards will play an increasingly important role, but as it is still early days, it make take a few years before they emerge as a dominant technology.

Source: Based on information from the West Australian Government

Understanding the text

1 a Describe how a self-checkout supermarket works.

b Outline some of the frustrations of supermarket shopping that are likely to be overcome by new developments in supermarket technology.

c What are the advantages and disadvantages of shopping in this way?

d What barriers need to be overcome before this technology can be introduced?

2 a What is a smart card?

b How does smart card technology work?

c Make a list of the potential uses for this technology.

d What security features do smart cards have?

Activities

1 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.

2 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.

3 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 them. Present your findings in the form of an oral report or multimedia presentation.

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Chapter review

Activity 1: matching terms and definitions

Match each of the following terms with the correct definition from the list below.

door-to-door sales
planned centres
department stores
ACA
EFTPOS
lay-by
direct marketing
ombudsman
goods
depreciation
ethical behaviour
supermarkets
consideration

1 Where retailers or their representatives make uninvited visits to private homes in an attempt to sell products and services.

2 A shopping complex that is operated and managed as a single unit. It contains a wide range of different types of stores under one roof and provides customers with easy access to car parking close to the shops.

3 Items that are tangible; that is, can be seen or felt.

4 A system where a retailer will 'hold' the goods for you at the store until you have paid for them.

5 Having a sense of right and wrong and using this awareness to make responsible consumption decisions.

6 A decrease in the value of an asset through wear, deterioration or obsolescence.

7 When money is deducted straight from your bank account using a plastic debit card.

8 A public servant appointed by the government to deal with complaints against either government departments or private businesses.

9 Large retail outlets, divided into a number of smaller units, selling a wide range of goods and services.

10 Large self-service stores that sell a wide variety of foods and other household products.

11 Where goods are sold directly to a customer rather than through a retail store.

12 An essential part of a legally binding contract that requires that both parties benefit in some way from the agreement.

13 A non-profit organisation that aims to provide consumers with information and guidance about goods, services, health and personal finances.

Activity 2: research task

Select one of the topics from the list below:

- choosing where to buy
- key factors affecting consumer decisions
- forms of consumer protection
- popular consumer scams
- the legal rights of consumers
- methods of payment for goods and services
- the future of shopping.

Use Internet and/or library research to produce a webpage or multimedia presentation providing a summary of the key points in this topic. Present your finished product to the class.

Activity 3: true or false

Select 'true' or 'false' for each of the following statements. Rewrite each false statement using the information from the chapter.

1 Sole traders, partnerships and private companies are examples of different legal structures for a business.

2 When a cheque is marked 'not negotiable' it must be deposited into the drawer's bank account.

3 It is the responsibility of the manufacturer to ensure that customers read the instructions and learn how to correctly operate or use a product.

4 A 10-day cooling-off period applies to all door-to-door sales.

5 The purpose of an agreement must be legal for a contract to be binding.

6 Glue and sticky tape are known as substitutes.

7 Consumer services (such as transportation, legal and accounting services) are provided by one consumer for another.

8 Products on lay-by incur interest charges.

9 Officeworks, Toys 'R' Us and Bunnings Warehouse are examples of discount stores.

10 If the seller fails to collect unsolicited goods within three months, the householder is entitled to keep the goods at no charge.

11 In a letter of complaint to a retailer you should always use simple, clear language and attach relevant paperwork.

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2

Personal finance

Focus statement

In this chapter we focus on the concept of financial independence and the decisions that must be made in order to achieve it. The fundamental question here is what is the best way to manage personal finances? In answering this question, we look in detail at the decisions that people need to make in relation to spending, saving, investing, borrowing and managing their money.

Focus question

Money: do you know how to manage it to achieve your goals?

In this chapter you will learn about:

- the different types of income
- spending patterns and the factors that influence the need for saving
- the reasons for investing and the different investment options
- the reasons for borrowing and the different borrowing options
- the different sources of financial advice
- the laws that monitor the financial services industry
- how to manage your finances
- the consequences of poor financial management.

2.1 Spending and saving

Key terms

commission Income from acting as an agent, or go-between, between buyers and sellers.

disposable income A person's income after tax has been deducted (gross income – tax = disposable income).

dividend A payment made to a shareholder of a company as a cash reward for investing in that company through the purchase of its shares. The dividends are derived from the company's net profit, which is the final profit to the company after all business expenses have been deducted from income earned.

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.

employer A person or organisation who employs workers under a contract of employment. Employers exercise some control over their workers and are responsible for the payment of wages or salaries and for providing a safe working environment.

fee Income from providing a professional service, such as legal advice or public speaking.

flexitime A system that provides salaried workers with flexible working hours.

income Money earned from working and the returns on investments.

interest Income received from investments.

overtime The amount of time worked in excess of the standard working hours.

penalty rate A rate of pay that is applied based on when the work is performed rather than how many hours are worked. A penalty rate often applies to weekend work.

profit Income from selling goods or services less the cost of selling the goods or services; that is, the excess of revenue over expenses of running a business.

rent Income received for the use of a property.

return The profit that an investor makes from an investment.

royalties Income from the sale of a piece of work, such as a song, a book or an invention.

salary Income received each year for a job, usually irrespective of the number of hours worked.

shareholder A person who owns a part, or share, of a company and has certain rights in relation to that company.

social security Payments made by the government to ensure all Australians have a liveable income.

wage Income received for work done based on the hours worked each week.

The different types of income

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 2.1, which also classifies the various types of income.

Table 2.1 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

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.

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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 hours worked by the employee in the given period will determine the amount of wages the employee receives. For example, a person working 38 hours a week at $16 an hour will be paid $608 (38 × $16) 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 above 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, then eight will be paid at the normal wage rate and two 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 was $16 an hour, then the overtime rate would be $24 an hour ($16 × 1.5 = $24).

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, office cleaners and butchers.

Figure 2.1 Wages: a function of how long and when you work.

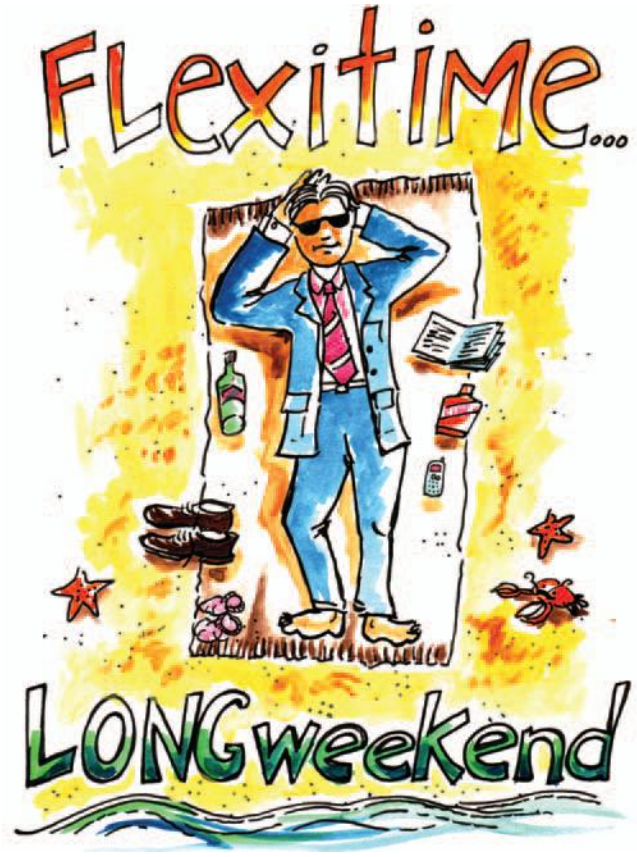

Figure 2.2 Flexitime: hours that suit you best.

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 am and finish at 3.30 pm. Another may prefer to start at 9.30 am and finish at 5.30 pm. 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*).

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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.

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 aged 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 Australian Stock Exchange, is where shares in a public company can be bought. 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 are only two of the many places where savings can be invested. Figure 2.3 shows two well-known Australian banks.

Figure 2.3 Places to invest your savings.

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Figure 2.4 Rent from investment property is an increasingly popular source of income.

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 silverchair 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.

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.

Figure 2.5 Some people earn their income from royalties and prize money.

Understanding the text

1 Explain the difference between a wage and a salary.

2 What is overtime?

3 When are penalty rates paid?

4 What is flexitime?

5 a What is a commission?

b Why is it considered important in some occupations?

6 What is profit?

7 Why is social security considered a form of income?

8 Explain the difference between interest and dividends.

9 a What is a royalty?

b What types of occupations depend on royalties as a source of income?

10 a What is prize money?

b Do you think sportspeople should earn such high incomes? Why?

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Activities

1 Copy the following table into your notebook. Then complete the tasks given 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 pages 39–41. 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 A person is paid according to the following rates of pay.

Standard rate per hour	Overtime rate per hour	Penalty rate per hour
$10	1.5 × standard rate	2 × standard rate

How much income would the person receive working:

a a standard 38-hour week

b a 43-hour week (a standard 38-hour week plus another five hours of overtime)

c a 48-hour week (a standard 38-hour week plus another 10 hours worked on the weekend)

d a 48-hour week (a standard 38-hour week plus five hours of overtime plus another five hours worked on a public holiday)?

3 Which of the following incomes would you prefer?

a $40 000 salary per annum (p.a.)

b 10 per cent commission on expected sales of $500 000 p.a.

c base salary of $20 000 p.a. plus 5 per cent commission on expected sales of $500 000 p.a.

Evaluate which you would prefer and be prepared to discuss and justify your choice.

4 Refer to the employment section of a newspaper. Find examples of advertisements that offer each of the following types of income:

a wage

b salary

c fee

d commission.

Cut out the advertisements and paste them into your notebook.

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 or laptop computer. Our wants will be influenced by our age, gender, peers, level of 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.

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To *save* means to put some money aside and spend it later rather than spend it now. As a child you may have had a 'piggy' bank or moneybox, or you may have a relative who hides their money under the mattress or in the cookie jar. Most people, however, save their money with a bank. People save for many reasons. The most common is that they cannot afford to purchase a good or service now because they do not have enough money. Figure 2.6 outlines some of the reasons why people may decide to save. The relationship between spending and saving is not only determined 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).

Figure 2.6 'To spend or not to spend? That is the question!'

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*.

Activity

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.

Hypothetical person	Possible spending pattern (fixed versus variable)	Possible saving and investing pattern
A 15-year-old school student who lives at home		
An 18-year-old person who lives at home and: **a** catches public transport **b** owns a car		
An 18-year-old person who lives away from home and: **a** goes to uni full time **b** has a full-time job		
A 30-year-old person who has two school-age children and: **a** rents **b** has a mortgage		
A 45-year-old person who has adult children and: **a** is a home-owner **b** is a business-owner		
A 65-year-old retiree who: **a** receives the aged pension **b** is independently wealthy		

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2.2 Investing

The reasons for investing

Figure 2.7 illustrates why people may choose to *invest* their money. 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 and shares) and provide for 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.

Figure 2.7 Why invest?

The different investment options

When we invest our money we do so on 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 2.8 illustrates the different investment options available in Australia and their relative levels of risk and return.

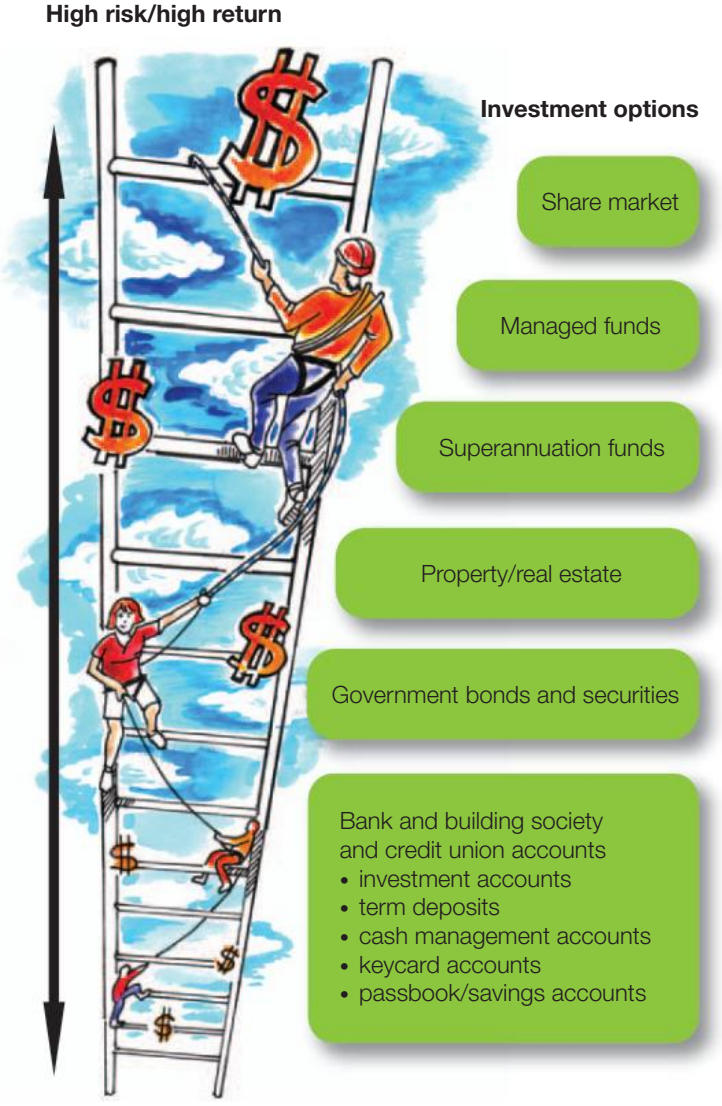

Figure 2.8 The risk and return ladder.

As mentioned earlier, most Australians have bank accounts and you are probably aware of the different types of 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 returns. 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

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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.

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Bank accounts

Activity

Access the websites of the following banks and note down what types of bank accounts they offer. Do they differ at all?

a Commonwealth Bank

b St George

c Citibank

d Illawarra Mutual Building Society

e Macquarie Bank

At the top of the investment ladder in Figure 2.8 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 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, go bust.

From the mid 1990s to 2000 the Australian share market was considered 'bullish' (a *bull market*): share prices rose, returns were high and the market was strong. In 2001 the market turned 'bearish' (a *bear market*): share prices fell for the majority of companies listed on the ASX. By 2004 the share market picked up, achieving record high prices in November 2007. This changed in early 2008 when share prices fell as a result of the global financial crisis (GFC). The share market has improved since the GFC, but remains 'bearish'. In contrast, the property market experienced a boom period that started in the late 1990s up to the mid 2000s, providing high returns for investors. Housing prices began to stagnate in 2004/5 but rose when the GFC hit in 2007/8. Since 2010, housing prices have dropped. The question is whether these trends will or can continue. When there is the possibility of high returns, there is also the greatest risk of small or even negative returns. Further information on investing can be found in Chapter 5.

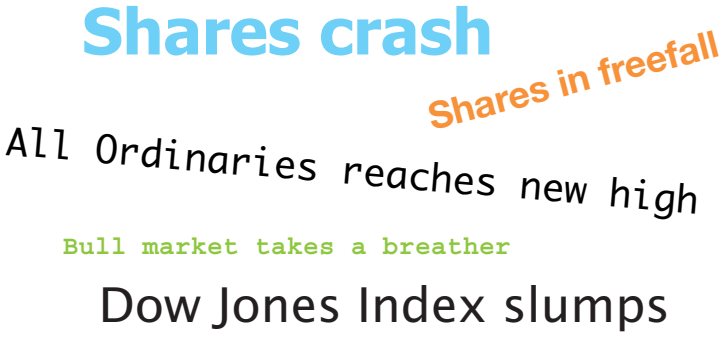

Figure 2.9 When you buy shares you purchase a stake in a company.

Understanding the text

1 What does it mean to invest?

2 Why do people invest?

3 Examine the relationship between risk and return.

Activities

1 Copy the table below into your notebook. Then complete the table by answering the questions: What types of investments would the following people be likely to have? Why?

Possible investments		
18-year-old	**35-year-old**	**65-year-old**

2 Go to the investment section of a daily newspaper and find the company with the highest share price and the company with the lowest share price. Track the share price of each of these companies for four weeks. Use a graph to record the changes in their share price. At the end of this period, discuss as a class the possible reasons for the share price movements.

3 Go to the financial section of the *Sydney Morning Herald* and research the rate of returns for the following investments:

a savings account

b one-year term deposit

c five-year term deposit

d five-year government bond

e managed fund

f shares in BHP Billiton Pty Ltd.

If you had $100 000 to invest, how would you invest this money? Why?

ISBN 9780170251587

2.3 Borrowing

Key terms

mortgage loan An amount of money borrowed from a bank, usually to purchase property. The ownership of the property is retained by the bank as security until the loan is repaid.

personal loan An amount of money used for a specific consumer purpose, such as travel, house renovations or the purchase of a car or household items.

The 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 2.10 details 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 years ago and features 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 to convert to banks. Today, the banking industry is much more competitive.

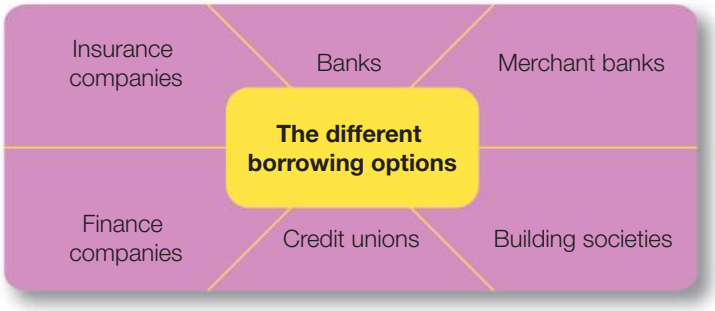

Figure 2.10 The different borrowing options.

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. Of course, to ensure financial institutions are profitable, the interest people receive from saving is less than the interest they pay when they borrow (see Figure 2.11).

Figure 2.11 Saving and borrowing.

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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 2.2 details the types of loans available in Australia.

Table 2.2 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 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 policy holders

Once you have decided on what type of loan suits your needs you should then consider the issues illustrated in Figure 2.12.

Figure 2.12 When borrowing, don't get eaten by the loan sharks!

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 straight away 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 don't pay your credit card balance in full each month.

There are more than 14 million bank, building society and credit union user cards on issue in Australia today. The most popular of these cards are MasterCard and Visa. There are also charge cards, such as American Express, Diners Club, Cabcharge, 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. One of the first examples of these in Australia was the GM Card issued by the large car manufacturing company General Motors Holden in conjunction with Westpac Bank. The GM Card is like an ordinary credit card but it allows customers to build up reward points when they make purchases. These points can eventually be converted into a $500 discount off the purchase of a new General Motors' car. The Virgin Airlines credit card works in a similar way, where accrued Velocity Points can be redeemed by the customer for air travel.

Credit cards have gradually become the country's favourite way to pay. At present, Australia's 14 million credit card users spend about $4.50 of every $10 spent in the retail sector, including all shopping and most hospitality and leisure industries. Add to this what is spent on charge cards (such as American Express) and credit cards account for more than $1 in every $2 of consumer spending.

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Avoid the credit card trap

Credit cards make it easy for people to spend money they may not have, and 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 2.13 sets out the factors you should consider before applying for a credit card.

The 'golden rules'

If you pay off your card each month:

- Choose the card with the longest interest-free period (the period up to the due date for repayment, during which interest is not charged).

If you don't pay off your card each month:

- Choose a 'no-frills' card with the lowest possible interest rate.
- Beware 'honeymoon' rates, which may revert to a rate higher than other cards.
- Be aware that interest will be charged on every purchase from the date of the purchase and will keep accumulating.

Find out whether there is an annual fee.

If the card has a loyalty scheme, find out:

- How many points you will earn per dollar spent
- The lifespan of the rewards. (Loyalty schemes work best if you use your card frequently).

Figure 2.13 Avoid the credit card trap.

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There are four important steps to take when you are 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.

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Credit cards

Activities

Log onto the Money Manager website, select the 'Compare credit cards' tool and answer the following questions:

1 Select five cards with the lowest variable interest rate. Copy all the details regarding these cards into your notebook.

2 Summarise any extra features your five cards may have. For example, overseas ATM availability and rewards.

3 Select the card you would choose to have. Be prepared to discuss your reasoning with the rest of the class.

4 Would your choice change if you:

a paid off your bill every month

b did not pay off your bill every month?

5 Identify other banking products that you can research on this website.

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 frequently moved house 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* (such as 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 in Australia and whether each loan was repaid in full and in the specified period.

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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 then 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 Chapter 12 (page 251).

Understanding the text

1 List the reasons why people borrow money.

2 What are the costs of borrowing?

3 Compare the different types of loans available in Australia.

4 Identify the four steps to consider before borrowing.

5 What is a credit check? What factors are taken into account when a credit check is carried out?

6 Why is paying on credit a form of borrowing?

7 What are the 'golden rules' for applying for a credit card?

8 Define loyalty scheme.

Figure 2.14 Being informed will lead to successful borrowing.

Activities

1 Use the Yellow Pages or its website to find two examples of each of the following financial institutions:

a Australian bank

b overseas/foreign bank

c merchant bank

d credit union

e building society

f finance company

g insurance company.

2 Pretend you work for a financial institution and it is your job to design a new credit card aimed at attracting 18 to 25-year-olds. Design the new credit card and list all the features of the card; for example, interest rates, annual fees and a reward program. Consider whether you would co-brand your card and, if so, with whom.

3 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:

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.

Be prepared to justify your reasoning with the rest of the class.

4 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.

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2.4 Managing your finances

Key terms

budget A statement of your income and expenditure over a period of time.

debt consolidation Rolling all your debts into one debt.

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.

Sources of financial advice

Often family and friends can give you advice on how to manage your finances. Beware, however, that free advice may not always be the best. 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 looking at:

- the money sections in the daily newspapers
- investment books and magazines
- seminars, including those run by the Australian Stock 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 finanical services industry. Independent financial advisers should provide you with advice on the different financial options available to you and, above all, help you understand the terminology and the process. Ask your family, friends or accountant if they can recommend a financial adviser, call the Financial Planning Association or look in the 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:

- details of the company
- 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
- a list of 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.

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Financial Planning Association

To find out whether a financial adviser is accredited with the Financial Planning Association, visit the FPA website. Go to 'Find a financial planner near you', click on 'The FPA Difference' and then select 'Find a planner, CFP'.

ISBN 9780170251587

Laws that monitor and regulate the financial services industry

The National Credit Code

Recent 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) replaces state-based consumer credit codes and the uniform Consumer Credit Code. The Australian Securities and Investments Commission (ASIC) administersthe 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 includes home loans, personal loans (e.g. car loan), credit cards, consumer leases (e.g. car leases and rental contracts for goods), overdrafts and line of credit account 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), markets 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 travellers 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 to 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, which 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 and insurance.

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Consumer Credit Regulation

Visit the MoneySmart website and click on the 'Borrowing and credit' tool to find out more information on 'Consumer credit regulation'.

Activity

Copy the following table into your notebook. Then use the MoneySmart website to complete the table.

Benefits of the NCC to consumers	Benefits of the NCC to businesses

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ASIC

Further information about ASIC can be found on its website.

Activities

1 Find out about ASIC by clicking on 'About ASIC' and scroll down to 'Our role'. Copy the introductory information from the webpage into your notebook.

2 Go back to the home page and select an article from the 'What's new' section. Examine the issues and summarise the role ASIC plays. Present your summary to the class as a two-minute oral presentation.

ISBN 9780170251587

Insurance

The 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 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 insurance 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 policy holders) 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. Figure 2.15 shows how insurance works and gives examples of some of the different types of events you can be insured for.

Figure 2.15 Insurance: how it works.

The different types of insurance

There are many types of insurance but they can generally be classified as either personal insurance or property insurance. Table 2.3 lists the different types of insurance.

Table 2.3 Insurance

Personal insurance
Life 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 either be in the form of a lump sum (one payout) or a number of regular payouts.
Income 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 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.
Property insurance
Home and contents 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 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.
Travel Travel insurance covers events such as the loss of luggage, medical costs and cancellations due to illness.
Car 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).

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Understanding the text

1 Where can you get financial advice?

2 **a** Identify two pieces of legislation that monitor the finance industry.

b What do they cover?

3 **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?

4 List the different types of insurance available. For each type, make up a scenario in which a consumer would benefit from having the insurance.

Activities

1 Using the Internet, further investigate the Financial Services Reform Act and answer the following questions:

a Why did the Act come about?

b What are some of the specific services and products the Act covers?

c What are some of the standards of conduct that financial service providers must meet?

d How have the financial services industry and the community in general reacted to the introduction of the Act?

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

3 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 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.

4 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.

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 at the key stages in your life, such as 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.

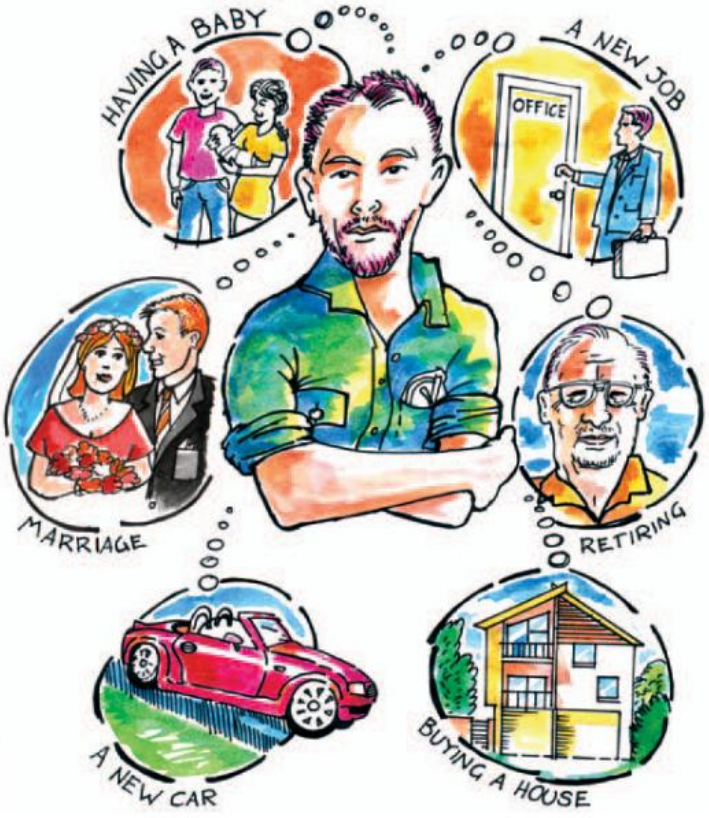

Figure 2.16 Times when it is important to manage your finances well.

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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 2.4). 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 2.4 Calculating your total net income

Net income	$	Expenditure	$
Part-time job	12.00		
Allowance	20.00		
Bank interest	1.20		
Total net income	**33.20**	**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 2.5). Now calculate your total expenditure.

Table 2.5 Calculating your total expenditure

Net income	$	Expenditure	$
Part-time job	12.00	Music lessons	15.00
Allowance	20.00	Bus tickets	10.00
Bank interest	1.20	Snacks	5.00
Total net income	**33.20**	**Total expenditure**	**30.00**

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.

Savings/deficit = income – expenditure

If your expenditure is greater than your income then 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 2.6. 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 rest of the 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 2.6 Budgeting for ongoing costs

	Jan.–March	April–June	July–Sept.	Oct.–Dec.
Net income • •				
Total net income per quarter (A)				
Expenditure • •				
Total expenditure per quarter (B)				
Total expenditure per quarter (B)				
Savings/deficit per quarter (A) – (B)				

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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.

Figure 2.17 Our commercial economy provides good reasons for budgeting.

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. Figure 2.18 indicates what might happen if you are in debt and unable to make your repayments. The different scenarios that could occur as a consequence of poor financial management are described below. Remember, there are a number of ways to resolve problems with debt. These are discussed later in this section.

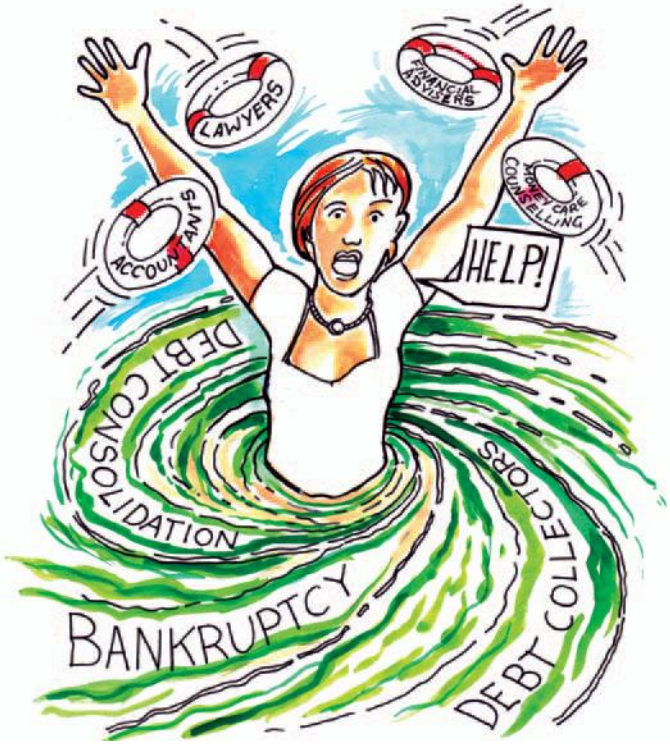

Figure 2.18 Poor financial management: don't end up down the drain.

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.

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 (ACCC) guidelines for debt collection specify that a debt collector can make contact by phone between 7.30 am and 9.00 pm (Mon–Fri); 9.00 am to 9.00 pm (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 at work.

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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 to deal 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 lawyer, a specialist legal centre or a financial adviser. 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 not only means that you will be faced with financial and legal consequences, it 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 may not only affect you but also your family and, in the long term, your community.

Understanding the text

1 How can a budget help you manage your finances?

2 Define the terms *fixed expenses* and *variable expenses*.

3 Describe the method for calculating total savings and deficit.

4 **a** What is a spreadsheet program?

b How do these programs help you to record your expenditure and income?

5 Assess the results of poor financial management.

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Debt collectors

Activity

Go to the ACCC website and search for information on debt collectors. Write a report that describes what debt collectors do and the rights of consumers.

Activities

1 Design your own household (family) budget by following the steps below:

a Identify your family's current savings goal(s). What do you want to achieve by the end of the week, month or year?

b Keep records of your family's expenditure over a typical week.

c Sort the expenditure into fixed and variable expenses.

d Brainstorm any other fixed costs that a typical family may have throughout the year.

e Calculate your family's average weekly net income.

f Use a spreadsheet program, such as Excel, to create a table of your family's weekly net income and expenditure.

g Calculate the total savings or deficit for the week by subtracting the total expenditure from the total net income.

h When you have completed your budget ask yourself whether your family need to make any changes to their income or expenditure to reach their savings goal(s).

2 Design an informative poster on how best to manage your finances.

3 As a class, discuss the factors that contribute to good or bad financial management in the following groups of people in Australia:

a based on personal wealth, the top 10% of people

b based on personal wealth, the bottom 10% of people

c homeless people

d newly arrived immigrants

e people living in remote communities.

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Chapter review

Activity 1: wonderword

Copy the wonderword opposite and then complete it using the words below. The words can run vertically, horizontally, diagonally and backwards.

savings	financial	services
ACCC	banks	investing
bankruptcy	loans	spending
interest rates	budgeting	risk
credit rating	credit cards	return
income	debt collector	advice
industry	borrowing	

D I X U C Y B O R R O W I N G
E N F Z R G A A N R U T E R N
B T D N E N N M Y U M N M L P
T E D A D I K I R R R J O I F
C R E D I T R A T I N G C I E
O E K E T S U Z S E L X N J R
L S S T C E P K U G G A I Q Z
L T G Z A V T E D I N D Z X F
E R U H R N C H N C S I U F N
C A U R D I Y Y I D C T V B S
T T C Z S Q U A D V I C E A K
O E Z O T J L O A N S N A N S
R S E R V I C E S Z D K G K R
D F F J B N F X K J U L P S Q

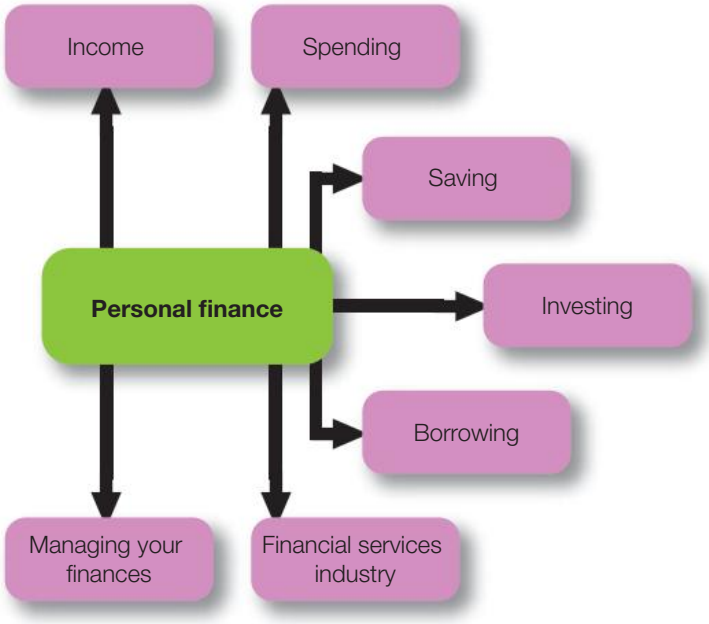
Activity 2: writing task

1 Write 10 sentences with at least two of the words listed in activity 1 in each sentence.

2 Write a paragraph related to the topic 'Personal finance'. In your paragraph, use as many words as possible from the list in activity 1.

Activity 3: mindmap

As a class, build upon the mindmap below by brainstorming all the issues discussed in relation to the topic 'Personal finance'.



Activity 4: Internet research and literacy task

1 Imagine you run a program for young people who want to move out of home and become financially independent. Produce a brochure titled 'Managing your money: the banks' best deals'. In the brochure, briefly define the following financial products:

- **a** savings accounts
- **b** cash management accounts
- **c** term deposits
- **d** debit cards
- **e** credit cards
- **f** personal loans.

For each of these products, also include in your brochure the details of the five financial institutions that have the best deals and what their rates and costs are. The Money Manager website provides information that will help you with this activity.

2 Design an information poster on the financial services industry. Research and report on:

- **a** the range of organisations that make up this industry
- **b** the importance of this industry to our community/economy
- **c** details of the services and types of financial advice these organisations provide.

The ASIC website provides information that will help you with this activity.

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3

Law and society

Focus statement

In this chapter we focus on how laws affect individuals and groups and regulate society. In particular, we examine the way laws are made and how different laws impact on the way society operates.

Focus question

How do the laws we create affect the society that we live in?

In this chapter you will learn about:

- the reasons we have laws
- our legal system
- the structure of the courts
- the role of juries in the legal system
- the ways laws are classified
- how laws are made
- the relationship of laws to values, morals and ethics
- how laws are changed
- accessing the legal system
- issues of fairness in using the law.

3.1 The legal framework

Key terms

anarchy When there is no law or government, people are free to do as they please and society is unable to function.

burden of proof The legal principle that the prosecution must prove that the accused is guilty of the crime.

case A proceeding in a court of law.

fundamental rights Those rights to which every human is entitled.

indictable offences Serious offences that require a full trial with a jury. Examples are armed robbery, murder and serious drug offences.

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.

natural justice The right to be treated fairly in legal matters.

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.

summary offences Less serious crimes that are dealt with by the Local Court. An example is shoplifting.

Reasons for laws

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. To some people this might seem to be a good thing; after all, being able to do whatever we want sounds great. However, imagine driving on a highway if there were no laws about who has right of way or which side of the road to drive on. Clearly this would be a disaster. We need to have laws to help us survive in such a complex society.

Anarchy in Baghdad

In March 2003, troops from countries including the United States, Great Britain and Australia launched an attack on Iraq due to fears that Iraq might be in possession of weapons of mass destruction. After fewer than three weeks of fighting, coalition troops entered the capital city, Baghdad, and British Royal Marines seized control of Iraq's second largest city, Basra.

The government of Iraq's dictator, Saddam Hussein, collapsed and there was no effective control of the nation or its people. In the power vacuum that existed until order could be restored by Iraqi officials and American and British troops, anarchy erupted. Thousands of mostly young men rampaged through the streets of both cities, looting public offices, shops and even hospitals. The National Museum was ransacked, with thousands of priceless artefacts being stolen or damaged. Television footage showed many buildings in Baghdad set alight in the mayhem.

Property owners, armed with axes, sticks and even rifles, began acting as vigilantes in a bid to restore some order. Without the rule of law to control this disruptive and criminal group the cities of Iraq fell into anarchy, demonstrating the need for effective laws (and law enforcement) to ensure the safety of all members of society and their property.

Figure 3.1 The 2003 overthrow of the regime of Saddam Hussein left Iraq in a state of anarchy for many weeks. There was a total collapse of law and order. Looters were arrested by American troops in an attempt to restore order.

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Figure 3.2 Without laws and justice there would be anarchy.

Laws and rules influence every aspect of our life – from the cradle to the grave. When a child is born, the parents are required to register the birth. A person's death must also be registered. Laws and rules govern our behaviour throughout life. When we do not comply with them there are consequences.

Rules and laws

We are all familiar with rules. Parents usually have rules for their children, dictating how late they can stay up or how much television they can watch. Schools also have many rules and regulations, most of which are designed to ensure that students are safe and get the most out of their education. Regulations are similar to rules but tend to be more general. For example, a school will have regulations about the type of uniform that must be worn but the school rules will specifically state how the uniform is to be worn.

However, rules and regulations 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 *Motor Traffic Act 1909* (NSW) is the law that governs the use of roads in New South Wales.

Figure 3.3 Laws such as the Motor Traffic Act must be followed by all drivers all the time.

Anyone who uses a NSW road must obey this law all the time. The law, for example, requires drivers to stop at a red light. We must do this whether it is 10 am and there is a lot of traffic or 3 am and little traffic.

The courts

Australia has a hierarchical court system. This means that the courts are graded into inferior and superior courts (see Figure 3.4, page 62). 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.

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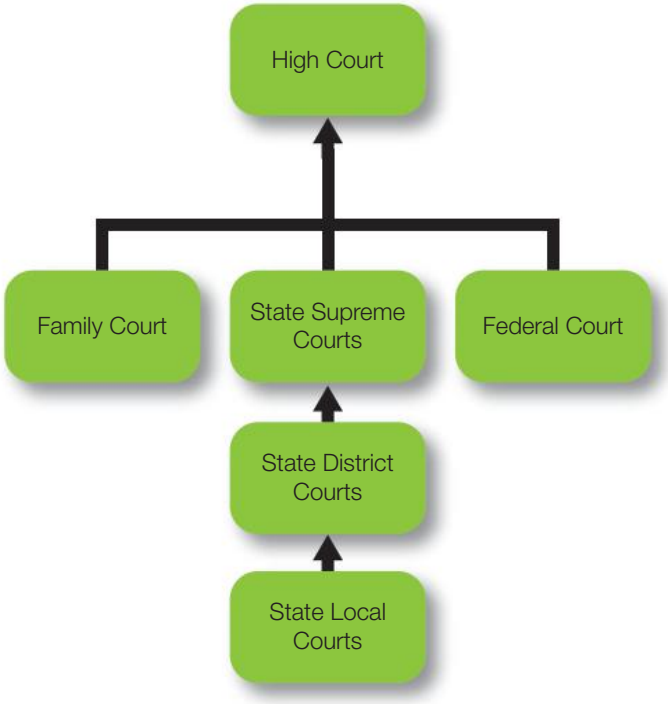

Figure 3.4 The court hierarchy in Australia.

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. When all else fails, the courts can be used to reach a **legally binding decision** that must be obeyed.

NSW courts

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. There are three main tiers within the hierarchy:

- *inferior* the Local Court
- *intermediate* the District Court
- *superior* the Supreme Court.

The Local Court

The Local Court is the lowest court and is often called the Magistrates Court as it is presided over by a magistrate (see page 63). This court aims to deal with matters quickly and cheaply.

It deals with all minor criminal matters (known as **summary offences**) and conducts committal proceedings for serious matters (known as **indictable offences**). The aim of these proceedings is for the prosecution to demonstrate that there is sufficient evidence to show that there is a case to answer. If the magistrate considers there is sufficient evidence then the case will be scheduled for a trial in a higher court.

The Local Court also hears relatively minor civil matters, such as debt claims. The Local Court can hear civil matters relating to claims of up to $100 000.

The District Court

The District Court is a more senior court and is presided over by a **judge**. In some states, such as Victoria, it is called the County Court. It deals with serious criminal and civil law matters. In criminal matters the District Court conducts trials that include a **jury** of 12 people.

Civil law matters involving between $100 000 and $750 000 and any matter involving compensation for motor vehicle accidents are dealt with by the District Court. Matters involving more than $750 000 must be heard in the Supreme Court.

The Supreme Court

The Supreme Court is the highest court in the state hierarchy. It hears the most serious cases and those that involve difficult points of law. The Supreme Court of each state is a court of record. This means that its decisions can create common law (see page 72).

Figure 3.5 Courts are expensive and time consuming and should be used as a last resort in resolving legal disputes.

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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 Australia. Its main role is to ensure that law-makers do not breach the constitution (see page 67), but it also hears appeals. A decision made in a less senior court can be appealed to a more senior court. For example, a Local Court decision can be appealed to the District Court and so on. The High Court acts as the last court of appeal. The right of appeal is not automatic and application to the court must be made. The court will consider whether there are grounds for an appeal.

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NSW courts and tribunals

Activities

Access the NSW Courts and Tribunals Services website. Divide the class into groups. Each group is assigned a different NSW court to research.

1 Describe the purpose and role of the selected court.

2 How are cases heard before the court?

3 Summarise one recent case heard in this court. Recent cases can be accessed by clicking on the 'Judgements & Decisions' link on the top navigation bar.

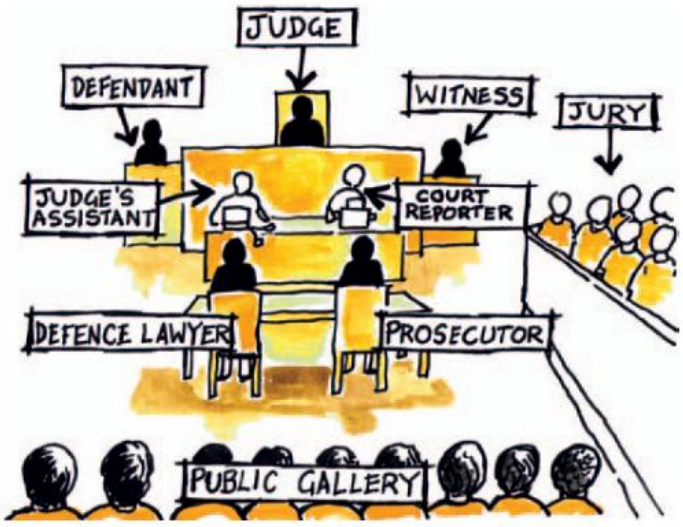

Figure 3.6 A typical courtroom.

Court personnel

Judges and magistrates

Judges and magistrates are the presiding officers of the court. Magistrates preside over local courts and, except in New South Wales, are referred to as 'Your Worship'. Since May 2004, NSW magistrates have been referred to as 'Your Honour'. In a criminal law matter their role is to determine whether the accused person is guilty of a crime. If the accused is found guilty, the magistrate issues a sentence. In civil law matters the magistrate must arrive at a verdict and then decide on what compensation, if any, should be made.

Figure 3.7 Judges are highly respected members of the community.

Judges sit in the District, Supreme and High Courts and in some specialist courts, such as the Family Court. They are referred to as 'Your Honour' and they usually have considerable legal experience. Criminal cases in these courts involve juries, whose task is to determine whether a person is guilty. 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 where a jury is involved the judge fulfils a similar role.

Lawyers

In every 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 he or she is innocent or, if the accused is shown to be guilty, to minimise the sentence imposed by the court.

ISBN 9780170251587

The jury

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.

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 them 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). 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.

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.

Understanding the text

1. Explain why we have laws.
2. What is anarchy? Describe the situation faced by Iraq in 2003 after the collapse of government and law.
3. Distinguish between a rule and a law.
4. Explain what is meant by a hierarchical system of courts.
5. Explain the difference between an indictable offence and a summary offence.
6. What is the difference between a judge and a magistrate?
7. In a criminal trial what role does the judge play?
8. Outline the role of the prosecutor and defence lawyer.
9. Explain the role of the jury in a criminal trial.

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Jury duty

In New South Wales it is the responsibility of the State Sheriff to handle all matters dealing with jury duty.

Activities

Click on the jury service link at the NSW Courts site and complete the following activities.

1. Explain how juries are selected.
2. List the people who are exempted from jury duty.
3. What types of cases are juries involved in?
4. What is the pay rate for jurors?

LawAccess NSW Online

LawAccess NSW Online is a service provided by the NSW Government and contains details of the various classifications of laws in New South Wales, the operation of these laws and how they affect society.

Activities

1. As a class, discuss what would happen in your school if there were no rules at all. What does this tell us about the importance of the law to society?
2. In small groups, make a list of the main rules of your school. Beside each rule note down why you think this rule exists. Are there laws similar to this rule? Explain why or why not.
3. Copy the following table into your notebook and then complete it, recording the role of each court.

Court	Criminal matters	Civil matters
Local Court		
District Court		
Supreme Court		
Federal Court		
High Court		

4. Assume that you have been appointed by the NSW Attorney-General to recruit more lawyers to become magistrates and judges. Write a job advertisement for these positions. Consider the legal experience and character required and the community's expectations of magistrates and judges.
5. In small groups, brainstorm what society would be like if there were no laws and no way for people to receive justice. Share your ideas with the rest of the class, making a mindmap of the problems that would exist if there was no legal system in Australia.

ISBN 9780170251587

3.2 Areas of law

Key terms

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.

concurrent powers Constitutional powers that are held by both the state and Commonwealth governments.

criminal law Laws to protect the general public from harm.

duty of care Responsibility to ensure your actions do not harm other people or their property.

ethics Values that relate to doing what is believed to be right.

exclusive powers Constitutional powers that are held by the Commonwealth Government.

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.

morality Values that relate to doing what is believed to be good.

referendum A vote by the people to change the constitution.

residual powers Constitutional powers that are held by the state governments.

statute law Laws made by parliament.

statutory rights Rghts that are derived from laws passed by parliament.

Classifying laws

Modern law is very complex and there are many areas of speciality. Generally, however, 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. It 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. It 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.

Public law: criminal 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.

In criminal law the prosecution presents the case on behalf of the Crown (the term used to represent the government). It is the prosecution's role to prove beyond reasonable doubt that the accused person committed the offence. If this is proven then a punishment will be issued on behalf of all of society.

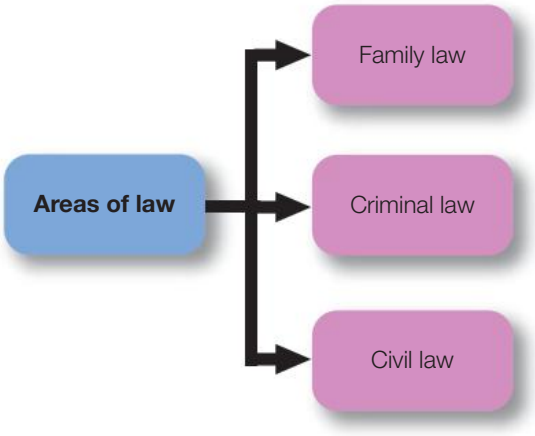

Figure 3.8 The main types of law.

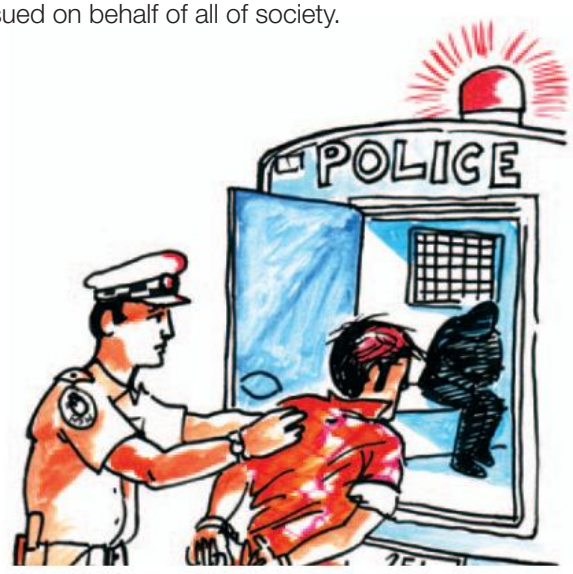

Figure 3.9 Criminal law involves the police prosecuting accused offenders on behalf of society.

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Crime statistics

The Bureau of Crime Statistics and Research is a special branch of the Attorney-General's Department. The Bureau's role is to analyse crime statistics, look for trends and 'crime hotspots' and identify factors that may lead to crime. Each year the Bureau collates statistics relating to crimes reported in New South Wales and publishes its findings.

Activities

Access the Bureau's crime statistics page.

1 Outline the trends in the statistics for murder, assault, motor vehicle theft, and break and enter into a dwelling.

2 Are the trends discovered by the Bureau similar to the perceptions of crime that seem to be held by most people in New South Wales? Why might this be the case?

3 What are the 'crime hotspots' for break and enter into a dwelling, assault and motor vehicle theft?

There are six main types of criminal activity:

- *crimes against persons* – crimes involving injury caused to another person. Such crimes include:
  - *homicide* – the intentional killing of another person
  - *manslaughter* – the accidental killing of another person or the killing of another with a justifiable reason; for example, when a person kills another but does so in self-defence
  - *assault* – causing or threatening to cause injury to another person.
- *crimes against property* – crimes that result in property being stolen or damaged. Typical offences in this category include:
  - *larceny* – removing another person's property without that person's consent
  - *break and enter* – a person illegally entering a building to commit an offence
  - *robbery* – using violence or the threat of violence to take another person's property.
- *white-collar crime* – crimes usually committed by professional people and not associated with violence or damage to property. Typical white-collar crimes are tax evasion and computer hacking.
- *crimes against the state (country)* – these include:
  - *sedition* – encouraging a hatred of the state
  - *treason* – a more serious offence than sedition. It is where a person or organisation actively tries to bring about the collapse of a government or assists the enemies of a country.
- *public order offences* – crimes that disrupt the activities of our society. They include a wide variety of offences, such as swearing in public, and being drunk and disorderly.
- *traffic offences* – the most widely committed offences in our society. They involve crimes such as driving without a seatbelt and running a red light. Most of these offences are dealt with by issuing on-the-spot fines but more serious offences, including drink-driving, result in court proceedings.

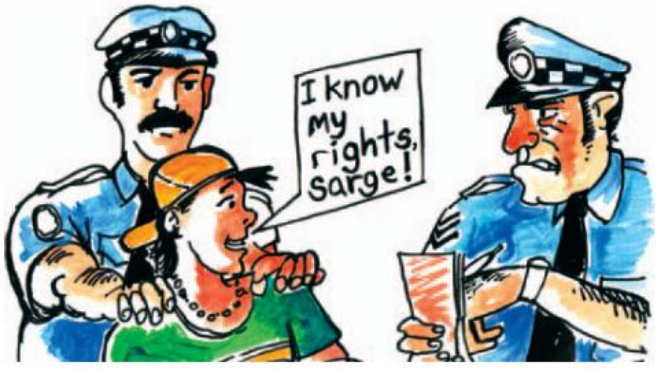

Figure 3.10 It is important for everyone to know his or her rights.

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Your rights when arrested

Click on the publications section of the Law Society of NSW site for details of your rights when arrested.

Proving a crime

When the police accuse someone of a crime, the prosecution has the responsibility of proving the person actually committed a crime. The defendant has the right to say nothing, although recent changes mean that their choice to say nothing can be used against them in court. There are two things, called the elements of a crime, that the prosecution must prove:

- *mens rea* – this means 'guilty mind'. It must be proven that the accused person intended to commit the crime and that the actions of the accused were not accidental. The only exception to this is traffic offences, where no *mens rea* needs to be proven.
- *actus reus* – this means 'criminal act'. It must be proven that the accused person actually committed the offence.

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Under 18?
What are your rights in criminal law?

International law, common law and **statutory rights** all provide Australian children with many special rights. The law recognises that children need special protection to ensure that their rights are not breached.

Can I be charged with a criminal offence?

In New South Wales any person over the age of 10 can be charged with a criminal offence. However, children aged between 10 and 14 are given special protection. At this age the prosecution has a special responsibility to prove that the children knew that they were committing a crime when they broke the law.

Any person under the age of 18 who is charged with any offence will have his or her case heard in the Children's Court. This court has specially trained judges and is not open to the public, so that the identity of the child is kept confidential.

These important rights are designed to protect the legal rights of children. It is recognised that children usually have little understanding of the legal process and could, therefore, be easily misled.

Can the police interview me?

The police have the right to ask members of the public questions. In most cases we are all required to give the police our name and address but apart from providing this information we may remain silent.

Like everyone else in Australia, children have the right to seek legal advice before they answer any question or sign any statements. Before they begin to interview a child, the police must ensure that the child's parent or a responsible adult (often a Salvation Army representative) is present.

Can I be called as a witness?

Children may be asked to give evidence in court. When doing so they have certain special rights, including the right to have a carer present, and sometimes the right to give their evidence by closed-circuit television from a room away from the courtroom itself.

Public law: constitutional and administrative law

Constitutions are special documents that are sets of rules outlining how a government is to be run. A government has a responsibility to follow the rules of the constitution. Failure to do so could result in the government being dismissed from office. Some constitutions, such as the Constitution of the United States, also outline the rights to which citizens are entitled.

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'Whereas the people . .' preamble to the Australian Constitution

Most constitutions have a preamble. This is a statement that outlines the aspirations and intentions of the nation. The Constitution of the United States has a very formal preamble that talks of the desire of the American people to live in freedom and to pursue happiness. The preamble to the Australian Constitution does not do this. Instead it simply discusses the legal authority for the formation of the Commonwealth of Australia. In recent years there have been calls for the preamble to be changed. In 1998 a proposed change was put to the people in a referendum but was unsuccessful.

Activity

The Com Law website contains the full version of the Australian Constitution. Access this website and read the preamble to our constitution. In a small group, rewrite the preamble to signify what Australia stands for in the twenty-first century.

The Australian Constitution does not contain such a statement on the rights of citizens. Instead, most of our rights come from statute and common law. The Australian Constitution is essentially a document outlining the powers of the Commonwealth and state governments (see Figure 3.11).

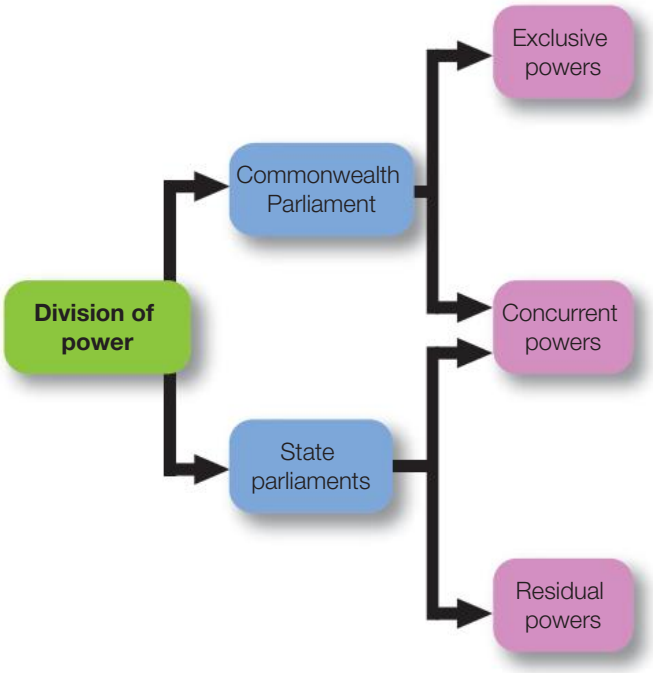

Figure 3.11 The division of power.

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The constitution also details how power is to be separated between the three branches of the Commonwealth Government (see Figure 3.12).

At the time of Australia's Federation in 1901, the state parliaments held considerable powers, which they were reluctant to give up. Therefore, the constitution grants many powers to the states, particularly in the areas of health, law and order, education and the environment. These powers are known as **residual powers**.

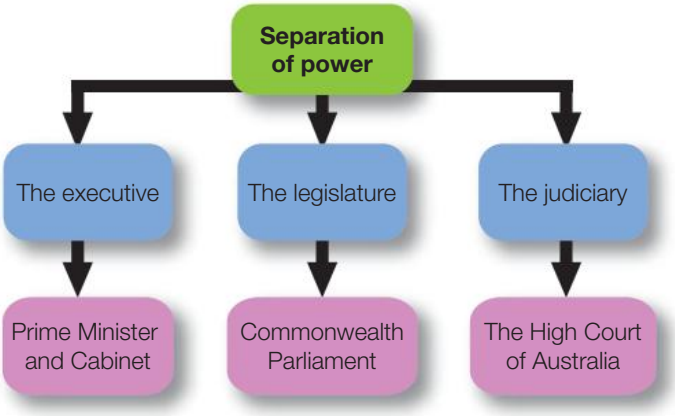

Figure 3.12 The separation of power.

Those powers that were transferred from the states to the Commonwealth Government are referred to as **exclusive powers**. The most important of these powers are known as *external powers*. These are powers that enable the Commonwealth to deal with other nations. External powers include customs and quarantine laws, foreign relations with other nations, defence and, most importantly, the right to enter into international agreements with other nations, such as the United Nations Convention on the Rights of the Child (see page 260). Some powers are shared between the state and Commonwealth parliaments. These are known as **concurrent powers**.

Where a conflict arises between the powers of the states and the Commonwealth, the Commonwealth's rights take precedence; that is, they will be considered the most important. An example of a concurrent power is law enforcement of drug offences. State and federal forces both deal with drug trafficking.

One of the most important aspects of our constitution is that it aims to ensure that no one person or group can take control of Australia. Therefore, the constitution separates powers between the three most important groups in the ruling of Australia: the executive, the legislature and the judiciary. By splitting the power between these groups, each group can act as a check and balance on the other groups.

For example, should the executive (the Prime Minister and Cabinet) attempt to abuse their power then the judiciary and the legislature can stop this from occurring. Likewise, the executive can stop abuses from one of the other groups. Figure 3.12 shows the separation of power at the federal level. There is also separation of power at the state level.

The US Bill of Rights

During the debates preceding the adoption of the Constitution of the United States, its opponents argued that the document, as drafted, would open the way to tyranny by the federal government. Fresh in their memory was the British abuse of civil rights before and during the American Revolution. They demanded a 'bill of rights' that would spell out the rights of individual citizens. Eventually a compromise was achieved. Following the formal acceptance of the constitution a number of amendments would be made by Congress (the US Parliament).

On 25 September 1789, the First Congress of the United States passed 10 amendments to the constitution. These became known as the Bill of Rights.

Amendment II reads: 'A well-regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed'. This right, which still exists, means that American citizens can own weapons and it is very difficult for the government to introduce gun control.

If the US Bill of Rights was being written today it is unlikely that Amendment II would have been included. This is because, today, the values regarding gun ownership have changed. In the eighteenth century it was important that people owned a gun. There was no police force and people feared that Britain would invade. The United States now has a defence force and law-enforcement officers to defend its people. Despite this, some US citizens still believe they have a right, and need, to defend themselves.

Figure 3.13 Society's values relating to gun ownership were different when the US Bill of Rights was written in the eighteenth century.

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US National Archives and Records Administration

The US National Archives and Records Administration (USARA) website provides access to many important documents. These include the American Constitution; the Declaration of Independence; famous speeches, such as the Gettysburg Address; documents held in presidential libraries; and information relating to the assassination of president Kennedy.

Activities

Using the USARA website, access the 10 constitutional amendments that make up the US Bill of Rights.

1. List the rights covered by the 10 amendments.
2. Which of these apply in the Australian legal context? Which do not?
3. Australia does not have a bill of rights. Undertake Internet research using the key words 'bill of rights' and 'Australia' to find out why.
4. As a class, compile a list of the arguments for and against having a bill of rights.
5. Hold a class debate on the topic: Australia should have its own bill of rights. Then conduct a secret ballot to resolve the issue.

Administrative laws deal with the rules regulating the powers of government agencies and departments. When the government creates a department it is done so through the making of a statute law. This law will outline the role and powers of the department. For example, the role and powers of Sydney Water are outlined in the *Sydney Water Act 1994* (NSW) and the role and powers of the Department of Education and Training are outlined in the *Education Reform Act 1990* (NSW).

Private or civil law

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 involved and the police are not involved.

In a civil law matter, 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.

There are three main areas of civil law (see Figure 3.14):

- *contract law* – a contract is a legally binding agreement between two parties. The majority of civil law cases involve contracts; that is, where one party claims that the other party has not done what they agreed to in a contract.
- *property law* – property is anything that can be bought and sold. Laws govern the way goods are to be purchased and the way people or organisations must behave in their property dealings with others.
- *tort law* – torts are civil wrongs. They involve the actions of people that cause discomfort to others. Civil law exists to help people receive compensation if they have been inconvenienced by the actions of another person. There are four types of torts
  - *negligence* – a lack of **duty of care**
  - *nuisance* – when a person interferes with another person's rights
  - *defamation* – when one person's reputation is damaged by the actions of another
  - *trespass* – when property is interfered with.

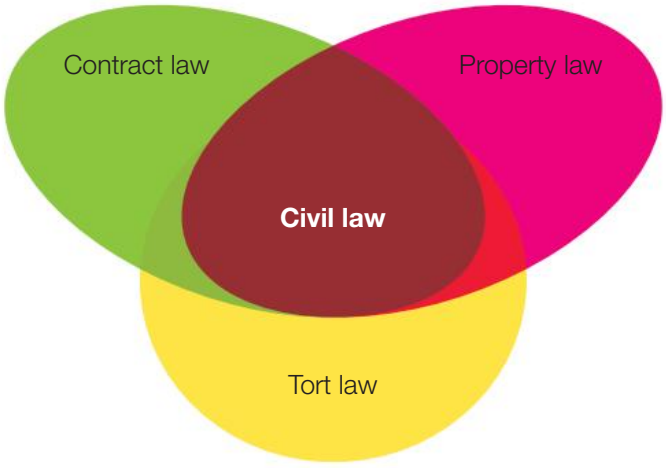

Figure 3.14 Civil law.

Family law

Family law is the body of law that regulates marriage and divorce, the relationship of parents with their children, and other family issues, such as adoption. Family is one area of the law that has been greatly influenced by the moral and ethical values of society. For this reason it is constantly changing. As the attitudes and values of society change so does the law.

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In Australia, most family law is a federal issue and is dealt with by the Family Court of Australia. This court is staffed by specially trained judges and deals solely with family law matters. Couples (including same-sex couples) who are not married but live in de facto relationships are dealt with under state law; although they have similar rights and responsibilities as married couples.

The Family Court of Australia deals with many issues. These include parenting orders (determining the rights and responsibilities of parents over children after a divorce) and the division of property as a result of divorce. Under Australian family law a couple can choose to divorce for any reason. In the past, in order to obtain a divorce, one partner had to prove that the other had done something wrong. This is no longer the case.

New reproductive technology is an area of family law that has created a great deal of controversy in recent years. The use of in-vitro fertilisation (IVF) and surrogacy (where a woman gives birth to another couple's baby) has created moral and ethical dilemmas. The ability to genetically modify foetuses will pose similar problems in the future.

Understanding the text

1 Distinguish between public law and private law.

2 Who brings the case in a criminal matter?

3 Briefly outline the six main types of criminal law.

4 Outline the protections granted to a person aged less than 18 in criminal matters.

5 What is a constitution?

6 Explain the concepts of the separation of power and division of power.

7 Explain what residual, concurrent and exclusive powers are.

8 What does civil law aim to regulate?

9 Outline the main areas of civil law.

10 Distinguish between criminal law and civil law.

11 Outline the areas of law controlled by family law.

12 Describe the purpose of a parenting order.

13 Explain how the law in relation to divorce has changed.

Activities

1 Copy the following table into your notebook and then complete it using the information in the text.

Type of law	Description	Example
Public law		
Private law		

2 **a** Write a paragraph explaining the meaning of *mens rea* and *actus reus*. Include examples in your explanation.

b Write a paragraph either in support of or against the need to prove both *mens rea* and *actus reus* before the accused can be found guilty.

3 Write an exposition explaining why the separation and division of power, as outlined in the constitution, are so important.

4 In a small group, write a script for a role-play about an aspect of tort law. In your script consider what types of actions would result in different torts being broken. Act out your role-play for the class.

Making laws

The Australian legal system very closely follows the legal system that developed in Britain. This system of law–known as English Common Law – is based on laws coming from two sources:

- *statute law* – laws made by parliaments
- *common law* – laws that originate from the decisions of judges.

Statute law

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. The process for passing a Bill in the Australian Parliament is summarised in Figure 3.15.

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 of Parliament, both the Upper and Lower Houses 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.

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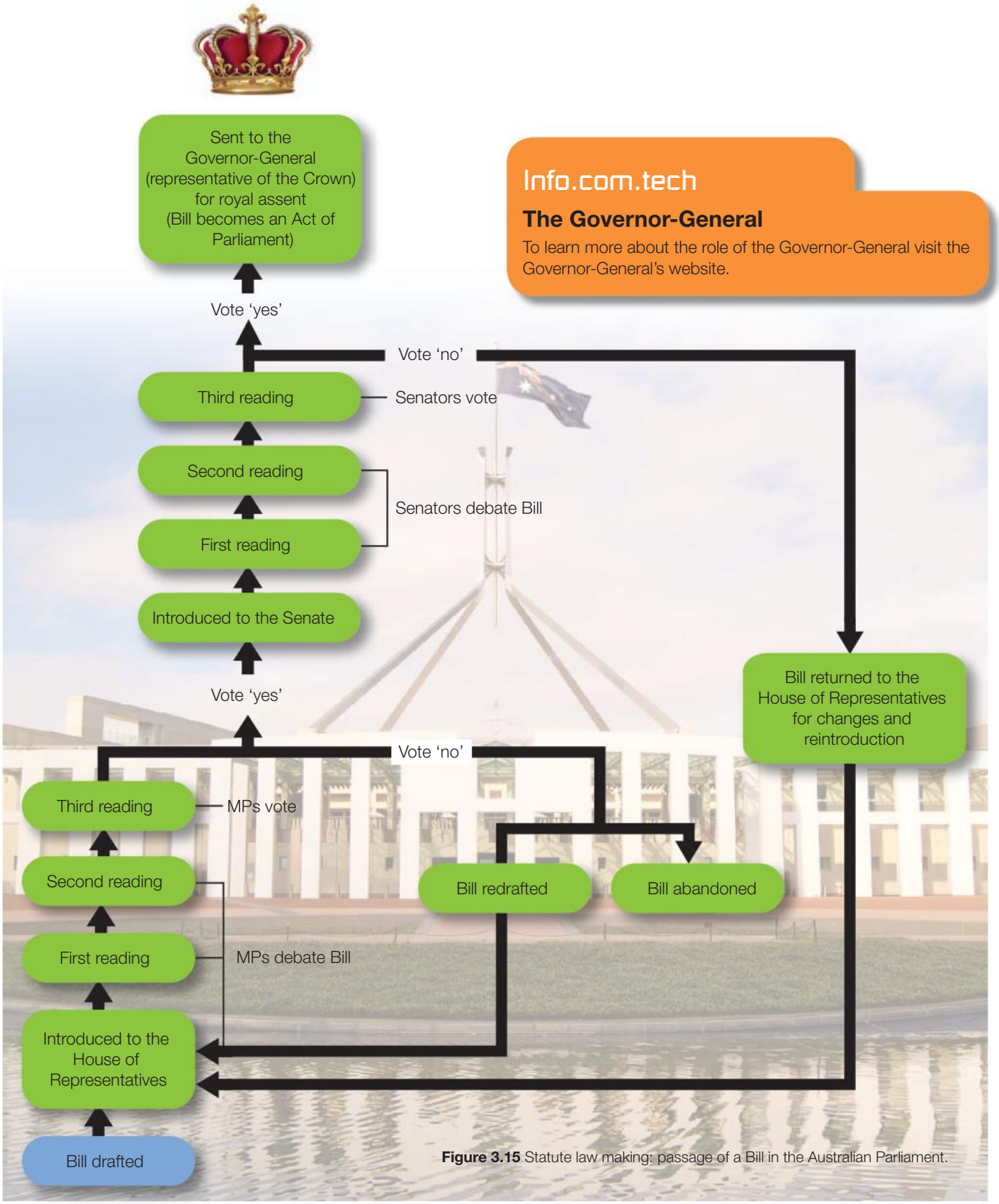

Figure 3.15 Statute law making: passage of a Bill in the Australian Parliament.

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The Governor-General

To learn more about the role of the Governor-General visit the Governor-General's website.

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Once passed by the parliament and given royal assent, the Bill will become an Act of Parliament and therefore law.

Common law

Common law is unique to those legal systems that adopted English Common Law. Common laws are based on the rulings of judges. 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*.

Case study

Is that a snail in my ginger beer?

The case of *Donoghue v. Stevenson* (1932) AC 562 is one of the most famous common law cases. 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 she launched legal proceedings against the ginger beer manufacturer. No one else had ever 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.

1 Outline the facts of this case.

2 Explain why the case *Donoghue v. Stevenson* was so important to the formation of common law.

3 Do you think that the decision Lord Atkin made was fair? Justify your response.

Figure 3.16 Manufacturers have a duty of care.

Superior courts, known as courts of record, are the only courts that have the power to set precedents and, therefore, make common law. In Australia, the Supreme Courts of each state, the High Court of Australia and the Federal Court are all superior courts. Once a precedent is set it must be followed by all lower courts (see Figure 3.4, page 62). Precedents established in other jurisdictions may be followed if the court wishes. For example, a precedent established by the NSW Supreme Court must be followed by all NSW courts, but Victorian courts may choose whether or not to follow the 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**. For example, the crime of rape was, until relatively recently, a common law crime. However, because of the serious nature of the offence, the NSW Parliament created the statutory crime of sexual assault.

Constitutions

Constitutions are not made in the same way as other laws. Usually they are not made by parliaments or courts, but rather by committees of notable leaders and often with a great deal of input from citizens.

The Australian Constitution was formally created by an Act of the British Parliament: the *Commonwealth of Australia Constitution Act 1900* (UK). This Act created the Australian Constitution and the High Court of Australia. While this Act of the British Parliament allowed the constitution to come into being, the articles (details) of the constitution were prepared by Australians, led by Sir Henry Parkes. Various meetings, public debates and, finally, a special vote were held to allow the people of Australia to have a significant say in the drafting of the constitution.

Each state also has its own constitution. Each state's constitution works in the same way as the Commonwealth (Australian) Constitution in that it regulates the behaviour of the state parliament. If a state constitution is in conflict with the Commonwealth Constitution on a matter where the Commonwealth has either concurrent or exclusive powers then the Commonwealth Constitution has precedence.

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. This means that laws are sometimes seen as being 'out of date' because the values of society have

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changed but the law has not. For example, many people have argued that the smoking of marijuana should be made legal. These people state that smoking this drug is widespread in the community. Other people have argued against the legalisation of marijuana, saying that it is a dangerous drug. These groups of people have very different moral and ethical views on the issue. When society is divided in this way it is difficult for the law to be reflective of society's attitudes.

Morality can be considered as doing 'good things'. There are two types of morality: 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.

Figure 3.17 Our society considers it immoral to steal.

Ethics are different from morals because ethics relate to what is 'right' rather than what is 'good'. 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.

As the influences on our society change, so do our moral and ethical values. Religion plays less of an influence in our society than it did in the past and this is now reflected in our laws. In the past, it was quite difficult to obtain a divorce in Australia.

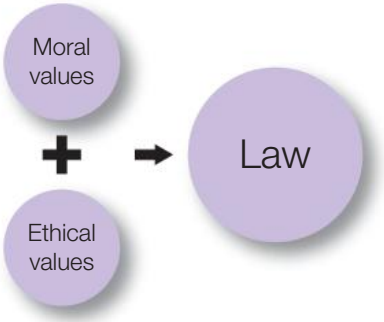

Figure 3.18 Influences on our laws.

This reflected the moral view that once a couple married they should remain married for life. Today, however, our society has a different view towards marriage and divorce. No longer is it considered 'wrong' to divorce. Therefore, in 1975 the law was changed so that a divorce could be obtained more easily.

There are other ways in which our laws have changed. In the past it was considered illegal to engage in a homosexual act; it was a crime that was punishable by a prison sentence. This was a reflection of the morality of society, which saw homosexuality as being immoral. But our society's attitudes regarding same-sex relationships have changed. Consequently, our laws have changed. It is no longer illegal to engage in a homosexual act. Furthermore, it is now illegal to discriminate against homosexual people.

Society's view of young people has also changed and ,again, this is reflected in our laws. In the past, a person was not officially an adult until they turned 21. People could not drink alcohol, play a poker machine or even vote before this age. Now the age of adulthood is 18 years and young people have a great deal more control over their lives. The way the law views women has also changed as our society has come to recognise that discrimination against women, and stereotypes relating to the role of women are wrong.

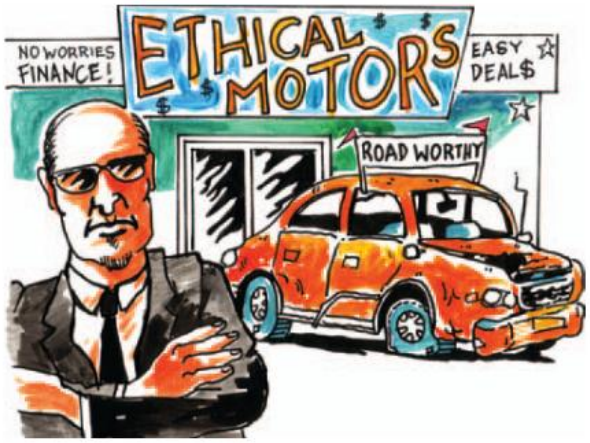

Figure 3.19 Not everyone is ethical.

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Changing laws

Effective laws are those that reflect the wishes of the majority of society. 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. In 1987, the *Children (Care and Protection) Act 1987* (NSW) was passed by the NSW Parliament. This Act was designed to help and protect children. However, in 2000 the Act was repealed (removed) and replaced with a new Act: the *Children and Young Persons (Care and Protection) Act 2000* (NSW). This new Act was developed because the 1987 Act was considered to be insufficient.

Figure 3.20 The High Court can change common law decisions of lower courts.

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.

Case study

The *Native Title Amendment Act 1998* (Cwlth): changing common law

In 1996, the High Court of Australia heard a case involving Native title (the right of Aboriginal and Torres Strait Islander peoples to have control over traditional lands that are not owned by other people). The case – *The Wik People v. The State of Queensland and Others, The Thayore People v. The State of Queensland and Others* (1996) 187 CLR 1 – became known as the *Wik Case*. The case involved whether Indigenous Australians had the right to claim Native title over pastoral leases (land leased by farmers from the federal government). The court ruled that both farmers and the traditional owners could coexist on the land; although if the pastoral and traditional land uses came into conflict the pastoral rights would take precedence.

The federal government and many farming organisations felt that the High Court's decision created uncertainty and they wanted the common law amended. The *Native Title Amendment Act 1998* (Cwlth) was passed. This Act made it more difficult for Indigenous peoples to claim Native title over any pastoral lease granted prior to 1994.

1 Briefly outline the Wik Case.

2 Explain why the government passed the Amendment Act.

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Changing the constitution

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 either 'yes' or 'no'. Very few referendums have been successful in Australia–just eight from 44 proposals to date.

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 change section 127 of the Australian Constitution, enabling the federal government to make laws on behalf of Aboriginal people (until then Aboriginal matters were the concern of each state) and 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, the constitution was changed to read:

> . . . 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 people. It reflected the changing views Australians had towards Aboriginal and Torres Strait Islander peoples. 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 Indigenous Australians enjoyed the same rights as all other Australians.

Understanding the text

1. What is a Bill?
2. Describe how statute law is made.
3. Under what circumstances can common law be made by judges?
4. Explain what the term *precedent* means.
5. What is a court of record?
6. Briefly explain how the Australian Constitution was created.
7. Distinguish between public and private morality.
8. Describe what ethics are.
9. Outline the process for changing statute law.
10. Explain how common law is changed.
11. Under what circumstances can the Australian Constitution be changed?
12. Briefly outline the events of the 1967 referendum.

Activities

1. As a class, discuss how the law is affected by morals and ethics.
2. Do you think the government should be able to pass statute law to change common law?
3. Some people have argued that it is too difficult to change the Australian Constitution. Write a speech either in support of or against making it easier to change the constitution.
4. In a small group, discuss whether you think the law really reflects the values held by most people in our society. In particular consider those laws that relate to young people, such as the legal drinking age.

Figure 3.21 Referendums are constitutional votes.

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3.3 Using the legal system

Key terms

mediation Using a neutral third party to help resolve a legal dispute between two parties.

The legal system exists to help all Australians resolve disputes in a peaceful and fair way. However, this does not mean that Australians have an automatic right to legal representation. In other words, we do not have a right to a lawyer. We can represent ourselves in the court; although this is often difficult as the law is complex and most people would struggle to understand the legal terminology and processes associated with the operation of our courts.

While there is no automatic right to a lawyer, there is a right to a fair trial. Many lawyers and judges have questioned whether a person who does not have a lawyer will receive a fair trial. Barristers (lawyers who are trained to represent clients in courts) often charge several thousands of dollars for each day they represent their client in court. This means that many people are unable to afford access to the court system and use it to resolve their disputes. In criminal matters, when a person's freedom is at stake, this creates an even more serious problem.

Figure 3.22 People tried in court will usually need a barrister to represent them and this can be expensive.

Legal Aid

To ensure that people obtain fair treatment from the legal system, Legal Aid was introduced by the Whitlam Labor Government in 1972. Each Australian state and territory now has a Legal Aid Commission, whose role is to provide legal assistance to people who are unable to afford their own lawyer. Any person can gain 15 minutes of free legal advice on any criminal, civil or family law matter.

If further advice is needed then a formal application for assistance must be made. The high costs associated with providing Legal Aid mean that applicants for assistance must pass a number of qualifying tests. These include:

- *the means test,* which assesses whether the person is able to afford to pay for a lawyer. For example, someone who owns their own home or earns a good income is unlikely to gain access to Legal Aid.
- *the merit test*, which assesses the likelihood of the case succeeding. If the case is weak, and it is likely that the court will disagree with the applicant, Legal Aid may be refused. If the Legal Aid Commission believes that it is impossible to win a certain criminal case it may require the accused to plead guilty before it will agree to provide representation.
- *the jurisdiction test*: Legal Aid is only provided for certain legal matters. These include criminal cases, family cases and a small number of civil cases, including discrimination and human rights matters.

The special legal needs of children mean that they have an automatic right to Legal Aid and are not required to pass the means or merit tests.

Figure 3.23 Legal Aid was introduced to ensure people obtain fair treatment from the legal system.

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Legal Aid

Legal Aid NSW has an extensive website.

Activities

Access the Legal Aid NSW website.

1 Outline the nature of the free legal advice that Legal Aid provides.

2 Go to the workshops about the law section and describe two of the different courses and/or conferences offered by Legal Aid. What do the nature of these conferences indicate about the work of Legal Aid and who it feels needs its assistance?

Issues of fairness in accessing the law

When attempting to determine a person's ability to access the legal system there are four key issues that must be considered: cost, time, procedures and language.

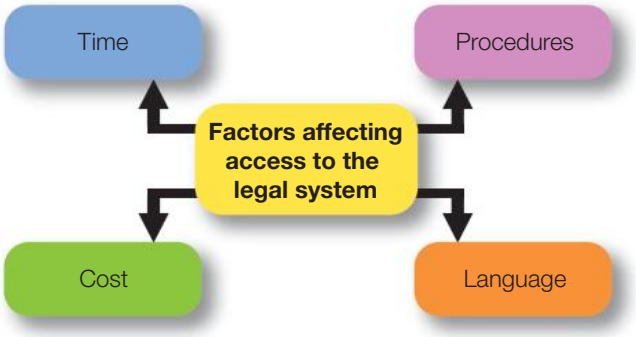

Figure 3.24 Factors affecting access to the legal system.

Although Legal Aid helps many people who cannot afford to hire their own lawyers, many people are unable to exercise their legal rights because of the high costs involved. This is particularly a problem in civil law matters, which usually do not pass the jurisdiction test for Legal Aid. For example, a consumer on an average income has been mistreated by a large company and wants to take that company to court. The consumer will not have the financial resources to fight a legal battle against a large corporation, which can afford to hire a team of lawyers. Therefore, while the consumer has important legal rights, the cost of exercising those rights may be too great.

To help overcome this problem, the federal and state governments have passed numerous consumer protection laws, such as the *Fair Trading Act 1987* (NSW) and the *Trade Practices Act 1974* (Cwlth). These Acts help to protect consumer rights. In addition the federal government has established the Australian Competition and Consumer Commission (ACCC). The ACCC has wide-ranging powers to protect consumers. It prosecutes businesses that do not follow the Trade Practices Act, meaning that consumers do not have to take their own legal action.

Figure 3.25 The rights of consumers are protected by the Australian Competition and Consumer Commission.

Family law is another area of law that creates concerns over accessibility. Legal Aid does provide assistance in family law matters, but many families are considered too wealthy under the means test. As a result, many people can be disadvantaged. For example, one partner in a divorce may be able to afford a highly qualified legal team, while the other partner may be forced to represent themselves or risk losing an important asset, such as the family home.

As a result of the problems many families face in gaining access to family law courts there has been a greater emphasis placed on **mediation**. This should help reduce the reliance on courts to resolve disputes between families.

The costs associated with using the legal system are not the only problem in gaining access. Time can sometimes act as a barrier. Many cases, especially civil law matters, can take years to be heard in the courts. This often discourages people from launching legal proceedings, even if they are likely to win.

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It may take years to receive compensation and they may not have the financial resources to undertake such a lengthy case. In a bid to reduce the time and cost of proceedings, more and more people are being encouraged to access alternatives to the courts to help resolve their legal disputes (see Chapter 12 for greater detail).

Legal proceedings are very formal and the language used is not typical of everyday language. This can often exclude individuals who are not familiar with the law and can also mean that their rights are more easily eroded. While judges will attempt to explain legal terminology to witnesses and other participants, court hearings can be confusing and daunting events, discouraging people from accessing the legal system.

A lack of understanding of legal rights is another factor that reduces access. For instance, many people do not understand their rights as consumers or employees. Consider the example of a person who has been wrongfully dismissed by an employer. Unless the person knows that the dismissal was unlawful, he or she will not seek redress. Lack of knowledge about legal rights is a particular issue for people with a language other than English. To help overcome this problem, information about a person's rights and responsibilities is often available in multiple languages.

Figure 3.26 Know your rights.

Geography can also reduce a person's ability to access the legal system. Those people living in remote areas have less opportunity to gain information about their legal rights, due to a lack of technology, government services and, in some cases, lawyers.

Figure 3.27 Living a considerable distance from legal advice can be a problem.

Understanding the text

1. Explain why it is important for people to have legal representation in court.
2. What is the role of Legal Aid?
3. Outline the process involved in accessing Legal Aid.
4. Explain how cost and time can impact on a person's ability to access the legal system. How has the law changed to help consumers overcome these problems?
5. How has the law changed to help people deal with the language and complex procedures used in the legal system?
6. Outline how mediation has helped families gain better access to the legal system.
7. How does geography influence a person's access to the legal system?

Activities

1. Take on the role of a newspaper columnist. Write an article explaining why many people are excluded from accessing the legal system. In your article consider which groups are disadvantaged and why.
2. In a small group, take on the role of a special parliamentary committee that has been created to help reduce the problems people face in accessing the law. Prepare an oral presentation on ways that access could be improved and the legal system could be made fairer.
3. The government has been trying for many years to address the issue of access to the legal system through the use of Community Justice Centres, alternative dispute resolution and Legal Aid. Using the Internet, conduct research into one of these initiatives in New South Wales. Evaluate the effectiveness of this initiative; that is, make judgments about its effectiveness.

ISBN 9780170251587

Chapter review

Activity 1: multiple choice

1 Common law can be best described as:

- **a** laws made by judges
- **b** laws that regulate how companies act
- **c** laws used to decide who has access to publicly owned land
- **d** laws that are prepared by politicians after they have spoken to members of the general public.

2 As a result of civil war a country is left with no effective government. Members of society do whatever they want and many laws are being broken. This country now has a political system based on:

- **a** democracy
- **b** communism
- **c** anarchy
- **d** statutory.

3 Sarah is 19 years old and is caught shoplifting from her local newsagency. This is the first time she has been arrested. Sarah's case will be heard in which court?

- **a** the District Court
- **b** the Summary Offences Court
- **c** the Children's Court
- **d** the Local Court

4 In the Australian Constitution, residual powers are:

- **a** the powers held by the Commonwealth Government
- **b** the powers held by the state governments
- **c** powers to change statutory laws
- **d** the right of the parliament to dismiss judges.

5 The Australian Constitution can be changed when:

- **a** the Australian Parliament receives the approval of the Governor-General
- **b** the majority of state parliaments agree to the change
- **c** a Bill is successfully passed by the Australian Parliament
- **d** a referendum is successful.

Activity 2: true or false

Select 'true' or 'false' for each of the following statements.

1 The role of the jury in a criminal case is to determine the guilt of the accused and then to pass an appropriate sentence.

2 Statute laws are made by parliaments.

3 Australians have the right to appeal court cases to the Commonwealth Senate as a last resort.

4 A child under the age of 16 cannot be arrested by the police.

5 In a civil law case the person making the accusation is known as the plaintiff.

6 The Commonwealth executive includes the Federal Cabinet, the Governor-General and the Prime Minister.

7 The main role of the High Court is to hear cases involving the most serious offences.

8 *Mens rea* means 'guilty mind', meaning that the accused must have knowingly committed a crime.

9 Australia's Constitution grants some powers to the states and some to the Commonwealth. This is known as the separation of power.

10 Juries consist of 12 people who are selected based on their knowledge of the legal system.

Activity 3: looking at the law

1 Assume the role of a lawyer with Legal Aid. With a partner, prepare a short brochure on the legal rights to assistance that are held by each person in New South Wales. Consider who can access Legal Aid and what conditions are placed on the assistance given.

2 Local Courts are found in most large country towns and in multiple locations in large cities. If possible, visit your Local Court to see how the law really works. Typical cases you are likely to see will include people charged with drink-driving and other serious traffic offences, assaults and stealing. It is important that you remain quiet and show respect while in the court. During your visit to the court, record information on:

- **a** the people involved in the case – what was their situation?
- **b** the charge or, if a civil law matter, what the problem was
- **c** the plea of the accused – briefly outline the case of the prosecution and the defence
- **d** if the accused is found guilty, the sentence imposed – evaluate whether the punishment is suitable.

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Activity 4: literacy task – write a newspaper article

Write a newspaper article on the topic: Australian children need to know more about their rights. In your article, consider issues such as:

- the special legal rights that Australian children have at present
- whether you think these rights are adequate
- the problems that arise from children not being aware of their rights.

When preparing to write a newspaper article there are several important points to consider. Newspaper articles are written to inform the reader in a way that is entertaining and easy to understand. Therefore, an article should have fairly simple and short sentences, be less formal than a typical extended response and try to engage the reader through a narrative style (similar to telling a story).

Activity 5: cloze passage

Copy the following passage, using the words below to fill in the gaps. You can only use each word once and there are more words than you need.

anarchy	assent	business
civil	common	country
defence	defendant	dictatorship
District	division	family
Federal Cabinet	government	statute
guilty	High	indictable
inferior	statute	judges
jury	legislature	less
magistrate	plaintiff	police
Prime Minister	Representatives	rules
Senate	separation	state
Governor-General	summary	Supreme

Without laws _____ would exist. This is where people are able to do whatever they please. Here in Australia a hierarchical court system exists. This means that courts are divided into superior courts and _____ courts. The highest court in Australia is the _____ Court, and in each state the _____ Court is the most senior.

In New South Wales the Local Court deals with _____ offences. These are _____ serious offences. This court also conducts hearings for _____ offences. Judges preside over cases in all courts except for the Local Court, where a _____ presides.

In the Australian legal system there are two opposing sides: the _____ and the prosecution. The role of the prosecutor is to prove to the court that the _____ is guilty of the charge. A _____ is used in more serious cases. They have the role of deciding whether the defendant is guilty of the charge.

There are two main types of law in Australia: criminal and _____ law. In addition, there is an important part of the law called constitutional law. The constitution is a special document that outlines how the _____ is to be run. The Australian Constitution divides power between the Commonwealth and _____ governments. It also contains a special clause called the _____ of powers that divides power between the executive, the _____ and the judiciary. This is designed to ensure that no one group has too much power.

In Australia, laws are made by one of two methods: statute law and common law. Common law is made by the decisions of _____. Where the common and statute laws conflict with each other, _____ law has precedence. Before the Federal Parliament passes a law, it must first be passed by the House of _____ and then by the _____. If it successfully passes both of these houses then it goes to the _____ _____ for royal _____.

Activity 6: cartoon

Draw a cartoon that could be used to help people understand the difference between a rule and a law.

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4

Employment issues

Focus statement

In this chapter we focus on the commercial and legal aspects of employment issues.

Focus question

What are your options, rights and responsibilities in the workplace?

In this chapter you will learn about:

- different types of employment
- changing patterns of work
- the benefits of education and training for employment
- the various types of employment contracts
- unemployment
- employment relations
- legal issues relating to the workplace
- the role of unions and employer groups
- dispute resolution
- taxation and superannuation.

4.1 The workplace

Key terms

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.

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.

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

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 their workers and are responsible for the payment of wages or salaries and for providing a safe working environment.

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.

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.

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.

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 (ABS) defines **full-time employment** as working 35 hours or more per week. If fewer hours are worked, the employment is considered to be **part time**. **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.

Figure 4.1 What job will best suit you?

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Changing patterns of work

The majority of 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.

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 (see page 93) 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.

Key terms

self-employed People who earn an income from their own work or business rather than working for another person or organisation and receiving a salary or wage.

unemployed That part of the workforce who are able and willing to work but unable to find jobs.

unemployment Being without a job but able and willing to work.

unskilled work Work that lacks specialist training or ability and generally involves simple, manual tasks that can be learned 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.

workforce flexibility The ability of employers and employees to take advantage of different types of employment; for example, full time, part time and casual.

workplace flexibility The ability of employers and employees to negotiate flexible working hours, conditions, pay and entitlements.

Changes within industry sectors

Figure 4.2 (page 84) shows how employment by industry sector has changed since 1901. 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 2011, just 45 years later, that proportion had decreased to just 13 per cent. Employment has grown significantly in the services sector, especially in the accommodation, cafes and restaurants industry and the property and business industry. (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.

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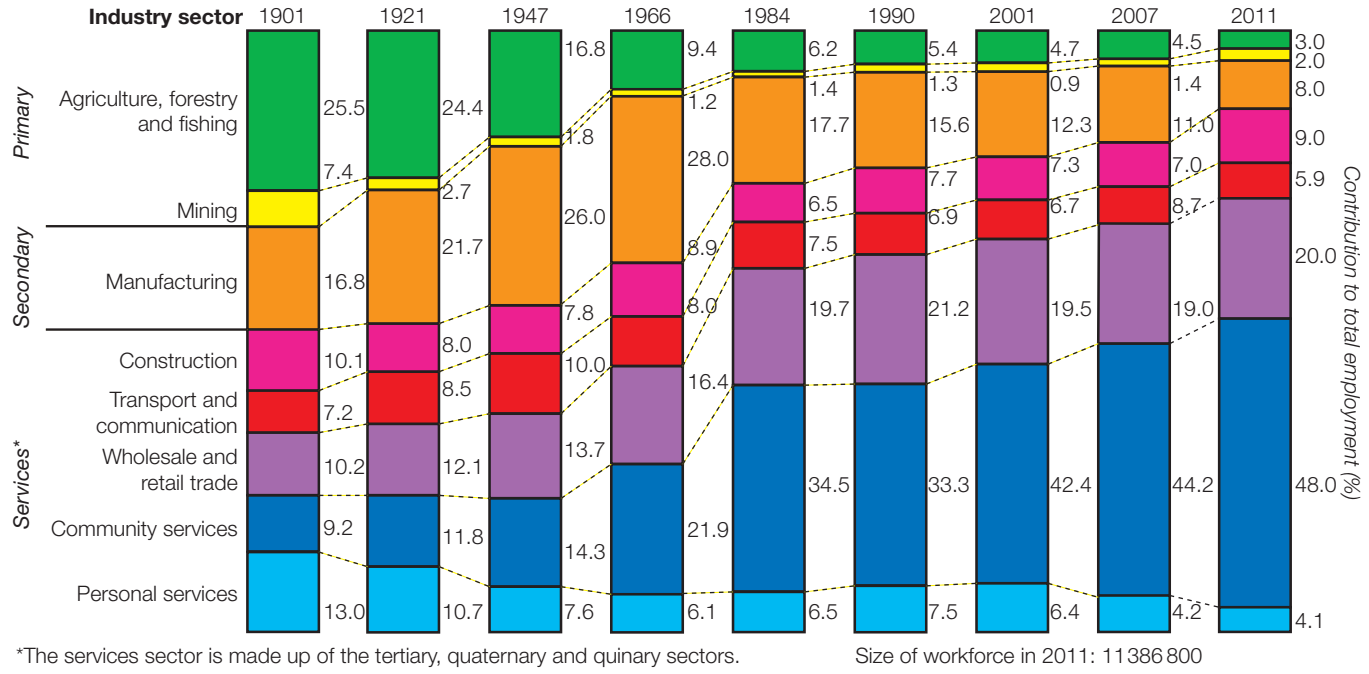

Figure 4.2 Changing structure of the Australian workforce, 1901–2011. Adapted from ABS data.

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 20 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.

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. Figure 4.3 shows that employment growth has been greatest in white-collar occupations. In 2011 the most common occupations representing more than 50 per cent of jobs were professionals, community and personal service workers, clerical and administrative workers and sales workers.

Trends in types of employment

A comparison of Figures 4.4, 4.5 and 4.6 shows an interesting trend: total employment and part-time employment have steadily increased since 1990, while full-time employment has had two periods of decline (1992–1994 and 2001–2002).

Table 4.1 shows that in the 20 years since 1991, the number of people employed part time has doubled (100 per cent increase) to approximately 3.4 million. During the same period, the number of people in full-time employment increased by only 35 per cent to just over 8 million. As a result, the proportion of total employment represented by part-time workers increased from 22 per cent in 1991 to 30 per cent in 2011.

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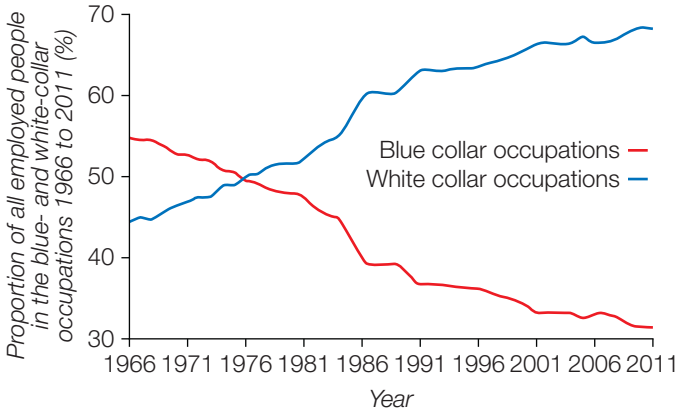

Figure 4.3 Changing trends in employment. Based on ABS data.

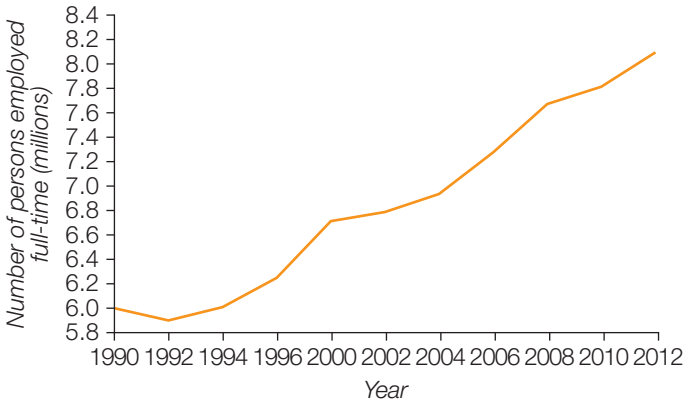

Figure 4.5 Full-time employment, 1990–2012. Based on ABS data.

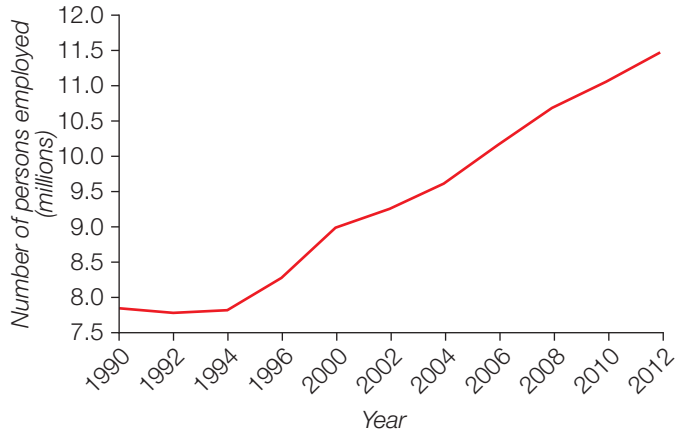

Figure 4.4 Total employment, 1990–2012. Based on ABS data.

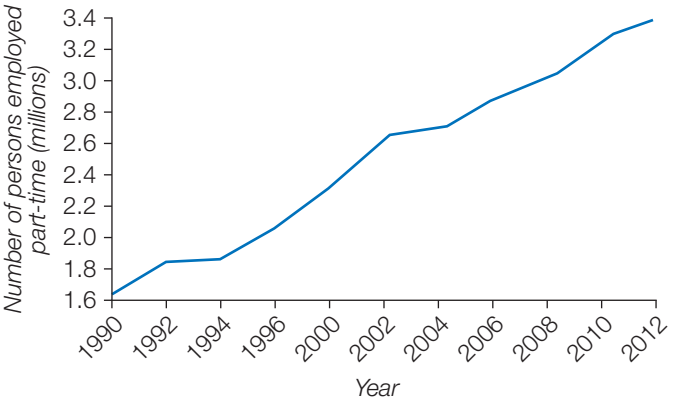

Figure 4.6 Part-time employment, 1990–2012. Based on ABS data.

Table 4.1 Changes in employment status, 1991, 2007 and 2011. Based on ABS data.

	1991			2007			2011		
Characteristic	**Total employed ('000)**	**Full time ('000)**	**Part time ('000)**	**Total employed ('000)**	**Full time ('000)**	**Part time ('000)**	**Total employed ('000)**	**Full time ('000)**	**Part time ('000)**
Males	4432.9	4037.0	396.0	5543.3	4724.6	818.7	6220.8	5209.2	1011.6
Females	3212.1	1926.2	1285.8	4522.6	2455.8	2066.8	5166.1	2805.4	2360.7
Total	7645.0	5963.2	1681.8	10 065.8	7180.4	2885.4	11386.8	8014.5	3372.3
	(%)	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**
Males	58.0	67.7	23.5	55.0	65.8	28.4	54.6	65.0	30.0
15–24 years	10.6	10.5	10.8	9.2	8.4	11.5	8.7	7.6	11.4
25–54 years	41.3	50.5	8.4	37.1	47.9	10.6	36.3	46.8	11.2
55 years and over	6.2	6.7	4.3	8.7	9.5	6.3	9.6	10.6	7.4
Females	42.0	32.3	76.5	45.0	34.2	71.6	45.4	35.0	70.0
15–24 years	9.7	7.8	16.3	8.7	5.6	16.4	8.1	5.0	15.5
25–54 years	29.6	22.7	54.0	30.7	24.9	45.0	30.3	25.2	42.1
55 years and over	2.8	1.8	6.1	5.6	3.7	10.2	7.0	4.8	12.4

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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 decade and a half 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 4.2 Factors contributing to the increase in part-time labour

Changes in demand	Changes in supply
The Australian economy has been restructured and, in particular, there has been growth in the services sector. It is interesting to note that more than 50 per cent of part-time workers in 2011 were employed in just three service industries: property and business services, health and community services and retail trade. These same industries accounted for only 30 per cent of full-time employment. In the past 45 years all employment growth has been in the service sector, rising from 54 per cent of all employed people in 1966 to 77 per cent in 2011. The workplace has been **deregulated**, leading to greater **workplace flexibility**. New technologies have been introduced.	There has been a large increase in the number of women seeking part-time work. In 2007, women aged 25–54 years accounted for almost 45 per cent of all part-time workers. The main reason for this may be that part-time work allows women to balance work and family responsibilities. There has been an increase in the number of young people seeking part-time work. 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. Young workers represented 27 per cent of total part-time employment in 2011.

Figure 4.7 More women are seeking part-time jobs.

How the workplace has changed

During the 1990s, only a quarter of all new jobs created were full-time jobs; casual and part-time jobs accounted for the rest. While this trend slowed during the 2000s, casual workers still accounted for about a quarter of the workforce.

Seventy-four per cent of all employees worked full-time in 1998, compared with 61 per cent in 2002 before increasing again to 71 per cent in 2012. Over this period, Australia's labour force increased from 6 million to 11.5 million.

In some industries, including retail trade and hospitality, up to half the workforce is made up of casual employees.

During the economic restructuring of the 1990s, job losses occurred in industries with high levels of full-time employment, especially manufacturing. Job gains tended to occur in industries characterised by high levels of casual and part-time employment. This trend was partially reversed during the employment boom of the mid-2000s when labour shortages resulted in increasing participation rates and higher demand for full-time workers.

Five per cent of all employees are now employed on fix-term contracts. One-third of these worked in the education sector.

Many of those employed in part-time jobs don't have access to annual leave, sick leave and other basic entitlements.

The duration of employment with a particular employer has also changed. It used to be that people were likely to stay with the same employer for their entire working life; now workers are much more mobile. In February 2012, 63 per cent of employees had been with their current employer for more than one year but of these, only 25 per cent had been with their current employer/business for more than 10 years.

Labour mobility has increased over time. In the 12 months to February 2012, a quarter of employees experienced some change in work: 3 per cent changed jobs, 13 per cent altered their usual hours worked and 17 per cent received a promotion or transfer.

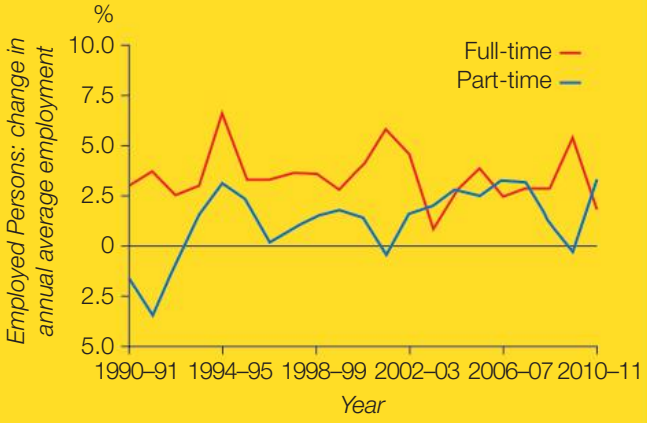

Figure 4.8 Employed Persons: change in annual average employment. Based on ABS data.

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What type of job is right for you?

To answer the question 'What type of job is right for me?', you will need to be armed with the answers to a number of other important questions. These might include:

- What type of job or area interests me?
- Is there a lot of demand for the area in which I'm interested in working?
- Do I have the required skills or qualifications for the job?
- Do I work well with other people or better with technology?
- Will I prefer working indoors or outdoors, in the city or the country?
- What type of work best suits me: full time, part time or casual?
- Should I start my own business?

In addition, there are the personal and social benefits of working to consider. These include job satisfaction and contributing to society by providing a good or service and by paying taxes.

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 4.3 outlines the advantages and disadvantages of different types of employment.

Understanding the text

1. Distinguish between an employee and an employer.
2. What does being self-employed mean?
3. List the five different industry sectors and give an example of a job in each sector.
4. Distinguish between part-time and casual employment.
5. What factors have contributed to the increase in part-time and casual labour? Provide examples.
6. Describe the trends in employment that have occurred over the last few decades.
7. What factors need to be considered when you think about your own employment future?
8. Outline the features of the workforce you will eventually participate in.

Table 4.3 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

*For further information in relation to being self-employed refer to Chapter 15.

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Researching casual employment

Activity

Use the Australian Bureau of Statistics website to investigate the changes that have occurred in casual employment during the last 16 years.

Activities

1 Refer to Figure 4.2 (page 84).

a Describe the trends in agricultural and manufacturing employment since 1901. Can you think of reasons why each of these trends occurred?

b Identify the service sector activities that have shown an increase since 1901.

c Identify the service sector activities that have shown a decrease since 1901.

d Write an explanation that describes and accounts for the trends shown in the graph.

2 Study Table 4.1 (page 85). Construct column graphs comparing total employment, full-time employment and part-time employment in 1991, 2007 and 2011.

3 Examine the different people listed below and what type of employment (full time, part time or casual) would best suit them. For each person, list the advantages and disadvantages of the type of work you have chosen for them.

a single person who likes to travel

b married person with a mortgage and no children

c single parent with young children

d married person with teenage children

e part-time university student

f person over 65 years of age who isn't ready to retire

4 Refer to the box 'How the workplace has changed'.

a Study Figure 4.8 (page 86). Write a series of dot points explaining the changes that have taken place in the structure of the Australian workforce between 1990 and 2010.

b Use the dot points and the other information in the box to write a one-page report outlining how the Australian workforce has changed since 1990.

c How do these trends relate to your own knowledge of the workforce?

d As a class, brainstorm possible reasons for these trends.

5 In small groups, create a poster to illustrate how employment trends in Australia have changed in the last few decades.

6 Consider your job prospects in terms of what type of job (including employment type and industry sector) would best suit you now and in the future. Then copy and complete the following table.

	Suits me now	Will suit me in 10–20 years time	Will suit me in 40 years time
Type of job			

7 Write an explanation as to why you are likely to have more than one job over the next 30–40 years. Include a discussion on the likely future trends in employment (industry and employment type).

8 **a** In small groups, list 10 jobs: five that are predominantly male dominated (for example, mechanic) and five that are predominantly female dominated (for example, teacher). In your groups, discuss why these jobs are dominated by one gender.

b Conduct a class debate on the topic: In the future, changing employment patterns will mean that employment stereotypes based on gender will no longer exist.

Benefits of education and training for employment

Education and training for employment provide a range of personal and social benefits.

Personal benefits

On a personal level, receiving a good education and/or the right training will result in individual improvement and greater personal satisfaction. It will also increase your employment prospects. Government statistics show that employment is highest among those with a degree or higher degree and lowest for those who did not complete secondary school. Table 4.4 shows the link between education and employment prospects.

In most cases, being employed, or having a job, will mean a regular income and an increase in your consumer power. In addition, there may be a certain level of prestige attached to your job or there may be fringe benefits, such as a car, international travel and discounts on certain products. Hopefully, you will have job satisfaction and the sense of self worth that comes from being employed and contributing to society.

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Table 4.4 Educational attainment and employment experience, 2011. Based on ABS data.

Educational attainment	Persons '000	Proportion of all long-term unemployed (%)	Proportion of all employed (%)
Degree or higher degree	3516.7	15	27
Diploma	1353.3	7	10
Skilled vocational/ Certificate III/IV	2586.5	15	20
Basic vocational/ Certificate I/II	724.7	8	5
Years 11 & 12	258.9	36	23
Year 10 & below	46.4	19	15

Benefits to society

Our society needs a well-educated and highly skilled workforce; not only so we can continue to maintain the high standards of living that we have achieved in the last 50 years but also to successfully compete on the global stage. Many of the jobs being created require a greater level of skill than is required of those that are disappearing. The countries that want to prosper and stay ahead will be those that make sure they have a highly educated and skilled workforce that can use technology efficiently.

New technologies are constantly being developed and existing technology is being updated and refined. Workers need to be flexible and willing to be retrained to keep up with technological developments and a changing workforce. Education and training should not be seen as short-term achievements that stop at the end of high school or university. Rather, they are lifelong pursuits that see 20, 30 and even 50-year-olds retraining, seeking further qualifications and meeting new challenges in relation to their employment. The people who are most likely to find and keep a job, therefore, will be those who are well educated, have skills and are flexible and adaptable.

Figure 4.9 Educational qualifications are important for a future career.

The government's role in education and training

Our government has taken many steps to help educate and train people so that they are more employable. At school level, for example, young people are encouraged to stay on at school and complete their final exams. From 2010, all students must complete Year 10 and remain in school or undertake an approved training course or participate in a combination of training and employment until they turn 17.

The government has also set up various employment and training schemes to assist people entering the workforce. The following are just a few of these programs and initiatives:

- *Youth Allowance* – is available if you are aged 16 to 21 and looking for full-time work or undertaking approved training. Before you can qualify you need to have a Year 12 Certificate or equivalent qualification.
- *Newstart Allowance* – is paid to people aged 22 or older who are **unemployed**, looking for work and agree to enter into an Employment Pathway Plan.
- *Austudy* – provides financial help to eligible full-time students and Australian apprentices aged 25 or more.
- *ABSTUDY* – assists eligible Aboriginal and/or Torres Strait Islander Australians studying full time or undertaking an apprenticeship.
- *Youth Connections* – helps young people to complete their Year 12 or gain equivalent qualifications.
- *Local Connections to Work (LCTW)* – helps disadvantaged youth and long-term unemployed find work.
- *Australian Apprenticeship Access Program* – helps eligible job seekers to gain a new apprenticeship, enter employment or can assist them to return to further study.

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More on government training and employment schemes

The federal government's Department of Education, Employment and Workplace Relations website has further information on government assistance in relation to training and employment.

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How does this affect you?

Over the last decade, the proportion of employed people with post-school qualifications has steadily increased and now stands at approximately 50 per cent. At the same time, the proportion of unemployed people with post-school qualifications has increased to around 30 per cent.

Because of this overall increase in the proportion of the workforce with post-school qualifications, you should take some time to think about your attitude towards education and training. Should you, for example, continue your studies into Years 11 and 12 and beyond? You should also be thinking about the subjects that you might choose in the senior school and in the future, and the jobs that may be of interest to you after you have completed school.

If you try hard to develop skills while you are at school, you will be confident of your ability to keep on developing new skills as time goes by. You are also likely to be more highly paid than an unskilled person. As a result, you will be in a stronger position as a consumer.

Australia will only prosper if it can compete successfully with other countries. One of the most important factors that will determine whether it can compete successfully will be how skilled its workforce is. So, as an Australian citizen, it is important to think about the benefits of education and training and develop valuable skills.

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Researching your career options

Activities

Select an occupation that you might consider as a career. Then use the Australian JobSearch website to answer the following questions.

1. In which industry sector (see Figure 4.2, page 84) is your chosen job?
2. Assess the chances of finding a job in this area.
3. What do you think the future employment prospects are for this type of job?
4. Identify the necessary qualifications.
5. What is the type of work involved in this job?
6. What is the current wage or salary?
7. Where can further information be found?

Understanding the text

1. Outline the personal and social benefits of education and training for employment.
2. Explain the link between education, training and employment. Support your explanation by referring to the information in Table 4.4 (page 89).
3. Outline the various employment and training schemes that assist people entering the workforce.
4. Explain how the issues addressed in this section affect you personally.

Activities

1. Copy the table below and then complete it by researching the occupations listed. The areas where you might gain skills include a current part-time job, specific school subjects and extracurricular activities. (Hint: Refer to *Job Guide*. Your careers counsellor or library should have copies of this publication or go to the Job Guide website.)

Occupation	Required education and training	Additional skills	Areas where you might gain these skills
Motor mechanic			
Sales assistant			
Electrician			
Lawyer			
Accountant			
Sales representative			
Computing support technician			
Construction worker			
Hairdresser			
Childcare worker			
Teacher			
Personal trainer			

2. Look in the employment section of a newspaper for a job advertisement for your chosen career. Paste this in your notebook. Assess the sort of school subjects and/or other activities that might help to gain the necessary qualifications and skills for this job. Write these next to the advertisement.

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Key terms

agreements A registered agreement sets out the terms and conditions of employment negotiated between employees and their employer. There are two categories of agreements under the national workplace relations system: enterprise agreements and transitional instruments.

agreement-based transitional instruments These include collective agreements, Australian workplace agreements (AWA) and individual transitional employment agreements (ITEA). These types of agreements were made before 2009 and can continue to operate until they are replaced or terminated.

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.

contract of employment A legally binding agreement between an employer and an employee that sets out the terms and conditions of employment. Examples of contracts of employment are awards, enterprise agreements and common law contracts.

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)*. Fair Work Australia (FWA) 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.

Fair Work Australia (FWA) 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. The FWA assumed the functions of the Australian Industrial Relations Commission (AIRC) and Workplace Authority on 1 January 2010.

industrial dispute/action A disagreement between employers and employees. Some common subjects for industrial disputes are wages and conditions, occupational health and safety, unfair dismissals and environmental issues.

minimum wage The lowest amount that can legally be paid to an employee under an award or agreement.

National Employment Standards (NES) A set of ten minimum standards of employment that apply to all national system employees from 1 January 2010. NES include, for example, working hours, leave entitlements, public holidays, notice of termination and redundancy pay.

negotiation When two parties discuss what they want in order to reach an agreement.

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.

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.

workers compensation A payment from an employer to an employee for injury or illness caused at work.

Types of employment contracts

A **contract of employment** is made when an employer offers someone a job and agrees to pay them for their work. It becomes binding when the employee accepts the offer. (Revisit pages 23 and 24, where the elements of a contract are discussed.) In Australia, there are several different types of employment contracts that detail the different terms and conditions of employment. Areas such as rates of pay, fringe benefits, entitlements and workplace protection all come under the heading of terms and working conditions. Many of these terms and conditions are governed by law and are therefore mandatory and fixed (for example, the NES), while others can be subject to **negotiation** between employees and the employer. Basically, employment contracts can be categorised as either formal or informal agreements.

Formal agreements

A formal agreement is a written agreement that must be approved by a government authority, such as **Fair Work Australia (FWA)**. A formal agreement can take the form of an **award** or an **enterprise agreement**.

Awards

Awards are negotiated between employers and employees. Until 2005, nearly 80 per cent of employees in Australia were covered by an award. This changed when a new national workplace relations system was introduced in December 2005.

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Investigating awards

The Fair Work Ombudsman website provides an *Award Finder* to locate modern awards and pre-modern awards (lodged before 1 January 2010).

An award (state or federal modern awards) sets out the minimum terms and conditions for a particular industry and includes 10 allowable matters (or points). Some of these are:

- hours of work
- overtime and penalty rates of pay
- leave, including annual, sick, bereavement, long service and parental leave
- injury and **workers compensation**
- hiring and termination of employment.

An award has the aim of giving all workers a minimum wage and a number of set conditions so they are not disadvantaged or exploited. Unfortunately exploitation does still occur (see box below). Therefore before accepting a job, employees need to make sure they will receive at least the minimum wage. From 1 January 2010 the FWA sets the national minimum wage and specifies the minimum wage rates for employees covered by a relevant modern award.

Some employers, on the other hand, may decide to offer their workers *over-award payments*; that is, payments above the award rate. They may wish to reward their workers, to encourage them to work harder or they may have given in to trade union pressure to pay over-award wages.

Enterprise agreements

Enterprise agreements have been introduced over the last 30 years or so with the aim of providing more consultation between employees and employers and greater flexibility in the workplace. Agreements made before 2009 included Australian workplace agreements (AWAs) and certified agreements. Under the *Fair Work Act (2009)* there are three types of enterprise agreements: **single** (one employer); **multi** (two or more employers) and **greenfields** (genuinely new enterprises). The enterprise agreement is made between one or more employer with their employees, and in the case of the greenfield agreements, with one or more employee organisation (union). Awards can cover an industry or occupation but enterprise agreements can be negotiated to meet the specific needs of a particular workplace.

An enterprise agreement can replace an award or can be used with it. In **enterprise bargaining,** the people involved (**bargaining representatives**) can negotiate some or all of the conditions contained in the award. Under enterprise bargaining, employees can negotiate conditions such as pay increases, more flexible working hours, leave entitlements, child care, training, profit sharing and grievance procedures.

Unethical retailers to be shamed in public campaign

By Geoff Strong and Angela O'Connor

Lobby group Fair Wear has pledged to name and shame retailers that have refused to sign an ethical code of conduct protecting clothing workers from exploitation …

The code, signed … by three of Australia's biggest retailers …, is aimed at hundreds of thousands of clothing and textile workers, including an estimated 340 000 outworkers.

Many of these [outworkers are] people [who] work from home or in hard-to-locate factories for as little as $2 to $5 an hour. They often have virtually no English and are controlled by middle men usually of their own ethnic group …

The Victorian secretary of the [Textile Clothing and Footwear Union], Michele O'Neill, said that under the code, retailers undertook to supply the union with lists of suppliers and records of contracts. This would allow the union to visit workplaces and check wages and conditions.

If it was found workers were paid below award wages or forced to work long hours without breaks to complete orders, pressure would be applied to the retailer to drop the supplier.

She said the code would not instantly improve the workers' lives. 'But the signing is another step in the right direction.'…

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Some entitlements, however, are not subject to bargaining because they are set down in law.

Each state has its own act covering the entitlements that are protected by law. In New South Wales, these entitlements are specified in the *Industrial Relations Act 1996* (NSW). They include:

- at least one week of sick leave per year
- a working week no longer than 40 hours unless overtime is paid
- pay rates not less than the award hourly rate for normal hours
- minimum periods of annual, long-service, maternity and parental leave as set down in legislation.

Some argue that unlike awards, enterprise bargaining benefits both the employee and the employer in a number of ways. For example:

- it gives everyone in the workplace the opportunity to discuss and decide on working conditions
- wages and salaries better reflect the actual work being done
- it encourages growth in productivity (output per worker) as any growth can be clearly measured and rewarded accordingly; for example, by payment of bonuses
- it allows **industrial disputes** to be settled more quickly, without the need for outside intervention because conditions have already been mutually agreed
- it provides greater cooperation and trust between employers and employees
- it helps tailor working conditions to the needs of the workforce, which is in the interest of employees.

In December 2005, the Howard government introduced a new national system of employment regulations known as WorkChoices. This new system came into effect in March 2006. The aim of WorkChoices was to further simplify the workplace agreement-making process. One way this was done was promoting the use of Australian Workplace Agreements (AWAs) above all other employment contracts. Employers were encouraged to employ new employees under AWAs and/or change existing agreements to AWAs.

Opponents of WorkChoices argued that AWAs would, over time, lead to a widening gap in rates of pay and a deterioration of working conditions. Some employees are more skilled at negotiation than others, allowing them to secure better conditions than those who are less effective negotiators. WorkChoices also weakened the influence of trade unions since employees may represent themselves rather than involving the relevant trade union.

In November 2007, the Rudd government came to power with the promise of amending the highly unpopular WorkChoices. On 1 July 2009 the government's 'fair and balanced industrial relations policy', the *Fair Work Act* (2009) came into effect, replacing WorkChoices. Fair Work provides a 'safety net' of employment conditions for all employees through the 10 **National Employment Standards (NES)** and new modern awards (reducing thousands of previous awards down to 122). Fair Work Australia (FWA) was established to oversee the new legislation with the power to vary awards, set minimum wages and employment conditions, approve enterprise agreements, determine unfair dismissals and help in resolving workplace disputes.

Workplace change: revolutionary?

In 1996, Australia's Federal Parliament passed the *Workplace Relations Act*. The Act was intended to encourage flexibility. Employers and employees could use enterprise bargaining to make workplace agreements that suited them best. Agreements could be formal or informal, individual or collective; and union or non-union. The Howard government was keen to promote individually negotiated agreements and introduced the *Workplace Act, 2005*, which contained only five minimum employment conditions and promoted the use of AWAs.

WorkChoices proved very unpopular and during the 2007 election the unions campaign strongly against the individual workplace arrangements and the erosion of employee rights (such as unfair dismissal protection). The Rudd government promised to amend WorkChoices and in 2009 the Fair Work Act was passed with its stronger emphasis on enterprise-based bargaining and 10 National Employment Standards. Since then many employer groups have argued that the Fair Work industrial relations system now favours employees and unions.

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Investigating formal agreements and employment conditions

To find out more about modern awards and Fair Work laws visit the Australian Council of Trade Unions website. For agreements, visit Fair Work Australia website.

Activity

Undertake research and report on the topic 'Employment conditions' by accessing the Employment link at the website of the Office of Industrial Relations within the NSW Department of Commerce and the Fair Work Ombudsman website. In your report, consider the rights and entitlements of contractors as well as casual, part-time and full-time employees.

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Informal agreements

Informal agreements are either verbal or written agreements that are not approved by a government authority, such as Fair Work Australia. Any rights under an informal agreement are from the common law, which means that this type of agreement is legally binding in the same way as other contracts. However, formal agreements are more easily enforced than informal agreements. An informal agreement can cover such matters as pay, annual leave and sick leave. The terms and conditions agreed to, however, cannot be less than the minimum terms and conditions of employment set out in a formal agreement, such as an award, that would otherwise apply to the job.

Understanding the text

1 When does a contract of employment come into effect?

2 What types of employment-related issues come under the heading of terms and working conditions?

3 What are the two main types of employment contracts? Provide examples of them.

4 Distinguish between an award and an enterprise agreement.

5 List some of the minimum terms and conditions that are specified in an award.

6 Why do awards specify a minimum wage?

7 What is an over-award payment?

8 What are some of the entitlements that must be included in an enterprise agreement?

9 Outline the advantages and disadvantages of enterprise agreements.

Activities

1 Examine the newspaper article 'Unethical retailers to be shamed in public campaign' (page 92) and then complete the following tasks:

- **a** As a class, discuss how the ethical code of conduct is supposed to work.
- **b** In small groups, highlight the key terms from the newspaper article and use these to undertake further research on the Internet or in the library for information on the issue of below-award wages.
- **c** In your group, prepare a three-minute oral presentation on your findings and present this to the class.

2 Conduct a class debate on the topic: All awards should be replaced by enterprise agreements.

Unemployment

As a worker, you may experience one or more periods in your life where you are unemployed. There may be many reasons for this. You may be in the process of changing from one job to another. You may have a job that is seasonal (for example, a fruit picker, shearer or ski-lift operator); that is, where the work is only available for part of the year. This type of short-term unemployment may not be a problem as you know another job is not too far away. However, you may find yourself unemployed because of technological advances that make your job and its associated tasks and responsibilities redundant; that is, your skills are no longer needed or have been superseded. For example, ticket collectors at train stations have been made redundant through the introduction of automated turnstiles. The possibility of **redundancy** is of great concern to employees with jobs that are labour intensive. Finally, you may simply have difficulty finding a job because of the economic climate.

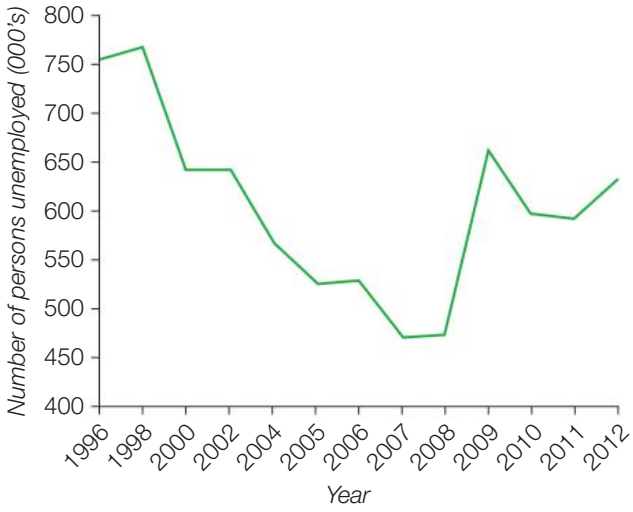

Figure 4.10 Total unemployment, 1996–2012. Based on ABS data.

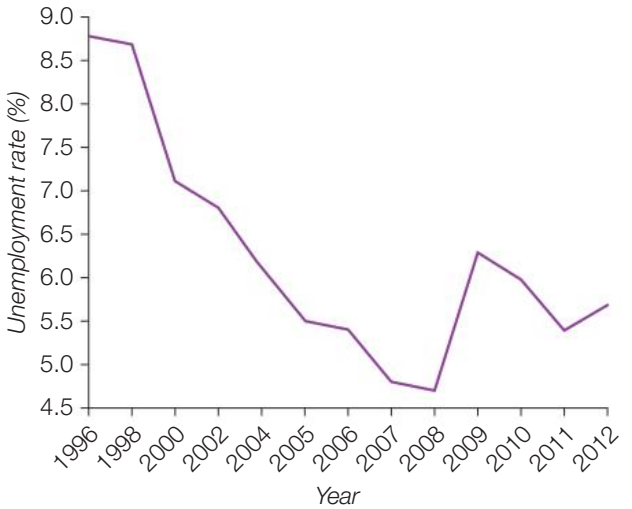

Figure 4.11 Unemployment rate, 1996–2012. Based on ABS data.

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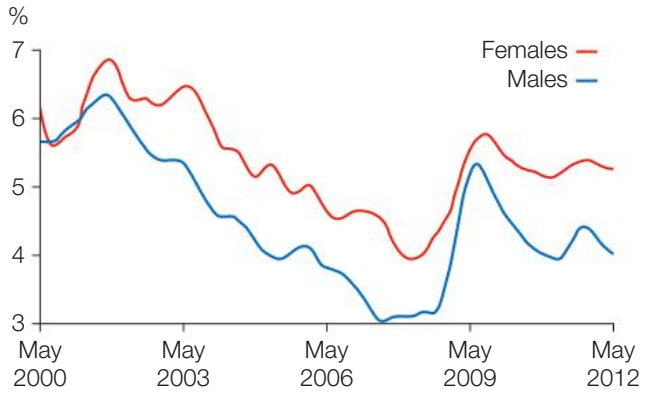

Figure 4.12 Unemployment rates, males and females 20 years and over, 2002–2012. Based on ABS data.

In the early 1990s, Australia experienced a serious recession, which meant a downturn in spending, production and employment. As a result, thousands of workers became unemployed. The unemployment rate for all persons peaked at 10.7 per cent in 1993, but by 2007 had fallen to 4.5 per cent. In 2007, however, the unemployment rates for 15–19-year-olds (23 per cent) and 20–24-year-olds (10 per cent) who were looking for full-time work were higher than the average for all age groups combined.

No. of Weeks	2001	2002	2004	2006	2008	2010	2012
Less than 4 weeks (%)	18.8	20.8	23.3	26.4	28.2	21.9	23.4
13–26 weeks (%)	22.1	23.3	22.5	21.9	21.1	22.5	20.0
26–52 weeks (%)	13.0	12.4	10.5	10.8	10.0	13.0	10.5
52–104 weeks (%)	9.0	9.1	8.3	7.7	6.7	10.3	10.3
More than 104 weeks (%)	13.7	12.6	12.7	10.3	7.0	8.3	9.0
Unemployed – total persons ('000)	**656.2**	**622.2**	**542.9**	**505.1**	**471.3**	**594.9**	**609.1**

Figure 4.13 Unemployed persons, percentage of total, 2001–2012. Based on ABS data.

Even though some level of unemployment will occur in any labour market, long-term unemployment can lead to serious personal and social consequences. For example, being unemployed can affect a person's morale. The longer a person is unemployed the more likely it is that he or she will experience increasing financial difficulties, boredom, declining self-respect and a diminishing chance of finding another job. The greatest social consequences of unemployment are that it leads to greater differences in the incomes people receive as well as poverty among the ranks of the unemployed.

Understanding the text

1 Explain the reasons why unemployment occurs.

2 What are some of the personal and social consequences of long-term unemployment?

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Employment data

Figure 4.14 Census data is collected by interviewing a cross-section of the Australian community every four years.

Activities

1 Access the Australian Bureau of Statistics (ABS) website and update the statistical data used in this section of the text. Redraw the relevant employment graphs incorporating the data you gather from the ABS site.

2 If you have access to Census 2011 Explorer software, use it to generate maps of Sydney and/or your local community showing the pattern of employment-related census data, including employment, unemployment, tertiary qualifications and income. Comment on the relationships evident.

Activity

Study Figures 4.4 (page 85) and 4.10 (page 94). Describe the trends in employment and unemployment since the 1990s.

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4.2 Employment relations

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.

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.

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 be paid for the period of notice and any pay and leave that are owing.

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.

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.

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.

Australian Human Rights Commission (AHRC) A federal government body that was established under the *Human Rights and Equal Opportunity Commission Act 1986* (Cwlth) and looks after issues such as human rights, anti-discrimination, social justice and privacy in Australia. The AHRC aims to promote a fairer society by protecting basic human rights and ensuring that Australia complies with its human rights obligations under international law.

industrial action An organised, disruptive act taken by a group of workers, such as a strike or stop-work meeting.

occupational health and safety (OHS) Practices and regulations concerning the physical and mental wellbeing of persons engaged in work.

picket The gathering of striking workers outside their place of work.

racial discrimination Discrimination based on race.

sex discrimination Discrimination on the grounds of gender. *The Sex Discrimination Act 1984* (Cwlth) was passed to stop people being discriminated against because of their sex, marital status, pregnancy or family responsibilities.

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.

The workplace environment

You are ready to start your new job and the first day is fast approaching. What will your workplace environment be like? Will it be a good working environment? What is a good working environment anyway? Look at Figure 4.15 and consider what factors are needed to make this a good workplace environment.

Figure 4.15 What factors make a good workplace environment?

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Nobody wants to work in an environment where they don't get on with their fellow workers or management, or where there is a lack of communication and cooperation. Furthermore, people don't want to work for low wages and long hours, and don't want to work in conditions that are uncomfortable or dangerous.

Figure 4.16 A safe working environment is a right that all workers should enjoy.

Figure 4.17 A stressful environment is also an unsafe environment for workers.

Your relationship with your coworkers and boss will depend largely on you. Your ability to communicate your needs and wants, your ability to work as part of a team and your ability to interact socially (that is, get along with all types of people and in all situations) will play a large part in how easily you fit in. Another important feature of a good workplace environment is the absence of bullying, sexual **harassment** and **discrimination**.

Many of an employee's pay and working conditions are governed by law. Some, however, are negotiated by trade unions or by negotiation between employees and their employer through enterprise agreements. (More detailed information on the role of the different parties in the workplace can be found on pages 107–109.)

One working condition that is governed by law is working hours. In the early 1900s Australians regularly worked more than 50 hours a week. Trade unions continuously campaigned for shorter working hours and by the 1930s had achieved some important gains. This trend for reduced hours was finally recognised by the Commonwealth Court of Conciliation and Arbitration in 1948 when the 40-hour week was officially adopted. For the next 30 years there was little official change. In the 1970s, however, the unions mounted a campaign for a 35-hour week but achieved success only in the coalmining, oil and stevedoring (waterfront) industries. Interestingly, however, Commonwealth public servants meanwhile had been working a 36.75-hour week since 1902.

By the start of the 1990s, average weekly working hours had dropped to fewer than 34 hours once public holidays and annual leave were taken into account. But changing work patterns, such as the growth in part-time and casual employment, have masked an important trend: the increase in working hours among full-time workers.

There has been a sharp rise in the number of full-time employees working well beyond the standard 40-hour week. There are many reasons for this, such as the threat of losing the job by being dismissed or being made redundant. Employees were not taking their full annual leave entitlements and were taking fewer 'sickies'. As a result of enterprise bargaining, there was also a move away from overtime and shift penalty payments (that is, higher payments for working certain shifts, such as a night shift). Another important factor in this trend is the culture of professional and management jobs, where it is expected that people will work well beyond the minimum 40 hours.

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Understanding the text

1 List the factors to be considered when deciding whether a workplace is a good workplace.

2 On what does your relationship with coworkers depend?

3 Examine how the length of the working week has changed over time.

Activities

1 In small groups, discuss which factors of a workplace environment would be most important to you and rank them in order of importance. Consider whether your ranking of importance would change if you were the opposite sex, had a disability, were a newly arrived immigrant, received a very high salary with lots of benefits, had family commitments or worked in a very dangerous occupation.

2 Study Figures 4.16 and 4.17 (page 97). Identify factors that could make these unsafe environments.

3 In small groups, discuss why many full-time workers are working more than the 40-hour week and the impact of this on society.

The rights and responsibilities of employees and employers

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 of employees and employers are listed in Table 4.5.

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.

Occupational health and safety

An important legal issue in the workplace is **occupational health and safety (OHS)**. As you are aware, it is your employer's responsibility to provide adequate 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 steel-works or chemical factory), it is considered important that safe work practices exist in all workplaces. The NSW *Work Health and Safety Act 2011* 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, for instance, are the regular checking and maintenance of all machinery and ensuring employees wear protective clothing and are provided with adequate training. Ensuring the psychological safety of employees in a hospital emergency ward, for example, 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 an OHS 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 OHS Act.

Table 4.5 Rights 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 *Work Health and Safety Act 2011* (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.

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Employer obligations also exist under the *Workers Compensation Act 1987* (NSW). This 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 WorkCover.

The increasing costs of work-related injuries has prompted the NSW Government to reform the workers' compensation scheme. The changes, effective from June 2012, focus on getting injured workers back to work as soon as possible, improving benefits for seriously injured workers and removing claims for injuries such as accidents to and from work, nervous shock and lump sum payments for pain and suffering.

Figure 4.18 Hazards in the workplace.

Understanding the text

1 What are employers' responsibilities in terms of the health and safety of their employees?

2 What are employees' responsibilities in regard to the health and safety of themselves and their coworkers?

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WorkCover NSW

For more information about how the WorkCover scheme protects workers' rights in relation to OHS, visit the WorkCover NSW website.

Activity

Visit the WorkCover NSW website to find the answers to the following questions:

1 What is WorkCover?

2 What does WorkCover do?

In your answers, include the following:

- WorkCover's vision and objectives
- who WorkCover is responsible to
- the legislation it administers
- at least three interesting facts and figures.

Activities

1 Examine Figure 4.18 and try to find as many unsafe work practices and hazards as you can. List them and also outline how you could make this workplace safer.

2 There are a number of hazards that can exist in the workplace, making it unsafe. A hazard usually falls under one of the four categories in the table below. Copy the table and then, in groups, brainstorm the types of hazards that you may find in a workplace and list them in the table.

Mechanical and electrical	Physical	Chemical	Psychological
Exposed electrical cords	Incorrect lifting	Handling acid without wearing protective clothing	Abusive customers

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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, pregnancy, race (including colour, nationality, descent, ethnic or religious background), marital status, disability, homosexuality, age, transgender or 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 the 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 the box 'Shifting the balance in the workplace' on the following page.)

Three groups in particular who have experienced discrimination are:

- *women* – almost half of Australian workers are women. On average, however, the incomes of women are only 66 to 70 per cent of those received by men. 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.

Figure 4.19 On average the incomes of women are only 66 to 70 per cent of those received by men.

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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 childcare 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 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.

Understanding the text

1 What is meant by discrimination?

2 Give examples of the different types of discrimination.

3 Outline the experience of women, Indigenous Australians and migrants in the workplace.

4 List two workplaces dominated by females and two dominated by males. Why do you think each of these workplaces is dominated by one gender?

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Discrimination in the workplace

Activities

1 Use the Internet to conduct research into one of the following pieces of workplace legislation. You may find it useful to access the websites of the NSW Anti-Discrimination Board and the Australian Human Rights Commission.

- **a** *Anti-Discrimination Act 1977* (NSW)
- **b** *Racial Discrimination Act 1975* (Cwlth)
- **c** *Sex Discrimination Act 1984* (Cwlth)
- **d** *Disability Discrimination Act 1992* (Cwlth)
- **e** *Equal Opportunity for Women in the Workplace Act 1999* (Cwlth)
- **f** *Australian Human Rights Commission Act 1986* (Cwlth)

Prepare a five-minute oral presentation. Include in your presentation an explanation of what the legislation is, who the legislation protects, what the legislation's aims are, example(s) of that particular type of discrimination and how to make a complaint if you encounter that type of discrimination.

2 In pairs, log onto the *Sydney Morning Herald* website and, from the archives, find three articles on one of the following issues:

- **a** discrimination in the workplace
- **b** racial discrimination or discrimination against Indigenous Australians in the workplace
- **c** sex discrimination in the workplace
- **d** the glass ceiling
- **e** equal opportunity in the workplace.

Check whether your library has copies of the relevant issues or provides access to the *Sydney Morning Herald's* archives so that you can read the articles. In your notebook, write a report on these articles by summarising their main points and whether the articles support the notion that discrimination exists in the workplace.

Activities

1 Examine Table 4.5 (page 98). Write a report outlining the rights and responsibilities of:

- **a** employees
- **b** employers.

2 Examine Figure 4.19. Write a paragraph explaining the issue being addressed in the cartoon.

3 Conduct a class debate on whether fairness in the workplace exists. Support your arguments by reference to legislation and current public opinion.

4 In small groups, conduct a role-play of what a workplace dominated by one gender would look like.

5 Evaluate the issues raised in the box 'Shifting the balance in the workplace'. As a class, discuss:

- **a** what is meant by the term *workplace culture*
- **b** what might happen if women were introduced to a male-dominated workplace and vice versa
- **c** whether, in future, discrimination in the workplace will decrease because of the shifting balance in the workplace.

ISBN 9780170251587

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*. Fair Work Australia is responsible for dealing with both types of 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 to not 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.

Unlawful dismissal applications

All Australian employees (regardless of which state or territory they live in) can make an unlawful dismissal application. The Fair Work Ombudsman can investigate complaints of unlawful dismissal, but to seek a review of the dismissal, an application must be lodged with Fair Work Australia within 60 days of the dismissal.

Case study

Ali was sacked for being sick: unfair dismissal?

Ali is studying and works part time delivering pizza. He came to Australia nine months ago and shares a flat with a friend. He misses his family and finds looking after himself tiring. Work is busy and it's hard to fit in all his study.

One day Ali is so tired and sick he can't go to work. He thinks he must have caught the flu. Ali calls his boss and tells her he is sick. The next day Ali doesn't feel any better and so he calls in sick again – nobody wants to catch the flu with their pizza delivery. He goes to the doctor to get a sick certificate. When Ali gets home there is a message from work saying he has been sacked.

In small groups, discuss whether Ali has been unlawfully or unfairly dismissed and what Ali can do. Share your group's findings with the rest of the class.

Adapted from the Lawstuff website <www.lawstuff.org.au>

Unfair dismissal applications

Eligible employees (exceptions are listed in Table 4.6) covered by the national workplace relations system can make an unlawful dismissal application. Other employees may have access under the state system. Unfair dismissal occurs when a dismissal isn't 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.

Remember, employees can be dismissed if they cannot do their job, fail to follow instructions or do not use skill and care while working.

Table 4.6 Who is not covered by the national unfair dismissal laws?

Employees	State
State public sector and local government	NSW, QLD, SA
State public sector	TAS
State public sector and employees working in non-constitutional corporations (e.g. sole traders, trusts, partnerships)	WA

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Table 4.7 Who can make an unfair dismissal application?

Federal unfair dismissal applications – Fair Work Australia	State unfair dismissal applications – NSW Industrial Relations Commission
A federal unfair dismissal application *can* be made if the employee is: • covered by the national workplace relations system • covered by an award or enterprise agreement and earning less than $123 300 • has completed the minimum employment period of one year if employed by a small business operator (fewer than 15 full-time employees); or six months if the employer is not a small business operator. A federal unfair dismissal application *cannot* be made if the employee is: • on a trial period of three months or less • a casual employee, unless they have worked for 12 months or more and expect to continue • a trainee employed for a specific length of time • not covered by the national workplace relations system or earns more than $123 300 • employed for a certain length of time or to do a specified task • an independent contractor • genuinely resigning and was not forced to do so.	A state unfair dismissal application *can* be made if the employee is: • employed in the NSW public sector or a local government employee • covered by a NSW award or NSW enterprise agreement or • not covered by an award or enterprise agreement and earns less than $123 300 a year. • forced to resign or dismissed while on workers' compensation. A state unfair dismissal application *cannot* be made if the employee is: • a private sector employee • an apprentice, trainee or independent contractor • employed for a certain length of time or to do a specific task • employed for a specific project for fewer than six months • on a trial period, which is stated in the employment contract or • has been a casual employee for fewer than six months.

An employer can also dismiss employees if there is no longer any work for them. If someone believes they have been unfairly dismissed, they need to act quickly because there are time limits for making an application. Employees covered by the national system can apply to Fair Work Australia within 14 days after the dismissal takes effect. Other employees, such as NSW state public sector and local government employees, can make a claim to the NSW Industrial Relations Commission within 21 days 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. From January 2010 employees covered by the national workplace system are entitled to severance payments (based on their years of service) starting from two weeks 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 re-train.

If the employee does not accept voluntary redundancy, then the employer should try to redeploy the employee; that is, find the employee another job within the organisation. If this is not successful then the employee may need to accept *involuntary redundancy*, which is usually less generous than the voluntary package.

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Investigating redundancy

Go to the Australian Council of Trade Unions website and research current issues in relation to redundancy. Be prepared to present to the class a two-minute oral presentation on this issue.

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Understanding the text

1 How much notice of dismissal must an employee receive if the employee has worked for the employer for more than five years?

2 What is the difference between unlawful dismissal and unfair dismissal?

3 Which employees cannot make an unlawful dismissal application?

4 What factors need to be considered before a dismissal can be considered to be unfair?

5 What is meant by being made redundant?

6 List the entitlements that employees can expect to receive if they are retrenched.

Activities

1 Use the Internet to identify cases of unfair or unlawful dismissal in NSW and list circumstances/key reasons for dismissal.

2 In pairs, brainstorm two other scenarios where unlawful or unfair dismissal has or has not occurred. Write the scenarios and, under each, write the following tasks:

a Has either an unlawful or unfair dismissal occurred? Support your answer with the relevant facts.

b List all the steps the person can possibly take to address the situation.

Swap your scenarios and tasks with another pair and complete the tasks.

Privacy

There are various federal and state acts protecting people's rights to privacy, including employees' rights to privacy in the workplace. The preamble to the *Privacy Act 1998* (Cwlth) states: 'A free and democratic society requires respect for the autonomy of individuals and the limits on the power of both the state and private organisations to intrude on that autonomy ... privacy is a basic human right ...' Generally, this Act covers the collection, use, disclosure, quality and security of personal information. (Personal information is defined as any information that helps in identifying who you are; for example, your name, address and telephone number.) The Act also gives you rights to access and correct your personal information. You also have the right to make a complaint to the Office of the Australian Information Commissioner if you think that your personal information has been mishandled.

Figure 4.20 Big brother in the workplace.

The right to privacy in the workplace is an issue that generates a lot of debate. Recently, computer-based technology has given employers the ability to conduct mass surveillance and monitoring of their employees. Concern over privacy violation is now being debated more than ever within the broader community.

It is generally accepted that employees have a right to a certain amount of privacy at work. An employer may provide workers with an office, a desk, a locker or filing cabinet, and access to the computer network, including storage space for employees' files. Typically, however, the employer will have duplicates of any keys. Also, although access to the network and computer systems will be password controlled, employees should be aware that the system administrators are usually able to access everything on the network. In addition, there is no automatic legal right to privacy for personal mail delivered to a work address.

A recent survey of Australian companies found that 76 per cent of companies periodically monitor email content and 65 per cent undertake email monitoring without notifying staff. Most employees have legitimate expectations of privacy in relation to their telephone calls, mail, email, computer usage and desk and locker storage. Not all aspects of employees' privacy are covered by legislation. Each employer has its own policy in relation to employees' privacy and should make its employees aware of the details of the policy.

Rights regarding telephone calls

Tapping of telephone calls involves setting up a system to listen to or record telephone calls. Phone tapping is regulated by the *Commonwealth Telecommunications*

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(Interception) Act 1979 (Cwlth). The *Listening Devices Act 1984* (NSW) covers the bugging of phone calls, which is the actual act of listening to and/or recording phone calls. An employer who sets up a system to listen to or record employees' phone calls will not be in breach of the Commonwealth Act. However, because this area of law is complicated and difficult to interpret, it is difficult to say whether the employer will be in breach of the NSW Act. Even if listening into or recording calls through bugging at work is legal, the practice still raises privacy issues; for example, the right of employees to make private calls with some assurance that the calls will not be deliberately listened to or used against them.

Rights regarding private mail

Some people complain that letters addressed to them at work are opened despite being marked 'personal' or 'confidential'. Many employers have a policy of opening, inspecting and recording details of all mail received at their workplace. Often the mail is opened in a centralised mail room. Primarily, this policy is applied so that any money coming into the business can be properly recorded and accounted for. Also, it can safeguard against employee dishonesty and limit the likelihood of employees running their own businesses during work time.

The above policies and practices are not illegal. However, if an employer has a policy of opening all mail marked 'personal' or 'confidential', the Privacy Commission recommends that this mail be opened in the presence of the addressee or by the addressee in the presence of the person responsible for receipting mail. This allows the employer to be satisfied that it is genuinely personal mail. It also gives the addressee some assurance that the personal mail is not being read or copied by the employer.

Unlike items of personal property that you keep in a desk drawer or locker, the electronic messages (or email) you send or receive at work are not legally considered to be your personal property. Therefore, an employer who owns the server or personal computer on which your email is stored is entitled to look at or copy it. Many employers reserve the right to check email as a precaution against fraud, workplace harassment or breaches of confidence by employees.

Simply deleting emails is not an option, because deleted emails and Internet history can be retrieved. Companies with Internet and email policies must inform their employees that they are monitoring emails and Internet access.

Outsourcing and piecework

Outsourcing is where an employer undertakes the practice of 'contracting out' different areas of the business to outside businesses or individuals. It can help a business to reduce costs and avoid employing staff who have certain skills. An example is when a business hires an accountant to look after the financial side of its business or where a business outsources its payroll or human resources function.

Businesses can outsource to individuals or other businesses within or outside Australia. Many companies retain control of the design, marketing and financial aspects of their activities, but the actual production of their product is contracted out to offshore firms, primarily in Asia.

Outsourcing in the clothing industry is common. Workers are often paid 'piecework' rates: a dollar amount for each garment they complete. The rates are usually under the minimum award rate. Exploitation of outworkers and piece-rate workers is of great concern, especially to the Australian Human Rights Commission (AHRC). Concerns over outsourcing and piecework include:

- low contract prices mean that lower wage levels are usually paid to workers and poorer working conditions exist
- outworkers and piece-rate workers often do not receive sick leave, long-service leave or superannuation provisions
- outsourcing can encourage the 'cash-in-hand' economy.

Understanding the text

1. What pieces of legislation cover your right to privacy in the workplace?
2. List some of the areas where your privacy in the workplace may be breached.
3. List some of the legal issues surrounding email at work.

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Researching piecework and outsourcing

Activity

Research further the issue of piecework and outsourcing by investigating current news. You may want to access the following websites:

- ActNow
- *Sydney Morning Herald*
- Australian Human Rights Commission (AHRC).
- Fair Wear Foundation

Use the information you find to produce a poster showing the problems with this form of work.

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TCF outworkers win new rights

The Textile, Clothing and Footwear Union of Australia (TCFUA) on Thursday, 22 March 2012 celebrated a new law which will provide important and long overdue national protections for outworkers and sweatshop workers in the TCF industry.

Ms Michele O'Neil, National Secretary of the TCFUA, said 'This is an historic day'. The new TCF law addresses the unequal position of TCF contract outworkers who labour at the bottom of long and complex supply chains by ensuring that they have the same status, protections and entitlements as employees under the Fair Work Act. It will also allow outworkers to recover unpaid wages and entitlements up the supply chain when their employer refuses to pay them.

Ms O'Neil added, 'Forcing sham contracts on TCF outworkers has been endemic. Sweatshops too have continued to flourish with little scrutiny … these workers will now be entitled to receive the same minimum wages and conditions as every other worker in the industry'.

The union strongly urged the TCF industry employers to get on board. 'It is utterly unacceptable that in 2012 there are still significant numbers of workers in this industry who do not receive … a minimum hourly rate of pay, leave and a safe and healthy workplace'.

Ms O'Neil cautioned unscrupulous companies: 'The reputable employers in the industry have nothing to fear from these laws but those who continue to shamelessly exploit vulnerable workers are on notice'.

Source: Textile Clothing & Footwear Union of Australia: www.tcfua.org.au, 22 March 2012

Outworkers bill angers fashion trade

By Rachel Wells

PAYING outworkers as employees will be the 'final nail in the coffin' for our locally made fashion industry, according to local fashion designers and manufacturers.

The Council of Textile and Fashion Industries of Australia has been joined by some of Melbourne's leading fashion identities in condemning new fair work laws that give outworkers the same conditions as employed workers, claiming it will force many to manufacture offshore.

Under the new bill, contracted outworkers – often machinists who run small businesses from home – will be entitled to leave and superannuation and manufacturers must employ them for a minimum of 20 hours a week. Jo Kellock from the council says many manufacturers do not have enough year-round work to make it financially viable to employ outworkers for 20 hours.

Several outworkers spoke about being angered by the changes, saying it will rob them of their independence and flexibility to run a small business from home. Ms Kellock said, 'We are all for supporting the most vulnerable in this industry … this legislation wrongly assumes that every outworker is a vulnerable migrant at risk of being exploited. The reality is most are competent people who run successful businesses'.

However, the union's Michele O'Neil said, 'Reputable companies have nothing to fear from this bill. What it targets is parts of the industry that underpay workers and deny them the most basic of entitlements'.

Source: *The Sydney Morning Herald*, 28 March 2012

Activities

1 In small groups, pretend you run a business that has very high security standards, but you realise that your employees are concerned about their privacy. Develop a policy on privacy that can be displayed in your workplace.

2 As a class, read the articles 'TCF outworkers win new rights' and 'Outworkers bill angers fashion trade'. Discuss the legal aspects of outsourcing and piecework and what the TCFUA has done to stop the exploitation of workers and the concerns raised by manufacturers.

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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 coworkers 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 Retail Traders Association) and specific **business groups**. A business group is made up of businesses that come together because of similar interests; for example, the Business Women Networking Group. 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.

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 its members.

Figure 4.21 Trade unions seek to improve the working conditions of 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 4.22 The arrest of builders' labourers during the green bans to save Sydney's historic Rocks precinct in the 1970s.

Figure 4.23 The Rocks today: one of Sydney's most popular tourist precincts.

The first Australian trade unions were formed in the 1830s as craft-based organisations (groups of people from the stonemason, printing and carpentry industries). The aims of these unions were the protection of workers and improvement 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.

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Figure 4.24 The logo of the ACTU.

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 *Conciliation and Arbitration Act* (Cwlth) 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 4 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 were unionised), to around 18 per cent in 2011, 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.

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ACTU

Find out more about the ACTU by researching its website.

Activity

Choose a current workplace issue that is listed on the ACTU website (either a 'latest ACTU news' item or 'campaign update') and discuss this in small groups.

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 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 provide 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 in respect to their industries.

Some examples of powerful Australian employer associations are the:

- 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.

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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.

Resolving disputes

Today, employees and trade unions generally work in relative harmony with employer groups. Preliminary discussions on work issues generally lead to further negotiations and compromise by both parties before an agreement is reached. If agreement is not reached an industrial dispute can arise. Officially, an industrial dispute exists when workers withdraw from work or place bans on work. The Fair Work Act requires modern awards and enterprise agreements to set out procedures for resolving disputes.

In general there are five ways to resolve disputes over work issues:

- *following grievance procedures* – most businesses have formal processes to handle workplace grievances or complaints. Often this will involve the employee presenting his or her grievance, in writing, to the supervisor. If the supervisor cannot resolve the issue, the grievance may be referred to more senior management and, ultimately, be referred to a meeting between the employee, employer and/or grievance committee in the workplace. If the grievance cannot be satisfactorily resolved internally then the parties involved may refer it to external conciliation or arbitration.
- *negotiation* – this involves the parties discussing the work issue and making compromises in order to reach an agreement. As with grievance procedures, negotiations can occur internally at the workplace but they can also be conducted at an industry, state or national level.
- *conciliation and arbitration* – when a work issue cannot be resolved it may be referred to a third party, such as Fair Work Australia (FWA). The conciliator, such as the FWA tribunal member, hears both sides of the issue and helps the parties come to an agreement. If an agreement cannot be reached then arbitration is used as a last resort. Arbitration is where the issue is brought before a tribunal such as the FWA or judge such as the Local Court. Arguments from the parties are heard and a judgment is made. Arbitration is in a formal, courtlike setting and witnesses may even be called to give evidence. Once the judgment (called an *order*) is handed down it becomes legally binding on all parties.
- *mediation* – in some instances where a work issue cannot be resolved, a neutral, objective third party other than a conciliator or arbitrator may be used. The third party (mediator) helps to organise confidential discussions in a non-threatening environment away from the workplace. The mediator is independent of the parties but agreed upon by them. Examples of mediators include FWA, the Australian Human Rights Commission and the NSW Anti-Discrimination Board.
- *common law action* – any employee or employer can opt to raise a workplace issue in the Australian court system. However, this is a costly process, both in terms of money and time.

A strike is where employees withdraw their labour from the workplace. Strike action will only occur when there has been a majority vote of all union members at the stopwork meeting.

Figure 4.25 Strike action: the final blow.

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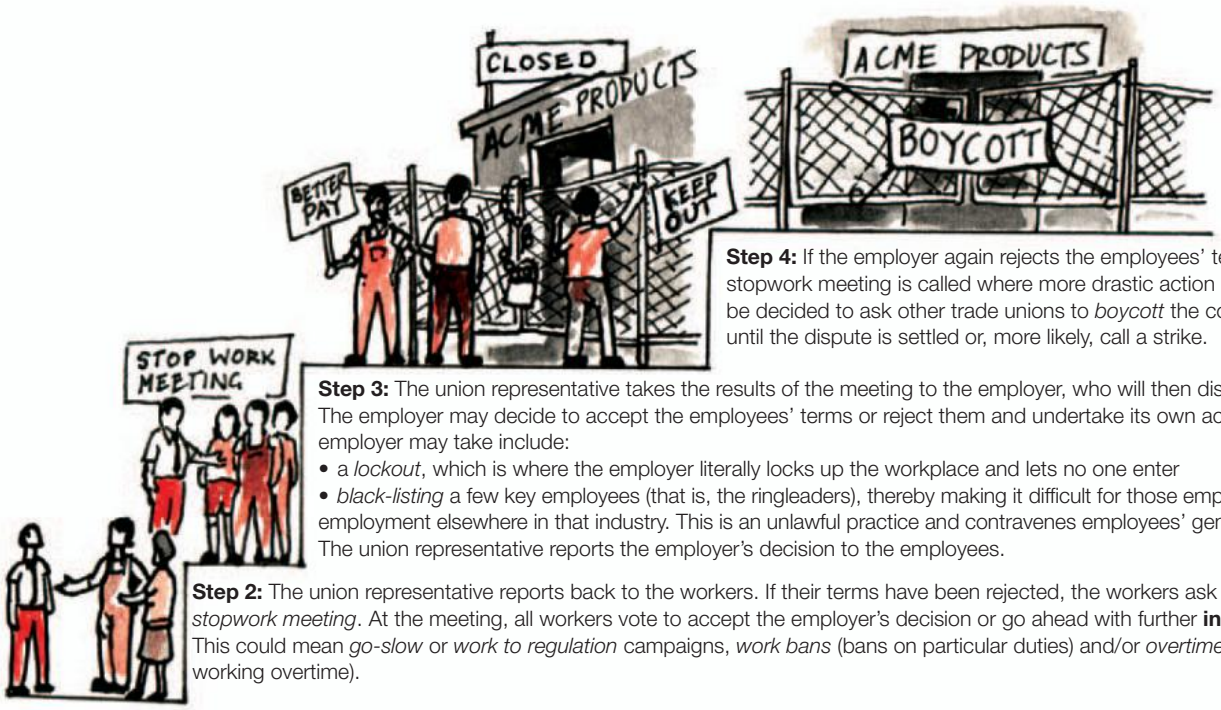

Step 4: If the employer again rejects the employees' terms, another stopwork meeting is called where more drastic action is discussed. It may be decided to ask other trade unions to *boycott* the company's products until the dispute is settled or, more likely, call a strike.

Step 3: The union representative takes the results of the meeting to the employer, who will then discuss its own options. The employer may decide to accept the employees' terms or reject them and undertake its own action. Actions the employer may take include:

- a *lockout*, which is where the employer literally locks up the workplace and lets no one enter
- *black-listing* a few key employees (that is, the ringleaders), thereby making it difficult for those employees to find employment elsewhere in that industry. This is an unlawful practice and contravenes employees' general work protections.

The union representative reports the employer's decision to the employees.

Step 2: The union representative reports back to the workers. If their terms have been rejected, the workers ask for a *stopwork meeting*. At the meeting, all workers vote to accept the employer's decision or go ahead with further **industrial action**. This could mean *go-slow* or *work to regulation* campaigns, *work bans* (bans on particular duties) and/or *overtime bans* (ban on working overtime).

Step 1: Workers have a grievance and complain to the union representative. The union representative takes these grievances and the terms for resolution to the employer, who accepts or rejects the terms.

Figure 4.26 Possible steps in an industrial dispute.

There may be times when certain members and non-members of a union disagree with strike action and decide that they want to continue to work. Often this may lead to verbal and/or physical abuse as the non-striking workers try to cross the **picket** line and enter the workplace. Therefore, it is not unusual for the police to be called to control such incidents. Union members and non-members who work during a strike are sometimes called *scabs*.

When an industrial dispute is in an essential industry (such as public transport or hospitals) it can cause considerable disruption in the community.

In such cases, the parties to the dispute may seek a solution through the AIRC. In some extreme cases, the state or federal government may also intervene, trying to bring the parties to the negotiating table.

Understanding the text

1 **a** Define the term *trade union*.
b List the main aims and objectives of trade unions.

2 What is the ACTU?

3 On a time line, list the history of trade unions and their major achievements.

4 Account for the decline in trade union membership.

5 Define the following terms: *stopwork meeting*, *go slow or work to regulation*, *overtime bans*, *lockout*, *black-list*, *picket line* and *scabs*.

Activities

1 Write a report on the role of unions, employer associations and business groups in promoting employees' rights, employers' rights and flexibility in the workplace.

2 Your class is unhappy that your teacher is suddenly making you do four hours of homework a night. In small groups, carry out a role-play. Select a union representative from your group. Follow the four steps in an industrial dispute illustrated in Figure 4.26 by approaching your teacher (who will play the equivalent of an employer's role) to find a compromise.

3 Select one of the employer associations listed on page 108. Undertake Internet research. Present a short oral report outlining the sector it represents, its organisational structure, its aims and objectives and any recent successes.

4 Prepare a brochure to be given to union members explaining their right to strike and the various dispute resolution strategies available.

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4.3 Taxation and superannuation

Key terms

assessable income All money earned from personal work and returns on investments.

group certificate 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 group certificate from his or her employer at the end of the financial year. This certificate must be included in the employee's income tax return.

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.

personal deductions An employee's work-related expenses; that is, expenses incurred in the course of earning an income.

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.

Taxes

Taxes are the compulsory payments that are made to governments by individuals, businesses and other groups. Taxes are the main source of revenue, or income, for a government. In Australia, federal taxes are collected by the Australian Taxation Office (ATO) on behalf of the federal government. The government then spends this income on public goods and services. The largest spending area for the federal government is social security and welfare. Other areas of spending include defence, health and education, to name just a few. The relationship between taxation, income and government-funded services is shown in Figure 4.28 (page 112).

Most taxes are federal taxes, but there are also state and local government taxes (see Table 4.8). In Australia the largest source of income for the government comes from **income tax**. Every individual and company is liable to pay income tax and must complete an income tax return each financial year. A financial year is from 1 July to 30 June.

'The only sure things in life are death and taxes'

Figure 4.27 The Australian Taxation Office collects taxes on behalf of the federal government.

Table 4.8 Overview of the different types of taxes in Australia

Tax	Description	Liability to pay
Income tax	A federal government tax levied on salary and wages	Payable by the person or company who earns the income
GST	A tax on goods and services (currently 10 per cent of the price of the good or service)	Payable by businesses but passed on to consumers and included in the prices we pay
Excise duty	A tax applied on the production of certain goods, such as cigarettes, alcohol and petrol	Payable by businesses but passed on to consumers and included in the prices we pay
Payroll tax	A state tax on businesses with a wages bill over $600 000	Payable by businesses at a rate of approximately 6 % of the total wages bill
Stamp duty	A state tax on certain transactions, such as the sale of a house or car	Payable by the purchaser of the asset
Rates	A local government tax on the value of a property	Payable by the owner of the property
Capital gains tax	A federal government tax on the money someone receives when they sell an asset that they purchased after 19 September 1985	Payable by the seller of the asset
Fringe benefits tax	A federal government tax on fringe benefits paid to an employee	Payable by the employer

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Figure 4.28 The government uses the taxes paid on income to fund government services, such as welfare and education.

Understanding the text

1 What are taxes?

2 Why are taxes needed?

3 List the various taxes. Against each one, note whether you or someone in your family pays that particular tax.

Activities

1 Construct a table with the heading 'Could our society exist without taxes? If so, how?' and the following subheadings

- 'Uses of tax money'. Under this subheading, list the services that the government funds using taxpayers' money.
- 'Alternatives to taxpayers' money'. Under this subheading list the possible ways society could still have these services without taxes.

As a class, discuss the relationship between taxation, income and government-funded services.

2 In small groups:

a Pretend you are the 'government' of your school. Discuss and decide on a project for a new 'public good or service' for your school. What is it and how much do you think it will cost?

b You need to raise the money for this project by taxing the members of your school. Suggest a form of taxation that could be imposed within the school to fund the project. How could this be enforced?

3 Using the library or Internet, investigate when Australia introduced the GST and the arguments for its introduction. In which other countries is a GST used?

4 In small groups, brainstorm the possible advantages and disadvantages of reducing tax on income and increasing the tax on goods and services.

The process of paying income tax

Most income earners pay 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 the money directly to the 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 **group certificate** showing how much the employee earned for the year and how much tax has been deducted. The employee then sends the group certificate 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.

A Tax Pack (see Figure 4.29) is used by employees when completing their tax return and is available at newsagents. It contains tax return forms and gives step-by-step instructions on how to fill in a tax return. If you require help with your tax return, you can use the ATO's help line or pay a registered tax agent to fill in and lodge the tax return. Before lodging the tax return you must sign the attached tax declaration, which basically states that you have not given any false or misleading information. Tax returns can be lodged with the ATO by post or electronically. Electronic lodgment generally results in a tax refund cheque (or tax bill) being issued within two weeks. Returns lodged by mail take about eight weeks to process.

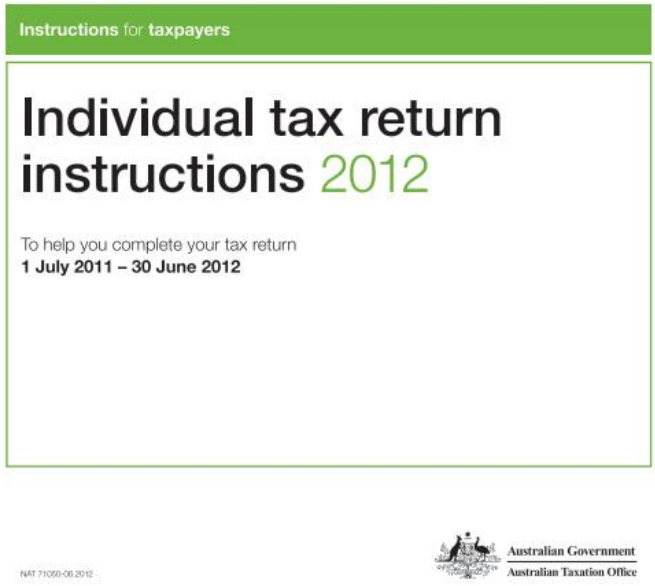

Figure 4.29 The ATO's 2012 Tax Pack.

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Income tax rates

In Australia, a taxpayer's income is taxed progressively. Broadly speaking, this means that as your income increases your tax rate also increases. *Progressive taxation* means that higher income earners pay more tax than lower income earners (see Figure 4.30). This is achieved by dividing incomes into groups, called *tax brackets*. Each bracket is taxed a certain number of cents in the dollar or taxed at a set percentage. The higher the tax bracket, the greater the number of cents (or the higher the percentage of tax) that must be paid. Table 4.9 details the tax brackets of our progressive tax system for the financial year ending 30 June 2012.

Table 4.9 Tax rates for 2011–12. Based on ATO data.

Taxable income	Tax on this income*
0 – $6,000	Nil
$6,001 – $37,000	15c for each $1 over $6000
$37,001 – $80,000	$4650 plus 30c for each $1 over $37 000
$80,001 – $180,000	$17 550 plus 37c for each $1 over $80 000
$180,001 and over	$54 550 plus 45c for each $1 over $180 000

*The above rates *do not* include the Medicare levy of 1.5 per cent of an employee's taxable income.

The rate of tax within each of these brackets is called the *marginal rate of tax*. For Australian residents, the first tax bracket – from $0 to $6000 – has a zero marginal rate of tax. Tax is applied to every dollar after this figure. This tax-free amount is called the *tax-free threshold*.

Companies paid income tax at a *flat rate* of 34 per cent during the 2000–01 financial year, and 30 per cent for the 2001–02 financial year onwards.

Someone's *taxable income* is their **assessable income** less their *allowable deductions*. The following box provides an example of calculating the amount of tax payable for an individual earning a wage or salary.

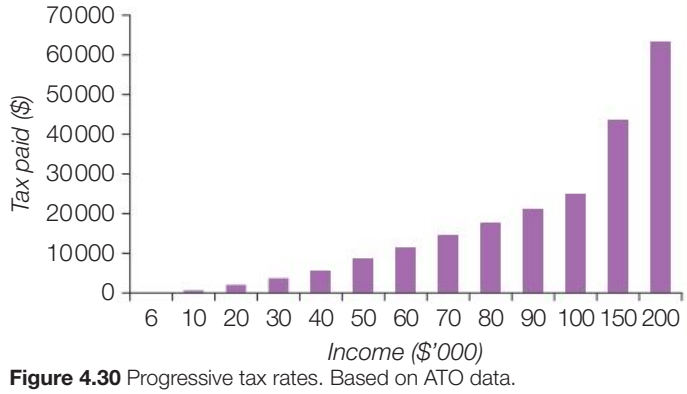

Figure 4.30 Progressive tax rates. Based on ATO data.

Example: calculating tax payable

Background

Mr Harvey is employed as a fitter and turner in a large factory. He is single and has no children. Mr Harvey has received a group certificate from his employer and wants to lodge his tax return. Table 4.10 shows how his tax is calculated.

(Note: This example uses the tax rates for the year ended 30 June 2012.)

Table 4.10 Mr Harvey's 2012 tax calculation

Income details	**$**
Salary from Machinery World	35 656
Interest (earned from savings and investments)	101
Travel allowance	498
Clothing allowance	150
Total assessable income	*36 405*
Deduction details	**$**
Safety boots	175
Safety glasses	90
Subscription to fitters and turners' association	90
Total allowable deductions	*355*
Credit details	**$**
Tax instalment deductions	4 448

What is Mr Harvey's assessable income?

Mr Harvey's assessable income is $36 405. This figure is made up of salary from his employer, interest and both the travel and clothing allowances. Several types of receipts are not assessable income for taxation purposes. Some of the more obvious receipts that are not income are listed below, with examples:

- capital receipts (money received from selling a car – note that these will be included in capital gains tax calculations)
- damages (money earned from winning a court case)
- windfall gains (money received from winning a radio contest)
- receipts from hobbies (earnings from selling vegetables at a monthly garden market).

What are Mr Harvey's allowable deductions?

Mr Harvey's allowable deductions are $355. This figure is made up of the safety boots and glasses as well as the subscription to the fitters and turners' association. An employee is entitled to claim the cost of clothing and equipment used in the course of employment as long as they are not used privately as well. Also, if Mr Harvey had made a donation to an approved charity, this would have been included in his allowable deductions.

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What is Mr Harvey's taxable income?

Mr Harvey's taxable income is $36 050. This figure is calculated by subtracting his deductions from his assessable income ($36 405 – $355).

Table 4.11 shows the steps to follow when calculating the amount of tax payable by/refundable to Mr Harvey.

Table 4.11 Calculating Mr Harvey's tax payment/refund

Step 1: calculate taxable income				
Assessable income	*less*	allowable deductions	*equals*	taxable income
$36 405	–	$355	=	$36 050
Step 2: calculate tax payable on the taxable income				
Taxable income	*multiplied by*	tax rate	*equals*	tax on taxable income
$36 050	x	(in this case 15% of $36 050*)	=	$5407.50
* Derived from Table 4.9.				
Step 3: calculate total tax payable				
Tax on taxable income	*plus*	Medicare levy (1.5% x $36 050)	*equals*	total tax payable
$5407.50	+	$540.75	=	$5948.25
Step 4: calculate refund or amount owing (Note: If the amount calculated is negative, the ATO will provide a refund. If the amount is positive, that amount must be paid to the ATO.)				
Total tax payable	*plus*	any HELP and SFSS liability ‡	*less*	tax credits	*equals*	refund or amount owing
$5948.25	+	$0	–	$4448	=	$1500.25

*The amount **to be paid by** Mr Harvey is $1500.25*

‡ HELP is the federal government's Higher Education Loan Program. SFSS is a voluntary loan scheme known as the Student Financial Supplement Scheme.

Understanding the text

1 What is the PAYE system of tax?

2 What is meant by the term *progressive taxation*?

3 What is meant by the term *tax-free threshold*?

Activities

1 **a** Using the progressive tax rates given in Table 4.9 (page 113), calculate the amount of tax payable for two people earning $40 000 and $85 000, respectively.

b What tax is payable under a flat tax system?

2 Compare the flat and progressive tax and justify which one is most fair.

3 Access the Australian Tax Office website and use the links to calculate how much is withheld using Mr Harvey's details.

Superannuation and the obligations of employers

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 aged 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 Scheme. This scheme was introduced by the federal government in 1992 at 3–4 per cent of a person's wage or salary. From 2012 the Superannuation Guarantee increased from 9 per cent to 12 per cent with increments of 0.25 per cent in the first two years and 0.5 per cent thereafter. 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 increasing the Superannuation Guarantee Scheme to 9 per cent, in 2003–04 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.

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Figure 4.31 Make sure your super contributions are sufficient to retire on.

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 then the employer may have to pay larger amounts (that is, greater than the current 9 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. Their money is looked after by the superannuation fund so 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 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 $300 each week, your employer will pay about $27 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 after the age of 55. 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.

Understanding the text

1 What is meant by the term *superannuation*?

2 Why is superannuation becoming such an important issue in relation to retirement?

3 Make a list of employers' obligations towards their employees in relation to superannuation.

4 What factors make someone ineligible to receive superannuation?

Activities

1 Survey your parents and relatives to determine whether they:

a receive employer superannuation contributions

b make their own personal contributions.

2 As a class, discuss whether there appears to be a relationship between age, job status and personal superannuation contributions.

3 In groups, brainstorm the advantages and disadvantages of superannuation as a savings/investment option.

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Chapter review

Activity 1: mindmap

When thinking about your job prospects, a number of questions will need to be answered, such as:

- Should I further my education?
- What type of job is best for me?
- What does it mean to be under an award? What other options are there?

In small groups, brainstorm all the factors you should think about if you had to answer these questions in an essay. Write down the answers in point form.

Activity 2: wonderword

Copy the wonderword below and then complete it using the following words. The words can run vertically, horizontally, diagonally and backwards.

trade unions	ACTU	enterprise
business	group	awards
strike	wages	meeting
law	working	conditions
go-slow	pay	scabs
sit-down	bans	agreement
contract	picket line	negotiation
AIRC		

W C S S E N I S U B
W O R K I N G I T A
G N I T E E M T E N
O D S C A B S - S S
P I N A W A R D S T
I T E G R A D O L R
C I G R O U P W A A
K O O E K C I N W D
E N T E R P R I S E
T S I M A C T U K U
L Y A E P E S I S N
I A T N A I R C E I
N P I T L T P U G O
E G O - S L O W A N
C O N T R A C T W S

With the remaining letters, copy and complete the sentences below.

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _often occur in the workplace. They are, however, usually resolved through negotiation between employees and employers and with the help of trade unions and employer associations.

Activity 3: literacy task

Study the figures below. Write at least three paragraphs outlining the factors you consider important in achieving a good workplace environment. Include in your answer the following:

a a description of what each figure shows

b whether you think each figure portrays a good working environment, and why or why not

c reference to issues such as OHS, privacy and lack of discrimination.

Figure a

Figure b

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5

Investing

Focus statement

In this chapter we focus on the range of investment options and how to make wise investment decisions. In particular, we look at the various investment options and the level of risk associated with each. We also examine the ways that investors can keep track of their investments so that they maximise their long-term gains.

Focus question

What do I need to know to invest my savings wisely?

In this chapter you will learn about:

- investing
- ethical investments
- investment options
- taking into account risk and return
- investment planning
- selecting a mix of investments
- maintaining records and monitoring investments
- modifying investments to maximise long-term gains
- key issues related to investment in the current financial environment.

5.1 Investing: an overview

Key terms

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.

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.

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.

Key concepts

Saving and investing

The terms saving and investing are often confused. *Saving* is safely storing something for later use. *Investing* is using resources in the anticipation of creating even more resources. When people invest money they do so in the hope of creating more money.

Individuals invest for a variety of reasons. Short-term goals of investing could be the purchase of a car, holiday, new sound system or flat-screen 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.

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, a house 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. A minimum amount of $500 is generally required to begin an **investment portfolio**.

Property is the most difficult market to enter. Very few people can afford to buy property from savings alone. Banks and other lenders 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**.

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Figure 5.1 Property is one of the most popular forms of investment in Australia.

Negative gearing is often used as a way of reducing an investor's taxable income while building up investments. It is important to remember that loan repayments need to be met even if the investment it is funding is not producing as much income as expected (see the box 'Negative gearing').

Figure 5.2 Apartments such as these are popular with investors seeking to reduce their tax through negative gearing.

Negative gearing

When an investment property is negatively geared the investor may be able to reduce or minimise his or her taxable income. Negative gearing occurs when the deductions associated with an investment 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 $580 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 5.1, with expenses in brackets.

Table 5.1 Investment balance sheet

Income	
Annual gross rent: 52 weeks × $580	$30 160
Expenses	
Property expenses	($7500)
Interest on loan: $500 000 @ 6% p.a.	($30 000)
Total expenses	*($37 500)*
Annual cash flow	(–$7500)

As an investor you will need to find $7500 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.

It is also possible to negatively gear a parcel of shares. You could, for example, borrow $100 000 and invest it in the share market. The interest charged on the loan is a legitimate 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 page 125).

Negative gearing is a sensitive political issue. Attempts to modify its tax benefits provoke protests from investors.

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Home owners 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 $500 000. Your equity is now $300 000 plus any amount you have been able to pay off your mortgage.

Table 5.2 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; the share market is, for example, 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

Table 5.3 Home loan interest rates, December 2012

		1 year	3 years	5 years
Company	**Variable**	**Fixed**	**Fixed**	**Fixed**
AMP Banking	5.85	5.39	5.39	5.99
ANZ	5.90	5.54	5.39	5.84
Bendigo Bank	6.01	5.59	5.49	5.89
Citibank	5.74	5.54	5.54	5.69
Commonwealth	5.80	5.34	5.54	5.84
HSBC	6.65	5.49	5.39	5.69
Macquarie Mortgages	5.79	5.39	5.39	5.69
NAB	5.88	5.34	5.49	5.94
Newcastle Permanent Building Society	5.62	5.29	5.38	5.68
St George Bank	5.99	5.54	5.54	5.94
Suncorp	5.79	5.68	5.52	5.65
Westpac	6.31	5.69	5.59	5.89

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Banks will lend you money using the $300 000 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.

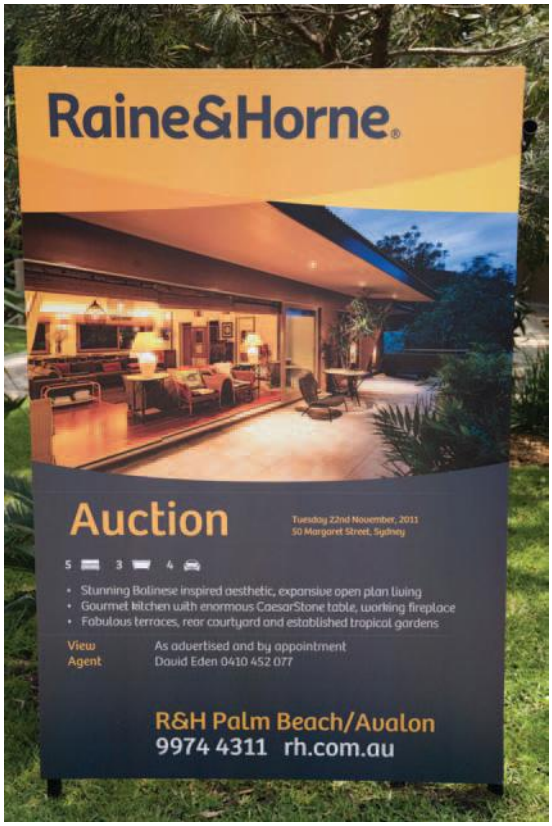

Figure 5.3 Home owners often use home equity loans to purchase properties, which are then rented out. This enables the investor to take advantage of the capital they have invested in their home.

Ethical investing

Ethical investing is investing on the basis of what is morally right. It is also referred to as *socially responsible investing (SRI)*. 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, 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 pages 125–127).
- 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.

Recent developments

The *Financial Services Reform Act 2001* (Cwlth) requires *product disclosure statements* for unit trusts, superannuation products and other financial products involved with investing to show the extent to which labour standards and environmental, social or ethical considerations are taken into account when selecting investments.

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Understanding the text

1 Explain the difference between saving and investment.

2 Distinguish between short-term and long-term investment goals. Give an example of each.

3 Explain why businesses invest.

4 State what income is.

5 Distinguish between a capital gain and a capital loss.

6 Outline the ways that an investment portfolio can be funded.

7 State what collateral is.

8 Using your own words, explain what negative gearing is.

9 Outline how negative gearing can be used to reduce a person's tax liability.

10 Explain what is meant by the term *socially responsible investing*.

11 Explain the difference between negative and positive screening.

12 Outline the issues you need to consider if you wish to invest ethically.

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 Use 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?

3 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.

4 Study Table 5.2 (page 120). Write a discussion outlining the advantages and disadvantages of negative gearing.

5 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.

6 Extension research activity. 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.

7 Study Table 5.3 (page 120) and complete the following tasks:

a Name the financial institutions that had the lowest variable 'own home' interest rate in December 2012.

b Name the financial institution with the highest five-year fixed investment interest rate.

c Which financial institution would you favour if you wished to take out a three to five year fixed 'own home' loan?

d Calculate the annual interest payable on an equity loan of:

i $100 000

ii $200 000

iii $300 000

iv $400 000

v $500 000.

Divide the amount of interest payable by 52 to find out how much the loan would cost an investor in interest per week. Contact a local real estate agent to find out what the average rent is in the area for a three-bedroom apartment. How much could an investor afford to borrow before interest payments exceeded the income from rent?

8 Visit the *CHOICE* website to find out more about ethical investing. Find two examples of ethical investing and write a short report on each.

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5.2 Investment options

Key terms

diversification Spreading investments over a range of asset sectors with the aim of reducing risk.

dividend An investor's share of a company's profit.

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.

The range of investment options

There are four main investment types: 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.

Putting money in a cash 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.

Fixed interest

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 investments 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.

Shares

Shares (or stocks) 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 Stock Exchange (ASX) by licensed traders and brokers on behalf of investors.

Figure 5.4 Sydney's Stock Exchange building.

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Share markets tend to be quite volatile, especially over the short term. Economic recessions, a company collapse, 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 is shown in Figures 5.5 and 5.6.

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.

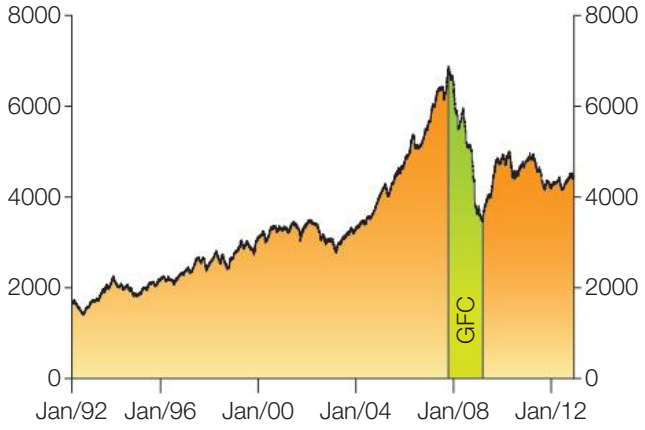

Figure 5.5 Australian stock market 1992–2012.

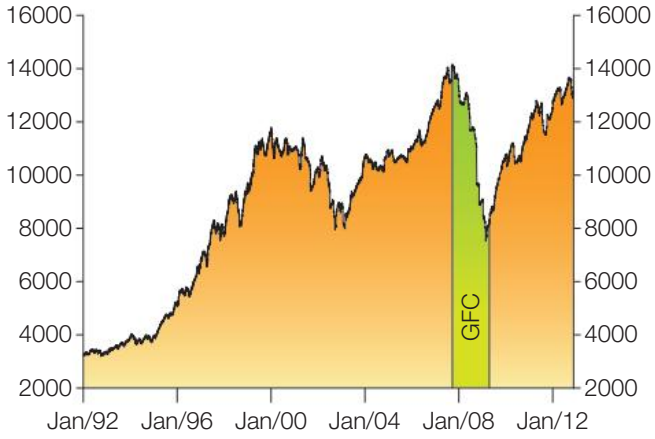

Figure 5.6 US stock market 1992–2012.

Company
The company's name, abbreviated by ASX, which supplies the stock price information

+ or –
The change in price from the previous day's close

Closing quotes: buy and sell
The highest bid to buy and the lowest offer to sell a stock recorded at the close of the day's trading

P/E ratio
The price earnings ratio of a stock is calculated daily by dividing the share price by the company's earnings per share, including abnormals

Company	Last Sale	+ or –	No. sold 100s	Closing quotes Buy	Closing quotes Sell	Div. yield %	P/E ratio	52 week High	52 week Low
XXXXXXXXX	.64	–2	1425	.64	.65	8.59	13.3	.68	.48

Last sale
Refers to the price at which the stock was last traded

No. sold 100s
The volume of shares traded on the market during the course of the day

Div. yield %
The return on investment. This is calculated daily by dividing the annual dividend per share of a company by its share price

52 week high and low
This represents the highest and lowest sales recorded during the past 52 weeks of trading

Figure 5.7 Reading the share market report in a daily newspaper.

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Table 5.4 Sample of a share market report

				Closing quotes				52 week	
Company	**Last sale**	**+ or –**	**No. sold 100s**	**Buy**	**Sell**	**Div. yield %**	**P/E ratio**	**High**	**Low**
AMP	4.91	+5	153655	4.91	4.92	5.50	14.42	14.42	4.26
Billabong	6.45	+5	8831	6.45	6.46	3.26	16.9	9.13	4.68
CBA	28.54	–19	37516	28.53	28.58	5.4	18.1	32.46	23.05
David Jones	1.43	+1	19281	1.43	1.44	4.2	185.7	1.51	1.00
Freedom	2.17	–	528	2.17	2.18	4.61	12.6	2.18	1.61
NAB	31.93	–47	45281	31.92	32.10	4.8451	17.4	35.99	28.36
Westfield	14.74	+4	7899	14.69	14.75	1.70	29.5	15.85	12.04

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 5.8.

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.

Share portfolio.xls

	A	B	C	D	E	F	G	H	I	J
1	Share portfolio as at 08/08/2003									
2										
3	Stock name	ASX code	Date of purchase	Brokerage costs ($)	Share purchase price ($)	Number of shares bought	Total cost ($)	Current share price ($)	Present value ($)	Net gain/(loss) ($)
4	ANZ Bank	ANZ	25/7/03	30.00	18.06	1,000	18,090.00	18.40	18,400.00	310.00
5	Coca-Cola Amatil	CCL	25/7/03	30.00	5.85	3,000	17,580.00	5.94	17,820.00	240.00
6	Country Road	CTY	25/7/03	30.00	1.10	12,000	13,230.00	1.10	13,200.00	-30.00
7	Rebel Sport	REB	25/7/03	30.00	2.36	6,000	14,190.00	2.42	14,520.00	(30.00)
8	Seven Network	SEV	25/7/03	30.00	5.34	3,000	16,050.00	5.38	16,140.00	90.00
9	Telstra	TLS	25/7/03	30.00	4.83	4,000	19,350.00	4.72	18,880.00	-470.00
10	TOTALS			180.00			98,490.00		98,960.00	(470.00)

Figure 5.8 Sample Excel spreadsheet.

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 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 page 126)
- 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.

Risk and return

When investing, **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 (Figure 5.9).

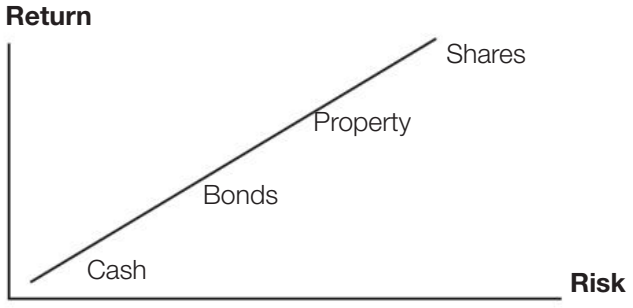

Figure 5.9 The relationship between risk and return.

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Compound interest

You have probably studied compound interest in Mathematics, so you may already know how it works. But 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 5.10).

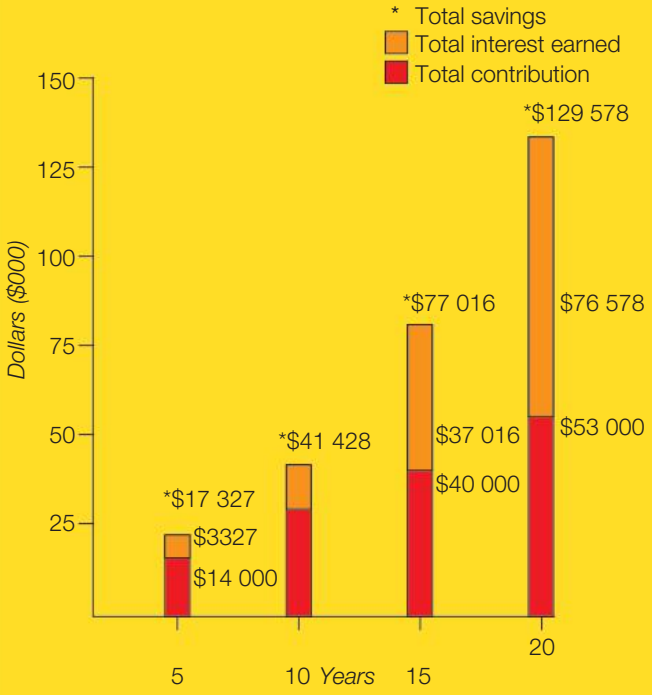

Figure 5.10 Impact of compound interest on money invested.

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 (see Figure 5.11). 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.

Figure 5.11 Diversification of investments helps to reduce the risk.

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. 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 a 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.

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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.

Figure 5.12 Cash investments have little risk and consequently they provide a modest return.

Info.com.tech

The share market

For more information about buying shares and how the share market works go to the ASX website.

BT Online

Most financial institutions have websites that provide investors and potential investors with information relating to investment products. For example, part of the BT Financial Group website is dedicated to educating the public about investing. Of particular interest are its tips for investing. These are:

- Basics
- Markets
- Types of investments
- Starting to invest
- Glossary

The site also has a glossary of investment terms and a frequently asked questions (FAQs) section that you will find useful.

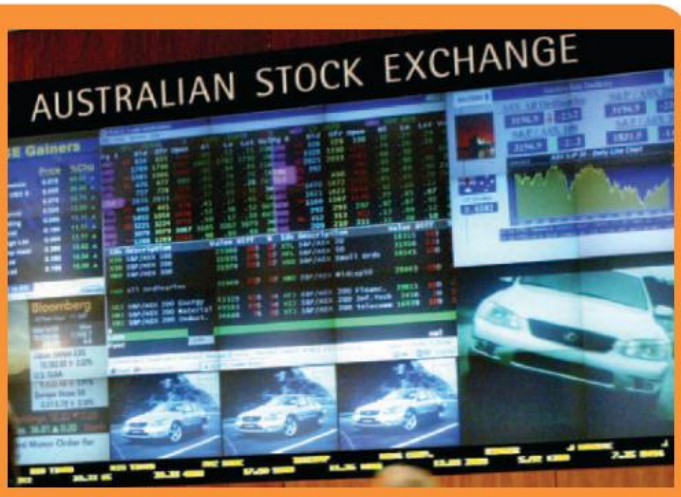

Figure 5.13 ASX's electronic display of share values.

Activities

Access the BT webpage.

1 Using the five points relating to 'types of investment and starting to invest' as subheadings, summarise the advice provided by BT. Use this information to develop your own word-processed brochure providing advice to potential investors.

2 Divide the class into groups of three. Within the group, each person is to select a different investment type: managed funds, superannuation or margin lending. Study the information available on the BT website. Prepare a brief oral report outlining the key features of the selected type of investment. Take turns to share your findings with the other members of your group.

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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 Explain what is meant by the terms *risk* and *return*. What is the relationship between risk and return?

5 What is diversification? Outline how it can be used to reduce overall risk when investing.

6 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 daily newspaper, 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 Figures 5.5 and 5.6 (page 124). 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?

3 You have $5000 to invest. Access the websites of at least five major banks and/or credit unions and locate information on the bank's/credit union's 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.

4 Study Table 5.4 (page 125) and answer the following questions:

a Which two companies experienced the largest increase in value from the previous day's close?

b Which company experienced the largest decrease in value from the previous day's close?

c Which company had the largest volume of shares traded on the market during the course of the day?

d Which company had the smallest volume of shares traded?

e Which company had the highest price earnings ratio?

f Which company experienced the greatest variation in its share price over the last 52 weeks?

g Which company experienced the smallest variation in its share price over the last 52 weeks?

5 Study Figure 5.9 (page 125). Write a paragraph describing the relationship between risk and return for the investment strategies shown.

6 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.

7 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 mindmap highlighting the points raised in your group's discussion.

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5.3 Investment planning

Key terms

All Ordinaries Index A measurement of the average movements in the share price of a selection of major Australian companies.

comparison rate A true rate of interest. It includes both the interest rate and any fees and charges.

Effective investors plan their investments rather than act on whims and intuition. Where to invest depends on three main factors:

- the goals of the investor
- the time period being considered for the investments
- the risk tolerance of the investor.

An investment portfolio can be established after considering these factors.

The three scenarios presented in the 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 then 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 all together.

Maintaining records

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.

Investment planning scenarios

Scenario one: 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 two: 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 three: 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.

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.

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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.

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.

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Understanding the text

1 Outline the factors that determine where people invest.

2 List the types of records investors need to maintain.

3 Explain how the All Ordinaries Index is used to evaluate how well an investor's portfolio of investments is performing.

4 Identify where an investor can find information relating to the performance of their investments.

5 Why is it sometimes necessary to adjust an investment portfolio? How does monitoring an investment assist in this regard?

6 Explain why an investor must be informed about market conditions.

Activities

1 Read the three scenarios in the box 'Investment planning scenarios' (page 129). Construct a time line showing how your investment strategies may change over your lifetime.

2 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.

3 Study the box 'Truth in lending'.

a What is meant by *truth in lending*?

b Explain what the comparison rate includes.

c Outline the key elements of the truth in lending legislation.

4 Spreadsheets are ideal for maintaining investment records. Design a spreadsheet, covering a year, for a share portfolio. For each company in which investments are held, the spreadsheet should show the:

a number of shares bought, sold and currently held

b purchase date and price

c sale date and price

d total cost

e current market price

f total current value

g dividend rate

h total dividends received

i gain or loss on the investment.

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.

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5.4 Current issues in investing

Several key issues affect the current investment environment. These include global economic uncertainty, which affects investor confidence.

The level of investor confidence affects financial markets just as consumer confidence affects the level of economic activity. The collapse of equity markets in the wake of the Global Financial Crisis (2007–08) was a major shock to the confidence of those who had invested their savings in shares. Similarly, the ongoing debt-driven economic crisis in Europe and the United States is undermining peoples' willingness to invest in other than the safest forms of investments – typically government-guaranteed bank deposits. Even the housing market, once considered an almost risk-free form of investment, has failed to deliver the capital growth expected. In times of uncertainty money moves out of shares and, in some cases property, into more secure forms of investment.

In general, Australians are keen to buy their own home and consequently have considerable debt. Interest rates are currently at near-record lows, which helps investors to enter the property market. Problems arise when interest rates rise and investors find they can no longer meet the repayments on their mortgage. They either have to renegotiate their mortgage or, in some instances, sell the property.

The federal government currently requires employers to contribute 9 per cent of employees' income to a superannuation fund. This is set to gradually increase to 12 per cent between 2013 and 2020. These funds are required to be invested until the employee turns 60 years of age. Many investment experts believe the percentage should be higher because most people will need to invest more than 12 per cent of their income to a superannuation fund to be able to have the lifestyle they would like when they retire. There are also people who believe there should not be such strict rules about access to superannuation funds. They think the funds invested could be more usefully used as a deposit on a first home and that people who retire before their 60th birthday should be allowed to access their superannuation earlier.

Understanding the text

Outline the issues affecting the current investment environment. Can you think of any other issues?

Activity

1 Study the media to identify current investment-related issues. Investigate and report on one of these issues. Present your findings as a multimedia presentation. Use the following points to help structure your presentation:

a Name the issue.

b Identify the groups or key players involved in the issue.

c Outline the main points of the issue.

d Outline the range of strategies that could be used to address the issue.

e Which strategy do you think would be most effective? Explain your choice.

Import clip art or Internet-sourced material to illustrate your presentation.

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Chapter review

Activity 1: crossword

Copy the crossword below and then complete it.

Across

1 An investor's share of a company's profit

3 Regular payments from an investment

9 The term used to describe the true rate of interest. It includes both the interest rate and any fees and charges (two words)

11 An asset purchased with the intention of producing a capital gain or income, or both, for the owner

12 Borrowing for the purpose of investment, such as purchasing a share portfolio or using a mortgage to purchase a house

14 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

Down

2 Spreading investments over a range of asset sectors with the aim of reducing risk

4 Occurs when the sale price for an asset is greater than the initial cost (two words)

5 Occurs when the sale price for an asset is less than the initial cost (two words)

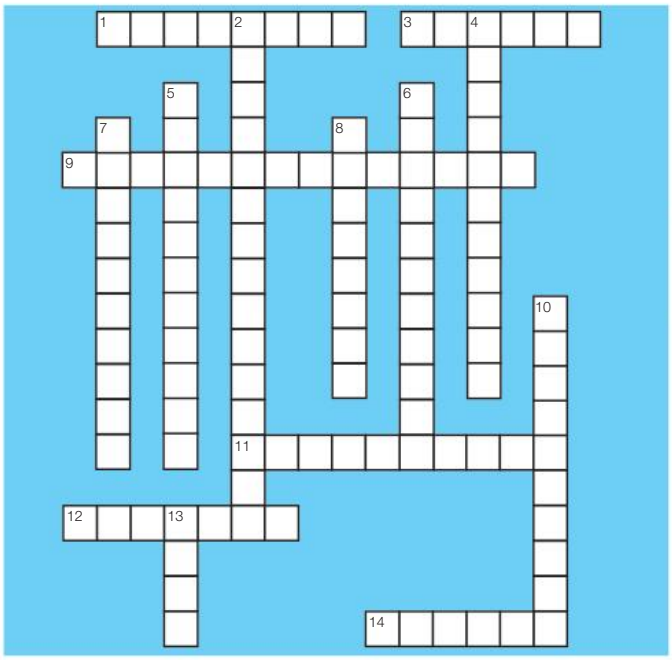
6 Money invested for a fixed period of time. Interest is paid at regular intervals (two words)

7 An asset promised to a lender in case the borrower is unable to meet the loan repayments

8 A loan used to fund the purchase of a property

10 A loan where the equity in an asset is used as collateral for the loan that is taken out to buy further assets (two words)

13 The level of uncertainty associated with a particular investment



Activity 2: choosing investment types

Study Figure 5.11 (page 126). Then copy and complete the table below by identifying the advantages and disadvantages of each element of a diversified investment portfolio.

Investment type	Advantages	Disadvantages
Property		
Land		
Shares		
Cash and fixed-interest accounts		
Managed funds		

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6

Promoting and selling

Focus statement

In this chapter we investigate the strategies sellers use to promote products and maximise sales. We also evaluate the impact of these strategies on consumers. The issues addressed will help you make better choices when you buy goods and services.

Focus question

What impact does advertising have on our consumption decisions?

In this chapter you will learn about:

- the selling process
- factors that differentiate products
- product promotion strategies
- processes used to identify target markets
- legal and ethical issues associated with product promotion
- applying selling techniques
- monitoring and evaluating selling techniques
- current issues in promoting and selling.

6.1 The selling process

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.

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.

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.

product endorsement The use of sporting stars and media personalities to promote a good or service.

product placements The prominent display of products in movies or television programs.

sponsorship Brand strengthening via the funding of elite sporting personalities and teams.

telemarketing The promotion of goods and services via the telephone.

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 to an Internet service provider. 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 6.1 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 6.2). You will already be familiar with some of these factors from your reading of Chapter 1.

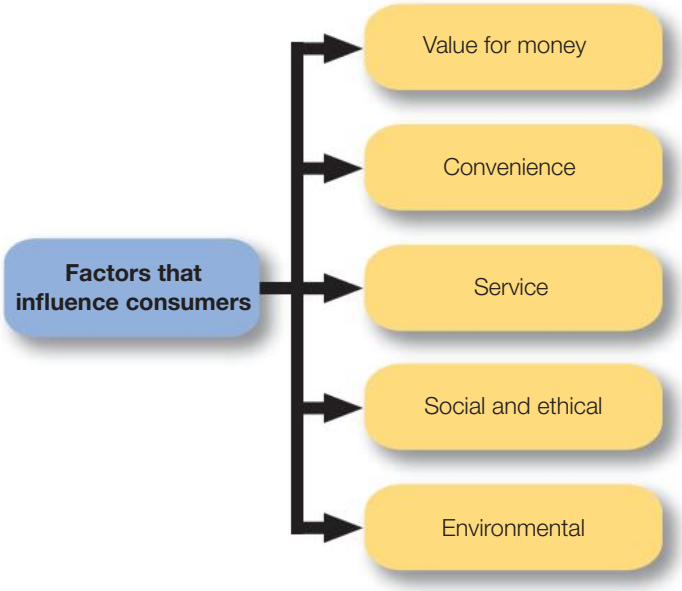

Figure 6.2 Differentiating between products: the factors that influence consumers to choose one product over another.

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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.

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 Billabong 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, Versace, 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 V8 Holden and Ford models 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 6.3).

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.

Figure 6.3 Producers target the environmentally aware consumer by promoting a range of environmentally friendly products.

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.

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 below. Which of the five factors discussed opposite would be the most important to you when deciding which brand to buy? For each good, list the factors from most important to least important.

a a laptop computer

b a pair of jeans

c dishwashing detergent

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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
- 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 Gladwrap, Panadol and Cotton Buds (see also page 9).

Often the logos used by companies are instantly recognised by consumers. McDonald's golden arches, Nike's swoosh, Coca-Cola's bottle and Qantas's flying kangaroo are examples of logos that are known worldwide.

Figure 6.4 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 guerilla marketing.

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 products. Advertisers use this strategy in an attempt to increase brand recognition and convince consumers that the product is superior and the company more trustworthy than other products and companies. (See the box 'Michael Clarke and Pat Rafter'.)

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Michael Clarke and Pat Rafter

Product endorsements

Michael Clarke, captain of the Australian cricket team, and Pat Rafter, former world number one tennis player, have a range of sporting sponsorships and product endorsement contracts. In Figure 6.5 both are pictured endorsing Bonds underwear.

Figure 6.5 Australian Cricket Captain Michael Clarke and former tennis star Pat Rafter pose for a Bonds advertising campaign.

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 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 6.6 Cigarettes in plain packaging

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 Telstra's sponsorship of both the National Rugby League and the Australian Ballet, Toyota's sponsorship of the Australian Football League, Qantas' 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 paid $60 million for the naming rights for Sydney's Telstra Stadium. In early 2008 the stadium's name was changed to *ANZ Stadium* after the ANZ banking group agreed to pay around $31.5 million to the ground's owners, Stadium Australia Group.

Product placements

Product placement involves having products displayed prominently in movies or television programs. Companies usually pay for such placements. (See the ariticle 'Product placement: more than just a movie' page 139.)

Heineken, the Dutch beer company, paid more than £28 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 £93.7-million production budget.

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Product placement: more than just a movie

by Suzanne Carbone

Product placement in movies is big business – just ask James Bond.

You know it as Die Another Day, but it could just as easily have been called Products Galore. The twentieth James Bond film, starring Pierce Brosnan and Halle Berry, exploded on to the screen with many of the world's top international brands along for the ride.

Bond drives an Aston Martin, wears Brioni suits, sports an Omega watch, uses a Philips shaver and drinks Bollinger champagne. Ford, the owner of Aston Martin, paid the film's producers $63 million to replace BMW as the official Bond vehicle supplier.

However, not all the companies with their brands featured in the film paid huge amounts for their products to appear. While the Bond film has 25 'promotional partners', 11 did not directly hand over cash. Instead, they agreed to spend $200 million on worldwide marketing campaigns that promote both their products and the film.

Brand placement can result in a big increase in sales. The placement of a Hershey's chocolate bar in ET increased sales by more than 60 per cent in the three 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.

Figure 6.7 Product placement in movies increases sales and profit.

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 competing company sometimes seeks to have its brand name publicised at the event 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 stunts such as that shown in Figure 6.8.

Figure 6.8 One of two male streakers who disrupted a Bledisloe Cup rugby union match between Australia and New Zealand in Sydney. Both had the name 'Vodafone' emblazoned on their backs. Vodafone denied responsibility for the stunt.

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.

Junk mail

The use of advertising flyers (**junk mail**) has increased significantly over the last decade. Delivered via the letterbox or email inbox, this form of advertising is especially popular with supermarket chains, hardware stores and real estate agents (see Figure 6.9). While some people object to this type of advertising others use it as a way of finding out about special offers at retail outlets.

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Figure 6.9 Advertising flyers, delivered directly to your home, have become an important form of advertising over the last decades.

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.

Examples of special promotions include:

- 'specials' in all kinds of retail outlets, especially supermarkets
- discounts on the recommended retail price. For example, Target, the budget retailer, 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 Avon, Nutrimetics, 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 is 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.

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Understanding the text

1 Explain why companies advertise.

2 Outline how packaging is linked to advertising.

3 Explain why companies use sporting stars and media celebrities to promote their products.

4 Explain what the term *product placement* means.

5 Define the term *guerilla marketing*.

6 Compare junk mail with direct marketing.

7 List the main aims of promotional activities.

8 Outline the strategies used to raise the profile of a product in the minds of consumers.

9 **a** State the role of special promotions.

b Give examples of special promotions. Include examples from your own experience as a consumer.

10 Define the terms *personal selling* and *upselling*.

11 Explain why media outlets are keen to give free media coverage to some producers of goods and services.

Activities

1 In groups, construct a mindmap identifying as many forms of advertising as you can think of.

2 **a** Using magazines, create a collage of well-known logos.

b Which of these logos appeal to you and why?

3 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?

4 Collect examples of special promotions from the print media. Identify the types of special promotions represented.

5 In groups, brainstorm a list of sporting stars and media celebrities that you have seen promoting products and services. List the products endorsed against the name of the personality.

6 In pairs, compile a list of sporting competitions and venues sponsored by companies.

7 Study the article 'Product placement: more than just a movie' (page 139). The next time you watch a movie, list the examples of product placement you observe.

8 Access the Optus website. Compile a list of the activities sponsored by Optus.

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 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.

Figure 6.10 Gender-based advertising helps to promote stereotyping and plays a major role in shaping our self-image.

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 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 most males. 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. Such images are unachievable for many males.

ISBN 9780170251587

Figure 6.11 Often sexually suggestive advertising is used to 'grab' the attention of consumers.

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.

Understanding the text

1 'Advertising often challenges views about males and females.' Do you think this statement is true or false? Explain your answer.

2 Define the term *stereotype*.

3 Explain why stereotyping presents a false view of most people.

4 Find three examples in the text of gender stereotyping and explain the link between advertising and these stereotypes.

5 Explain how advertising reinforces existing gender stereotypes.

6 Outline two problems that arise from the way males and females are often portrayed in advertising.

Activities

1 Study two television advertisements in detail. Identify the presentation of genders in the advertisements by copying and completing the table below.

Characters	Advertisement 1	Advertisement 2
Gender		
Age		
Race		
Clothing		
Hairstyles		
Make-up		
Stance/walk		
Gestures		
Facial expression		

2 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

3 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 these tasks:

a Identify the product being advertised.

b Describe how the female(s) or male(s) are pictured in the ad.

c Evaluate whether this is a positive or negative image of females or males.

d Decide how the advertisement is trying to influence the reader.

e What do you think of such ads?

4 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.

ISBN 9780170251587

6.2 Targeting consumers

Key terms

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.

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.

niche marketing Promotional campaigns targeting quite small groups of potential customers.

self-regulation Ethical standards and complaint resolution procedures put in place and maintained by an industry group.

target market A specific demographic or social group to which an advertiser wishes to appeal.

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 *Dolly*, *Girlfriend* and *Surfing World*) and television programs (such as *Rage*, *The Simpsons, The Big Bang Theory, Modern Family* and *Home and Away*).

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*, *Women's Weekly* and *Cosmopolitan* are popular with women. *Wheels Magazine* and *Time* are examples of magazines popular with men.

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 6.12 Advertisers increasingly use new technology, such as smart phone 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 and focus groups.

Companies usually undertake **market research** to gather information about the needs and desires of potential consumers. This information is then used to

ISBN 9780170251587

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 asks 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 good or services being sold.

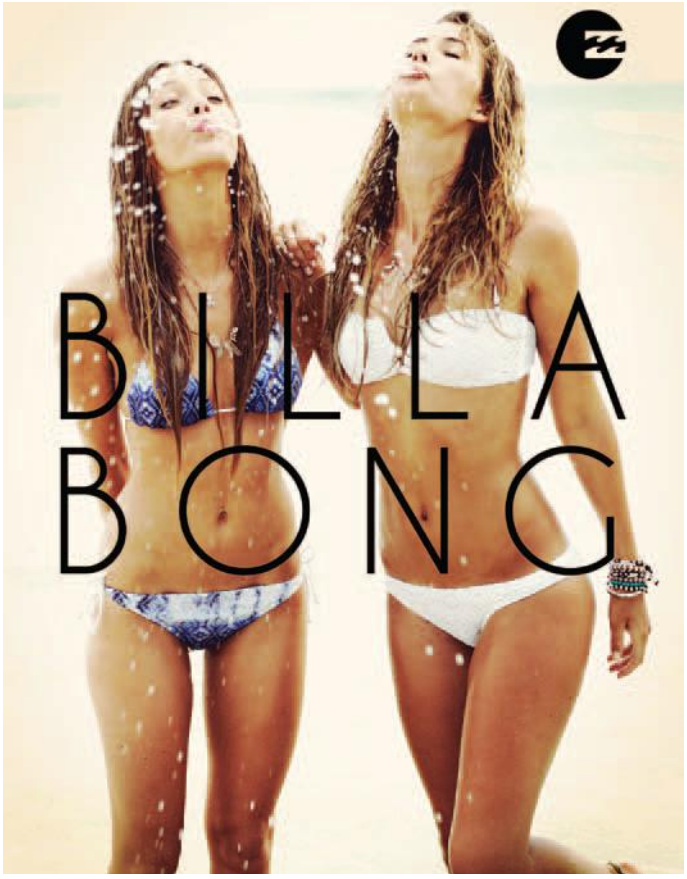

Figure 6.13 Billabong is easily recognised by its target market: young people.

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. This checking is called **self-regulation** and is carried out by the Australian Association of National Advertisers. Another organisation involved in industry self-regulation is the Advertising Standards Bureau (ASB), which is the industry-based body that handles consumer complaints and disputes between advertisers. It considers complaints about any form of published or broadcast advertising. These include complaints about:

- discrimination (race, nationality, sex, age, sexual preference, religion, disability or political belief)
- violence
- language
- portrayal of sex, sexuality or nudity
- health and safety
- alarm or distress to children.

If the ASB 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

ISBN 9780170251587

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.

(See Chapter 1, pages 20–22 for more information about unethical promotions.)

Figure 6.14 Advertising in magazines is usually aimed at specific target markets.

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.

Figure 6.15 Advertising can sometimes encourage people to spend more than they can afford.

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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.

Info.com.tech

Advertising Standards Bureau

Activities

Access the website of the Advertising Standards Bureau and complete the activities below.

1 Select 'FAQ'.

a Which type of media attracts the most consumer complaints about advertising?

b Which three issues attract the most complaints?

c Which two categories of product attract the most complaints?

2 Select 'Ad Standards bulletin' and view the latest edition. Look at the list of complaints dismissed. Choose one that you know or are interested in. Read the case report and make the following notes about it:

a a description of the advertisement

b the nature of the complaint made against the advertisement

c the result of the complaint (the determination).

Report your findings to the class or a small group.

Activities

1 Use magazines to find examples of advertisements that target:

a teenage boys

b teenage girls

c affluent people

d home owners

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 product names listed below. For each product, select the word/s that you associate with the product and write this next to the product name.

Product	Associated word/s
Coca-Cola	Safe
Kmart	Australian
Qantas	Value for money
Vegemite	Luxurious
BMW	Fun-loving

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 6.13 (page 144) 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 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?

ISBN 9780170251587

6.3 Applying 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 then 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 (see below) to introduce its product to the market and to encourage consumers to buy it. Look back in this chapter to refresh your memory about these techniques:

- *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; give-aways 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 this purchase is 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. Under-performing 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

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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:

- **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 2012 there were special promotions involving a give-away 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 2012	Sales 2010	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.

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6.4 Current issues in promoting and selling products

Key terms

hidden advertising A form of advertising that we may not be conscious or aware of.

spam Messages, including advertising, received via the Internet and which the user has not requested.

In addition to questions of industry regulation, self-regulation and ethics, there are a number of other issues relating to the promotion and selling of products that consumers should be aware of.

Right to privacy

Generally in Australian society, providing their behaviour is lawful, people expect to enjoy a right to privacy; that is, to be protected from interference or intrusion from others in their day-to-day activities. In product promotion and sales, issues of privacy have largely been limited to direct selling. However, new technologies – particularly the Internet and smart phones – have resulted in a greater level of intrusion. People often receive messages containing advertisements and other material via the Internet whether they want to or not and they have little protection against this form of product promotion.

Spam

Spam is a message sent via the Internet to huge numbers of people at once, electronically and automatically. These messages are unsolicited, meaning they are sent without the receivers' permission. Most spam is commercial advertising, often for poor-quality products or get-rich-quick schemes. Spam costs the sender very little to send – most of the costs are paid for by the receiver or the Internet service provider. As most people do not wish to receive such material, spam is an example of invasion of personal privacy made possible by new technology.

Telemarketing

Telemarketing has become increasingly unpopular with consumers in recent years, as the practice has become more common.

New technologies have made it possible for computers to place the phone calls, dramatically increasing the calls received by many people. It is seen by some as an invasion of their privacy, an unwanted interference and an annoyance.

In response, many telemarketing laws have emerged in the last decade. Several US states, for example, now require companies to obtain lists of people who prefer not to receive telemarketing calls, and make it illegal for marketers to call anyone whose name appears on the do-not-call lists. Some Australian states are also placing limits or specific requirements on calls, such as prohibiting the use of automatic calling devices or requiring that clear disclosures be made at the beginning of a telemarketing call.

A new style of direct marketing

The use of new technologies by advertisers has blurred the lines that traditionally separated various types of marketing; that is, product promotion, including advertising. In the past, advertising was one-way communication through a mass medium; for example, television, radio, newspapers and magazines. Today, it is taking on characteristics of direct marketing, enabling two-way communication between buyer and seller. This presents the risk that the seller will take advantage of the potential buyer. For example, a child may become involved in a financial transaction via the Internet without the knowledge of a parent or responsible adult.

Hidden advertising

Advertising professionals are sometimes accused of using **hidden advertising**; that is, hiding images and messages within advertisements. Some believe that these images and messages have the potential to be absorbed subconsciously and affect our behaviour even though we aren't aware we have seen them.

Tobacco and alcohol advertising

Tobacco and alcohol advertising is heavily regulated. Both products can cause death or injury, and both are subject to attack by interest groups opposed to these products. All forms of tobacco advertising are now banned in Australia.

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Medical experts, and other groups opposed to tobacco and alcohol advertising, argue that the promotion of these products causes consumption to increase and that the harmful impacts of these goods can be reduced by banning or severely restricting their promotion. Others argue that there is no real evidence that the product promotions influence consumption and that it is the product, not the advertising, that is the danger and so it is the product that should be regulated.

A note of caution

Buyer beware

Our rights are protected by laws and industry 'watchdog' bodies. However, if you need help from government or other bodies it may take a lot of time and effort to organise. Worse still, the seller may have disappeared, leaving you in the right, but out of pocket. So be a wise consumer. Read the small print, ask questions and get advice. Remember, if a product or deal seems too good to be true, it probably is.

Finetune your consciousness

Try to be aware of the manipulation underlying most advertising. Be on the lookout for sexist, racist or discriminatory attitudes and try to spot the sales pitch of the promotion – even if it doesn't seem like it's a sales pitch.

Understanding the text

1 Define the terms *right to privacy* and *spam*.

2 Outline the connection between spam and loss of privacy.

3 Apart from spam, list two examples of new technology threatening our right to privacy.

4 Explain how hidden advertising works.

5 Explain what is meant by the term *buyer beware* and why this is a good behaviour to adopt.

Activities

1 Look at the range of issues outlined in this section of the text. Write a paragraph outlining the ways in which recent developments in product promotion pose a threat to our right to privacy.

2 Working in pairs, role-play the following encounters with salespeople:

a A person appears at your door offering to demonstrate a vacuum cleaner.

b You go to a computer store to look at a well-priced laptop that was advertised in a junk mail flyer, but there are none in stock.

c You receive a phone call from a marketing firm informing you that you have won a free prize of a weekend at a Gold Coast resort.

d You want to return the 'sale' item to the shop you bought it from as you saw it was $10 cheaper at another shop.

3 a In groups, discuss the following topic: Advertising should be banned from children's television programs.

b Hold a class debate on the topic.

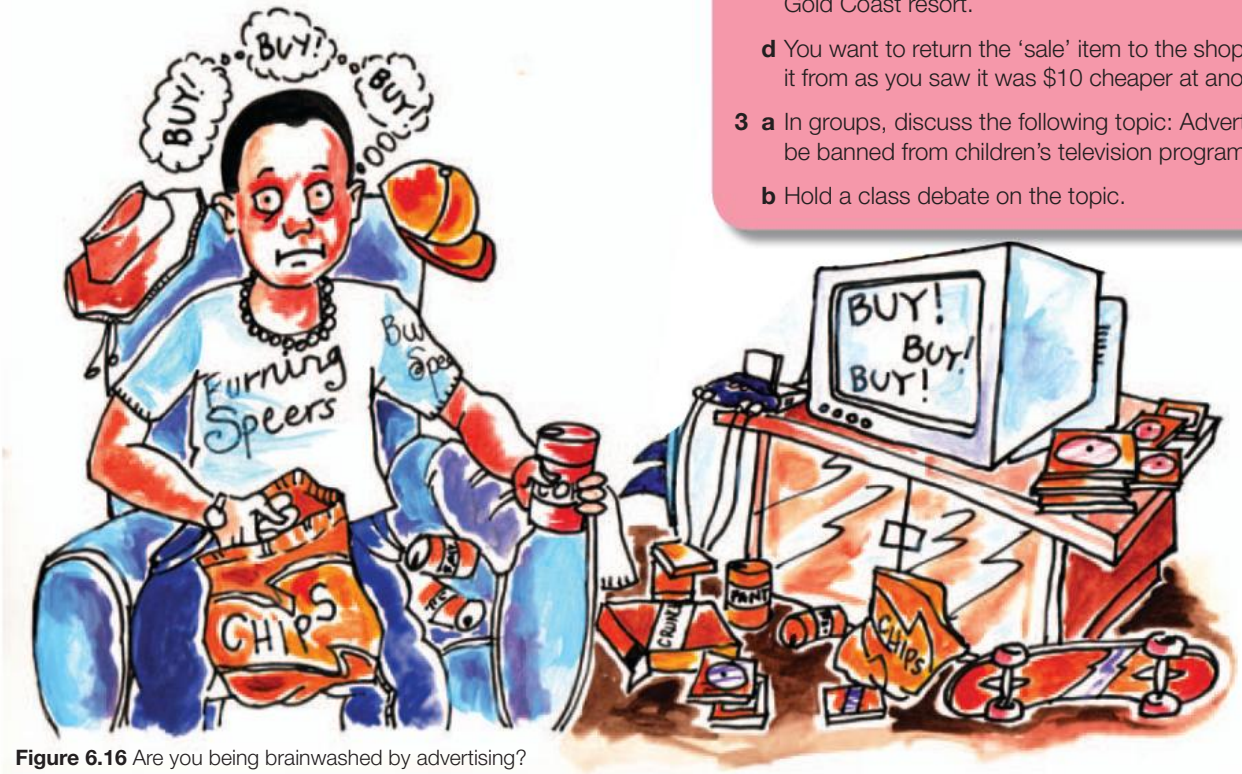

Figure 6.16 Are you being brainwashed by advertising?

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Chapter review

Activity 1: defining key terms

Write a paragraph defining these terms related to promoting and selling products:

a marketing

b mass marketing

c niche marketing

d target market.

Activity 2: matching

The following table lists the factors that differentiate similar products. The explanations in the second column are not in the correct order. Copy the table into your book, matching each factor with its correct explanation.

Factor	Explanation
Service	Whether the product reflects the values of a particular group
Convenience	Whether the product is recyclable and whether minimal resources were used to produce it
Value	Whether the product is easy to obtain
Social factors	Whether the product is economical and well worth the price paid for it
Environmental factors	Whether the product works well

Activity 3: crossword

Copy the crossword opposite and then complete it.

Across

2 The gathering of information about the needs and desires of potential consumers (two words)

3 Promoting a good or service in order to increase sales and profits or to inform the public

4 Promotional campaigns targeting quite small groups of potential customers (two words)

7 Ethical standards and complaint resolution procedures put in place and maintained by an industry group (two words)

8 Promotion of goods and services via the telephone

9 Promotional campaigns targeting a large proportion of the population (two words)

10 A type of marketing that is flexible and unconventional

11 Advertising flyers delivered via the letterbox (two words)

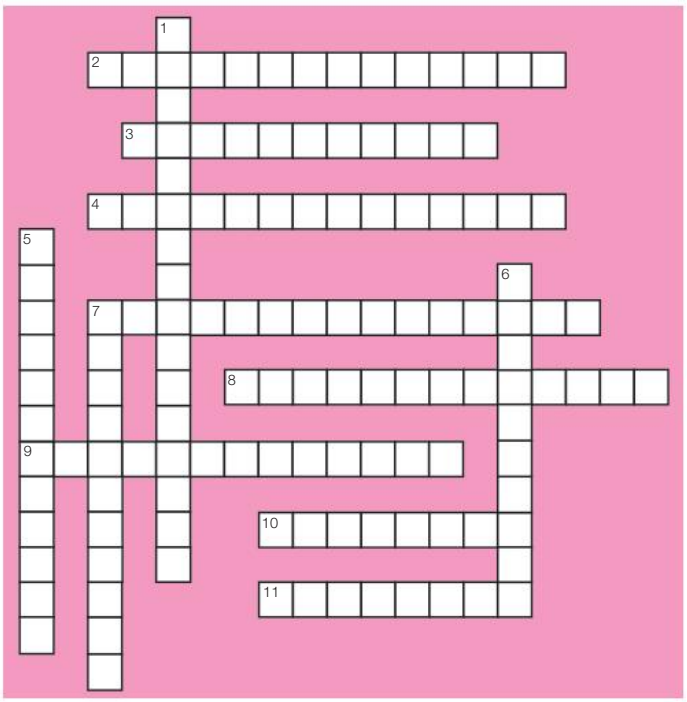
Down

1 The prominent display of products in movies and television programs (two words)

5 A specific demographic or social group that an advertiser wishes to appeal to (two words)

6 Personally addressed, businesslike letters containing advertising material (two words)

7 Brand strengthening via the funding of elite sporting personalities and teams



Activity 4: notemaking

a Make notes on four unethical promotional strategies.

b Make notes on four current issues in promoting products.

Activity 5: research

Select one of the issues listed in this chapter. Undertake library or Internet research to find answers to the following questions:

a What are the mains concerns relating to this issue?

b How are these concerns being addressed?

Prepare a short oral report outlining your findings.

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7

E-commerce

Focus statement

In this chapter we focus on how the Internet and the development of e-commerce have changed the way people access commercial and legal information and how consumers buy and sell goods and services in today's global market.

Focus question

How has the internet changed our daily lives? Do you know your consumer rights when buying online?

In this chapter you will learn about:

- e-commerce and the Internet
- the use of e-commerce for commercial purposes by public and private institutions and individuals
- the advantages and disadvantages of using the Internet for researching commercial information and buying and selling goods and services
- online shopping
- sources of advice on e-commerce issues
- e-commerce protection issues
- accessing financial services online
- online business communications
- laws relating to young people using e-commerce
- workplace issues, including privacy
- current issues related to e-commerce.

7.1 The scope of e-commerce

Key terms

backup A copy of a computer file, directory or hard disk made for safekeeping.

button Small, labelled images that, when clicked on, provide the means of navigating through a website.

chat The act of 'talking' over the Internet.

download Loading information from one computer onto another.

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

email The tool that allows users to exchange messages or computer files over a computer network.

Internet A system of interconnected computer networks. Also known as the Net.

Internet Explorer A software program that provides access to the Internet. Safari, Google Chrome and Firefox are other examples of these programs, which are also known as 'browsers'.

modem A device used to connect computers via a telephone line.

online Connected to the Internet. Also related to information that can be accessed via the Internet.

real time Events that occur on the Internet at the same time as they occur in real life.

spam Emails that have not been requested by the receiver.

website A location on the Internet that allows users to access information.

Wireless Technology that allows devices (such as computers, video-game consoles, smartphones) to communicate and connect to a network such as the Internet.

World Wide Web A computer program or system linking information and files on different computers around the Internet. Also known as the *web* or *www*.

E-commerce and the Internet

In Australia there is high acceptance, adoption and use of information and communication technology (ICT), such as the **Internet**. A 2010 study by The Economist magazine ranked Australia 10th in the world for its adoption and use of ICT by individuals and businesses.

Not only is this technology now widely available, a growing number of Australians are conducting significant amounts of commercial and social activity online. This technology has transformed the way consumers become informed and participate in the global market.

What is e-commerce?

Electronic commerce (or **e-commerce**) can be defined as the use of electronic transactions by businesses and/or consumers for commercial purposes.

Figure 7.1 Surfing the Net offers boundless possibilities.

Any time you use a credit or debit card through EFTPOS (electronic funds transfer at point of sale) or withdraw money from an ATM (automatic teller machine) an e-commerce transaction occurs. In this chapter, we will focus only on e-commerce transactions using the Internet. Perhaps the best-known example of this type of e-commerce transaction is Internet shopping. This is where a consumer accesses the Internet (goes online), and searches the web to find a **website** to purchase goods or services; for example, running shoes and airline tickets. To millions of people around the world this way of doing business (transacting) has become commonplace.

The Internet is the primary means of carrying out e-commerce transactions. In fact, e-commerce would not be possible without the Internet. As you are probably aware, the Internet is a vast computer network linking many thousands of computer networks worldwide via phone lines (or broadband), **modem** and **wireless** (for example, wi-fi) technology.

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The Internet has four primary uses. These are:

- as a means of communication
- as a way to carry out research and gain information
- for entertainment purposes
- for electronic transactions (e-commerce).

More than 2.4 billion people worldwide now use the internet; of these about 19 million are Australians. The newspaper article below shows the global spread of the Internet as a means of communication and as a platform or facilitator for information and e-commerce.

As noted earlier, we often think of e-commerce in terms of a consumer purchasing a good or service from a business via the Internet (for example, online shopping).

However, there are three main users, and many different types, of e-commerce. The three main users of e-commerce are businesses, consumers and government departments.

Types of e-commerce

Types of e-commerce transactions include:

- *B2C (that is, 'business to consumer')*–e-commerce between a consumer and a business
- *B2B*–e-commerce between businesses
- *C2C*–e-commerce between consumers
- *G2C*–e-commerce between government and consumers.

It's a Googly World

by Rebecca J Rosen

A web visualisation firm, Webempires, has created a map showing the number-one websites around the world, as calculated by traffic-tracking company Alexa. As the picture makes clear, Google dominates, with Facebook trailing not too far behind. (You can view the map at www.theatlantic.com/technology/archive/2012/06/its-a-googly-world-a-map-of-the-planets-most-visited-websites-by-country/258252/.)

Alexa's statistics shows that most of the countries where Google is number one, Facebook is number two, and vice versa, although YouTube, a Google property, makes a pretty good showing too (number two in Kazakhstan, Mongolia, and Armenia, for example). When it comes to the very top of the traffic picture, there is not a whole lot of variation globally. What stands out more than the Facebook/Google line are the true outliers – particularly China with its heavy government regulation, whose list of top websites bares the least resemblance to rest of the globe, with the top four slots all belonging to China-specific sites (Baidu.com, QQ.com, Taobao.com, and sina.com.cn).

Of course, saying that Google and Facebook dominate around the world is a lot like saying trees and grasses are the dominant plant. Google is a search portal; where it brings you depends on what you put in. Facebook's content is the work of your friends and family.

Source: www.theatlantic.com, 7 June 2012

Why is e-commerce used?

E-commerce is used because of its advantages over more traditional ways of transacting. These advantages include its:

- speed and convenience
- ability to make the global market more accessible
- ability to cut business costs.

With e-commerce, electronic transactions happen in **real time** and make it possible to deal with a business or consumer anywhere in the world. Also, in comparison with traditional transactions, e-commerce involves less paperwork and fewer staff.

ICT continues to change rapidly. Already we are used to the Internet and the ability to send electronic mail (**email**), surf the Net for information, **download** computer games and shop from home. In fact, many people would probably find it hard to imagine life without the Internet.

Although you may feel safe and comfortable 'surfing the Net', e-commerce transactions should only be carried out by informed consumers. The Internet, especially e-commerce, is continuing to redefine our role as consumers and the need to understand this medium is becoming increasingly important in the global market.

While the Net is therefore an exciting medium and offers many advantages, it is important for consumers and businesses to understand that the Net also has disadvantages. As with traditional transactions, consumers should ensure they are fully informed about their rights and responsibilities and have the basic information about the business they are dealing with before entering into an electronic transaction.

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Consumers should also be aware that the Internet, as a popular medium, attracts a range of scams and unsolicited emails, commonly called **spam**. They need to be aware of unsolicited email promoting get-rich-quick schemes, chain letters or requests for cash. As the old saying goes, 'If it sounds too good to be true, then it probably is!'

Another scam is 'phishing', a type of online identity theft. Emails, with links to fraudulent websites, appear to be from companies that you trust, such as your bank, requesting personal information such as your account number, password, etc. Scam artists will also use personal details published on social media sites such as Facebook.

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Accessing information about e-commerce

A number of sites provide information about e-commerce. Some have been developed by governments, while others have been set up by a range of non-government and commercial organisations.

A good place to start your search is the NSW Office of Fair Trading website. Click on the 'Related links' **button** for links to relevant Australian Government departments and agencies, Australian non-government organisations and overseas non-government agencies. One of the best sites is the federal government's Australian Competition and Consumer Commission (ACCC) website. Its 'For consumers' section has information relating to consumer rights and scams and frauds.

Another excellent website, managed by Australian Communications and Media Authority (ACMA), is Cybersmart. This site provides information about the Internet for both young people and parents.

Activities

1 Go to the 'Consumers' section of the NSW Office of Fair Trading website. Click on 'Ways to shop' and then 'Online shopping'. Examine the advice and tips that the website provides for online shoppers.

2 Explore the ACCC website by clicking on 'For consumers'. Scroll down to locate 'Online shopping', then open 'The Online Shopper's Checklist'. Summarise this checklist into your notebook.

Understanding the text

1 Define the terms *Internet*, *World Wide Web* and *e-commerce*.

2 What types of transactions are included under the heading of e-commerce?

3 List the three main users of e-commerce.

4 List the four main types of e-commerce transactions.

5 Outline the advantages and disadvantages of e-commerce.

Activities

1 Look at Figure 7.1 (page 152). Define the phrase *surfing the Net*?

2 a In groups, compile a list of all the ways the group's members use the Internet. (Group them under the four main uses of the Internet.) Share your findings with the class.

b As a class, investigate:

i the ways your class members make use of the Internet

ii what the findings in part i, above, reveal about the characteristics of your class, such as age, gender, interests and family background

iii compared to your class, how different groups of people might use the Internet.

3 a In pairs expand on the following table by identifying types of e-commerce transactions.

B2C	B2B	C2C	G2C
Online shopping	Purchasing supplies	Online auctions, such as eBay	Payment of welfare benefits

b As a class, discuss whether e-commerce may add value to business and community life.

4 Read the article on page 154, download the map and then complete the following:

a Summarise the global picture of the most popular websites.

b In groups, identify websites that you visit and their purpose. Compare your results with the class.

c Discuss as a class why Google's dominance on the map is misleading.

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7.2 The e-commerce user

Key terms

banner A narrow strip across the top of a webpage that carries a logo, the website's name or advertising.

browser A computer software application (program) that allows users to view websites.

hackers Computer operators who carry out computer crime.

Internet service provider (ISP) A company that provides Internet access.

National Broadband Network (NBN) Broadband network using optic fibre, fixed wireless and satellite technologies to provide high speed and reliable internet access to Australian homes and businesses.

search engine A software program that enables users to find sites on specific topics.

virus A program that can be introduced into a computer system and affect the operation of the computers in the system.

As noted in Section 7.1, businesses, consumers and government departments are all e-commerce users. Consumers can use e-commerce in a range of ways. The electronic consumer can, for example, shop; pay bills and taxes; conduct Internet banking; trade shares; participate in auctions; and locate information about a product, business or consumer-based issue–all online. In this section of the text we will investigate the use of e-commerce and a range of associated issues, including consumer protection.

Electronic transactions: online shopping

When was the last time your family or friends purchased something online? Since the introduction of the web, online shopping has grown rapidly with both businesses and consumers appreciating the benefits of the new technology. Buying and paying for goods and services online is part of everyday life for most Australians.

Shopping online has the following advantages:

- an increase in shopping choices through a wider range of goods and services being accessed through global markets
- a reduction in the cost of shopping (in terms of both time and money) by allowing consumers to shop from the convenience of their own home
- the ability to compare prices and brands and conduct research without leaving home
- the possibility of savings as prices are often lower than, or at least the same as, those offered by conventional shops
- the ability to access specialist sites, such as those offering discount prices or specialty products that are hard to find.

There are also disadvantages, however, such as:

- ensuring the security of payments and encountering fraud when transferring funds online
- not knowing whether the individual or business is reputable and whether they will handle your financial and personal information correctly
- facing the possibility that the website is part of an Internet scam
- not fully understanding what you will actually receive for your money
- if purchasing goods or services from overseas (or even different states and territories), not knowing which laws apply and what rights you may have
- paying much more than you expected due to extra charges (such as delivery or freight charges, goods and services tax and/or import duties) and changes in exchange rates
- confronting the possibility that accessing a site will result in a virus being introduced into your computer.

You should be aware of these advantages and disadvantages before shopping online. Once you have decided to make a purchase, ensure you understand how to proceed. This is discussed below.

Making purchases and payments online

Forget walking or driving to the nearest shops, searching up and down countless aisles, and waiting impatiently in line at the checkout. Your computer is a giant electronic information superstore of infinite possibilities. If you want to shop online you need only turn on your computer, access the Internet, and search the web by using a **search engine** (such as Google, Yahoo! or Bing) to find a website (or, if you already know the address, by going directly to the business's website). Once at the website you can purchase the family's groceries or buy the latest fashion.

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Figure 7.2 The www: a giant electronic information superstore at your fingertips.

Most online stores offer consumers the ability to order and pay directly online. This often involves the use of an online order form where consumers can specify the item, quantity, payment and delivery options. This is sometimes called a *shopping cart* or *shopping trolley*. Online shopping trolleys allow shoppers to add and subtract items as they move around the website (just like walking up and down the aisles of a shop) and order the items at a 'checkout'. Shoppers can pay for items using credit cards and other instant electronic payment methods such as PayPal, Google Checkout or Moneybookers.

If an online store does not accept online payments, shoppers may be required to pay in the following ways:

- *cash on delivery (COD)*–When the good is delivered, the money is collected from the purchaser.
- *EFTPOS*–At the time of delivery the purchaser pays for the goods with his or her credit card or debit card using a mobile EFTPOS unit.
- *cheque*–payment is made by sending the cheque through the mail.

With any transaction, whether it is offline or online, consumers can confront a number of problems. These can range from fraud and misuse of personal information to delivery problems, defective merchandise and billing complications. In regard to e-commerce, there are additional disadvantages to online electronic payments that consumers should be aware of. These relate to the level of security concerning the payment.

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Online shopping

The websites for Coles and Woolworths allow you to purchase groceries as well as providing information on the stores' policies, customer agreements and even recipes.

If you are interested in sports-related equipment or clothing, visit the Eastbay website.

If you like wearing Rip Curl, Rusty, Lonsdale, Massimo, Volcom, Globe and many of the other popular brands of clothing, access The Iconic website.

Can you find any similar sites?

Security of payments made online

When e-commerce first started, the greatest concerns related to the security of online payments. Credit card holders were initially reluctant to use their cards to pay for goods and services offered on the Net because of the openness of the information flow. Consumers showed reluctance to use their card numbers because of the fear that their private information (including name, address and credit card number) could end up in the wrong hands anywhere in the world. This is because when you go to an online store and submit an order form with a credit card number, the information is transmitted from your computer via local telephone lines to your **Internet service provider (ISP)** and then over the Internet–either directly or indirectly–to the retailer's computer.

Improvements in technology and laws to protect consumers from fraud now mean that online transactions are very safe. Banks, retailers and online technology providers (such as Netscape and Microsoft) are constantly improving their systems to protect consumers.

Secure sockets layer (SSL) technology is perhaps the most common security system used by businesses to protect personal data transmissions. This technology encrypts your private details (including your address and credit card number) before they are sent over the Internet. Encryption means hiding the information about your transaction by using a code known only to your computer and the computer you are connecting with; for example, the online store's website. Because your information can 'hop' from one computer to the next on its way to its final destination, encryption makes it extremely difficult for anyone to gain access to your details along the way.

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To ensure a payment is secure, you need to be aware of three key issues:

- If you are in an area of a website where credit card details or personal bank account details are being requested, check the address bar where the web address is shown. The web address should have an 's' at the end of the 'http'; that is, 'https://www.[etc.]'. This denotes a secure area.
- Alternatively, a small yellow padlock icon may appear on the bottom of your **browser** or program bar or in the Security Status bar. Different colours of the Security Status Bar identify the status of the security certificate: red (invalid); yellow (problem); white (normal); and green (extended validation). This indicates that the site is SSL secure. (If you click on that padlock icon, a security certificate should pop up.)
- 3-D Secure is additional security for online payment transactions. It was developed by Visa and is displayed as a security logo 'Verified by Visa' or 'Secure Code' for MasterCard. The 3-D Secure financial transaction uses SSL connections with online authentication of the retailer, card holder, credit or debit card provider and the bank.

Protection when shopping online: laws to be aware of

Numerous Australian laws have been enacted in recent years to ensure that online transactions enjoy the same legal status as their offline counterparts (often referred to as paper transactions) and to recognise new types of computer crime.

In particular, the *Electronic Transactions Act 1999* (Cwlth) and the *Privacy Amendment (Private Sector) Act 2000* (Cwlth) have a role to play in security and authentication, while the *Cybercrime Act 2001* (Cwlth) aims to penalise computer crime.

Electronic Transactions Act 1999

The *Electronic Transactions Act 1999* (ETA) enables e-commerce in Australia and gives businesses and individuals the option of using electronic communications when undertaking business transactions. It does this by treating paper transactions and electronic transactions as equal under the law. Consequently, a transaction that took place under a law of the Commonwealth is not invalid just because it was completed electronically. Since 1 July 2001, the ETA applies to all laws of the Commonwealth.

Privacy Amendment (Private Sector) Act 2000

The *Privacy Amendment (Private Sector) Act 2000* amends the *Privacy Act 1988* (Cwlth), which applied largely to the public sector; that is, government. As a result of the amendments, the Privacy Act now applies to the private sector as well as the public sector.

Basically, the Act increases the privacy protection enjoyed by Australians and extends the requirements for all businesses to respect privacy. The Act has established minimum standards for the protection and handling of personal information in the private sector, and is applied to both conventional (offline) and electronic (online) environments.

Under the Act, a set of national privacy principles (NPPs) that describe minimum standards for the handling of personal information now apply to the private sector. These principles relate to the manner in which personal information may be collected and used, and to whom it may be disclosed. Businesses must make reasonable efforts to keep personal information secure. They must not use government identifiers (such as tax file numbers) to identify individuals and, where possible, they must allow users to transact anonymously. Additionally, the NPPs give individuals a right to access information that is held about them and a right to correct it if it is inaccurate. As awareness of Internet privacy issues grows, businesses are also posting privacy policies on their websites.

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The Privacy Act

Information on the Privacy Act can be found on the website of the Office of the Australian Information Commissioner. For tips and information on how to protect yourself online check the Stay Smart Online website.

Cybercrime Act 2001

The *Cybercrime Act 2001* outlaws activities such as computer **hacking** (unauthorised access of commercial or confidential information), the spreading of computer viruses, the trading in technology that is designed to either hack into or damage another person's computer and interference with a website.

Other types of protection and the available redress

The type of redress (remedy) available will depend on whether the business is located in Australia or overseas. If the business is in Australia, and you encounter problems with your online purchase, you may want to contact the business directly to resolve any problem. Alternatively, consider contacting your state consumer affairs/fair trading agency, which should provide advice and assistance in resolving disputes. If the fair trading agency is unable to help you resolve your complaint, you could consider legal action.

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All states and territories in Australia have either a consumer claims tribunal or a specialised forum of local magistrates or courts to deal with consumer matters. You should remember, though, that legal action could take some time. It may only be worthwhile if your complaint involves a significant amount of money.

If the business is based overseas your options are limited. You should be aware that consumer protection laws in other countries are likely to be different from those in Australia. In the first instance, you may contact the Australian Competition and Consumer Commission (ACCC), which may then use its international contacts to help you. You could also contact the government body responsible for consumer protection in the country where the business is located. Remember that there is no guarantee that overseas bodies will be able or willing to help.

When shopping online you will find that there is added protection if you use a credit card because the credit card provider covers you for any unauthorised transactions. Generally, you will not be liable for such transactions provided you comply with the credit card's Conditions of Use. Of course, credit card providers will require you to notify them immediately if you become aware of the credit card being misused, lost or stolen so that they can limit their own liability.

If you don't receive the goods you ordered, or they are of an unacceptable quality and you have returned the goods, ask your credit card provider to undertake a 'chargeback'. Providers may be willing to cancel the transaction and reverse the payment to the business. Policies vary, so check with your bank or credit card provider. If you decide that you want a chargeback, be certain to contact your card provider about this as soon as possible and make sure you have all the necessary documentation. The longer you leave it, the less chance there is for you to limit your liability to your card provider.

A protection checklist: important points to remember

In addition to the above laws, various consumer agencies and the protection provided through using a credit card when making online payments, you can use the checklist in Figure 7.3 when shopping online. Consumers who use this checklist will ensure they receive value for money and are protected. Before you send an Internet order, make sure you can put a tick against each of the points in the checklist.

I have:

- ☐ compared prices and 'shopped around'
- ☐ ensured the business provides its contact name and address
- ☐ verified the authenticity of an Australian business by checking the online ABN directory (all Australian businesses must have an Australian business number, or ABN)
- ☐ telephoned or emailed the business to obtain details of its product (when dealing with a business for the first time)
- ☐ obtained the exact details on the following:
  - delivery or freight charges
  - goods and services tax (GST)
  - method of delivery
  - exchange rates*
  - import duties*

  (*Important when dealing with overseas businesses.)
- ☐ found out whether it is legal to import certain goods or services from overseas into Australia
- ☐ made sure the website is SSL secure
- ☐ printed out my order (that is, made a hard copy) for my own records and double-checked all the details.

Figure 7.3 Online shopping checklist.

Understanding the text

1. Explain what is meant by the term *online shopping*.
2. Outline the advantages and disadvantages of online shopping.
3. Outline the items that need to be specified on an online order form.
4. What are the issues surrounding the security of online payments?
5. What is SSL technology?
6. Outline the types of redress available to unsatisfied online shoppers.
7. What protection does the use of a credit card for payment give online shoppers?

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Activities

1 Construct a flow diagram showing the steps involved in shopping online.

2 Pretend that you have to cater for an end-of-year function for 100 students and five teachers. You have a $500 budget. In pairs, log on to a shopping website and do your shopping online. Report to the class on the following:

   a the items in your shopping trolley and their final cost

   b the steps you took before, during and after shopping online

   c the advantages and disadvantages of this method of shopping in comparison with conventional shopping.

3 Use desktop publishing software to produce an information poster entitled 'Online shopping'. You should cover the following areas:

   a a definition and examples of online shopping

   b how payment is made (including the issue of security of funds transfers)

   c how goods are delivered and what charges are applicable

   d laws that provide protection for online shoppers

   e examples of popular online shopping sites.

4 Write a report evaluating the laws that provide protection for e-commerce users.

Electronic transactions: financial services

It was not very long ago that ATMs and EFTPOS terminals were at the forefront of banking technology. Their introduction meant people no longer had to line up inside a bank and deal with a bank teller for many of their transactions. Today, financial institutions (such as banks) offer a range of financial services online. Because of the Internet, you can now bank online without having to leave home. Financial services offered online include opening new accounts, transferring funds from one account to another, paying bills via BPay and buying and selling shares. In addition, account details and transaction histories (including balances of credit card and home loan accounts) can be viewed online.

Did you know that the majority of Australian banking customers currently have the right to access Internet banking services with their bank? However, not everyone who is offered Internet banking fully understands its features, benefits and security measures.

Benefits of Internet banking

In addition to the benefits of speed and convenience, perhaps the greatest advantage of online banking is the ability to transfer funds online. With selected online banking services, fund transfers can be made:

- between your linked accounts (for example, from a savings account to a credit card account)
- using BPay, a national electronic bill payment system that was launched in November 1997 and allows customers to pay bills to any person or entity registered as a BPay biller
- to nominated third-party accounts (that is, where you nominate another financial institution to receive online payments)
- to a term deposit account.

Innovative applications are also available through Internet banking. For example, you may be able to copy your financial details listed on your bank's Internet account page into your own financial management software, saving re-entry time and avoiding errors.

Security of funds transfer

To ensure the security of your personal information and your money, banks take precautions to ensure you know you are connected to the legitimate website of the bank. As well as publishing the correct web address in their advertising brochures, the majority of banks verify their site through the use of a digital certificate. As mentioned earlier, where a digital certificate is used, you will view a small padlock icon on the bottom of your browser. You can click on the padlock icon to view the certificate of the bank's authorised web server. (A web server is a computer that stores web documents and makes them available to the rest of the world.)

Banks will most likely also use encryption to prevent the interception of information that is being transferred between the bank and its customer. Each banking session you initiate has a distinct, randomly generated encryption code. This means a **hacker** only has the time of the banking session itself to break the code and corrupt data. For the sake of comparison, a 40-bit code has been reported to take a network of 250 computers three and a half days to break–banks would normally use a 256-bit code.

Banks (and many businesses) also protect their own network from unauthorised access (hacking) through the use of electronic security barriers called *firewalls*.

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Simple firewalls can be implemented as software only; for larger businesses, firewalls may also include dedicated hardware for faster processing. Firewalls are widely used to give users secure access to the Internet as well as to separate a company's public web server from its internal network. Further, banks and businesses may also use software that can detect viruses and prevent the transmission of infected data. (Further discussion on computer viruses can be found on page 163.)

Remember, if you are going to undertake Internet banking, you should always check the terms, conditions and liability protection offered by your bank for online transactions. If you do have a banking issue or dispute with respect to Internet banking it can be resolved in the same manner as other banking disputes; that is, through the Financial Ombudsman Service.

Understanding the text

1 **a** Define the term *online banking*.

b How does online banking differ from traditional methods of banking?

2 List the financial services currently offered by online banking.

3 Outline the benefits of Internet banking.

4 How do banks and other financial institutions ensure funds transferred over the Internet are secure?

5 Where can you get advice if you have an issue or dispute regarding Internet banking?

Info.com.tech

Which banks offer Internet banking?

A range of Australian banks, credit unions and building societies offer Internet banking. Some examples of well-known banks offering Internet banking are:

- ANZ Bank
- Commonwealth Bank
- National Australia Bank
- St George Bank
- Westpac Banking Corporation.

Activities

1 Log on to the websites provided by the following financial institutions:

a Commonwealth Bank

b ING Direct

c Credit Union Australia (CUA).

Evaluate the range of services provided and how the websites compare and contrast.

2 Investigate the operation of online share markets by researching the following websites:

a Australian Stock Exchange

b CommSec

Advice on e-commerce issues

The Internet can help you to become a well-informed electronic consumer. A number of government and non-government sites provide advice, useful tips and even courses for consumers on e-commerce.

The most well-known website is the ACCC site. This site includes advice for consumers and businesses, information about codes and standards, Internet shopping fact sheets and the ACCC's online shopping checklist. Also, the website of the Department of Broadband, Communications and the Digital Economy provides links to federal government initiatives to make consumers aware of online safety and security.

Communication of business information and marketing

As mentioned earlier, an estimated 2.4 billion people worldwide are now connected to the Internet. The wide global reach of the Internet makes it a powerful business tool. Never before have businesses been able to so easily reach the consumer with information about their businesses or goods and services. At the click of a mouse, consumers are able to find information ranging from product and market information and company and financial information to government and economic statistics. Due to the nature of the Internet, however, every time you log on to the Net and search for information you will more than likely be bombarded with 'junk' information, including advertisements and various marketing ploys.

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Have you ever logged on and come across an advertisement to buy a mobile phone or send flowers on Mother's Day? Marketers using the Internet primarily employ three methods to promote their product or business online. These are:

- *banners:* These are small rectangular graphics (similar to advertising billboards) that appear at the top of popular consumer sites. They are usually animated and interactive.
- *buttons:* These are similar to banners, but usually contain a corporate name or brand. A click on the button will take you to that company's website.
- *keywords:* Advertisers can 'buy' a term (keyword). For example, if 'Nic's Sporting Goods' bought the term 'football boots', then any time a person searches for that term on the Internet, the name 'Nic's Sporting Goods' will appear prominently in the search results.

It is often through these marketing methods and unsolicited emails or spam that online scams occur. Consumers should be aware of the many tricks that fraudsters use to get their hands on your money. Table 7.1 provides a limited list of common online scams. Check out the ACCC's SCAM Watch website for how scams work and how to report a scam.

Table 7.1 Common online scams

Type of scam	The bait	The catch
Credit card fraud	Surf the Net and view adult images online for free. You just need to share your credit card number to prove you are over 18 years of age.	Fraudulent promoters use the credit card number to run up charges on your credit card.
Modem jacking	Get free access to adult material by downloading a 'viewer' computer program.	Your Internet dial up is changed to an international long-distance number. You end up with exorbitant long-distance charges on your phone bill.
Pyramid schemes	Make money through the products and services you sell as well as those sold by the people you recruit.	Your customers end up being other people like you and not the general public. Therefore, it is not possible to make money from the scheme.

Understanding the text

1 What types of advice and information can be found on the Internet that would be useful to the electronic consumer?

2 Outline three methods Internet marketers use to promote their business or product.

3 Do you think the Internet is a technology that allows scams to spread with ease? Why?

Activities

1 Investigate a range of government and non-government websites and produce a brochure entitled 'Getting advice on e-commerce'.

2 a As a class, brainstorm a list of businesses from the five industry sectors; that is, primary, secondary, tertiary, quaternary and quinary (see Chapter 4, pages 83–84).

b Individually:

i Select one business from each sector.

ii Search for the website of each business you selected.

iii Access the five sites and comment on the type of information that is provided by each.

Be prepared to share your findings with the rest of the class and be able to justify which website is the most informative.

3 a In pairs, design a webpage that promotes a product or business (for example, a skateboard, health foods or beauty products). Make sure you use colourful graphics, banners and buttons and include basic information.

b Discuss in class how your webpage compares and contrasts to a real webpage for a similar product or business.

4 Access government websites to a recent Australian and/or international scam. You should include:

a who was running the scam

b what the scam involved

c how and if the fraudsters were caught

d what laws were involved/broken.

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7.3 Current issues in e-commerce

The last 20 years have seen a revolution in how consumers become informed and undertake transactions in the global marketplace. This has been made possible by changes in technology, the growth of the Internet, the introduction of the World Wide Web and the birth of e-commerce. As an informed e-consumer you should try to keep up to date with this ever-changing world. The issues discussed below should provide you with a base for further investigation into current issues related to e-commerce.

In 2011 the federal government announced the National Digital Economic Strategy to help Australia to become a leading digital economy by 2020. The growth of Australia's economy is dependent on e-commerce and tools such as the National Broadband Network (NBN), which is being implemented over the next 10 years, are essential for that growth. Go to the NBN website for more information.

E-commerce protection issues

As with any commercial activity, you should be aware that there will always be the possibility of fraud and misuse of personal information. Perhaps you are just unhappy with the end result. As noted in Chapter 1 (page 23), whenever you undertake a transaction you are forming a contract and, as such, certain rights and responsibilities are associated with this agreement. The same applies to an online transaction, and the *Electronic Transactions Act 1999* (Cwlth) was enacted to ensure online contracts are treated in the same manner as their offline counterparts.

As an electronic consumer you should also be aware that you can take steps that provide you with protection in relation to e-commerce. These steps involve:

- ensuring the integrity of the online business you are dealing with
- ensuring the website of the online business you are dealing with is secure
- being aware of the issues surrounding payment for the goods or services.

If you don't keep these factors in mind you may end up receiving a shipment of red capsicums instead of the latest CD or find out that someone in Brazil is using your credit card number to book tickets to the next World Cup!

Laws relating to e-commerce

There is an emerging body of law relating to the Internet and e-commerce and this is known as e-law. It is still very new and at this stage much of e-law involves applying traditional laws to this new technology. Earlier in this chapter we discussed e-consumer protection and laws.

For example, we looked at the *Privacy Amendment (Private Sector) Act 2000*. Other laws, such as existing defamation laws (that is, laws that prohibit a person defaming another), can easily be applied to communications over the Internet. Therefore, you need to be careful about what you say and about whom over the Internet. Consider the example of a UK insurance company that was fined $1 million dollars because it defamed a competitor, not on its official website but by passing on untrue rumours about its competitor on its Internal email system.

The existing law of copyright is also gaining a lot of attention as information transfer over the Internet becomes increasingly fast and easy due to technological developments. The *Copyright Amendment Act 2006* strengthens and protects the owner's rights and provides guidance to consumers. For example you can post on the Internet a recording of yourself lip-syncing a popular song but it's a criminal offence if your posting is for trade purposes.

Workplace issues

Employers are also required to protect their employees against all forms of unlawful discrimination, including sexual harassment and racial vilification, which can occur through email and internet use. The Fair Work Ombudsman and the Office of the Privacy Commissioner encourage companies to develop with their staff a privacy policy and guidelines on what is acceptable, permitted and forbidden when using the Internet, email and web browsing. You can be dismissed if you do not comply with the company's policy and guidelines. The organisation that you work for should have clear policies on web browsing and email use while working, Internet access (both at work and remotely) and privacy. You should also remember that it is the organisation's equipment and computer networks that you are using and they will be concerned about protecting their computer systems and information from unauthorised access (both unintentional and by hackers) and from computer viruses. (Discussion of this can also be found in Chapter 4, pages 104–105).

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It is apparent that there is a growing need for entirely new laws relating to the Internet and e-commerce. For example, laws relating to domain names (that is, the text addresses for locations on the Internet, such as *yahoo.com* or *greenpeace.org.au*) have come about in an attempt to address the registration of domain names and disputes arising over the use and ownership of domain names. Laws in relation to access to the Internet have also emerged as well as regulations that relate to web content.

Laws relating to the use of e-commerce by young people

Laws relating to the use of e-commerce by young people are essentially the same as those applying to non-web-based commercial transactions. For more information on your legal rights when buying products online, visit the website of NSW Fair Trading or the Cyber Smart website.

Computer viruses and bugs

Anyone who uses the Internet for whatever purpose–from emailing a friend to Internet banking–should not only be aware of existing e-laws and e-commerce protection issues but also of those malicious pieces of computer code that make unauthorised changes to your computer. Known as computer viruses, bugs, worms or trojans, they often distribute themselves via the Internet or email, and new ones are being discovered all the time.

The best protection against computer viruses is to use anti-virus software. Keeping such software up to date significantly reduces the risk of your computer being harmed by viruses. Anti-virus software should be installed on all computers, and updated regularly to ensure computers are protected when new viruses emerge. Most anti-virus software packages include regular free updates that can be downloaded from the Internet. Activities such as hacking or intentionally spreading computer viruses are outlawed under the *Cyber Crimes Act 2001*.

Use commonsense when accessing the Internet. Don't open suspicious emails or attachments as it may lead to malicious software being installed onto your computer.

Understanding the text

1 Why should e-commerce users keep up to date with current issues related to e-commerce?

2 What are computer viruses?

Aussies held to ransom by nasty software

By Liam Tung

If your computer appears to have been taken hostage by local police who demand the payment of a fine, would you pay the fee, yank the power cord or recognise a scam and figure out how to neutralise it?

Malicious software that demands payment in return for access to personal or financial data, known as 'ransomware', has been around for over a decade. Victims are told police have detected crimes ranging from copyright infringement to viewing child abuse material and are generally asked to pay a fine of about $100. The ransomware is most likely installed after the victim visited a website rigged with a toolkit that looks for weaknesses in popular software, such as the browser, or a media player like Adobe Flash or a PDF viewer.

Some threats can be resolved by cleaning up a malware infection. However, there are more brutal ransomware attacks that use cryptographic locks to prevent victims from accessing their data. A Northern Territory-based small business was recently hit by attackers who encrypted the company's financial system data and threatened to destroy it unless the business forked out $3000. The business did, but had it backed up its data it might not have had to pay for it.

Source: *Sydney Morning Herald*, 5 November 2012

Activities

1 Investigate a current issue relating to e-commerce. (See page 2 for guidance on investigating current issues.) Present your report in the form of a newspaper report.

2 Prepare a short speech titled 'The Internet: past, present and future' that gives a brief overview of the history of the Internet and its possible future.

3 Collect media reports about recent computer ransomware. Outline the impact this software could have on a small business.

4 As a class, analyse the rights and responsibilities of an employee working from home using the Internet. Should these be the same as those that apply to people working in traditional workplaces? Write a paragraph summarising the main points raised in the discussion.

5 Undertake Internet research using sites such as NSW Fair Trading or the Cyber Smart website. Write a report outlining the legal rights of young people engaged in e-commerce.

ISBN 9780170251587

Chapter review

Activity 1: crossword

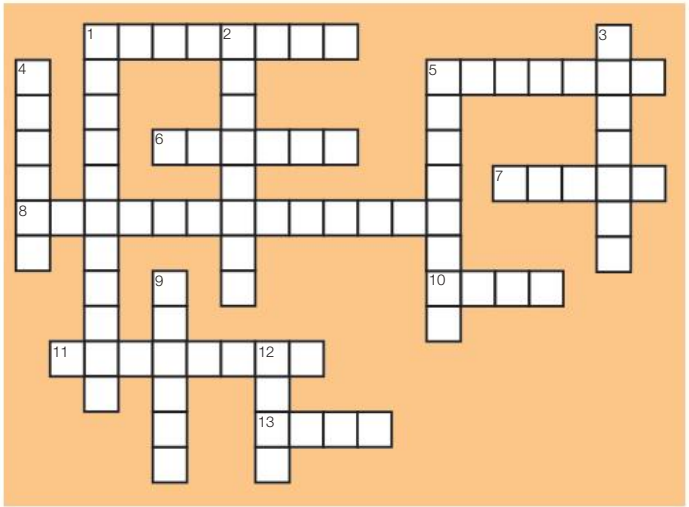
Copy the crossword below and then complete it.

Across

1 A system of interconnected computer networks
5 A computer software application (program) that allows users to view websites
6 A term that describes being connected to the Internet
7 The tool that allows users to exchange messages or computer files over a computer network
8 One of the four uses of the Internet
10 Unsolicited emails
11 Loading information from one computer onto another
13 The act of 'talking' over the Internet

Down

1 The Internet is a good source of this
2 Events that occur on the Internet at the same time as they occur in real life
3 A location on the Internet that allows users to access information
4 There are engines on the Internet that can do this for you
5 B2B refers to business to _____ e-commerce
9 The narrow strip across the top of a webpage that carries a logo, the website's name or advertising
12 An organisation that can provide you with e-commerce advice



Activity 2: literacy task

Nadia is eagerly awaiting the arrival of the latest book in her favourite fantasy series. She purchased it three weeks ago on the Internet and is expecting it to arrive any day now from overseas–at least a week before it is released in the local shops. Nadia asked her mum if she could use her mum's credit card to make the payment, which was $39.95. The shopping site was fairly easy to navigate and she understood most of the instructions and information given about the purchase and payment–at least what was in English. The details about freight and delivery were not so easy to understand and she didn't know what 'USD' meant; but Nadia didn't think this was important because she would have the book before any of her friends.

Three weeks later, the book still had not arrived and her mum was wondering why her credit card bill had all those international transactions! What was Nadia to do?

Write a letter of advice to Nadia that outlines the following:

a the problems Nadia encountered

b the steps Nadia should have taken when shopping online

c the possible means of redress available to Nadia.

Activity 3: mindmap

Copy and complete the following mindmap in relation to e-commerce.

ISBN 9780170251587

8

Global links

Focus statement

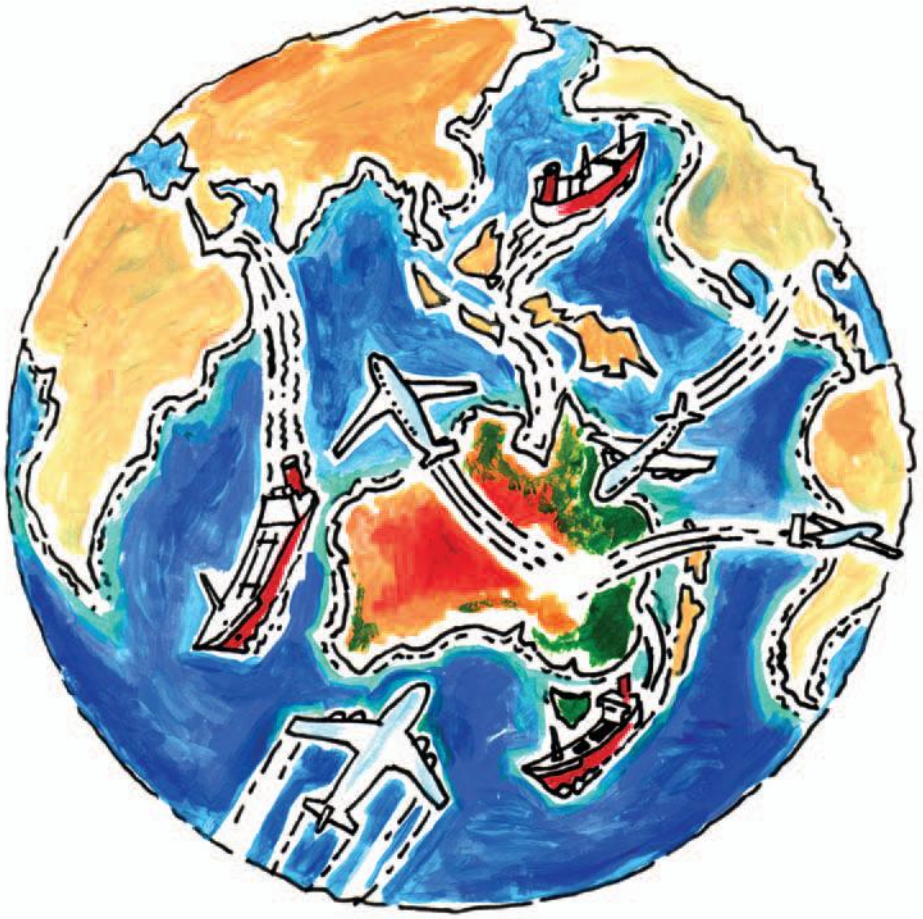
In this chapter we investigate the effect of globalisation on our commercial and legal environment and study its impact on individuals, the economy and society.

Focus question

How does globalisation affect the individual, economy and society?

In this chapter you will learn about:

- trends towards a global market
- sourcing products internationally
- the interrelationship between domestic and international trade
- Australia's major items of trade and main trading partners
- Australia's changing trade patterns
- investing money in the global financial market
- features of a business with global links
- ethical issues of international trade
- global business and environmental issues
- the risks associated with selling in global markets
- international aid programs
- current issues in globalisation.



8.1 The global consumer

Key terms

Asia-Pacific Economic Cooperation group (APEC) A forum of 21 countries, including Australia, Japan, the United States and the rapidly growing developing countries of Asia (for example, China, Taiwan and South Korea).

exporting Selling domestically produced goods and services to overseas markets. Exported goods and services are called exports.

global market The buying and selling of goods and services on an international scale.

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

importing Buying goods and services from a seller overseas. Imported goods and services are called imports.

primary products All natural resources, including the products of fishing, mining and agriculture.

quotas Limits placed on the amount of a product that can be imported.

retailers Businesses that sell goods and services.

tariffs A tax on imported goods that is meant to 'protect' locally produced goods against competition from overseas.

trade The buying and selling of goods and services.

transnational corporations (TNCs) Large companies that have an interdependent network of worldwide operations. These companies generally have their headquarters in one of the countries of the developed world.

wholesalers Large warehouse-based companies that buy goods in bulk from manufacturers and then sell them to retailers in smaller quantities.

Trends towards a global market

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**, 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 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

Over the past 30 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 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-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 technology has reduced the cost of international communications, making it easier to conduct business over large distances. For example, the cost of a three-minute telephone call from Australia to the United Kingdom has fallen from $350 in 1926, to $13 in 1980. Today, calls can be made via the Internet for little, if any, cost.

Figure 8.1 The introduction of even larger aircraft will further reduce the real cost of travel.

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)**.

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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 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 (see Section 8.3).

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Sourcing products internationally

Activity

Use an Internet search engine to find an online shopping site that enables you to purchase goods from overseas; for example, eBay or Amazon.

Most websites have a step-by-step demonstration of how to purchase a product online (some even have an audio tour demonstration). Go to this section of the site and use the information to design a poster summarising the steps that consumers need to take to purchase a product from overseas using the Internet.

Using a search engine (such as Yahoo! or Google) find a currency calculator that you can use to convert the price into Australian dollars. Remember to add any delivery charges or government taxes to the price.

Before you exit the site, find out the likely delivery time for your order. Note: You do not need to purchase the good in order to complete this activity.

Interrelationship between domestic and international trade

Trade involves the exchange of goods and services between countries or regions. Domestic trade refers to the process of distributing products and services from producers to consumers within a country. **Retailers** and **wholesalers** are the two main types of businesses involved in this process (see Figure 8.2). International trade, on the other hand, involves **exporting** and **importing** goods and services between Australia and other countries.

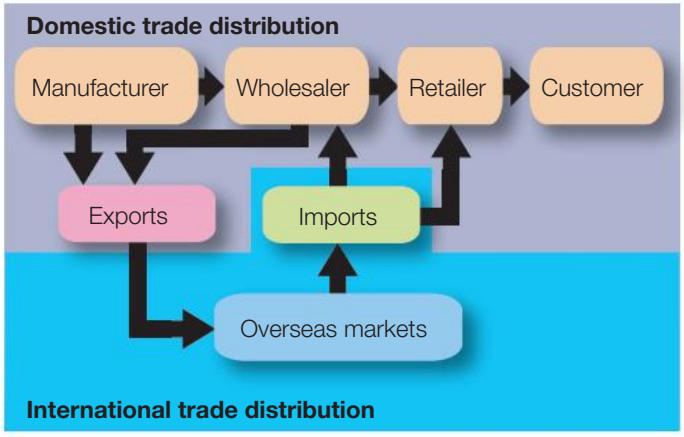

Figure 8.2 There is an important link between overseas and domestic trade.

The two types of trade discussed here are closely linked. Exporting and importing businesses depend on a network of retailers and wholesalers at the local level to distribute their products. Without this chain of supply, products would remain at airports and shipping ports around the country and never reach the customers they were intended for. Likewise, local retailers and wholesale businesses would have little to sell if it was not for the continual inflow of imported products from overseas.

Australia's major items of trade and changing trade patterns

Primary products, including both minerals and rural goods, have traditionally dominated Australia's exports. Since European settlement, Australia has exported large volumes of agricultural products (including wheat, wool and beef) and minerals (such as iron ore and gold). Australia's exports of *manufactured goods* have been slower to develop. Australia has tended to rely on revenue from primary industry exports to finance the purchase of manufactured goods from overseas. This trend in Australia's trade is now starting to change. Services and manufactured products now account for a growing proportion of Australia's exports.

Table 8.1 Australia's exports of goods and services 2007–2011 ($A million)

	2007	2008	2009	2010	2011
Goods	169747	224365	197232	232346	263151
Services	49017	52651	52370	51865	50104
Total goods and services					

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Australia's main trading partners

Australia's pattern of trade is increasingly subject to change. Over the past century, our trade focus has shifted away from a reliance on European markets. The decision by the United Kingdom to increase its trading links with other European countries in the 1960s forced Australian exporters to seek new trade relationships. These relationships were found in the rapidly expanding economies of North-East and South-East Asia. By 2000, Australia's trade focus was firmly on the members of the **Asia-Pacific Economic Cooperation (APEC)** forum (see Figure 8.3). Eight of Australia's 10 main trading partners are members of APEC, accounting for more than 70 per cent of Australia's exports and imports.

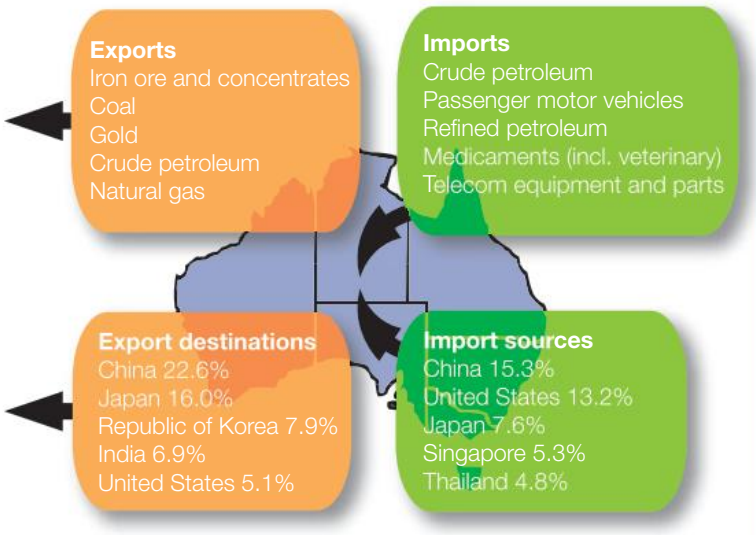

Figure 8.3 Australia's major merchandise and imports and main trading partners, 2010.

Understanding the text

1 Define *global markets*.

2 Outline four factors that have promoted the growth of global markets.

3 Define the terms *international trade* and *domestic trade*. Explain how these two trade types are linked.

4 Explain why countries trade with each other.

5 Describe Australia's major exports and imports. How has the composition of Australia's trade changed over time?

6 Identify Australia's main trading partners and describe the way in which our trade relationships have changed over time.

Activities

1 Use the information on pages 167–169 and the Department of Foreign Affairs and Trade website to create a wall display showing Australia's major imports, exports and trading partners.

2 Copy and complete the following table using the information on pages 167–168.

Factors promoting the growth of global markets	Key points/ definitions
Developments in transport and communications technology	
Changes in government policy	
Changes in consumers' tastes and preferences	
The growth of TNCs	

3 Copy Figure 8.2 (page 168). Think about the types of goods that you purchase and look at the manufacturer's information on some of these products. Use this information to add examples of real businesses and products to your diagram. Write a paragraph explaining what your diagram shows.

4 Use the Internet and a search engine (such as Yahoo! or Google) to find the site for the CIA World Fact Book. Select one country from this site and create a poster showing the main exports, imports and trading partners for this country.

5 Use the information in Table 8.1 (page 168) to calculate the total value of goods and services exports in each year. Construct a line graph showing the trend in goods exports, service exports and total exports for Australia between 2007 and 2011.

6 Use the Internet or library to find out about the advantages and disadvantages of globalisation. As a class, debate the topic: The advantages of globalisation outweigh the disadvantages.

7 Collect five goods from your home and use the labels from these goods to answer the following questions:

a Where was the good manufactured?

b If the good was manufactured overseas, which company imported it?

c Does this good compete with any locally manufactured brands? If so, which good is least expensive: the local brand or the overseas brand? Explain why this might be the case.

ISBN 9780170251587

8.2 The global investor

Key terms

billions 1 billion dollars is equivalent to 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.

debt securities An IOU that governments and corporations use to borrow money from the public. Examples are debentures, unsecured notes and Commonwealth Government bonds.

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.

international bond market The market of all bonds sold by organisations outside their own countries.

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, which is overseen by a fund manager.

portfolio The collection of shares owned by an individual or business.

shares Shares represent part ownership for an individual or shareholder in a public company. Examples of public companies include IBM, Microsoft, Quiksilver and Coca-Cola.

traders Individuals who buy and sell currencies and other forms of financial investments (securities).

trillions 1 trillion dollars is equivalent to 1 million, million dollars or $1 000 000 000 000.

world cities Cities that have global significance because they dominate world economic and cultural affairs. Examples are London, New York, Paris and Tokyo.

Investing money in the global financial market

Goods and services are not the only items bought and sold on the global market. Over the past 30 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 new 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 in an attempt 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. The total volume of foreign currency transactions in 2010 was US$955 trillion (or US$2.62 trillion a day!).

To many small investors, the idea of investing in the global financial market may seem daunting. There are, however, a number of options available to both individuals and businesses wishing to invest money internationally. Each option has its own benefits, costs and risks that investors need to be aware of. This section examines three of the most common forms of international investment.

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Foreign direct investment

Foreign direct investment (FDI) involves investment in the foreign operations of a company. The growth of FDI flows internationally provides a good indication of global trends in financial flows.

Activity

Use a search engine to find a graph of FDI trends over the past decade or refer to the website of the United Nations Conference on Trade and Development (UNCTAD). Use the information you have found to describe the changes in foreign direct investment over time. As a class, brainstorm the likely causes of this increase in investment on a global scale.

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International shares

Australia is a nation of keen share market investors, with one of the highest rates of share ownership in the world. The Australian share market, however, offers only a tiny proportion of the total volume of shares available on global markets. Today, the Australian Stock Exchange is among the top 10 exchanges in the world in terms of market capitalisation (value of business). Many of the leading global companies (including General Electric, Exxon, Mobil and Microsoft) are listed on overseas stock markets, such as London and New York.

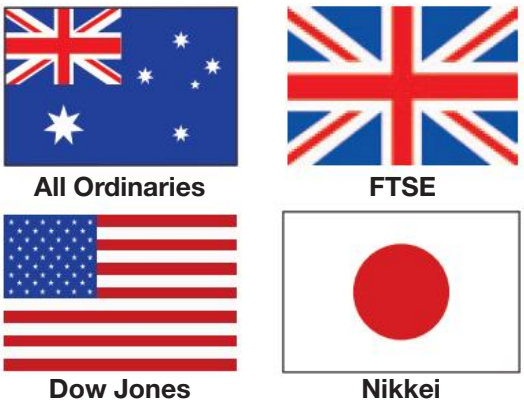

Figure 8.4 Each county has a name for its own share market.

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 8.2.

Table 8.2 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.	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.
Provides access to a wider range of industries than those listed on the Australian Stock Exchange.	International shares are more volatile than domestic shares; that is, their prices can rise and fall suddenly.
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.	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 devaluation of the Australian dollar would make these losses even larger.

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Researching the share market

Activities

1 The international shares given in the table opposite are listed on the London Stock Exchange. Copy the table and complete it using the information on the London Stock Exchange website (follow the 'international markets' link).

2 Select one of the companies listed in the table, then use the Internet to complete the following tasks:

a What industry sector is the company in (see Chapter 4 pages 84–85)?

b What is the current share price?

c How does this company promote its shares to likely investors?

d Use the Internet to view the prospectus or annual report for this company.

e Make a list of the type of information that you can learn about a company by reading its prospectus or annual report.

Companies listed on London Stock Exchange	Market capitalisation (the current market price of the company in £ million)	Country of origin	Industry sector: primary, secondary, tertiary, quaternary or quinary
Esprit			
Euro Disney			
Nestle			
News Corporation			
Nokia			
Sony			
Toyota			
Xerox			

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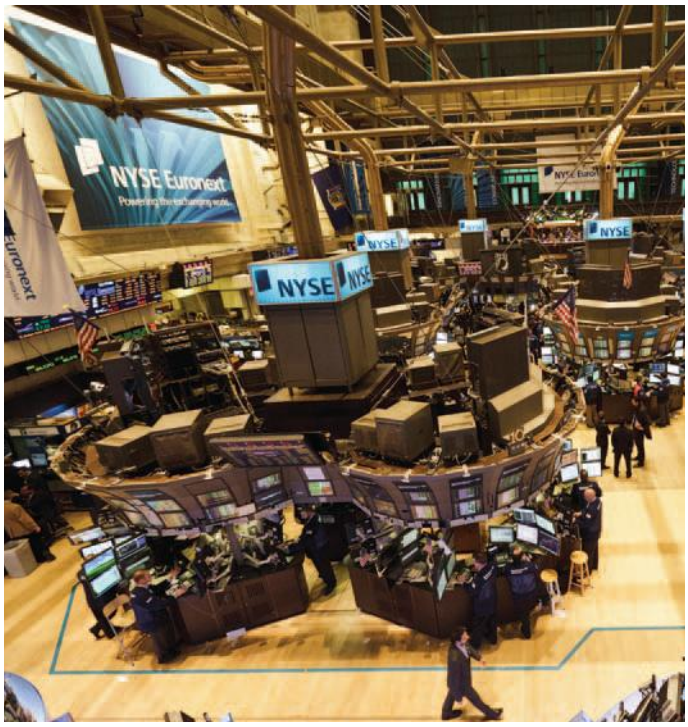

Figure 8.5 The trading floor of the New York Stock Exchange. New York is a key link in the global financial system.

Interest-earning investments

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.

Investors wanting greater security for their money tend to prefer interest-earning investments, which come in a number of 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 2, page 40.) 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.

Table 8.3 provides a summary of the two common forms of interest-earning investments available to consumers in the global financial market.

Table 8.3 Interest-earning investments

Interest-earning investments	Types and key features
Bank deposits	**Term deposits:** A term deposit is a type of savings account that requires customers to deposit their money with a financial institution for a fixed period of time (up to five years). The money can be withdrawn before the end of this fixed period; if this is done, however, a reduced rate of interest usually applies. Term deposits attract higher rates of interest than savings accounts because of the restrictions that apply to withdrawals. **Cash management accounts:** Cash management accounts are a form of savings account that provides interest rate benefits for customers who have larger amounts of cash to deposit. Cash management accounts usually provide immediate access to funds, through telephone banking, EFTPOS and ATMs.
Debt securities	A **debt security** is an IOU that governments and corporations use to borrow money from the public. There are two main types of debt securities: long-term (have terms up to 10 years) and short-term (have terms up to one year). **Long-term debt securities:** • *Debentures* – these pay a set amount of interest (called the *coupon amount*) on a regular basis. When someone buys a debenture, the price paid for it is called the *face value*. The issuer promises to pay the investor the original investment plus an agreed amount of interest on a particular date (called the *maturity date*). Debentures can be traded before maturity on the **international bond market**. • *Unsecured notes* – these are the same as debentures, but they offer a higher coupon rate because no security is offered. • *Commonwealth Government bonds* – the Commonwealth Government issues bonds for terms of up to 10 years to provide for its funding needs. These bonds are considered to be risk free and thus provide a lower rate of return than other fixed-interest securities. • *Semi-government bonds* – these include bonds issued by state governments and statutory authorities, such as Telstra. They are guaranteed by the Act of Parliament that established the relevant authority. **Short-term (money market) debt securities (bank bills):** A bank bill is a short-term loan to a company for a period of up to 180 days. The investor buys the bill at a discount rate (say $900) with the knowledge that he or she will receive the face value of the bill ($1000) on maturity.

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Managed funds

Investors wishing to purchase international shares or bonds can do so in a number of 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 fine 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**, which are 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 is able to invest in a variety of assets, including shares (Australian and international), property, bonds and/or debentures.

Figure 8.6 The role of fund managers is to maximise the investment return for their clients.

Understanding the text

1 Describe the nature and features of the global financial market.

2 Explain why funds are transferred between countries.

3 Use statistics to describe the size of the global financial market. How does this compare with the annual value of global trade?

4 Define the term *international shares*. List three examples of well-known companies listed on stock exchanges overseas.

5 Describe the advantages and disadvantages of investing in international shares.

6 Describe the main types of interest-earning investments.

7 Outline the main features of a managed fund. What are the advantages of these funds?

8 What are the benefits of interest-earning investments over international shares and managed funds?

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Designing a multimedia presentation

Activity

Design a website or multimedia presentation outlining the features of managed funds.

Activities

1 Use a search engine to 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 that of other class members' shares.

2 Use the information on page 170 to compare the advantages and disadvantages of investing money internationally and domestically. As a class, debate the topic: You are better off investing at home.

3 Copy the following table and complete it using the information on pages 171–173.

Investments	Definition/ features	Advantages and disadvantages of this form of investment
International shares		
Managed funds		
Interest-earning investments		

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8.3 Transnational organisations

Key terms

ethical business practice The responsibility of a business to conduct itself in a manner that is just and fair.

global business cycle The periodic cycle of booms and busts in global economic activity.

specialised Concentrating on the production of a narrow range of goods or services.

subsidiary A company controlled by another business that owns some or all of the shares in the subsidiary.

sweatshop Low-paid, non-unionised, unsafe workplace where employees work for long hours.

tax havens Countries with low corporate tax rates.

transfer pricing Payments made from one part of a global business for goods and services provided by another.

treaty An international agreement that is made between two or more countries and is governed by international law.

The production and distribution of goods and services is increasingly dominated by TNCs, such as Coca-Cola, Vodafone, Apple and McDonald's. These companies operate in a number of countries and usually have their headquarters in a developed country. The number and size of TNCs has expanded significantly in recent years. The business links of TNCs create a more integrated global market where decisions made in one country can affect people around the world. This section examines the global links and activities of TNCs by using the surfwear industry as a case study.

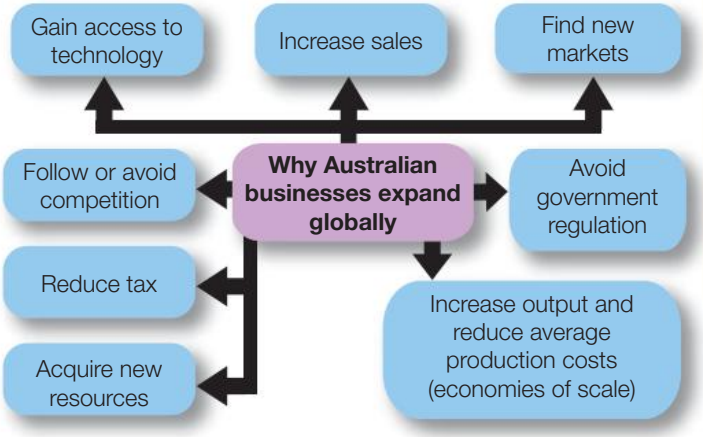

Figure 8.7 Why Australian businesses expand globally.

Reasons for going global

In the past, Australian companies expanded overseas for many reasons, including the need to widen and diversify their market or to gain access to resources not available in Australia (see Figure 8.7).

Case study of a business with global links: Rip Curl

Figure 8.8 The Rip Curl logo, familiar to teenagers across the globe.

The Rip Curl brand name and logo (see Figure 8.8) is a well-known part of beach and mountain sports culture in Australia and across the world. Its influence extends beyond surfboards and wetsuits to the design of **specialised** lifestyle products and the sponsorship of some of the world's leading surfers, snow-skiers, snowboarders and sailboarders. Rip Curl is also involved in the sponsorship of famous events, such as the Rip Curl Pro at Bells Beach, Victoria – the world's longest-running World Championship-level surfing competition. Rip Curl has grown from a small backyard business in the late 1960s to a multimillion dollar company with more than 3000 employees worldwide (see Figure 8.9, page 175). This case study briefly examines the history and global links of this successful privately-owned Australian company.

Rip Curl began in 1967 when two keen young surfers, Brian Singer and Doug Warbrick, started selling surfboards in Torquay, just kilometres from Victoria's famous Bells Beach. Warbrick and Singer's original dream was to create a business that would allow them to surf as much as possible. Surfing was starting to boom during this period. In 1969, when the pair started making wetsuits along with the surfboards, the fledgling company showed signs of becoming a viable enterprise.

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Since then, the business has grown and diversified significantly. Rip Curl now markets a broad range of products, including surfboards, wetsuits, surf clothing, watches, shoes, sunglasses, travel bags and backpacks, wallets and mountainwear (protective outerwear for snow-skiing and snowboarding). By diversifying, Rip Curl has grown into a multimillion dollar global business. Rip Curl, along with two other major global surfing companies (Billabong and Quiksilver, also originally Australian-owned), has lifted the status of Australian surfing from a hobby into a major international industry. The surfing industry is now estimated to generate worldwide sales of more than $10 billion per year.

Transnational operations

Since its inception, Rip Curl has expanded its operations from a small Australian-based company into an international business supplying products to thousands of stores in more than 60 countries. From their personal travels overseas in the mid-1970s, Rip Curl management noted that surfers in other countries also wanted better wetsuits. As a result, Rip Curl established sales offices in the United States in 1978 and France in 1979. The wetsuits were made in Australia and exported overseas.

In the early 1980s, global economic circumstances changed, and exporting Australian-made wetsuits proved to be unprofitable. To continue growing, Rip Curl had to make a strategic change. The new approach involved the creation of strictly controlled licensee companies running their own manufacturing operations. The first of these companies was set up in the United States in 1981. Another was established in France in 1982. Since then, Rip Curl has similarly expanded into Japan, South Africa, Indonesia, Canada, Brazil, Argentina, Chile and Peru. This expansion has been accompanied by the gradual development of new products.

Rip Curl diversified into lifestyle products (including clothing, bags and watches). This strategy has enabled it to expand into countries such as Iceland as well as areas of northern Europe where surfing and similar sports do not have the same high profile as they do in Australia. Rip Curl knows that many of the people who buy its products have never surfed and may never do so. Market research suggests that active surfers, skiers, snowboarders and sailboarders represent only a small percentage of the market for Rip Curl merchandise. A significant majority of Rip Curl's customers buy Rip Curl products because they want to be associated with the image of surfing and similar sports.

To cater for this market, many of the global surf brands have focused on the growing popularity of extreme sports, including snowboarding, heli-skiing and sailboarding. Rip Curl not only designs products for these sports, but has sponsored a number of extreme events involving mountain biking, skateboarding, kite surfing, snowboarding and windsurfing.

Rip Curl, like many of the other TNCs in the clothing industry, now manufactures only a small proportion of its products in Australia, with most made in Asian countries. Rip Curl's General Manager, Rod Adams, explains: 'Our competitors are making most of their products in Asia and in order for us to be competitive, we need to do the same. Rip Curl now works closely with many companies around the world, which are licensed to make and sell its products. These companies, known as licensees, pay Rip Curl royalties in return for the use of the brand name. Rip Curl's focus is no longer manufacturing, but the management and marketing of the brand name'.

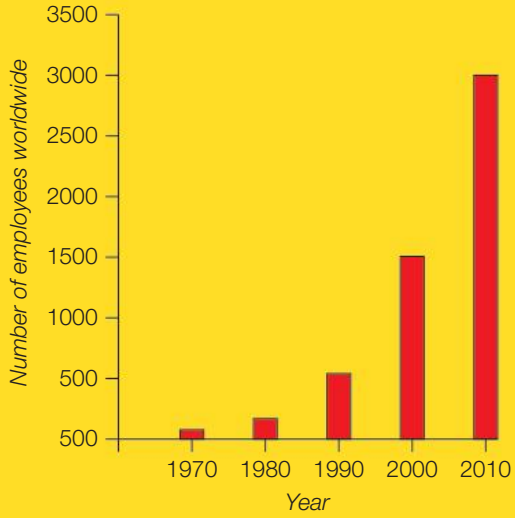

Figure 8.9 Employment growth at Rip Curl. Source: adapted from <www.ripcurl.com/>.

Understanding the text

1 What is a transnational corporation? How many TNCs are there worldwide?

2 Refer to the Rip Curl case study:

- **a** Explain the origins of the Rip Curl company.
- **b** Describe how Rip Curl's product range has changed since the company was founded.
- **c** Using statistics from Figure 8.9, describe the employment growth at Rip Curl over the last 40 years.
- **d** Outline the reasons for Rip Curl's international expansion.
- **e** Explain what a lifestyle product is and why Rip Curl has become involved in this market.
- **f** Describe Rip Curl's strategy of diversification. Why has the company diversified in this way?
- **g** Where does Rip Curl manufacture most of its products? Why is this the case?

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Investigating TNCs

Activities

1 Use the Rip Curl website as well as other reliable sites on the Internet to answer the following questions:

a Go to the global site and browse through the menu. Use this information (and the case study opposite) to identify Rip Curl's main business activities. What are the key functions of this business?

b How does Rip Curl adapt the products that it sells for different markets across the world? List the sporting competitions that Rip Curl sponsors in each region.

c Access the Rip Curl global website and follow the link to the company's history. Create a mindmap of the reasons for the expansion of the Rip Curl business over time.

2 Select a TNC other than Rip Curl that is of interest to you. Use Internet and/or library research to find out about its global links and international operations. Present your findings to the class in the form of a multimedia presentation.

Activities

1 Use magazines, newspapers and the Internet to put together a collage of images from Rip Curl advertisements and articles about sponsored championships. Use these images to create a wall display showing Rip Curl's activities in Australia.

2 As a class, brainstorm the reasons why Rip Curl manufactures most of its products overseas. Then discuss the topic: In what sense is Rip Curl now a manager of brands rather than a manufacturer of surfwear?

Management issues for TNCs

The legal, cultural and political differences between countries make the management of global businesses a very complex task. Successfully managing a global business involves careful consideration of the commercial, financial, legal and environmental issues that affect businesses. It also involves consideration of employment issues in developing countries. In this section we examine the way in which these issues impact on TNCs.

Commercial issues

The main commercial issue affecting TNCs is the diverse range of business environments in which they operate around the world. The commercial environment includes the local businesses with which the TNCs interact, the political forces that affect business activity and the unique culture and needs of local customers.

Each location in the world is unique and, in order to be profitable, TNCs need to understand and adapt to these differences. Firms need to strike a balance between *standardising* their products and marketing (offering a common product to the world) and *customising* them to meet the needs of local areas. TNCs in the fast food industry, such as McDonald's, are very skilled at this. They adapt their menus, advertising and store architecture to better suit local markets.

McDonald's customised menus

McDonald's menus around the world are adapted to local religious or cultural practices. Here are some examples:

- *Israel* – Big Macs come without cheese (a kosher requirement)
- *Italy* – espresso and cold pasta
- *Japan* – Teriyaki Burger
- *Korea* – Bulgogi Burger (pork patty with lettuce and bulgogi sauce, a mixture of soy sauce and sesame oil)
- *Malaysia* – careful inspection by Muslim clerics
- *New Zealand* – Kiwiburger (a quarter pounder with beetroot and fried egg)
- *Norway* – McLaks (grilled salmon sandwich)
- *Uruguay* – McHuevo (poached egg hamburger).

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Customised products in the global clothing industry

Undertake Internet or library research to find out about measures taken by TNCs in the clothing industry to customise their products to better suit local markets. Start by looking at the products available on the Rip Curl website.

Financial issues

An important financial issue for TNCs is guarding against the impact of fluctuations in the **global business cycle**. Over the past 30 years the economies of the world have become more closely linked through trade, finance and communications. These linkages hold both benefits and risks for TNCs. On one hand, free access to markets and lower trade restrictions have enabled TNCs to increase their profits.

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The disadvantage is that businesses are more vulnerable to downturns (recessions) in global economic activity. A downturn in the United States, for example, can trigger similar reductions in economic activity worldwide. TNCs need to be aware of these risks and flexible enough to respond quickly to changing economic conditions.

Raising funds to finance global expansion can also be an issue for businesses. Firms have three choices about how they raise these funds. They can:

- borrow funds in domestic or international markets
- sell equity (ownership) in their business in the form of shares
- use funds that have been saved by the business over a period of time.

Two of the big three companies in the surfwear industry – Billabong and Quiksilver – have opted to finance their international expansion by becoming public companies. This means selling shares on the stock exchange in order to raise funds (capital). While Rip Curl is currently a private company, management announced in 2012 that they were exploring the possibility of a partial or full sale of the business.

Legal issues

There is no such thing as a uniform set of international business laws. A business operating in the global market must follow the laws and customs of the host countries it operates within. The legal environment for TNCs is a complex combination of the individual laws of countries as well as a range of international agreements or treaties that define the legal obligations of one country to another. The laws that govern employment, wage levels, employee benefits and paid maternity leave, for instance, differ significantly between countries. TNCs take advantage of these differences in global regulations in order to minimise the amount of tax they pay and maximise their profits.

Environmental issues

In recent years, concerns about the future of the world's natural environment have increased. Issues such as air pollution, deforestation, global warming and acid rain have made people more aware of the need to balance economic development and environmental protection. As a result of these heightened concerns, both individuals and governments have put increased pressure on businesses to minimise their impact on the natural environment. Governments in many countries have introduced strict environmental protection laws to encourage businesses to adopt *ecologically sustainable* practices.

Ecological sustainability is about meeting the needs of the present population without affecting the ability of future generations to meet their needs. For TNCs this involves reducing, or ceasing, any activities that have a negative impact on the environment. Potentially harmful activities include accessing raw materials for production, producing and distributing finished products and disposing of waste.

The types of resources that TNCs use can have consequences for the natural environment. Non-renewable resources (such as coal and oil) cannot be replaced once they are used. Also, the use of these resources releases carbon dioxide gas into the atmosphere, which contributes to global warming. Other natural resources (such as minerals, forest timber and ground water supplies) are also non-renewable and need to be managed carefully by businesses.

The production process itself can produce a range of environmentally damaging waste products that can create land, air and water pollution problems unless managed carefully. In the past, it was not uncommon for TNCs to dispose of their waste products directly into the surrounding environment. In Sydney's Homebush Bay area, for example, hazardous chemicals were emptied directly into the local wetlands and the Parramatta River. Stricter environmental protection laws have meant that businesses are required to dispose of their waste using more environmentally friendly methods. This can be expensive, so many businesses are starting to look at less costly waste reduction strategies, such as recycling and reusing materials.

Figure 8.10 Industrial pollution in a suburban waterway.

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Transportation of goods can have a significant impact on the environment. Examples are loss of habitat, noise and air pollution and greenhouse gas emissions. The direct health impacts from these emissions are a growing concern. The management challenge for TNCs is to ensure that goods are not transported unnecessarily and that the most efficient form of transport is used. This may involve the use of new technologies to limit air pollution.

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Ethics and the environmental record of TNCs

Some global companies have been linked to some of the world's worst environmental disasters.

Activities

1 Choose one of the case studies below or one TNC from the Fortune 500 list.

- Chevron (Texaco) operations in Ecuador's northern Amazon rainforest
- *Exxon Valdez* oil spill in Alaska
- BHP's Ok Tedi Copper Mine in Papua New Guinea
- BP's Deepwater horizon spill, Gulf of Mexico
- Union Carbide in Bhopal, India
- Shell's operations in Nigeria

Use library and/or Internet research to complete the following tasks:

a Where does this TNC operate?

b What impact does this TNC have on the natural environment and local communities in the areas where it operates? Think about each stage of the production process.

2 As a class, brainstorm the strategies that shareholders can use to influence the ethical behaviour of businesses. Use the results of your brainstorming to write a guide for ethical investors.

3 As a class, discuss the need for a United Nations code of conduct for TNCs that defines the rights and responsibilities of TNCs in their international operations. As a class, make a list of basic environmental standards that you think should apply to TNCs. Useful resources include:

- the UN document titled *Responsibilities of transnational corporations and other business enterprises with regard to human rights*
- the UN Intellectual History Project webpage on the UN and Transnational Corporations.

Transnational employment issues

Two key employment issues for TNCs are the *cost and mobility of labour*. TNCs often divide their operations and their workforce globally. The production and back-office (administrative) functions of these businesses, such as call centres, are often located in developing countries. This allows TNCs to take advantage of the government incentives, such as low rent and utilities costs (gas and electricity), offered in these countries. One of the main attractions of these countries, however, is the low cost of labour. In these countries, employees are often made to work long hours in very poor conditions for wages that are below subsistence level. The term **sweatshop** is now commonly used to describe the conditions in these low-cost developing world production centres (see the box 'Sweatshop working conditions').

Sweatshop working conditions

In the industrial zones of China, Vietnam and Indonesia the legal minimum wage is well below what is needed to meet the basic needs of a small family.

Figure 8.11 A sweatshop is a non-unionised, unsafe workplace where employees work for long hours and low pay.

By shifting their manufacturing overseas, TNCs can also avoid the regulations and trade restrictions of many developed countries and be closer to the markets where their goods are sold.

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In the textiles, clothing and footwear industry, many TNCs strive to ensure that working conditions are fair and that staff are adequately paid. However, other TNCs have, in recent years, faced heavy criticism from non-government organisations (NGOs) and human rights groups over their use of sweatshop labour. These groups point out that there are millions of workers, mostly women, who work for large TNCs in their homes. Often this work is also underpaid and employees do not have secure contracts, worker benefits or social protection. These workers are called *outworkers* or *homeworkers* (see Chapter 4, pages 105–106).

One organisation working to improve conditions for employees in the textiles, clothing and footwear industry is the Clean Clothes Campaign (CCC). The CCC began in the Netherlands in the early 1990s and conducts educational campaigns worldwide to draw attention to labour rights issues in the garment industry. A key aim of the CCC is to encourage businesses within this industry to conduct themselves in a manner that is just and fair. This is known as **ethical business practice**.

Managerial and executive staff

TNCs' priorities for their managerial and executive staff differ from their priorities for their other employees. Senior staff need to be mobile and flexible. Unlike production staff, managerial and executive staff must travel regularly and are often based in a world city, such as London, New York or Tokyo. Personal contact is an important part of international business and this can require face-to-face meetings with colleagues and overseas business partners on the other side of the world. It is not uncommon, for example, for executive staff to attend meetings in Tokyo or Singapore and fly back to work in Sydney the next day.

Understanding the text

1 Where do TNCs locate their manufacturing functions globally? How does this differ from the location of managerial and executive staff?

2 Explain why TNCs divide their workforce globally.

3 Explain why many production centres in developing countries are called sweatshops. Use statistics in your answer.

4 Describe the purpose of the Clean Clothes Campaign. What are the main activities of the CCC?

5 Explain why it is important for managerial and executive staff to be mobile.

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Ethical business practice and the Clean Clothes Campaign

The CCC website contains information about employment issues concerning a range of TNCs, including Adidas, Walt Disney Company, Gucci, Levi Strauss and Nike. Many TNCs in the textiles and clothing industry also have websites that address these issues; for example, the Nike site.

Activities

1 Access the websites of some of the above companies. What do these companies say about employment conditions in their factories? How does this information differ from the views expressed on the CCC site?

2 Look up the International Labour Organisation (ILO) website and use this site to complete the following tasks:

- **a** What is the aim of the ILO and when was this organisation established?
- **b** List the minimum standards of basic labour rights recommended by the ILO.
- **c** Construct a mindmap of the forms of assistance provided by the ILO.
- **d** What is a *code of conduct* and what progress has been made towards the development of such a code for the textiles, clothing and footwear industry?

3 Undertake Internet research to find out what you can about the actual production costs of running shoes manufactured by Nike. What proportion of the shoes' final selling price is actual production cost? What proportion of the final selling price is the labour cost?

Activities

1 **a** In small groups, undertake library and Internet research to find out further information about employment issues in the textiles, clothing and footwear industry. Use this information to produce a mindmap of the key employment issues for TNCs in this industry.

b As a class, discuss the employment issues of TNCs in the global textiles, clothing and footwear industry.

2 As a class, debate one of the topics below:

- **a** It is unethical to purchase goods that have been produced using sweatshop labour in developing countries.
- **b** All goods traded should be manufactured according to minimum human rights standards.

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Ethical issues of international trade

Recent research has shown that 75 per cent of the value of a company is derived from non-tangible factors, such as the way it treats it customers, employees and shareholders; the strength of its brand name; and its policies towards communities and the environment. Only 25 per cent of a company's value is related to its performance and assets. Ethical, responsible behaviour by TNCs can pay off in terms of the company's reputation and share price. Businesses are also keen to be seen as 'employers of choice', providing environments in which employees are motivated and feel valued. Ethics relating to the treatment of employees and the environment were discussed earlier in this chapter. This section examines the use of *tax minimisation strategies* by TNCs.

Most businesses are interested in minimising the amount of tax they must pay. The global nature of TNCs means they can take advantage of differences in tax rates around the world in order to minimise the tax they must pay. They achieve this by using transfer pricing and tax havens. **Transfer pricing** involves payments made from one part of a global business for goods or services provided by another. Transfer pricing works because many goods and services purchased by TNCs are supplied by other branches of the same company. This allows companies to manipulate the price they pay for goods and services in order to hide their income. Subsidiaries located in countries with high tax rates, for example, can charge a low price for their products in order to minimise their profits and their tax bill.

Many TNCs have set up offices and subsidiaries in **tax havens** (such as the Cayman Islands, Panama and Monaco) in order to take advantage of their very low corporate tax rates. These companies manipulate their accounts so that most of their income is earned in these tax havens rather than in countries with higher corporate tax rates.

Figure 8.12 Tax havens are countries with low corporate tax rates.

Understanding the text

1. Explain how TNCs customise their products to better suit the needs of particular markets. Provide examples to support your answer.
2. Describe the impact of the global business cycle on TNCs.
3. Describe the options that TNCs have for raising funds. Which of these strategies are used by TNCs in the surfwear industry?
4. Explain why legal issues can be complex for TNCs. Provide an example of the complex nature of international law.
5. Define the term *ecological sustainability*. How can businesses be more ecologically sustainable?
6. Explain how each stage of the production and distribution process impacts on the natural environment.
7. Explain how the ethics of TNCs can influence their share price and profitability.
8. Describe the two main forms of tax minimisation used by TNCs.

Activities

1. As a class, brainstorm the key management issues that have an impact on TNCs. Use the Internet or library to find out more about these issues in relation to particular TNCs and offshore businesses. Present your findings in the form of an oral report to the class.
2. Copy the table below and complete it using the information on pages 177–178.

Activities of global businesses	Likely impact on the environment
Accessing raw materials	
The production process	
The distribution of finished products	
Methods of waste disposal	

3. As a class, discuss the topic: Looking after employees and the environment is not only ethical, but it is also a profitable business practice.
4. Undertake research to find out more about the tax minimisation strategies used by TNCs. As a part of your research make a list of overseas tax havens that TNCs take advantage of. Present your findings to the class.

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Risks associated with selling in global markets

Two key risks associated with selling to global markets are exchange rate fluctuations and potential changes in the political environment.

Exchange rate changes

Fluctuations in exchange rates are a financial risk and management challenge for global businesses. Take the following transaction between Surf Company Australia and its major Thai supplier, for example. Surf Co. decided to purchase 1000 pairs of shorts from its supplier in Thailand on 90 days credit. By the time Surf Co. pays for the imports, however, the value of the Australian dollar has fallen significantly. As a result, the cost of the imports (in Australian dollars) has increased in price by 25 per cent. This example highlights the risks of trading internationally. TNCs work with many different currencies and the values of these currencies continually change. This uncertainty makes it difficult for global traders to accurately calculate the cost of international transactions.

One solution to the above problem is *currency hedging*. It is a tool that can be used to protect against the risks posed by global fluctuations in the exchange rate. Again using Surf Co. as an example, if Surf Co. expected the value of the Australian dollar to drop over this period, it could eliminate the risk of these changes by entering into a contract to sell the goods in 90 days time at the current exchange rate. Hedging enables global businesses to lock in the exchange rate beforehand, so they do not lose money on the sale. If Surf Co. thinks the Australian dollar is going to strengthen there is no reason to hedge. It can take advantage of the higher value of the dollar when it finally pays for the imported goods.

Political risks

TNCs also need to consider and manage political risks, such as decisions made by foreign governments and revolutions, war and civil unrest. For example, the recent policy of the Zimbabwean Government to remove western influences from Zimbabwe and close down foreign businesses has had a significant impact on TNCs operating there. Likewise, decisions by governments to place tariffs and quotas on imported goods can make it very difficult for businesses to access potential markets overseas. Given the uncertainty of political conditions in overseas markets, it is essential that TNCs keep up with the trends in these countries and develop strategies to deal with unexpected events.

Figure 8.13 Fluctuations in exchange rates are a financial risk.

Understanding the text

1. Use an example to describe the impact that changes in the exchange rate can have on the value of overseas transactions.
2. Outline the measures TNCs can use to guard against potential losses caused by changes in the exchange rate.
3. Describe the potential political risks that impact on TNCs. Provide an example to support your response.

Activities

1. Assemble a media file containing newspaper articles about political changes and their impact on global business. Use the information from your media file to write a brief report describing the impact of political forces on TNCs.
2. In small groups, develop a media campaign informing businesses of the risks associated with selling on global markets.
3. As a class, debate the topic: The risks of operating in global markets outweigh the advantages.

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8.4 International aid programs

Key terms

bilateral aid Development assistance given by a government directly to the government of another country.

multilateral aid Assistance provided by governments through international agencies, such as the Asian Development Bank, the World Bank and International Monetary Fund.

non-government organisation (NGO) a private, non-profit organisation involved in service or humanitarian activities such as relieving suffering, protecting the environment or community development

International aid, or foreign aid, is the assistance provided by government and **non-govenment organisations (NGOs)** to encourage economic growth and improve living standards in developing countries. There are three main types of aid: bilateral, multilateral and non-govenment. **Bilateral aid** is a form of development assistance provided directly by a donor country to another nation. A large proportion of Australia's aid budget is delivered in this way. Governments can also provide aid through international agencies, such as the World Bank or International Monetary Fund. Assistance provided in this way is known as **multilateral aid**. The third way in which international aid can be distributed is through NGOs. Non-government aid funds are generally raised from public donations and delivered to countries through NGOs, such as the Red Cross, Community Aid Abroad and World Vision.

There is considerable debate between different community groups and governments about the effectiveness of international aid programs. Some of the benefits and disadvantages of aid for developing countries are outlined in Table 8.4.

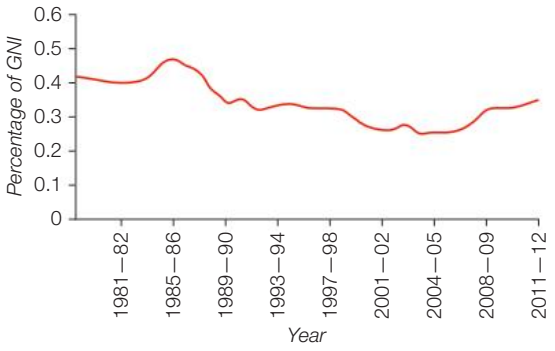

Figure 8.14 Percentage of Australia's gross national income (GNI) spent on aid, 1981–2012.

Table 8.4 The benefits and disadvantages of international aid for developing countries

Benefits	Disadvantages
Aid has helped to eliminate polio, greatly reduce the incidence of smallpox, increase life expectancy and reduce fertility rates around the world.	Aid programs do not address the underlying causes of poverty, such as unfair trade relations between developing and developed countries.
Aid funds help to provide public goods (such as transportation systems, waste disposal facilities, education and clean water), which are essential for a country's development.	Foreign aid often does not reach the people who need it the most. Aid funds can be misused by governments whose priorities are not directed towards the country's economic and social development.
Aid can help poor countries become more self-sufficient by increasing education levels and improving the population's basic skills. This supports the development of industries that produce goods for the local population rather than export products, such as coffee and tobacco.	Funds can be used to finance projects that are not essential or are badly planned. Large projects funded by foreign governments (such as roads and industries) can be left poorly maintained and unused.
Aid during times of crisis can reduce the likelihood of civil war and create greater economic opportunities in developing countries.	Aid can promote a relationship of dependence between developing and developed countries.

The Australian Aid program

According to AusAID, the Australian Government's aid organisation, the fundamental purpose of Australian aid is to help people overcome poverty. The government argues that this helps all Australians by promoting stability both in our region and beyond.

The strategic goals of the Australian Aid program are to:

- save lives by increasing access to safe water and sanitation; improving access to quality maternal and child health services; and supporting large-scale disease prevention, vaccination and treatment
- promote opportunities for all through access to schooling, empowerment of women and enhancing the lives of people with disabilities
- promote sustainable economic development
- promote effective governance, e.g. better services and improved security
- help countries prepare for and respond to natural disasters.

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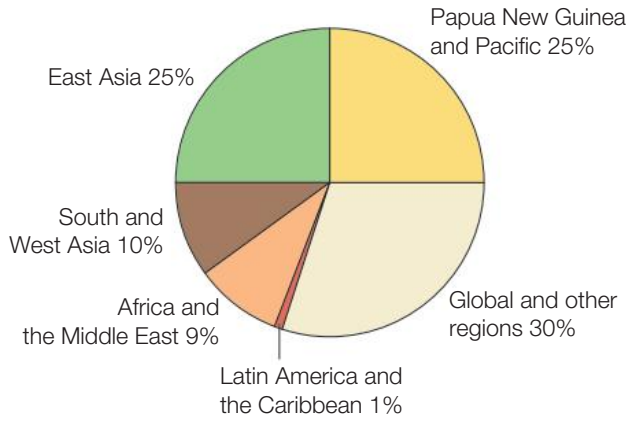

Figure 8.15 Where is Australian aid spent (2010–2011)?

Figure 8.16 Australian aid is often given to countries in need in the form of assistance from the Australian Defence Forces. This image shows ADF personnel unloading desperately needed food, water and medical supplies at Banda Aceh after the devastating earthquake and tsunami in December 2004.

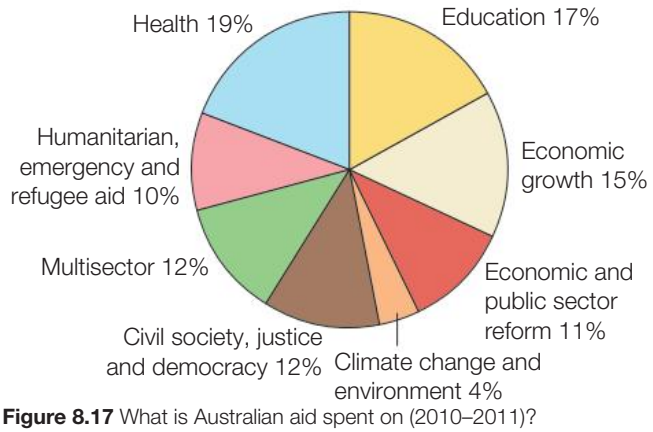

Figure 8.17 What is Australian aid spent on (2010–2011)?

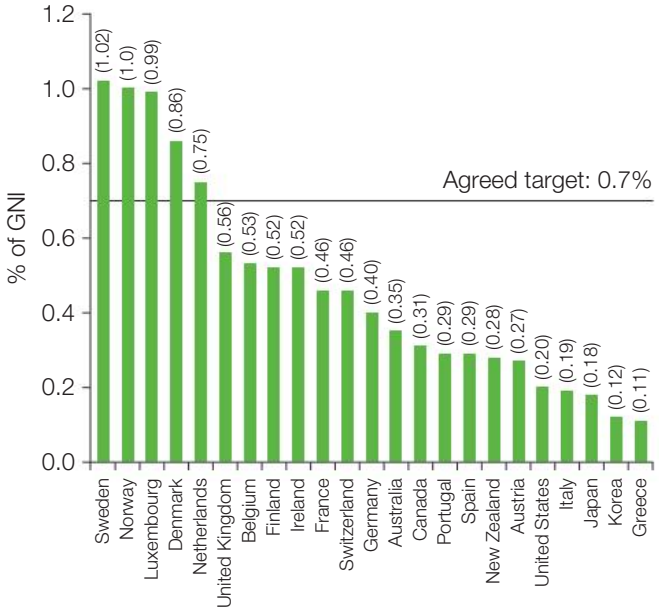

Figure 8.18 Aid donors. Development aid by donor country, as a percentage of donor's GNI.

Understanding the text

1 Distinguish between bilateral and multilateral aid.

2 What is non-government aid?

3 Outline the main points for and against international aid.

4 Describe the characteristics of effective aid programs.

Activities

1 Access the AusAID website. Select one country that receives aid from Australia. Use the AusAID website to find out about Australia's aid program to this country. Present the results of your research in the form of a poster or wall display in your classroom.

2 Use Figures 8.14 (page 182), 8.15, 8.17 and 8.18 to answer the following questions:

a How has Australia's contribution as a proportion of GNI changed over time? (Figure 8.14)

b What regions of the world does Australia's aid go to? (Figure 8.15)

c What is Australian aid money spent on? (Figure 8.17)

d Which country is the largest aid donor based on its GNI? (Figure 8.18)

e How does Australia's aid contribution compare with the average contribution of other countries? (Figure 8.18)

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8.5 Current issues in globalisation

The impacts of globalisation have sparked intense debate. The advantages and disadvantages of closer global links are regularly discussed in the media and have been outlined throughout this chapter. The key arguments against globalisation focus on the criticism of TNCs. These organisations are accused of damaging the environment, exploiting labour in developing countries and reducing the power of governments to control economic activity within their borders.

Those who support globalisation suggest that it benefits both individuals and the global community. These groups claim that globalisation results in faster growth, quicker access to new technology, cheaper imports and greater competition. They also argue that globalisation will make the world economy more efficient and will continue to create hundreds of millions of jobs, mainly, but not only, in developing countries. This, in turn, it is claimed, will generate an upward spiral of employment and wealth.

Figure 8.19 Protesters campaigning against issues such as globalisation and the US invasion of Iraq.

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Evaluating globalisation

Activity

1 Look up the webpages of the following government departments and NGOs: Department of Foreign Affairs and Trade, International Monetary Fund, World Trade Organization, Third World Network and Global Exchange.

Use the information on these pages to complete the following summary table.

Arguments for globalisation	Arguments against globalisation

2 Select one issue or opinion related to globalisation (e.g. 'globalisation favours developed countries'). Conduct library or Internet research and complete the following:

- Describe the issue
- Identify the stakeholders affected by this issue
- Identify the range of views about this issue. What evidence is provided to back-up each of these viewpoints?
- Describe your point of view, remembering to use evidence to back up your arguments
- Present your findings in the form of a poster or multimedia presentation.

Globalisation fact file

- The developing economies that encouraged globalisation during the 1990s experienced economic growth rates that were four times greater than those of other developing nations.
- The rate of change on a global scale is speeding up as technology changes: it took television 13 years to gain 50 million viewers; it took the Internet only five years to reach the same target.
- TNCs are a key feature of the globalisation process. There are now more than 60 000 such companies with more than 50 000 subsidiaries across the globe.
- The volume of world trade is also increasing. Exports and imports of goods and services have grown by 1600 per cent since 1950!

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Chapter review

Activity 1: research and presentation task

Select one topic from the list below and use Internet and/or library research to produce a PowerPoint, web page or multimedia presentation providing a summary of the key points in this topic. Present your finished product to the class.

a buying products internationally

b Australia's major items of trade and trading partners

c international investments

d case studies of TNCs and the issues that affect them

e international aid relationships

f the cases for and against globalisation

Use the following as a guideline for your presentation:

- You have 10 minutes to give your presentation.
- Develop activities that you can use to *teach* your content. This may involve asking the audience questions or having them fill in answers to brief questions during your presentation. Avoid the temptation to *lecture* the class for 10 minutes.
- Five to 10 slides may be used in PowerPoint. However, you are encouraged to use a range of multimedia resources in your seminar.
- Use bullet points to provide a brief summary of each idea (a maximum of two lines per idea).
- Use your talk to provide further detail on each point. *Do not read* from your presentation; you should only use it as a guide.
- Avoid the overuse of pictures and animations; use them sparingly so they have an effect.

Activity 2: using statistics

1 Refer to the table below. Calculate the total trade balance for each of the countries by subtracting the value of imports from the value of exports.

2 Explain how the value of Australia's exports compares with that of our major trading partners.

3 Add the import and export figures to gain a figure for the total value of trade for each country. Rank these countries in terms of their total volume of trade.

4 Write a short report explaining how Australia's trade balance compares with that of our major trading partners.

Australia's global export and import position

Source: *Trade at a Glance*, 2011, DFAT, value of exports and imports (US$ billion).

Countries	Value of Exports	Value of Imports	Trade Balance	Total Value of Trade	Ranking
Australia	260	251			
Taiwan	315	288			
Japan	907	848			
United States	1793	2236			
Singapore	464	407			
Germany	1499	1323			
China	1748	1587			
United Kingdom	632	714			
Republic of Korea	548	518			
Thailand	229	328			

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9

Towards independence

Focus statement

In this chapter we investigate the commercial and legal issues that may affect young people when they leave home. We will focus on the problem-solving skills needed to make informed choices in relation to these issues.

Focus question

What do I need to know in order to live independently?

In this chapter you will learn about

- moving away from home
- the major issues involved with independent living
- organisations that provide support for young people leaving home
- arranging accommodation and the different types of accommodation
- the processes involved in arranging a lease
- task sharing within the household
- managing personal finances when living independently
- types of insurance
- selecting and purchasing major items
- accessing community services
- contributing to the community
- lifestyle issues.

9.1 Moving from home

Key terms

guardianship Legal responsibility of an adult for a child under 18.

public housing Affordable accommodation (houses and apartments) owned by the government and rented to people on low incomes.

shelters Emergency accommodation run by community or church organisations.

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 home because of unacceptable circumstances in the home.

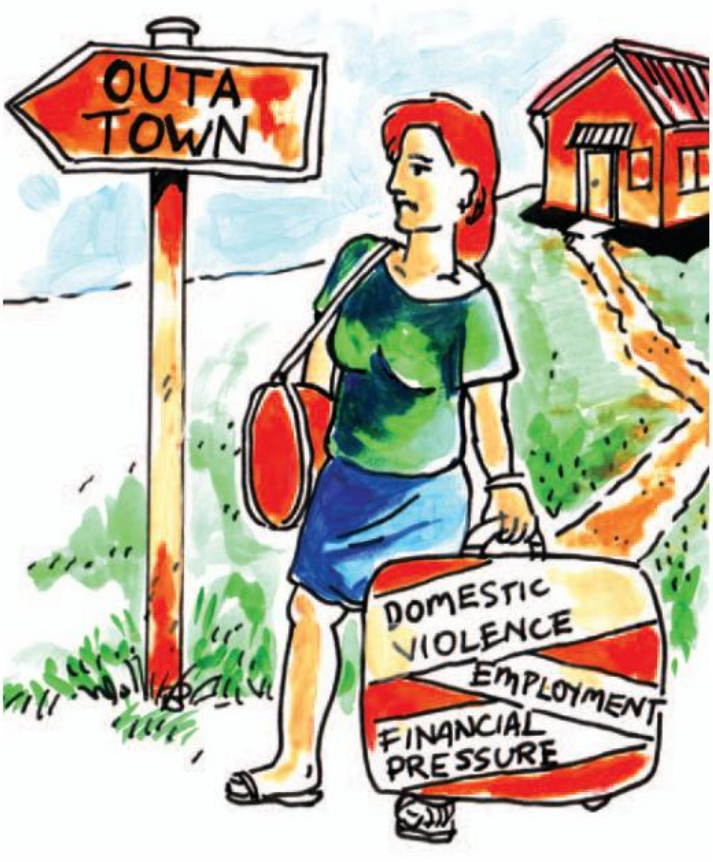

Figure 9.1 Some of the reasons why young people leave home.

Reasons young people leave home

There are many reasons why young people decide to move away from home. Some of these are shown in Figure 9.1 and are discussed below.

- *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 his or her parents, the person's financial situation and whether the person is 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 12, page 254.)
- *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. Perhaps this is a case of the family leaving the children, not the other way round, as in Sonique's story (see the box on page 188).

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Sonique's story

The experience of the British pop performer Sonique shows that leaving home can be a time of great stress and anxiety. Sonique is now rich and famous – in 2003 she was named Best Female Artist at the Brit Awards – but her life has not always been so fortunate.

When Sonique was a teenager her mother remarried and moved back to Trinidad, forcing Sonique to find accommodation elsewhere. She moved into a YMCA hostel. This should have been a safe environment but Sonique found herself the victim of unwanted sexual harassment by the warden of the hostel. Sonique was forced to leave for her own safety, but as she had no money, she became homeless and lived on the streets like many other young people. Fortunately, she was able to break into the music industry and establish a career.

With her life now completely turned around, Sonique has become tireless in her efforts to assist homeless youth as she knows how easily homelessness can happen and how devastating it is for young people. She has spoken openly about what a depressing and traumatic experience it was for her but she stresses that it is a common experience for many young people.

Activity

As a class, discuss the following questions:

a Why did Sonique originally leave home?

b Where did she go?

c Why did she leave there?

d What was Sonique's experience of homelessness?

e Does she think homelessness is unusual among young people?

Figure 9.2 Being homeless exposes young people to a lot of dangers.

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 these 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 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?

When 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 12, page 246.)

Figure 9.3 You need to be able to support yourself if you want to leave home before you turn 18.

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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 **shelter** for homeless people. They also explain how to apply for **public housing**.

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Getting started

The websites below provide a good starting point to think about the issues and challenges associated with leaving home:

- Create Your Future
- Reach Out!

Activities

1 Access the sites listed above and outline the types of information provided.

2 Which of the two sites is the most informative?

3 Which site is most likely to appeal to young people?

Help from organisations

The following organisations provide assistance for young people who are preparing to leave home:

- Centrelink – search for 'accommodation, renting and homeless issues'.
- St Vincent de Paul Society – youth services and activities. Click on Youth and then choose 'NSW Youth Programs'.
- Anglicare Youth Services.
- Youth.NSW.

Activities

1 Access each of the websites listed above and determine whether they belong to government, religious or community-based organisations.

2 List three forms of assistance each of the organisations provide that could assist young people moving out of home.

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 What types of organisations provide support for young people who choose to leave home or are forced to do so?

Activities

1 Study the section on reasons for leaving home (page 187). 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 box 'Sonique's story' (page 188). Suggest some of the dangers homeless people may be exposed to.

3 Study the box 'When can I leave home?' (page 188). What does the law say about the age at which young people can leave home?

4 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.

5 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.

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9.2 Arranging accommodation

Key terms

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.

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.

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.

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.

informal networks Groups of people with similar needs or interests who can assist each other.

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.

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 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.

Figure 9.4 Most young people rent accommodation when they leave home.

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 the number of payments that must be made before you move in and the rent is not shared.

- ***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 someone moves into a new place, they must pay to have the telephone, gas and electricity 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).

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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, the person may need to get help from government, community or religious groups who are able to arrange temporary or emergency housing, such as shelters.

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.

Figure 9.5 Community noticeboards often advertise flats or houses to rent or share.

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. **a** Copy the table below and ask someone in your present accommodation for information to fill in the details. (You may have to calculate some.)

   b Contact the suppliers to fill in any other information, such as connection fees.

Utility	Supplier	Cost per week	Connection fee
Electricity			
Gas			
Telephone			

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?

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.
- *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.
- *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.

ISBN 9780170251587

ACCOMMODATION CLASSIFIEDS	Page
Board and Accommodation	68
Flats, Units, T'hses to Let	74
Houses to Let	75
Share Accommodation	75
Rooms to Let	76
Rental Services	76

Paddington $300. 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, $100pw + exp, students ok

Bondi m/f 25 + shr 3brm hse $90pw

Castle Hill 1brm f/f own kit $150

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 + $400 bond

Figure 9.6 Sample accommodation classifieds from a daily newspaper.

Figure 9.7 University noticeboards frequently have advertisements for shared accommodation.

Arranging a lease

Once you have found somewhere 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 9.8 Before you lease one of these apartments you will have to sign a lease.

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 the landlord gives 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
- do not 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.

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When you sign up for the accommodation, you will be given a property condition report. This is a checklist of the conditions 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, steamcleaning 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.

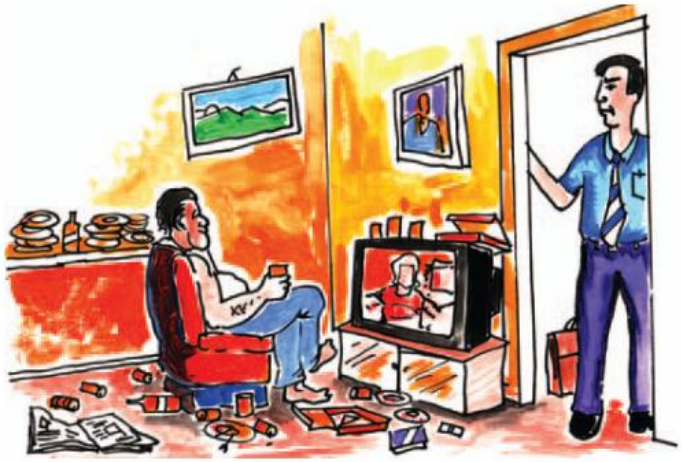

Figure 9.9 The success of shared accommodation depends on everyone doing their fair share.

Legal rights of tenants

There is no law setting the minimum age at which you can rent an apartment or house. But 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 don't pay the rent or if you damage the property. But 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.

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Understanding the text

1 Outline the ways in which you can find a suitable place to live.

2 Define the term *residential tenancy agreement*. Explain how residential tenancy agreements protect tenants.

3 a Define the term *breach*.

b Under what conditions might you incur a penalty for being in breach of a lease?

4 a Define the term *bond*.

b Under what conditions will your bond be returned?

5 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.

6 Summarise what may happen if you leave a rented property without paying the rent owing.

7 How can conflict be avoided in shared accommodation?

8 Study the box 'Legal rights of tenants'.

a Explain the relationship between the tenant, real estate agent and 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?

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The Renting Guide

Activities

Access *The Renting Guide* on the NSW Fair Trading website. Go to 'Publications', click on 'Tenants and Home Owners', then select 'Renting a home'. Use the guide to complete these tasks.

1 Explain in two or three sentences the role of the Consumer, Trader and Tenancy Tribunal.

2 If the landlord gives you notice of an increase in your rent, what two actions could you take?

3 Explain what is meant by a tenant's right to privacy.

4 When is the agent or landlord allowed to enter the rental premises? Present your answer as a summary.

5 Name at least one section (including contact details) of NSW Fair Trading where you can get more information about tenancy and rental bond issues.

6 Name and provide contact details for organisations that provide tenants with advice about financial assistance and discrimination.

7 Explain the role of the Tenants Advice and Advocacy Service and how it is funded. Find the telephone number for your local office of this organisation.

8 For more information on your legal rights and responsibilities go to the following websites:
- Tenants NSW
- Lawstuff
- Redfern Legal Centre.

Activities

1 In groups, study the advertisement below.

> Room to let: M/F to share w. 3 others. N/S pref. Veg. pref. Flex. attitudes. $180pw+bond+exp.

a List the abbreviations and work out what they mean.

b Explain how you would calculate the total cost of renting this room.

2 List the factors you would need to consider (for example, price and area/suburb) if you wanted to find somewhere to live. Study the classified rental advertisements in a daily newspaper. Select four or five advertisements that may suit your requirements and share them with your group.

3 Write your own advertisement advertising a room for rent, specifying the type of person you would like to share accommodation with.

4 Access the website of a local real estate agent. Investigate the types of accommodation for rent.

5 Locate a copy of a standard lease and 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.

6 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.

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9.3 Managing household finances

Key terms

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.

economise Cut back on spending to save money.

fixed expenses Expenses that cannot be changed; for example, rent.

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.

variable expenses Expenses that can vary; for example, clothes.

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. These are:

- *establishment costs* – the one-off expenses needed to access rented accommodation; for example, the bond, advance rent and the connection fees for the telephone service and power supply. 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* – the costs incurred on a regular basis; for example, weekly, monthly or quarterly. These include rent, food and electricity.

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 2, pages 54–57, 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 sample on page 196). 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 showers and use of hot water generally.

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Sample household budget

Penny shares a house with three other people. The household expenses, including food, are shared equally. Table 9.1 shows Penny's fixed and variable expenses. Note: The costs shown are Penny's share, not the total cost to the household as a whole.

Table 9.1 Penny's weekly budget

Weekly income: $300.00

Fixed expenses	**Total cost and payment interval**	**Cost per week**
Rent	$400 per month	$____
Insurance on possessions	$100 per year	$____
Health insurance	$500 per year	$____
Transport	$450 per year	$____
Total weekly fixed expenses		*$____*
Variable expenses	**Total cost and payment interval**	**Cost per week**
Electricity	$20 per month	$____
Telephone	$50 per month	$____
Gas	$10 per month	$____
Food	$____ per fortnight	$____
Clothes and personal items	$____ per month	$____
Mobile phone	$____ per month	$____
Entertainment	$____ per month	$____
Savings	$____ per month	$____
Total weekly variable expenses		*$____*
Total weekly fixed expenses + total weekly variable expenses = $___		
Total weekly income – total weekly expenses = $___		

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 presents, 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 the duration of calls and using pre-paid 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.

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. (For more information see Chapter 2, page 53.)

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, 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.

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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 **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?

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Investigating insurance

Activities

1 Access the NRMA website. In groups, go to 'Products' and select 'car' to find the answers to these questions:

a Why do you need car insurance?

b Define the term *CTP green slip insurance*.

c Get a quote (that is, an estimate of the insurance cost) for a car you are familiar with. Note down the questions that the NRMA asks you. Why does the NRMA want to know your suburb?

2 Access the Bupa website.

a Choose appropriate health cover for yourself; for example, single.

b Get a quote for hospital cover and another for hospital and extras cover. What does each 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 Study Penny's budget (Table 9.1, page 196).

a Copy the table and then complete the following tasks:

i Fill in the missing information in the fixed expenses part of the table.

ii After paying for her fixed expenses, how much is left from Penny's income to spend on variable expenses?

iii Fill in the missing information in the variable expenses part of the table.

iv Fill in the last two rows in the table. Ensure Penny's weekly expenses are lower than, or equal to, her weekly income. If they are higher, you will need to reduce Penny's variable expenses.

b Which expenses do you think Penny could cut down on or cut out entirely?

c Make a list of the costs that are household expenses and the costs that are Penny's personal expenses.

3 Create your own budget based on what you think your needs and requirements would be when living independently. For accurate costs of any items, use any or all of the following resources:

- *cost of rent/sharing* – refer to advertisements in newspapers, in real estate agents' windows and on the Internet
- *electricity, gas, telephone and insurance costs* – refer to the accounts of your present household
- *food prices* – look in supermarkets and junk mail flyers.

Set out your budget using the model shown in Table 9.1.

4 **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.

5 Use the Yellow Pages or 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.

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9.4 Major purchases

Key terms

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.

credit card A card that allows you to buy items and pay for them later, over a period of time if necessary.

hire purchase An arrangement that allows you to pay off a large household item (such as a television set) in small amounts week by week.

repossession Goods taken back by the hire purchase company if you don't make your agreed payments on time.

warranty A guarantee to repair or replace a faulty item after purchase for a set period of time, generally 12 months.

Figure 9.10 Moving into your own place often means that you need to buy major household items. These can be bought either new or second-hand.

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, wardrobe, 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. 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 radio 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.

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 telephone 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.

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 that gives you 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.

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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 at $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 2, page 49.)

Hire purchase

This works in a similar way to a credit card except that the credit you get from the finance company relates only to the one item that you are buying; for example, a refrigerator. If you have a job and an acceptable credit rating, you can enter into an agreement to pay off the cost of the item over a set period of time. The interest that you pay over this period is usually quite a bit less than a credit card. However, if you cannot repay the amount owing in the agreed time the interest will be much higher. This means you will find yourself paying more for the item than the original purchase price.

Lay-by

Large department stores allow you to pay off some items (such as small electrical appliances) in instalments. However, you can't collect the goods until they have been paid for in full.

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.

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 $500 on hire purchase and it is stolen, you will still be required to make the repayments. However, if you are insured, the insurance company will refund the cost of the television and you can repay the finance company with this money. 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 in newspaper classifieds, the *Trading Post*, community noticeboards and online. 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. For big items, second-hand dealers will usually deliver. 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.

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Figure 9.11 Second-hand may not be second best.

Understanding the text

1 Apart from the major items mentioned on page 198, 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 on credit

b using hire purchase

c second-hand.

6 Explain why it is better to purchase an item that is under warranty.

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Researching garage sales

Activities

1 Look at garage sales on the EGarage website. Explain how you can purchase items by using this site.

2 Find a garage sale in your area by using the Garage Sale Listings website.

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 Use the *Trading Post* or online sources to 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.

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9.5 Community involvement and lifestyle issues

Key terms

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).

Accessing community services

Most communities – small and large – have a number of groups that you may be able to 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 and Rotary)
- youth clubs (such as the YMCA)
- government departments (such as the Department of 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 and alcohol abuse.

Figure 9.12 Young people like this volunteer firefighter have an important role to play in community-based organisations.

Contributing to the community

People of all ages offer their time and skills to assist in the running of these and other community services; for example, lifesaving and emergency services. 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.

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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 Community 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.

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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 magazines. 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 9.13 You will have to plan your budget if you want to purchase the latest electronic device.

For example, you may want to compete in Sydney's City to Surf 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 so if you are working, you will need to build up your holidays and discuss your plans with your supervisor, so that there won't be any problem about taking all your leave at once. You'll also have to budget well for such a trip.

Understanding the text

1 Outline the types of organisations you can approach for help.

2 What benefits do people receive from helping others as a volunteer?

3 Why do young people need to manage their time effectively?

4 What is the difference between short-term and long-term lifestyle plans? Why are both important?

Activities

1 The White Pages (A to K) has a listing of community service organisations. In groups, choose one organisation that interests you. Then complete these tasks:

- **a** Create a questionnaire to find out about the work its volunteers do.
- **b** Phone or visit the organisation, or look at its website, to find the answers to your questions.
- **c** Report back to the class with your findings and tell the class whether or not you would like to work as a volunteer in this organisation.

2 Create a short-term lifestyle plan by creating 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, don't fill in every slot. Leave some time with no commitments.

3 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.

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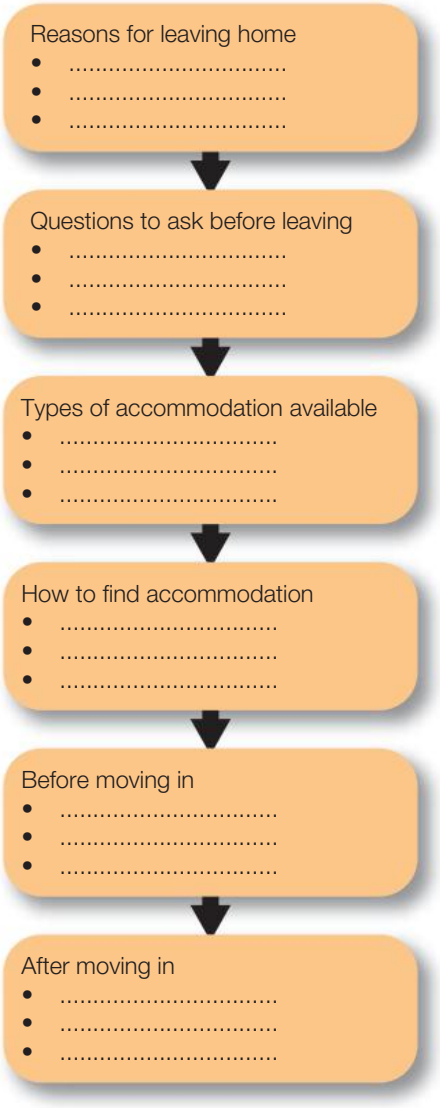
Chapter review

Activity 1: flowchart

Based on your study of this chapter, copy the flowchart below and fill in the bullet points. You can add more points if you wish.



Activity 2: design a pamphlet

Develop a pamphlet for teenagers to give them advice about the best way to manage their money when they are living independently. Include useful tips and possible pitfalls relating to the following key terms:

- budgeting
- economising
- bargain shopping
- buying on credit and hire purchase
- insurance.

Activity 3: interview-based research

a In groups, find a young person who has left home in the last two years. Frame some general and specific questions that you can ask the person about his or her experiences of living independently. Record or video the interview.

b Interview a much older person (such as a grandparent) about his or her experiences of leaving home and compare this with the experiences of young people now.

Activity 4: matching terms and definitions

Match each of the following terms with the correct definition from the list below.

bond	budget	classifieds
fixed expenses	landlord	lease
hire purchase	shelters	tenant
variable expenses	warranty	rent

1 Emergency accommodation run by community or church organisations

2 Advertisements in the newspaper arranged in columns under headings

3 The document that outlines the terms under which you rent a property

4 A person who rents a property

5 A person who offers her or his property for rent

6 The amount charged for accommodation in a house or apartment

7 Money you must pay up front when you move into a rental property

8 A detailed plan of your finances listing all income and expenditure

9 Expenses that you cannot change

10 Expenses that you can change

11 A guarantee to repair or replace a faulty item after purchase for a set period of time

12 Paying for a large item, such as a fridge, over a long period of time

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10

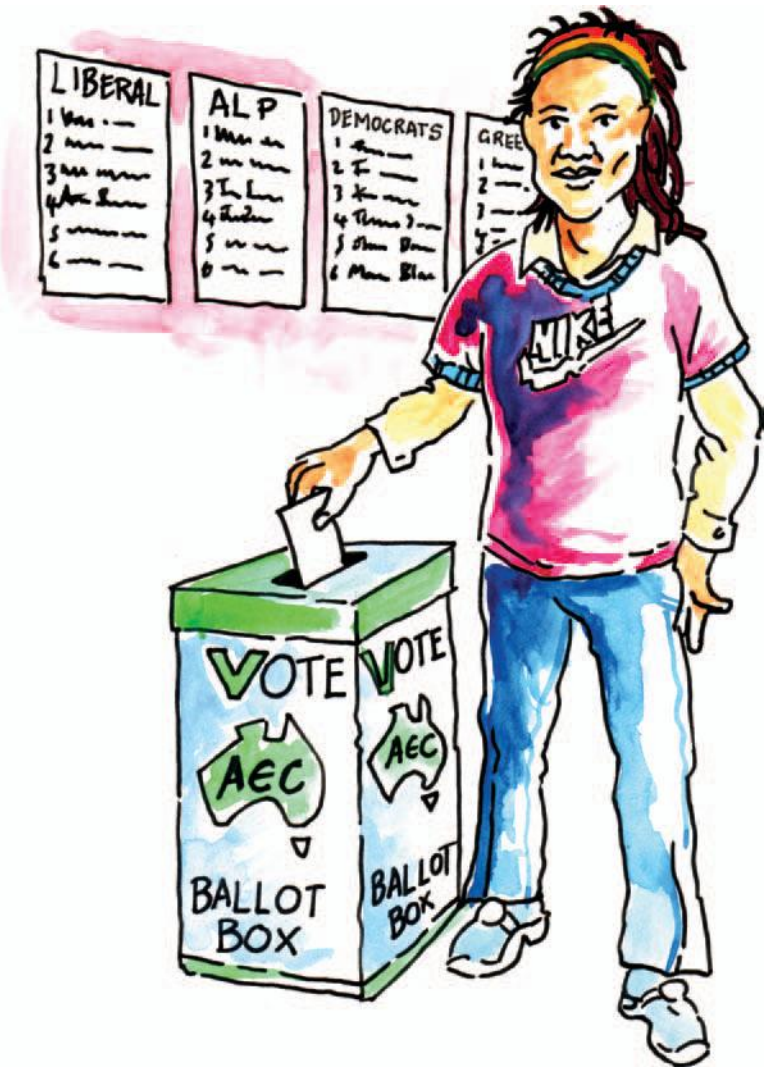
Political involvement

Focus statement

In this chapter we develop an understanding of how political processes operate at various levels, and the ways in which our involvement in these processes can achieve desired outcomes.

Focus question

How do the various levels of government operate and how can people be effectively involved in the political process?



In this chapter you will learn about:

- the structure of government
- political action at the federal, state and local level
- how to take action on political issues
- decision-making processes and impacts
- the rights and responsibilities of individuals and groups in the democratic process
- the role and function of political parties
- participation in the democratic process
- the role and strategies of interest groups
- the role of the media
- current issues involving the political process.

10.1 The nature and structure of government in Australia

Key terms

cabinet The group of senior ministers in a government who determine government policy.

chief minister The senior minister in an Australian territory.

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.

democracy Government by the people, either directly or through elected representatives. Also a form of society that favours equal rights, freedom of speech, a fair trial and tolerates the views of minorities.

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.

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.

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.

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.

representative democracy A system of government that allows electors to choose representatives to make political decisions for them.

The origins and types of democracy

The term **democracy** originated in Greece in the fifth century BC to describe the form of government in Greece at that time. It combines two words: *demos*, meaning the general citizenry, and *kratos*, meaning power or rule. In other words, democracy means rule by the people. Democracy was designed to give all citizens a voice in decisions that would affect the majority of people. Democracy in ancient Greece was called **direct democracy** because citizens' voting rights were exercised at public mass meetings and the majority ruled. In a direct democracy there is a continuous participation of the citizens in the direct exercise of power.

Figure 10.1 Democracy has its origins in fifth century BC Greece.

The other recognised form of democracy is the type we have in Australia: **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 Chapter 3, page 75). 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.

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Democratic government in Australia

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 on pages 213–215.)

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 or jurisdiction are divided between the federal (national), state and local governments and their bureaucracies. 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.

Figure 10.2 The three tiers of government.

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 division of responsibilities between the three tiers, or levels, of government is a feature of our federal system of government. Some countries, such as France and the United Kingdom, have only two levels of government: national and local.

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 10.3.

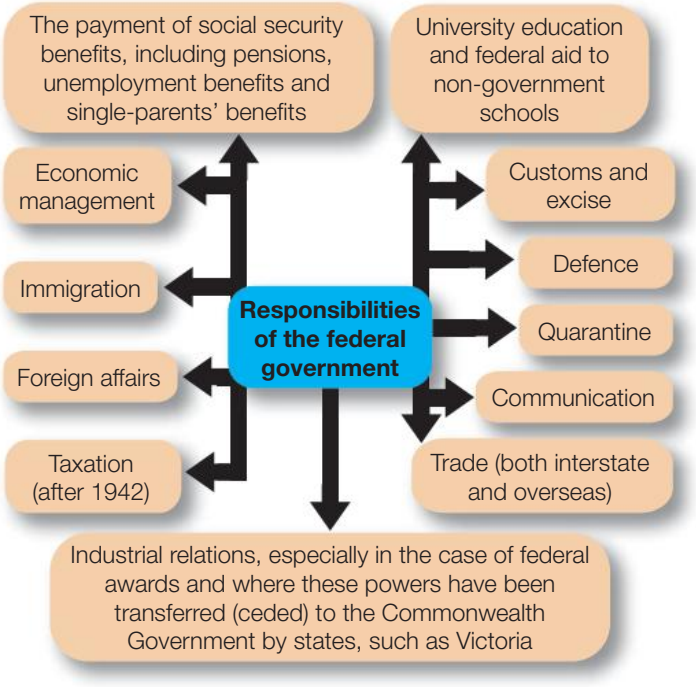

Figure 10.3 Responsibilities of the federal government.

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.

The two houses of the federal government – the House of Representatives and the Senate – meet in Canberra, the nation's capital.

State governments

Each Australian state and territory has its own government. The responsibilities of the state and territory governments are shown in Figure 10.4.

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**.

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All state governments, with the exception of Queensland, have two Houses of Parliament. The NSW State Government, which consists of the Legislative Assembly and the Legislative Council, meets in Parliament House in Sydney's historic Macquarie Street.

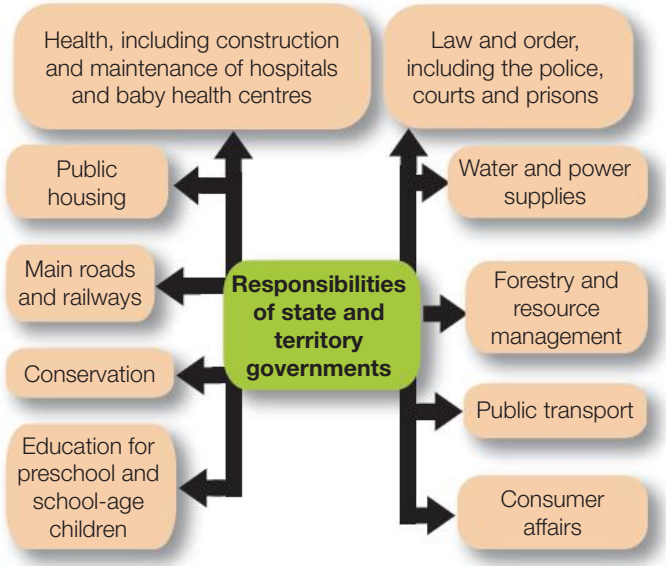

Figure 10.4 Responsibilities of the state and territory governments.

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.

Each local government area is governed by its own elected council. The responsibilities of local governments are shown in Figure 10.5. The elected head of the council is called the **mayor**. In shires, the elected head is called either the **president** or the mayor.

Figure 10.5 Responsibilities of local governments.

Understanding the text

1 What is a democracy?

2 Where was the first known democracy?

3 Explain the difference between a direct democracy and a representative democracy.

4 What is the type of democracy we have in Australia?

5 Describe the three tiers of government in Australia.

Activities

1 Using the information in Figures 10.3, 10.4 and 10.5, write a paragraph outlining the responsibilities of each level of government in Australia.

2 Conduct a debate on the topic: Australia does not need three levels of government.

3 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.

4 Copy the table below. In column one, 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 a part of a political process? Who oversees (has responsibility for) each activity? Try to fill in column two with who has responsibility for each activity. An example has been included for you as a guide.

Activity	Responsibility
Put out the garbage for collection	Council's responsibility to pick it up

5 Gather photographs and text that depict the roles and responsibilities of the three levels of government in Australia. Glue these on to 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.

6 Invite your local federal or state member of parliament to address your class. Before your representative arrives, compile a list of questions you would like him or her to answer; for example, questions relating to the representative's role and responsibilities.

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10.2 Political action and decision making

Key terms

activist An individual who takes direct action, usually in support of, or in opposition to, one side of a controversial issue.

current issues Issues that are of relevance and significance today. Also known as contemporary issues.

decree An order that usually has the force of law.

direct action Action that is either planned or spontaneous; for example, marches and sit-ins.

independent A member of parliament who does not belong to a political party.

interest groups A group of people organised to further a cause or interest that they have in common. Also known as lobby groups and pressure groups.

petition A formal, written request made to an official person or organised body and signed by people who are concerned about a particular issue.

regulation A law made under the authority of an Act of Parliament.

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.

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.

Issues that concern the community

While some issues will affect all Australians, others will be of interest to particular groups within Australian society. The issues of interest to Australian teenagers, for example, may be quite different from those affecting retirees. Issues that concern Australian teenagers may include access to permanent and part-time work, the wage rates paid to young people, changes to rules governing the granting of a driver's licence and changes to the contribution people are required to make towards the cost of a tertiary education.

Issues affecting young adults–those in their twenties and thirties–may include the cost of housing, interest rates, employment security and access to child care.

Current issues

In Commerce we study a range of issues that are 'in the news'. These are often discussed and debated widely in the community. They are often referred to as **current issues**.

This book looks at a number of important issues that are of concern to people. Many of them affect our future wellbeing. The study of Commerce gives us a better understanding of these current issues. This is one of the most important benefits of studying the subject.

Issues affecting older Australians may include tax rates, superannuation, the cost of health insurance and pensioner benefits.

The level of government responsible for addressing these concerns will vary according to the nature of the issue.

Taking action on political issues

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 i**nterest group** and contacting the media. These alternatives are examined in more detail below.

Political parties

A political party is an organisation of people with similar ideas or philosophies. The aims of such organisations include the development of policies that the party believes will appeal to voters.

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When Australian citizens vote for a political party, they usually choose a party that they believe reflects their ideas and beliefs. Often, when voting, people will think about the issues that concern them and vote for who they think will represent them best in the political arena. Political parties are considered in more detail in Section 10.3.

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) and 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. The box opposite outlines some of the ways that individuals can take action on political issues.

Figure 10.6 Free Burma protesters in Sydney.

Interest groups

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 interest 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.)

Interest 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. Interest groups regularly use political parties to influence the decision-making process.

Many interest 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. Contact and access to these parties is considered vital by groups aiming to influence the development or implementation of public policy. Interest groups are considered in more detail in Section 10.5.

Individual strategies for active citizenship

Individuals can make a difference. They can, for example, influence the decision-making processes of government. The strategies listed below are examples of how you can fulfil your role as an active and informed citizen.

- Be informed about public issues and develop an understanding of our system of government.
- Join a political party, interest group or other organisation that seeks to influence public policy.
- Monitor the actions of public officials and government agencies and take appropriate action if their decisions are unlawful, unconstitutional or just unfair. This action may involve organising delegations to visit a local member of parliament, writing letters or emails, circulating and signing **petitions** and organising peaceful demonstrations.
- Appeal government decisions and ensure accountability (responsibility for one's actions). In addition to voting in elections, there are a number of ways to influence government policy and ensure accountability. These include using the administrative review processes, freedom of information laws, the Ombudsman's office, common law, the Administrative Appeals Tribunal, the Auditor-General's office and parliamentary committees.
- Attend meetings of governing bodies and representative forums to put forward your concerns and opinions.
- Contribute money to political parties and interest groups that promote values and policies you support.
- Use the media (including radio, television and newspapers) to inform the public about the activities of non-government agencies and private companies.
- Stand for public office at a local, state or federal level. You could do this by joining a political party and being endorsed as its candidate or by running as an **independent**.
- Form your own political party. To do this you need to register your party's name with the Australian Electoral Commission. You will also require time, money and the backing of voters.

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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. The role of the media is examined in more detail in Section 10.6.

Understanding the text

1 What are some current issues that may concern Australian citizens?

2 List three issues that may be of concern to young people as they get older.

3 Describe some of the actions that you can take to influence the decision-making process.

4 What is the aim of most interest groups?

5 List the ways in which an interest group, the media or political parties can bring about political change.

Activities

1 **a** Working in groups, brainstorm the types of issues that are of concern to individuals, teenagers and groups within the community.

b Refer back to the section on the responsibilities of the different levels of government (pages 206–207). For each level of government, select one area of responsibility of government that presents an issue that concerns teenagers, one that concerns individuals and another that concerns groups. Then copy and complete the table below.

Group	Federal government	State and territory governments	Local governments
Individuals			
Teenagers			
Groups			

2 Choose one responsibility from each of the three levels of government. Find a media article on each of the chosen responsibilities. Summarise each article, stating what the issue is and how the government has reacted to it.

3 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.

4 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.

5 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.

Decision making

Decisions are the key factors that bring about and influence change. While it is easy to talk about an issue, there will be no change unless there is a decision to bring about a particular course of action. Decision making is a process and usually involves an examination of alternatives and the selection of the strategy or action most likely to achieve a desired outcome. There may be more than one style of decision making that can work well for a group, but the most important factor for all decision-making bodies is a common focus or goal.

Organisations that make decisions

In a democratic society, such as Australia, decisions affecting communities are made by a range of organisations. The most important of these include governments, business, welfare organisations and the media (see Figure 10.7).

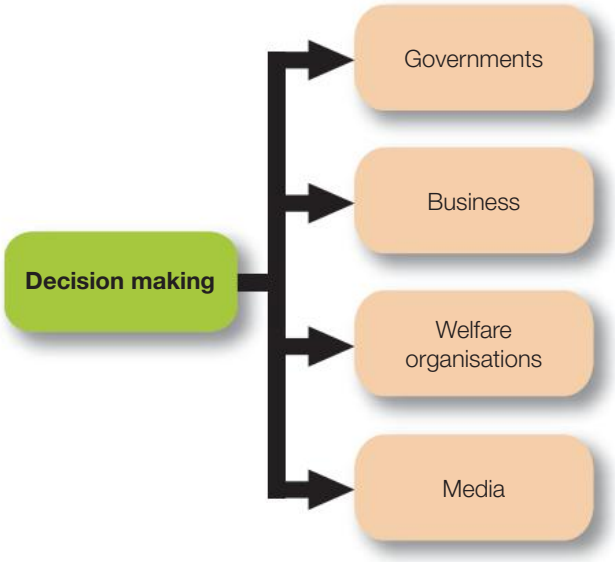

Figure 10.7 Organisations which make decisions that impact on the community.

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Governments

Governments, at all levels, make decisions that have an impact on our daily lives. At the federal and state level these decisions are usually made by Cabinet and, where specified by the constitution, endorsed by the parliament. Only decisions that create new law or endorse government spending need to be brought before parliament and the Queen's representative. Some decisions can be made by **regulation** or **decree**. For example, Australia's decision to support the US invasion of Iraq in 2003 did not need to be endorsed by the Australian Parliament. The decision to commit Australian troops to war was made by the prime minister and Cabinet. The funds used to finance Australia's commitment were drawn from the defence budget already passed by parliament.

Figure 10.8 shows how decisions are made at the state and federal level within a parliamentary democracy. (Also refer to Chapter 3, pages 70–71.)

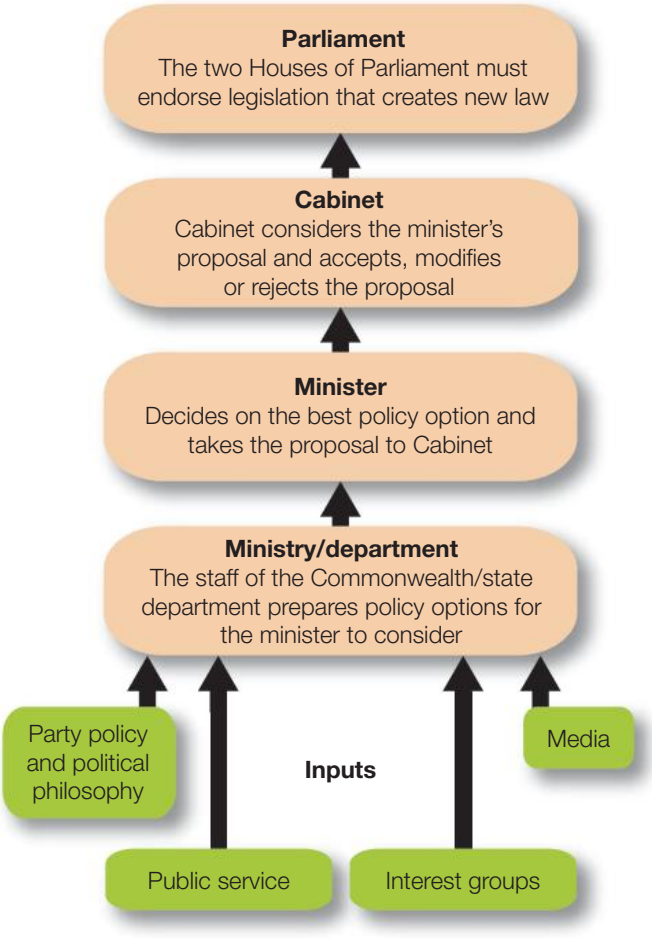

Figure 10.8 Decision-making processes at the state and federal levels of government.

Business

The decisions made by business also affect our daily lives. For example, a decision to invest in a new factory will help to create new jobs. A decision to close or relocate a factory will increase unemployment in a community.

The way a business is conducted will affect its workforce and the community in which it is located. If the company is a good corporate citizen these impacts are likely to be positive. A bad corporate citizen may exploit its workers, pollute the environment and care little about its broader community responsibilities.

Welfare organisations

With one in five households living on less than $300 a week (most of which is made up of government welfare payments), welfare agencies play an important role in the life of many Australians. Many welfare agencies distribute assistance to the poor and needy. Some of this money is donated by members of the community, but the majority comes from government, which often sees welfare organisations as being well placed to distribute assistance to those most in need.

Welfare organisations also lobby governments to secure a better deal for the poor and disadvantaged. The main supporter of low-income and disadvantaged people in Australia is the Australian Council of Social Service (ACOSS).

Info.com.tech

Investigating ACOSS

Activities

Access the ACOSS website and answer the following questions:

1. What is ACOSS?
2. What are the aims of ACOSS?
3. Who does ACOSS try to help?
4. List the ten key areas of social and economic policy ACOSS focuses on.
5. Evaluate the success of ACOSS in one of its key areas.
6. How can an individual become involved in ACOSS?

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Media

The editorial decisions made by the media help to shape public discussion and debate – the issues we talk about. By highlighting some issues and ignoring others the media can influence the decision-making processes of government. If the media emphasises law and order as an issue, for example, a government may respond by increasing police numbers and the length of prison sentences. (The role of the media is examined in more detail in Section 10.6.)

Figure 10.9 Media coverage of the Prime Minister's carbon tax announcement.

Understanding the text

1 What organisations in Australian society make decisions that impact on the community?

2 At the federal and state levels of government, what is the name of the body that makes decisions regarding new laws and government spending?

3 What types of decisions need to be brought before parliament?

4 Describe how the decisions made by each of the following organisations impact on our lives:

a business

b welfare organisations

c media.

Give an example of a decision made by each of these organisations.

Activities

1 Working in groups, find examples of groups that make up each organisation in Figure 10.7 (page 210). For example, you may put the ABC under media and the Red Cross under welfare organisations. Alternatively, each group may research one organisation and present its findings to the class.

2 **a** Look at Figure 10.7. List any other bodies that you think influence the decision-making process.

b In groups of three or four, discuss your opinions and decide which bodies you believe are most valid in being a part of the decision-making process. You may choose all the suggestions or only some.

c As a class, add to Figure 10.7 using your suggestions from the group work.

d Using the expanded Figure 10.7 created in part c, above, rank the significance of each decision-making body and explain why you have chosen this ranking.

3 Study Figure 10.8 (page 211) and then complete the following tasks:

a Describe the process of decision making at the state or federal level.

b As a class, discuss if this is a democratic way for decisions to be made for the nation. What are the positive and negative aspects of the process outlined? How would you improve or change it?

4 In pairs, discuss group decisions you have been involved in recently; for example, who would play in each position on a sporting team. How was the decision made? Was it democratic? Did it offer a better or alternative decision-making process than the one shown in Figure 10.8?

5 As a class, discuss the qualities of an effective leader. How important is leadership in achieving a collective goal? Brainstorm the names of people in the Australian community who you think provide effective leadership.

6 Investigate the global warming issue or another current issue and track its reporting in the various media. Answer the following questions:

a What type of coverage is it given? (In the print media: on which page does it appear and how large is the article? In the electronic and social media: is it a lead story or a smaller story later on in the broadcast?)

b How is it reported? (Does the media source give it support or does it oppose it?)

c What is the range and variety of the media attention the issue attracts? (Is it a hot topic of the media or is it only mentioned briefly by parts of the media and then forgotten?)

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10.3 Political parties

Key terms

crossbenchers Members of parliament who belong to neither the government nor the opposition parties; also refers to independents and members of minor parties.

greens A political grouping of people whose aim is the protection of the environment.

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.

preselection To choose a political candidate in advance, usually on the basis of particular criteria, such as party preferences or policy.

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 Nationals. Smaller political parties include the Greens.

The Australian Labor Party

Figure 10.10 The Australian Labor Party logo.

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 and Paul Keating. Traditionally, the ALP sees itself as a representative of working families.

Bob Hawke: prime minister 1983–91.

Paul Keating: prime minister 1991–96.

Kevin Rudd: prime minister 2007–10.

Figure 10.11 Famous ALP prime ministers.

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Investigating the Australian Labor Party

Activities

Access the ALP website and complete the following tasks:

1. Outline the origins of the Labor Party.
2. When was the federal Labor Party formed?
3. What are the ALP's links with the trade union movement?
4. Who is the current leader of the federal Labor Party?
5. Who can be a member of Young Labor?
6. Who was the first female Labor politician?
7. Write a one-page report outlining the values and objectives of the ALP.

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The Liberal Party

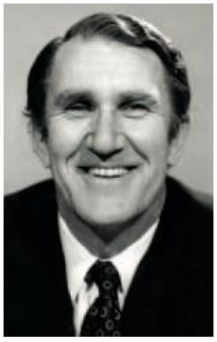
The Liberal Party was formed by Robert Gordon Menzies in 1944. Menzies believed that the non-Labor parties should unite to present to the Australian people a strong alternative government.

Figure 10.12
The Liberal Party logo.

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. 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.

Sir Robert Menzies: prime minister 1949–66.



Malcolm Fraser: prime minister 1975–83.

John Howard: prime minister 1996–2007.

Figure 10.13 Famous Liberal prime ministers.

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Investigating the Liberal Party

Activities

Access the Liberal Party website and complete the following tasks:

1. What is the Liberal Party's slogan? What is your interpretation of this slogan?
2. Who is the current leader of the federal Liberal Party?
3. List the Liberal Party's main beliefs.
4. Write a paragraph summarising the history of the Liberal Party.

Julia Gillard, Prime Minister 2010–2013

Julia Gillard was sworn in as Australia's 27th Prime Minister by the Governor-General on 24 June 2010 and re-sworn in as Prime Minister on 14 September 2010 following the 2010 federal election. She had previously held the position of Deputy Prime Minister following the 2007 election. She took over from Kevin Rudd when a leadership spill occurred as a result of dissatisfaction within the Labor caucus. This dissatisfaction within the ALP government and direct action groups was due to its opposition to the mining tax, poker machine reform and the price on carbon.

The 2010 election resulted in a hung parliament. This meant that Labor and the Coalition each won 72 seats in a 150 seat House of Representatives. Of the six crossbenchers, four gave their support to the Labor government. This returned the Labor Government to power with Julia Gillard again leading the party.

Julia Gillard has a degree in Arts/Law and began work as a solicitor in Melbourne. She was the first woman in Australian history to hold the position of Prime Minister.

The Nationals

Figure 10.14 The National Party of Australia logo.

The Country Party was formed in 1919, and was renamed the National Party of Australia in the 1980s. Since its formation in 1919, the party's main aim has been to represent farmers and people living in regional Australia, many of whom felt that their interests and concerns were not being represented by the major city-based political parties.

Given their narrow political base, the Nationals have no chance of forming a government in their own right. They do, however, exert considerable influence by working in a partnership, or coalition, with the Liberal Party. When the Coalition parties form a government, the leader of the Nationals becomes the deputy prime minister and some of the Nationals' politicians become ministers.

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The Greens

Figure 10.15
The Australian Greens logo.

In 1984, 50 green activists from various environmentally concerned groups from around Australia gathered in Tasmania to organise a national conference. This ultimately led to the Getting Together conference in 1986, which had more than 500 participants and was held at the University of Sydney. A lack of unity, and a diversity of interests, prevented the establishment of a green-based political party at that time. By 1990 this lack of unity and purpose had been overcome and a number of state-based Greens parties were formed. In 1992, the Greens from New South Wales, Queensland and Tasmania agreed to merge their state-based organisations into a single national organisation: the Australian Greens party. The Western Australian Greens joined the Confederation of the Australian Greens in 2003. Today all state and territory Green bodies are members of the Confederation.

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Investigating the Nationals and the Greens

For more information about the National and Green parties, go to their websites.

Why do we have political parties?

In a Westminster parliamentary democracy, such as Australia, organised political parties fulfil a number of important functions.

Political parties play an important role in the stability of our political system. If parties did not exist, each individual member of parliament would be free to make up his or her own mind on every issue that came before the parliament. While good in theory, this would be impractical. It would make it difficult to get unpopular, but necessary, legislation through the parliament. It could also encourage unethical behaviour.

The federal, state and territory parliaments are mostly made up of people who belong to political parties. Electors usually vote for parties, rather than for individual candidates. Sometimes, however, a popular candidate may stand and be elected as an independent, which means the candidate is not linked to any particular party. In parliament, independents tend to vote on the merits of a particular proposition rather than simply 'follow the party line'. Independents are often referred to as **crossbenchers** because, in parliament, they are normally seated between the government and opposition party members.

Parties select candidates to contest elections for public office. This process is known as **preselection**. Once preselected, candidates are required to follow the party line, which means they must argue in favour of the policies developed by the party. In return, the party helps fund the candidate's election campaign. Political parties have disciplinary procedures to ensure that candidates don't speak out against party policies. For example, candidates can lose their party endorsement (support) or be expelled from the party. Both actions can make it much more difficult for the person to get elected, but not always. For example, Pauline Hanson was an endorsed Liberal candidate in the 1996 federal election, but was disendorsed by the party prior to the election. Hanson was disendorsed following comments she made that were portrayed in the media as being racist. Despite being disendorsed, Hanson went on to win the seat (position in parliament) as an independent. She then formed her own political party: One Nation.

In Australia's parliament, political parties provide both the government and opposition. The party, or parties, that wins a majority of seats in the House of Representatives (the Lower House) forms the government. The party, or parties, that win the second largest number of seats becomes the official opposition. Much of the political debate is defined in 'government versus opposition' terms.

In government and opposition, political parties provide organisational support. Party members (collectively referred to as 'the party machine') are responsible for organising and financing election campaigns, developing policies and recruiting more members.

Understanding the text

1 How is a government formed at the federal level?
2 Why do we have political parties in Australia?
3 Who or what is an independent?

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10.4 Participation in the democratic process

Key terms

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.

donkey vote A ballot paper where the voter has simply numbered the candidates in the order in which they appear on the ballot paper.

electoral commissioner The official who is responsible for the conduct of elections, including ensuring that electoral laws are obeyed.

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.

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.

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.

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.

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.

Methods of voting

There are two different methods of counting votes in any election. 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. It is the most straightforward way of voting.

Figure 10.16 A voter at the 2010 federal election.

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.

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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 amongst 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

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.

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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.

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Investigating the electoral process

To find out more about our electoral system access the websites of the NSW State Electoral Office and the Australian Electoral Commission.

Activity

Using the sites above 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.

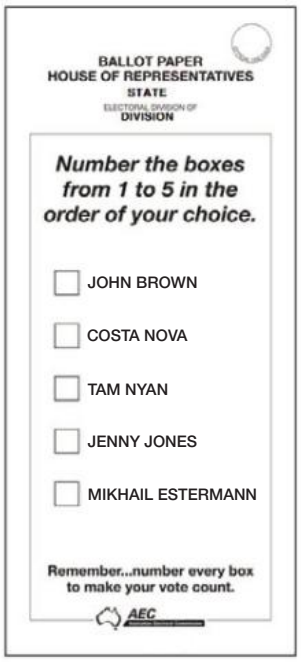
b Construct a ballot paper with the five names. The order of candidates should be determined by drawing names out of a hat or another random method. As each candidate is selected, add his or her name to the ballot paper until all five candidates have been selected at random.

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.


BALLOT PAPER
HOUSE OF REPRESENTATIVES
STATE
ELECTORAL DIVISION OF
DIVISION

Number the boxes from 1 to 5 in the order of your choice.

- JOHN BROWN
- COSTA NOVA
- TAM NYAN
- JENNY JONES
- MIKHAIL ESTERMANN

Remember...number every box to make your vote count.

AEC

Figure 10.17 Sample ballot paper.

Activities

1 As a class, discuss the idea that compulsory voting does not follow the ideals of a democratic society.

2 Write an exposition on the topic: A true democracy would not make voting compulsory.

3 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.

c The teacher then asks all students to submit their secret ballot. Two students, selected at random, count these votes and the majority rules.

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 that you, as a class, should be expected to do.

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10.5 Interest groups

Key terms

deputation A group of people appointed to represent others.

Collective action

While everybody in Australia, including those under the voting age, can become a member of a political party, most people choose not to become actively involved in politics. In fact, less than 1 per cent of Australians are members of a political party. More people feel comfortable about joining or supporting an interest group. Many do so without even realising it. For example, the NRMA – a motorist organisation to which many people belong – provides much more than just road service. It is a powerful interest group promoting the concerns of automobile owners. It lobbies governments for additional road funding and acts as a consumer watchdog in matters relating to automobile quality and safety.

What are interest groups?

Interest groups are organisations that seek to influence, either directly or indirectly, the decision making processes of governments or large corporations. They do this by trying to exercise direct influence over decision making processes or by attempting to shape the demands that other groups and the general public make on decision makers.

Interest groups are formed when people with a common cause or concern unite in an aim to have their concerns addressed. They play an important role in democratic societies, such as Australia. Some of these groups are very effective and influence decisions at the highest level of government, while others are weak and have little impact.

The amount of influence that an interest group has is not necessarily related to its size. Some small groups are able to exercise great power and operate through direct contact with government. Others need to engage in direct action, such as demonstrations, to be successful. Often an interest group's influence depends on the group's ability to draw the media's attention to the issues and causes it promotes.

Interest groups may be concerned with a single issue, such as the protection of an area of bushland in a residential area, or they may focus on long-term objectives, such as reduction of greenhouse gas emissions. An interest group may come into existence as a reaction to a particular government decision or action, or it may be the result of a long-standing commitment to a particular viewpoint or cause. An interest group may be highly organised, with a paid professional staff, or it may be forced to rely on voluntary commitment and organisation. It may be well resourced or have limited means.

How do interest groups differ from political parties?

Interest groups are often compared with political parties because both are organisations that communicate the views and concerns of citizens to governments. But while political parties are accountable to the electorate and seek to control the operations of government, interest groups lack this type of accountability. They are, instead, a political force that seeks to influence government policies.

Interest groups have three features that set them apart from political parties:

- They don't seek to win elections.
- They often campaign continuously on issues, whereas political parties tend to be most active in the period immediately before elections.
- Interest groups are more issue orientated than political parties and depend on supporters who identify with their organisation. Political parties often depend on mobilising voters to support a particular candidate or party rather than any one issue.

Types of interest groups

The two main types of interest groups are sectional groups and promotional groups.

Sectional groups aim to promote the interests of specific sections of the community. They include trade unions, professional associations, religious organisations, motorist groups, pensioner groups, ethnic associations and business and farming groups.

Promotional groups seek to promote a particular cause. The two most prominent types of promotional groups are those concerned with environmental issues and moral issues.

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Environmental issues groups are concerned with the protection of the physical and human environment. They are now represented in Australia's parliaments and are usually referred to as the Greens. Examples of environmental interest groups are Greenpeace, the Australian Conservation Foundation, Friends of the Earth and The Wilderness Society.

A number of interest groups promote moral issues that concern them, such as abortion and euthanasia. Examples of these groups are Right to Life, Australian Child Protection Alliance and Festival of Light.

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Examples of Australian interest groups

For more information on Australian interest groups, access a selection of the following websites:

- Aboriginal Arts and Culture Centre
- Ausflag
- Australian Chamber of Commerce and Industry
- Australian Council of Trade Unions
- Australian Medical Association
- Australian Nursing Federation
- Business Council of Australia
- Diabetes Australia
- Electrical Trades Union
- Emily's List
- Friends of the ABC
- Friends of the Earth
- Gun Control Australia
- Human Rights Council of Australia
- Maternity Coalition
- National Farmers' Federation
- National Tertiary Education Union
- NRMA
- Public Service Association of NSW
- Right to Life Australia
- The Wilderness Society
- Women's Electoral Lobby Australia.

Strategies of interest groups

Interest groups use a range of strategies when they attempt to influence the decision-making processes of governments and large corporations. Some of these strategies are:

- ***deputations*** *to members of parliament* – this involves a small group, which represents the views of a larger group, meeting with a member of parliament. The member then approaches the relevant minister or raises the issue in parliament.
- *direct appeals to ministers* – many interest groups attempt to deal directly with ministers or their senior advisers. In order to do this, some groups employ a lobbyist. This is a person who presents the group's points of view and is paid by the group to do so.
- *petitions to parliament* – as part of parliamentary procedures, petitions are read out in parliament. Few receive much attention.
- *letter writing* – this strategy is used to persuade decision makers that there is widespread community concern about a particular issue. Letters written to newspapers' editors are also used to help shape public opinion.
- *advertising* – this is used by some groups to promote their concerns. It can be very expensive.
- *talkback radio* – interest groups may try to influence public opinion or bring attention to their cause by participating in talkback radio programs.
- *social media* – online petitions or social media pages are often used to gain support for a particular issue. These are able to gain popular support internationally and swiftly.
- *protests and demonstrations* – these are used to attract the attention of the media. Interest groups hope the publicity generated by these activities will affect public opinion.
- *public meetings* – these meetings are used to inform the public about particular issues.
- *direct political interventions* – some interest groups intervene directly in the political process. They do this by standing their own candidates in elections or by trying to influence the political outcome in electorates where the outcome is often close (usually referred to as marginal electorates).
- *legal interventions* – some interest groups use the legal system to achieve their objectives. For example, conservation groups may appeal to the Land and Environment Court in an effort to block developments to which they are opposed. Such interventions are often very expensive.
- *other strategies* – these include bumper stickers, posters and T-shirt slogans.

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Table 10.1 Advantages and disadvantages of interest groups

Advantages	Disadvantages
Allow people to influence decision-making processes	May not be run democratically
Represent minority groups who may not normally have much political influence	May put their own interests before the interests of the majority of people
Educate the public about certain issues	Wealth, position and control of resources allow some groups to have a greater influence over government decision making
Highlight problems that are often ignored	May offer one-sided, or biased, information
Keep a check on government actions	Some groups have more power and influence than others
Help inform the government of the feelings of the electorate	

Understanding the text

1 What is an interest group?

2 How can interest groups influence the decision-making process?

3 What is the difference between an interest group and a political party?

4 What is the difference between a sectional group and a promotional group?

5 What are some of the advantages and disadvantages of interest groups?

6 List the various ways that interest groups seek to influence decision making. Add any others that you can think of.

7 What is collective action? In what ways is it better than individual action?

8 Give an example of:
- **a** a sectional interest group
- **b** a promotional interest group.

9 In your own words, define the following terms:
- **a** deputation
- **b** petition
- **c** lobbyist
- **d** legal intervention
- **e** political intervention
- **f** talkback radio.

10 What is usually the main aim of an interest group?

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Investigating an interest group

Activities

Investigate at least one of the following interest groups:
- Greenpeace
- Oxfam
- Amnesty International
- Australian Conservation Foundation

1 What issues does the organisation campaign for?

2 What successes has the organisation had?

3 What strategies does the organisation employ to influence decision-making processes?

4 Describe the organisational structure of the group and its links with other interest groups.

5 How does the organisation fund its activities?

Activities

1 Working in groups, look at the list of strategies used by interest groups to influence decision making. Which strategies do you think are the most effective? Rewrite the list so the strategies are listed from most effective to least effective. Share your group's list with the rest of the class. Be prepared to defend your ranking.

2 Write an exposition on the topic: Interest groups have both a positive and negative impact on democratic processes in Australia. Do you agree? Give reasons for your opinion.

3 Investigate an interest group based in your local community. Often these are listed on your local council's website.
- **a** What issues does the organisation campaign for?
- **b** What successes has the organisation had?
- **c** What strategies does the organisation employ to influence decision-making processes?
- **d** Describe the interest group's organisational structure and links with other interest groups.
- **e** How does the organisation fund its activities?

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10.6 The media

Key terms

deregulation Removing restrictions and regulations.

external diversification The merging of complementary industries or firms to create a bigger industry.

transnational media enterprises Media corporations that operate in more than one country, sometimes globally.

vertical integration The process where several steps in the production and/or distribution of a product or service are controlled by a single company or entity, to increase that company's or entity's power in the marketplace.

Communicating information to the public is closely related to the idea of freedom of speech, and because the media plays an important role in providing the public with information, its responsibilities are quite important. Social media such as Twitter, Facebook and YouTube is increasingly influential in shaping online discussion and debate. Local issues can quickly become highlighted internationally.

There is a close relationship between the media and interest groups. Interest groups (and individuals) use the media to gain publicity for their views, while the media highlights the conflict that is often generated by interest groups when they promote their causes.

By highlighting some issues and ignoring others, the media helps shape the nature of public debate. This is referred to as the media's agenda-setting role.

When looking at the ways in which interest groups use the media it is important to understand how the media selects and manages the presentation of news. Commercial concerns (such as the need to attract as large numbers of readers, listeners and viewers as possible) exert a powerful influence on which issues are examined and the way in which they are addressed. For many readers, electronic and digital media has become a preference to print media for obtaining breaking news, current affairs and celebrity stories. This allows the print media to focus on a wider range of issues in greater depth than is generally possible in the electronic media (television and radio). The electronic media, which is governed by the need to attract and maintain an audience's attention, tends to focus on those issues that are likely to appeal to a particular audience.

Figure 10.18 Examples of the print media.

The type of media is also important. Newspapers and magazines provide greater opportunity for the in-depth treatment of issues, with photographs playing only a supporting role. Television news reports and social media are often built around a visual image with the commentary playing a supporting role. Both allow the viewer to become an active and immediate participant through interactive media such as Twitter. Interest groups stage protests or publicity stunts that attract the media's attention (see Figure 10.21, page 224). This ensures widespread media coverage and helps place an issue before the public. If the public is sympathetic towards the cause, pressure will build and politicians may be forced to respond. Greenpeace's very successful anti-whaling campaign is an example of how the media can be used to influence decision makers. Images of whales being harpooned caused international outrage. This forced the Australian Government to support an international ban on whaling.

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Using the electronic media

- *Sydney Morning Herald*
- ninemsn
- Network Ten
- Seven
- ABC Online

Activity

Look at the websites of the media organisations listed above and note down the leading news story of the day on each. Suggest why the stories are the same or different. How is one of these stories dealt with in interactive media such as Facebook or Twitter?

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Changing role of the media

Historically, the media has served as a focus of national life, interests and activities. It is mainly through the media that viewers, listeners and readers have come to see themselves as a part of a national and global community. Over the past 20 years, however, the combined impact of government policy, changing economic conditions and technological innovation has resulted in widespread change within the media industry.

The most significant change has been the shift in government media policy. Governments that were once interested in national unity and the public interest have become increasingly preoccupied with concerns about efficiency, competition and economic growth. Under policies of **deregulation**, media companies have been encouraged to achieve growth by expanding the number of people they broadcast to, responding to consumer demand and maximising consumer choice. These policies have promoted the development of a new media order that is dominated by global interests rather than national and regional interests.

An important feature of the new media order is the dominance of a small number of **transnational media enterprises** competing on a global scale for power and profits. Examples are Time Warner, Sony, Philips, Rupert Murdoch's News Corporation and the Disney Corporation. These corporations concentrate on the similarities between international markets that enable them to sell standardised products across the globe.

Large media organisations are attempting to achieve global dominance by diversifying their interests through the media sector. This is called **vertical integration**. It involves one firm buying another to achieve control over the successive stages in the production of a good or service. In the media, this would mean achieving control over programming (production and archives), distribution and transmission.

External diversification, on the other hand, involves the merging of information and entertainment industries with large telecommunications firms. Mergers such as this have the potential to create multimedia giants with the ability to supply cable television and communications services, as well as computer games, home banking, home shopping and other interactive services.

Concerns that have arisen over this globalisation are:

- whether globalisation will lessen consumer choice if the number of major players in the media industry decreases
- the impact that global programming, distribution and transmission will have on local cultures, customs and values; for example, whether a global presence of US-owned media enterprises will lead to American cultural domination.

Figure 10.19 This diagram shows the speed and capacity of the Internet in sending and processing information across the globe.

Figure 10.20 This diagram shows the wide range of different social media and the range of different purposes for which they are used.

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Figure 10.21 Greenpeace specialises in protests or publicity stunts that attract the attention of the media.

Understanding the text

1. How do interest groups use the media to get their message across?
2. What is meant by the term *global community*?
3. What factors have contributed to widespread change within the media industry?
4. Explain the meaning of the term *transnational media enterprises*.
5. Write a paragraph outlining the differences between 'vertical integration' and 'external diversification'.
6. What are the two major concerns over globalisation?
7. Choose a politician from Australia or another country and use the Internet to research how they use social media to communicate. Comment on whether you think it is effective or not. Give reasons for your answer.

Activities

1. In pairs, choose a front page from a daily newspaper and then complete the following tasks:
   - **a** List the main stories on the page.
   - **b** What are the major issues?
   - **c** Divide the stories into local, state and national issues.
   - **d** Who is involved in the issues being reported?
   - **e** How is the story being reported by the media?
2. Investigate the influence of the media on the political process. Choose a relevant issue and find examples of reporting on the issue by the following media: newspapers (including letters to the editor and editorial research), the Internet, radio and television. Examine the represented perspectives and the differences in reporting the issues and facts. Consider which medium has the most influence on the chosen issue.
3. Hold a class debate on the topic: The regulation of the media is an assault on freedom of speech.
4. Invite a member of the local media to come and speak to the class about what they see the role of the media to be in the political process. Before the visit, brainstorm some questions about contemporary issues that you would like to ask the person. If possible, email these questions to the person prior to the visit.
5. Identify one contemporary issue in your local community or state.
   - **a** Name the issue.
   - **b** Monitor media reports on the issue.
   - **c** Identify the individuals, groups and organisations involved in the issue.
6. Using the information in figures 10.19 and 10.20, imagine you have been employed to design a successful online media campaign for a prominent politician who wants to become prime minister.
   - **a** Look at your chosen politician's current online profile.
   - **b** Update the profile using social media to make it effective in reaching more voters and to make it more appealing to voters.
   - **c** In a paragraph, explain your reasons for your selection of social media avenues.

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10.7 Current issues relating to the political process

It is the job of our politicians to make decisions on our behalf. When we vote for a particular political party, it is because we expect they will represent us and our interests in an honest fashion. There are so many current issues that we hear about in the media that affect us and the world in which we live. We often rely on the media to truthfully report this and, from this information, we form our own opinion. But do we always get the true story? The amount of truth we get from the media about political issues is becoming an issue itself. The adapted article below outlines this issue.

Can we be a part of democracy if we aren't told the truth about current issues?

The word 'democracy' comes from the Greek 'demos', or people, and 'kratos', or power. Simplistically, this means, 'the rule of the people'. The very nature of Australian democracy expects debate and discussion to occur in order to work out future direction on issues of national importance. This debate is often seen in our parliament. Ideally, this debate should revolve around opinions and ideas about a concept or policy but sometimes the debate becomes passionate. Personal insults and shouting replace proper sensible debate.

As well as this, when politicians are interviewed about a particular topic or issue, they often don't give a direct answer but either avoid the question or attack the opposing party instead. This can be taken as treating the general public as ignorant or not being able to understand important issues. It appears that they think the general public will believe whatever they are told.

This poor behaviour of politicians is regularly reported in daily news and also is often a topic of conversation and comment in social media such as Twitter and talkback radio. It is often so appalling that the general public decide their opinions on politicians through their reflections on these personal attacks. The underlying opinion is that if our nation's leaders behave like this, why would we respect them or trust them to make policy as our representatives?

Figure 10.22 Angry and personal attacks can overshadow real political issues.

But why do some politicians behave like this? Is it because this type of behaviour is the best way to attract media attention? That if they behaved well, they wouldn't get attention in the media?

As the voting public, what do we want to hear? Boring political and policy debate that is calm and logical, or emotional, personal attacks? No one forces us to listen, so do the media report what they want us to hear in order to get more listeners?

As the consumers of this media, have we lost the ability to tell the difference between fact and opinion? Do we believe everything we see and hear because the media has reported it or do we actually question what they say? Are we active and informed citizens or are we manipulated to believe whatever is put in front of us by the media about politicians and current issues? An example of this is the 'boat people' issue. What is truth, what is part truth and what is myth, and do we care unless it affects us directly?

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So, how *do* we begin to know what is true and what is not? Do we begin to expect that politicians (and those that report what they say) back up what they say with facts that we can easily check?

If a television show implies by its name that it is a current affairs show that reports on facts, we should expect it to show the facts and tell us where the facts came from. Otherwise, we should assume it is a made up or exaggerated or biased story. We should begin by asking the question, 'How do we know this to be true?' Just like gossip, sensational stories that seem to amazing to be true are often not true.

Adapted from 'We get the democracy we ask for', www.abc.net.au/unleashed/4248952.html).

Activities

1 Test how accurately news regarding a politician's or government's actions is reported by following these steps.

a Choose a current issue that has been in the print, electronic or social media over the past week that you would like to explore further. Common and recurring issues are: the particular behaviour of a politician (for example overspending their government allowances), a government policy on a national or international issue (e.g. immigration) and the rights of a citizen (e.g. driving age).

b Over the next week, note how the issue is reported in the media. Copy the table below and use it to record your observations.

Report details	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Where reported							
What was said							
Who said it							

c Conduct your own research on this issue. You have now had a week to think about the issue and see how it is reported in the media. Using the information that you recorded in the chart, decide what you want to find more about. This might be checking immigration numbers, reading a politician's website to see what they say about the issue or interviewing someone who reported on an issue. This last activity could be done by sending an email asking where they found their information or commenting on their blog.

d Write a report on your findings. This should include:

- a description of the issue that you have chosen
- how it was reported in the media
- what you did to find out the 'truth'
- what you found to be the facts
- your final conclusion about how your issue was reported to the public and whether we are told the truth about political events or not and by whom.

Your teacher may decide that this is a good group activity or may give different groups one media source to examine with the class researching the same issue.

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Chapter review

Activity 1: multiple choice

1 The type of federal government that Australia has is called a:

a monarchy

b federation

c constitutional democracy

d tyranny.

2 Australia has:

a one level of government

b two levels of government

c three levels of government

d four levels of government.

3 The state government is responsible for:

a migration, economy and education

b migration, education and health

c health, education and roads

d libraries, education and garbage collection.

4 The main organisations that have an impact on decision making are:

a governments

b business

c welfare organisations and the media

d all of the above.

5 A donkey vote is:

a a vote that is numbered sequentially down the ballot paper

b a vote cast by a donkey

c one where the voter has written a comment on the ballot paper

d none of the above.

6 The Legislative Council is also known as the:

a Lower House

b Upper House

c Cabinet

d quorum.

7 The leader of the federal government is called the:

a Governor-General

b prime minister

c premier

d chief.

8 A deputation is:

a a group of students who go to see the deputy principal

b a group of people appointed to represent others

c an interest group that uses direct action

d an individual who is not associated with a political party.

Activity 2: who/what am I?

Use the clues listed below to guess the three people and/or things described.

1 a formed in 1891

b formed with the aim of looking after the interests of trade unions and workers

c a federal government political party

d once had Paul Keating as its leader

2 a formed the Liberal Party in 1944

b wanted to protect the non-Labor interests of the country

c became prime minister in 1949

d has the initials RGM

3 a merged federally in 1992

b known for its concern about the environment

c Western Australia joined in 2003

d had state parties before it merged nationally

Activity 3: think for yourself

In your notebook:

1 List the main features of a democracy.

2 Put them in order of importance to you.

3 Tick the ones that you feel are essential for a democracy to work.

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11

Travel

Focus statement

In this chapter we look at how to plan for travel and solve problems encountered when travelling. You will learn about the different types of travel options available and the benefits and disadvantages of each.

Focus question

What are the best ways to plan travel and solve travel-related problems?

In this chapter you will learn about:

- identifying a travel destination
- the factors influencing the choice of destinations
- planning a trip
- organising an itinerary
- solving travel problems
- current issues in travel.

11.1 Travel destinations

Key terms

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.

travel agents Businesses whose role is to advise consumers about travel and help them to plan their trip.

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. 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. Think, 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.

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**.

Identifying a travel 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.

There are many sources of information to assist people with their decision about travel destinations. The most common of these are discussed below.

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.

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Investigating travel destinations

- Flight Centre
- STA Travel
- Lonely Planet
- Pilot Guides
- Harvey World Travel

Activity

Browse the websites above and find a holiday that you would like to go on. Make notes on the holiday and report back to the class. Mention details such as itinerary, dates, transport, accommodation, preparation (for example, health concerns and visas) and costs.

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 want to engage in. If you want to visit Paris and stay in budget accommodation, for example, a search using 'Paris accommodation and budget' will help you find a good deal of relevant information.

The Internet also has many sites 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.

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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.

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 one of the most popular sources of information.

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 (see Figure 11.1).

Figure 11.1 Travel brochures are a major source of information about travel destinations.

In New South Wales, travel agents are regulated by the *Travel Agents Act 1987* (NSW). This means that NSW Fair Trading is responsible for ensuring that travel agents act honestly and fairly. As a result of this Act, travellers who hand over money to a travel agent are protected if the agent goes out of business.

The media

Another common source of travel information is the media. Television programs, such as *Getaway, Sydney Weekender* and *Places We Go*, promote travel destinations. These programs provide people with travel ideas and often highlight destinations and activities that are less widely known. Newspapers are another important source of travel information. The large city newspapers usually have a travel supplement in their weekend editions.

Travel guides

Travel guides provide detailed information about particular destinations. The authors of these guides have visited the places they write about and have researched destinations and attractions thoroughly.

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) and good places to eat.

Factors influencing the choice of destination

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 11.2).

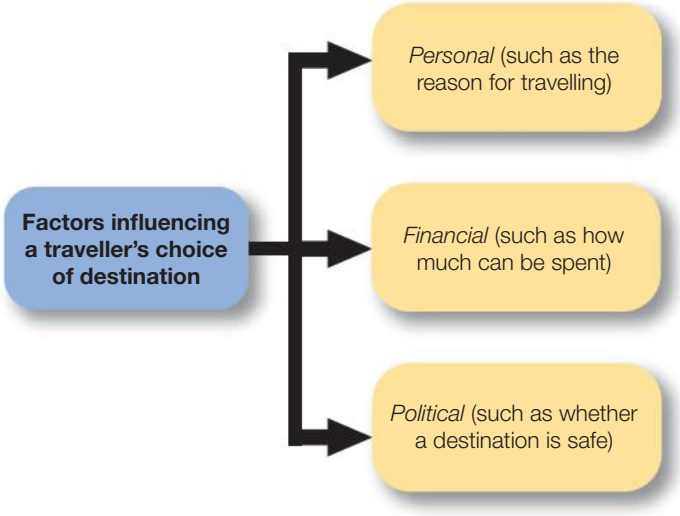

Figure 11.2 Factors influencing the choice of destinations.

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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 possible 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.

The reasons for travel will, of course, also influence the decisions made. If a person wants to relax, then a tropical island resort may be ideal. However, if someone wants 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.

Figure 11.3 History and culture versus adventure – what we want to experience while on holiday will influence our choice of destination.

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 guesthouse 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, during the Arab Spring in 2011, violent protests overthrew the government in Egypt. As a result, visitor numbers to Egypt collapsed as people were warned by their governments not to travel to the region. Other political factors to consider include whether a country's government welcomes visitors.

Understanding the text

1. Define the term *tourist*.
2. Explain how domestic tourism differs from international tourism.
3. Outline the ways the Internet can help us make appropriate travel decisions.
4. Explain the potential problems associated with using the Internet for travel advice.
5. Outline the role of travel agents.
6. Describe how the media acts as a source of travel information.
7. Explain how personal factors can influence our choice of destination.

Activities

1. Write a short report explaining what influences you the most when you think about where you would like to travel.
2. With a partner, select a holiday destination you have always wanted to go to. Using the Internet, conduct a search for the information you would need; for example, accommodation, airfares (or other transport, such as trains or hire cars) and activities to do while away. Write an evaluation of the Internet as a source of travel information. In your response, consider how long it took to find the information, the usefulness of the information you located and how easy it was to navigate through sites.
3. Using information technologies (including the Internet and word processing and graphics programs) construct a travel brochure for the holiday destination you selected in activity 2. Consider the different means of travelling to this destination and the types of accommodation and attractions that exist there.

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11.2 Planning a trip

Key terms

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.

itinerary A plan for a trip that outlines when (dates and times), how and where a person will travel.

passport An official document allowing a person to travel overseas across international borders.

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.

Means of travel

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 may be fast but it 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 alternative. 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/hour, offer passengers a comfortable and reliable means of travelling internationally.

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.

Figure 11.4 Cruising is now one of the fastest growing types of travel.

Group travel, often referred to as a 'package tour', has been a very popular form of travel since mass tourism started in the years following World War II. Usually a tour company plans the trip, including arranging all the transport, accommodation and, in some cases, meals. This often suits first-time travellers and those people who are keen to have a hassle-free trip. However, some people prefer to travel alone or with a partner or friend. These travellers prefer the freedom to decide where, when and how to travel rather than having to follow a predetermined **itinerary**. Travellers of this type are referred to as *free independent travellers* (FITs), with backpackers being among the most significant of these. A vast range of travel information is now available, making it is much easier for people to plan and travel by themselves. Packaged travel experiences are therefore becoming less popular.

Organising travel

Once a decision has been reached about the destination and means of travel, it is necessary to organise the details, such as accommodation. The sources of information used to determine the destination and transport type can also be used to organise the trip itself. Many airlines and hotel chains allow tickets and accommodation to be booked and paid for over the Internet. In fact, many airlines offer customers a discount for Internet bookings. These airlines prefer this method as it means they don't have to pay an agent a commission or meet the cost associated with staffing a call centre. When booking through an online provider it is important to ensure the travel company is reputable before supplying your credit card details.

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Travel agents can also organise the details of a trip. The advantage of this is that agents have a considerable amount of expertise and experience. There is also the added benefit of having someone to seek advice from should something go wrong while you are away. The disadvantages are that this is one of the more expensive ways to organise travel and some agents may offer biased advice based on the level of commission they receive for selling a particular travel product.

Whether you organise the trip yourself or use an agent, it is always advisable to do some research and get as much assistance as possible before finalising your travel arrangements. Many overseas travel destinations have tourist offices in Australia that can provide advice and assistance, and virtually all have websites. There are also travel advice centres for interstate travel and various organisations (such as the NRMA and other state motoring organisations) offer assistance and advice to travellers in Australia.

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 11.5 summarises some of the key considerations we should deal with before travelling.

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. This can be done at a post office. A passport usually remains valid for 10 years.

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 also 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.

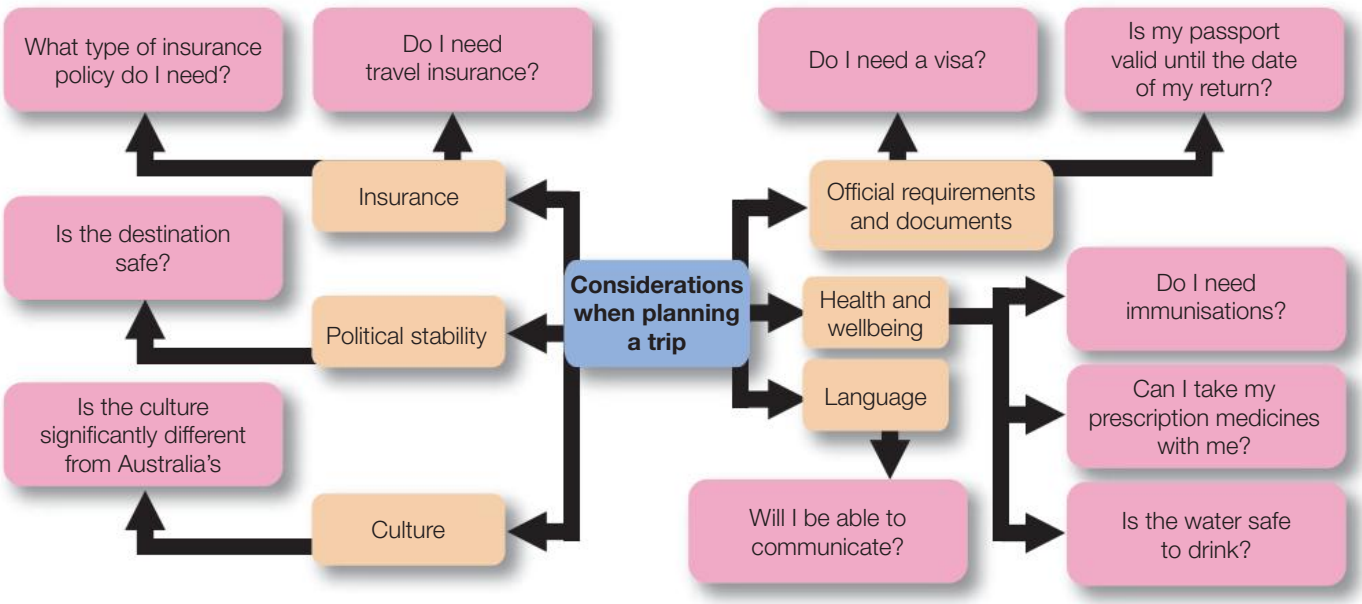

Figure 11.5 Things to consider when travelling.

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Figure 11.6 Australian passports and other travel-related material.

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Passports

Passports Australia (an agency of the Department of Foreign Affairs and Trade) is responsible for issuing all passports in Australia.

Activities

Access the Passports Australia website and complete the following activities while navigating through the site.

1. Outline the requirements a person must meet before being issued with an Australian passport.
2. Outline what you should do in order to maintain the security of your passport and travel documents.
3. Explain where you can apply for a passport and the steps you need to follow.
4. Describe what you should do if you lose your passport.

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. Most experienced travellers know that if you make an effort to speak the language, local people are more willing to offer assistance.

Health and wellbeing

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.

Figure 11.7 For many destinations it is essential to receive vaccinations to protect you from disease.

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. 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.

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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 in Australia you may choose to leave a small tip, but in the United States it is expected that you will leave a tip of at least 15 per cent of the bill. Not doing so may result in an unpleasant exchange. Putting your feet up after a journey may be relaxing but do it in Thailand and you are showing great disrespect to your host. It is important to find out about a country's culture before you visit. A travel guide is the best source of information regarding such matters.

Ill-informed travellers can cause tensions in travel destinations. Local people often feel that they have become the servants of visitors and that tourists don't respect their culture. Figure 11.8 summarises the typical experiences of people living in major tourist destinations. This is often referred to as the *index of irritation*.

Political stability

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. For example, terrorist attacks in Bali in 2002 and again in 2005 led to many people changing their plans to travel to Bali. The potential for violence, terrorist attacks and civil unrest are major concerns for travellers.

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.

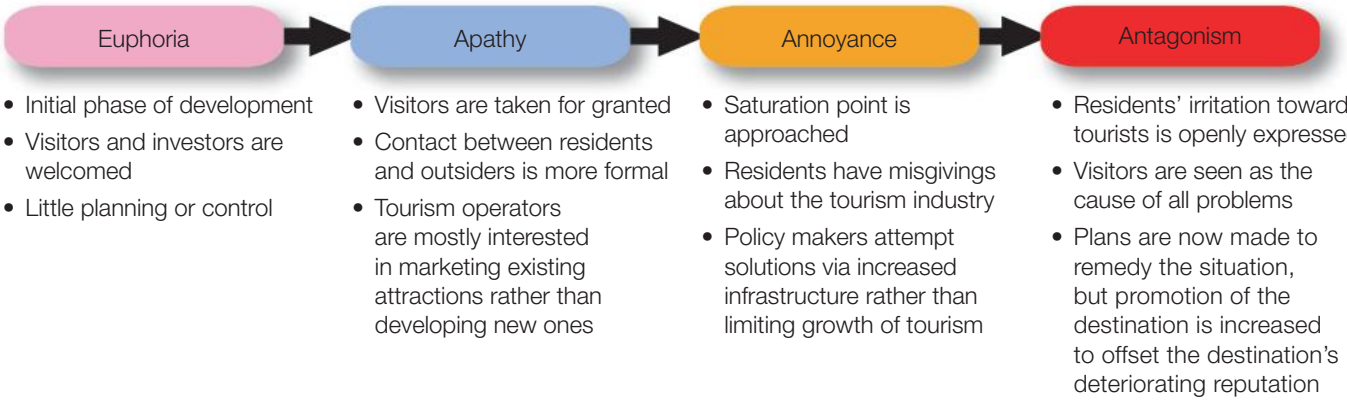

Figure 11.8 The index of irritation.

Figure 11.9 Respect the rights of others when taking photographs.

Figure 11.10 Be sensitive to the religious and cultural traditions of the places you visit.

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Figure 11.11 The Department of Foreign Affairs and Trade warns against travelling to places where the safety of tourists may be at risk.

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.

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Department of Foreign Affairs and Trade travel alerts

The Department of Foreign Affairs and Trade is responsible for handling Australia's relations with other nations. It also has the responsibility of assessing the risks that may be faced by Australians travelling overseas. DFAT researches the risks, seeking the advice of other nations and their intelligence services. If a risk is considered significant, DFAT issues a travel warning. These warnings are then publicised so members of the public are more aware of any dangers they may face while travelling.

Activities

Visit Smart Traveller, DFAT's travel advice website, and complete the following activities.

1. Select two destinations that currently have a travel alert. For each of these destinations, explain why the alert exists and what advice DFAT gives for people travelling to the destination.
2. Outline the general advice that DFAT is currently giving travellers.
3. Do you think DFAT should give travel warnings? Some people argue that by giving warnings the department is creating fear. Do you agree?

Insurance

Falling ill or being involved in an accident while overseas can be very costly and distressing. When travelling overseas, tourists are expected to pay for any medical treatment they receive. In some cases they may need to be evacuated to Australia. All this can result in huge medical bills.

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.

Case study

No travel insurance: what a nightmare!

The following case studies are real-life examples of what can happen when a person travels without travel insurance.

1. The parents of a young Australian woman who was working in a Canadian ski resort had to remortgage their house when their daughter was seriously injured in a skiing accident. She required evacuation to a large metropolitan hospital and $100 000 worth of medical care. She had no medical insurance cover, although she had been advised to take out cover before she left Australia.
2. A young Australian was badly injured in a motorbike accident in Bali. He had to be flown home for specialised treatment and rehabilitation over a period of months. The medical expenses totalled more than $290 000 but as he had full medical insurance, the insurance company paid all his expenses.

Activities

1. Describe how travel insurance would have been useful in the case studies above.
2. According to DFAT, 'If you can't afford travel insurance you can't afford to travel'. Should it be a requirement that you must have travel insurance in order to leave Australia? Justify your answer.

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Figure 11.12 It's always wise to buy travel insurance.

Understanding the text

1. Explain why some people prefer to travel as part of a travel group.
2. Outline the advantages of being a free independent traveller.
3. Outline the disadvantages of someone planning their trip themselves.
4. Outline the methods you could use to organise a trip.
5. Explain the difference between a passport and visa.
6. Outline how a traveller can reduce the chance of falling ill while away.
7. Explain the features of the index of irritation.
8. Explain what travellers can do to reduce their cultural impacts when overseas.
9. Explain how political instability can affect tourism.
10. Outline how travellers can gain more information about staying safe in their travel destinations.
11. Outline why it is important for people to have travel insurance.

Activities

1. Copy the following table. Complete it using the information in the text and your own knowledge.

Type of travel	Advantages	Disadvantages
Air		
Rail		
Road		
Sea		
Group		
Private		

2. With a partner, discuss which method you would use for organising a trip. Consider the advantages and disadvantages of each method and what would best suit you. Write a short report explaining which method you most prefer.
3. Study Figures 11.9 and 11.10 (page 235). Write a report outlining the considerations you need to keep in mind as a tourist interacting with another culture.
4. Select one country from each of the following lists:
   - *list A* – Great Britain, Greece, Japan, the United States or New Zealand
   - *list B* – Indonesia, India, Fiji, Kenya or Argentina.

   Using the Internet and other sources of information, research and report on:

   a the visa requirements for travelling to these two countries

   b whether a travel warning exists for these destinations and, if so, what the warning is

   c the medical requirements for people travelling to these destinations.

   Some useful sites to assist you include:
   - Australian Government's Smart Traveller
   - US Department of State
   - US National Center for Infectious Diseases
   - UK Foreign and Commonwealth Office.

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11.3 Organising an itinerary

Key terms

accommodation ratings Accommodation (usually hotels and motels) is rated depending on the services provided. Five-star hotels are considered to be the most luxurious.

An itinerary is a travel plan. It includes the times, dates and places a person is travelling to and also gives information about where the accommodation is, the means the person will be travelling by, and perhaps information about how to find certain locations.

Main travel decisions and budget and time constraints

Figure 11.13 is a summary of the types of questions we should ask ourselves when making travel-related decisions. As you can see, the answers to many of these questions will come down to how much time and money you have. Some people have quite a lot to spend but are time poor; that is, they can only be away from home 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.

The following example demonstrates these considerations. Qui Lin and Emily are both keen to travel to Cairns in Queensland. Qui Lin is an advertising executive and earns a very good income but he can only afford to have three days away from the office. Emily works for herself and makes a more modest income but she has structured her work in order to give herself four weeks off. Qui Lin decides to travel by plane and will fly out to the Great Barrier Reef by helicopter and has prebooked a bus tour to Cape Tribulation Rainforest. This is costing Qui Lin a lot of money but he can leave and be back home in three days. Emily will drive up, camping along the way, using her own car to visit the rainforest and will take a boat to visit the reef. While this is a much longer journey, Emily 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 visit a rainforest to view a rare tropical bird may be the highlight of a holiday and worth spending a lot of time and money. For others, relaxing on a beach reading a book may be a top priority.

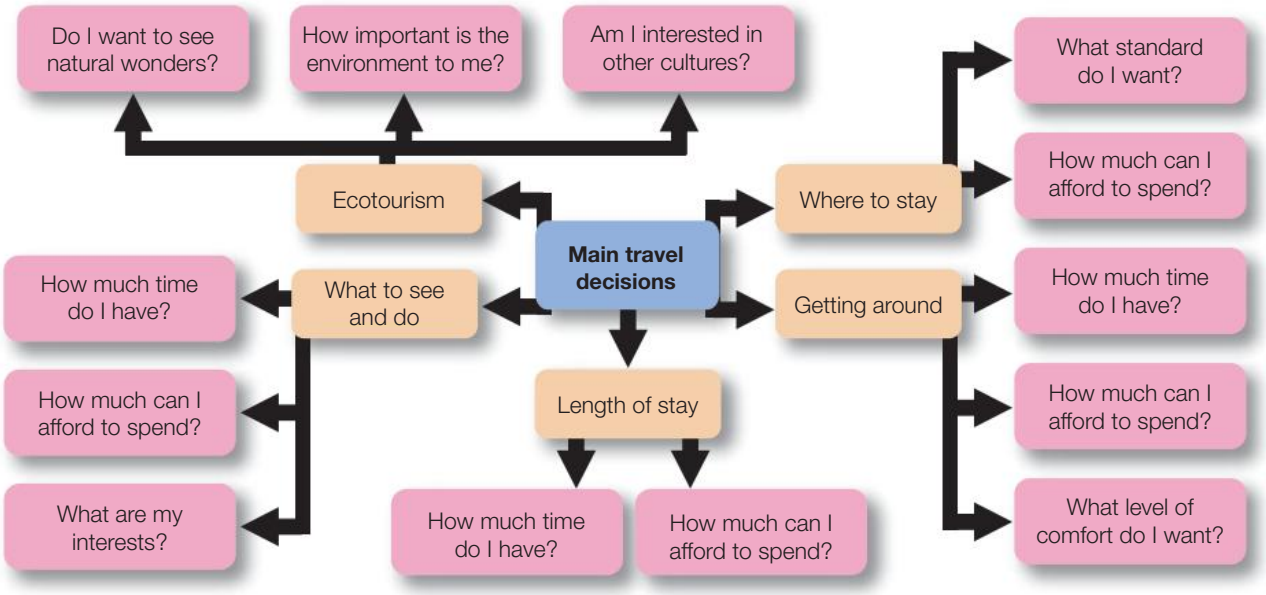

Figure 11.13 Questions to ask yourself when organising your itinerary.

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Figure 11.14 The Hotel InterContinental is one of Sydney's five-star hotels.

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 a rating based on a stars system. Five stars are awarded as the highest **accommodation rating**. Five-star accommodation is the most luxurious standard of accommodation. 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.

Figure 11.15 Five-star hotels provide a wide range of services but are also the most expensive.

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 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 is around $2000 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 11.16 The standard of service and comfort on many airlines differs depending on the class and cost of the ticket purchased.

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.

Activities

1 You are a travel agent. A young couple have come to see you about a holiday to an interstate capital city. They do not mind which city they travel to, but they are keen to have some adventure and are interested in nature. They have two weeks holiday and want to spend no more than $8000 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 your budget.

2 Using the Internet, compare the prices of travelling from Sydney to Singapore on an airline flying economy, business and first class. Evaluate whether the cost of flying in business and first class is reasonable. Consider the comfort, services offered and the price.

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11.4 Solving travel problems

Key terms

exchange rate The difference between the value of two currencies.

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.

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.

Figure 11.17 Travellers should be aware of the exchange rate to ensure they stay within their budget.

For other documents, such as tickets and credit cards, you will need to contact your travel provider and bank. It is advisable to photocopy all your documents and keep them in a separate location to the originals; for example, in another bag. Leaving copies at home with a friend or relative will also make it easier to obtain replacements.

Experienced travellers know that the best way to avoid theft is to stay alert for thieves. Using a money belt beneath your clothing is a great idea and it is also advisable to avoid looking and behaving like a tourist.

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.

Calculating the value of our currency

On 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$0.99 it means that one Australian dollar is worth about 99 US cents. This means that when we exchange Australian dollars we get fewer American dollars in return. In the example here, if we exchange A$100 we will receive US$99.

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.

It is also important to have your money available in a variety of forms. If you intend using a credit/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 have some traveller's cheques. If you intend to use ATMs, make sure your card is accepted in the country you are travelling to.

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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 your credit limit is high enough. Many financial institutions will temporarily extend your limit if you explain that you are going overseas.

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, such as Saudi Arabia. Make yourself aware of local laws before travelling. A travel guide and DFAT are good sources of such information.

Figure 11.18 When in a foreign country, travellers must obey the laws of that country.

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. They will only notify your family, help arrange a local lawyer (but will not pay for one) and offer you advice and some personal items, such as supplementary food.

If you are hiring a car overseas, often you will need to obtain an international driver's licence before leaving Australia. These are available to people with a full Australian licence. They can be obtained from motoring organisations, such as the NRMA, RACV and RACQ. These licences come with some information on traffic laws overseas.

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 Explain what you should do if your passport is lost or stolen when travelling.

2 Outline some of the strategies that can be used to reduce the risk of theft.

3 Describe what an exchange rate is.

4 Describe how you can avoid running into financial problems.

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 or the Internet, 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$4 (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 ¥600 (yen)
- **e** dinner at a resort in Fiji costing F$65 (Fijian dollars)
- **f** two books on the history of King Henry VIII from a London bookstore costing £40 (pounds).

2 Taking on the role of a travel writer, write a short 'Handy hints for travellers' guide. Your guide should contain no more than 10 hints and the hints should help people avoid getting into trouble when travelling overseas. Consider ways to avoid financial, legal, cultural and theft problems.

3 Some travel agents suggest that we should not take too much money with us when travelling but instead use other means of payment, such as traveller's cheques, credit cards or special prepaid cards, known as travel money. With a partner, select one of these alternatives to research. Outline how the method of payment works and its advantages and disadvantages.

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11.5 Current issues in tourism

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?

Figure 11.19 Tourism on Australia's fragile Great Barrier Reef requires careful management.

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.

Sustainable tourism

Since the 1950s there has been a growing awareness of the impact of human activities on the environment. In more recent years, with the emergence of large-scale global environmental problems such as climate change, this awareness has become even more pronounced. The tourism industry relies very heavily on the environment as it is often the environment itself that attracts people to certain areas. For example, without the Great Barrier Reef, pristine beaches and the Daintree rainforest, the tourism industry in Far North Queensland would not exist.

Consequently there is often an economic value in protecting the environment as it supports the tourism industry. Some economists place the value of the Great Barrier Reef to the Australian economy at around $4–5 billion each year, much of which is generated through tourism and associated industries.

Tourism operators have also become aware of the growing interest among individuals for a holiday experience with minimal impact on the environment. This can be seen in the huge increase in ecotourism in recent years. In Australia, businesses can apply for an ecotourism certificate that allows them to market themselves as a more sustainable tourism business. This helps them attract more customers.

Another aspect of sustainable tourism has been a growth in tourism that is more culturally sustainable. More tourists are keen to have a true cultural experience when travelling. For example, Australian tourists have always travelled in large numbers to the Indonesian island of Bali. The typical holiday experience in Bali is relaxing in large Westernised resorts, eating Western food and having minimal interaction with the people of Bali and Balinese culture. This is beginning to change though with more people interested in having a more 'authentic' experience of Bali. This has seen a big increase in cultural tours of Bali that take people away from the tourist areas, such as Kuta Beach, to smaller villages and towns to meet and interact with the local people. This type of cultural tourism allows people to better understand the culture of the places they visit.

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Chapter review

Activity 1: multiple-choice questions

1 What is an itinerary?

- **a** a list of activities available for tourists
- **b** a document allowing a person to travel overseas
- **c** issued by airlines detailing the cost of travel and the person's seat number on the flight
- **d** a plan for a person's trip, including destinations, travel arrangements and accommodation.

2 What is the purpose of a travel agent?

- **a** act as a guide to people at tourist sites
- **b** help travellers plan their travel
- **c** assess the quality of accommodation and provide a star rating
- **d** provide legal assistance to travellers who get into trouble overseas.

3 What is the exchange rate?

- **a** the amount charged by a travel agent
- **b** the rate of tax charged when departing a foreign country
- **c** the difference between the value of two currencies
- **d** the rating system used to indicate the quality of accommodation.

4 Which of the following statements is true?

- **a** If you are arrested overseas the Australian Government will arrange your release.
- **b** If you are arrested overseas the Australian Government will pay all your legal expenses.
- **c** If you are arrested overseas the Australian Government will provide no assistance at all as travellers must obey local laws.
- **d** If you are arrested overseas the Australian Government will notify your family and provide contact details of local lawyers.

5 Which of the following best describes a visa?

- **a** an approval to enter a foreign country
- **b** required before you can hire a car overseas
- **c** issued by the Australian Government to Australians to prove they are citizens
- **d** issued by travel agents on behalf of the Australian Government.

Activity 2: short-answer responses

a Outline two factors that influence the choice of a travel destination.

b Explain how ecotourism can reduce the environmental impacts of tourism.

c Describe two travel problems that travellers may face and suggest some strategies for resolving them.

Activity 3: job descriptions

You have been appointed by a large overseas travel company, Global International Travel Connections, to find some new employees for their travel business operating in Australia. They have asked you to prepare job advertisements for the following positions:

a a travel guide for people from Japan with an interest in the unique flora and fauna of Australia

b a travel agent to work in Australia and promote the company's cultural tours of Asia

c the manager of a new ecotourism resort the company is opening in a very environmentally sensitive part of the Blue Mountains, west of Sydney.

Each advertisement needs to outline the types of skills and experience the successful applicant would need in order to do the job. It should also briefly outline the type of work the person is likely to do. You may need to carry out research to complete this task. You could refer to employment websites and to websites of companies that are similar to those described above.

Activity 4: literacy tasks

a Write a letter to the editor of a newspaper either in support of or against the following statement: All forms of tourism destroy the environment.

b Prepare a press release for an insurance company explaining to people why it is essential for travellers to take out travel insurance.

Activity 5: creating and presenting a multimedia presentation

You work in the education section of the Department of Foreign Affairs and Trade and have been invited by a school to talk to students about an upcoming international visit. The students are going to Vietnam on a school-organised excursion. Your task is to create and present a multimedia presentation (such as a PowerPoint presentation) explaining the role of the Australian Department of Foreign Affairs and Trade in helping Australians while they are travelling overseas.

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12

Law in action

Focus statement

In this chapter we examine the rights and responsibilities of individuals in a range of situations in which they may come in contact with the law. Special attention is given to the legal rights of young people and the way in which the law seeks to protect young people.

Focus question

What are my legal rights and responsibilities and what should I do if I encounter the law?

In this chapter you will learn about:

- the nature of legal capacity
- contact with the criminal law
- the elements that must be proven for a person to be convicted of a crime
- punishment for crime
- contact with the civil law, in particular, contracts and negligence
- legal rights and responsibilities
- protection provided by the law
- resolving disputes
- current issues relating to the law.

12.1 Contact with the law

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 The legal principle that the prosecution must prove that the accused is guilty of the crime.

contract An agreement between two or more parties that is legally enforceable.

discretionary power The power to exercise personal professional judgment in making a decision. The police have such a power when they issue a warning instead of charging a person with an offence.

guarantor A person who promises to pay back a debt for another person if that person defaults on a loan.

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.

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'.

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.

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.

What is legal capacity?

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**.

Figure 12.1 When we reach 18 our legal rights and responsibilities become greater.

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 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.

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At what age can I...?

- *Be convicted of a criminal offence* – after the age of 10 a person can be charged with a criminal offence. However, between 10 and 14 a child 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.
- *Stop going to 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 turn 17 years of age.
- *Get a job* – it is illegal to employ a person full time while they are still of school age.
- *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.
- *Drive* – a learner's permit for a car can be obtained at 16 years and for a motorcycle at 16 years and six months.
- *Get married* – 18 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.
- *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* – 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 *age of consent*.

The law and young people

In recent years there has been greater recognition by the courts and parliaments of the need to protect the rights of young people. As we discussed in Chapter 3 and earlier, 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 do. 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.

Figure 12.2 There are many different laws affecting young people.

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Understanding the text

1 In your own words, explain what the term *legal capacity* means.

2 Explain the meaning of the term *age of majority*.

3 Copy the following table into your notebook and then complete it.

Activity	Age restrictions
Be convicted of a criminal offence	
Receive a criminal record	
Leave home	
Vote	
Sue	
Drive a car	
Get married	
Drink alcohol	

4 Explain how family law has become more sensitive towards the needs of children.

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 Divide the class into small groups. Your group has been selected to advise the NSW Law Reform Commission on how the law should be changed in relation to young people. Prepare a short oral presentation on what areas of the law you would change to benefit young people. Explain why the change is needed.

Contact with the criminal law

In New South Wales, only those aged 10 years and older can be charged with a criminal offence. If the accused is under 18 years, the case is heard in the Children's Court.

A number of important measures have been put in place to protect the legal rights of children in criminal law cases. These were discussed in Chapter 3 (see the box 'Under 18? What are your rights in criminal law?', page 67).

Shoplifting: what should you know?

Shoplifting is perhaps 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.

Figure 12.3 Shoplifting costs the community billions of dollars each year.

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.

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 you will be charged with stealing. The maximum penalty that can be issued for stealing is up to two years in prison and/or a very large fine.

Children as witnesses

Whether children should be allowed to appear as **witnesses** in court has been debated in the law for many years. As far back as 1779, in the case *1 Leach 1799;* 168 ER 262, the court was asked to decide whether a child's evidence should be accepted. This case established the precedent that a child could give evidence, but the judge must be satisfied that the child understands the difference between right and wrong and the importance of telling the truth.

More recently, in the famous case *R v. Brown* [1977] Qd R 220, the judge allowed children to give evidence even though it had not been established that they had understood the difference between right and wrong. The decision of the judge was shown to be wrong by a higher court when Brown, the accused, appealed.

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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**. In order to prove a person's guilt the prosecution must show the court that the accused had:

- ***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 then 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.

Punishment for crime

Most people tend to think of prison as the punishment 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 used (see Figure 12.4), with prison tending to be used for repeat offenders and those who have committed very serious crimes.

Case study

Don't lock the door!

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.

The case *R v. Jie Hua Yu* (2000; unreported) 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 °C 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.

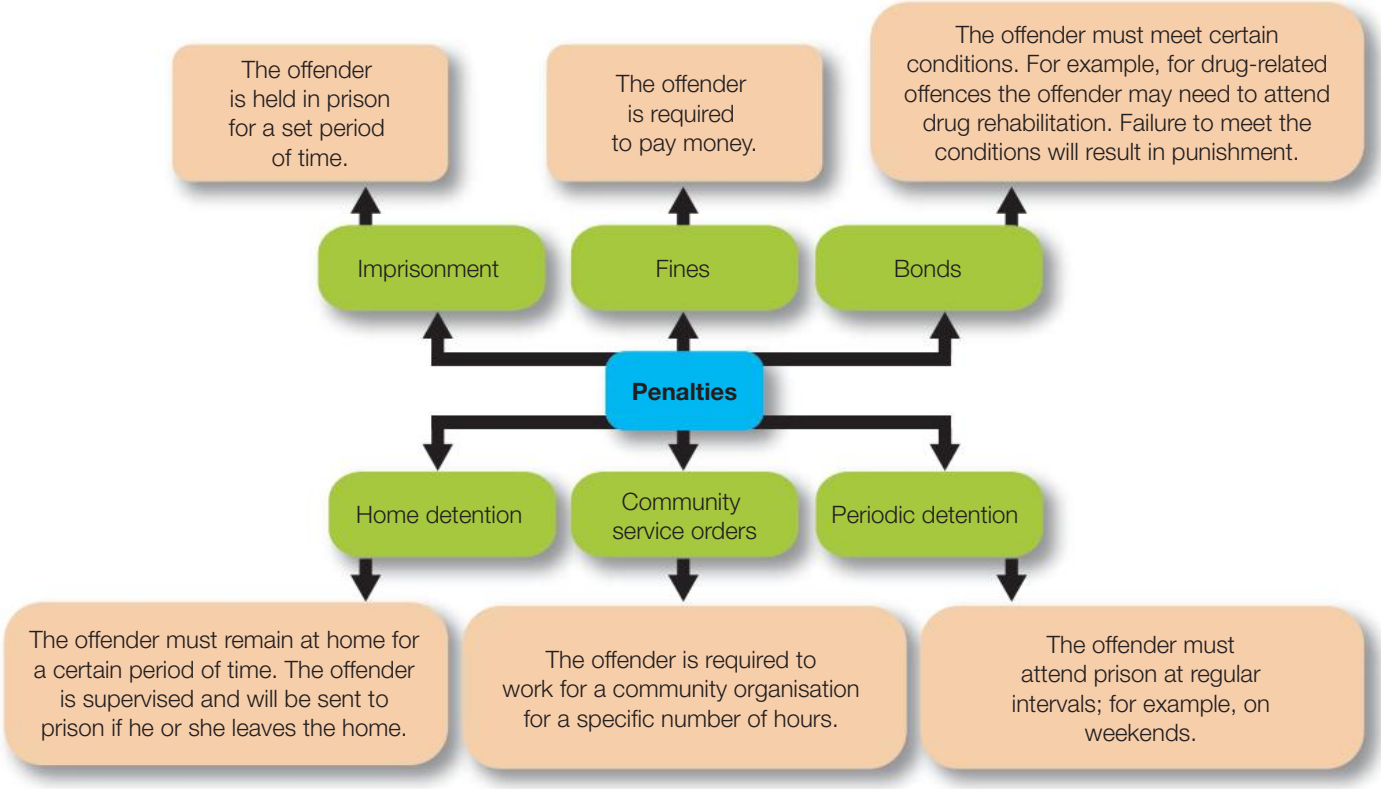

Figure 12.4 Types of punishment used in Australia.

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Case study

Does imprisonment really reduce crime?

This is the question that the NSW Bureau of Crime Statistics and Research investigated in a report it released in 2012. The report found that governments around Australia spend $11.5 billion each year on law and order, including police and prisons. This is $511 for every Australian! About $2.2 billion is spent on prisons.

About 60 000 Australians are sent to prison each year. This figure represents around 10 per cent of those people who have been charged with an offence that results in them being sent to court.

Given the enormous cost and the number of Australians in prison, many people are beginning to question the effectiveness of using the threat of prison as a way to reduce crime. The research carried out in NSW found that when the risk of imprisonment increases there is a reduction in the rate of violent crime, such as assault, but the increase in risk does not have a significant effect on reducing property crime. This means that increasing the rate of imprisonment has not helped to reduce the amount of property crimes, such as breaking into houses, car theft and shoplifting. Increasing the length of prison sentences has a very low effect on reducing crime.

The report also found that there is a much stronger link between drug use and the commission of crimes, especially in relation to property crime. Figure 12.5 shows that as the rate of drug convictions fell, so did the rate of the property crime. Arrest rates stayed roughly the same but imprisonment rates increased. Put simply, it appears that reducing drug use has a far greater effect on reducing property crime than placing people in prison.

This research seems to indicate that it might be better to use some of the $2.2 billion a year spent on putting people into prisons on helping to reduce drug use. Alternatives to prisons are increasingly being considered for people convicted of non-violent crimes where the person does not pose a risk to the safety of others. For example, home detention can cost as little as $5000 a year compared with around $50 000 a year for keeping a person in prison.

Figure 12.6 The average cost of keeping a person in prison for one year is more than $50 000.

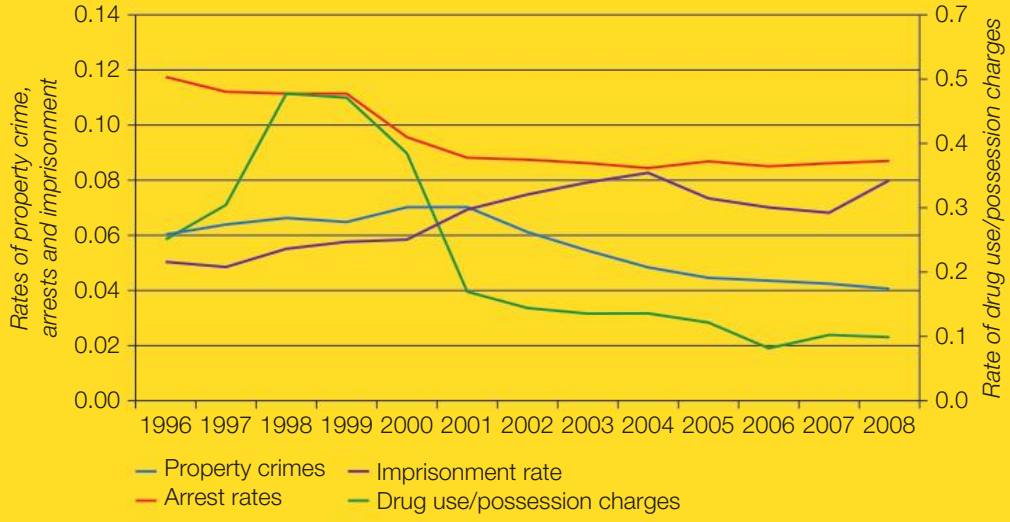

Figure 12.5 Rates of crime, arrest and imprisonments for property crime, and rate of arrests for drug crimes.

Source: 'The effect of arrest and imprisonment on Crime', *Crime and Justice Bulletin* 158, Bureau of Crime Statistics and Research, 2012

Questions

1. Referring to Figure 12.5, write a paragraph outlining what has happened to property crime rates.
2. Explain the link between property crime and drug possession charges.
3. As a class brainstorm a list of alternatives to prison that society could adopt. Select one of the alternatives and make a list of its advantages and disadvantages.

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Understanding the text

1 What is the legal age at which a child can be charged with a criminal offence?

2 Which court hears cases that involve children?

3 Outline the rights of a person who has been accused of shoplifting.

4 Why are there laws designed to specifically ensure the safety and wellbeing of children?

5 Explain why it can be difficult for a court to accept the evidence of a child who is a witness in a criminal case.

6 Describe the burden of proof that the prosecution is required to prove in a criminal case.

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The NSW Drug Court

The NSW Drug Court was established in 1999 to deal with offenders who were committing non-violent crimes in order to obtain money for drugs. The court has proven to be successful in helping drug-addicted offenders stay out of prison and treat their addictions.

Activity

Visit the NSW Drug Court website and use the site to write an extended response on the following topic: Describe the way the drug court operates, what its aims are and which offenders are able to use it. How effective has the court been in achieving its aims?

Activities

1 Hold a class debate on the topic: Children who commit adult crimes, such as murder, should be tried as adults.

2 Refer to figure 12.4 on page 248.

a Why do you think there are so many different options for punishment?

b Take on the role of a judge. Decide on the punishment in the following cases. Justify your decisions:

- a first-time car thief
- a repeat robbery offender
- a first-time youth drug offender caught with a small amount of drugs
- a drink-driver.

Contact with the civil law

Civil laws regulate the behaviour of people towards each other. Remember that 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. The Case study, 'Civil and criminal liability', gives an example.

Figure 12.7 Drivers have a duty of care to other drivers and pedestrians.

Case study

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), a statute law, 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*.

Questions

1 Explain why both criminal and civil law could be used against Stephen in this case.

2 Is it fair that Stephen could face both criminal and civil charges? Explain your response.

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Contracts and other financial commitments

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, the law does expect that contracts will not attempt to exploit young people. If they do, a court can declare them void (that is, 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 smart phone 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 $21 plus calls. By signing, Anton is required (liable) to pay the $21 plus the cost of any calls he makes. 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.

Figure 12.8 Signing a contract to use a service (for example, a smart phone) means we are liable for the terms of the contract.

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.
- *the consideration* – this is a legal principle that states that a contract should benefit all the parties involved. For example, if a contract is signed to buy a car then 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, then 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 lend money to young people because they have few assets that can be used as security. Consequently, when attempting to obtain credit, the purchaser may need a **guarantor**. This is a person who guarantees to repay the loan, should the borrower be unable to.

Negligence

The civil law requires all of us to ensure that our actions do not cause harm to other people or their property. This is known as exercising a *duty of care*. When people or organisations fail to exercise this duty then they are said to be negligent.

Case study: Timber!

Lucinda wants to cut down a tree in her front yard but she doesn't want to pay to have a tree surgeon do the job, so she hires a chainsaw to do the job herself. Lucinda has no training in tree removal, but as the tree is quite small she is not worried. She plans for the tree to fall onto her lawn, but instead it falls the other way and onto her neighbour's car. Lucinda has failed to ensure her actions don't cause harm to others and, therefore, is now liable for the damage caused to her neighbour's car.

In the Case study 'Timber!', Lucinda's **negligence** would result in her being sued by her neighbour (or her neighbour's insurance company) to pay for the cost of repairing the car. In some cases of negligence (sometimes referred to as *tortious* ***liability***) the compensation can be substantial. For example, in 2002 a man successfully sued a coastal council for $5 million after he jumped into the sea from a cliff and was paralysed.

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While the court found that the man was partly to blame, it also found that the council should have erected warning signs that the water was shallow. The council's failure to erect warning signs meant it had a tortious liability.

Case study

Call a plumber

In 2008 Mr and Mrs Gan took their neighbour, Mr Anderson, to the NSW Land and Environment Court in the case *Gan v. Anderson & Anor* [2008] NSWLED 1257. The Gans faced several expensive plumbing bills after tree roots growing on the neighbour's land blocked their sewerage pipes. The Gans argued that they had asked for the problem to be fixed on many occasions. The court found in favour of the Gans, stating that Mr Anderson should have removed the trees once the problem became apparent the first time.

Questions

1 Explain how Mr Anderson had been negligent in this case.

2 Do you think this was a fair decision? Explain your answer.

Case study

Slippery when wet

Ms Zaluzna visited her local Safeway supermarket on a rainy day. As she walked down the aisle she slipped on the wet tiles. Ms Zaluzna sued the supermarket, saying that the staff should have regularly checked to ensure the floors were safe. Initially, the court ruled in favour of the supermarket. However, in the appeal case, *Australian Safeway Stores v. Zaluzna* (1986) 162 CLR 479, the Supreme Court ruled that the supermarket was negligent as it owed a duty of care to its customers.

Questions

1 Explain why the Supreme Court found in favour of Ms Zaluzna in this case.

2 As a class, discuss whether companies should be held accountable for their actions. Was it fair in this case that Safeway had to pay compensation or should Ms Zaluzna be expected to show greater care?

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 case described in the box 'Slippery when wet', Ms Zaluzna showed that the supermarket should have ensured the floors were not wet. The supermarket's failure to exercise its duty of care resulted in her injuries.
- *that the negligence has resulted in the accused party suffering an actual injury or hardship* – in the case of Mr and Mrs Gan (see Case study, 'Call a plumber'), the neighbour's failure to deal with the tree left the Gans with a large bill from the plumber.

Understanding the text

1 Explain how an incident could result in both criminal and civil legal action being taken.

2 What is a contract?

3 Can a company hold a young person who has signed a valid contract liable for his or her part of the contract? Explain your response.

4 Explain what being 'party to a contract' means.

5 Outline the three steps that must be taken before a contract can be considered legally binding.

6 **a** What is a guarantor?

b Why is a guarantor sometimes needed?

7 Explain what negligence is.

Activities

1 Conduct a class role-play in which two people enter into a contract to buy a new car. Consider the elements of the contract that would need to be met for it to become legally binding. Also consider the types of negotiation that would occur between the seller and buyer of the car.

2 Collect a media file of recent cases involving negligence. Select two cases and write a short report outlining the following for each case:

a the nature of the negligence

b whether you consider it to be negligence

c how you would deal with the matter if you were the judge hearing the case.

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12.2 Rights and responsibilities

Key terms

defence lawyer The lawyer whose role is to assist an accused win a case.

defendant The party accused of wrongdoing.

maintenance Payments made by a parent who does not have full custody of his or her child. These payments are made to the parent who is responsible for the care of the child and are to be used for providing for the child.

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.

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 (see the box 'The US Bill of Rights', page 68). The Australian Constitution, however, contains few references to rights. Most of our rights have been developed either through statute law or common law.

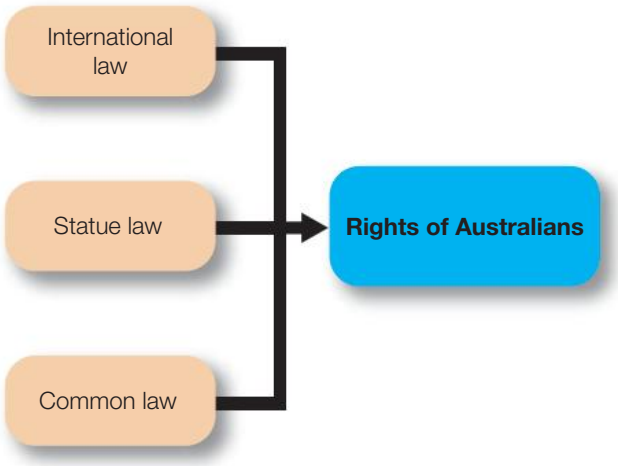

Figure 12.9 The sources of the rights of Australians.

Commercial rights

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.

Case study

A cheap car? I don't think so

The Australian Competition and Consumer Commission (ACCC) is a government authority whose role is to protect consumers from businesses that breach their responsibilities towards consumers. The ACCC sometimes takes businesses to court. Let's look at the example of the 1998 case *ACCC v. Nissan Motor Company (Australia) Pty* [1998] ATPR 41-660; FCA 1048. Nissan had made claims in television advertisements in South Australia that its new Nissan Patrol cost $39 990 with free airconditioning and some other extras. The advertisement claimed that this price represented a saving of $6290.

This claim was misleading, however, as $39 990 was the standard price of the vehicle and the total cost of the extras came to $2195 not $6290. The ACCC launched a case, claiming that Nissan was attempting to mislead consumers about the size of the saving.

The judge ruled that Nissan had breached the rights of consumers and it was ordered to pay a $130 000 fine.

Questions

1 Outline the role of the ACCC.

2 Describe the misleading conduct of Nissan Motor Company in this case.

3 Explain how the ACCC actions helped to protect consumers.

Rights and responsibilities in the family

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 12.1 describes the different family structures in Australia.

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The Australian census defines a family as being two or more people living in the same household who have a relationship to each other.

Table 12.1 Family types recognised in Australia

Family type	Description
Nuclear family	A man and woman who are married 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 man and woman who are married but have no children
De facto couple	A man and woman who have lived together for more than six months and share a relationship but are not married. The couple may or may not have children
Same-sex couple	A homosexual couple who live together and may or may not have children. Under NSW law these couples are considered as de facto couples

While all the family units seen in Table 12.1 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 has been slow to develop in Australia. In fact, until the 1980s it was considered a criminal offence to engage in homosexual sex. Today, however, there are several state and federal laws that protect the rights of homosexual people. Since 1999, homosexual couples in New South Wales have had similar rights to other de facto couples.

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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Case study

Little Mary and Jodie

A famous case, involving conjoined twins (Siamese 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 twin's 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. Her sister died during the operation.

Questions

1 Outline the facts of this case.

2 Do you think the court was right to override the wishes of the parents in this case? Justify your answer.

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. This Act also established the Family Court of Australia. This is a special court that deals with the 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 do this for them. The court will consider the contribution each partner has made, 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 with which parent the children should live. 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 the children. It is now common for the court to order that the children spend time with both parents.

Rights and responsibilities in the workplace

During the twentieth 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 legal rights of employees in New South Wales are outlined in Figure 12.11. 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, WorkCover, ensures that employers provide safe working conditions for employees.

Figure 12.10 Employees have a right to be safe while at work.

While employees have rights to ensure that their employers treat them fairly, they must also accept certain responsibilities (see Figure 12.12). 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. For more information see Chapter 4, page 98.

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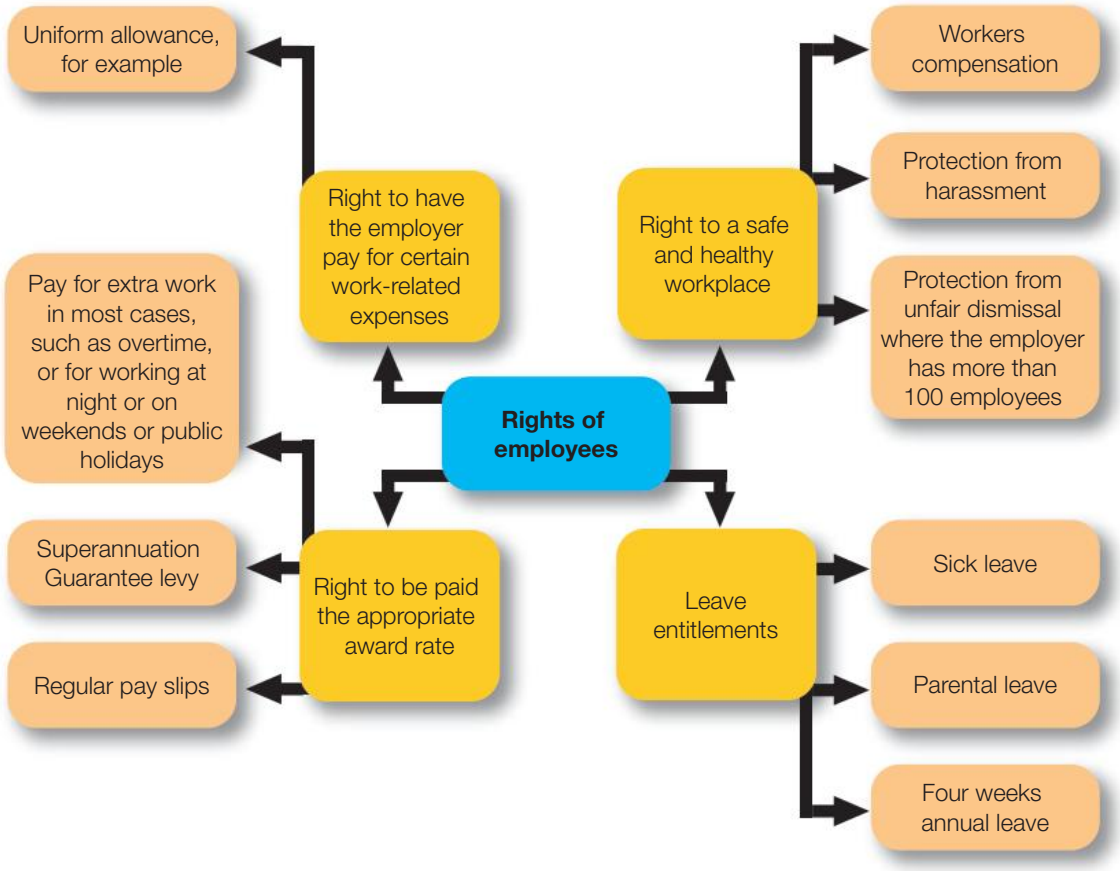

Figure 12.11 Some of the legal rights of employees.

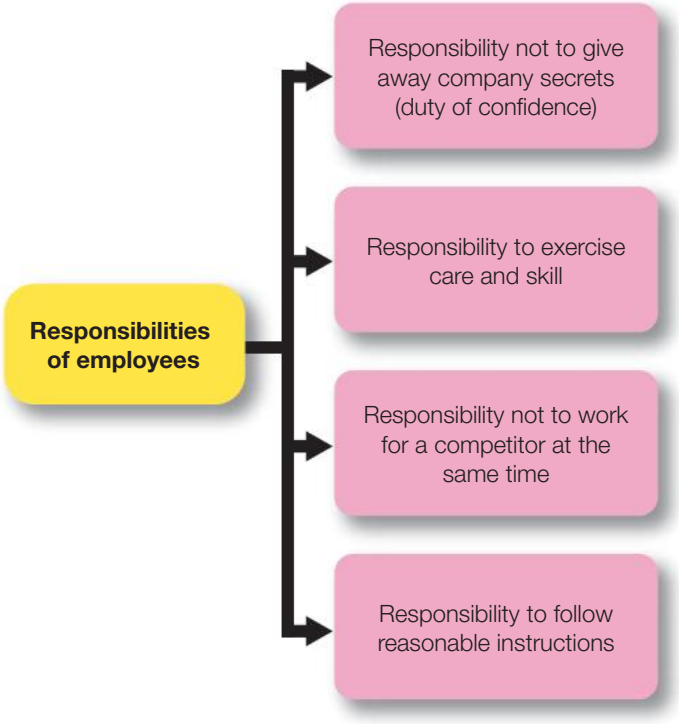

Figure 12.12 Some of the legal responsibilities of employees.

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WorkCover

Access the WorkCover website to find out more about:

- the role of WorkCover in ensuring the rights of workers are maintained
- workers compensation insurance
- injury management
- occupational health and safety.

Activity

Using the information on the WorkCover website, write an explanation outlining what workers compensation insurance is and the responsibilities employers have in relation to workplace health and safety.

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Case study

Where are my goggles?

In the famous case *Paris v. Stepney Borough Council* [1951] AC 367, the rights of workers to a safe workplace were highlighted. Mr Paris, a council worker, was blind in one eye. While Mr Paris was using a hammer to remove a bolt, a small piece of metal flew off into his good eye.

Mr Paris's employer, Stepney Borough Council, had not provided him with goggles as this was not part of its policy. Mr Paris took his employer to court. He said that because he was blind in one eye the council had a special responsibility to protect his good eye.

The court agreed with Mr Paris. It stated that although the chance of injury was very small, the council had a special responsibility to ensure that the workplace was as safe as possible. The council was required to pay compensation to Mr Paris.

Question

1 Explain how Mr Paris's employer failed in their duty of care.

Legal responsibilities of individuals

While the law gives members of society many rights, it also requires members of society to accept certain responsibilities. These responsibilities are often referred to as legal duties. Some of these responsibilities stem from society's religious, ethical and moral standards.

When there is agreement by most members of society that a particular responsibility is important, laws may be passed making it a legal responsibility that is then enforced by the police and the courts.

Like the rights Australians have, our legal responsibilities are the result of common and statute laws. When a judge recognises that members of society need to act in a certain way, a common law responsibility is created. The most famous example of this is the duty of care (see page 251).

Some areas of common law that set out the legal responsibilities of Australians are:

- *defamation law* – a responsibility not to make defamatory statements; that is, statements that are untrue and might cause damage to another person's reputation
- *contract law* – a responsibility to honour the conditions of any contracts we enter into (see page 251)
- *tort law* – a responsibility to ensure our actions are not harmful to others (see page 69).

Some responsibilities are considered to be so important that parliaments pass laws to ensure all members of society follow these responsibilities. These responsibilities are known as statutory responsibilities.

Statutory responsibilities are found in all areas of our lives. An example is the requirement for parents to send their children to school. This is a requirement of the *Education Reform Act 1990* (NSW). The *Protection of the Environment Operations Amendment (Littering) Act 2000* (NSW) places a responsibility on people not to litter. Failure to fulfil this responsibility can result in fines being issued.

Figure 12.13 In New South Wales we have a statutory responsibility not to litter. This legal responsibility is found in the *Protection of the Environment Operations Amendment (Littering) Act 2000* (NSW).

You can't dump that!

In 2001 the case *EPA v. Waight [No 3]* (15 June 2001) was heard in the NSW Land and Environment Court. The Environmental Protection Authority (EPA) had inspected a property owned by Mr Waight in north-west Sydney. During the inspection it was discovered that Mr Waight had illegally dumped more than 70 000 tonnes of rubbish at the property. Concrete, tyres, builder's waste and even domestic rubbish were found to be polluting a nearby creek that formed part of the habitat of the endangered red-crowned toadlet.

The rubbish was causing considerable environmental damage. Chemicals were entering the waterways as well as contaminating the soil. Increased nutrients caused by so much waste had contributed to an increase in weed growth in nearby bushland.

The court found that Mr Waight had a legal responsibility to dispose of the waste correctly and that his actions were illegal as they harmed the environment. He was fined $180 000 and ordered to remove all the waste – more than 7000 truckloads! In addition, Mr Waight was required to replant native vegetation and maintain it for 20 years.

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Understanding the text

1 Outline the sources of rights of Australians.

2 Outline some of the rights and responsibilities of consumers.

3 Differentiate between nuclear and extended families.

4 Outline the rights and responsibilities of parents in relation to their children.

5 Explain what an apprehended violence order is.

6 Describe the rights of family members during divorce proceedings.

7 Outline the responsibilities of employers in relation to their employees.

8 Briefly describe the responsibilities employees have towards their employers.

9 Outline the role of WorkCover.

10 Describe three common law responsibilities of individuals.

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Using the Internet to investigate your legal rights and responsibilities

At the Lawstuff website you can find out about your rights in relation to:

- getting your driver's licence and buying a car
- buying a mobile phone
- school – discipline, bullying and harassment
- the workplace – bullying, harassment, injuries, discrimination and unfair dismissal.

Activity

Using the Lawstuff website, find out the age at which you can exercise various legal rights or assume various responsibilities. At which age can you:

a legally call yourself an adult
b vote
c leave school
d leave home
e change your name
f get a full-time job
g rent a flat or house
h get married
i work late at night
j get a driver's licence
k be interviewed by the police
l drink alcohol
m be convicted of a criminal offence
n get a tattoo
o have sex
p buy cigarettes?

Activities

1 Assume the role of an adviser in the Family Court. Prepare a brochure outlining the rights and responsibilities of family members. Your brochure should be concise and easy to read and not contain too much legal jargon.

2 Write a report explaining the rights and responsibilities of workers.

Rights and responsibilities of court participants

The media often presents stories about criminals being given light sentences, prisons being like holiday camps, and the rights of victims being abused while offenders' rights are maintained. How accurate are such stories? The law must achieve a fine balance between maintaining the rights of victims and the community while at the same time protecting the legal and fundamental human rights of those people accused of committing crimes. A legal system that did not ensure that accused people were treated fairly would not be a just system.

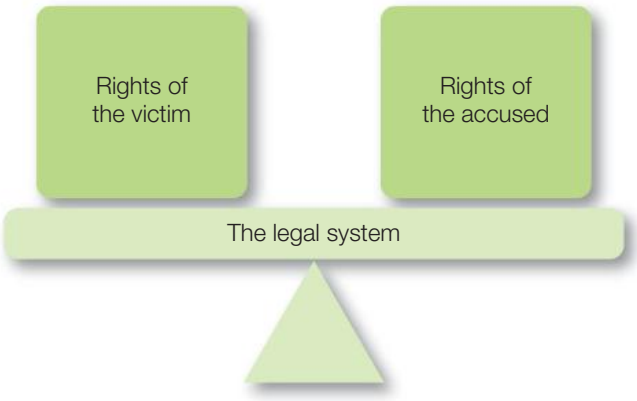

Figure 12.14 The law is a balance between the rights of the victim and the rights of the accused.

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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 or 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'.

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.

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Victims of Crime website

The NSW Government has established several services to help victims of crime recover from their injuries, trauma and financial loss. The NSW Department of Attorney General and Justice has a dedicated website for victims of crime.

Activities

Access the Victims of Crime website.

1 Outline the types of services available to older people who are victims of crime.

2 What are the rights of victims of road trauma?

3 Describe the rights of victims who are in fear of their safety.

4 Outline the assistance available to victims of domestic violence.

Protection 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's 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 Covenant 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 the treaty then its citizens are not protected by it.

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Convention on the Rights of the Child

In 1989 the Convention on the Rights of the Child was signed. 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.

Figure 12.15 The Convention on the Rights of the Child was the first international document that specifically protected the rights of children.

In 2002 the convention was extended to protect children from being forced into military service and prostitution. Nearly every country has signed this convention. Notable exceptions include the United States and Somalia. The USA has refused to sign as it would mean that the execution of children would be outlawed. Some states of the USA still execute people as young as 16.

Australia has agreed to the conditions of the convention and many laws have been made to ensure that the principles of the convention are adhered to. By doing this, the rights of Australian children are protected both by Australian law and international law.

Understanding the text

1 Outline the rights and responsibilities of witnesses in legal cases.

2 Outline the rights and responsibilities of victims in criminal matters.

3 Explain the purpose of a victim impact statement.

4 Explain the difference between fundamental rights and international legal rights.

5 **a** What is the Convention on the Rights of the Child?
b Outline its main aims.

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Universal Declaration of Human Rights

The Universal Declaration of Human Rights was signed in 1948. It outlines what are considered to be the rights that all humans are entitled to regardless of where they live or their ethnicity, religion or sexuality. The declaration can be viewed in full at the United Nations website.

Activities

Visit the United Nations website and read through the 30 articles of the Universal Declaration of Human Rights.

1 Which article do you consider to be the most important? Why?

2 What rights do you think need to be added to the declaration? Why?

3 Are there any rights you would remove from the declaration? Why?

4 From your reading of the declaration, do you think there are any aspects of Australian law or society that break the declaration? Share your ideas with the rest of the class.

Activities

1 Hold a class discussion on whether people accused of crime have too many or too few rights.

2 Explain how the law attempts to protect the rights of individuals and society as a whole. Make reference to specific cases.

3 Some international legal experts argue that international treaties are not effective because countries can choose whether or not they sign them. Others say that not all treaties suit all countries and so it is correct that signing treaties is voluntary. As a class, discuss the advantages and disadvantages of making international treaties mandatory.

4 Assuming the role of the defence lawyer, write an email to a client whose son has been arrested. In your email, outline the rights your client's son is entitled to.

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12.3 Resolving disputes

Key terms

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.

mediation The use of a neutral third party (mediator) to help resolve a legal dispute between two parties.

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.

The police

The police play a crucial role in resolving disputes, such as domestic disputes and conflict between neighbours. Often this role requires the police to protect people and property and to assist people 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. This is outlined in greater detail in Chapter 3 (pages 61–64).

Youth Justice Conferences

In 1998, conferencing was introduced as a way to help improve justice outcomes for young people. The *Young Offenders Act 1997* (NSW) outlines how the law responds to young people who commit crimes. It is administered by the Youth Justice Conferencing Directorate, which is part of the NSW Juvenile Justice system.

This Act established the conferencing program throughout the state. It also gave the police powers to issue warnings to young people rather than charging them with a criminal offence.

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.

Figure 12.16 An aim of community conferencing is to try to make young offenders aware of the harm their crimes have caused.

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Since its introduction there have been a number of evaluations of the effectiveness of conferencing. A review in 1999 found that 90 per cent of victims felt that conferencing gave them an opportunity to express their feelings and this was highly valued. A 2007 study found that this figure had risen to 96 per cent. More than 70 per cent of participants believed the conference was 'fair' to both the victim and offender.

Mediation and conciliation

Mediation is one of the most popular ways of resolving relatively minor legal 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.

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 results 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.

Community Justice Centres

Community Justice Centres have been established in New South Wales to help people who have an ongoing relationship with each other, such as family members or neighbours, resolve their disputes.

The centres use mediation to resolve disputes. After one of those involved in the dispute approaches the centre, the others are invited to meet for mediation. The centres do not have the power to force a person to come to mediation.

In most cases two mediators are involved. They are selected on the basis of their expertise in the area under dispute. These mediators encourage the parties to reach a compromise. If this is not possible, the mediators may make a recommendation on how to best resolve the dispute. However, these are recommendations only and are not legally binding.

Figure 12.17 The aim of mediation and conciliation is for the people in dispute to talk through their problems and reach an agreement.

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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.

Figure 12.18 Tribunals such as the Administrative Appeals Tribunals are cheaper and less complex than courts.

Figure 12.19 The Consumer, Trader and Tenancy Tribunal deals with consumer law.

Understanding the text

1. What is the role of the police in dispute resolution?
2. Explain why courts should always be a last option in resolving legal disputes.
3. **a** Outline the purposes of community conferencing.
   b For what types of offence is conferencing used?
4. Distinguish between mediation and conciliation.
5. Explain why mediation is considered effective.
6. Describe the role of Community Justice Centres.
7. Explain how tribunals differ from courts.

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Community Justice Centres

The Community Justice Centres website gives greater detail on some of the alternatives to using the courts to resolve legal disputes in New South Wales.

Activities

1. Conduct a mediation role-play involving a dispute between two neighbours. The dispute concerns a dead 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 following topic: Assess the advantages and disadvantages of the various methods for resolving disputes used in New South Wales.

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12.4 Current issues relating to the law

Laws are often seen as reflections 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:

- cyber bullying
- abortion
- euthanasia
- the legalisation of some drugs
- anti-terror laws
- whether sentencing by some judges is harsh enough.

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 at the present time. Careful examination of the print and electronic 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.

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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.

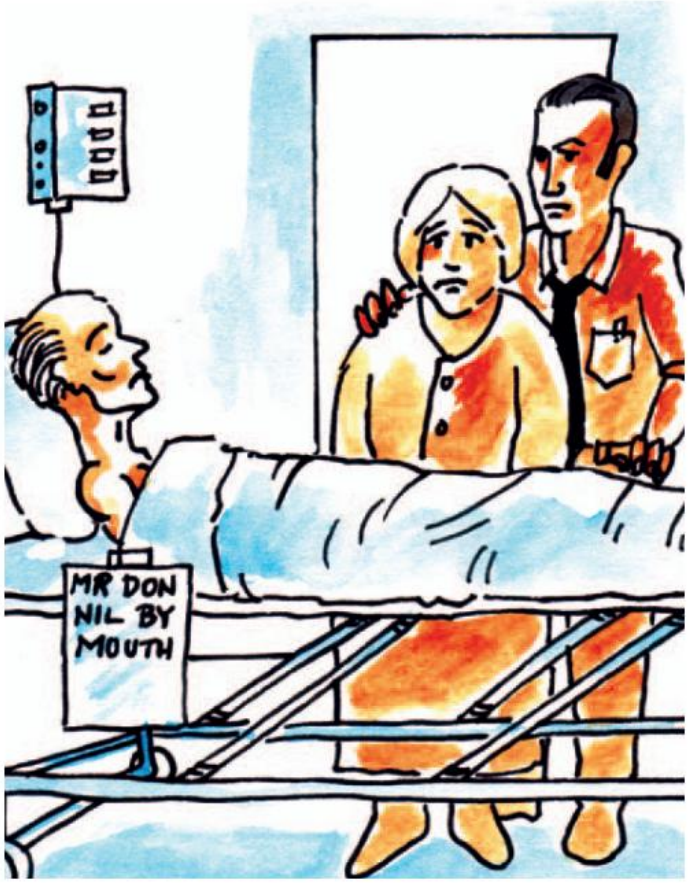

Figure 12.20 A current issue of debate in Australia is whether euthanasia should be legal in some circumstances.

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Chapter review

Activity 1: short-answer responses

Write a short response to each of the following:

1 Explain the concept of legal capacity.

2 Describe the rights and responsibilities of young people when charged with a criminal offence.

3 What is mediation? Outline its usefulness in legal matters.

4 Outline the meaning of negligence.

5 Explain how the law deals with people found to be negligent. Use cases to support your explanation.

6 Explain the concept of community conferencing.

Activity 2: extended responses

1 Write an explanation of the way that rights are protected in Australia.

2 Write a discussion on whether Australia should be sending more people to prison or whether alternatives to prison should be investigated.

Activity 3: people in the law

Copy the following table into your notebook. Then complete it using the job titles listed below:

- witness
- plaintiff
- police officer
- defence lawyer
- jury member
- prosecutor.

Job description	Job title
Determines whether the accused party is guilty or not guilty in an indictable criminal case	
Protects the community and investigates crimes	
Presents evidence to the court	
Represents the community in a criminal case and attempts to convince the court of the accused party's guilt	
Makes a complaint in a civil law case	
Attempts to convince the court that the accused party is not guilty	

Activity 4: true or false

Select 'true' or 'false' for each of the following statements.

1 In Australia the 'age of majority' is 18.

2 In a criminal case the accused must prove their innocence.

3 A contract is a legally binding agreement between two or more parties.

4 In a civil law case the plaintiff is the accused person.

5 The main concern of tribunals is fairness rather than legal correctness.

Activity 5: researching areas of the law that affect young people

With a partner, select one area of the law that affects young people. For example, you could consider a legal right (such as the legal age of drinking) or a crime that is largely committed by young people (such as shoplifting). Conduct research into the issue using the Internet, library resources and newspaper databases. Prepare a report that includes:

a an outline of the area of the law

b an explanation of why it has an impact on young people

c an evaluation of whether this area of the law is fair to young people.

Activity 6: mindmap

Construct a mindmap about people's rights and responsibilities in the family, at the workplace, during court cases and as individuals.

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13

Our economy

Focus statement

In this chapter we learn about changes in our economy. We look at how these changes relate to existing trends in the economic cycle, and explain the implications of these changes for consumers and businesses.

Focus question

Can changes in the interest rate or the exchange rate of the Australian dollar affect you as a consumer?

In this chapter you will learn about:

- economic change
- the links between Australian consumers, employers, businesses and governments
- the economic cycle and how changes in total output, consumer confidence and spending, inflation, wage rates, interest rates and unemployment affect the economy
- interest rates and the effect of rising and falling interest rates on consumer and personal financial decision making
- price changes (inflation)
- the effects of changes in the value of the Australian dollar on consumers and businesses
- current issues relating to changes in economic activity.

13.1 The economic cycle

Key terms

Budget, the The Budget is the annual announcement of the federal government's fiscal policy. Budgets can be either deficit, surplus or balanced. They set out how the government will spend revenue on recurrent and new expenditure in the following tax year.

business cycle/economic cycle The tendency of economies to move, over time, through periods of boom and slump. The business 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 business cycle is usually referred to as a *boom*, and the trough as a *recession* or *depression*.

capital Manufactured resources; for example, machines, factories and offices. Capital is one factor of production.

economic growth Typically refers to an increase in a country's output of goods and services. It is usually measured by changes in gross domestic product (GDP).

enterprise Entrepreneurial skill. The term *enterprise* is often used to describe entrepreneurship as a factor of production. It is the skills and ability to take risks and create profit.

entrepreneurship An entrepreneur is an individual who takes risks to set up a business with the aim of making a profit.

exports Goods, services and capital assets sold overseas.

financial stability A stable financial system enables financial institutions to operate, funds to flow between savers and borrowers and promotes economic growth. Maintaining stability of the financial system is a responsibility of the Reserve Bank of Australia (RBA).

fiscal policy Using its annual Budget, the federal government can influence the economy by altering the two main fiscal instruments; revenue collection (e.g. tax changes) and spending (e.g. expenditure on new works).

>>>

Key ideas

A knowledge of the way our economy works is important if we are to maximise our own financial wellbeing and take full advantage of the commercial opportunities available to us. The key ideas we will be dealing with in this topic are discussed in the following pages.

Economics

Economics is a term that is generally used to refer to how 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 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 how income is earned and spent on a national basis.

It therefore includes 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.

Resources

Economic resources include **labour** (human effort), 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 of **enterprise** – defined here as the people who bring all the resources together for the purpose of production. This is also called **entrepreneurship**. Since each of these resources is in limited supply, they are often referred to as **scarce resources**. A nation must decide how to best use these scarce resources – what to produce, how much to produce, how to produce and for whom to produce.

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) and we do not have a

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imports Goods, services and capital assets purchased from overseas.

inflation The rise in general prices and the reduction in value of money. It is usually measured by the consumer price index (CPI).

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

labour Human resources provided by people in the production process.

laissez-faire system The term *laissez-faire* is used to describe an economic system where the government intervenes as little as possible and leaves the private sector to organise most economic activity through markets.

land Natural resources, including farmland and fishing grounds.

market economy A system where the interaction of businesses and households and the market forces of supply and demand determine economic decisions and pricing. There is little government intervention and no trade barriers such as tariffs, price fixing or industry subsidies.

mixed economy A society where resources are owned by both private individuals and the government.

price mechanism Prices act as a signal to businesses and consumers to adjust their economic behaviour. The price mechanism is where, for example, a rise in a good's price encourages producers to switch to making that item but at the same time encourages customers to switch to a cheaper substitute product.

recession A period of negative economic growth at the trough of the trade cycle. A recession is usually defined as two consecutive quarters of negative economic growth.

scarce resources A lack of resources to meet all consumer needs and wants.

total output/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.

unemployment The number of workers without a job who are willing and able to work.

wage rate Pay per time period; for example A$ per hour.

Figure 13.1 The key players in our economy.

centrally planned 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, assistance for the car industry and social security payments.

The government influences the markets through laws and taxes to make the market as fair as possible and participates through its own businesses, such as Australia Post. 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. An example is the $42-billion stimulus package in the 2008/09 Budget that was a response to the Global Financial Crisis (GFC). These fiscal measures by the federal government were implemented to boost economic growth and to avoid a recession. The **Reserve Bank of Australia (RBA)**, a statutory body, implements policy to ensure, among many objectives, that Australia maintains **financial stability**. The role of the RBA is examined on page 273.

Prices

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 they receive a profit (this is known as supply). When demand

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for a product is high, the price is usually higher than if the demand was 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 16GB retailed for more than $500. Two years later, as supply increased and demand declined, the price dropped to less than $400.

In Australia, the government also influences some prices through taxes, 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 Schemes), so that more consumers can afford these products.

Understanding the text

1 **a** Define the term *economics*.

b Describe what the economic problem is.

2 What are scarce resources? Provide examples.

3 List the different types of economies that exist. For each one, try to give examples of countries that have that type of economy (or a similar type of economy).

4 How are prices for goods and services set in Australia?

5 In what ways can the government affect the economy?

Activities

1 Examine Figure 13.1 (page 268). As a class, discuss the economic links portrayed.

2 Research information on the most recent federal Budget. Describe what the Budget is and assess what areas will have the most federal government money allocated to it in the coming year. Discuss your findings with the class. (Note: All major newspapers extensively report on the federal Budget each year).

Economic change

Economic change can occur for a number of 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 seen considerable investment in the mining sector. The Global Financial Crisis (GFC) in 2008 saw the economy slow down but the government's fiscal stimulus and the 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 look into the various economic relationships and the possible causes of economic change.

Economic links

To fully understand economic change we must initially understand the links between the key players in our economy. Figure 13.1 (page 268) gives a simple overview of what occurs in our economy both internally and externally. The following three diagrams (Figures 13.2 to 13.4) provide a more detailed view of the various economic links that exist in our economy. Each diagram builds upon the previous.

Figure 13.2 shows a model of a two-sector economy. Households (an economic measure for a group of consumers) provide labour to businesses in return for income. In addition, households buy products (goods and services) from the businesses.

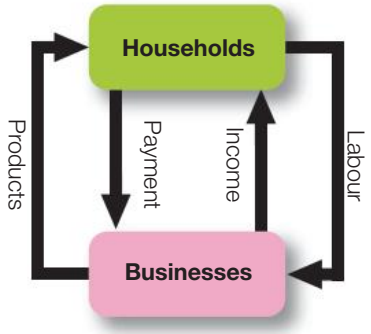

Figure 13.2 A two-sector economy.

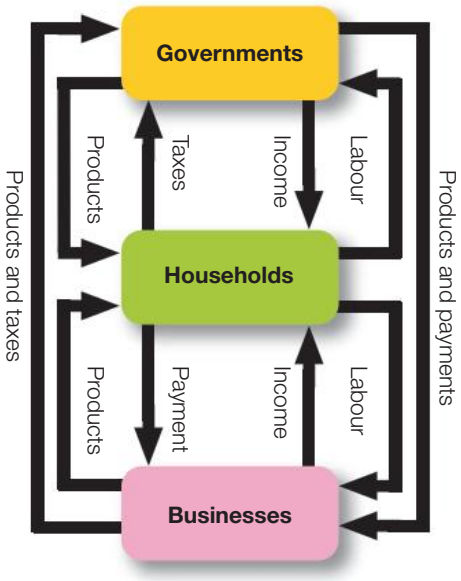

Figure 13.3 A three-sector economy.

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Figure 13.3 is a model of a three-sector economy. The government has been added to the model. Households and businesses pay taxes in return for goods and services that businesses are unable or unwilling to provide, such as health, education and roads. (The government also tries to manage the economy by trying to control inflation and unemployment.) The economy grows when the actions of businesses, households and government lead to a rise in the amount of goods and services available per person.

Figure 13.4 includes the link between the Australian economy and the world economy. When businesses (including government businesses) sell goods and services overseas, the products are called **exports**. Australia exports many goods and services, including meat, wheat, minerals (such as iron ore) and our education system. When businesses and households buy from overseas, the products brought into Australia are called **imports**. Australia imports many products, ranging from Adidas shoes to X-Boxes.

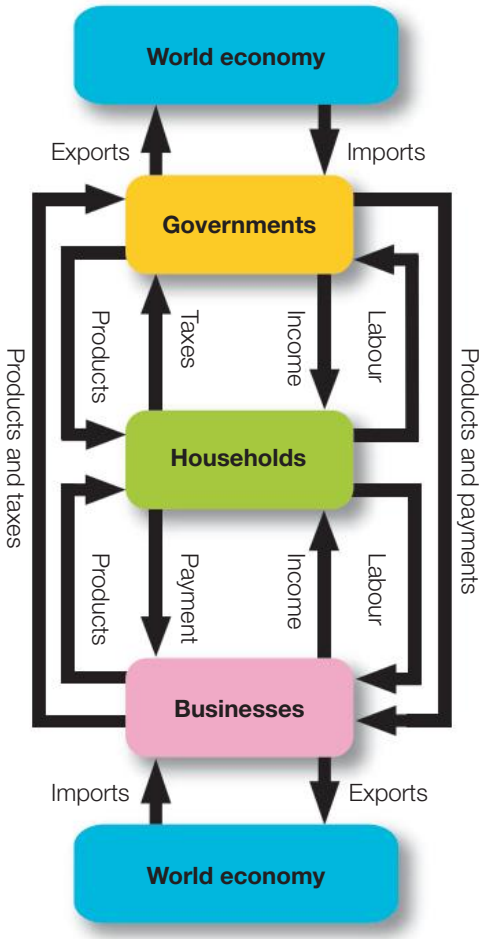

Figure 13.4 A three-sector economy plus the link between the Australian economy and the world economy.

The economic cycle

The term **economic cycle** (also commonly referred to as the **business cycle**) refers to the changes or fluctuations in economic activity that occur over time. (See the box 'The economic cycle'.) 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. 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 then 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 exactly 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.

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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 13.5. The length of time an economic cycle takes varies considerably.

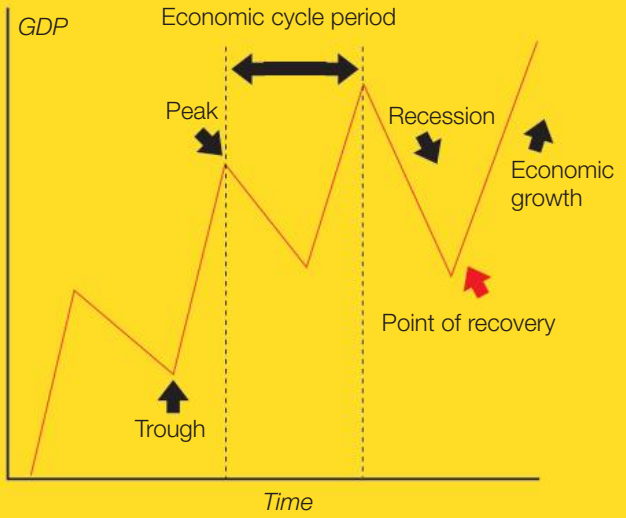

Figure 13.5 The economic cycle.

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

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 is very important as they influence spending and, hence, total output (GDP). This is illustrated by the GDP formula given on the previous page. Economic growth depends on consumers and businesses spending.

When consumers and businesses are feeling unsure about their incomes they do not spend as much on goods and services. When consumers and businesses lack confidence, and they 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.

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 × 100 = 5 per cent. If the same groceries cost $120 at the end of the year then the inflation rate would have been 20 per cent over that year. This can be presented as ($120 – $100)/$100 × 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. Since the mid 1990s, an objective of the Reserve Bank of Australia is to keep inflation between 2 and 3 per cent.

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, wage rates are generally tied to productivity (through enterprise agreements, as discussed in Chapter 4), so inflation is more contained.

Interest rates

Interest rates also influence consumer spending. 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.

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Business spending also drops as interest rates rise because high rates make it more expensive to borrow funds to invest in capital. Interest rates will be examined in more detail in Section 13.2.

Employment/unemployment

The unemployed, as officially measured by the Australian Bureau of Statistics (ABS), are Australians aged over 15 who are not currently working but are seeking employment and are available to start work.

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 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 to 5.2 per cent.

Figure 13.6 Who's stirring the pot?

Understanding the text

1 List the four functions of an economy.

2 Define the term *total output*.

3 **a** What is the economic cycle?

b Explain the relationship between various points in the cycle and economic confidence.

4 Define the term *productivity*.

Activities

1 In pairs, copy Figure 13.4 (page 270) 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 on page 270) and make a conclusion about economic activity for the relevant years.

Year	C ($'000)	I ($'000)	G ($'000)	X ($'000)	M ($'000)
2009	400	500	300	300	200
2009	300	500	300	300	300
2010	200	200	400	500	400

3 Look at Figure 13.6. In small groups, discuss the role each player has in our economy. In doing this consider:

a Assess who (if anyone) has the biggest role and whether this changes for different types of economies.

b Examine how each player can affect what is in the pot.

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

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

5 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.

ISBN 9780170251587

13.2 Interest rates

Key terms

interest rate The reward for placing money in a savings or term deposit account. Also the term for the cost of borrowing money – an amount paid back to the lender over and above the original sum. The rates are expressed as a per cent per annum. The official interest rate is set by the RBA.

monetary policy The RBA is responsible for Australia's monetary policy, which involves setting the official interest rate. Other interest rates, such as home mortgage, personal loan and credit card, are influenced by this rate.

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 to 3 per cent.

Interest rates play a major role in shaping the nature and level of economic activity.

Saving 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 and 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 so repayments were $7500 each month, then the business would find it financially viable to invest in a new factory.

Role of the Reserve Bank

The **Reserve Bank of Australia (RBA)** 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, 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 its 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.

Info.com.tech

Reserve Bank of Australia

The Reserve Bank of Australia website provides a great deal of information that is relevant to our economy.

Activity

Access the RBA website. Research and give an outline of the following:

a the history of the RBA

b what monetary policy is

c the RBA's role in setting monetary policy.

Rise and fall of interest rates

In addition to influencing other interest rates, the official 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.

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

Movements in the interest rate also affect people's investment decisions (see the article, 'Retirees miss out' on page 274). 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.

ISBN 9780170251587

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's 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 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.

Understanding the text

1 Explain the relationship between interest rates and consumer and business borrowing and investment.

2 Explain why short-term and long-term interest rates differ.

3 Why do changes in interest rates affect consumer and business confidence?

Activities

1 Use a newspaper business section to research the difference between the various types of published interest rates. Over a period of five lessons, graph any changes in these rates.

2 Describe the effect of both increases and decreases in interest rates on:

- repayment of debt
- choice between fixed and variable rate
- choice of personal investment strategy

Retirees miss out

News Limited Network, 5 December 2012

Retirees and other investors relying on bank and other deposits are the losers after the Reserve Bank slashed interest rates to their lowest since the Global Financial Crisis.

Experts estimate more than one million, mostly older, Australians will be hit by reduced incomes through interest rates. Self-funded retirees who rely only on cash investments have had their incomes cut by a quarter in the past year.

Since the Reserve Bank started cutting rates last year, typical returns from term deposits and online savings accounts have slumped 15–30 per cent. Accounts that paid more than 6 per cent interest are now close to 4.5 per cent, so every $1000 of income a retiree was receiving is now just $750.

Palmer Portfolios principal Joel Palmer says many retirees switched from shares to cash in the global financial crisis. 'Many of those same investors are still sitting in cash and suffering a second, silent GFC, as they watch their income eroded by a relentless series of interest rate cuts', he says.

But investors wanting extra income must be prepared to take on extra risk, he says. Property, bonds and shares are the key alternatives. Bonds have done well but there is no certainty they will do better than cash in coming years, buying an investment property may not be sensible for a retiree, while shares – like the other two – don't have the stability of cash, Palmer says.

Source: www.theaustralian.com.au

Activities

1 Analyse the article above and outline the implications of falling interest rates.

2 Use the Internet to investigate and evaluate income producing options such as bonds, investment properties and shares by:

a defining the options

b comparing the advantages and disadvantages of the options.

Identify and justify your preferred option.

ISBN 9780170251587

13.3 Price changes

Key terms

appreciation An increase in the value of an asset. The term can also be used to refer to the appreciation of a currency. A currency appreciates when its value, expressed in terms of another currency, rises.

consumer price index (CPI) The main measure of inflation in Australia. The CPI shows the amount by which prices have increased for spending on an average basket of goods. As with all index numbers, it has a base year, and all changes are expressed as percentage changes around that base.

depreciation When the value of one currency, expressed in terms of another currency, falls.

exchange rate The price of one currency in terms of another currency. For example, the exchange rate between the A$ and the US$ may be A$1 = US$0.65. This means that you need to pay a price of A$1 to get US$ 65 cents.

wage price index (WPI) A measure of changes in wages and salaries.

Inflation

The real value of money is what goods and services can be purchased with it; that is, the purchasing power of money. 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 produced by the Australian Bureau of Statistics (ABS). The CPI measures the changes in the price of a fixed basket of goods and services acquired by household consumers. Every three months the ABS finds the cost of each item in its theoretical basket of goods and compares the total cost to the total cost at the time of the base period. The CPI had a base index rate of 100 from 1989–90. At the end of September 2010 the CPI was 173.3. This means that over the last 20 years prices have risen, in general, by 73.3 per cent. At the end of September 2009 the CPI was 168.6. This means that the percentage change over the year was 2.78 per cent. The percentage change can be calculated by dividing 4.7 (173.3–168.6) by 168.6 and multiplying by 100 (4.7/168.8 x 100 = 2.78 %).

The **wage price index (WPI)** measures changes in the cost of wages and salaries using a similar method to the CPI, but for a mixed basket of jobs instead of goods and services.

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The percentage change in the CPI from September 2009 to September 2010 was 4.7 per cent. The percentage change in the WPI from September 2009 to September 2010 was 3.6 per cent. This would indicate that wages have fallen relative to the price of goods and services and, hence they have less purchasing power. This is due to decreasing productivity.

Since 1995, the Reserve Bank of Australia (RBA) has aimed to keep Australia's inflation between 2 and 3 per cent. 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. In early 2000, A$1 was worth US$0.88 or US$1 could be exchanged for A$1.44. For example to buy a $10000 car in the US you needed A$11 4000. By late 2012 the exchange rate had moved: A$1 was now worth US$1.04 or US$1 could be exchanged for A$0.96. Referring to the previous example, to buy that $10000 car in the US, you would only need A$9600.

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 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$96 each. If the importer 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 less than A$96 each. If the Australian dollar **depreciated** (that is, decreased in value relative to the US dollar), the jeans would cost more.

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 to 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 isn't so beneficial for 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. In 2003, Australia started to come out of a crippling drought and farmers were just returning to a decent level of production. However, the Australian dollar appreciated around this time, and has continued to appreciate, so the price of their produce was less attractive to foreign buyers.

Table 13.1 Impact of a strengthening (appreciating) or weakening (depreciating) 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 increase 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

Understanding the text

1 What is the CPI and how is it measured?

2 What is the WPI and how does it differ from the CPI?

3 Explain why it would be useful to compare the CPI and the WPI.

4 Explain what is meant by the term *exchange rate.*

5 **a** What does an appreciation of the Australian dollar mean?

b What does a depreciation of the Australian dollar mean?

Activities

1 Go to the business section of a recent leading newspaper and record the exchange rates of the Australian dollar against the US dollar, the British pound, the euro, the yen and the NZ dollar. Over the next five lessons, track any movements and discuss the implications any changes may have on our economy.

2 Go to the ABS website and obtain figures for the CPI and WPI for the last five years. Create a line graph and interpret the graph.

3 Copy the advantages and disadvantages listed in Table 13.1 onto a piece of paper (there are 13 in total). Cut out each of the advantages and disadvantages into strips. Jumble the strips of paper and pass them to a partner. Without looking at the textbook, reconstruct Table 13.1 by placing the strips under the correct headings shown in the table below.

Change in value of $A	Advantages	Disadvantages
Strengthening dollar		
Weakening dollar		

Check your efforts against Table 13.1 in the textbook before gluing your work into your notebook.

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13.4 Current issues relating to changes in economic activity

The state of the economy can change for a number of reasons. Economic issues range from how far the Australian dollar will continue to appreciate (or depreciate) to the effect on our exporters of trade talks with our international trading partners. The possibilities are numerous and the consequences of changes to economic activity on the government, businesses and everyday Australians can be far reaching.

Political, social and environmental factors

Many economic issues also have implications beyond what is traditionally thought of as 'economics'. Political and social aspects of economic issues, for instance, are often not addressed or taken into account by economists. For example, the impact of unemployment on family and community relationships are rarely considered in economists' discussions of the labour market. Environmental factors are also not fully taken into account in most economic models and data. Damage to our environment, for example, is not generally considered when prices of products are determined, and impacts on the environment from damage caused by pollution are not usually included in economic data. 'Environmental economics' is slowly developing as economists tackle these environmental issues. The article on page 278 examines some of the 2012 developments at the United Nations Conference for Sustainable Development and examines why the environment has not been included in economic data.

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State of our ecomony

For the latest information on the current state of the economy, the ABS provides the most comprehensive source of economic information. Check out the ABS website. Commentary on the current and expected future state of the economy can be found in newspapers, business magazines and websites of organisations such as banks, employer associations and the Australian Federal Treasury.

Activities

1 Look at Figure 13.7. In small groups, construct two lists headed 'Economic implications' and 'Environmental implications'. Brainstorm as many points as possible to list under each heading. Discuss why political and social aspects should be considered when discussing our economy.

2 Imagine you live in a rural community and the government has allowed the local river to be diverted, enabling a new cotton farm and processing factory to be built. The farm and factory will employ 500 people. Do you agree or disagree that this will boost your economy? Write a letter to your local member of parliament justifying your views. You should aim to discuss the political, social and traditional economic implications of this situation.

Figure 13.7 Consequences of solving the economic problem.

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Environmental accounting is closer to reality

by Ross Gittins

How do you get economists and business people to take the environment and its relationship with the economy seriously? Change its name.

You've heard of physical capital (machines, buildings and other structures), financial capital (securities such as shares and bonds), human capital (an educated and skilled workforce) and social capital (the shared values and norms of behaviour that enable mutually advantageous cooperation).

So why don't we rename the environment 'natural capital'?

It doesn't sound like a lot of progress has been made at the Rio+20 summit on sustainable development. But one thing giving me hope is the 'natural capital declaration' made by banks and big businesses, including our NAB, represented by its chief executive, Cameron Clyne.

'Natural capital', it says, 'comprises Earth's natural assets (soil, air, water, flora and fauna) and the ecosystem services resulting from them, which make human life possible. Despite being fundamental to our wellbeing, their daily use remains almost undetected within our economic system. It goes on to say that 'because natural capital is a part of the 'global commons' it is treated largely as a 'free good'.

Earlier this year the UN Statistical Commission adopted as a new international statistical standard with equal status to the system of national accounts, the 'system of environmental-economic accounting', SEEA. Our Bureau of Statistics has been at the forefront in the development of SEEA.

The very reason economists and business people have been taking too little notice of the environment for the past centuries is that, for the most part, it's outside the market system – a 'free good'. There's not one price for clean air and another for dirty. Despite this, SEEA extends the national accounts by recording environmental data with the economic data in monetary terms. Maybe one day we'll discover a way to value natural capital so we can add it all together.

Source: *The Sydney Morning Herald*, 23 June 2012

Activities

1 Use the article and the Natural Capital Declaration website to answer the following questions:

a Define natural capital.

b What is the objective of the Natural Capital Declaration?

c Identify the risks to businesses and consumers if 'natural capital' is unsustainable.

2 Go to the ABS website, click on news & media, ABS in the media, media releases, May 2012, then scroll down to the media release dated 10/05/2012, 'Completing the Picture – Environmental Accounting in Practice'. Examine this media release.

Carbon pricing

The federal government's Clean Energy Plan, introduced in 2012, includes a carbon pricing mechanism aimed at cutting pollution and encouraging investment in clean energy. The 'carbon tax' has been widely debated in parliament and the media. The article titled 'Give and take: this new tax is a piece of cake' explains the long-term objectives and how changes to pricing can lead to changes in consumer behaviour. The carbon pricing starts at $23 per tonne and will rise at 2.5 per cent each year until 2015, when an emissions trading scheme will come into operation with the price for carbon determined by the market. To compensate households for the increased costs of living following the introduction of the 'carbon tax', the government has provided direct payments and tax cuts, particularly for low income earners.

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Give and take: this new tax is a piece of cake

by Ross Gittins

If Gillard is imposing a carbon tax to raise the price of electricity and gas, with some flow through to the prices of other items, so as to discourage us from using so much fossil fuel, why is she undoing the effect by giving us back most of the tax we'll pay as cuts in income tax and increases in pensions and family benefits?

Though the carbon tax will raise about $9 billion a year in revenue, raising revenue is not its primary purpose. Rather, its purpose is to change people's behaviour. And one of the most basic ideas in economics is that the best way to change people's behaviour is to change the prices they face. If there's some activity you wish to discourage, raise its price relative to all the other prices people pay.

When, after a cyclone, the price of bananas shoots up relative to the prices of other fruit, people tend to buy fewer bananas and more apples and oranges. When the price of beef rises more than other meat, people buy less beef and more chicken.

The thinking is that if you raise the price of fossil fuels and emissions-intensive goods relative to the prices of all the other things people buy, they'll change their spending in ways that reduce the use of fossil fuels.

It's not necessary to leave people worse off to get them to change their spending patterns. And since the primary purpose of the carbon tax is to change relative prices rather than to raise revenue, you may as well return the revenue to people by cutting income tax and increasing benefits.

People have an automatic tendency to apply government moves such as this to themselves and their homes but, in fact, the relative price change is directed mainly at the big industrial users of electricity and, more particularly, the generators of electricity.

It's when their existing power stations come to the end of their useful lives and are replaced by less-polluting generators that the big steps forward will be made.

Source: *The Sydney Morning Herald*, 13 July 2011

Activities

1 Read the article 'Give and take: this new tax is a piece of cake' and complete the following questions:

a Identify the objectives of the 'carbon tax'.

b Evaluate how increases to energy prices impacts consumers and businesses.

c How can you make changes in your energy use to decrease reliance on fossil fuels?

2 Visit the Clean Energy Future website and click on 'Our Plan' to locate the link for the fact sheets.

Working in pairs, assess the level of assistance available to students and compare it to other households.

3 Click the 'what others are doing' link on the site and investigate the actions that other countries are taking. Discuss your findings as a class.

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Chapter review

Activity 1: mindmap

Pretend your teacher has asked you to explain the topic 'Our economy' to a new student. Prepare a mindmap to help you in your task. Explain your completed mindmap to another student in your class.

Activity 2: crossword

Copy the crossword opposite and then complete it.

Across

2 A fall in the value of money because general prices have risen

5 The main measure of inflation in Australia

8 The measure of changes in the cost of wages and salaries

9 Entrepreneurial skill

12 The term used to describe the tendency of economies to move through periods of boom and slump over a period of time (two words)

13 A measure of economic activity within Australia; also known as total output

15 A _____ of a currency is when one currency's value falls in terms of another currency

17 The number of workers without a job who are willing and able to work

Down

1 An _____ of a currency is when one currency's value rises in terms of another currency

3 Businesses undertake this when they purchase capital equipment, such as factories

4 The price of one currency in terms of another currency (two words)

6 A _____ economy is a system where resources are owned by households

7 An economy where resources are owned by both private individuals and the government

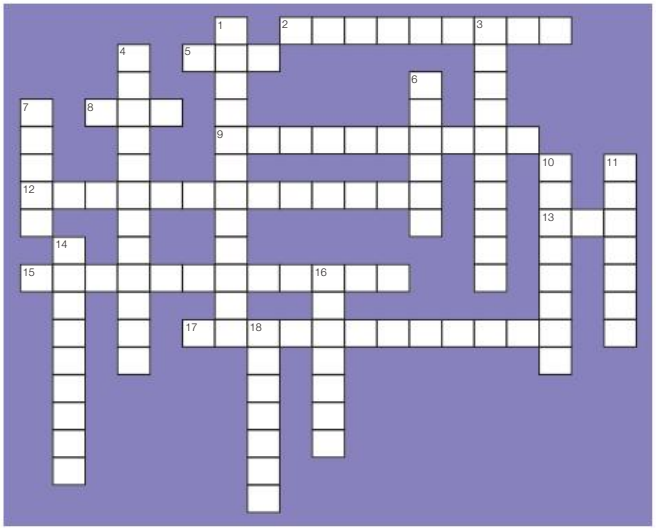
10 The pay you receive per time period of work (two words)

11 One of the factors of production. It includes machines, factories and offices

14 Two consecutive quarters of negative economic growth

16 Goods, services and capital assets purchased from overseas

18 Goods, services and capital assets sold overseas



Activity 3: group work and report

In groups of three or four, outline each of the factors that can cause a change in economic activity and how each of these can affect:

a personal and business finances

b employment/unemployment

c economic confidence.

At the end of the session, individually write a report titled 'The effects of economic change' that brings together the previous group work.

Activity 4: research and presentation task

Research newspapers and other publications for a current economic issue and present a five-minute speech on the topic to your class. In doing so, consider adopting a research action plan, using the steps below:

a Select a topic; that is, identify an economic issue that is of importance at the present time. Careful examination of the print and electronic media will give you ideas. It would be useful to collect a media file.

b 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.

c 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 economic issue. Consider how the issue has affected the economies of other countries.

d Prepare your speech using a report format. Discuss the economic issue and its relevance to the Australian government, businesses and household sectors.

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14

Community participation

Focus statement

In this chapter we focus on how to become active and effective participants in community organisations. Particular attention is given to the role of non-profit organisations, active community participation, goal setting and the achievement of community outcomes.

Focus question

What different types of community activities are available in today's society and how do they involve active and effective membership?

In this chapter you will learn about:

- non-profit organisations
- the role and function of non-profit organisations
- the impact of non-profit organisations on the quality of life
- active community participation
- the limitations of individual action
- global citizenship
- the benefits of belonging to an organisation
- how to be an effective participant
- goal setting in a range of contexts
- producing action plans
- strategies for achieving objectives
- achieving community outcomes
- the role an individual can play within an organisation
- major issues relating to the role and operation of community organisations.

14.1 Non-profit organisations

Key terms

campaign An organised course of action for a specific purpose; for example, to arouse public interest in an issue.

community building Enhancing the material and non-material wellbeing of a community.

legitimate Being within the bounds of the law; legal.

non-government organisations (NGOs) Bodies that are independent from governments and their policies, and gain at least a significant proportion of their funding from private sources. The interests and aims of such organisations cover a broad range of political, economic, environmental and social issues.

non-profit organisations Non-government organisations that aim to meet the needs of communities and individuals. Often said to include charities and service organisations.

public relations The maintenance of a positive public image.

voluntary Done or undertaken of one's own free will.

What are non-profit organisations?

For our communities to function effectively, governments must accept responsibility for many of our collective needs. This may, for example, involve meeting the welfare needs of the disadvantaged and providing the education, health care and transport systems on which we all depend. There are often areas of need that governments cannot afford to meet. Community-based groups may form to meet these areas of need. These groups or organisations are often referred to as **non-government organisations (NGOs)**. Included with non-government organisations are groups called **non-profit organisations**.

A non-profit organisation is a **voluntary** grouping of like-minded individuals or smaller organisations. The aim of these organisations is the economic, social and/or cultural development or advancement of society as a whole. Alternatively, and more often the case, the aim is meeting the needs of minority or disadvantaged groups. Such groups may also seek to lobby or **campaign** on issues of public interest. (See Section 14.3 for a discussion of lobbying.) The non-profit organisation is usually autonomous (self-governing) and non-political. Some examples of non-profit organisations operating in Australia are given in Table 14.1.

Table 14.1 Examples of non-profit organisations by area of activity

Area of activity	Examples
Meeting the welfare needs of the disadvantaged	Mission Australia, Salvation Army, St Vincent de Paul, The Smith Family
Meeting the needs of the oppressed and disadvantaged on a global scale	Amnesty International, ActionAid Australia, Oxfam, Save the Children, World Vision
Caring for the environment	Australian Conservation Foundation, Clean Up Australia Council, Earthlink, Friends of the Earth, Greenpeace Australia, Landcare Australia
Meeting local, community-based needs	The various sporting associations and service clubs that operate within communities, such as Rotary, Lions and Country Womens' Association
Meeting a specific, broad-based community need	Australian Red Cross, CanTeen Australia, Leukaemia Foundation, Royal Lifesaving Association, St John Ambulance, Variety Club
Cultural advancement/promotion	Friends of the ABC, Friends of the Australian Ballet

Why do we need non-profit organisations?

Governments don't have the resources to meet all the community's needs and wants. Choices need to be made and priorities established. In many cases, governments opt to meet just the basic needs of disadvantaged groups, such as the poor, unemployed, aged and disabled. Many people think the government should be taking on a more active role in other areas such as the environment, the arts and human rights. Non-profit organisations are often established to help 'fill the gaps' in government assistance by helping out those in need of additional support. This assistance may be financial but might also include physical, emotional or social assistance. Sometimes governments provide funds to such organisations believing that they are best placed to identify those in most need. In other cases, non-profit organisations are established as a way of enabling citizens to do something about those issues that concern them.

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Non-profit organisations, therefore, fulfil a role within society that the government cannot, or is unwilling, to meet. The establishment of, and involvement in, a non-profit organisation allows individual citizens to actively participate in what is often referred to as **community building**. These organisations are also often able to influence government policy. ActionAid Australia is one such organisation.

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Investigating ActionAid Australia

ActionAid is a global organisation that empowers women living in poverty to stand up and claim their human rights.

Figure 14.1 Logo of ActionAid Australia.

Figure 14.2 Smallholder farmer Adiya participated in an ActionAid initiative to raise womens' awareness of their rights.

Activities

1 Access the ActionAid Australia website.

- **a** Briefly outline the history of the organisation.
- **b** Outline ActionAid mission and goals.
- **c** List the issues the organisation campaigns on.
- **d** Identify the regions of the world in which ActionAid operates.
- **e** Explain how the organisation funds its operations.
- **f** Outline ActionAid's successes.

2 As a class, organise a fundraising event for ActionAid. Refer to the ActionAid website for ideas about planning such events.

3 Invite an ActionAid spokesperson to address a school assembly outlining the work of ActionAid.

Range of community organisations

Community-based non-profit organisations operate at a variety of scales ranging from the local to the global. It is therefore possible to categorise such groups according to the scale at which they operate:

- *local* – those designed to address a local, community-based need
- *national* – those formed to address a need at a national scale
- *international* – those concerned with issues that operate at an international, or global, scale.

Some organisations that operate at the international and national scale have state, regional and local sub-branches. This enables them to better involve people at a 'grassroots' level. An example of an organisation with this structure is the service club Rotary International. Rotary has 1.2 million members in more than 30 000 community-based clubs across 166 countries.

Table 14.2 Examples of non-profit organisations organised by scale

International

- Amnesty International
- Greenpeace
- International Alliance of Women
- International Committee of the Red Cross
- Save the Children
- World Vision

National

- Australian Conservation Foundation
- Clean Up Australia
- Country Women's Association of Australia
- Greening Australia
- Landcare Australia
- Relationships Australia
- RSPCA
- The Wilderness Society

Local

- Aboriginal and Torres Strait Islander associations and organisations
- Aged persons' support
- Animal welfare organisations
- Disability support organisations
- Church and religious organisations
- Conservation and environment organisations
- Cultural and educational organisations
- Ex-service and service organisations
- Family welfare organisations
- Migrant organisations
- Sporting clubs
- Youth organisations

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International organisations

International non-profit organisations often also have regional and national branches around the world. They are commonly concerned about global issues, such as human rights, refugees, the environment and global inequality. Non-profit organisations operating on a global scale are often the most effective because they have the status and resources to lobby governments and multinational bodies, such as the United Nations, World Bank and World Trade Organisation.

National organisations

National non-profit organisations are mainly concerned about national issues. They often begin as a local or state-based concern but may grow into a national organisation if there is a need at this level.

Local organisations

Many local, or neighbourhood-based, non-profit groups develop around issues or concerns that can be most appropriately dealt with at this scale. They are usually created in response to some particular local need or situation and they usually support a variety of specific local improvement actions. Some examples of these actions are the rehabilitation of a local waterway or bushland area, local youth employment initiatives, the provision of sporting facilities and the establishment and running of a local sporting club.

Roles and functions of non-profit organisations

Non-profit organisations usually focus on the cultural, social, environmental, economic or physical needs of a community and its members. Most objectives focus on making a community stronger in one or more of these areas.

For a non-profit organisation to be successful, a number of factors are taken into account:

- *financial* – non-profit organisations need to have sufficient funds to achieve their objectives.
- *legal* – these organisations are expected to act within the law. This expectation applies to what the organisation intends to do, how it intends to do it and how it will raise money to realise its objectives.
- *regulatory* – non-profit organisations need to be regulated and registered so that they are seen as **legitimate** by members of the community; both those they are assisting and those they are seeking assistance from.
- *fiscal* – to be legitimate, an organisation needs to be registered with the Australian Taxation Office so that any contributions become tax deductions for the contributors.

In addition, to reach their potential, non-profit organisations need to maintain professionalism, have good **public relations** and train their staff. They must also have effective management, fundraising techniques and planning procedures.

Government support for non-profit organisations, especially smaller ones, is also very important. For example, the government helps smaller organisations to support and complement the work of one another. It also assists them to liaise with relevant government bodies and other non-profit organisations. The government also provides training and helps ensure that the non-profit organisation's 'voice' is heard in government policy-making forums.

Impact of these organisations on the quality of life

Most non-profit organisations hope to improve the quality of life experienced by individuals, communities and, in some cases, a whole nation.

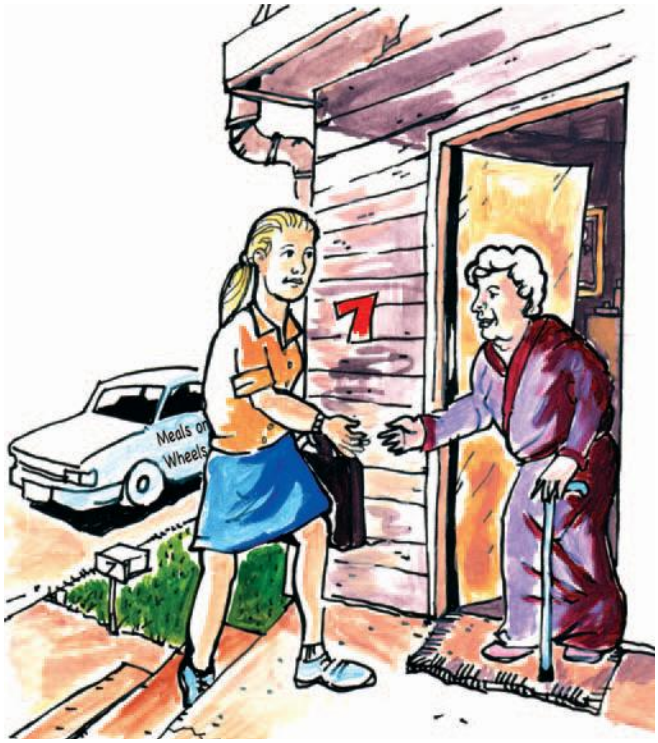

Figure 14.3 Meals on Wheels provides food for people who cannot cook for themselves. This non-profit organisation improves the quality of life of those it assists.

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Case study: the International Red Cross

Figure 14.4 Salvadorean Red Cross workers assisting in relief efforts after a landslide in San Salvador.

The International Red Cross and Red Crescent Movement (commonly referred to as the Red Cross) is a non-profit organisation with a humanitarian mission. The majority of its funding is sourced through public donations. In New South Wales, some community service programs of the organisation are partially funded by government departments, while others are supported by corporate, community or individual sponsors.

The Red Cross Movement was founded by Henry Dunant in 1859 after he witnessed the Battle of Solferino in Northern Italy. Over a 15-hour period, 40 000 men were killed and tens of thousands were left to die due to the absence of medical services. Dunant enlisted locals to help the wounded and comfort the dying, taking messages and addresses to write to their families.

In 1863, as a result of Henry Dunant's recommendations, the International Committee of the Red Cross was established. In 1864, the First Geneva Convention was signed by 12 countries. This body of law provided for the protection of wounded and those who care for them. The now famous emblem of a red cross on a white background was chosen to signify any such relief activity.

The International Red Cross aims to relieve suffering wherever it may be found. It assists people in situations of conflict, provides emergency relief during natural disasters and delivers ongoing support to affected communities.

As part of the International Red Cross and Red Crescent Movement, Australian Red Cross NSW follows a set of seven fundamental principles binding all national Red Cross Societies worldwide. These principles are humanity, impartiality, neutrality, independence, voluntary service, unity and universality. An estimated 97 million Red Cross members and volunteers throughout the world adhere to these fundamental principles as guidelines for all activities of the movement.

The movement combines two key bodies: the International Federation of Red Cross and Red Crescent Societies (IFRC) and the International Committee of the Red Cross (ICRC). These two organisations have quite different functions.

The IFRC operates programs that are grouped into four main areas:

- promotion of humanitarian principles and values
- disaster response
- disaster preparedness
- health and care in the community.

They do this through national societies. In 178 countries/states around the world, there is either a Red Cross Society or a Red Crescent Society.

The Red Cross is a non-religious organisation. In keeping with the core principle of neutrality, the Red Cross does not discriminate against or privilege one particular religion over another. The emblem of the Red Cross is not a Christian cross – it is a symbol of protection for victims of armed conflict.

Red Cross implements a wide range of community services in Australia and around the world.

In New South Wales, there are approximately 57 000 Red Cross volunteers.

You can find out more at the websites of the International Red Cross and Red Crescent Movement, the IFRC and ICRC.

Questions

1 When and where was the Red Cross Movement founded?

2 What is the main purpose of the Red Cross in today's society?

3 Go to the website of the Australian Red Cross. Choose one issue in which the Australian Red Cross is currently involved. Identify what the issue is. Read online how the Red Cross is assisting. Do you think its assistance is effective? Why or why not?

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Understanding the text

1 What is a non-profit organisation? Why are they needed?

2 Outline the goals common to most non-profit organisations.

3 Outline the roles and functions of non-profit organisations.

4 Explain how non-profit organisations help individuals or groups.

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Father Chris Riley's Youth Off The Streets: a local non-profit organisation

Youth Off The Streets was founded in 1991. Initially based in inner Sydney, its aim was to help chronically homeless and drug-addicted youth. Since its foundation it has expanded significantly and now has grown into an organisation providing a wide range of services. Youth Off The Streets aims to help adolescents achieve a standard of education and living that will help them become healthy and active members of mainstream society.

Activities

Access the Youth Off The Streets website and complete the following tasks:

1 Outline the main aim of this organisation.

2 Describe the strategies it uses to achieve these aims.

3 Go to the 'Our services' section of the site and, in pairs, choose one of the services. Summarise the service you have selected and present it to your classmates in either a multimedia presentation or a brief oral presentation. Include a comment about whether you think this program would be effective.

4 Using the Internet or the links from the Youth Off The Streets website, research one other non-profit organisation that helps youth. Your teacher may like to extend this to include youth aid in other countries. Organise your research by following the criteria outlined below:

   a Present your research on a piece of cardboard so it can be displayed in your classroom.

   b Write a brief description of the organisation, including whom it helps and its aims.

   c Add appropriate visuals to emphasise the major aspects of this organisation.

5 As a class or in groups, discuss why there is a need for organisations to help youth.

6 Extension task: Research whether such support groups existed in the past. If so, what were the main problems that seemed to affect young people at the time? How have problems for youth changed? How have problems for youth stayed the same?

Activities

1 Copy and complete the table below. Use the Internet, the library and local newspapers to find as many local, national and international non-profit organisations as you can. Try to find one for every letter of the alphabet. After you have finished this task, discuss with the class to see how many non-profit organisations you have found.

Name of organisation	Type of organisation

2 Using photographs, drawings and newspaper and magazine clippings, create a montage of local, national and international non-profit organisations. Include slogans used by these organisations and testimonials from those they have helped. Display these around the classroom.

3 As a class, discuss the impact that non-profit organisations have had on either a local, national or international event. Think about what non-profit organisations the school has helped through fundraising or other activities.

4 Choose one of the non-profit organisations mentioned in this section of the text. Investigate the organisation's activities. Write a report describing and assessing the role of this organisation and its impact on the community.

5 Invite a local representative of a non-profit organisation to speak to the class about the work of his or her organisation. Write a letter of invitation and outline what you would like the representative to talk about when addressing your class.

6 Conduct a class survey. Make a list of the range of local, national and international organisations with which class members have been involved. Outline the nature of this involvement. This could include being a member, raising funds for the organisation, or being sponsored or assisted by the organisation.

7 In small groups, or as a class, brainstorm what organisations are needed within your local community.

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14.2 Active community participation

Key terms

campaigning Putting in place a program to arouse public interest in an issue.

community A group of people who share something in common.

demographic Relating to the characteristics of a population, such as the age, sex, marital status, household type and place of birth of individuals within the population.

global citizen A term used to recognise that we are part of a global community and that we all have something in common, including rights and responsibilities.

sense of community The feeling of belonging that comes from being part of a community

Demographic characteristics

Neighbourhood
Aboriginality
Spiritual beliefs
Occupation
Socioeconomic status
Interest groups
Rural or urban identity

Ethnicity
Gender
Sexuality
Sporting allegiances
Heritage
Popular culture

Figure 14.5 Some of the individual or group characteristics that contribute to the development of a sense of community.

What is a community?

A **community** consists of people who share something in common. This may include geographical location, race, religion, age or a recreational interest, for example. There are two types of communities:

- shared space communities
- shared social organisation or interest communities.

A *shared space community* consists of people who live in a particular neighbourhood, town or city and identify with the geographical area. Most, if not all, of their interactions take place within that community.

People who have similar interests, belong to a particular profession, are members of a sporting club, have the same ethnic background, share a hobby, have the same religion or identify with a particular political party often develop a sense of community. The members of such a group are known as a *shared social organisation* or *interest community*. This type of community does not need to be limited to any particular place. The Internet, for example, has made it possible for these communities to span the globe.

Shared social communities include cultural, such as beach culture; sporting, such as exercise groups; ethnic, such as the Greek community; and interest groups such as chess clubs. A person could be involved in many community groups (see Figure 14.5). They may, for example, identify with an ethnic group, have strong links with a specific neighbourhood and be involved in a sporting club.

Figure 14.6 Fans of sporting clubs such as the Sydney Swans enjoy a sense of belonging to this particular community group.

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The 'sense of belonging' that comes from being part of a community is very important. Most people like to share ideas or interests with other people. They enjoy being part of a community as it allows them to interact with others.

Limits of individual action

When an issue affects us personally and nothing is done to address our concerns we often feel frustrated and sometimes angry. In general, the more people who are concerned about an issue, the greater the likelihood that it will be addressed. It is only when a substantial number of people express a need for change or action that political institutions take notice and respond.

There are, of course, good reasons why governments do not respond to every concern expressed by individual members of the community. If our political institutions responded to every such request they may fail in their obligation to act in the best interests of the majority of citizens. Good government involves serving the interests of the majority without infringing on or neglecting the rights and welfare of individuals.

By joining with people who hold similar views and interests individuals are much more likely to have their concerns addressed. To utilise the full range of strategies available to community-based non-profit organisations (see Chapter 10, page 220), for example, individuals would need to have access to considerable financial resources. Working collectively allows people to share the cost of **campaigning**, especially where this involves lengthy court proceedings or the mounting of advertising campaigns.

Global citizenship

No matter where we live in the world we are all affected by a range of economic, political, social and environmental issues. The world is becoming increasingly interconnected, and how we choose to live in one country will influence the lives of people in other countries. More than ever before, therefore, we need to think globally and consider what it means to be a **global citizen** or have a global identity. As global citizens we need to appreciate that there is more that unites us than divides us. We should acknowledge that the wellbeing of future generations depends on the decisions and choices we make today.

Technology has brought us all closer together. It is now much easier to interact with people and communities almost anywhere in the world. With more accessible, cheaper and faster means of travel, more people can travel overseas. It is also easier to communicate globally via the telephone and, especially, email and the Internet.

To be an informed global citizen we not only need to understand how Australia is governed, we need to have an understanding of how Australia fits within the global system. That is, how does a particular Australian government policy affect other countries and how do the policies of other countries or international organisations (such as the United Nations, World Bank and the World Trade Organisation) affect Australia? For example, how Australia deals with refugees is, at least in part, determined by the United Nations' Convention relating to the Status of Refugees (1951). Because Australia has signed this convention it must adhere to the principles it outlines.

Are you a good global citizen?

Copy and complete the following survey.

1 Do you take responsibility for your actions? ☐

2 Do you participate in community events? ☐

3 Are you aware of the wider world outside of your own community or country? ☐

4 Do you respect and value differences in people and cultures? ☐

5 Do you treat people equally regardless of their cultural or religious beliefs, age, gender, race or ability? ☐

6 Are you well-informed about the issues facing humankind? ☐

7 Do you respect the rights and property of others? ☐

Understanding the text

1 Distinguish between communities based on shared space and those based on shared social organisation or interest.

2 What is mean by the term *sense of community*?

3 Why don't governments respond to every issue raised by individuals?

4 What are the advantages of community action over individual action?

5 Define the term *global citizen*.

6 What impact has technology had on the notion of global citizenship?

7 Develop a mindmap outlining the factors contributing to the development of a sense of community.

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Activities

1. List all of the community groups to which you belong. Next to each group, write down the demographic characteristics it has according to Figure 14.5. Do any of the groups you are involved in not fall into the categories identified in Figure 14.5? What are they?
2. In small groups, develop two mindmaps: one highlighting the limitations of individual actions and the other highlighting the benefits associated with participation in a community organisation.
3. In groups, identify the factors that help to identify the range of communities you belong to.
4. Copy the survey 'Are you a good global citizen'. Next to each question write your answer ('yes' or 'no'). For each 'yes' answer, give an example.

Benefits of memberships of organisations

Organisations are formed by people to pursue a specific purpose, interest or common goal (see page 292). We are all members of such organisations. Throughout our lives, we interact, or work, with others in a variety of contexts. We work together in class, in sporting teams, in musical groups (bands and orchestras), in the workplace and in any number of hobbies and pastimes.

The benefits of membership include:

- a sense of belonging
- meeting people with similar interests
- achieving goals that would have been impossible to achieve as an individual
- knowing that you have helped make a difference
- developing skills that can be transferred to other aspects of life
- developing an understanding of decision-making processes.

How to be an effective participant

To be an effective participant in an organisation there are two points that you must be clear about:

- a complete understanding of the aims of the organisation, including what you and your group are seeking to achieve
- your role within the group or organisation.

Skills relating to effective participation

Being well-organised and goal focused are important skills for effective participation in any group. To be well-organised you need to break down your task into smaller, logically sequenced tasks that are achievable within the time available.

During group work, for example, being well-organised may involve assigning specific roles and responsibilities to each member. You may have researchers, writers, speakers, illustrators, time managers and so on. Developing a time frame or plan, and allocating specific tasks to group members, makes it much easier to carry out tasks and achieve goals. Everyone in the group must be clear about their specific task and the group's expectations of them.

Organising for success

Outlined below are the eight key stages that need to be worked through to achieve a successful outcome:

1. As a group, decide on the outcome you wish to achieve. Make sure everyone in the group is clear about the expectations of the whole group. Define, clarify and agree upon the role and expectations of each group member.
2. As a group, decide on what information is needed and who will be responsible for its collection. From where will it be collected? How will it be used?
3. Decide on the time frame of each stage of the project. This includes when meetings of the group will occur and what needs to be achieved at each meeting for the group to progress.
4. Establish and meet your deadlines.
5. After the information has been collected, decide on how it will be analysed and presented. What actions may need to be taken as a result of the information obtained?
6. Now that you are informed, determine what strategies you will put in place to achieve your outcome.
7. Implement and monitor your strategies.
8. Evaluate your campaign. Have you achieved your stated outcome? What aspects of your campaign worked well? What didn't? What would you do differently next time?

(Note: Sometimes it is difficult to clearly define roles within a group. Many tasks will overlap as group members discover their capabilities or new areas of need are identified.)

Roles within groups

Group members are often assigned one of the following roles:

- group coordinator
- task coordinator
- team member
- networker
- evaluator.

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The tasks of the *group coordinator* may include motivating the group and giving directions, clarifying the outcomes and objectives of the group and influencing priorities. This person keeps the group on track and may also be the troubleshooter. The group coordinator has a major influence over whether the group achieves its stated outcomes.

There may be more than one *task coordinator* in a group, depending on the size of the group and its desired outcomes. Once the group has decided on an overall outcome, it is up to the task coordinator(s) to deal with the details of various tasks that need to be carried out at each stage of the process. Each task contributes to the realisation of the overall outcome. For example, the Student Representative Council may have the beautification of the school as its outcome. One task coordinator may be responsible for recycling within the school, while another may have responsibility for tree planting. Other tasks may be cleaning up gardens and paths and removing graffiti.

While *team members* may have no specific job or role, they can be called upon to help with tasks or perform various duties as needed.

The *networker* may be the person with outside contacts that can assist the group. For example, these contacts may be like-minded individuals or groups or those who can work with the group to help achieve the outcome or a task. Sometimes the networker is also the group coordinator.

The *evaluator* is often the group member who is able to look at the outcome of a task or action in a critical, but positive, manner. This person needs to look at the group's activities as a whole. If the evaluator identifies an area of weakness, he or she needs to provide suggestions about ways to improve the situation. Usually the role of evaluator is not allocated. Instead, often this role is taken on automatically by the person who has prior experience or a personality suited to the position.

Organisations are less successful when:

- the group cannot decide what its collective objective is or it has an imposed goal
- there is no focus or priority allocated to tasks
- the group members have not clearly defined their tasks or roles or are treated as assistants rather than as part of the decision-making team
- there is a conflict of interest within the group. This means some members may not be objective in their contribution to the group.

Figure 14.7 Clean Up Australia: a group-based activity.

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Investigating community-based organisations

Activities

Access the Pro Bono website.

1 Access the directory of not for profit organisations, then complete the following tasks:

a Locate four examples of community-based organisations that operate in your area.

b Choose one of these organisations and note what its main focus is.

c Describe and assess the role of this organisation in the community.

2 Access the site's home page. What are the aims of Pro Bono Australia?

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Being an effective leader

To be an effective leader, or group coordinator, the person must have a number of qualities, including the ability to:

- communicate well with all members of the group and outside contacts
- clarify important goals and work cooperatively
- share the leadership with others when necessary
- encourage others to work towards goals and provide members with the information they need to do this
- involve other members of the group in decision making but also make decisions based on the group's ideals when required
- see conflict and controversy as challenges not difficulties
- unite the group members by being positive, trusting and acknowledging the individuality and special talents of each member
- solve problems effectively
- never lose sight of the goal.

Figure 14.8 To lead effectively, certain qualities are needed.

Understanding the text

1. Outline the benefits of being a member of an organisation.
2. What two factors need to be taken into account when we focus on how to be an effective participant in an organisation?
3. List the skills that are needed for effective participation in organisations.
4. Show, in a graphic form, the eight stages involved in achieving a successful outcome.
5. Outline the factors that characterise a less effective organisation.
6. Outline the qualities of an effective leader.

Activities

1. Invite a spokesperson from a local community-based non-profit organisation to outline the organisation's activities, the strategies it uses to achieve its objectives and the successes of the organisation.
2. Working in groups, brainstorm the range of global issues you are aware of. Compile a list of the actions that you (individually and as a group) could take to help address at least one of these issues.
3. Get involved in a non-profit community-based organisation. Present a short oral report outlining the nature of your involvement, the goals of the organisation and its recent successes.
4. Identify the head of a non-profit organisation you are familiar with. Undertake research to find out as much as you can about this person. What qualities does the person possess that makes him or her an effective leader?
5. As a class, decide on a project that you can carry out within the school grounds for little cost. Divide into groups of no more than three students. Once in groups, elect a leader. Develop a plan to achieve the class project. Share your plan with the rest of the class. As a class, select the plan that you think has the greatest likelihood of success. Reflect on the leadership skills of those elected to lead each group. How important was 'leadership' in completing this task? Undertake the project. Evaluate the effectiveness of your planning.

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14.3 Goal setting

Key terms

action plan An outline of the short-term and long-term goals of an organisation.

agenda An outline of the matters to be dealt with in a meeting.

amendment A proposed change to a motion.

constitution A formal document outlining the rules under which an organisation operates. It includes the standing orders under which meetings are held and the role and responsibilities of the various office holders.

goal The outcome an organisation or individual wishes to achieve.

lobbying The activity individuals and organisations engage in to influence decision makers.

meeting procedures The rules that govern the conduct of a meeting.

minutes A record of the proceedings of a meeting and the decisions made during the meeting.

motion A proposal for specific action submitted to a meeting.

negotiation A series of communications that produce an agreement that all parties consider acceptable.

president The elected head of an organisation.

quorum The number of people who must be present before a meeting can start.

resolution A motion that has been endorsed by a properly constituted meeting.

secretary The officer who handles the correspondence and paperwork of an organisation.

standing orders The rules under which a meeting operates.

treasurer The office bearer responsible for the finances of an organisation.

Focusing on goals

A **goal** is an outcome an individual or group is trying to achieve. When striving to achieve goals, we should have an understanding of our current situation and the ideal situation. We set ourselves goals on a daily basis. For example, during a day we might aim to complete our work or homework, exercise and socialise.

Goal setting improves the performance of a group or individual because goals:

- direct our attention to the immediate task
- encourage us to make an effort
- give us a reason to be persistent
- promote the development of new strategies if old ones fail.

If we are to realise our full potential it is important to set ourselves goals. Setting goals means that we develop the organisational skills necessary to focus on both the short term and long term.

Enthusiasm, dedication and energy are often not enough to achieve a goal. Individuals (and organisations) need well-defined aims (long-term goals) and objectives (short-term goals). The aim of an organisation, for example, will be what the organisation ultimately hopes to achieve. The objectives are the steps that move the organisation towards the realisation of its aim. The aim is what the group hopes to achieve if everything goes exactly to plan.

Producing action plans

An **action plan** can be used to assist with both the short-term and long-term goals of an organisation. It outlines, in a series of steps, what needs to be done to achieve the organisation's objectives and overall aim. An action plan often assigns tasks to specific individuals or groups and includes opportunities to evaluate the progress being made at various stages.

Strategies for achieving objectives

The strategies for achieving the objectives of non-profit organisations include meetings, negotiation, lobbying and the use of the political process. These are discussed below.

Meetings

Organisations hold meetings so that issues of interest to the membership can be discussed and acted on. In addition to regular (often monthly) meetings, most organisations hold at least one major meeting a year. This is called the annual general meeting (AGM). The organisation's office bearers (including the **president**, **secretary** and **treasurer**) are usually elected at the AGM.

All meetings should be conducted in a manner that is both efficient and orderly. This normally involves having an **agenda**, which the chairperson (or chair) uses to structure the meeting (see Figure 14.9).

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The rules by which the meeting is conducted are set out in the organisation's **constitution**, which outlines the set of rules under which the organisation operates. These rules are referred to as the **standing orders**. Other parts of the constitution will outline:

- the role and responsibilities of the office holders
- the procedures for electing the office holders
- how often meetings need to be held
- how many members are required for a **quorum**.

A quorum is the minimum number of people who need to be present before a meeting can start.

Agenda

1	Meeting opened by chairperson
2	Apologies (that is, noting the members who have indicated that they are unable to attend the meeting)
3	**Minutes** of the previous meeting
4	Business arising out of the minutes of the previous meeting (that is, matters that need to be addressed as a result of decisions made at the last meeting)
5	Correspondence received and sent by the organisation
6	Treasurer's report (financial statement)
7	Other reports
8	General business
9	Meeting declared closed

Figure 14.9 A sample agenda.

In order for meetings to proceed in an orderly manner, organisations will usually have well-defined **meeting procedures**. Examples of these procedures are discussed below.

Addressing the chair

The elected president of an organisation usually acts as its meeting chairperson. When someone wishes to speak at a meeting they need to gain the chairperson's attention. The chairperson will then acknowledge the person's right to speak (often referred to as 'giving them the call') without interruption. Sometimes a time limit is placed on a person's right to speak. This ensures that as many people as possible have an opportunity to express their opinion.

Proposing a motion

When a member wishes the organisation to initiate a specific action the member puts forward his or her proposal in the form of a **motion**.

The person putting forward the motion (the mover) has the right to speak first and last on the proposal. Before the motion can be discussed, however, it must be seconded (supported) by another person (the seconder). Once this is done, others are allowed to have their say about the proposal. Sometimes the standing orders will specify that a speaker for a motion can only be followed by a speaker against the motion, and so on. Once there are no further speakers, or the time for debate has expired, the motion is put to the vote. It is either accepted or rejected. If passed, the motion becomes a **resolution**.

Moving an amendment

During a debate/discussion of a motion, a member may choose to move an **amendment** to a motion. This has the effect of altering the original motion. Usually, the member who moved the original motion is invited to say whether he or she approves or disapproves of an amendment.

Figure 14.10 Organisations usually have well-defined meeting procedures to ensure meetings are efficient and orderly.

Negotiation

The process of **negotiation** can be defined as a series of communications (either oral or written) which produce an agreement that all parties consider acceptable. Successful negations involve a strategy, a presentation and patience. Preparation is probably the single most important part of a successful negotiation. Any good lawyer will tell you the key to presenting a good case in the courtroom is the hours of preparation that happen beforehand. The same is true for negotiating.

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Consider the following steps when planning a negotiation:

1. Be sure you know *exactly* what you want and what you are willing to accept as a compromise.
2. Gather as much information as you can to back up the case you want to make.
3. Develop and organise your arguments.
4. Prepare arguments to rebut any alternative points of view.
5. Determine the best way to present your views.
6. Rehearse the presentation in advance.
7. Present your case in a clear, persuasive manner.
8. Be willing to compromise.

Lobbying

Lobbying is the activity individuals and organisations engage in (either directly or through hired representatives) to influence decision makers. This usually takes the form of face-to-face meetings with ministers, members of parliament and senior public servants. Many of the steps involved in mounting a successful negotiation apply when lobbying decision makers.

Using the political process

Individuals and groups always have the option of pursuing their goals via the political process. This may include supporting the political party or candidate most likely to support your point of view on an issue. Alternatively, it may involve standing your own candidate for elected office. For more information about using the political process refer to Chapter 10.

Understanding the text

1. Explain why organisations hold meetings.
2. Why do meetings need to have an agenda?
3. Define the term *standing orders*.
4. Explain the difference between a motion, an amendment and a resolution.
5. Other than holding a meeting, in what ways can organisations achieve their objectives?

Activities

1. Invite a member of your school's Student Representative Council (SRC) to address your class. Have the person outline the range of issues discussed by the SRC and the manner in which meetings are conducted. As a class, brainstorm some motions you would like the SRC to consider.
2. As a class, decide on an issue you would like to debate. Elect a meeting chairperson and draft a motion. Decide on who will move and second the motion. Nominate at least three speakers for and against the motion. Have another student propose at least one amendment. Conduct the debate and then vote on the motion.
3. As a class, discuss why it is necessary for an organisation's constitution to nominate a quorum for meetings.

Figure 14.11 The political process involves convincing others to support your point of view.

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14.4 Achieving community outcomes

Non-profit community-based organisations play a central role in the life of many Australian communities. Some of the organisations you might be familiar with include The Smith Family, Lifeline, the Royal Life Saving Society, the State Emergency Service (SES), the Returned Soldiers League (RSL), St John Ambulance and the Rural Fire Service. Add to these the various charities, trade unions and service clubs and you have a good cross-section of the groups involved in community building.

How such organisations achieve their aims depends on the nature of these aims and the type of organisation. Trade unions, for example, may resort to strikes and other forms of industrial action to achieve their objectives. Charities will conduct various forms of fundraising to finance their charitable works. Service clubs often rely on volunteer labour and networking to meet their objectives.

Individuals can choose to become involved in such organisations via active membership or by donating their time or money.

In this section of the text we will focus on how non-profit community-based organisations achieve their objectives by taking a closer look at the work of one such organisation: the NSW Rural Fire Service.

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Investigating non-profit community-based organisations

Find out more about non-profit community-based organisations by accessing the websites of the following organisations:

- Royal Life Saving Society
- St John Ambulance
- NSW Rural Fire Service
- State Emergency Service.

Activity

Select an organisation you are familiar with and brainstorm ways in which you could help this organisation achieve its objectives.

The NSW Rural Fire Service

Figure 14.12 NSW Rural Fire Service volunteers fighting a fire.

The majority of non-profit community-based organisations are formed to meet a community need. The NSW Rural Fire Service (RFS) is one of the best known of these organisations. It was formed to prevent, detect and extinguish fires and protect Australian communities from the threat of bushfires.

The NSW RFS, which succeeded the NSW Bush Fire Brigades, was established by an Act of Parliament, the *Rural Fires Act* (NSW), on 1 September 1997. Its history, however, goes back more than 100 years.

Today, the NSW RFS has a volunteer membership of approximately 70 000 organised into more than 2100 brigades that provide emergency services for more than 95 per cent of New South Wales. The role of the brigades covers much more than fighting bushfires. Members are regularly called upon to attend road accidents, assist in search and rescue operations and help with storm and flood recovery.

The RFS works closely with the NSW Fire Brigades, the National Parks and Wildlife Service and State Forests who, between them, are responsible for about 10 per cent of the state. The RFS is also responsible for firefighting in more than 1200 towns and villages across non-metropolitan New South Wales.

Brigade members are all volunteers. They are community minded. They combine the volunteer spirit of service with a professional approach to their chosen service. Members of the RFS give up their own time to participate in training, maintain RFS vehicles and work with adults and children in fire prevention education programs.

The RFS is managed by a commissioner who answers directly to the NSW Minister for Emergency Services. New South Wales is divided into 141 rural fire districts.

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Understanding the text

1 In this section we discussed some of the strategies community-based organisations use to achieve their objectives. Outline some of the strategies. Can you think of any other strategies?

2 Based on the infomation in this section, outline how individuals assist these organisations to achieve their objectives. Can you think of any others?

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Profile of a non-profit organisation: World Vision and the 40 Hour Famine

World Vision is a non-profit organisation that relies on the community to help it raise funds. One of its best-known events is the 40 Hour Famine. The 40 Hour Famine was first held in 1975 and is now an annual event that many school students participate in. The funds raised provide food, health care and other emergency relief for thousands of children and families in some of the world's poorest countries.

This is just one example of how not-for-profit organisations are able to raise the funds necessary to support their activities. It is also an example of how individuals and groups within the community are able to make a difference through active participation or sponsorship of participants.

To learn more about World Vision's 40 Hour Famine, go to the World Vision webpage dedicated to this event.

Community members can assist World Vision with fundraising by:

- making a donation
- supporting one of the organisation's projects
- buying a gift from the World Vision catalogue
- leaving money in their will
- sponsoring a child
- contributing to the child rescue program.

Activities

1 Choose one of the fundraising activities listed above. Go to the World Vision website and find out more about that particular activity. Assess whether you feel it is a good way of attracting sponsors. Give reasons for your answer. Present your findings to the class.

2 Invite a guest speaker from World Vision to speak to your class about the organisation's activities and why it raises funds in the way that it does. As a class, compile a list of questions prior to the visit. You might like to email your questions to the guest speaker before the visit.

3 Extension task: Organise for your school or class to participate in one of World Vision's activities.

Activities

1 Select one community-based non-profit organisation, such as those listed on page 295. Use the Internet to investigate the goals and strategies of the organisation. Evaluate the effectiveness of the organisation. Explain the actions that individuals can take to assist the organisation to achieve its goals. Propose actions that individuals can take to improve the effectiveness of the organisation. Present your findings as a multimedia presentation.

- You have 10 minutes to present the results of your research.
- Develop activities that you can use to teach the material you have researched. This may involve asking the audience questions or having them fill in answers to brief questions during your presentation.
- Five to 10 slides may be used in the presentation.
- You are encouraged to use a range of multimedia resources within your presentation.
- Use the bullet points to provide a brief summary of each idea (no more than two lines per idea).
- Use your talk to provide further detail on each point. Do not read from your presentation – you should only use it as a guide.
- Rehearse your presentation.
- Avoid overuse of pictures and animations – use them sparingly so that they have an effect.

2 The rapid increase in the cost of public liability insurance threatens the very future of many non-profit community-based organisations. Undertake research to find the answers to the following questions:

a What is public liability insurance?

b Why is it necessary for non-profit community-based organisations to have such insurance?

c Why has the cost of this insurance increased so rapidly in recent years?

d How has this increase affected non-profit organisations, such as the Royal Life Saving Society?

e What strategies have been put in place to cope with this issue?

Present your findings as a written report.

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14.5 Current issues relating to community organisations

As mentioned earlier, community organisations are a significant part of our society. Some are quite well known and strong in their membership while others are smaller and less well known. All of these organisations share the common goal of supporting the community in some way. Many of these community organisations are formed to subsidise government funding for specific issues. Without these community organisations adding their support, some community needs would not be met.

In Australia, community organisations often have charity drives or other forms of fundraising. An example is the McGrath Foundation, which raises money to fund breast cancer care and awareness in communities across Australia. One of its activities is 'Jane McGrath Day', held at the cricket in January. At this match, known as the Sydney Pink Test, everyone, including the cricketers, is asked to wear pink. Money is raised by raffling cricket memorabilia, collecting money from the crowd and other fun activities throughout the day as well as before and after the day at the cricket. This is a very high-profile and fun way to raise awareness and money for the McGrath Foundation.

Figure 14.13 Fun activities at a Jane McGrath Day event

The Salvation Army is another high-profile and active community organisation. Collectors are often seen in hotels, shopping centres and at other community gatherings. The 'Salvos' is often the first organisation to support communities in times of disaster, such as bushfires and floods. It is quick to provide emergency shelter, food and clothing, and, just as importantly, comfort, for those left destitute by natural and unexpected disasters.

Community organisations raise money in many different ways to support their causes. These range from sausage sizzles at the local hardware store through to bike rides to raise awareness and money.

Activities

1 This part of the course requires you to research current issues relating to participation in community organisations. Follow the steps below and be ready to report back to the class on the organisation you choose.

Who gets involved in your local community organisations and what do they do?

a Choose a local community organisation that you want to find out more about. This could be a Landcare group, Lions Club, Scout group or any current community organisation.

b Find out what its main purpose is. Is it to improve the local area? To raise money for a particular cause? To offer after-school activities to young people? Was it formed for a particular length of time or to fulfil a long-term need within the community? This information may be available online, in the media or through a phone call.

c How does this organisation effectively operate? You may want to use the following questions to help answer this.

- how often do they meet?
- how many members does it have?
- what activities does it undertake?
- how does it raise funds?
- how do prospective members find out about it?
- how do people join?
- does it receive government assistance?

d What is the organisation's reputation or profile in the local or wider community? In other words, what do people think of this organisation? Is it seen as a worthwhile organisation, an organisation for older or

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younger people? A cultural group or a fun group? How is it advertised in the community? Where is it advertised in the community?

e Is it a necessary organisation? When you are answering this question, think about what the community would be like without it. You may also get the answer for this from a member when asking the main purpose of the organisation.

f After reviewing all of the above information, what is your opinion of the organisation? Would want to join this organisation? Why? Why not?

g Design a poster that provides the above information on this issue to display in the classroom. Aim to make it visually appealing to your classmates as well as providing information.

2 There are a great number of community organisations in Australia. Many rely on donations to support their cause. As discussed earlier in this chapter, the way they raise money is quite varied. Your task is to research one of the fundraising activities in Figure 14.14 OR one chosen by you or your teacher. Based upon this research, decide how successful the activity is. Complete the table below to begin your research.

What is the activity?	
Where is it advertised?	
How many people participate in it?	
How many years has it been running?	
How has it changed?	
How widespread is it?	
In the latest fundraiser, how much money was raised?	
Other indicators of success?	

Figure 14.14 Popular fundraising activities include Shave for a Cure, Red Nose Day, Movember and Australia's Biggest Morning Tea

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Chapter review

Activity 1: matching terms and definitions

Match each of the following terms with the correct definition from the list below.

action plan	agenda	amendment
campaign	community	constitution
goal	legitimate	lobbying
minutes	motion	negotiation
quorum	resolution	president
treasurer	non-government organisation	
voluntary	non-profit organisation	

1 Legal.

2 A non-government organisation that aims to meet the needs of communities and individuals. May include charities and service organisations.

3 Done or undertaken of one's own free will.

4 An organised course of action for a specific purpose.

5 A group of people who share something in common.

6 An outline of short-term and long-term goals.

7 A document outlining the rules under which an organisation operates.

8 The number of people who must be present before a meeting can start.

9 An outline of the matters to be dealt with in a meeting.

10 The outcome an organisation or individual wishes to achieve.

11 The activity individuals and organisations engage in to influence decision makers.

12 A body that is independent from governments and their policies.

13 A proposal for specific action submitted to a meeting.

14 A motion that has been supported by a meeting.

15 A written record of the proceedings and decisions of a meeting.

16 The office bearer responsible for the finances of an organisation.

17 The elected head of an organisation.

18 A proposed change to a motion.

19 A series of communications that produce an agreement that all parties consider acceptable.

Activity 2: true or false

Select 'true' or 'false' for each of the following statements.

1 Non-government organisations may get financial support from the government.

2 Community building means a building that is a public area for the community.

3 Non-profit organisations can be local, national or international bodies.

4 A 'shared space' community is one that has a geographical area in common.

5 A global citizen is someone who travels frequently to other countries.

6 Any Australian citizen is able to form a non-profit organisation.

7 Lobbying is an action to influence decision makers.

8 An action plan is a plan to exercise.

9 A non-government organisation has nothing to do with political issues.

10 Non-government and non-profit organisations are much the same thing.

Activity 3: applying knowledge

Draw the table below into your notebook. Then, in pairs, list the number of meetings that you are, or have been, involved in. This may be limited to this year or may cover a longer time period. An example is provided below for you.

Type of meeting	Quorum	Frequency	Aim(s)	Outcome
Example: Netball team	Whole team	Weekly	Discuss general matters, such as who is umpiring this week	Some people dominate but the main matters are worked out

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Activity 4: hypothetical-skateboard bowl sparks local conflict

A local youth group is keen to have a skateboard bowl built in the corner of a local park. The group argues that the facility is needed to give local teenagers a place to meet. There is not much for young people to do in this newly developed suburban area.

The preferred site is an area of bushland adjacent to a McDonald's restaurant and large suburban shopping centre. Two-thirds of the site has already been developed into a well-maintained park containing a pavilion, children's playground and BBQ facilities.

The youth group is aware that the local council has funds set aside for facilities such as this. Additional funding is available from the state government, which is keen to promote local initiatives involving young people.

The proposal has upset the local resident action group which fears the skate bowl will encourage antisocial behaviour, including vandalism, littering, drug abuse and under-age drinking. They are also concerned about increased noise and traffic. The residents have the support of the local newspaper, which takes a hard line on law-and-order issues, especially when it involves young offenders.

The owner of the McDonald's franchise is supporting the youth group and has offered to help finance its campaign. So far the youth group has raised $7000 dollars towards the cost of the skate bowl.

The local council is evenly split between those who favour giving the project the go-ahead and those who share the concerns of the resident action group. The illustration below outlines a selection of views expressed by members of the local community.

Activities

1 Look at the illustration below. List the statements that are in favour of the skate bowl being built. Make a separate list of the statements that are not in favour of the project.

2 In groups of four or five students, discuss the different statements about the skate bowl project. Reach agreement on what you think should happen. Prepare to defend your group's viewpoint when you report back to the class.

3 In class, debate the statement: The construction of the skate bowl should go ahead. At the end of the debate, conduct a secret ballot to determine whether the class will recommend that the skate bowl should proceed.

4 Having listened to the debate, determine which point of view you agree with. Write an exposition outlining the arguments you would use to justify your position.

5 In groups of four or five students, brainstorm the strategies or methods you could use to influence the decision-making processes of the local council. Share your group's list with the rest of the class.

Members of the local community express their views on the proposed skate bowl.

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15

Running a business

Focus statement

In this chapter we assist you to become actively engaged in planning, organising and running a small business and develop strategies to address problems as they arise.

Focus question

What skills and information do you need to run a small business?

In this chapter you will learn about:

- the reasons for being an entrepreneur
- the skills and personal characteristics needed to be an entrepreneur
- planning for business success
- selecting business opportunities and the appropriate business structure
- arranging finance
- establishing a new business or purchasing an existing business
- business operation
- meeting local, state and federal regulations
- selling products
- maintaining records
- risk management
- key issues in running a business.

15.1 Being an entrepreneur

Key terms

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.

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.

Reasons for being self-employed

Independence is one of the key reasons people go into business for themselves. Entrepreneurial talents, skills, ideas and energies are directed towards the entrepreneur's own goals. 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 entrepeneur 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**.

Characteristics and skills of 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.

Figure 15.1 To be successful, an entrepreneur needs certain characteristics and skills.

Understanding the text

1 What do we mean when we refer to someone as an entrepreneur?

2 Identify the advantages and disadvantages of being self-employed.

3 List the characteristics and skills that entrepreneurs require.

Activities

1 As a class, brainstorm the names of successful entrepreneurs. 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.

ISBN 9780170251587

15.2 Planning for success

Key terms

capital The money or other assets used to fund the establishment 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.

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.

leasing Using equipment or property for a specified period of time in return for a fee or rent.

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.

public company A company listed on the stock exchange. Any member of the public can become a shareholder.

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 The group of customers to which an organisation intends to aim its marketing efforts.

Selecting business opportunities

A number of factors need to be taken into consideration when identifying opportunities for small businesses. These are shown in Figure 15.2.

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.

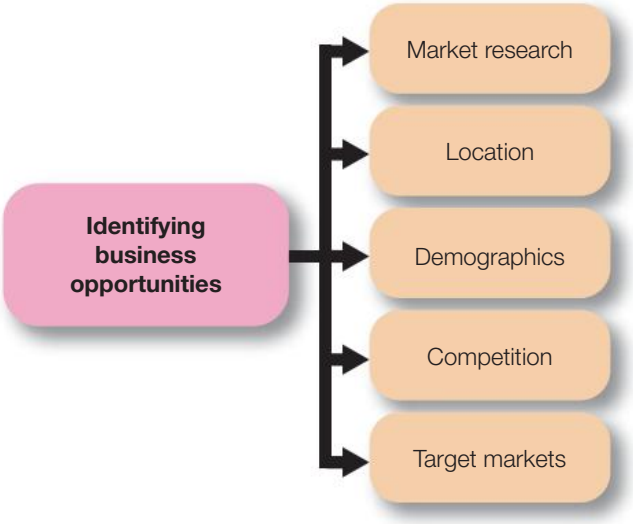

Figure 15.2 Factors to consider when identifying business opportunities.

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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 about the demographics of the people in the area and the other businesses in the district.

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Market research organisations

Two of Australia's best-known market research organisations are Roy Morgan Research and AC Nielsen.

Activity

Access and compare the Roy Morgan Research and AC Nielsen websites. Write a paragraph outlining the services provided by these organisations.

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 the business need to be close to suppliers? Can the business have a base at the entrepreneur's home? Is the business 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 or ethnic group are they? 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.

Understanding the text

1 **a** What is market research?

b What are the ways it can be conducted?

2 Outline the factors that an entrepreneur may consider when deciding where to locate a business.

3 Why may an entrepreneur by interested in the demographic profile of a community?

4 What is a SWOT analysis?

5 What is meant by the term *target market*?

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Activities

1 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 you are aware of that are unique to your local area?

2 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?

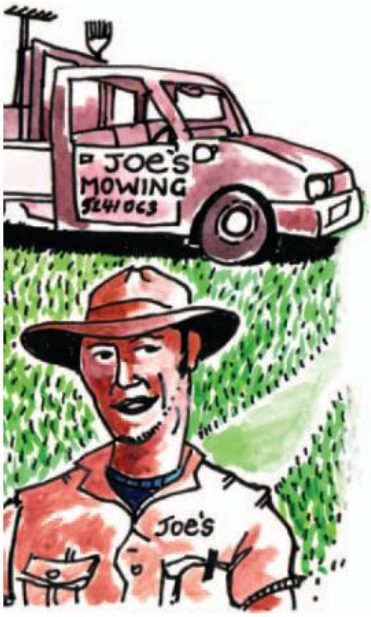
Selecting the appropriate structure

The organisational structures that businesses can take are discussed below, including the advantages and disadvantages of each structure.

Sole trader

Sole traders are people who operate businesses on their own and may or may not have employees. 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, video stores, takeaway shops and jewellery shops.



Advantages

- 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

Disadvantages

- Sole traders have unlimited liability
- There is limited access to finance to 'grow' the business
- Sole traders pay income tax rather than company tax
- It is difficult to take time off

Figure 15.3 Advantages and disadvantages of being a sole trader.

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 company. 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.

Advantages

- Partners keep all the profit
- 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
- There are more people to make decisions
- It is easier for a partnership to borrow money

Disadvantages

- Partners have unlimited liability
- Partners must share the profit
- There is the possibility of disagreements among partners
- All partners are responsible for the actions of any other partners
- If a partner leaves the business, the partnership agreement must be renegotiated

Figure 15.4 Advantages and disadvantages of partnerships.

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Researching sole traders and partnerships

Activity

Use the Yellow Pages website to find three examples of sole traders and partnerships for each of the following types of businesses:

a architects

b doctors

c solicitors

d accountants.

You should be able to do this by looking at the tag at the end of the business name.

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. While they have a share of the company, 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 Stock 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.

Advantages

- 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 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*)

Disadvantages

- Many government regulations must be taken into account
- 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 and organise
- It may become too large and inefficient

Figure 15.5 Advantages and disadvantages of forming a company.

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.

Understanding the text

1 What is a sole trader?

2 How does a partnership differ from a sole trader?

3 Explain how a company's profits are distributed.

4 What is the main advantage of forming a company?

5 Distinguish between a private company and a public company.

6 Outline the characteristics of an incorporated association.

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Activities

1 Identify the advantages and disadvantages of being a sole trader.

2 Using the classified section of a major metropolitan newspaper, select a 'business for sale' that you would like to buy. Justify your choice in 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?

3 Form a partnership with two of your classmates and operate a hot dog stand or lunchtime barbecue. Develop a partnership agreement that includes the name of your business and the roles and responsibilities of each partner. Issues to consider include finance, administration, supply of **inputs**, promotion, production and the distribution of any profits. After operating the business, analyse some of the problems you encountered. What were the benefits of operating this business as a partnership? Could the business be operated as a sole trader? Justify your answer.

4 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 faced by each person.

Arranging finance

Starting a business can be a very costly exercise. A sole trader has the least costly set-up and a company 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 2, pages 46–50)
- 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 9, page 199) can avoid huge upfront costs when establishing a business.

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 it is capable of making repayments on the loan and has clear strategies in place.

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Online banking for small businesses

Many lenders allow businesses to apply for a loan online. Financial institutions that have this facility include:

- Bankwest
- Esanda
- National Australia Bank.

Activities

1 Access one of the sites above and evaluate the range of finance available for the small business operator. Identify the conditions that apply. Share your findings with the rest of the class.

2 Download a loan application form from one of the sites above. Then, in groups, complete the following tasks:

a Select a type of business you might like to operate.

b What type of information does the financial institution ask you to supply?

c Complete the loan application form, asking your teacher for assistance where necessary.

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.

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.

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 acquired. If the business requires a shop to be fitted out this can be a considerable expense.

Whether establishing a new business or purchasing an existing business, further issues the entrepreneur must consider include location, staffing and equipment.

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Advantages

- 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

Disadvantages

- The range of products and services sold are 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

Figure 15.6 Advantages and disadvantages of a franchise.

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 mall) 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.

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 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.

Understanding the text

1 Outline the sources of finance for setting up a company.

2 How can companies avoid huge upfront costs when establishing a business?

3 What is meant by the term *goodwill*?

4 Outline the advantages and disadvantages of establishing a new business.

5 Outline the factors that need to be considered when establishing a business.

6 Read about Shayne at Velo Bicycles on the opposite page. What does Shayne say about the following factors in starting a small business: motivation, location, finance, staff and lifestyle?

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Starting a business

Activities

1 Access the federal government's Business Entry Point website and complete the following tasks:

a Outline the steps involved in starting up a business.

b Assess the type of assistance provided for people setting up a business?

2 Access 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.

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Starting a small business: Velo Bicycles

Shayne Hendren is a sole trader, starting his business Velo Bicycles from scratch. In this interview, Shayne explains how he started his business, some of the problems he has faced and how he has succeeded.

Interviewer: Why did you decide to open a bicycle business?

Shayne: 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?

Shayne: For my age, I guess I have quite a reasonable amount of industry experience. I have raced since I was 12, worked in other shops when I was younger and been involved in the wholesale side of the industry for over 10 years.

Interviewer: Why did you choose this site for your new shop? How important is location?

Shayne: I live quite close to the shop and had always thought this was a great location, but there was no parking. When the owner redeveloped the site with a huge car park behind the shop, I quickly moved to see about opening our shop. To answer the second question, location is everything!

Interviewer: From where did you get your finance to start your business?

Shayne: Finance is never easy. We (my wife and I) scrounged up as much money as we could ourselves; and the balance came from borrowing money from the bank, by using some of the equity built up in our house.

Interviewer: How many staff do you employ? What sort of people do you look for to work in your business?

Shayne: We employ the equivalent of 2.5 people as well as myself and my wife who helps when she can. When employing people we look for a combination of knowledge of bikes and the ability to make sales. Bicycle retail is an unusual industry and we are fortunate to have staff with both of these qualities.

Interviewer: Do you get much business from your website?

Shayne: We don't really sell directly from our website but we do advertise specials and have an email program we use for sending these out without 'spamming'. 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 ride anymore?

Shayne: It's good, but you do feel the pressure financially and because your employees depend on your business for their livelihood. I don't ride as much as I used to, although it's important for me to ride from a business perspective to be seen on the group rides or racing ... It's all exposure.

Interviewer: Can you give the readers any tips on starting their own business?

Shayne: Be prepared to work VERY hard! If you are looking for a relaxed lifestyle, owning a small business is not for you. Sometimes, however, you just have to have a break. Try to keep your staff motivated as much as possible ... You can't do everything, so having them happy is important to the success of your business.

Figure 15.7 Running a small business is a challenge.

Activities

1. 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 the companies according to the goods and services they provide.
2. In groups, brainstorm the names of franchises you are familiar with. Classify according to catagories, such as clothing, personal services and business services.
3. 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.
4. Invite the owner of a local franchise business to speak to your class about the advantages and disadvantages of operating this type of business.

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15.3 Business operation

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.

cash flow statement A document showing the movement of cash into and out of a business.

liability The amount that a business owes to its lenders and suppliers.

revenue statement An accounting report showing the amount of revenue (sales) a business received in a given period of time.

risk management The processes involved in identifying, controlling and minimising the impact of uncertain events.

Regulations

In Australia, the operations of businesses are regulated by all three levels of government. 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).

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.

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The Australian Securities and Investments Commission

Activity

Access the website of the Australian Securities and Investments Commission and write a report outlining the role and history of ASIC.

Sole traders and partnerships do not pay income tax as a business. The individuals who own them 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
- occupational health and safety (OHS) legislation.

Many of the federal laws are administered by the states.

(See Chapter 4 for more information on income tax and federal employment laws.)

State government

WorkCover is the regulatory authority in New South Wales established to achieve safe workplaces by administering the *Workers Compensation Act 1987* (NSW) and the *Work Health and Safety Act 2011* (NSW). The Workers Compensation Act makes it compulsory for employers to take out insurance to cover employees for work-related injuries. The Work Health and Safety Act describes how businesses should generally keep a safe and healthy workplace. (Refer to Chapter 4 for more information on state workplace laws.)

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.

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WorkCover

Activities

Access the WorkCover website and complete the following tasks:

1. Write a paragraph outlining the role of WorkCover.
2. List WorkCover's objectives.
3. List the Acts of Parliament that are administered by WorkCover.
4. Access the frequently asked questions section of the website and outline the OHS responsibilities of businesses. List the types of workplace hazards businesses need to focus on.

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 the box 'NSW Fair Trading'. Also refer to Chapter 1 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.

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NSW Fair Trading

Activities

Access the website of NSW Fair Trading and complete the following tasks:

1. Outline the role of NSW Fair Trading as it relates to consumers, business and trader services, associations and cooperatives.
2. Access the Youth section in the Fair Trading website. Of particular interest will be 'Fair trading and you', 'A student's guide to consumer rights' and 'What's new'. This part of the site also has useful links to other sites including 'Moneystuff' – a website for young people about buying goods and services and renting.

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 and other obstructions on a footpath. They also issue permits for billboards and other forms of signage.

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 then 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.

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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.

Understanding the text

1. Why do businesses need to register for an Australian business number (ABN) or Australian company number (ACN)?
2. What is the basic provision of the Workers Compensation Act?
3. What issue does the OHS Act address?
4. Explain why we have fair trading legislation.
5. How do the responsibilities of local government affect the operation of a business?
6. List the four Ps of marketing.
7. What product-related decisions must a business make?
8. What factors need to be taken into account when setting the price of a product?
9. Promotion involves much more than just advertising a product. Explain.
10. What is meant by 'place' in terms of selling a product?

Figure 15.8 Maintaining records is an important part of running a business.

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. 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. 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.

Maintaining records

Revenue statement

A **revenue statement**, also known as a *profit and loss statement*, is an accounting report that shows the amount of revenue (sales) the business receives, the expenses the business has incurred and the resulting profit or loss, over a period of time. A revenue statement does not show the cash movements of a business. The revenue 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 revenue statement would include an estimate for the electricity used by the business although it has yet to be charged for it.

A revenue statement measures whether the costs of the business are greater or less than the income.

Revenue – expenses = 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. Revenue statements are usually completed for a financial year for external reporting purposes, such as for the Australian Taxation Office (ATO). A business often completes revenue statements on a monthly basis to monitor how the business 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.

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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 the possession of the business), bank deposits and anything else the business owns. **Liabilities** are what the business owes to lenders and suppliers. Suppliers are referred to as *creditors* if they sell to the business on credit instead of cash. Capital is the money or other asset that has 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. The totals on the left and the right should be equal.

Assets = liabilities + capital

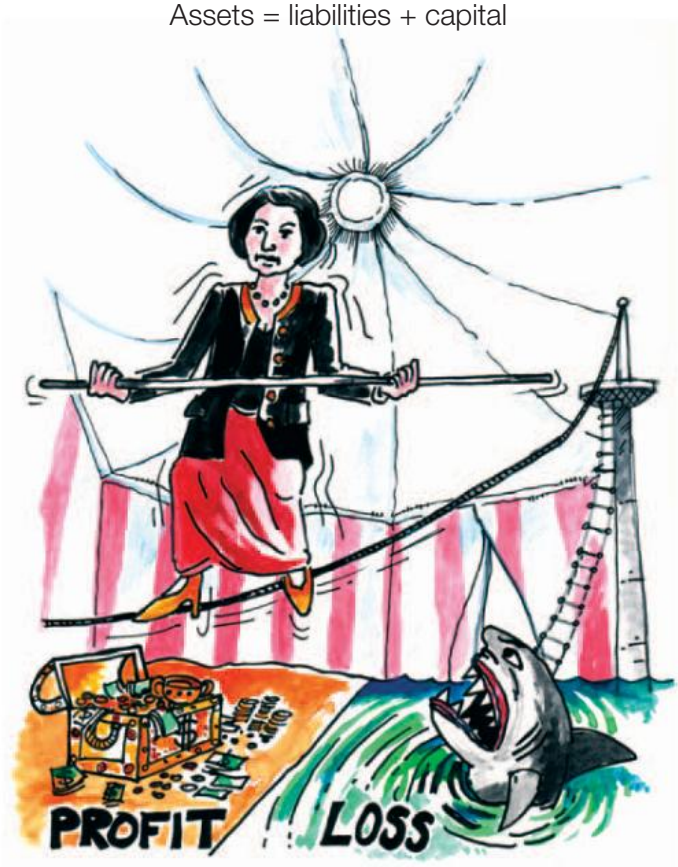

Figure 15.9 The difference between a well-run and a poorly run business often depends on the quality of record-keeping.

Cash flow statement

A **cash flow statement** differs from a revenue statement in that it simply shows the movement of cash into and out of a business. It enables the business to know if 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 (GST), 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 revenue 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.

Understanding the text

1. What is a revenue statement?
2. Under what circumstances will a business make a loss?
3. How does the preparation of a monthly revenue statement assist a business?
4. What is a balance sheet?
5. Define each of the following terms: *assets*, *liabilities*, *creditors* and *capital*.
6. **a** Explain the purpose of a cash flow statement.
   b What does such a statement include?
7. What types of records does a business need to keep to meet the requirements of the taxation system?

Activity

The features of a balance sheet are listed in this section of the text. Using the Internet, for example, 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.

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Risk management

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

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).

Looking to the future

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 the business 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. It also needs to budget 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 the paint colour, lighting and general layout of the store. It also needs to ensure the clothes racks, shop counter and cash register are kept in good condition.

Stock 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.

Key aspects of running a business

Running a business is very complicated and time consuming. There are some key factors the entrepreneur needs to monitor constantly:

- Customers are the number one concern of any business. It is important for the entrepreneur to understand what customers want from the products and attempt to meet those wants.
- A close eye should be kept on competitors.
- Cash needs to flow to keep a business alive.
- The entrepreneur must look after employees to keep them interested and productive.
- Costs need to be kept down and sales moving up.
- It is important to manage risks where possible.
- The entrepreneur needs to be organised, efficient and continually planning ahead.
- The 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.

Info.com.tech

Useful websites

When studying this option you will find the websites of the following organisations useful:

- Australian Bureau of Statistics
- Australian Competition and Consumer Commission
- Safe Work Australia
- Australian Taxation Office
- Fair Work Australia
- Business Entry Point
- CPA Australia
- MAUS Business Systems
- Small Business Website (NSW Government)
- Entrepreneur Test: am I an entrepreneur.

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Figure 15.10 Do you have what it takes to run your own small business?

Understanding the text

1 a What is risk management?

b How can a business minimise risk?

2 What types of insurance should a business take out?

3 Explain the difference between insolvency and bankruptcy.

4 Explain why businesses need to budget.

5 Why is stock management important?

6 Outline the factors the entrepreneur needs to monitor if a business is to be managed effectively.

Activities

1 In groups, brainstorm strategies a small business could use to minimise the risk of insolvency and bankruptcy. Evaluate the main points of your group's discussion with the rest of the class. Develop a mindmap summarising the points raised by all the groups.

2 Set up and run a school-based or simulated business.

School-based business

Under the guidance of your teacher, establish a school-based business. The following points will assist you in this task:

a Start by brainstorming ideas for a business that could be established and operated within the school setting; for example, a food product, an event or a service. Select one of these to be your business.

b Conduct a SWOT analysis to identify the proposed business's strengths, weaknesses, opportunities and potential threats.

c Develop a partnership agreement which includes each member of your group. Include the name of your business and specify the roles and responsibilities of each partner. Issues to consider include finance, administration, supply of inputs (goods and services used in the production process), promotion, production and the distribution of any profits.

d Arrange finance (start-up capital), possibly by raising a loan from your parents or by selling shares to your classmates.

e Ensure all regulations are met, including the school's rules.

f Plan and implement a marketing plan using the four Ps (product, price, promotion and place).

g Locate and source inputs.

h Produce and sell the good or service.

i Maintain detailed records, including a revenue statement, cash flow statement and a balance sheet.

j Distribute any profits.

k Evaluate the effectiveness of your business.

Simulated business

Two simulated business environments are available on the IBSA website. ABW Enterprise Education runs simulated business programs where schools compete against each other.

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15.4 Current issues in running a business

The vast majority (96 per cent) of businesses in Australia are small businesses. In 2011, the Australian Bureau of Statistics (ABS) found that:

- more than 2 million businesses employed fewer than 20 staff (including 1.3 million sole traders)
- more than 2 million businesses had an annual turnover of less than $2 million.

Even though Australia has a strong economy and the number of businesses has increased during the past five years, many small businesses face challenges and issues relating to changes in legislation, impact of technology, the economy and the ageing population.

Funding costs

Finance for small business has become more expensive since the GFC in 2008. When lending money, banks and financial institutions view small businesses as having a higher risk of failure, so they charge higher interest rates to cover the potential losses. Generally, business loans have much higher interest rates compared to housing loans. The Reserve Bank of Australia (RBA) has noted an increasing trend in businesses using fixed-interest housing loans as an affordable business loan. If the business fails, the owner risks losing not only their business but the house that is used as security for their loan.

Skilled workers

Many small businesses are concerned by the lack of skilled workers as they do not have the economies of scale to provide formal training. The 2012 Skills Shortage List maintained by the Commonwealth Department of Education, Employment and Workplace Relations (DEEWR) reveals, for example, that Australia has a shortage of food trade workers. A small business in the food industry would have difficulty expanding its operation or production if it cannot recruit skilled employees such as bakers, chefs, cooks, pastrycooks or butchers.

Impact of online shopping

The Internet is changing the way people shop – online shopping is growing every year. Traditional 'bricks and mortar' stores are competing with online stores. For example, in 2000 the Australian Bureau of Statistics (ABS) reported 1166 video rental stores. By 2012 the number of stores had dropped to 607 as more people use cheaper options such as broadband Internet, kiosks and online rental outlets. Small book stores now have to compete with cheaper books available online from sites such as Book Depository and Booktopia.

An interesting development of online shopping has been the increase in business for Australia Post, with 70 per cent of parcels resulting from online transactions. Most of Australia Post's revenue now comes from parcels instead of letters and to take advantage of this boom, Australia Post has increased the cost of prepaid packages. The article on page 317 addresses the increasing cost of pre-paid parcels and related delivery services by Australia Post. These costs are passed on to the consumer and many online retailers in Australia are concerned that the increased charges will make their products more expensive, forcing consumers to shop at foreign online retailers.

Strong Australian dollar

The exchange rate of the Australian dollar affects the price of goods and services. (The exchange rate is explained in more detail in Chapter 13.) Since 2008, the Australian dollar has increased in value, relative to world currencies such as the US dollar, Yen and Euro.

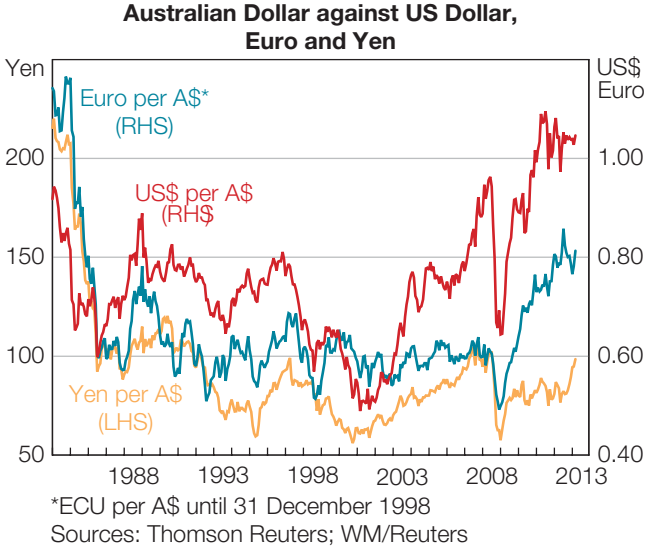

Figure 15.11 Australian dollar against US dollar, Euro and Yen.

Source: Reserve Bank of Australia

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More small companies fear damage from high dollar

By Clancy Yates

The high Australian dollar is fast eroding small business confidence, with a survey showing a surge in the number of companies worried about its impact. Credit reporting agency Dun & Bradstreet yesterday said the proportion of small companies that cited the strong dollar as a big concern had risen to 37 per cent last month, up from 25 per cent in January.

The fears were greatest among the struggling manufacturing and retail industries – which have faced greater competition from overseas due to the dollar's strength.

The chief executive at Dun & Bradstreet, Gareth Jones, said the negativity was driving more of the 1200 companies surveyed to focus on cutting costs, rather than investing or hiring new staff.

Amid rapid growth in spending on foreign online stores, more than half of retailers included in the survey were expecting slower sales growth in the year ahead.

'Clearly, the pressure of a sustained high in the Australian dollar is starting to bite for main-street businesses', Mr Jones said. 'Consumers are increasingly savvy and adept at seeking out cheaper alternatives. Businesses need to adapt quickly or risk losing customers overseas.'

Source: *The Sydney Morning Herald*, 6 March 2012

Australia Post faces backlash over increased delivery charges

By Sarah Whyte

Price increases by Australia Post for delivery services will make it impossible for Australian websites to compete online with their foreign counterparts, worried business-owners say.

Australia Post on Monday faced a social media backlash from online shoppers furious over its increased prices for pre-paid parcels. Australia Post defends the increase, saying 'it is operating in a challenging business environment' … the increases in price were mostly 'less than 7 per cent' and would now include tracking as standard.

Bookstore owner Chris Elworthy from Port Macquarie said he would now have to pay $11.70 in postage to send an $8 paperback book. Booksellers in the UK can send the same book to Australia for around $3. 'They are bleeding us dry', he said.

Consumer watchdog Choice demanded answers from Australia Post, saying the additional costs would be passed through to consumers. 'They are operating in an environment where people are buying domestically online at a faster rate than overseas.'

Australia Post's changes come in the face of increased competition in the parcel delivery business, with online shopping in Australia now worth $13.1 billion, according to National Australia Bank. Toll Group signed up with the technology group TZ to implement a locker system for online retail parcel deliveries, which would give online shoppers access to their parcels via convenience stores, petrol stations, corporate and retail buildings and office parks across Australia.

Source: *The Canberra Times*, 8 April 2013

Activities

1 Examine the article, 'More small companies fear damage from high dollar'.

a Working in pairs, identify other Australian businesses/industries that are directly and indirectly affected by the high Australian dollar.

b Evaluate the long-term impact of the high Australian dollar on businesses.

2 Read the article 'Australia Post faces backlash over increased delivery charges' and summarise the concerns raised by online retailers and consumer group CHOICE.

3 Research two other Australian parcel delivery services (such as Toll Group) and Australia Post. Working in pairs, identify the cost of sending parcels weighing 400 g and 5 kg interstate and overseas and compare the cost of the different services. Select the most effective service for each parcel and support your choice in terms of cost and time.

ISBN 9780170251587

Chapter review

Activity 1: crossword

Copy the crossword opposite and then complete it.

Across

1 The term used to describe individual owners of a private or public company

6 The name given to a business owned and operated by two or more people

9 A company listed on the stock exchange (two words)

10 The collective name given to anything owned by a business, including its equipment, stock and bank deposits

12 The situation where a business is no longer able to pay its creditors

15 One of the four Ps of marketing

16 The analysis of a business's potential strengths, weaknesses, opportunities and threats (initials)

17 A business that exists separately from its owners

Down

2 The process involved in identifying, controlling and minimising the impact of uncertain events (two words)

3 The study of a population and its characteristics

4 A person who organises and manages an enterprise

5 A statement listing all the assets, liabilities and capital of a business (two words)

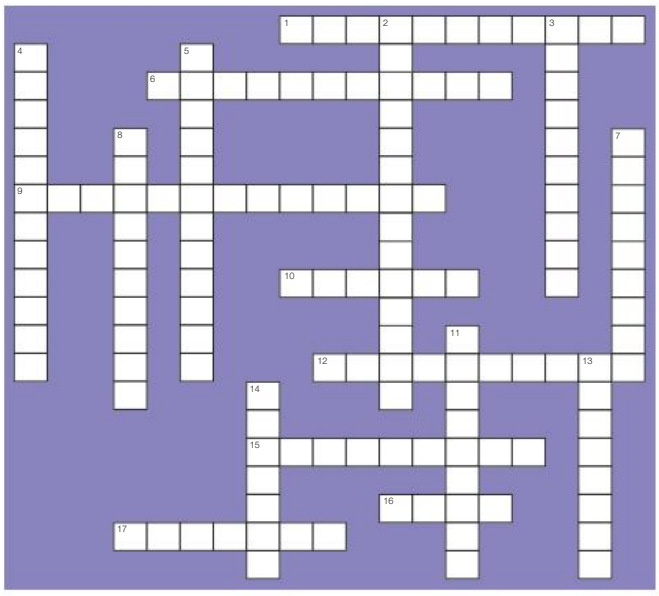
7 The amount that a business owes to lenders and suppliers

8 The term used to describe someone who owns and runs their own business (two words)

11 Suppliers of goods and services to a business

13 The movement of cash into and out of a business (two words)

14 The money or other assets used to fund the establishment or expansion of a business



Activity 2: mindmap

Construct a mindmap outlining the range of issues that need to be considered when identifying business opportunities.

Activity 3: Interview and oral report

Interview a local business operator. Ask the person the following questions:

a What are the advantages and disadvantages of being self-employed?

b Why did you choose this particular business activity?

c What sort of business structure do you have: sole trader or partnership?

d Is your business a franchise? If so, what are the advantages and disadvantages of being a franchise?

e Why did you choose this particular location to operate your business?

f How many staff do you employ? Are they full time, part time or casual?

g Do you advertise? If so, what type of advertising do you find the most effective?

Prepare an oral report profiling the business visited.

ISBN 9780170251587

Useful websites

ABC Online www.abc.net.au 222

Aboriginal Arts and Culture Centre http://aboriginalart.com.au 220

ABW Enterprise Education www.abw.org.au 315

ACCC www.accc.gov.au 57

ACCC Infocentre www.accc.gov.au/content/index.phtml/itemId/3772 21

ACNielsen Australia www.nielsen.com.au 304

ActionAid Australia www.actionaid.org.au 283

ActNow (archives) www.actnow.com.au/Issues/Sweat_shops_in_Australia.aspx 105

ACTU www.actu.org.au 108

Advertising Standards Bureau www.adstandards.com.au 146

Amnesty International www.amnesty.org.au 221, 283

Anglicare Welfare Services www.anglicare.org.au 201

Anglicare Youth Services www.anglicare.org.au/our-services/youth-services 189

ANZ Bank www.anz.com.au 161

Ausflag www.ausflag.com.au 220

Australasian Legal Information Institute www.austlii.edu.au 264

Australian Bureau of Statistics (ABS) www.abs.gov.au 88, 95, 276–78, 314

Australian Business Register (ABR) www.abr.gov.au 310

Australian Competition and Consumer Commission (ACCC) www.accc.gov.au 18, 21, 155, 314

Australian Conservation Foundation www.acfonline.org.au 221, 283

Australian Council of Social Services (ACOSS) www.acoss.org.au 211

Australian Council of Trade Unions (ACTU) www.actu.org.au 93, 103, 220

Australian Customs Service www.customs.gov.au 15

Australian Electoral Commission www.aec.gov.au 218

Australian Federal Treasury www.treasury.gov.au 277

Australian Human Rights Commission (AHRC) www.humanrights.gov.au/about/legislation 101, 105

Australian JobSearch www.jobsearch.gov.au 90

Australian Labor Party www.alp.org.au 213

Australian Medical Association www.ama.com.au 220

Australian Nursing Federation www.anf.org.au 220

Australian Red Cross www.redcross.org.au 285

Australian Securities and Investments Commission (ASIC) www.asic.gov.au 52, 58, 310

Australian Stock Exchange (ASX) www.asx.com.au 125, 127, 161

Australian Taxation Office www.ato.gov.au 114, 314

Avanti www.avantibikes.com 28

Bankwest www.bankwest.com.au/business 307

Baptist Community Services www.bcs.org.au 201

BT Financial Group www.bt.com.au 127

BT Investment types www.bt.com.au/investments/investments.asp 127

Bupa www.bupa.com.au 197

Bureau of Crime Statistics and Research www.boscar.nsw.gov.au 66

Business Council of Australia www.bca.com.au 220

Business Entry Point www.business.gov.au 308, 314

Centacare Catholic Community Services www.centacare.org.au 201

Centrelink www.humanservices.gov.au/customer/information/centrelink-website 189

CHOICE magazine www.choice.com.au 29, 122

Citibank www.citigroup.com.au 45

Clean Clothes Campaign (CCC) www.cleanclothes.org 179

Clean Energy Future www.cleanenergyfuture.gov.au 279

Clean Up Australia www.cleanup.org.au/au 283

Coles www.colesonline.com.au 157

Com Law www.comlaw.gov.au/Details/c2004c00469 67

Commonwealth Bank www.commbank.com.au 45, 161

Commonwealth Ombudsman www.comb.gov.au 22

CommSec www.comsec.com.au 161

Community Justice Centres www.cjc.nsw.gov.au 263

Consumers Online www.consumersonline.gov.au 29

Country Women's Association of Australia www.cwaa.org.au 283

CPA Australia www.cpaaustralia.com.au 314

Create Your Future www.createyourfuture.org.au 189

Credit Union Australia (CUA) www.cua.com.au 161

Cybersmart www.cybersmart.gov.au/Teens.aspx 155, 164

Department of Attorney General and Justice, Victims Services www.lawlink.nsw.gov.au/vs 259

Department of Broadband, Communications and the Digital Economy www.dbcde.gov.au 161

Department of Education, Employment and Workplace Relations www.deewr.gov.au 89

Department of Foreign Affairs and Trade www.dfat.gov.au 169, 184

Diabetes Australia www.diabetesaustralia.com.au 220

Dubai Mall www.thedubaimall.com/en 14

Eastbay www.eastbay.com 157

eBay www.ebay.com.au 15

EGarage www.egarage.com.au 200

Electrical Trades Union www.etunational.asn.au 220

Emily's List www.emilyslist.org.au 220

Entrepreneur Test: am I an entrepreneur www.bizmove.com/other/quiz. 314

Esanda www.esanda.com/business/business-finance 307

ISBN 9780170251587

Fair Wear www.fairwear.org/10/home 105
Fair Work Australia www.fwa.gov.au 93, 314
Fair Work Ombudsman www.fairwork.gov.au 92, 93
Financial Ombudsman Service www.fos.org.au 161
Financial Planning Association www.fpa.asn.au 51
Flight Centre www.flightcentre.com.au 229
Fortune 500 www.fortune.com 178
Franchise Council of Australia www.franchisebusiness.com.au 309
Friends of the ABC www.fabc.org.au/fabc/index.php 220
Friends of the Earth www.foe.org.au 220
Garage Sale Listings www.garagesale.com.au 200
Global Exchange www.globalexchange.org 184
Governor-General of Australia www.gg.gov.au 71
Greening Australia www.greeningaustralia.org.au 283
Greenpeace www.greenpeace.org.au 221, 283
Greens Party http://greens.org.au 215
Gun Control Australia www.guncontrol.org.au 220
Harvey World Travel www.harveyworld.com.au 229
Human Rights Council of Australia www.hrca.org.au 220
IBSA http://simulations.ibsa.org.au/index.php 315
ICRC www.icrc.org 285
IFRC www.ifrc.org 285
Illawarra Mutual Building Society www.imb.com.au 45
ING Direct www.ingdirect.com.au 161
International Alliance of Women www.womenalliance.org 283
International Labour Organisation (ILO) www.ilo.org 179
International Monetary Fund www.imf.org/external/index.htm 184
International Committee of the Red Cross www.icrc.org/eng 283
International Red Cross and Red Crescent Movement www.redcross.int 285
Job Guide www.jobguide.deewr.gov.au 90
Landcare Australia www.landcareonline.com.au 283
Law Society of NSW www.lawsociety.com.au/community 66
LawAccess NSW Online www.lawaccess.nsw.gov.au/lawaccess.asp 64
Lawstuff www.lawstuff.org.au 26, 194, 258
Liberal Party www.liberal.org.au 214
London Stock Exchange www.londonstockexchange.com/home/homepage.htm 171
Lonely Planet www.lonelyplanet.com 229
Macquarie Bank www.macquarie.com.au 45
Maternity Coalition www.maternitycoalition.org.au 220
MAUS Business Systems www.ebc.com.au 308, 314
Mission Australia www.mission.com.au 201
Money Manager www.moneymanager.com.au 49, 58
Money Smart www.moneysmart.gov.au 14, 52
Money Stuff www.moneystuff.net.au 26
National Australia Bank www.nab.com.au 161, 307
National Broadband Network www.nbn.gov.au 163
National Farmers' Federation www.nff.org.au 220
National Party http://nationals.org.au 215
National Personal Property Security Register (PPSR) www.ppsr.gov.au 21
National Tertiary Education Union www.nteu.org.au/home 220
Natural Capital Declaration www.naturalcapitaldeclaration.org/faq 278
Network Ten www.ten.com.au 222
New South Wales Tenants www.tenants.org.au 194
Nike www.nike.com 179
ninemsn www.ninemsn.com.au 222
NRMA www.nrma.com.au 197, 220
NSW Attorney-General's Department www.lawlink.nsw.gov.au 264
NSW Anti-Discrimination Board www.agd.nsw.gov.au/adb 101
NSW Courts and Tribunal Services www.courts.lawlink.nsw.gov.au 63, 64
NSW Department of Commerce: Office of Industrial Relations www.industrialrelations.nsw.gov.au 93
NSW Drug Court www.drugcourt.lawlink.nsw.gov.au 250
NSW Fair Trading www.fairtrading.nsw.gov.au 7, 10, 25, 26, 32, 155, 164, 194, 306, 311
NSW Industrial Relations www.industrialrelations.nsw.gov.au 103
NSW Legal Aid Commission www.legalaid.nsw.gov.au 77
NSW Rural Fire Service www.bushfire.nsw.gov.au 295
NSW State Electoral Office www.elections.nsw.gov.au 218
Office of the Australian Information Commissioner www.privacy.gov.au 158
Optus www.optus.com 141
Oxfam www.oxfam.org.au 221
Passports Australia www.passports.gov.au 234
Pilot Guides www.pilotguides.com 229
Pro Bono www.probonoaustralia.com.au 290
Public Service Association of NSW www.psa.labor.net.au 220
Reach Out! www.reachout.com.au 189
Redfern Legal Centre www.rlc.org.au 194
Relationships Australia www.relationships.org.au 283
Reserve Bank of Australia www.rba.gov.au 273
Right to Life Australia www.righttolife.com.au 220
Rip Curl www.ripcurl.com 176
Roy Morgan Research www.roymorgan.com.au 304
Royal Life Saving Society www.royallifesaving.com.au 295
RSPCA www.rspca.org.au 283
Safe Work Australia www.safeworkaustralia.gov.au 314
Save the Children www.savethechildren.org 283
Scamwatch www.scamwatch.gov.au 162
Seven http://au.tv.yahoo.com/ 222

ISBN 9780170251587

Small Business website (NSW Government) www.smallbiz.nsw.gov.au 314
Smart Traveller www.smartraveller.gov.au 236, 237
St George Bank www.stgeorge.com.au 45, 161
St John Ambulance www.stjohn.org.au 295
St Vincent de Paul Society www.vinnies.org.au 189, 201
STA Travel www.statravel.com.au 229
State Emergency Service www.ses.nsw.gov.au 295
Stay Smart Online www.staysmartonline.gov.au 158
Sydney Morning Herald www.smh.com.au 101, 105, 222
The Iconic www.theiconic.com.au 157
The Salvation Army www.salvationarmy.org.au 201
The Wilderness Society www.wilderness.org.au 220, 283
Third World Network http://twnside.org.sg 184
UK Foreign and Commonwealth Office www.fco.gov.uk/en/travel-and-living-abroad/staying-safe/health 237
UN History of the UN and Transnational Corporations www.unhistory.org 178
United Nations Conference on Trade and Development (UNCTAD) http://unctad.org/en/Pages/Home.aspx 170
Universal Declaration of Human Rights www.un.org/en/documents/udhr/index.shtml 260
US Department of State http://travel.state.gov/travel 237
US National Archives and Records Administration (USARA) www.archives.gov 69
US National Center for Infectious Diseases www.cdc.gov/travel 237
Westpac Banking Corporation www.westpac.com.au 161
Women's Electoral Lobby Australia www.wel.org.au 220
Woolworths www.woolworthsonline.com.au 157
WorkCover NSW www.workcover.nsw.gov.au 99, 256, 311
World Trade Organization www.wto.org 184
World Vision www.worldvision.com.au 283
World Vision 40-Hour Famine www.worldvision.com.au/40hourfamine 296
Yellow Pages www.yellowpages.com.au 50, 306
Youth Off The Streets www.youthoffthestreets.com.au 286
Youth.NSW www.youth.nsw.gov.au 189

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ISBN 9780170251587

Index

accommodation 190–193, 238, 239
action plans 292
activist 208
actus reus 245, 248
administrative law 67–69
advertising 20, 135, 137, 145, 149, 311–312
affirmative action 96, 109
after-sales service *see* warranty
age of majority 245
agenda 292
aid 182–183
All Ordinaries Index 129
amendment 292, 293
anarchy 60
appreciation 268, 275–276
Asia-Pacific Economic Cooperation group 167, 169
assault 245, 248
assessable income 111, 112
assets 310, 313
ActionAid 183, 283
Australian Consumers' Association 27, 29
Australian Council of Trade Unions 96, 108
Australian Industrial Relations Commission 91
Australian Securities and Investments Commission 52
backup 153
bad credit risk 198, 199
balance sheet 310, 313
ballot paper 216
banking, online 160–161, 307
bankruptcy 57, 310, 314
banner 156
billions 170
blacklist 190
blue-collar worker 82, 84
bond 190
bonds 170, 172, 190
book up 31
borrowing 46–47, 49–50, 118–120, 273
BPay 31, 160–161
brand 9
broker 170, 173
browser 156, 158
budget 4, 6, 51, 54–57, 195–196
Budget, the 267, 268
burden of proof 60, 245, 248
business cycle *see* economic cycle
businesses 6, 96, 302–314
button 153
buying *see* payment methods
Cabinet 205, 206
campaigning 282, 287
capital 267, 303
capital gain 118
capital loss 118
cases 60
cash 30, 123
cash flow statement 310, 313
casual employment 82, 87
category killer 8, 12
cheques 30
chief minister 205, 206
citizenship 209
civil law 65, 69, 250–252
classifieds 190, 191
codification 65
collateral 118
collective wants 4
Commerce 1
commercial econony 1
commission 38, 40
common law 65, 72, 74, 109, 257
community 201, 208, 210–212, 282, 283, 287–288, 295
community conferencing 261–262
companies 306
comparison rate 129
comparison shopping 8, 9
competition 304
complementary goods 8
computer viruses 156, 164
conciliation 261, 262
concurrent powers 65, 68
constitution 67–68, 72, 75, 253, 292, 293
constitutional democracy 205
constitutional law 67–69
consulate 232, 233
Consumer Credit Code 52
consumer price index (CPI) 275
consumer protection 7, 17–19, 20–22, 25, 27, 52
consumer sovereignty 20, 27
consumers 4,16–27
contract 4, 7, 23–24, 190, 192, 245, 251
council 205, 206
courts, personnel 63–64
courts, state and federal 61–63, 261
credit 8, 31, 47–48, 198–199
credit cards 31, 198–199
creditors 303, 307
criminal law 65–67, 247–250
cross-benchers 213, 215
customer loyalty program 8, 12
debt 51, 56
debt collectors 56
debt security 170, 172
decision making 210–212
decree 208, 211
defence lawyer 63, 253, 259
defendant 253, 259
democracy 205, 206, 216–218
demographics 8, 18, 287, 303, 304
depreciation 8, 275–276
deputation 219, 220
deregulation 8, 11, 82, 222, 223
direct action 208
direct debit 30
direct marketing 14, 135, 139, 149
discretionary power 245, 247
discrimination 96, 97, 100–101, 190
dismissal 96, 102–103
disposable income 8, 17, 38, 43
disputes 261–263
diversification 123, 126
dividends 38, 40, 123, 303, 306
divorce 255
domestic tourism 229, 254
domestic violence 187, 254
donkey vote 216, 217
door-to-door sales 21
double ticketing 20
download 153, 154
durable goods 8
duty of care 65, 69
e-commerce 153–164
economic change 269
economic cycle 267, 270–271
economic growth 267, 271
economic links 269–270
economic output 267
economic resources 267
economics 267
economise 195
ecotourism 229
education and training 88–90
electoral commissioner 216, 217
electronic funds transfer (EFT) 31–32
email 153, 154
employee entitlements 82, 255–256
employees 38, 82
employer associations 96, 107, 108–109
employers 38, 82, 96, 107, 108–109
employment 5, 82, 87, 178
  anti-discrimination 100–101
  awards 91, 92
  changes in 83–86

ISBN 9780170251587

outsourcing 105–106
privacy 104–105
redundancy 91, 103
types 82, 87
enterprise 267
enterprise agreements 91, 92–93
enterprise bargaining 91, 92
entrepreneur 267, 302
environment 7, 136, 177–178, 277
equal employment opportunity 96, 100–101
equity 118, 119
equity investments 170, 172
equity loan 118, 120–121
ethical investment 118, 121
ethics 65, 73, 118, 135, 136, 144–145, 179–180
exchange rates 170, 181, 240, 275–276
exclusive powers 65, 68
exports 167, 267, 270
external diversification 222, 223
families 253–255
family law 65, 69–70, 77
Federation 216
fees 38, 40
finance 307
finances 5, 16–17, 56–57, 195
financial advice 51, 57
Financial Services Reform Act 52
financial stability 267, 268
financier 302
fixed expenses 42, 195
flexitime 38, 39
focus group 143, 144
franchise 4, 6, 13, 303, 307, 308
fringe benefits 82
full-time employment 82, 87
fundamental rights *see* human rights
gearing 118–120
gender 18, 100–101, 141–142
glass ceiling 96, 101
global business cycle 174, 176
global citizen 287, 288
global community 167–169, 288
global investment 170–173, 181
global market 167–168, 181
globalisation 167, 184
goals 292–294
goods 4, 8
goodwill 303, 307
government 206–207, 211, 310–311
green bans 96, 107
Greens 213, 215
gross domestic product (GDP) *see* total output
gross income 8, 17
group certificate 111, 112
guarantee 18–19
guarantor 190, 245, 251
guardianship 187, 188
guerilla marketing 135, 139
hacker 156, 158
harassment 96, 97
hidden advertising 149
hire purchase 8, 16, 198, 199
human rights 60, 259, 260
Human Rights and Equal Opportunity Commission 96, 100
imports 167, 268, 270
impulse buying 8, 9
income 6, 38–41, 118, 195
income tax 111, 112–114
incorporated associations 303, 306
independent 208, 209
indictable offences 60
individual actions 209, 288
industrial action 96
industrial disputes 91, 93, 109–110
industrial relations 82
industry sectors 83–4
inflation 268, 271, 275
informal agreements 94
informal networks 190, 191
informal vote 216, 217
inputs 303
insurance 53, 195, 196, 199, 314
interest 38, 40, 123, 126
interest rates 265, 271–272, 273
interest groups 208, 209, 219–221
international aid 182, 183
international bond market 170
Internet banking *see* banking, online
Internet service provider (ISP) 156, 157
Internet shopping *see* shopping, online
Internet 153
investment 44–45, 118–130, 172, 268
international 170–173
portfolio 118
itinerary 232, 238–239
judges 60, 63, 245, 246
junk mail 135, 139
juries 60, 64, 245
labour force 82, 83
labour 267, 268
laissez-faire system 267, 268
land 268
law 7, 52, 60–61, 64–75, 177, 193, 245–264, 310
lawyers 63
lay-by 31
leadership 291
lease 192–193, 303, 307
Legal Aid 76–77
legal capacity 245–246
legally binding decision 60
legitimate 282, 284
liability 4, 6, 245, 310, 313
lifestyle 195, 201, 202
liquidity 4, 6
loans *see* borrowing
lobbying 292, 294
magistrates 63
maintenance 253, 255
managed funds 125, 127, 170, 173
market economy 267, 268
market research 143, 144, 304
marketing 6, 14, 18, 135, 139, 143–145, 161–162, 311–312
mass marketing 143
mayor 205, 206
media 29, 210, 211–212, 222-224, 230
mediation 76, 77, 109, 261, 262
meetings 292–293
mens rea 245, 248
merchantable quality 20, 25
minimum wage 91, 92
ministry 205, 206
minutes 292, 293
mixed economy 267–268
modem 153
Moir, Alan 223
morality 65, 73
mortgages 46, 47, 118
motions 292, 293
multilateral aid 182
naming rights 135
natural justice 60
needs 4
negative gearing *see* gearing
negligence 245, 251–252
negotiation 91, 109, 292, 293–294
niche marketing 143
Nicholson, Peter 223
non-durable goods 8
non-government aid 182, 282–286
non-profit organisations 282–286, 295–296
occupational health and safety 96, 98–99
offences 60, 62
online 152
online banking *see* banking, online
organisations 289–291
overdraft 303, 307
overtime 38, 39
parliament 205, 206

ISBN 9780170251587

partnerships 305, 310
part-time employment 82, 86, 87
passport 232, 233
payment methods 6, 9–15, 30–35
penalty rate 38, 39
personal deductions 111, 112
personal loan 46, 47
personal wants 4
petition 208, 209
pickets 96, 110
plaintiff 253, 259
police 261
policies 205, 206
political issues 208
political parties 208–209, 213–215, 219
political power 213
preferences 216, 217
preferential voting 216-218
premier 205, 206
preselection 213, 215
president 205, 206, 292, 293
presumption of innocence 60, 253, 259
price mechanism 268
prices 269, 275–276
primary products 167, 168
prime minister 205, 206
prison 249
private companies 303, 306
prize money 41
product endorsement 135, 137–138
product placement 135, 138–139
product promotion 14, 137, 140, 141, 145, 311–312
products 135
profit 38, 40, 321
property 123, 126
prosecutor 63, 253, 259
public behaviour laws 245, 246
public companies 303, 306
public housing 187, 189
public relations 282, 284
publicity 140, 222
punishment 248–249
pyramid schemes 21
quorum 292, 293
quotas 167
real time 153, 154
recession 268, 271
record keeping 33, 129, 312–313
Red Cross 285
referendum 65, 75
regulations 208, 211, 310–311
rent 38, 41
repossession 198, 199
residential tenancy agreement 190, 192
residual powers 65
resolution 292
responsibilities 253–260
retail 11–13, 167
returns 38, 40, 123, 125
revenue 310, 312
rights 253–260
risk 123, 125, 310, 314
royalties 38, 41
Rudd, Kevin 212, 214
rules 60–61
Rural Fire Service 295
salary 38, 39
savings 4, 6, 43, 118, 273
second-hand 199
self-employed 82, 83, 87, 302
self-regulation 143, 144
selling 134–142, 147–150, 311–312
services 4, 8, 9
share market 123–125, 127, 171–172
shareholders 38, 40, 295, 298
shares 40, 45, 123–125, 127, 169, 171–172
shelters 186, 188
shoplifting 244
shopping 9–15, 34–35, 195, 198–199
  online 14–15, 22, 156–159
sit-in 208
smart card 35
social security 38, 40
sole traders 303, 305, 310
spam 149, 153, 154
specialisation 174
specialized 170
spending 5, 42–43
sponsorship 135, 137–138
standard of living 4
standing orders 292–293
statute law 65, 70–72, 74
statutory rights 65
stock exchange *see* share market
stocks *see* shares
strict liability 245, 250
strikes 96, 110
subsidiaries 173
subsistence economy 1
substitute 8
summary offences 60
superannuation 111, 114–115
sweatshop 106, 174, 178
SWOT analysis 303, 304
target markets 143–144, 303, 304
tariffs 167
task sharing 193
tax havens 174, 180
taxation 111–114, 310, 313
telemarketing 135, 149
tenant 193
term deposits 123
terrorism 242
total output 268, 270, 271, 272
tourism, issues 242
trade 167–169
trade unions 91, 92, 107–108, 208
traders 170
transfer pricing 174, 180
transnational corporations 167, 168, 174–181, 222, 223
travel 229–242
  agents 229, 230
  insurance 232, 236
  planning 229–236, 238–239
  problems 235, 240–241
treasurer 292
treaty 174
tribunals 263
unconscionable conduct 20
unemployment 83, 94–95, 268, 272
unit trusts 118
unskilled work 83
unsolicited goods 21
variable expenses 42, 195
vertical integration 222, 223
viruses *see* computer viruses
visas 232, 233
voluntary 282
voting 216–218
wage price index (WPI) 275, 276
wage rate 268, 271
wages 38, 39, 91, 92, 268, 271, 272, 275
wants 4
warnings 245, 247
warranty 8, 9, 18–19, 198, 199
website 153
white-collar workers 83, 84
wholesalers 167
witnesses 245, 247, 259
workers compensation 91, 92
workforce flexibility 83
workplace 96–106, 255–257, 310
workplace disputes 109–110
workplace flexibility 83
world cities 169
World Wide Web 152

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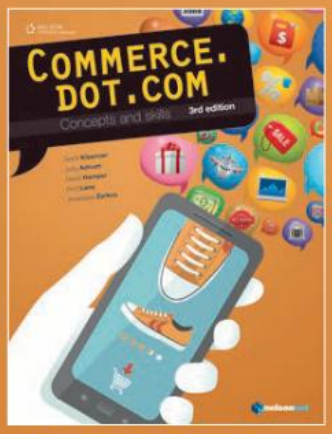

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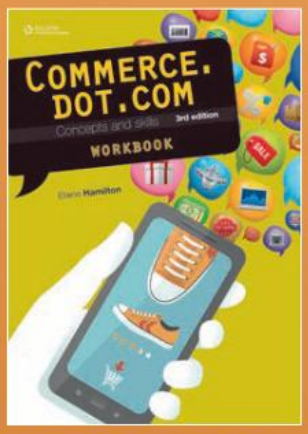

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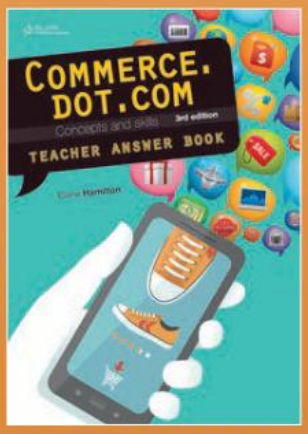

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