

Jacaranda Economics and Business Alive 7

Australian Curriculum EbookPLUS

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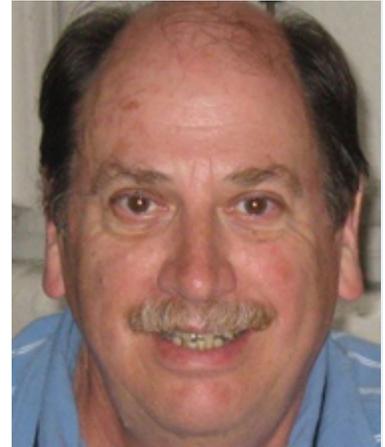
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Chapter 1: Consumers and producers

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1

Consumers and producers



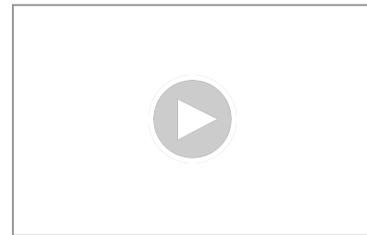
1.1 Overview

1.1.1 Your role in the economy

on Resources



Watch this eLesson: [What is economics?](#)
Searchlight ID: [eles-0253](#)



On television news, current affairs programs and other media, we frequently hear politicians and commentators referring to the 'Australian economy'. What is the 'economy' and how does it work? In simple terms, the Australian economy is the total of all activities undertaken within Australia, for the purpose of producing, distributing and consuming goods and services.

You are an important part of the economy because you spend money whenever you choose to buy goods and services to satisfy your needs and wants. (Even if you don't spend the money yourself directly, other people — such as your parents — may spend money on your behalf or for your benefit; for example, by paying for your visits to the doctor or dentist, clothes, food and education.)

Businesses rely on consumers like you to buy their goods and services. By choosing to spend some of your money, you send a signal to **producers** to keep making the products you buy and to continue employing people to make the products or provide the services you buy. Employees who work in a business are also **consumers** because they spend the money they have earned on the goods and services they wish to buy.

FIGURE 1 Goods and services bought by or for you make you an important part of the economy.



So, as a consumer, your purchase of an item of clothing, an iPod, a snack or any other good or service makes you a part of the economy. Similarly, any work that you do, whether as a part-time or casual employee, involves you in the production side of the economy. Your contribution may not be as great as a shipload of coal, or have the same impact as that of a large business or full-time employee, but it does have an influence on the way the economy works.

FIGURE 2 Many teenagers have part-time jobs that contribute to the economy.



Learning objectives

Students will investigate:

- the ways consumers and producers interact and respond to each other in the market.

STARTER QUESTIONS

1. Identify three items you have purchased in the last week. How do you think the choices you made have affected businesses that you bought from?
2. How do you think your choices have affected businesses you have not bought from?
3. In what way do you think the choices you make can affect the Australian economy as a whole?
4. Do you shop around at a number of different places to find the best price for something you wish to buy? Explain why you do or do not follow this practice.
5. Australia is very involved in trading with other countries. How many items have you bought lately that have come from other countries? What sort of effect do you think these purchases might have on the Australian economy?

1.2 The importance of businesses as producers

1.2.1 Producers and consumers

It is sometimes said that 'money makes the world go around'. Of course this is not physically true, but it does sum up the way the economy works. In simple terms, the economy consists of producers, who make and sell goods and services, and consumers, who buy the goods and services. Producers pay their employees with money, and also hope to make money themselves out of what they sell. This money is used to buy goods and services from other producers. Producers rely on consumers to buy from them, and consumers rely on producers to provide the goods and services they want. Money allows this relationship to work.

DISCUSSION

Do you believe that money makes the world go around? Is too much or too little importance placed on money in our society?

1.2.2 Needs and wants

Imagine you have survived an aeroplane crash and find yourself alone on a desert island. In order to survive, you will have to find those things that are essential for survival — food, water and shelter from the weather and from danger. These are the basic **needs** that we must all have whether we are on a desert island or in the comfort of our home.

FIGURE 1 Even on a desert island, you have basic needs that must be satisfied if you are to survive.



As well as these needs, there are additional things we might like to have on the desert island to make life more comfortable. These could include a bed, a torch, a fishing rod, a comb or a toothbrush, and a table and chair. These things are called **wants**. Although we would like to have these possessions, we could survive without them.

TABLE 1 Needs versus wants

	Definition	Examples	Properties
Needs	Goods or services that are essential for life	Water, food, shelter, air, clothing, medication	<i>Finite list:</i> <ul style="list-style-type: none">• They must be satisfied if life is to continue.• They remain throughout life.• They temporarily wane when satisfied.
Wants	Non-essential goods and services	Torch, bed, fishing rod, armchair, toothbrush	<i>Unlimited list:</i> <ul style="list-style-type: none">• Life can continue without them.• Wants change throughout life.• New wants arise once others are satisfied.

1.2.3 Goods and services

In order to satisfy our needs and wants, we purchase goods and services. **Goods** are classified as the physical items that satisfy our needs and wants, and that we can see and touch. They include food, TV sets, cars, refrigerators, bottles of soft drink and clothing. **Services** are classified as the actions done for you by others, which are designed to satisfy needs and wants. They include the services provided by doctors, dentists, banks, mechanics and teachers. If you are stranded alone on a desert island, you will have to find or make all the things you need and want. In effect, you would be a one-person economy because you would be responsible for both producing and consuming all the goods and services. In a modern economy, we generally rely on businesses to provide us with goods and services.

FIGURE 2 In a modern economy, we generally rely on businesses to provide us with goods and services.



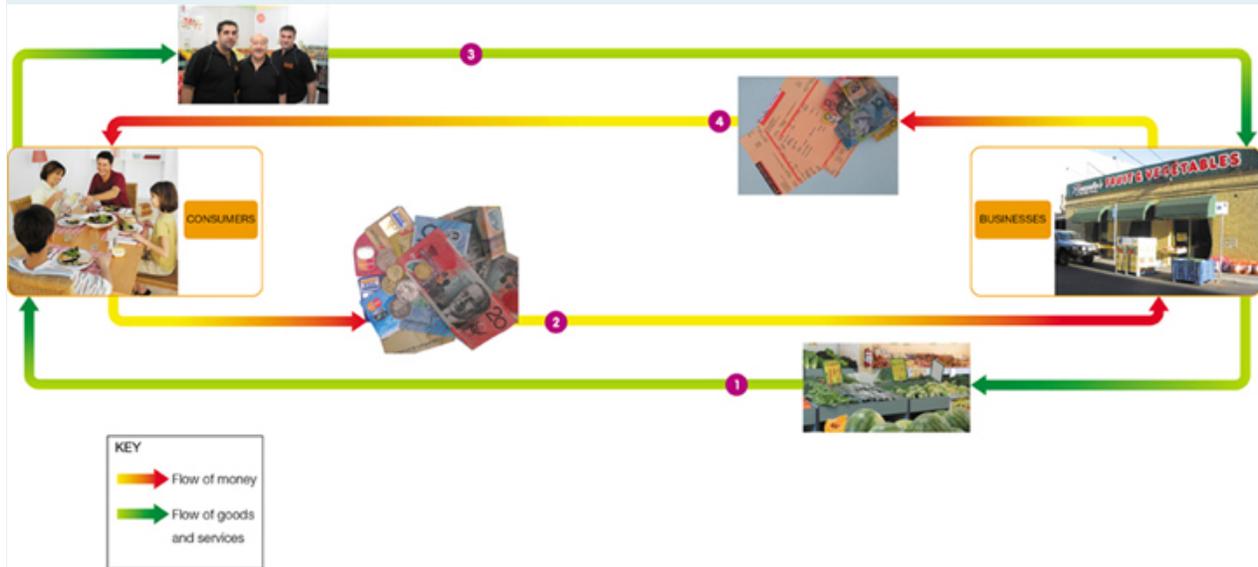
1.2.4 The relationship between businesses and consumers

In the Australian economy, we satisfy our needs and wants by working to earn money and then buying goods and services from businesses that produce them. When we are working, we are providing our **labour** to contribute to the process of producing goods or services for other consumers to buy. When we are spending our money, we are consumers, purchasing goods and services that others have produced in order to satisfy our needs and wants.

In order to satisfy needs and wants, consumers like you make economic decisions every day. For example, you may decide to buy milk from a supermarket rather than from a dairy, catch a bus to school rather than walk, use a loose-leaf folder rather than a bound notebook, buy a can of Australian tinned food rather than one from overseas. Your decisions influence what businesses produce and therefore affect the economy.

We can examine the relationship between businesses and consumers by looking at the model in [figure 3](#). It demonstrates how labour is exchanged for money, and how that money is used to purchase goods and services.

FIGURE 3 The interrelationship between consumers and business



- 1 Businesses are producers that make or supply goods and services that are distributed to consumers.
- 2 Consumers use money, cards and cheques to purchase goods and services.
- 3 Consumers are usually also employees, who provide businesses with their labour in the production of goods and services.
- 4 Employees receive money in the form of wages for their labour.

1.2 ACTIVITIES

REMEMBER

1. What is the difference between needs and wants?
2. What do we mean by the term 'labour'?
3. Name three types of business that provide goods.
4. Name three types of business that provide services.

EXPLAIN

5. In what ways can an individual be both a producer and a consumer in an economy?
6. In what ways are producers and consumers dependent on each other?

PREDICT

7. Could the relationship between producers and consumers succeed without money? What do you think might have to happen if there was no such thing as money?

THINK

8. List five goods and five services that you or members of your family have purchased in the last week.
 - a. Identify one good from your list, and name the business that most benefited from that purchase.
 - b. Examine the components that make up that particular good. Identify any other businesses that might have benefited indirectly from the purchase of that good.
 - c. Identify a service from your list, and name the business that most benefited from that purchase.
 - d. What equipment did the supplier of that service use? Identify any other businesses that might have benefited indirectly from the purchase of that service.

1.3 Responding to consumer demand

1.3.1 What consumers want

Any producer wishing to be successful in business must supply goods or services that correspond with the needs and wants of consumers. It is no use trying to sell something that nobody wants to buy. The ability to understand and act on consumer preferences is an important skill for anyone wishing to go into business.

1.3.2 The marketplace

A market is any organised exchange of goods and services for money. This can occur in a physical marketplace such as a shopping centre, but it can also occur without any actual physical location. When we purchase goods or services online or over the telephone, we are still participating in a market.

A market has to provide a means for consumers to find out about the goods and services available. This can occur when consumers physically walk into a shop and examine the goods on display. It can also occur when consumers visit a website, or look up different businesses in a telephone directory such as the Yellow Pages.

A market also has to provide a means for consumers to pay for the goods or services they are purchasing, and a means for them to receive those goods or services. In a physical shop, this is fairly simple: we visit the premises, receive the good or service, and then pay (by handing over cash or using a card or smartphone) as we leave. An online market usually requires some means of online payment, and a postal or other delivery service to bring the goods to the consumer.

We usually think of a market in relation to the particular goods and services being sold. For example, there is a market for groceries, where different businesses compete with each other to provide consumers with different products. There is a market for takeaway food, with different restaurants offering a variety of choices for consumers. If one shopping centre has two or more hairdressers, this constitutes a market for hairdressing services.

FIGURE 1 The internet is an important tool that allows consumers to find out about goods and services available to them.



FIGURE 2 Hairdressers compete with each other in a market for hairdressing services.



1.3.3 Responding to consumer demand

How does a business owner find out what consumers want?

- *Analyse the business's sales.* There is no point in stocking products that no-one wants to buy, so a business owner will always be monitoring sales to identify the most popular products and ensure that sufficient quantities of them are held in stock.
- *Carry out market research.* This includes surveys of consumers to identify possible future consumer preferences.
- *Examine social trends.* This requires finding out what sorts of issues people are concerned about and then responding to those concerns. Examples include the desire for a healthy lifestyle, environmentally friendly products and organic food.

Healthy lifestyle

We regularly see and hear stories in the media suggesting that much of our modern lifestyle is harming our health. Obesity is a growing problem, and eating unhealthy foods and not exercising are seen as a danger to wellbeing. As consumers become more aware of possible health issues, they are likely to look for healthy options when buying goods and services. Producers respond to these concerns by trying to make their products appear as healthy as possible.

We see this most commonly in food packaging. Phrases such as 'low in cholesterol', '98 per cent fat-free' and 'no added sugar' are all designed to appeal to the health-conscious consumer. Packaging laws in Australia require that all ingredients are listed on food packets, so we have a way of checking some of these claims and comparing different products. While not all health claims on food packaging are necessarily honest or accurate, competition between similar products in the marketplace allows consumers to make the healthiest choices if they wish to do so.

Concerns about health also lead to new goods and services being introduced into the economy. Next time you visit a supermarket or pharmacy, take note of the huge number of vitamins and other dietary supplements on sale. This has been an area of enormous growth in recent years, with millions spent on TV advertising to promote the latest products. In addition, gyms and personal trainers have increased in number as consumers try to adopt healthier lifestyles. All of this growth in the businesses providing such goods and services is an example of the way markets can respond to consumer preferences.

FIGURE 3 Gyms and personal trainers have increased in number as consumers become more health conscious.



Environmentally friendly products

Over the past 40 years, we have become more aware of our impact on the environment and the need to reduce pollution. Businesses that can demonstrate that they used environmentally friendly methods to produce the goods and services they provide might be more appealing to consumers. You may have seen cans of tuna with the claim 'pole and line caught' on the packaging. For many years, tuna fishers have used methods that accidentally caught many other types of fish, some of them endangered species. Pole and line fishing allows only tuna to be caught, and so is more environmentally friendly. Consumers have shown a preference for this type of product.

FIGURE 4 Consumers have shown a preference for environmentally friendly methods of catching tuna.



DISCUSSION

Due to consumer demand for fish produce, the population of bluefish tuna in the ocean has dramatically decreased in recent years, with some estimates being that the current population is now only 4 per cent of what it once was. Is buying pole and line caught tuna enough, or should we be doing more to protect the ocean environment?

Other examples of environmentally friendly products include cosmetics produced by The Body Shop, which endorses environmentally sustainable production methods and has always promoted the fact that none of its products are tested on animals. Washing detergents will often advertise that they are biodegradable and so will not harm the environment. Electrical goods are often sold with a sticker indicating their level of energy efficiency. All of these are examples of producers responding to consumer concern for the environment.

Organic food

Combining both environmental concerns and a desire for healthy food options is the growth in demand for organic food. It is generally understood that food labelled as 'organic' has been grown without the use of pesticides and other chemicals, and so is a more healthy choice. In addition, if the grower has not used these chemicals, there is less risk of them causing damage to other plants or animals, or harming the environment in other ways. As well as fresh fruit and vegetables, many packaged foods now carry the word 'organic' on their packaging to appeal to consumers. Successful businesses will always make sure they are aware of consumer preferences, and will attempt to adapt their goods and services to meet these preferences.

FIGURE 5 Organic fruit and vegetables are seen to be both healthier and more environmentally friendly.



1.3 ACTIVITIES

REMEMBER

1. What is a market?
2. Outline two ways in which a business owner can find out what consumers want to buy.

EXPLAIN

3. Identify and explain two conditions that are required for a market to work.
4. Explain one way in which producers have responded to consumers' desire for a healthy lifestyle.
5. Why does the demand for organic food demonstrate both a desire for healthy food options and an awareness of environmental issues?

DISCOVER

6. Visit your local supermarket and identify four food products that claim to be healthy options.
 - a. Explain what particular claim is made for each product.
 - b. How does the labelling for each product attempt to get across a healthy message?
7. Use internet resources to find:
 - a. how pole and line fishing is more environmentally friendly than other methods
 - b. the name of three brands of canned tuna that use fish caught by pole and line.

THINK

8. The types of businesses that operate in the hairdressing market include hairdressing salons; manufacturers of shampoo, conditioners and hair dyes; manufacturers of scissors and combs; suppliers of electrical goods such as hairdryers and electrical trimmers; towel suppliers; and furniture businesses. Identify as many businesses as you can that operate in the following markets:
 - a. takeaway food market
 - b. bicycle sales and repairs market
 - c. gymnasium and fitness market.

1.4 Determining prices

1.4.1 Deciding on price

One of the most important decisions that any business owner has to make is how much to charge for their goods and services. This will have a major impact on the success of the business, as prices set too high may drive away potential customers while prices set too low may make it difficult to achieve a **profit**.

Businesses can determine their prices by using the recommended retail price, following price leaders, using percentage mark-ups, pricing according to what the market will bear, or offering quotes to customers.

1.4.2 Recommended retail price

Sometimes the manufacturer of a product may provide a recommended price that can be used by **retail** businesses selling that product to consumers. Manufacturers of electrical goods often do this. This price is known as the recommended retail price (RRP). Such a price can only be a recommendation, as it is illegal in Australia for any manufacturer to dictate the price at which any product can be sold to the public. Nevertheless, the RRP can provide a useful guide to the retail business owner, particularly when starting a new business.

FIGURE 1 Electrical goods often have a recommended retail price.



1.4.3 Price leaders

Some businesses are more influential in a particular market than others. These businesses are often price leaders — they tend to set the prices rather than follow the prices set by others in the market. In the food and grocery market, the two big supermarket chains (Coles and Woolworths) tend to be price leaders. To survive, smaller supermarkets must be competitive with at least some of the prices of those larger stores, so their owners will carefully monitor the price leaders. All businesses need to adjust their prices from time to time to ensure their prices are competitive when compared with the prices charged by other suppliers in the same market. They will often look to price leaders as a guide to what is a reasonable price.

FIGURE 2 Large supermarkets are often price leaders in the grocery market.



1.4.4 Percentage mark-ups

Using a **percentage mark-up** is a common way of determining prices. If it costs a certain amount for the retail business to buy the product, a percentage can be added to that cost to ensure the retailer makes a profit. Assume a clothing store has a percentage mark-up of 25 per cent. A pair of jeans is bought by the business for \$100. With a 25 per cent mark-up, the jeans will have a selling price of \$125. This \$25 is used to cover the other costs of the business, such as wages and electricity bills, and to contribute to the business' profits. The business owner has to calculate an appropriate percentage mark-up to allow this to happen.

FIGURE 3 The percentage mark-up on products is used to cover business expenses and provide a profit to the business owner.



1.4.5 What the market will bear

When setting prices according to what the market will bear, the seller attempts to get as high a price as possible while ensuring that the price is not too high for consumers to pay. The best example of this type of price setting can be seen at an auction. Many houses and other properties are sold through this method. People attending the auction determine the price by bidding against each other until one of two things happens: either one bidder outbids all other buyers and becomes the successful buyer, or the property does not sell because no-one is prepared to pay the price the seller wants. In the latter case, the seller and the highest bidder can come together after the auction to negotiate a price that is acceptable to both of them.

FIGURE 4 House auctions are a good example of prices being determined by what the market will bear.



Of course, not all businesses can sell their goods or services through an auction process, so determining prices based on what the market will bear often comes down to the experience of the business owner. An ability to understand consumer preferences is an important skill for a business owner. Listening to customers, following what is happening to the products throughout the market, and monitoring the prices charged by competitors are all important activities for a business owner.

FIGURE 5 Listening to customers can help a business owner to determine what level of prices the market will bear.



1.4.6 Quotes

Many service businesses will set a price by offering a quote to a consumer to perform certain work. A business such as a plumber or electrician might find that the amount of labour and the cost of materials used can vary from job to job. Preparing a quote for each new job may be a better way to determine the price. A quote is an estimate of the costs involved in an individual job, plus a certain amount so the business makes a profit. Consumers will sometimes seek out quotes from a number of competing businesses before choosing one.

FIGURE 6 Tradespeople such as plumbers often use quotes as a means of determining the prices they charge.



1.4 ACTIVITIES

REMEMBER

1. What is a recommended retail price?
2. What makes a business a price leader? Give one example of a price leader.
3. How would a tradesperson calculate a quote for a customer?

EXPLAIN

4. Why can't a manufacturing business force all retailers that sell its products to sell at the recommended retail price?
5. What factors does a business owner have to take into account when calculating a percentage mark-up to apply to goods for sale?
6. Explain why an auction is a good example of a price being determined by what the market will bear.

THINK

7. A business selling lawnmowers pays suppliers \$400 for each mower it buys for resale. It sells 10 mowers per week. Each week the owner pays \$1000 in wages to an assistant, \$800 in rent on the shop, and has gas, electricity and water bills of \$200. For each of the following percentage mark-ups, calculate how much profit the owner would make in a week:
 - a. 50 per cent mark-up
 - b. 75 per cent mark-up
 - c. 100 per cent mark-up.

1.5 Influencing overseas producers

1.5.1 Exports and imports

Australia is a major trading nation. Australian businesses import (buy goods and services from other countries) and export (sell goods and services to other countries) in order to meet the needs and wants of Australian and overseas consumers. Producers all over the world will not only try to satisfy the demands of consumers within their own country, but will also look for every opportunity to sell goods and services to consumers in other countries as a means of increasing profits.

1.5.2 Exports and Australia

Australia has always been involved in trade, ever since the colonial days. From the 1820s we exported wool to many other countries, particularly Great Britain. In the 1850s, the discovery of large deposits of gold meant that we became one of the world's largest exporters of this precious metal. We have also always imported many of the goods we want. With a comparatively small population, it has always been expensive to set up factories in Australia to make the goods we need, so it has often been cheaper to import goods from other countries.

FIGURE 1 Australia was a major exporter of wool for more than 100 years.



Why are exports important?

According to recent government statistics:

- More than 44 500 different businesses in Australia are currently exporting goods and services to other countries.
- Exports bring in over \$300 billion in income for Australian businesses each year.
- Almost 25 per cent of Australia's total income comes from exports.

It is through exports that much of our national wealth is created. In addition, money that we earn from our exports can be used to pay for imports of the goods and services we need.

1.5.3 Imports and Australian consumers

Australia imports a wide range of products. There are many reasons for this, but the cheaper cost of imported goods is usually a major factor.

Australian manufacturers may not be able to make a product as cheaply as it can be made in another country, so they simply import the product. Most of the electrical goods that we buy, for example, are manufactured in various Asian countries. Everything from flat-screen TVs to washing machines and air conditioners are manufactured in countries such as Japan, South Korea and China. It is difficult to find an Australian-made product in these categories.

Many imports are brought into the country as cheaper alternatives to the Australian-manufactured products. You can see this on the supermarket shelves, where the cheaper home-brand version of a particular type of food is often an imported alternative to the Australian-made product. Imported ingredients or components are often used in products that are assembled in Australia. For example, Australian juice companies that use fruit from local suppliers may still import juice concentrate from overseas and mix it with the local product.

FIGURE 2 Australia is a major trading nation, exporting and importing many different goods and services.

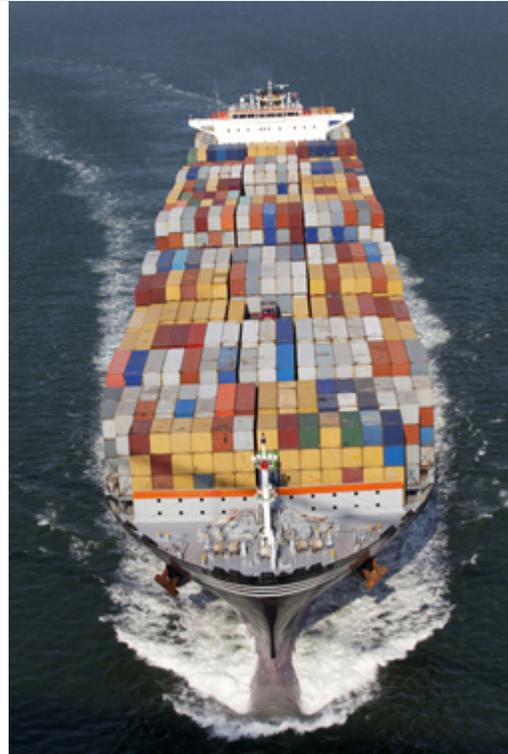


FIGURE 3 Electrical goods such as flat-screen TVs are usually imported from Asian countries.



Australian consumers influence overseas businesses

Most imported goods coming into Australia are purchased by Australian retail businesses expecting to sell these on to local consumers. Although consumers in this country are increasingly buying goods from overseas themselves through online purchases, it is mostly retail businesses that import large container loads of electrical goods, footwear, clothing, toys, sporting equipment and other goods from producers in other countries. Just as Australian manufacturers are influenced by Australian consumer preferences to produce particular types of goods and services to match those preferences, businesses that import goods must also be aware of those preferences. This means they will only order goods from overseas producers that they know Australian consumers will buy. Those overseas producers may have to be aware of consumer preferences in a variety of different countries (not just Australia) if they are to be successful.

FIGURE 4 Workers in a textile factory in Laos manufacture clothes to sell in Australian shops.



Advantages and disadvantages of importing goods from overseas

Importing goods and services can have both positive and negative effects on the Australian economy. This is illustrated in [table 1](#).

TABLE 1 Advantages and disadvantages of imports

Advantages	Disadvantages
<ul style="list-style-type: none">• There is a much larger range of goods and services for consumers to buy.• It forces Australian producers to make goods and services more efficiently, as they have to compete against cheaper imported products.• Importing goods from other countries can encourage people in those countries to buy products from us.• Australian workers have the opportunity to live and work overseas and learn other languages and cultures.• Trade between countries encourages peaceful relationships between those countries.	<ul style="list-style-type: none">• Australian jobs may be lost to countries with lower wages, particularly in manufacturing.• Australian industries have found it difficult to compete with the lower production costs of some overseas countries. This has led to a closure of industries, such as motor vehicle manufacture.• Money leaves the country, adding to the wealth of overseas producers instead of remaining in Australia.• We may become too dependent on imported goods and lose the skills to produce these ourselves.• Harmful animal species as well as diseases, such as bird flu, may inadvertently be brought into the country on ships bringing in imported goods.

You may choose to start a class discussion about this topic by recording your thoughts. To do this highlight the text 'Advantages and disadvantages of imports' and use the Add Discussion function.

Resources



Explore more with this weblink: Australian Government Department of Foreign Affairs and Trade

1.5 ACTIVITIES

REMEMBER

1. What is the difference between imports and exports?
2. Give two examples of goods that Australia imports.

EXPLAIN

3. Give two reasons why exports are important for the Australian economy.
4. How would an overseas manufacturer know what products to sell to Australian consumers?

DISCOVER

5. Follow the **Australian Government Department of Foreign Affairs and Trade** weblink in your Resources section to help you answer the following questions:
 - a. Which country is the major source of our imports?
 - b. What percentage of our exports went to the United States?
 - c. Which country provides Australia's largest source of export income?
 - d. Which country is the largest supplier of services to Australia?
 - e. Which countries are our top three trading partners?
 - f. What was the value of our total exports in the most recent year in the statistics, and what was the total value of our imports for the same period?

THINK

6. Using the information in [table 1](#), design a poster to encourage Australians to buy Australian-made products rather than imported products.

1.6 SkillBuilder: Communicating information in tables and graphs

1.6.1 Tell me

In [subtopic 1.4](#) we discussed the different methods of determining prices for goods and services, including 'what the market will bear'. This method of price setting usually involves some interaction between buyers and sellers, where the buyers want to pay as low a price as possible while the sellers would like to charge as high a price as possible. From these two different sets of preferences, the market will usually arrive at a price that is acceptable to both buyers and sellers. We can demonstrate how this works by using simple tables and graphs.

1.6.2 Show me

Imagine a fruit and vegetable market such as the Queen Victoria Market in Melbourne, Paddy's Markets in Sydney, or the Fremantle Markets in Western Australia. These markets have a number of different businesses all competing against each other, allowing buyers to browse the different stalls and compare prices and quality. All stalls sell potatoes, and most sellers agree on the following:

- If they could charge \$10/kg, they would happily supply 100 kg of potatoes for sale each day.
- If they could only charge \$5/kg, they would only provide 50 kg for sale a day.
- If they could only charge \$2/kg, they would only supply 20 kg of potatoes for sale a day and concentrate on selling other fruit and vegetables that would make a bigger profit.

Buyers have a different point of view: they want to buy at the cheapest price possible. They agree on the following:

- If potatoes cost \$10/kg, only a small number would buy potatoes and then only in small quantities: a total of 20 kg in any given day.
- If the price dropped to \$8/kg, buyers might purchase 30 kg a day.
- If the price fell to \$6/kg, buyers might purchase 40 kg a day.
- If the price fell to \$4/kg, buyers might purchase 60 kg a day.
- If the price fell to \$2/kg, buyers might purchase 80 kg a day.

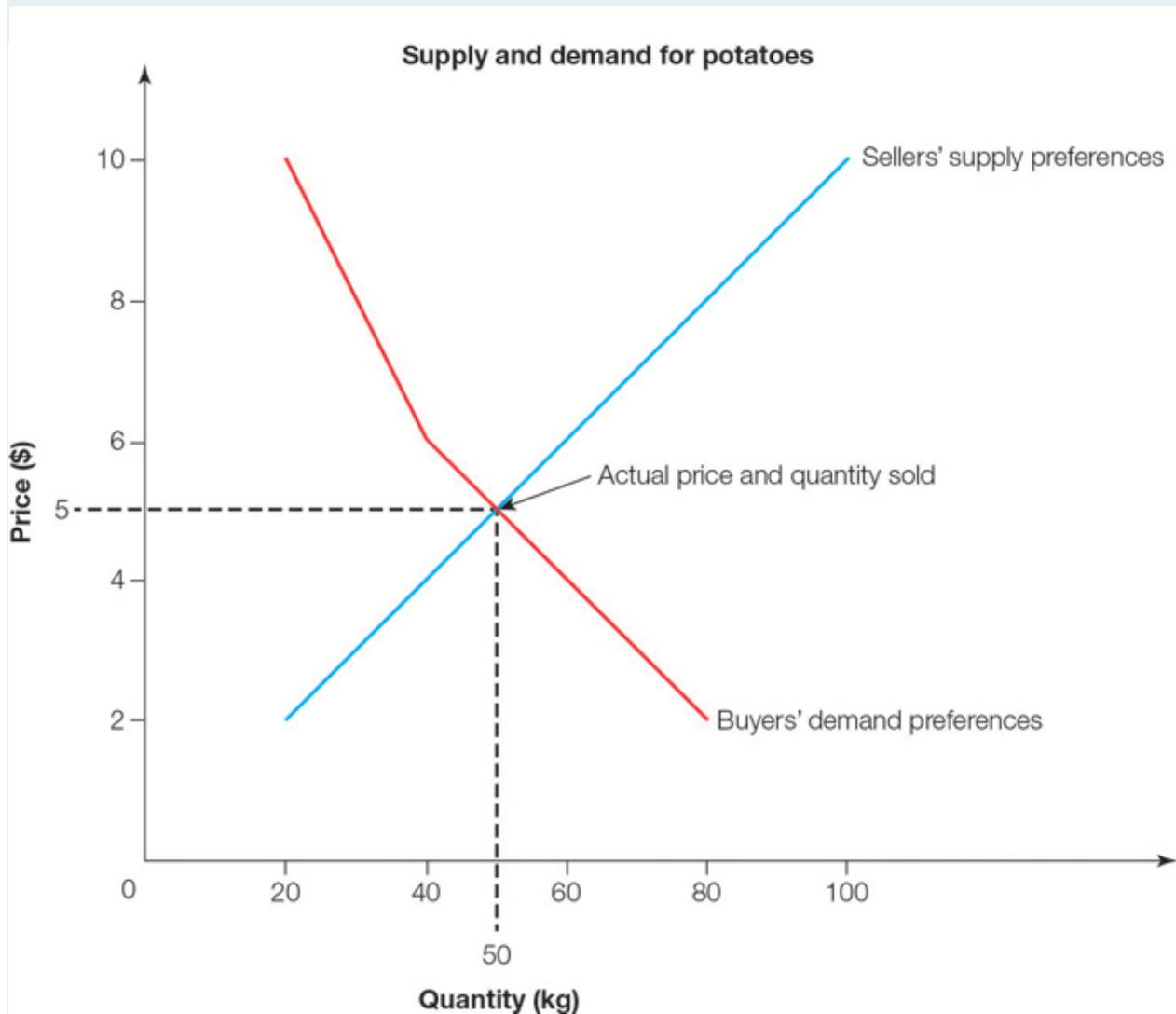
We can see that as the price rises, suppliers will supply more but consumers will demand less. As the price falls, consumers will demand more but suppliers will supply less. What is the likely price that will be acceptable to both buyers and sellers? We can start to answer this by putting the above data into tables:

Sellers' preferences	
Price	Quantity supplied
\$2s	20 kg
\$5	50 kg
\$10	100 kg

Buyers' preferences	
Price	Quantity purchased
\$10	20 kg
\$8	30 kg
\$6	40 kg
\$4	60 kg
\$2	80 kg

The data from these tables can now be entered into a graph (see [figure 1](#)). If we place the different prices along the vertical axis and the different quantities along the horizontal axis, we can plot the preferences of both buyers and sellers on the graph. The sellers' preferences are shown with the blue line, while the buyers' preferences are shown with the red line. The point at which the two lines intersect will be the price that the market will bear. The market for potatoes will settle at a point where 50 kg of potatoes will be sold each day at a price of \$5/kg. Sellers know that if they have 50 kg of potatoes in stock on any given day, they will be able to sell them all at this price.

FIGURE 1 Supply and demand graph for potatoes



1.6.3 Let me do it

1.6 ACTIVITIES

In the same fruit and vegetable market, tomatoes are also subject to similar buyer and seller preferences. Sellers agree on the following:

- If they could charge \$14/kg, they would happily supply 140 kg of tomatoes for sale each day.

- If they could only charge \$7/kg, they would only provide 70 kg for sale a day.
- If they could only charge \$3/kg, they would only supply 30 kg for sale a day.

Buyers generally agree on the following:

- If tomatoes cost \$14/kg, buyers would demand a total of 30 kg in any given day.
 - If the price dropped to \$10/kg, buyers might be prepared to purchase 40 kg a day.
 - If the price fell to \$8/kg, buyers might purchase 60 kg a day.
 - If the price fell to \$6/kg, buyers might purchase 80 kg a day.
 - If the price fell to \$4/kg, buyers might purchase 100 kg a day.
- a. Draw up a table showing the different quantities that sellers would be prepared to supply at each price level
 - b. Draw up a table showing the quantities that consumers would demand at each price level.
 - c. Enter the data from these tables onto a graph that shows both sellers' supply preferences and buyers' demand preferences.
 - d. What is the price per kilogram that the market would bear, and what quantity would be sold at that price?

1.7 Review

1.7.1 Summary

The Australian economy is the total of all activities undertaken within Australia for the purpose of producing, distributing and consuming goods and services. We participate in the economy in many ways:

- We purchase goods and services to satisfy our needs and wants.
- Employees provide labour to businesses and receive money in return, enabling them to purchase goods and services from other businesses.

Much of our participation occurs in a market:

- A market is any organised exchange of goods and services for money, with many different markets operating in the economy as a whole.
- Markets in Australia are influenced by what consumers wish to buy, including products that are healthy and environmentally friendly.

When participating in a market, we are concerned about the price we have to pay:

- Businesses can determine their prices by using the recommended retail price, following price leaders, using percentage mark-ups, pricing according to what the market will bear, or offering quotes to customers.

Some of our participation in the economy involves trade:

- Australia is a major trading nation, with large volumes of exports and imports traded with countries all over the world.

1.7.2 Your turn

1.7 ACTIVITIES

Vanessa operates a kitchenware business. She sells cooking utensils, plates, cutlery and kitchen appliances. Vanessa employs three people in her shop, which is located in a busy shopping centre. There is no other specialist kitchenware retailer in the shopping centre, but there is a supermarket that sells some kitchen utensils and an electrical retailer selling some kitchen appliances.

1. Explain two ways in which Vanessa is participating in the economy.
2. Outline how her employees contribute to the economy.
3. What advantages might Vanessa have in the local market for kitchenware?
4. Identify and explain one method Vanessa can use to identify the preferences of her customers.
5. Which businesses in this market are likely to be price leaders in the kitchenware market? Give reasons for your answer.
6. If Vanessa decides to use percentage mark-ups to determine the prices she charges, what are two factors she will have to consider in her calculations?
7. Explain one way in which Vanessa's business is probably participating in international trade.
8. Identify and explain one advantage and one disadvantage of this participation.

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Chapter 2: Individual and business planning

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- 2.2 Short-term personal financial goals
- 2.3 Long-term personal financial goals
- 2.4 Keeping business financial records
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2 Individual and business planning



2.1 Overview

2.1.1 Managing your money

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We all like to have money to spend. We would all like to be wealthy and be able to buy whatever we like. Unfortunately, very few of us have that luxury. As individuals we need to be thinking about where we will earn the money we need, and how we can manage it to get the best value from it. Even if you get a well-paying job as you get older, it is unlikely you will have more money than you require to satisfy your needs and wants. Careful planning and management of your money is always going to be important, whether as a teenager or in the future as an adult with family responsibilities.

Many people choose to earn money by going into business. If you have particular skills or a good idea for a business, there can be many benefits in choosing to go down this path. Business owners also find that careful planning and management of money is essential if the business is to be successful. No business owner wants the business to be losing money for any length of time. It is important to identify any problems before the business runs the risk of going broke and leaving the owner in debt. Of course, if the business is successful, the business owner also needs to know how much profit it is making. Keeping thorough records is essential for all business owners.

FIGURE 1 Careful planning and management of our money can help us to satisfy our needs and wants.



DISCUSSION

Several studies have shown that, beyond a certain point, having more money does not bring increased happiness. What do you think of these studies? Should we pursue other things in life as well as money?

Learning objectives

Students will investigate:

- why and how individuals and businesses plan to achieve short-term and long-term personal, organisational and financial objectives.

STARTER QUESTIONS

1. Do you receive any regular pocket money, allowance or other cash income? If so, what methods do you use to make it last until the next payment?
2. Have you ever found yourself in debt by borrowing money from friends? What is the best way of repaying a debt of this type?
3. Do you have a prepaid mobile phone or are you on a plan? What methods do you use to manage your phone costs?
4. What sort of records do you think a business owner might need to keep if he or she wants to run the business efficiently?
5. If you were running a business, what sort of information about the performance of that business would you need on a regular basis?
6. There is an old saying, 'It is better to have a poor plan, than no plan at all'. How do you think this might apply to money management by an individual or business?

2.2 Short-term personal financial goals

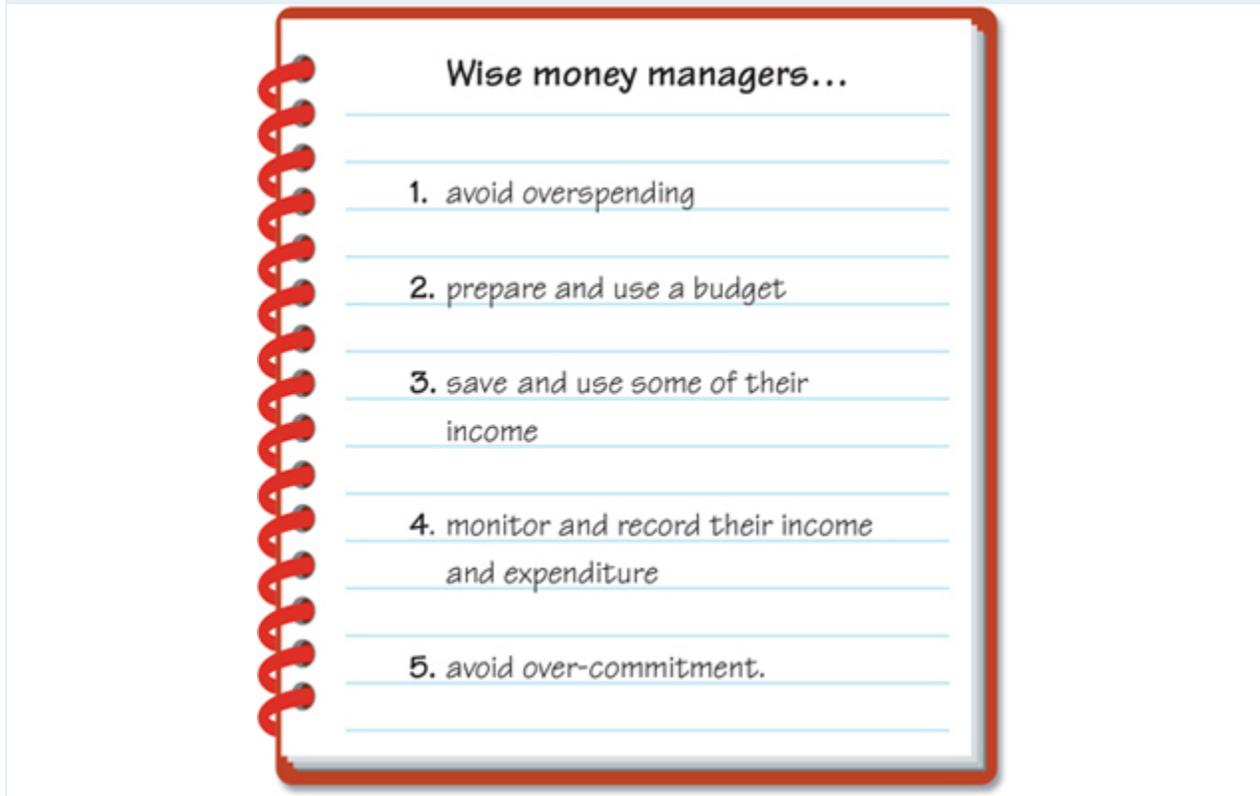
2.2.1 Benefits of saving

Do you wish you could save more money? Are you the type of person who burns through their money fast? Money is great to have but it won't last long unless you make wise choices. If you keep track of your money and spending habits, you can make your money work for you. You may not realise it, but saving money is quite easy. By putting aside even a small amount on a regular basis, you will be amazed at how soon you can build up your wealth. Then you will have more cash available to buy those things you really want!

2.2.2 Managing your money

It is easy to get carried away with spending. There are so many advertisements deliberately targeting young people. Because we all have a limited supply of money, we all need to become wise money users. Look at the tips for being a wise money manager in [figure 1](#). Is it an accurate description of the way you use money?

FIGURE 1 Tips for being a wise money manager

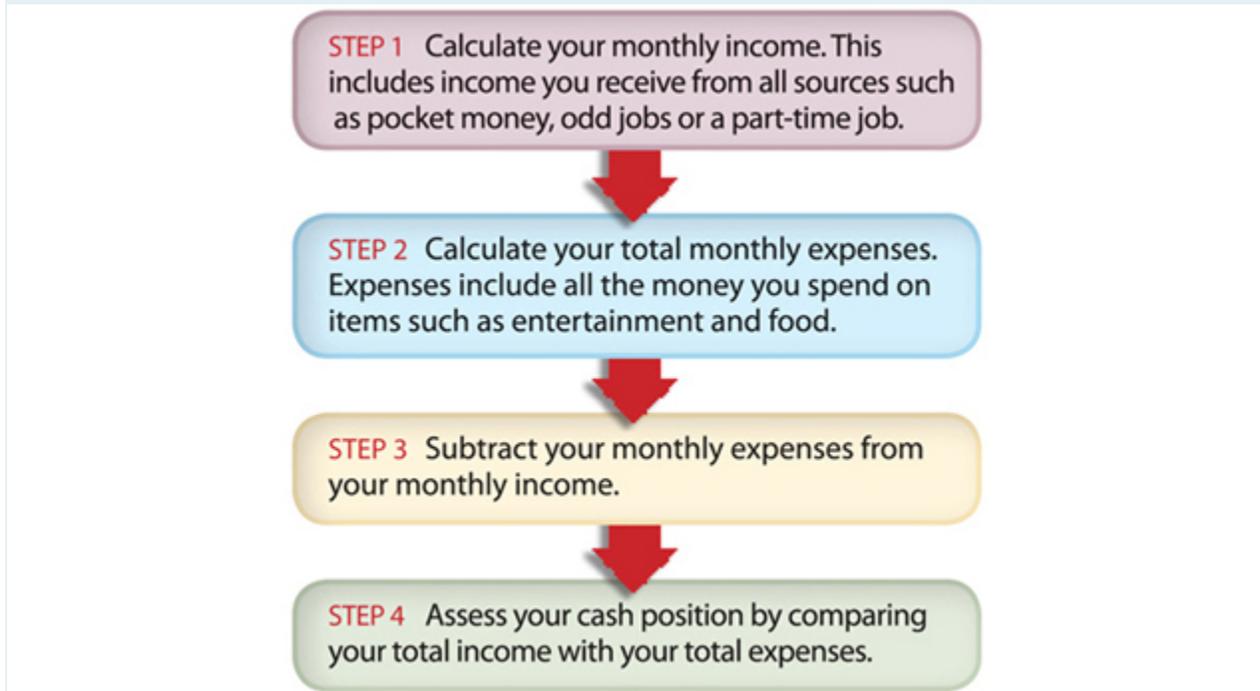


You are never too young to start becoming money wise. During your life you will face many complex **financial** choices. You need the skills and knowledge to ensure you make effective decisions about managing and using your money. If you are money wise, you will be able to make the most of your opportunities and meet your responsibilities throughout your life.

2.2.3 Becoming money wise

With a bit of planning, you can become a smart money user. The first stage is to realistically examine your current financial position. What money do you have coming in? What are your regular expenses? Do you have any money left over after covering your expenses? You can start your planning by following the steps illustrated in [figure 2](#).

FIGURE 2 Four steps to becoming money wise



If you extend these steps to cover several months of income and expenses, you will gain a more complete picture of your spending and saving habits. [Table 1](#) shows the income and expenses of Tiffany, a 13-year-old Year 7 student. Can you see some possible savings? Can you see the possibility of extra income?

TABLE 1 Tiffany's income and expenses

	January	February	March
Income	\$	\$	\$
Pocket money	45.00	45.00	45.00
Odd jobs	20.00	15.00	5.00
Allowance from grandparents	15.00	15.00	15.00

Total income	80.00	75.00	65.00
Expenses			
Magazine	5.00	5.00	–
Fast food	30.00	25.00	20.00
Mobile phone	10.00	10.00	10.00
Games	20.00	25.00	15.00
Total expenses	65.00	65.00	45.00
Cash remaining (income – expenses)	15.00	10.00	20.00

2.2.4 Why save?

Wise money managers know that saving money:

- gives them more independence and security
- gives them a sense of satisfaction
- helps them pay for unexpected expenses
- avoids the need to borrow money and the worry about repaying the debt
- helps them plan for buying big items, such as a bike or a car.

For most people, the most common reason to save is to be able to buy something they really want. For example, the latest PlayStation 4 (PS4) controller costs around \$90, and most young people would not have that money lying around. The answer is to save the money you need over a period of time, and the best way of doing this is to set clear financial goals.

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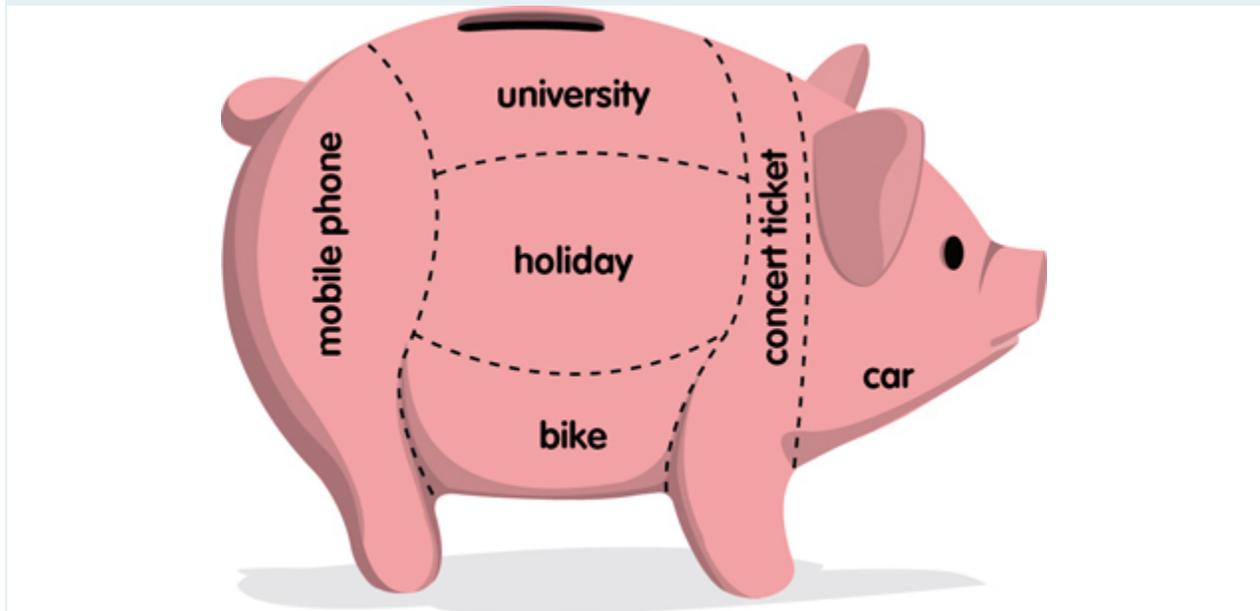
Watch this eLesson: [Compound interest](#)

Searchlight ID: [eles-0139](#)

2.2.5 Setting financial goals

It is easier to save money if you have clear financial goals in mind. You probably have some ideas about the type of things you want now. However, you might find it hard to think far ahead and work out what you will want in the future. The good thing about setting goals is that they give you a purpose for saving. Some of your goals will take longer to reach than others.

FIGURE 3 Saving can become easier if you have clear goals.



Tips for goal setting

- Goals should be realistic or you will become discouraged.
- Goals should be specific. For example, 'My goal is to save \$200 in six months for a computer game.'
- Avoid vague goals (such as 'My goal is to get rich') because their exact meaning is unclear.

To save the money needed to buy a new PS4, you will need a **budget**. A budget is a plan for the future. It is a way of planning your finances to ensure that you have enough money to meet your future needs. Most people prepare a budget to manage their personal finances. Families, businesses and governments also use budgets. The aim is always the same: planning to ensure that expected income (estimated cash receipts) will match or hopefully exceed expected expenses (estimated cash payments).

2.2.6 The purpose of a cash budget

A cash budget is based on the principle that spending must be carefully planned so there will always be money to cover needs and wants. It is an opportunity to reflect on your spending habits and find the areas where you think you are spending too much. A lot of people prepare a budget so that they have extra cash available for something special, such as a PS4 or a new car. In most parts of Australia, you can get a part-time job in a supermarket or fast-food restaurant when you turn 15. Other jobs, such as delivering newspapers, are available at a much younger age. If you started saving as soon as you found a part-time job, do you think you could save up enough to buy a car when you turn 18? Many young people have successfully achieved this goal.

FIGURE 4 Having enough money to buy your first car is not just a dream — you could do it if you start saving as soon as you find a part-time job.



2.2.7 How to prepare a cash budget

First, look at your spending habits and give careful consideration to your needs and wants. Your needs are whatever is essential for survival, so it can be difficult to reduce these expenses. Wants, on the other hand, are things that you desire rather than need. Although it is important that we satisfy some of our wants, this is the area of spending that is first to be cut back because we can live without satisfying all our wants.

Second, consider where your cash is coming from. Are you earning money? Do you have a job, or do your parents give you pocket money? Are there ways you can increase your income? Once you have worked out your receipts of cash (money in) and your payments of cash (money out), you need to put the information together as shown in [figure 5](#).

FIGURE 5 Four steps to working out a savings plan



Let us have another look at the typical income and spending patterns of Tiffany, the Year 7 student (see [table 1](#)). Tiffany has decided she wants to buy a new PS4 controller in three months' time, at a cost of \$90. She has offered to do some odd jobs around the house for her parents to maintain her income of \$20 per month from this source. She has also decided she can cut back on some spending by reducing her fast-food purchases, limiting her game purchases to \$20 per month and cancelling the magazine purchase. [Table 2](#) shows what Tiffany's budget for three months might look like.

TABLE 2 Tiffany's budgeted income and expenses

	April	May	June
Income	\$	\$	\$
Pocket money	45.00	45.00	45.00
Odd jobs	20.00	20.00	20.00
Allowance from grandparents	15.00	15.00	15.00

Total income	80.00	80.00	80.00
Expenses			
Fast food	15.00	15.00	15.00
Mobile phone	10.00	10.00	10.00
Games	20.00	20.00	20.00
Total expenses	45.00	45.00	45.00
Cash remaining (income – expenses)	35.00	35.00	35.00

After three months Tiffany will have saved \$105, so she can not only buy the controller but has \$15 left to put towards her next savings goal. Mission accomplished!

FIGURE 6 After three months of managing her budget, Tiffany was able to buy a new PS4 controller.



2.2 ACTIVITIES

REMEMBER

1. Identify three characteristics of a money wise person.
2. Define the following terms:
 - a. financial
 - b. budget.

EXPLAIN

3. What are the benefits of preparing a cash budget?
4. 'My goal is to be a millionaire by the time I'm 30.' What is the problem with this statement as a financial goal?

PREDICT

5. Compile a list of your own financial goals for the next five years. How long will it take you to achieve each goal? Compare your goals with others in your class. Are they similar or different? What can you learn about your goals by comparing them with the goals of others?

THINK

6. How do you manage payments for your mobile phone bills? Do you have a prepaid phone, or are you on a plan? Identify two problems that can arise for young people in managing the costs of a mobile phone.
7. Prepare a cash budget for yourself for the next three months. Copy the format used for Tiffany's budget in [table 2](#), but with your own income and expenses inserted.
 - a. Compare your budget with that of the person next to you. What are the similarities? What are the differences?
 - b. Does your budget allow for any savings, or do you spend all your income each month?
 - c. If you wanted to save to buy something special, how could you adjust your budget? Are there any extra sources of income you could access? Can you identify any possible savings within your expenses? Draw up an amended budget to show the changes.

2.3 Long-term personal financial goals

2.3.1 The benefits of a savings program

If you speak to your parents and teachers, they will tell you that starting a savings program early in life can mean the difference between a good lifestyle in retirement and having to watch every dollar you spend. A large part of your adult life is likely to be spent in paid employment — over 40 years of work is quite possible. At some stage you will want to retire and enjoy a more relaxed lifestyle, so the time will come when you need to prepare financially for retirement. Although you have over 50 years before you will be retiring and accessing your **superannuation**, saving for your eventual retirement will become an important goal once you reach adulthood and take on a career.

2.3.2 Saving for retirement

Until recently, the standard retirement age was 65 years for men and 60 years for women. The federal government abolished any age limit on retirement to encourage older workers to remain in the workforce. (Part of the reason for this is that Australia, like many developed countries, has a rapidly ageing population and a declining birth rate.) A person can retire when they choose, but they need to be able to pay for their living expenses once they are no longer earning a wage or salary.

FIGURE 1 In retirement, people still have to be able to pay for their living expenses.



When a person retires, they may be able to access an **age pension** in order to survive. This is an amount provided by the federal government. It does not allow for a luxurious or comfortable lifestyle, and may only be sufficient to pay for basic needs. In the years ahead, as average life expectancy increases, the minimum age at which a person can access the pension will be raised. The current minimum age for accessing the age pension is 65 years, but from 1 July 2017 this will be extended to 65.5 years. From then, the pension eligibility age will rise by six months every two years until it reaches 70 years of age in 2035.

Those who have the financial resources to do so are well advised to plan ahead for retirement, so they can be **self-funded retirees**. This means putting aside money now (while you are young and able to work) for when you get older and no longer have a regular income.

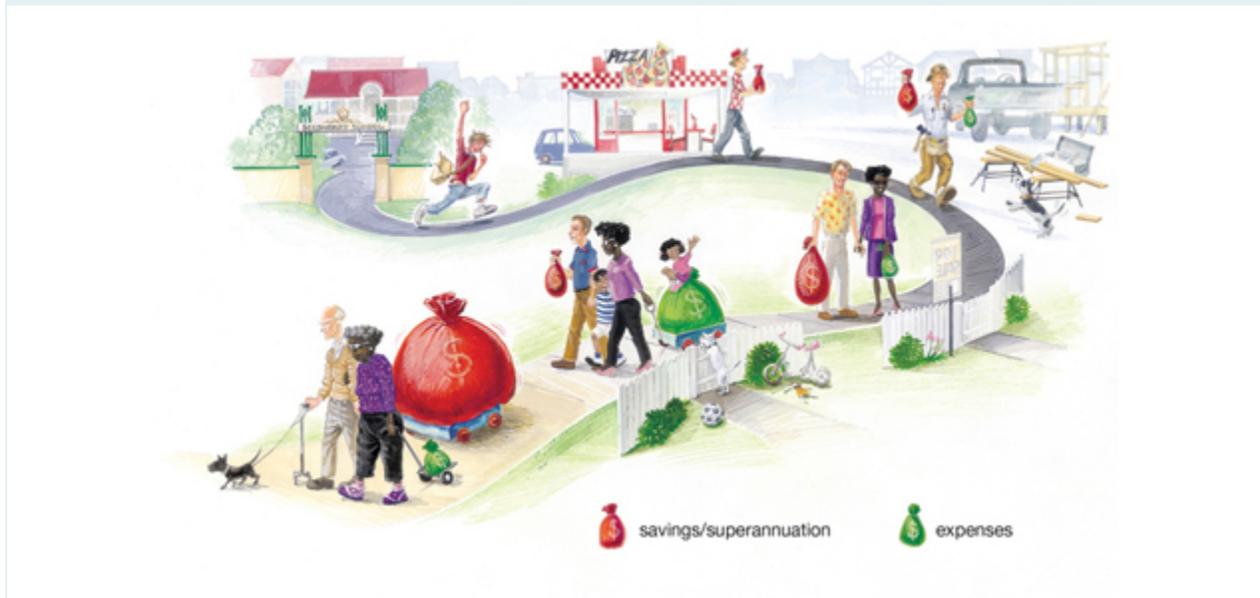
What is superannuation?

Superannuation is a compulsory savings scheme whereby employers contribute an additional percentage of an employee's **gross wage** into a **superannuation fund**. Employees can also choose to contribute to this fund, thus increasing the overall amount they will receive on retirement. How much any employee chooses to contribute is up to them. There are laws in place that determine the age at which you are eligible to access your superannuation savings. Anyone born in the past 50 years cannot access their superannuation before 60 years of age. By this age there may be 40 years of contributions in the individual's fund, so this may be enough to fund retirement. Any extra contributions the person makes during their working life can help achieve this goal.

FIGURE 2 Those who have the financial resources to do so are well advised to plan ahead for retirement.



FIGURE 3 At each stage in a person's life, the amount needed for expenses changes. It is vital to have a financial plan that includes saving for the retirement stage.



2.3.3 Buying a house

For most people, buying a house will be the largest purchase they make in their lifetime. A house is also an investment for the future. Property almost always increases in value over the long term. In many parts of Australia's larger cities, houses that cost less than \$100 000 to buy 25 years ago are now worth over a million dollars. Most people value the security of owning their own home, particularly when raising a family or as they approach retirement age.

Purchasing a house usually involves taking out a **mortgage loan**, with the property itself used as security for the loan. (This means the bank or other lender can take possession of the property if the borrower fails to make the regular payments.) In most cases the loan has to be repaid over 20 years or more, with regular monthly payments. It is a long-term commitment, and you need to make sure that you are earning enough to keep up the monthly payments. Because you are paying **interest** on the loan over a long period, the total amount you eventually pay can be as much as three or four times the amount actually borrowed. Throughout the term of the loan, most people find that their wages increase, so the monthly repayments take up a smaller proportion of their earnings as the years progress. Many people find it worthwhile to pay back more than the required minimum monthly payments. This way they save on interest by paying off the loan early.

FIGURE 4 The purchase of a house can be a great investment for the future.



DISCUSSION

Increasing house prices have meant that a whole generation of Australians are struggling to own a property. Do you think that high house prices are good for society? Which members of society would respectively want lower and higher house prices?

2.3.4 Investing in shares

Many Australians choose to invest their money by buying shares. This means that they buy a certain number of units of ownership in a company. Note that when a person starts up a business, they may start small and only put their own money into it. If the business is successful and they want to expand, they can do so by inviting other people to put money into the business. These people will then become part owners of the business, or **shareholders**. When businesses become really large, they can sell shares to the general public to raise funds. Some large businesses today have thousands of shareholders, and because these shares have value, people can buy and sell them just as they would any other goods. As the value of a company's shares goes up or down, so too does the value of the person's investment. Owning shares means you benefit from the company's profits, which can be given to you as **dividends** or as extra shares. You may also benefit from **capital growth** if the value of your shares increases.

Buying and selling shares takes place through the Australian Securities Exchange (ASX). The ASX was formed in 1987 by amalgamating the six capital-city stock exchanges. A stockbroker has direct access to the market for trading shares and, for a small fee, acts as an agent to buy and sell shares on behalf of the general public.

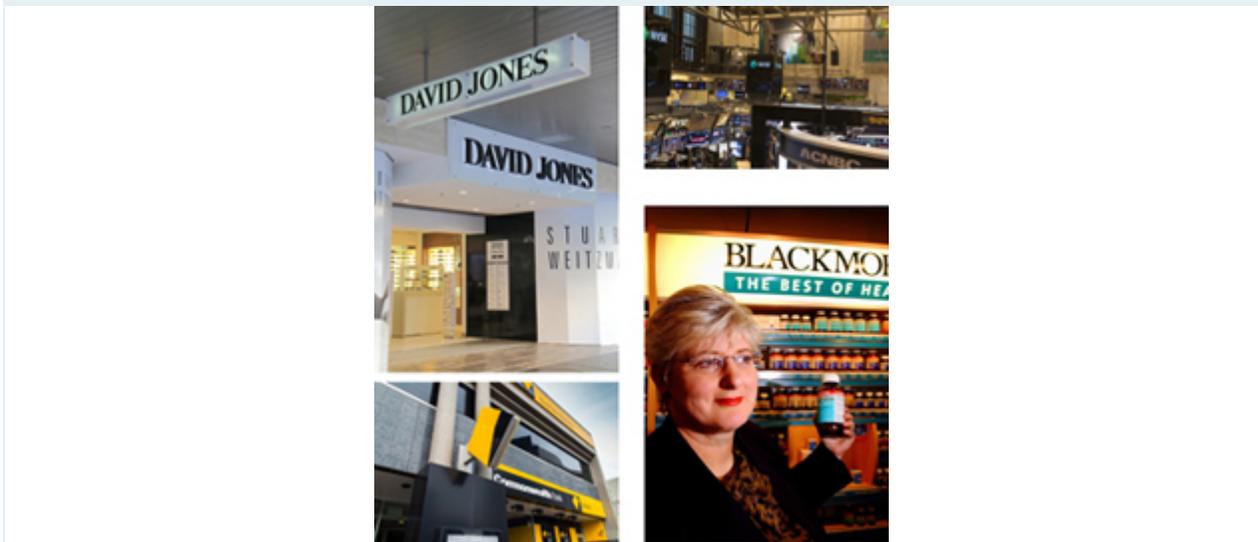
FIGURE 5 Stockbrokers buy and sell shares on behalf of their clients.



Options for your investment

It is an old saying that you should 'never put all your eggs in one basket'. This applies particularly when investing in shares. If you buy shares in only one company and that company has problems, the value of your shares can drop and you lose money. It is generally advisable to buy shares in a number of different companies as this reduces the risk, and you have a better chance of having some shares that will perform well. There are over 1500 companies listed on the ASX. These companies are involved in a wide range of industries covering most sectors of the economy (from banks to shops and the mining industry), so there are plenty of choices available.

FIGURE 6 Buying shares listed on the ASX enables you to become a shareholder in a variety of different businesses.



Investing in shares gives you flexibility. Shares can be bought and sold quickly: you can sell shares and generally have access to your money in three days or less. Some other investments can take much longer to sell and convert to cash. You can decide exactly how your money is invested, giving you control over your financial future. Most people choose to share this responsibility with a stockbroker who can give advice on what shares to buy and sell.

on Resources



Watch this eLesson: [Sharemarket basics](#)

Searchlight ID: [eles-0256](#)

2.3 ACTIVITIES

REMEMBER

1. What will be the legal retirement age when you eventually retire?
2. Define each the following:
 - a. self-funded retiree
 - b. dividends
 - c. capital growth.
3. What is the ASX?

EXPLAIN

4. What is superannuation? Explain how superannuation works to provide a retired person with money for retirement.
5. What is a mortgage loan? What would happen if a person was unable to keep up payments on a mortgage loan?
6. Explain one benefit and one risk of owning shares.

DISCOVER

7. Use the **Sharemarket basics** eLesson in your Resources section to watch the video and then answer the following questions:
 - a. What are you buying when you buy shares?
 - b. What would be the situation if you owned 100 per cent of the shares in a company?
 - c. What is the role of a stockbroker?
 - d. When is the stockmarket report published?
 - e. Copy the following table into your workbook and explain the meaning of each term as found in the stockmarket report.

Term		Explanation
Stock		
Close		
Move		
Turnover (100s)		
Quotation	Buy	
	Sell	
52 week	High	
	Low	

8. Examine the stockmarket report in a daily newspaper and answer the following:
- Identify two companies that experienced an increase in share price during the previous day's trading.
 - By how much did each increase in price?
 - How many shares were bought and sold for each company?
 - What is the highest and lowest price each company's shares reached during the last year?
 - Is the current price closer to the highest or lowest experienced during the past year?
 - From what you can see of the shares in these two companies, do you think they would be good value to buy right now? Explain your answer.

2.4 Keeping business financial records

2.4.1 Measuring business success

Katie is very excited. After working in restaurants and other areas of the food industry, she has finally managed to open her own café. She intends to make this her full-time job, so she wants to be able to make a reasonable living from running her own business. This means that she will want the business to make a **profit**. For this to happen, she must make sure that money received from selling goods and services is greater than what she has to pay in expenses to run the business. A business may make a profit one day, but may make a loss the next day. As long as her business is making a profit over a longer period of time, it could be successful. In order to measure whether this is happening, Katie needs to keep reliable **financial records**.

2.4.2 Financial transactions

All business activity involves sets of **financial transactions**. Take the example of Katie's Café. Every time the café sells a cup of coffee, a sandwich or piece of cake, it receives money. Every time it buys milk, bread or other ingredients from other businesses, it must pay them. If Katie employs any additional staff, they have to be paid wages. A café also has regular electricity, gas and telephone bills to pay. All of these money-based activities are financial transactions. Katie has to keep a record of them all because she will need information from time to time, to tell her how well her business is performing.

2.4.3 Receipts and payments

All of Katie's financial transactions can be classified as either *receipts* or *payments*. Receipts occur when Katie receives money, usually when a customer buys food or a drink from her café. Payments occur when her business pays out money — to one of Katie's suppliers or staff, or to pay the gas, electricity or phone bill. Remember that in order to make a profit, Katie will usually need her business receipts to be greater than her payments, so it is important that she keeps an accurate record of both. In the past, business owners had to do this manually by writing up their records in books called **journals**. Journals are still important, but they are usually not handwritten records any more.

FIGURE 1 As well as making the best coffee, Katie needs to keep track of her business finances.



These days we have technology to help us. By using some simple computer programs, online banking, and business machines such as a cash register and an **EFTPOS** terminal, Katie can record her transactions quickly and accurately. The process of entering and maintaining financial records is called *bookkeeping*, and Katie can buy a program such as MYOB or QuickBooks to help her with this process. These programs set up electronic journals that allow Katie to enter details of all her transactions each day. They are based on spreadsheets and, with all the necessary formulae already entered, Katie simply has to enter her figures and the program performs the necessary calculations.

FIGURE 2 EFTPOS facilities are essential for any business, and can assist in keeping financial records.



Recording cash receipts

Katie will have a cash register on the counter in her café. Before she opens the café each morning, she will already have some cash in the drawer of the cash register. This is known as a *float*, and it is there so she can provide change to customers if necessary. As each customer pays, the sale is recorded on the register and the cash deposited in the register drawer. The cash register will then print a docket for the customer. She will also have a card reader for EFTPOS and credit card transactions. This reader is linked to the cash register, which also records these transactions. A copy of the EFTPOS docket will be printed for the customer, and a second one for the business. This is usually placed in the register drawer with the cash.

FIGURE 3 Katie will need to update her cash receipts and payments records each day after she has closed the café.



At the end of the day, after she has closed the café, Katie can retrieve a total of her day's receipts from the cash register. She will then add the total of the cash and EFTPOS docket in the drawer, subtract the amount she had as a float before the first transaction, and it should equal the total amount recorded in the register. She then goes to her computer and enters the figures in the **cash receipts journal** of her bookkeeping software. At some stage she will take the cash to her bank and deposit it in her account.

The cash receipts journal could be set out as shown in [figure 4](#).

FIGURE 4 Cash receipts journal of Katie's Café

Date	Details	Receipt no.	Cash sales (\$)	EFTPOS sales (\$)	Other receipts (\$)	Total receipts (\$)
Jan. 3	Sales		460.00	630.00		1210.00
	Refund-A1 Bakery	0003			120.00	
Jan. 4	Sales		340.00	540.00		880.00
Jan. 5	Sales		440.00	590.00	100.00	1130.00
	Soft drink machine sales	0004				
Jan. 6	Sales		450.00	610.00		1060.00
Jan. 7	Sales		430.00	520.00		950.00
Jan. 8	Sales		380.00	580.00		1050.00
	Refund-A1 Bakery	0005			90.00	
Jan. 9	Sales		470.00	650.00		1120.00
Jan. 9	Total		2970.00	4120.00	310.00	7400.00

This journal mostly records the money received by Katie's Café for selling food and drinks to its customers. There are three other transactions recorded. She has an arrangement to pay her local bakery a certain amount per week for bread and rolls, but doesn't always collect the exact quantity each day. On 3 and 8 January, she received a refund from the bakery for using less bread than she had paid for. She has a soft drink vending machine that is owned by the soft drink company in her café. Each week a company rep comes and refills the machine with cans of drink and pays her a share of the money collected in the machine. Katie received \$100 on 5 January.

You will notice Katie has set up separate columns in her journal for different types of transactions. This enables her to keep track of the cash she has received, the amount directly credited to her account through EFTPOS payments, as well as other money received that is not part of her normal business activities, such as the refunds from the bakery. At the completion of a week's business the computer software has added up the total in each column, showing Katie her total receipts for the week. She will now need to compare this with her payments for the same period.

Recording cash payments

Katie is able to use online banking, so she can make all her business payments from her computer. Each time she does so, the bank provides a reference number as a means of recording the transaction. Katie's bookkeeping software enables her to record each payment just as she did with each cash receipt. The software has a **cash payments journal** set up, with columns to record each type of payment.

The cash payments journal could be set out as shown in [figure 5](#).

FIGURE 5 Cash payments journal of Katie's Café

Date	Details	References	Bakery (\$)	Groceries (\$)	Wages (\$)	Utilities (\$)	Total receipts (\$)
Jan. 3	A1 Bakery	346189	500.00				880.00
	Groceries	458214		380.00			
Jan. 4	Electricity	675312				490.00	490.00
Jan. 5	Groceries	789324		430.00			430.00
Jan. 6	A1 Bakery	876931	500.00				500.00
Jan. 8	Wages	987214			600.00		1010.00
	Groceries	996526		410.00			
Jan. 9	Total		1000.00	1220.00	600.00	490.00	3310.00

As you can see, Katie makes regular fixed payments to the bakery. Every few days she has to buy groceries such as milk, flour and other ingredients for her cakes, as well as cold meats and salad vegetables for sandwich fillings. She employs one assistant at a wage of \$600 per week. She also has a column to record the payment of utilities bills, such as the electricity, gas and phone. The bookkeeping software totals up all the columns for her so she can keep a track of each different type of business expense.

2.4.4 Retrieving financial reports

From time to time, Katie will want to find out how her business is performing. Is she making a profit or a loss? Does she have enough cash coming in to ensure that she can pay her expenses on time? Her bookkeeping software can make use of the entries in her journals to provide her with the information she needs in different types of reports. Two of these are the *income statement* and the *cash flow statement*.

Income statement

An income statement can tell Katie whether or not her business has made a profit over a period of time. It does so by using the following information:

- The amount of money earned by selling goods and services, known as the business revenue.
- The cost of the materials used in earning that revenue (such as bread, milk, coffee powder), known as the **cost of goods sold**.
- The operating expenses used to run the business (such as wages, gas, electricity).

The first step is to subtract the cost of materials used from the total sales revenue. This figure will give Katie her **gross profit**. She can then subtract the operating expenses from gross profit to provide a figure for **net profit**.

$$\text{Gross profit} = \text{sales revenue} - \text{cost of the materials}$$

$$\text{Net profit} = \text{gross profit} - \text{operating expenses}$$

Katie's bookkeeping software would produce an income statement as shown in [figure 6](#).

FIGURE 6 Katie's Café income statement

Katie's Cafe			
Income statement for the week ended			
9 January 2016			
Revenue	\$	\$	\$
Cash sales		2970.00	
EFTPOS sales		4120.00	
Soft drink sales		<u>100.00</u>	7190.00
Less Cost of goods sold			
Groceries		1220.00	
Bread	1000.00		
Less Bread refunds	<u>210.00</u>	<u>790.00</u>	<u>2010.00</u>
Gross profit			5180.00
Less Expenses			
Wages		600.00	
Utilities		<u>490.00</u>	<u>1090.00</u>
Net profit			<u>4090.00</u>

Cash Sales: The amount of sales Katie made with customers paying in cash

EFTPOS sales: The amount of sales Katie made with customers paying by EFTPOS (electronic funds transfer)

Soft drink sales: Katie's share of soft drink money collected in the vending machine

Groceries: The cost of material such as bread, milk, flour and other ingredients to make food in the café

Less Bread refunds: A refund from the bakery for using less bread than she had paid for in advance

Gross profit: The cost of materials is subtracted from the total sales revenue to give the gross profit.

Less Expenses: The cost of running the café are included, such as wages, gas and electricity.

Net profit: The operating expenses are subtracted from the gross profit to give the net profit.

The total of all sales revenue was \$7190.00. To calculate the cost of goods sold, the money paid for groceries and bread (as shown in the cash payments journal) had to be added, although the actual cost of the bread was reduced by the amount of the refunds as shown in the cash receipts journal. This cost of goods sold was then subtracted from the revenue figure to give the gross profit. Subtracting the total of the operating expenses from the gross profit gives a final figure for net profit. In this case, Katie has made quite a good profit of \$4090 this week.

Cash flow statement

As well as determining whether the business has made a profit during the week ending 9 January, Katie needs to know if she has enough cash coming into her business to cover the various costs that will have to be paid. Using the data from the two journals, her bookkeeping software can produce a cash flow statement that provides her with this information.

This statement would be prepared as shown in [figure 7](#).

FIGURE 7 Katie's Café cash flow statement

Katie's Café		
Cash flow statement for the week ended 9 January 2015		
	\$	\$
Cash inflows		
Total sales revenue	7190.00	
Other cash inflows (bread refunds)	210.00	
Total cash inflows	<u>7400.00</u>	7400.00
Cash outflows		
Bakery	1000.00	
Groceries	1220.00	
Wages	600.00	
Utilities	490.00	
Total cash outflows	<u>3310.00</u>	3310.00
Net cash flow		<u>4090.00</u>

The net cash flow figure is the amount calculated by subtracting total cash outflows (or payments) from total cash inflows (or receipts). In this case, the figure for net cash inflow was the same as the net profit figure (\$4090.00). As the net cash flow is positive, Katie's Café has enough cash to cover her expenses.

2.4 ACTIVITIES

REMEMBER

1. Define each of the following in your own words:
 - a. gross profit
 - b. net profit
 - c. cost of goods sold
 - d. journal.

EXPLAIN

2. What is the difference between cash inflows and cash outflows?
3. Explain the purpose of an income statement for a business owner.

THINK

4. Bob's Bakery has the following transactions during the week ending 31 March 2015:

Date	Details	Amount (\$)
March 25	Purchased flour and yeast	250.00
March 25	Takings from sale of bread	300.00
March 26	Paid for advertising leaflets	150.00
March 26	Takings from sale of bread	280.00
March 27	Takings from sale of bread	310.00
March 27	Paid electricity bill	400.00
March 28	Purchased flour and yeast	250.00
March 28	Takings from sale of bread	270.00
March 29	Paid wages	500.00

March 30	Takings from sale of bread	290.00
March 31	Purchased flour and yeast	250.00
March 31	Takings from sale of bread	320.00

- Draw up a cash receipts journal with columns for date, details, receipt no., bread sales, other receipts and total receipts. Record all cash receipts for the week in the appropriate columns and sum the columns.
- Draw up a cash payments journal with columns for date, details, reference no., materials purchases, advertising, utilities, wages and total payments. Record all cash payments for the week in the appropriate columns and sum the columns.
- Use the information from the journals to produce an income statement for the week for Bob's Bakery
- Use the same information to produce a cash flow statement for this business.
- Do you think the business has had a successful week? Give reasons for your answer.

2.5 Business financial planning

2.5.1 Planning to succeed

Anybody who plans to start up their own business needs to spend time planning. This involves setting aims for the business and deciding how those aims can be achieved. A lot of time, energy and money can go into setting up and running a business. Therefore if the owner hopes to make a profit, a good plan is essential.

2.5.2 What is a business plan?

A business plan is a statement of the aims and goals of a business, and all the steps that will be taken to achieve those aims. It is important that the plan be written down so that the business owner can refer to it regularly to check whether or not all steps are being followed. The business plan will usually include the following:

- an *operations plan* outlining how the business will be set up and the staff needed to run it
- a *financial plan* showing how the business will be financed, together with estimated cash flow, revenue, expenses and profit

- a *marketing plan* detailing how the goods or services provided will be advertised and promoted to potential customers.

Of these, the financial plan is particularly important because the business owner will need to raise money to start the business, and will then need a system in place to monitor receipts and payments and produce regular reports on how well the business is performing.

2.5.3 Financial planning

When commencing a business, the owner must be able to answer the following questions:

- How much money do I need to start up my business?
- Where will I get the money?
- What is it going to cost me each week (or month, or year) to run the business?
- How much revenue must I generate to cover all my costs and still make a profit?

FIGURE 1 A financial plan is essential to measure the success of the business.



Let's return to Katie's Café and examine how she might have tried to answer these questions.

Establishment costs

These are the costs associated with starting up the business. Katie found an empty shop in a busy shopping centre, and was able to rent it. The landlord demanded the first two months' rent in advance, so that amount had to be paid first. Then Katie had to fit out the shop so that it could function as a café. First she bought tables and chairs, refrigerators and a large industrial stove. Then she had fixtures and fittings installed, such as display cabinets, preparation benches and a serving counter. She also had to purchase equipment including all the food preparation utensils, a cash register and cleaning equipment. The telephone and electricity had to be connected, and she needed a broadband internet connection. All of these had to be paid for before the business could earn a single dollar in revenue.

FIGURE 2 Establishment costs for Katie's Café include the purchase of suitable furniture.



Operating costs

As well as her establishment costs, Katie had to estimate what it would cost to run the business once it opened. These are her operating costs. They include the ongoing costs of rent, wages, gas, electricity, water and telephone bills. She also needs to pay insurance and may want to organise advertising, which will also cost money. If she has borrowed money to help her start up the business, she has to repay that loan with regular monthly payments.

Katie must estimate all these costs and be assured that her business will be able to generate enough revenue to cover all the regular expenses. One of the main reasons for business failure is a problem with cash flow, so Katie needs to be realistic by developing a budget for her business as part of her financial plan. The budget can be drawn up using the same layout as an income statement and a cash flow statement, and then entering estimated amounts for all the receipts and payments. Doing this will give Katie an idea of the level of revenue she needs to aim for. If it is likely to take some time to build up a regular customer base, she will need to have money in reserve to cover her expenses during this start-up period.

FIGURE 3 Operating costs can include marketing and advertising the business.



2.5.4 Sources of business finance

Katie's business plan has to include details of where she will get the money to cover her establishment costs and also meet her operating costs while the business becomes established. She may have some savings herself that she can use but, as this is unlikely to be enough, she will probably need to borrow some of the money needed.

Equity

Equity refers to the money contributed by the business owner to commence and build the business. If Katie had some savings, she may have been able to put these into the business to assist with the establishment costs. It is obviously the best form of finance for starting up a business because it does not have to be repaid. In most cases, the amount of equity an owner can contribute is not enough to cover all establishment costs, so borrowing becomes necessary.

Long-term borrowing

Long-term borrowing refers to any loan for a period of more than two years. It is usually used to finance buildings, such as business premises, or expensive equipment needed in a business.

Secured borrowing

Secured borrowing is a form of long-term borrowing. When a person borrows money to purchase a piece of equipment for a business, they can offer the equipment as security for the loan. This means that the bank or other lender of the money can take the equipment if the borrower fails to keep up repayments on the loan. If Katie had decided to buy a shop rather than rent one for her café, she would have taken out a type of secured loan known as a mortgage (discussed in [subtopic 2.3.3](#)). She could have used a secured loan to buy the equipment she needed, using the equipment as security for the loan.

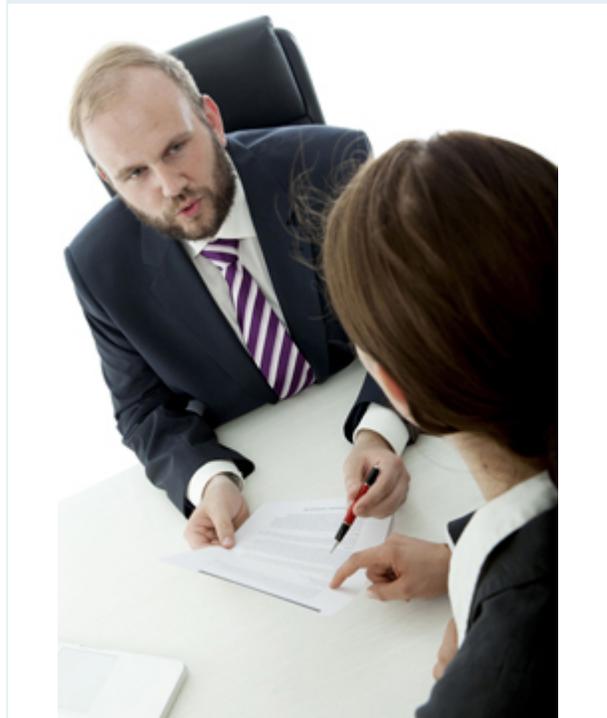
Leasing

Leasing is another form of long-term borrowing for a business. It is used to provide expensive equipment for a business. Under a lease agreement, the business owner effectively rents the equipment for an agreed period of time, usually around four years. Katie may well have used a leasing agreement to acquire the refrigerators and industrial stove for her café. The owner of the equipment is known as the *lessor*, while Katie would be known as the *lessee*. At the end of the lease period, Katie can either pay an agreed amount to buy the refrigerators and stove outright, or she can return the equipment to the lessor. If the equipment is still in good working order, it may be worthwhile for her to pay to keep it. If the equipment is wearing out, or newer models are available, she may want to take the opportunity to enter a new lease agreement so she can bring in new equipment.

Short-term borrowing

A business may need to borrow smaller amounts of money at various times to finance improvements to the business or to cover temporary cash flow difficulties. Short-term borrowing would normally be repaid in less than two years. It can include the purchasing of supplies and other products on credit, as well as making use of a bank overdraft.

FIGURE 4 Business owners like Katie often have to take out a loan to finance their businesses.



Trade credit

Many businesses use trade credit as a form of short-term borrowing. Rather than paying for every delivery of supplies with cash, Katie could establish trade credit arrangements with her suppliers. This would mean that she could have regular supplies of fruit and vegetables, milk, coffee beans or powder, cold meats, and so on delivered several times a week, but would only pay at the end of the month. Many businesses operate in this way, particularly if they deal with each other on a regular basis. It is easier to make one monthly payment to cover a lot of smaller purchases rather than having to make lots of small payments.

Bank overdraft

A **bank overdraft** is one of the most common forms of short-term borrowing. A bank allows a person or business to draw out more money from their account than they have in that account. This is called *overdrawing* the account, and the overdrawn amount is known as an *overdraft*. The bank will usually put a limit on the amount that can be overdrawn. An overdraft can be very helpful in managing cash flow. If Katie has to pay a lot of bills for electricity, telephone, rent, insurance and wages all within a few days of each other, she may not have enough money in the bank to cover them all. An overdraft arrangement allows her to pay all these bills, paying off the overdraft as she deposits the takings in her bank account over the following weeks.

FIGURE 5 A café can establish credit arrangements with suppliers, so one payment covers a number of deliveries.



2.5 ACTIVITIES

REMEMBER

1. What is a lease? How can a lease be used in equipping a business?
2. How can a bank overdraft help a business owner with short-term cash flow problems?

EXPLAIN

3. Outline a method that a business owner can use to set up a budget when opening a business.
4. Explain the difference between establishment costs and operating costs.
5. What is the difference between a lessor and a lessee?

DISCOVER

6. Use internet research to identify one type of funding that is available to business owners in your state. Answer the following:
 - a. What type of business is eligible for this particular type of funding?
 - b. Is the funding provided in the form of a loan, or is it some other type of funding?
 - c. What is the process of applying for the funding?
 - d. What other support is available to assist business owners?
 - e. What conditions are applied to anyone who wishes to take advantage of this type of funding?

THINK

7. Joel has set up a gardening business, leasing a vehicle for \$25 000 and borrowing \$6000 for other gardening equipment. He has to pay \$800 per month in lease repayments, and \$250 per month on his other loan. He spends \$900 per month on fuel and maintenance of equipment.
 - a. What were Joel's total establishment costs?
 - b. What are his monthly operating costs?
 - c. If he earns \$2500 in his first month, how much profit will he make?

2.6 SkillBuilder: Conducting a survey

2.6.1 Tell me

A survey is the process of collecting data for the purpose of analysing an issue. It consists of putting a set of questions to a sample group of people. For example, the publishers of a magazine may conduct a survey to find out whether their readers are satisfied with the content of the magazine. Surveys are an efficient way of collecting information from a large number of respondents. The questions can range widely to find out people's attitudes, values, opinions and beliefs. Katie's Café may conduct a survey to gather information about its customers and the types of products they wish to buy.

2.6.2 Show me

How to design a survey

Step 1

Decide what you want to find out. You need to be very clear about the purpose of your survey or you may not gather information that actually tells you anything useful.

Step 2

Decide whom you want to survey. Will your target group include both young people and adults, or just young people? How many people will you survey? Generally, the more people you survey the more reliable your results will be.

Step 3

Decide what method you will use to collect the data. Consider factors such as cost, speed and whether sensitive or personal information is involved. Survey methods can include:

- personal interviews
- printed questionnaire forms
- email surveys
- internet/intranet webpage surveys (using internet tools such as SurveyMonkey).

As a student (or group of students), personal interviews or questionnaires are likely to be the most useful methods available to you. You could distribute questionnaires to particular groups within your school; or you could interview groups of students at school, or members of the public at a nearby shopping centre.

Step 4

Design your survey. Start with a friendly introduction to encourage people to complete the survey. Work out your questions. Try to keep your survey short and your questions simple. Make sure the layout is attractive and easy to follow. There are two main types of survey questions:

- closed questions
- open questions.

Closed questions

These ask the respondent to select an answer from a range of options. They can include the following:

1. Rating scale — where respondents rate a particular product. For example, 'How would you rate a particular brand of mobile phone?'

Excellent Good Fair Poor

2. Agreement scale — where respondents agree or disagree with a statement. For example, 'How much do you agree with the following statements?'

	Strongly agree	Agree	Disagree	Strongly disagree
I am always prepared.				
I am a confident money manager.				

3. Multiple choice — where respondents can choose from alternatives. For example, questions that identify age or gender.

Please circle one response.

Age	12–14	15–16	17–18	over 18
Gender	Male		Female	

Open questions

These allow the respondent to record their own thoughts or ideas about an issue. For example,

'How much do you spend on fast food each week?' \$_____

Step 5

Conduct a small trial of your survey to make sure the questions are clear and achieve your goals. Make any changes necessary.

Step 6

Conduct your survey and collate the results. These can then be analysed for patterns or anything unusual. When you analyse the results, consider working out percentages. For example: the females aged 12–16 surveyed spend 10 per cent of their money on computer games, while the males aged 12–16 spend 25 per cent.

2.6.3 Let me do it

2.6 ACTIVITIES

1. In a small group, design and conduct a survey. It could be a paper-based survey carried out by personal interview, or you could use an online tool such as Survey Monkey.
2. In your group, select one of the following topics for your survey:
 - young people and money (e.g. surveying young people of your age group to examine how well they manage their money compared with other age groups)
 - local businesses and financial planning (e.g. interviews with local business owners to examine their decision-making and planning processes).
3. Follow the steps outlined earlier in this SkillBuilder to prepare for and conduct your survey.
4. If you choose to conduct an interview, practise your interview skills in your group. Work out how to introduce yourself to the interviewee and explain the purpose of the interview. Decide whether you will give the interviewees the survey and a pen to write down their answers, or whether you will read out the questions and record the responses yourself.
5. Carry out your survey. This may involve making prior arrangements with other teachers to visit their classes, or making appointments with local business owners to visit them at a time that is not too busy. You will need to discuss the arrangements with your teacher.
6. Analyse and present your survey results:
 - In your group, collate the completed surveys.
 - Use a software program such as PowerPoint or Keynote to prepare a slide show of your results. (Some online tools such as Survey Monkey will collate your answers in a presentation for you.)
 - Arrange a time with your teacher to present your slide show to your class. Give each class member a copy of your survey at the start of your presentation.

7. Evaluate the survey and its presentation using the following points to evaluate the performance of each group. For each point decide if the group's performance was excellent, very good, good, fair or poor.

For the survey, evaluate the following points:

- The written introduction to the survey was clear.
- The questions were clear.
- The survey was well set out on the page.
- There was enough room to answer the questions.
- The survey was of a reasonable length.
- The analysis of the survey was easy to follow.

For the presentation, evaluate the following points:

- The content was presented clearly.
- The use of background colour and images was effective.
- There were no errors in grammar or spelling.

2.7 Review

2.7.1 Summary

Very few people have more money than they need. Whether as an individual or a business owner, everyone needs to manage their money to gain the best value from it. Careful planning can provide enormous benefits at both the individual and business level:

- Individuals can improve their financial flexibility by saving money, allowing them to avoid debt and be prepared for unexpected expenses.
- Preparing a personal budget can assist us to achieve our financial goals.
- Longer term savings through superannuation contributions, home ownership or investment in shares can provide security for us as we get older and approach retirement age.
- Business owners need to keep track of all financial transactions so that they can determine the level of success of the business.
- An important part of any business plan is the financial plan, which allows the business owner to create a budget, and keep track of establishment and operating expenses.

2.7.2 Your turn

2.7 ACTIVITIES

Yasmine is planning to set up a shop selling swimwear and other casual fashion wear aimed at the teenage market. She has found a shop in an area with a large population of young people, and is convinced she can be successful. She has identified the following costs that she expects to incur:

Type of cost	\$
Shelving and display racks	7 000.00
Rent in advance	6 000.00
Monthly rent	3 000.00
Initial purchase of stock	12 000.00
Monthly stock purchases	4 000.00
Monthly wages	4 800.00
Purchase of computer	1 350.00
Phone connection	120.00
Monthly phone bill	300.00
Monthly electricity costs	400.00

Answer the following:

1. What are Yasmine's total establishment costs?
2. What are Yasmine's monthly operating costs?
3. Yasmine has \$15 000 in savings to invest in her business. How much extra will she have to raise to set up the business?
4. Explain one method Yasmine could use to raise the extra money she needs to establish her business.
5. If Yasmine has to pay \$500 per month to repay her loan, and this is added to her other operating costs, how much revenue would she have to generate from sales to make a profit of \$3000 per month?
6. What would be the benefits to Yasmine of arranging a bank overdraft for her business?

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Searchlight ID: [int-5420](#)



Try out this interactivity: [Crossword](#)

Searchlight ID: [int-5421](#)

Chapter 3: Entrepreneurs and successful businesses

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- 3.1 Overview
- 3.2 What is an entrepreneur?
- 3.3 Business owner or entrepreneur?
- 3.4 Business success: high-quality product and location
- 3.5 Business success: quality service and sound management practices
- 3.6 SkillBuilder: Writing a business case study
- 3.7 Review

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3 Entrepreneurs and successful businesses



3.1 Overview

3.1.1 It starts with an idea

All businesses originally start with an idea. That is how Bakers Delight began. Roger and Lesley Gillespie established Bakers Delight in 1980 as a small bakery on Glenferrie Road in Hawthorn, a suburb in Melbourne. There are now more than 700 Bakers Delight bakeries around the world. The success of the Gillespies' business comes down to their hard work and their apparent lack of the fear of failure. The owners state that the name 'Bakers Delight' originated from the belief that bakers should be delighted by the product they bake and that every customer should be delighted by the service they receive. This idea still drives what Bakers Delight does today.

FIGURE 1 Roger and Lesley Gillespie from Bakers Delight



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Explore more with this weblink: Small business entrepreneur video

Learning objectives

Students will investigate:

- the characteristics of entrepreneurs and successful businesses.

STARTER QUESTIONS

1. Why do you think that Roger and Lesley Gillespie started Bakers Delight?
2. Would you like to start your own business? What would you sell?
3. At what age do you think you are allowed to start a business?
4. How would you feel if you started a business and it became very successful?
5. What does an entrepreneur do?

3.2 What is an entrepreneur?

3.2.1 Turning ideas into a business

Not everyone knows how to turn their ideas into a **business**. A person who is willing to take a risk and has the qualities required to turn an idea into a successful business is called an **entrepreneur**. An entrepreneur's methods are sometimes regarded as groundbreaking and innovative. For these people, the opportunity to explore untapped markets with no guarantee of success can be motivation itself. However, for those whose ideas translate into a successful business venture, the **profits** are often huge.

3.2.2 So what is an entrepreneur anyway?

An entrepreneur is someone who could be just like you. Entrepreneurs:

- have great ideas and do something about them
- hunt for opportunities to promote their ideas
- thrive on the challenge of creating their own successful business
- make money out of solving problems and selling their ideas
- usually start up their own businesses.

How old do you have to be?

Any age! If you have a great idea and the determination to make it happen, you could join this list of young entrepreneurs who enjoy some huge success stories:

- Eagle Boys Pizza was created by a 23-year-old from Albury, New South Wales.
- Subway sandwiches were the brainchild of 17-year-old US-based Fred DeLuca.
- Rip Curl, an Australian company, was started up in the Australian backyard of surfers Brian Singer and Doug Warbrick.
- Dell Computers was set up when 18-year-old Michael Dell realised it was a lot cheaper to build computers than to buy them ready made.
- Poppy King founded Poppy Industries Pty Ltd at age 18 after recognising there was a gap in the market for matte lipstick.
- Molly Whiticker-Ferrie was aged 14 when she started her Melbourne-based business, Fairy Friends Forever, which specialises in birthday parties for girls.
- Taylah Golden and Ellie Jordan were only 12 years old when they started their online sleepwear business called Jordan Taylah.

FIGURE 1 Could you be an entrepreneur? If you have most of these attributes and skills, your chances of entrepreneurial success look good.



3.2.3 Who are some successful entrepreneurs?

There are many examples of youthful entrepreneurs who have gone on to be successful business owners. A famous one is Sir Richard Branson, chief executive officer of the Virgin Group. He started his first business, a student magazine, when he was aged 16 and still at school. Another example is Bill Gates, co-founder of Microsoft. His interest in computers and computer software began when he was 13 years old.

Richard Branson

Richard Branson is the founder of the Virgin group, which comprises hundreds of companies including an airline, a train company and a mobile phone network. He started his first business at the age of 16. You may have seen Richard Branson in the media because he is famous for his publicity stunts whenever Virgin launches a new business or project. One of Richard Branson's current big ideas is commercial space travel.

If you have heard Richard Branson speaking, you will know that he is passionate and enthusiastic. He listens to staff and customers, carrying a notebook with him wherever he goes so that he can write down what he sees and hears. He then follows up on the ideas. He shares Virgin's future plans with his staff, and his vision inspires people to perform at their best.

FIGURE 2 Richard Branson with his daughter Holly



Mark Zuckerberg

Mark Zuckerberg is a famous American entrepreneur. He is one of the founders of the very successful social media site Facebook. Mark Zuckerberg is a computer programmer who began creating websites while he was at college. In 2004, he launched Facebook and it has grown in popularity ever since. As of December 2015, there were more than one billion daily users of Facebook (according to the Facebook website). His business has been successful because he has specialised skills and was willing to take a risk to develop a unique business idea.

Mark Zuckerberg believes in the open and free flow of information between people. Facebook has allowed this to occur, but it has also created controversy throughout its years of operation. As a result of Facebook's success, Mark Zuckerberg has been able to donate significant amounts of money to charitable causes.

Carolyn Creswell

Carolyn Creswell is the founder of Carman's Fine Foods. She scraped together \$1000 when she was 18 years old to buy out the homemade muesli business that she worked for. Today, Carman's products are sold in supermarkets across Australia and exported to more than 30 countries.

FIGURE 3 Mark Zuckerberg



Some people suggest that the business is an overnight success, but Carolyn Creswell responds that she has been successful because of hard work. She learned everything she knows about the business while working on the job, and she believes this makes it easier for her to empathise with staff. Carolyn Creswell is driven by passion rather than the desire to make money. She believes it is vital to have a clear vision of where the business is heading and to consider that when making every decision.

FIGURE 4 Carolyn Creswell



Lorna Jane Clarkson

Lorna Jane Clarkson is the founder of workout fashion business Lorna Jane. She began making leotards while she worked as a dental therapist and realised that there was a demand for fashionable activewear. Lorna Jane Clarkson and her husband, Bill, opened their first store in 1993. There are now more than 150 Lorna Jane stores worldwide.

Together with her husband, Lorna Jane Clarkson has never been afraid to take a risk. While other businesses believed that the market for fitness garments was too small to make a profit, the Clarksons decided to focus on that **niche market** anyway. The success of their business can be traced back to their vision and good management. Lorna Jane is renowned for innovative designs and for listening to customers, particularly through social networking.

FIGURE 5 Lorna Jane Clarkson



3.2 ACTIVITIES

REMEMBER

1. In your own words, what is an entrepreneur?
2. At what age can you be an entrepreneur?

EXPLAIN

3. Outline the sort of personality and qualities that a successful entrepreneur is likely to have. Suggest why these might be needed.
4. Select one of the entrepreneurs discussed in this section and answer the following questions:
 - a. Why is this person an entrepreneur? Has he or she been successful so far? Explain.
 - b. How did they put their business idea in place?
 - c. If you were the entrepreneur's business adviser, what three tips would you give them for continued business success? Discuss these with a partner.

DISCOVER

5. Choose an entrepreneur — from this section or one that you know — and investigate the behaviours and skills that they bring to their business. Use the questions below to help you.
 - a. What business did this entrepreneur start, and at what age?
 - b. Why did this person become an entrepreneur?
 - c. What behaviours does this person display that make them an entrepreneur?
 - d. What skills does this entrepreneur have?

PREDICT

6. What do you think would happen to Australia's economy if we had no entrepreneurs?

THINK

7. Do you think you have 'got what it takes' to be an entrepreneur? Explain, drawing attention to what you see as your strengths and weaknesses for such a career.
8. In small groups, come up with an original business idea. Through discussion, develop a strategy for launching your new product. You will need to consider how it will be promoted (e.g. advertising and publicity), distributed (e.g. online or shopfront) and priced (e.g. interest-free loans or 'cheaper than all competitors' promises). Present your concept to the class using a PowerPoint or Keynote display. Negotiate the task each group member will perform.

3.3 Business owner or entrepreneur?

3.3.1 Are they different?

We have looked at some examples of well-known entrepreneurs. But what is the difference between a business owner and an entrepreneur? Unfortunately, there is no easy answer to this question. Both business owners and entrepreneurs run businesses. The difference is best seen in the behaviours and skills that entrepreneurs bring to a business that people who simply run businesses do not have.

3.3.2 Business owners and entrepreneurs

Business owners play an important role in the economy, just as entrepreneurs do. A business owner might start their own businesses, just as entrepreneurs might. Business owners might purchase an existing business and run that, just as entrepreneurs also run businesses.

However, business owners tend to be content with simply running a business on a day-to-day basis so that it makes a profit. They prefer to minimise risks and make calculated decisions where the outcome is reasonably clear. However, entrepreneurs do much more than that. As we know, entrepreneurs seize opportunities and take risks. Entrepreneurs also establish a shared vision and demonstrate initiative, innovation and enterprise. A business owner might have an idea for solving a problem and meeting that need in order to satisfy a **target market**, whereas an entrepreneur's vision might be to make a big change or have an impact on the world. Entrepreneurs often do not know if their ideas are achievable or not.

The typical questions that need to be considered by both business owners and entrepreneurs when starting a new business are illustrated in the [figure 1](#).

FIGURE 1 Typical questions considered by business owners and entrepreneurs in making a business idea happen



Let us have a closer look at some of the behaviours and skills that entrepreneurs bring to a business.

3.3.3 A shared vision

When an entrepreneur has a **vision**, it means they have an understanding or hope of what the business will be like in the future. This gives the business a clear direction. Having a shared vision means that everyone in the business works together, as a team, to develop and then accomplish a goal. When this happens, it is much more likely that staff will enthusiastically contribute to making sure the vision is achieved.

FIGURE 2 A shared vision is much more likely to be achieved because people who are involved in developing a vision will be more inspired to work towards the goal of achieving it.



3.3.4 Initiative

When an entrepreneur demonstrates **initiative**, it means they are taking the first step in a series of actions or in a process. This is frequently done without someone prompting or telling them to take this step; an entrepreneur will usually make this decision independently. However, they might seek the help or advice of other people before they do so.

Andrew Bassat was the 2013 Australian EY Entrepreneur of the Year. EY refers to the global organisation, Ernst & Young Global Limited. Andrew Bassat displayed initiative when he co-founded SEEK Limited in 1997 even though he had very little knowledge of the internet. SEEK is now the world's largest online employment marketplace.

FIGURE 3 Andrew Bassat (far right) with his SEEK co-founders



3.3.5 Innovation and enterprise

Innovation is either adding a new product (which can be a good or service) to an existing product line, or significantly improving an existing product or process. This is different from inventing, where a completely new product or process is developed. Innovation could simply involve changing the way a business works so that it delivers better products. **Enterprise** is the effort made by someone to creatively or boldly achieve something new. Entrepreneurs exhibit enterprise by taking risks to determine if the market is interested in their new ideas.

FIGURE 4 Holographic communication is widely predicted to be an innovation that will change the way we work and talk to each other over the next few years.



3.3 ACTIVITIES

REMEMBER

1. List some of the important questions that need to be considered by a business owner or an entrepreneur in making a business idea happen.

EXPLAIN

2. What is the difference between a business owner and an entrepreneur?
3. Outline what is meant by the following entrepreneurial behaviours:
 - a. establishing a shared vision
 - b. initiative
 - c. innovation
 - d. enterprise.

PREDICT

4. Describe what might happen to an entrepreneur or a business owner if their business fails.

THINK

5. Why is being an entrepreneur so important to the success of a business?
6. Working in a group of three or four, use the information in this section to plan a video presentation that promotes the need for entrepreneurs. Make it interesting and catchy. Cover all the behaviours and skills that are typical of an entrepreneur. Use video editing programs and internet research as part of your planning.

3.4 Business success: high-quality product and location

3.4.1 Important choices

How does a small business owner make sure the product is of high quality, and how can they choose the best location that gains exposure for their business? These are important choices that will contribute to the success of the business.

3.4.2 A high-quality product

A business owner should aim to produce a high-quality product — one that meets the expectations of the customer. This means that the product will be reliable, safe and easy to use, durable, well designed and delivered to customers on time. A business owner will need to ensure that quality materials are used in the production of their good or service, and that there are no faults before it is sold to customers.

How to make a high-quality product

Just how do you produce a high-quality product? Attributes that a business owner might attempt to include in their new product before taking it to the marketplace include:

- *Premium features* — producing a product that is perceived to be superior to the products of competitors. A business owner can achieve this by making sure that the product will be considered luxurious; for example, by being more accommodating, providing greater comfort, or by tasting better than the competitors' products. Companies such as Sony and LG often add premium features to their consumer electronics products.

- *Durability and reliability* — creating high-quality products that provide the customer with high value by lasting as long as possible. We live in a society that does not seem to value products that last for a long time, but some businesses distinguish their products from those of their competitors on this very basis. Boral, for example, is renowned for supplying durable building products and construction materials.
- *High performance* — making sure that the product performs better than the products of competitors. A business owner can achieve this by making a product that is faster, more efficient or more powerful; or by making a product that completes a task in a better way than competing products. Samsung and Apple, for example, advertise that their mobile phones offer top performance.

DISCUSSION

Many people update their mobile phones each year in a desire to have the newest and most powerful model. Do you think that this trend will continue in the future? What are the different motivations for the consumer and the manufacturer to continue this trend? Are there any downsides to this behaviour?

FIGURE 1 A clothing retailer can add a premium feature to its product, thus creating a high-quality product, by providing a tailor to adjust customers' purchases.



3.4.3 Location

Many factors must be considered when a business owner chooses a location. These include personal convenience, **zoning regulations**, the suitability of the **premises** for the business and the potential for expanding those premises. Other important factors discussed in detail below are:

- visibility
- accessibility
- competitor location
- cost
- area reputation.

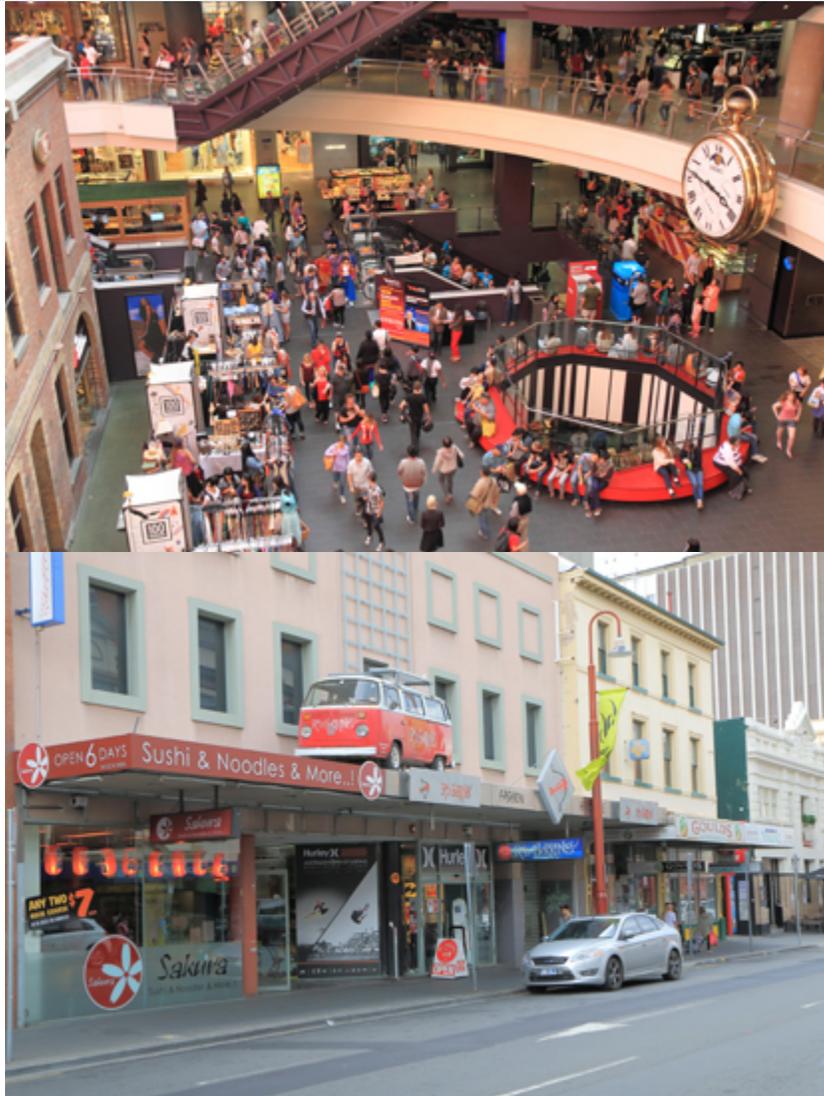
FIGURE 2 Many people today run businesses online from home so there is no physical location for their business.



Visibility

Exposing the product and the business to potential customers is essential for a retail business or one providing a service to the public. Businesses such as music stores and hairdressers rely heavily on **passing trade** for sales. That is why these types of businesses typically locate in shopping centres or on shopping strips.

FIGURE 3 An example of a shopping centre and a shopping strip: Melbourne Central shopping centre (top) and Liverpool Street in Hobart (bottom)



Accessibility

A business generally needs to locate as close as possible to its customers or suppliers. The importance of each of these considerations depends on the nature of the business. A retail business needs to be close to customers, with convenient parking or access to public transport nearby. For this reason, a clothing store might decide to locate in a shopping centre or a shopping strip. For a business that manufactures goods, being close to suppliers might be more important. A car parts manufacturer would need to be close to transport networks, such as freeways or railway lines, so that it can easily receive raw materials from suppliers and then distribute the finished goods.

Competitor location

For a retail business or service provider, it does not usually make sense to locate close to competitors. If an antique furniture shop is already established in a shopping centre, it might be a bad idea to set up another one there unless there is a huge demand for antique furniture. It would make more sense to locate near other businesses that sell different products, and feed off the customers that are drawn in by the variety of choices or by the attraction of a large brand name. This is why many businesses choose to locate in a large shopping centre with well-known businesses such as Coles, Woolworths, Target and Big W nearby.

FIGURE 4 Many businesses choose to locate in large shopping centres because they can then feed off the large number of customers who are drawn in by the wide variety of products and competitive prices offered in one location.



However, some businesses choose to locate in an area where there are other businesses selling the same product. They will do this because customers are attracted by the competition and choices offered by the collection of businesses. Examples of this include furniture stores or car yards located together along a busy highway.

Cost

When considering the cost of a location, the business owner must decide whether to rent or purchase the premises. In general, the cost of the location will be affected by the location's size, quality, visibility, accessibility and the amount of passing trade. For example, locating in a shopping centre is usually more expensive than locating on a shopping strip. For the business owner, an ideal location would be one where costs are kept to a minimum, taking into account all of the other location factors. A restaurant relying heavily on passing traffic might find that locating in a low-cost site with low visibility is ultimately not a successful strategy.

Area reputation

A location with a low cost might initially seem attractive, but it could be relatively cheap because of its poor reputation. An area with a poor reputation might have a high crime rate and be perceived as an unsafe place. Potential customers may not be prepared to visit a business located in such an area.

Online businesses

Online businesses can be located in any location; they do not even need to be located in the same country as the market that they operate in! Rent may be higher for online businesses in inner-city areas; however in these areas they may be able to attract higher-skilled workers to work for them. Consideration should be given to the location of the warehouse where goods are shipped from. Increasing numbers of online businesses are also moving to set up in a physical location after establishing their reputations online.

3.4 ACTIVITIES

REMEMBER

1. Briefly outline the attributes a business owner might consider when developing a high-quality product.
2. What is passing trade?

EXPLAIN

3. Explain the following factors in a high-quality product:
 - a. premium features
 - b. durability and reliability
 - c. high performance.
4. Draw a diagram explaining the factors that a business owner will need to consider when choosing a location

DISCOVER

5. Select a site in your local area that has shops (businesses), houses and perhaps industrial areas and complete the following:
 - a. Draw the site plan, detailing traffic flows and the location of shops and houses.
 - b. Explain the reasons for the location of each business.
 - c. If you were to open a new business here, such as a café, where would you locate your business? Give reasons for your answer.

6. Use the internet to research online business set-up and write down five things that business owners need to consider when setting up an online business.

PREDICT

7. What might happen to a business that does not sell a high-quality product?
8. What do you think would happen to a business that chose an unsuitable location? List five possible consequences of choosing the wrong location.

THINK

9. List the factors that need to be considered when deciding the location of the following businesses:
 - a. a car manufacturer
 - b. a restaurant
 - c. a supermarket
 - d. a health food store
 - e. an online T-shirt supplier
 - f. an importer of exotic plants.
10. Why are location and a high-quality product so important to a business's success?

3.5 Business success: quality service and sound management practices

3.5.1 Meeting customer expectations

Providing quality service and using sound management practices allow a small business to meet customer expectations.

3.5.2 Quality service

Quality service leads to customers being satisfied with the product of the business. Highly satisfied customers obviously generate profit, but by returning to the business they can also bring other customers with them. This is referred to as **word-of-mouth** business.

FIGURE 1 Quality customer service will make sure that customers keep returning to buy the business's products.



A business can make sure that it provides quality customer service by seeking feedback from customers. One way to collect feedback is through a **customer survey**. Many businesses use customer loyalty programs, which allow them to build a database on their customers and stay in contact with them. Discounts and giveaways can be used to reward customers. Another way that businesses can provide quality service is by training staff.

3.5.3 Sound management practices

Sound management practices require that business owners exercise four crucial management roles, manage the finances of the business, and manage the business in an ethical and socially responsible manner.

Management roles

Four crucial management roles must be fulfilled if a business is to be effectively and efficiently managed:

- **planning** — This is the process of identifying goals for the business as well as the steps that will need to be followed to achieve those goals. For example, a manager might set a goal that the business will introduce a new product over the next 12 months.
- **organising** — This is the process of working out what resources are necessary to complete the tasks that need to be performed so that the goals of the business are achieved. These might be human, physical or financial resources. For example, a manager might assign a particular task or responsibility to a worker in the business.

- **leading** — This is the process of motivating or inspiring staff in the business to achieve the goals of the business. For example, a manager might explain to staff what the goals of the business are and why it is important to achieve those goals. This might influence staff to work hard to achieve those goals.
- **controlling** — This is the process of comparing what was expected to be achieved with what was actually achieved. For example, a manager would look at sales figures for the new product to see how the business was progressing towards achieving its goal of introducing a new product over the next 12 months.

These roles are illustrated in [figure 2](#). Click on each heading for more information about the role.



Financial management

It is vital that the business owner manages the finances of the business. **Cash flow** needs to be maintained. Cash is one of the most important resources for a business. Without cash, the business would not survive. Only by tightly controlling and monitoring the business's cash position will the business succeed.

The business owner also needs to make sure that the business is making a profit. Regular profit reports should show that a business is earning more revenue than expenses. If the business is not making a profit, or if cash flow is poor, the business owner needs to review what is happening in the business and make changes.

DISCUSSION

Some of the largest companies in the world use profit-shifting techniques, where the profit in the different countries they operate in is moved about in order to reduce their overall tax burden. Do you think it is ethical for companies to be able to do this? What impact does it have on the people in the countries where this is happening?

Ethical and socially responsible management

A modern business cannot just consider its financial position. Today, people expect that businesses will do the right thing when making decisions and show concern for society in their actions. **Ethical management** occurs when a business applies moral standards to decisions made; for example, by being honest in the way they deal with other businesses. **Socially responsible management** occurs when a business shows concern for the social welfare of the community, including customers, staff and the environment. Society expects that a business will treat employees fairly, show respect to customers and look after the environment.

3.5 ACTIVITIES

REMEMBER

1. What is word-of-mouth business?
2. List the four roles of management.

EXPLAIN

3. Describe how a business can develop quality service.
4. Explain the difference between financial management and ethical and socially responsible management.
5. Complete the following table to explain how each sound management practice contributes to a successful business.

Sound management practice	How it contributes to a successful business
Planning	
Organising	
Leading	

Controlling
Financial management
Ethical and socially responsible management

DISCOVER

6. Invite a successful business owner to your school to speak to your class about their business and the sound management practices they use that have led to the success of their business.

PREDICT

7. Describe a scenario where a business provides poor customer service and predict the possible outcomes of that poor service.
8. What will happen to a business that does not make use of sound management practices?

THINK

9. Role play the situation described below in which a customer is receiving poor service. At the very least you will need someone to play the part of an unhappy, irate or angry customer and someone will need to play the part of an employee or a business owner. However, choose characters to suit your situation. Set the classroom up like a business and see if the business owner or employee can keep the customer satisfied!



Chris walks in to a clothing store with some friends and starts to browse. The group is laughing while they look through the racks of clothes. A sales assistant, believing that they are making fun of the clothes, asks them to leave while telling them, 'You don't belong in a store as expensive as this one!'

3.6 SkillBuilder: Writing a business case study

3.6.1 Tell me

What is a business case study?

A business case study is a description of a real life business requiring you to explore the main issues affecting the business and how the business owner has responded. These issues and responses need to be analysed and related to your economic and business knowledge. Conclusions can then be drawn about why the issue occurred and how to best respond to them, based on what the business owner did.

Why is writing a case study useful in economics and business?

Writing a business case study is a way to apply the theoretical knowledge that you have learned about economics and business to a real-life business. It can develop research skills. Writing a case study requires you to carefully investigate and critically analyse an issue.

Model

CASE STUDY

Boost Juice

Who is Boost Juice?

Boost Juice Bars is a global chain of retail stores selling fruit juice and smoothies. Boost Juice also sells snacks, including banana bread, wraps and yoghurt. Janine Allis and her husband Jeff started the business in 2000 when they opened an outlet in South Australia.

Reason for Boost Juice's success

Janine Allis and her husband Jeff chose the perfect time to launch a great product.

Janine was inspired by a trip to the United States, where juices and smoothies were common. Back in Australia Janine found, 'In shopping centres, there was nowhere to get something healthy.' Using her trip to the US as research, Janine explains, 'I studied the concept of smoothies and juice and took what I liked to develop a new concept in Australia called Boost.' The business started small with just one shop in Adelaide, giving them the chance to trial and test their products.

FIGURE 1 Janine Allis and her husband Jeff



Janine has been hands-on in setting up the business — developing the structures, business plan and ethics that were needed to grow the business. But in the early days, it meant getting involved in every aspect: 'I flew to Adelaide to open the first store; I ran it, scrubbed the floors and really learned the business.'

This modest start gave Janine the chance to test the market, using a popular radio station to reach Boost's target market. To reach their goal of expanding their brand, Janine focused on strong branding as a way to lure the best franchisees and to win customers. 'I never had the intention of opening just one store, but you have to open the first one to work out the cost of goods, your wages, expenses and income and work out if you have a viable business.'

Running her own business was a risk, but it gave Janine a way to try to balance her work and home life and the opportunity to work from home in the early days when her children were young. 'When the time came to expand with a building program on 15–18 sites, we sold the house and put the money into the business. We're a company where you don't necessarily have to wear a suit or have a degree to be promoted and you can bring your children in when you have them. It's the sort of company where you can have both.'

Other information about Boost Juice

- 2000: Opened first Boost Juice (Adelaide)
- 2002: \$1 million annual turnover
- 2008: 213 stores and on track for \$100 million annual turnover
- 2014: 300 stores in 10 countries and annual turnover of more than \$135 million
- 2016: More than 350 stores in 17 countries

- Highest grossing company stores: Sydney and Melbourne airports
- Highest grossing company franchisees: Chadstone and Pacific Fair Shopping Centres
- Ethical and social responsibility: Boost uses paper cups that are renewable, sustainable and biodegradable which are printed using non-toxic, food-safe inks and are not harmful to the environment. Boost Juice has a school fundraising program.

Elements of a good business case study

A good case study:

- includes a profile of the business (the trading name and the products it sells)
- explains some of the history of the business
- gives reasons the business has been successful
- covers any other issues or questions as required
- includes extra information about the business
- is of reasonable length (approximately 300 words)
- is easy to read
- is well presented.

3.6.2 Show me

How to complete a case study

You will need:

- a sheet of lined paper and a pen, or your computer/tablet
- a team of three to four people.

Procedure:

To write a business case study, you will need to gather information about the business. The best way to do this is to interview the owner or someone who works at the business. If you cannot speak to someone who knows about the business, you will need to complete research on the internet or use magazines and newspapers.

STEP 1

Form a team of three to four people and establish the goals of your group. (In this case it will be to choose an appropriate business owner to interview.)

STEP 2

Work out the interview questions you will need to ask the business owner, manager or employee. Use the questions in the 'Let me do it' section of this SkillBuilder as a guide.

STEP 3

Visit the business and interview the owner, the manager or an employee. Be polite. Do not try to interview them if they are busy. You might need to ask them if you can come back at a more convenient time. Explain why you are doing the interview and what will happen to their responses. Remember to thank the person for their time.

STEP 4

Complete any further research that may be needed to address all the items listed in the '[Elements of a good business case study](#)' section of this SkillBuilder. You could complete your research on the internet or using magazines and newspapers.

STEP 5

Write your report using proper sentences and headings. Present it so that it is easy to read.

3.6.3 Let me do it

3.6 ACTIVITIES

Developing my skills

Working in your group, use a report format to write a case study on a successful business. Use the following questions to guide you:

1. What is the name of the business and what products does it sell?
2. When and why did the owner start the business?
3. Does the owner consider himself or herself to be an entrepreneur?

4. What are the reasons for the success of the business?
5. Is there any other information or issues that need to be covered? These might include:
 - a. where the business is located and why it is located there
 - b. how it develops or developed a high-quality product
 - c. how it maintains quality service
 - d. the promotion or advertising it uses
 - e. the number of staff it employs
 - f. who gave the business support and advice when the business was getting started
 - g. whether the business has a business plan (or ever had one)
 - h. who manages the finances of the business and how they are managed
 - i. in what ways the business is ethically and/or socially responsible.

Questions

1. How did your group decide on the business you researched and the questions asked of the owner, manager or employee?
2. Did anyone in your group display entrepreneurial behaviours while participating in the gathering of research? Explain your answer.
3. Reading the Boost Juice case study, would you say that Janine Allis is an entrepreneur? What makes you say this?
4. Explain how Janine Allis' entrepreneurial behaviour resulted in Boost Juice becoming so successful.

Checklist

I have:

- included a profile of the business (the trading name and the products it sells)
- explained some of the history of the business
- given reasons the business has been successful
- covered any other issues or questions as required
- included extra information about the business
- written a report of reasonable length (approximately 300 words)
- written a report that is easy to read
- written a report that is well presented.

3.7 Review

3.7.1 Summary

An entrepreneur is a person who is willing to take a risk and has the qualities required to turn an idea into a successful business. An entrepreneur is different from a business owner. Entrepreneurs seize opportunities and often do not know if their ideas are achievable or not. They also establish a shared vision and demonstrate initiative, innovation and enterprise. Choosing the right product and the best location are very important for ensuring the success of the business. Providing quality service and using sound management practices allows a small business to meet customer expectations and also ensures the success of a business.

- An entrepreneur takes on a risk by starting any business with an idea, hoping to make a profit through initiative and enterprise.
- Any person, of any age, can be an entrepreneur as long as they have a great idea and the determination to make it happen.
- Business owners run businesses on a day-to-day basis to make a profit. They minimise risks and make calculated decisions where the outcome is reasonably clear. A business owner might have an idea for solving a problem and meeting a need in order to satisfy customers.
- A high-quality product is one that meets the expectations of the customer: the product is reliable, safe and easy to use, durable, well designed and delivered to customers on time.
- When locating a business, the owner needs to consider personal convenience, zoning regulations, the suitability of the premises for the business and the potential for expanding those premises, as well as visibility, accessibility, location of competitors, cost and reputation of an area.
- Businesses need to provide quality service so that customers will continue to return to the business.
- Business owners need to use sound management practices including the four crucial management roles, financial management, and ethical and socially responsible management to make sure that their business is successful.

3.7.2 Your turn

3.7 ACTIVITIES

A self-titled success

A set of big dreams, a sense of naivety, determination, a generous splash of creativity and lots of hard work with persistence and time, in fact 12 long years, is all it took for Samantha Wills™ and her self-titled accessories (jewellery) company to become an 'overnight success'.

What started as a hobby is now an international brand stocked in eighty countries around the world. With a \$12 million annual turnover the primarily online business sells through department stores and boutique retailers, without any real plans to have bricks and mortar shops.

Seventy per cent of the annual turnover comes from product sales in Australia, while the rest comes from the United States, Japan, France and Korea. The jewellery adorns celebrities such as Eva Mendez, Katy Perry, Lady Gaga and Taylor Swift.

With no formal business training, Wills attributes much of her success to sheer tenacity and being passionate about her product. Wills says to be a successful entrepreneur you need to have a passion for what you are doing and stick with it, no matter what gets thrown at you.

Starting from scratch was not easy for Wills who faced many hurdles before she found success. Without any formal business education, she learnt the hard way 'on the job'. She learnt to surround herself with people who possessed the qualities and skills she doesn't.

It was with this in mind that she set up the Samantha Wills™ Foundation: for empowering women in business, with the aim of information sharing and developing a sense of community for young women wanting to start their own business. She regularly writes a blog and answers the questions of newer entrepreneurs starting out. Wills believes it is important to give back and often speaks at conferences encouraging other women to become entrepreneurs.

Wills moved to Sydney at the age of 21. While many women her age were off having fun, she was concentrating on developing her business. During the day she worked in retail, going home each night to make jewellery to sell at markets. A friend offered her a spot on a showroom wall during the 2004 Australian Fashion Week. Investing her last \$500, Wills hoped to make enough sales on the day to cover the costs of the stall. A sudden influx of orders worth \$18 000 plunged her into \$80 000 of debt. Promising customers that orders would be filled within two weeks she quit her job the next day and threw everything she had at getting those orders out. It was naivety and not bravery that urged her on to becoming a success.

Read the above case study and then answer these questions:

- a. What business did Samantha Wills start, and at what age?
- b. What behaviours and skills does she display that make her an entrepreneur?
- c. How have these entrepreneurial behaviours affected her business?
- d. In what ways is Samantha Wills socially responsible?

Resources



Try out this interactivity: [Multiple choice](#)

Searchlight ID: [int-5422](#)



Try out this interactivity: [True/false](#)

Searchlight ID: [int-5423](#)



Try out this interactivity: [Entrepreneurs and successful businesses crossword](#)

Searchlight ID: [int-5424](#)

Chapter 4: Working for a living

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4 Working for a living



4.1 Overview

4.1.1 The importance of work

Can you imagine what life would be like if you couldn't buy new clothes, the latest phone, laptop or computer game? Or call your best friend on your mobile, or Skype or Snapchat them? Having access to these things is only possible if you (or your parents) work to earn an income to pay for them. Life would be quite different from what it is today if people did not work. Food production would stop and people would begin to starve. Other supplies such as electricity, gas and clean water would dry up. Houses and other buildings would not be constructed. Buses, trams and trains would stop running. Petrol production would cease, making it impossible for us to drive cars. The very nature of society would change, as would Australia's ability to trade with other countries.

For many individuals, work is how they make a living and generate the income needed to buy food for the table, clothes to wear or even the newest song to download. For others, it is their way of contributing to their own wellbeing and, by helping others to improve their lives, to the wellbeing of the wider community.

FIGURE 1 Some activities, although fun, can still be considered work.



Every day, people perform mundane but vital tasks that make life easier for us all. Often they are paid for performing these tasks; sometimes they perform them voluntarily. We call these tasks 'work' or 'labour'. Work is more than getting up in the morning and going to a factory or an office. You can be working and still be at home — washing dishes, gardening, looking after your siblings or even cleaning your room. Most of these tasks can be physically exhausting for the body or even exhausting for the mind, and many of them are time and energy consuming.

The introduction of new technologies such as washing machines, computers, scanners and industrial robots has made work less physical and more intellectual. Today, people are more likely to use machines to perform the tasks that would previously have required the use of human muscle.

FIGURE 2 Bar scanners have made work easier for shop assistants.



FIGURE 3 Robots are increasingly replacing people on the assembly line, taking over tasks that used to be performed manually.



Learning objectives

Students will investigate:

- why individuals work, types of work and how people derive an income.

STARTER QUESTIONS

1. Make a list of ten jobs that would need to be performed on a daily basis in order for you to attend school. For each one, explain how it affects you (for example, a baker would need to bake bread for you to eat your toast in the morning).
2. Examine [figure 3](#). Technology has affected how cars are produced. Can you think of any other types of product or work processes that have changed due to technology? Give examples.
3. 'If people around you didn't work, it would make no difference to your life.' Discuss.

4.2 What is work?

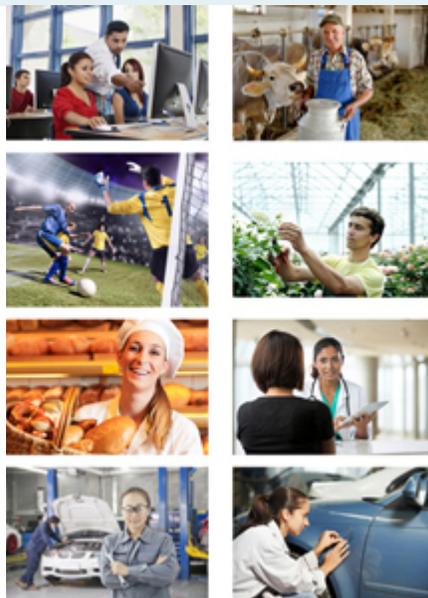
4.2.1 Why we work

We all dream of being wealthy and able to buy the things we want, when we want them. For most of us, this means we get up and go to work each day to earn a **wage** or **salary**. It is this work or labour that has improved our lives and made us more comfortable.

4.2.2 Labour, then and now

In early times, people performed activities such as hunting for food, gathering berries, planting seeds and picking fruit, all of which required manual labour. Today, labour requires the use of modern technology and an education at school, university or TAFE. The modern labour force includes scientists, graphic designers, architects, journalists, web developers, dentists, doctors, pharmacists, shopkeepers, managers and factory workers.

FIGURE 1 Examples of the types of activities people perform that can be classified as work



4.2.3 The importance of labour

When we think of the term **labour**, our first thought will often be 'work'. In very general terms, **work** is defined as human labour — whether paid or unpaid, voluntary or involuntary. A more complex definition is the performance of laborious tasks (mental and physical) and/or the provision of time and effort in exchange for money. If you are working, then you are part of the **labour force**.

In Australia people are considered to be in the labour force if they are:

- over 15 years of age
- and either **employed** or looking for work.

Note that anyone who is not working and not looking for work is not considered to be in the labour force.

FIGURE 2 Doing your own household chores is classified as unpaid work.



The main reason we work is to get paid: to receive a wage or salary or other **remuneration** for the work that we perform or the services we provide. When someone is working, they are considered to be employed. According to the Australian Bureau of Statistics (ABS), a person is employed when they are engaged in some form of work for at least one hour a week. Specifically, it classifies a person as being employed if they work for one hour or more for pay or profit or an **income**. This includes everyone who works — from teenagers working part-time after school, to an older worker delivering advertising material in their local neighbourhood. **Table 1** shows that the number of employed people increased from April to May 2016, while the number of unemployed people decreased during the same period. Sometimes the number of unemployed persons can increase even when the number of employed persons has increased. This happens when, for example, more people enter the workforce for the first time (such as school leavers and graduates) or people return to the workforce (such as parents whose children have started school).

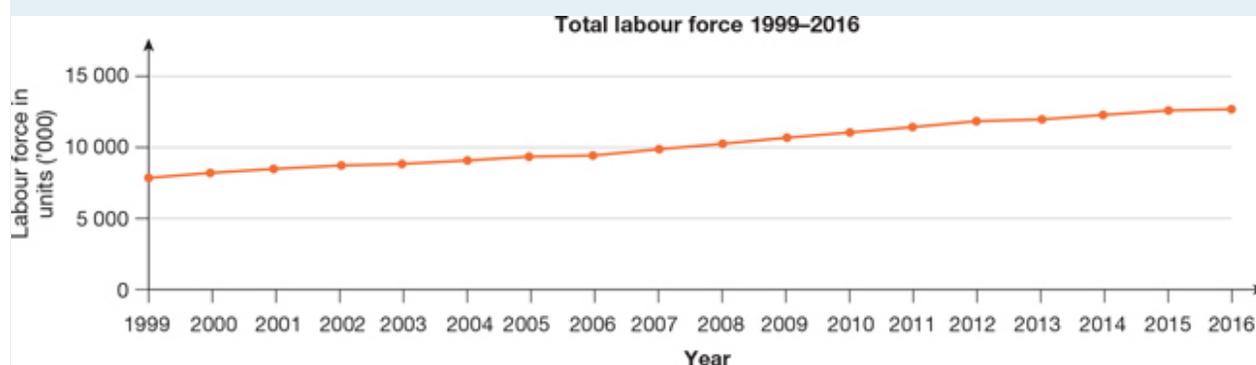
TABLE 1 Labour force figures in Australia, April–May 2016

	April	May
Employed persons ('000)	11 915.7	11 919.4
Unemployed persons ('000)	726.5	724.3
Unemployment rate (%)	5.7	5.7
Participation rate (%)	64.9	64.8

Source: Australian Bureau of Statistics, *Labour force, Australia, May 2016* (cat. no. 6202.0).

In the past decade, Australia experienced a steady growth in both population and labour force participants. In 1999, there were 9 379 000 participants in the labour force. By 2016, this number had grown by more than 3 million to 12 627 800. [Figure 3](#) displays the numbers of participants in Australia's labour force. From this graph, we can see a steady growth in the total labour force during the period 1999–2016.

FIGURE 3 The Australian labour force 1999–2016



Source: Graph based on data compiled from Australian Bureau of Statistics, *Australian social trends, data cube — Work* (February 2013) (cat. no. 4102.0); *Eco3: Labour Force status, Jan 2007 to Jan 2014*; and *Labour force, Australia, May 2016* (cat. no. 6202.0).

[Table 2](#) shows that between 2001 and 2015 the number of females entering the workforce grew steadily, increasing by almost 5 percentage points compared with an increase of just 0.2 percentage points for males. In 2014–15, the labour force participation rate for males was 78.3 per cent compared to 65.1 per cent for females.

TABLE 2 Labour force participation rates based on gender in Australia, 20–74 years, 2001–15

Year	Males (%)	Females (%)
2001–02	78.1	60.3
2002–03	77.9	61.2
2003–04	77.8	60.9
2004–05	78.2	61.9
2005–06	78.7	63.0
2006–07	79.1	63.7
2007–08	79.3	64.4
2008–09	79.3	65.0
2009–10	79.2	64.7
2010–11	79.5	65.1
2011–12	79.1	65.2
2012–13	78.8	65.1
2013–14	78.4	65.0
2014–15	78.3	65.1

Source: Data compiled from Australian Bureau of Statistics, *Gender indicators, Australia, February 2016* (cat. no. 4125.0).

4.2.4 The importance of unemployment

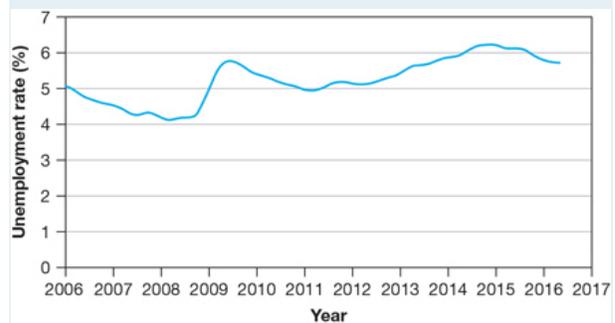
When the ABS examines growth in labour, it also examines unemployment levels. This is because the total labour force is made up of both employed people and people looking for work.

FIGURE 4 Young people often have higher unemployment rates because of the difficulty of getting experience to land that first job.



The level of unemployment is an indicator of the number of people unsuccessfully trying to get into the workforce. [Figure 5](#) shows that over the past decade, the unemployment rate (the percentage of the labour force actively looking for work) varied up and down gradually — except in 2009, when it spiked. This major spike can be attributed to the start of the global financial crisis. After the global financial crisis, the unemployment rate drifted downward again until 2011, when a steady increase began. Since 2015, the unemployment rate has again been trending down.

FIGURE 5 Unemployment rate in Australia, 2006–16

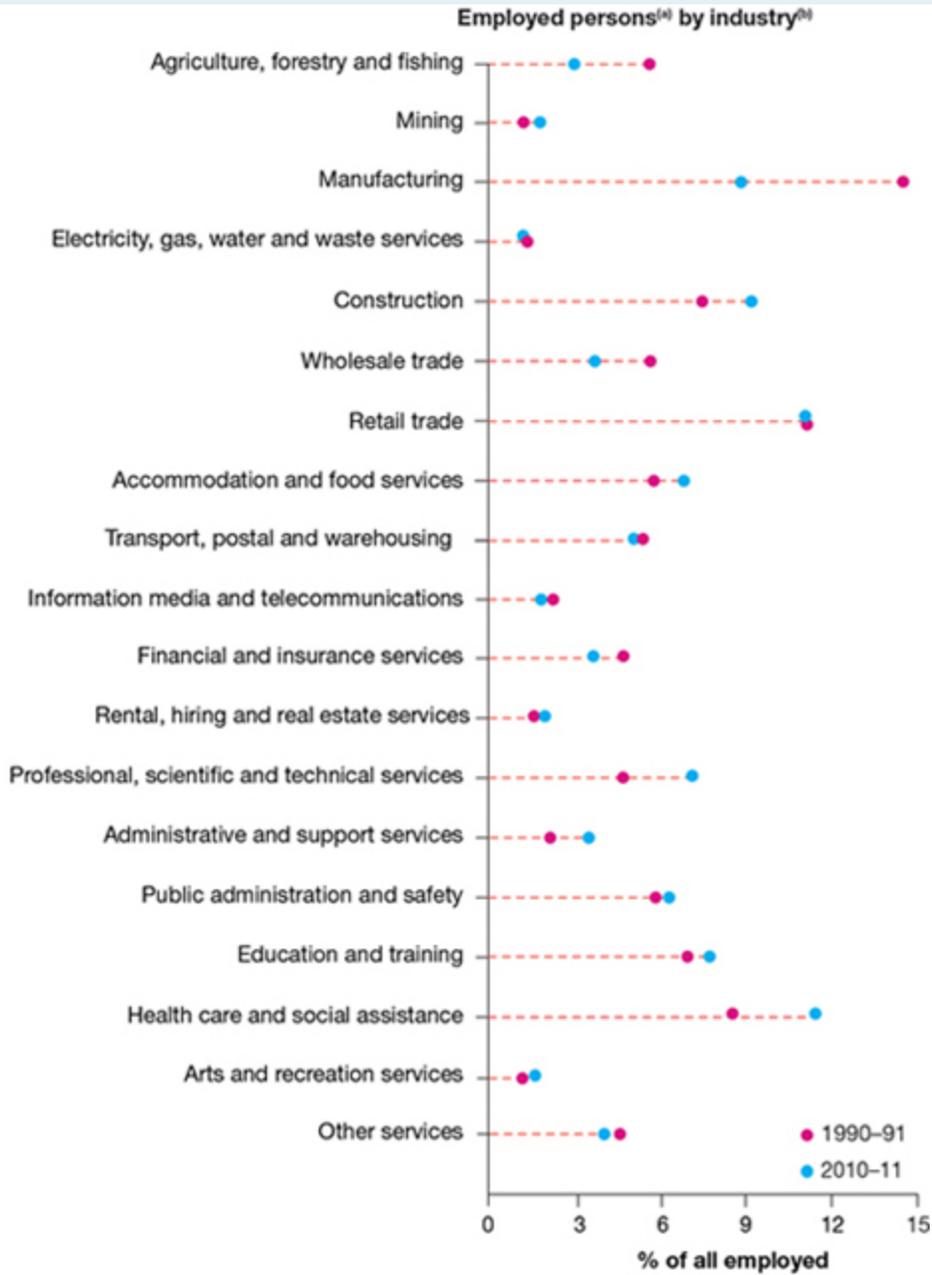


Source: Graph based on data from Australian Bureau of Statistics, *Labour force, Australia, May 2016* (cat. no. 6202.0).

4.2.5 Industries people work in

When gathering data, the ABS splits the areas in which people work into 19 industries. These are made up of mining, manufacturing, retail, construction, education, health and 13 more industries. [Figure 6](#) shows these industries and compares the number of people employed in each industry in 1990–91 and 2010–11. Notice that over the past two decades, the number of people employed in manufacturing decreased from about 14 per cent to 9 per cent.

FIGURE 6 Number of people employed by industry in Australia, 1990–91 and 2010–11



(a) Annual average of quarterly data.

(b) Classified according to the Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (Revision 1.0) (1292.0).

Source: *Labour force, Australia, Detailed, Quarterly* (6291.0.55.003).

Source: Graph redrawn from Australian Bureau of Statistics, *Year Book Australia, 2012* (cat. no. 1301.0).

The very nature of work has changed dramatically over the last century. Much of this change has been driven by advances in technology, the movement of women into the workforce, and major shifts in society's values and attitudes. In the past, the vast majority of the paid workforce was made up of men. Now we see an increasing number of women entering paid employment in preference to staying at home and engaging solely in unpaid work.

FIGURE 7 The ABS classifies an ambulance officer as part of the 'Health care and social assistance' industry.



4.2 ACTIVITIES

REMEMBER

1. How does the ABS define work?
2. Why do you think the ABS definition requires a minimum of one hour of work per week?
3. Why is remuneration important for someone who is working?
4. Are the following statements true or false?
 - a. Pocket money is a form of income.
 - b. If you work only three hours a week, you are not employed.
 - c. A full-time employee works, on average, about 40 hours per week.

EXPLAIN

5. Examine [figure 1](#) and answer the following questions:
 - a. Identify the types of activities that each person performs.
 - b. State whether the activity would be voluntary or involuntary in each case.
 - c. Explain how technology may have affected how the work depicted is done.
 - d. How may these jobs change in the future? Give examples.
6. Examine [table 1](#) and answer the following questions:
 - a. Was there an increase or a decrease in the number of people employed? By how much?
 - b. Was there an increase or a decrease in the number of people unemployed? By how much?
7. Examine [figure 5](#). To what can you attribute the spike in 2009 after a steady drop during 2002–08?
8. Examine [figure 6](#) and answer the following questions:
 - a. Has manufacturing increased or decreased? To what can you attribute this change?
 - b. What other industries have shown a drop in numbers?
 - c. Which industries have grown?
 - d. Which industry shows the greatest change (positive or negative)?

THINK

9. Examine [table 2](#) and answer the following questions:
 - a. When did the biggest growth in the male participation rate occur?
 - b. When did the biggest growth in the female participation rate occur?
 - c. When did the male participation rate decline?
 - d. When did the female participation rate decline?
10. Choose three industries from the list in [figure 6](#). For each chosen industry, make a list of five jobs that could be found in that industry. For example, the 'Health care and social assistance' industry would include doctors, nurses, physiotherapists, IT specialists and administrative assistants — but you have to think of your own examples!

4.3 Why work?

4.3.1 Work to earn a living

How many times have you heard the saying, 'Money doesn't grow on trees'? As you get older, the importance of money and its uses becomes clearer. For example, you need money when you catch up with friends and plan a day out to the movies, ice skating, rollerblading, visiting the art gallery or any other exciting or interesting activities. You need money to fund your lifestyle.

FIGURE 1 Going to a concert with your friends is just one of the many activities for which you need money.



So where does the money you need come from? If you said your parents, well you know that the money comes from your parents going to work. Once you leave school, though, chances are you will enter the workforce if you haven't already started working while at school. Being part of the workforce will enable you to start earning money, which you can then use to buy things that you want. Earning a living is often the primary reason that people work. It is, however, not the only one.

FIGURE 2 Jobs provide income that is used to buy goods and services.



4.3.2 Why do people work?

Imagine for a moment that you are unbelievably rich. You have so much money that you will never have to worry about working to earn more. What would you do? Most likely you are imagining a life of non-stop fun. Now it's time for a reality check! Even the wealthiest people in the world often choose to work. This is because there are many personal benefits to be gained from working aside from financial benefits. Non-financial benefits of participating in the workforce include:

- the opportunity to use your skills and abilities in a positive way
- meeting and mixing with new people
- doing something you love and are passionate about
- increasing your self-esteem and confidence
- developing your natural strengths and talents
- wanting to be part of a group or a team at work
- having friends at work
- contributing to the Australian economy
- being happy.

The financial benefits can include:

- earning an income
- exchanging money for goods and services

- being a consumer
- having the ability to buy what you need and want
- creating and maintaining a good standard of living for your family.

4.3.3 Benefits of paid work

The main reason that people work is to be paid — to receive an income — but there are other reasons too. Let's look at some of the most common ones.

To earn money

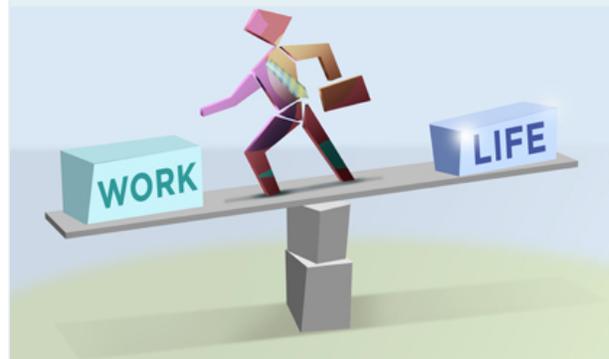
To survive, we must have money. Most people sell their labour to an **employer** and receive an income in return. The most common forms of income are wages and salaries. While earning money, many workers will struggle to maintain some degree of balance between work and leisure, known as the **work–life balance**. This need for work–life balance is important to many workers and can form the foundations of a good life and a worker's sense of **wellbeing**.

To improve living standards

Imagine a teenage girl who has just received her first pay packet from a part-time job. On her way home, she decides to visit a shopping centre and buy new clothes. The income from her job has allowed her to improve her **standard of living** and given her a brand new wardrobe.

Working generates an income that enables consumers to satisfy their needs and wants. What if those needs and wants are intrinsic? That describes something inside the individual that will motivate them to want to go to work — for example, to be happy, to have a good life, to feel valued for the work they perform, and to pass on their knowledge and skills to the next generation. A July 2006 study found:

FIGURE 3 Earning money is important for most workers, but achieving a work–life balance is necessary for wellbeing.





With societies becoming more affluent and the nature of work changing there has been a change from a focus on extrinsic work values (pay, working hours — the benefits a job has for the employees' lives outside of work), to a focus on intrinsic work values (the quality of the work itself).

Source: *FDS International, What workers want: a worldwide study of attitudes to work and work–life balance.*

What this means is that workers are no longer so preoccupied with pay rates. Instead, they are more concerned as to whether the work they do will make them happy and improve their wellbeing.

To gain status and prestige

The type of work a person does is often used to measure that person's status and prestige within our society. In other words, their status comes from their occupation. The value we place on a person's job determines his or her income. For example, a heart surgeon's highly skilled work is valued more than a labourer's, so the surgeon receives a higher income. This is partly due to the education and training needed to become a surgeon.

FIGURE 4 The work of a heart surgeon is well remunerated because it is held in high value by society.



To obtain self-satisfaction

Two hundred **employees** of a factory were asked to write down the most important aspect of their work. The responses revealed that it was not money: 67 per cent of the employees said that knowing they had done the job well and received some praise from the supervisor were the most rewarding aspects. Both job satisfaction and self-satisfaction were seen as important. This doesn't mean that money is not important; it is. However, there are many other rewards you can get from a job.

To make friends

Work provides the opportunity to meet other people and make friends. Sometimes workplaces have social clubs that employees can join to make friends and have fun.

To help others

Voluntary workers play an essential role in our society. Many people in the local community work for voluntary agencies such as country fire brigades, Meals on Wheels or the State Emergency Service. They receive no financial payment, but do it for pleasure and the satisfaction of being able to help others.

FIGURE 5 Volunteers, such as lifesavers, receive no payment for their work but offer their services to the community freely.



DISCUSSION

Would you work if you had an alternative source of income that meant you didn't have to? What factors would influence your decision?

4.3 ACTIVITIES

REMEMBER

1. Are the following statements true or false?
 - a. Five important reasons why people work are to earn an income, to improve their standard of living, to gain prestige and status, to obtain self-satisfaction and to make friends.
 - b. The primary reason why people work is to earn a living.
 - c. One benefit of working is to have your own office.
 - d. Feeling a part of the work environment is important to workers.
 - e. Most people sell their labour to an employer.
 - f. The most common form of income is pocket money.
 - g. The type of work someone does is often used to measure that person's status and prestige.
 - h. Voluntary workers play a very small role in our society.

2. List three examples of voluntary work.

EXPLAIN

3. Look at the reasons given in this section for why people work. Do you agree with them? Explain your answer.
4. Explain how the teenage girl with her first pay packet was able to improve her standard of living.

THINK

5. Complete these sentences:
 - a. We purchase goods and services to _____.
 - b. Voluntary work is just as important as paid work because _____.
 - c. The income I will earn from my job will help me to _____.
 - d. We can improve our standard of living by _____.
 - e. Self-satisfaction is important because _____.

6. Rank each of the following occupations according to their level of status and prestige on a 1 to 10 scale, where 1 is the highest status and 10 the lowest. Compare your list with other class members.
 - entertainers • doctors • teachers • bankers
 - firefighters • scientists • police • athletes
 - plumbers • computer programmers

7. In groups of four or five, discuss the following statement: 'What a person does is more important than what she or he is paid'.

DISCOVER

8. Conduct a small survey of your family and friends to find the reasons they go to work. Present your information in a table similar to the one shown below. What are the top three reasons people work? Present your results to the class and discuss your conclusions.

	Reasons for working
Person 1	
Person 2	
Person 3	
Person 4	

9. If you had the opportunity to be a volunteer worker, what would you do and why?
10. You have been hired by a voluntary agency such as Lifeline to prepare a float display in a forthcoming street procession. The display must raise the status of the agency's volunteer workers. Work in groups to design and present a float display for your selected voluntary agency. Consider your message, costumes, roleplay actions, banners, decorations and music. Incorporate constructive feedback provided by the class in deciding how you could improve a future display.
11. Using the Yellow Pages or internet resources, prepare a list of five volunteer agencies that operate in your area.

4.4 Different types of work

4.4.1 Paid and unpaid work

As we have already discovered, paid work is defined by the Australian Bureau of Statistics as performing services for one hour or more per week in return for receiving money or income, while unpaid work comprises those tasks performed without receiving an income. Jobs such as cooking, cleaning and gardening are all work, but you cannot argue that you are employed when you are cleaning your room! Household chores do not earn an income, although your parents may reward you with pocket money or an allowance for performing them. In the world of economics, however, pocket money is not considered an income. Other examples of unpaid work are family duties, school, voluntary work and community service.

FIGURE 1 Paid work is work carried out in exchange for income.



4.4.2 The labour force and its workers

Australia's labour force is made up of people who are working and people who are actively looking for employment, whether it is **full-time**, **part-time**, **casual** or **seasonal**. As we saw in [subtopic 4.2](#), the labour force is made up of people aged 15 and over who are either employed (including self-employed people) or unemployed. People not regarded as part of the labour force include:

- pensioners
- people with a physical or mental disability who are unable to work
- full-time students who do not work
- full-time carers at home looking after children
- volunteers working without pay in institutions such as the State Emergency Service and charities.

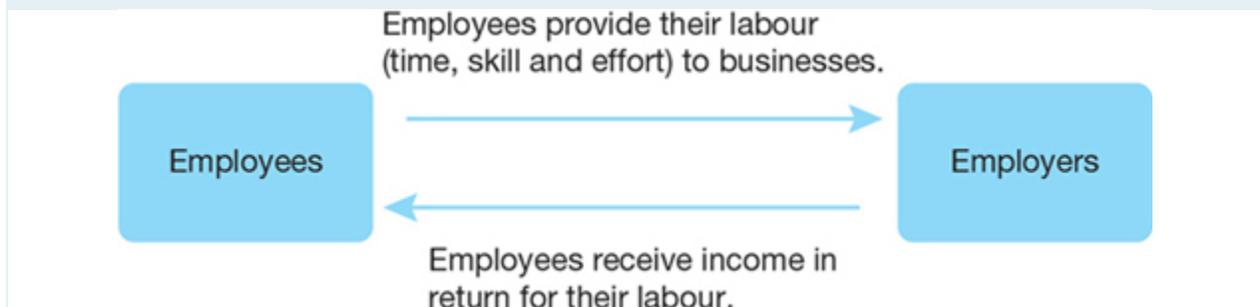
A small percentage of the labour force (just under 6 per cent in 2016) is unemployed. This group is still included in the statistics on employment rates in Australia.

To be considered employed, you must fulfil all these requirements:

- be aged 15 years or over
- have worked for at least one hour in the week, or have a job even though you were not at work in the week
- have received pay, profit, commission, or payment of some kind for your work.

In Australia we have **industry-wide awards** that set out the minimum wages and **working conditions** for all employees in an entire industry or occupation. These awards also set out the award hours, which are the minimum weekly hours of work that a person covered by that award must be given.

FIGURE 2 The employment relationship



Types of workers

In Australia, workers are classified as full-time or part-time, permanent or casual, seasonal, or even on and off. The three main categories are described in [table 1](#).

TABLE 1 Different types of workers

Type of worker	Features
Full-time worker	<ul style="list-style-type: none"> • Ongoing employment • Number of hours per week is 35 or more
Part-time worker	<ul style="list-style-type: none"> • Ongoing employment • Number of hours per week is fewer than 35 • Number of hours may be fixed or variable
Casual worker	<ul style="list-style-type: none"> • Employed on an 'as needed' basis • No permanent weekly roster • Hours vary from week to week; for instance, 10 hours one week and 3 hours the next • May work for more than one employer

In recent years, the number of casual and part-time workers has grown, with an increasing number of women in the workforce. According to the ABS, working women outnumbered working men in May 2014, with females comprising 50.5 per cent of the total working population while males made up 49.5 per cent. The same survey found that full-time workers made up 60.0 per cent of all employees, while only 40.0 per cent of employees worked on a part-time basis. Here there are striking differences between working men and women: 76.6 per cent of male employees worked full-time but only 43.7 per cent of female employees did so (see [table 2](#)). The majority of female employees worked part time (56.3 per cent), and a greater proportion of female employees (25.6 per cent) were casual than were male employees (17.4 per cent). Responsibility for the care of children is a likely factor for women finding it more difficult to work full time or overtime.

TABLE 2 Work differences between the sexes

	% of male employees	% of female employees	% of total labour force
In full-time work	76.6	43.7	60.0
In part-time work	23.4	56.3	40.0
In casual work	17.4	25.6	21.6

Source: Data compiled from Australian Bureau of Statistics, *Employee earnings and hours, Australia, May 2014* (cat. no. 6306.0).

The unemployed

The unemployed are those people who are actively looking for work but are not presently employed. It includes people who have lost their jobs due to changes in the economy, those about to start a new job, and those who are between jobs (e.g. fruit pickers and ski-resort workers). Remember that not all work is paid. Volunteers freely give up their time and energy to help the community, and parents stay at home to look after small children. These people are performing important work but they are not counted as part of the labour force.

FIGURE 3 Ski instructors are seasonal workers who are employed only during winter.



Table 3 compares unemployment rates across three countries. It shows that the unemployment rate for Australia spiked in 2008–09 during the global financial crisis (GFC), then remained fairly steady for the next three years before starting an upward trend. In contrast, the US unemployment rate has shown a steady decline after a massive jump in 2009. This jump can be attributed to the GFC, which has also contributed to the trend towards an increase in the number of part-time jobs.

TABLE 3 Unemployment rates (annual percentage) across three countries

	Australia	Japan	USA
	%	%	%
2007	5.1	4.0	5.1
2008	4.2	4.0	5.8
2009	5.6	5.1	9.3
2010	5.2	5.0	9.6
2011	5.1	4.6	8.9
2012	5.2	4.3	8.1
2013	5.7	4.0	7.3
2014	6.1	3.6	6.2
2015	6.1	3.4	5.3

Source: OECD (2016), *Unemployment rates*.

Permanent, casual and seasonal workers

Permanent workers are those who as part of their working conditions are entitled to either paid holiday leave or sick leave, or both. Casual workers are those who as part of their working conditions are not entitled to either paid holiday leave or sick leave, or both. Seasonal workers are usually workers who are employed during a season, such as summer or winter. For example, apple fruit pickers would only work during the apple harvesting season and ski instructors would only work during the cold winter season when there is snow.

4.4.3 Voluntary work

When we look at Australia's labour force we tend to focus on who is employed, who is unemployed or who is seeking employment. Often we neglect to acknowledge the valuable contributions made by groups that do not fit into these categories. These groups include:

- volunteers, such as country firefighters or medical specialists working with Doctors without Borders (Médecins Sans Frontières)
- a grandparent caring for a grandchild

- parents caring for a sick or disabled child
- parents who stay at home to raise the family.

Voluntary workers play a significant role in society. Their contribution to the economy is vital, necessary and valuable. Many people work on a part-time basis for non-profit agencies such as the Country Fire Authority (CFA), Meals on Wheels, State Emergency Service, help lines, and with community support groups such as those helping the aged, reading to pre-school children, or even handing out pamphlets for political parties on election day. These workers will usually not receive any payment for the work they perform. They freely volunteer their time and effort to help others in the community, yet in many cases are undervalued and do not receive the recognition they deserve.

FIGURE 4 City ambassadors are volunteer workers who provide assistance to tourists in Melbourne.



DISCUSSION

Many charities rely solely on donations and volunteers to conduct their operations. Should charities also be assisted by our government, or is the system we have the best way of managing things?

4.4.4 Self-employment

The majority of people employed in Australia — almost 57.3 per cent — work for medium and large **organisations** which have between 100 and 1000 employees and are involved in **business activities**. About 23.3 per cent are employed by small businesses with fewer than 20 employees. However, a minority of people find it more fulfilling to run their own businesses rather than work for someone else. They prefer to be self-employed.

People who believe they have the necessary skills and knowledge to start up their own business are called risk takers or **entrepreneurs**. Entrepreneurs often display **enterprising behaviours** by starting businesses in new markets — locally, nationally or globally. They usually have high skills in a number of areas such as manufacturing, design and production, accounting, management, marketing and **entrepreneurship**. Entrepreneurship is the ability to demonstrate the skills and risk taking related to the creation, organisation and management of a business or enterprise (think back to your work on entrepreneurs in [subtopic 3.2](#)).

The ABS reports (in cat. no. 8165.0) that as of June 2015 there were 2 121 235 actively trading businesses, or businesses involved in some element of business activity, in Australia. This was a 1 per cent increase from 2014. In the 2014–15 year, 12.4% of all businesses exited the market. The vast majority of failed businesses were small businesses. This means that although many people see themselves as having the necessary skills, ability and knowledge to start a business of their own, the chances are high that they will not succeed and will end up seeking employment elsewhere.

CASE STUDY

Bremmera Foods

Bremmera Foods is owned by two young entrepreneurs, Bill Kondoleon and Denis Keno, who saw a niche in the yoghurt market and took advantage of it to start up their own factory that produces Greek-style yoghurt. The men, well aware of the constant appetite the community has for new and healthy products, noticed a void in the industry for good quality yoghurt. Within 18 months, they had grown big enough to move into a factory quadruple the size of their original operations. Today, they offer a range of healthy and new products to consumers.

Source: Adapted from *Neos Kosmos* (English edition) 13 April 2009, p. 4.

4.4 ACTIVITIES

REMEMBER

1. Distinguish between paid and unpaid work.
2. How many hours a week must an employee work to be considered working full time?
3. List three examples of volunteer work.

4. Match the following terms to the statements listed.

Term	Statement
Part time	Thirty-five hours a week are worked.
Full time	Working two hours each day from Monday to Friday.
Casual	The hours of work change each week.

EXPLAIN

5. Explain the difference between:
- casual work and part time work
 - paid and unpaid work.
6. Tom stays home and looks after the house and children all week, and Janet works as a doctor. Who is working? Explain your answer.

THINK

7. Unscramble the following words and then use them in a sentence to explain what they mean:
- cofer lbrauo
 - ryopmlee
 - okwr
 - moicen.
8. Why do you think the role of women in the workforce has changed since the 1970s?

TABLE 4 International comparisons of employment and unemployment figures in 2010

Selected countries	Economically active population	Participation rate			Employment	Unemployment	
	Persons '000	Males %	Females %	Persons %	Persons '000	Persons '000	Rate %
Australia	11 867.7	72.5	58.7	65.5	11 247.0	620.8	5.2
Canada	18 525.1	71.7	62.4	67.0	17 041.0	1 484.1	8.0
France	28 378.5	62.2	51.9	56.8	25 735.8	2 847.2	9.8
Greece	5 017.4	64.2	44.1	53.9	4 388.6	628.7	12.5
Hong Kong (SAR of China)	3 675.9	na	na	na	3 518.3	157.6	4.3
Indonesia	116 262.8	na	na	67.8	107 806.7	8 456.1	7.3
Italy	24 974.7	59.4	38.2	48.4	22 872.3	2 102.4	8.4
Japan	65 898.3	71.6	48.5	59.6	62 563.3	3 335.0	5.1
Korea, Republic of (South)	24 746.9	73.0	49.4	61.0	23 828.8	918.1	3.7
Malaysia	11 679.1	na	na	62.9	11 291.4	387.7	3.3

	Economically active population	Participation rate			Employment	Unemployment	
New Zealand	2 332.5	74.4	62.1	68.1	2 180.3	152.2	6.5
Singapore	3 128.2	na	na	na	3 063.3	64.8	2.1
Sweden	4 960.6	73.9	67.3	70.7	4 545.3	415.3	8.4
United Kingdom	31 381.8	69.1	56.0	62.4	28 941.5	2 440.2	7.8
United States of America	153 888.7	71.2	58.6	64.7	139 063.9	14 824.8	9.6

9. **Source:** ABS 1301.0 — *Year Book Australia, 2012*; International Labour Organization, LABORSTA database.

- Which country has the greatest number of unemployed people?
- Which country has the highest rate of unemployment?
- Which country has the greatest number of employed people?
- Which country has the lowest participation rate for all persons?
- Which country has the highest male participation rate?
- Which country has the highest female participation rate?

10. Undertake a quick survey of your class to see how many people have parents who work for a living. List the type of work they do and present this information in a table.

11. Conduct a survey of your family and friends on the hours they work. Present your information in the following table and discuss your conclusions with the class.

Work arrangements	Number of hours per week	Reasons for work arrangement
Full time		
Casual		
Part time		
Other (describe)		

12. Why do the greatest majority of people who work full time happen to be men, while the greatest proportion of part-time or casual staff are usually women? Discuss.

DISCOVER

12. Australian Bureau of Statistics has a graph that plots the changes in the proportion of people participating in the labour market from 1966 to 2013. Follow the **ABS labour statistics** weblink in your Resources section to view this graph and then describe the changes in the labour market that it illustrates.

Resources



Explore more with this weblink: [ABS labour statistics](#)

4.5 Sources of income

4.5.1 Where does income come from?

Income can come from many sources, including wages and salaries earned from full- or part-time work, casual work and odd jobs; **superannuation**; commission, where income depends on how much you sell; self-employment (income from running your own business); rental income; welfare benefits; and return on investments such as dividends paid on shares. The [figure 1](#) interactivity illustrates some of the more common sources of income, and [table 1](#) details the average weekly earnings of adults in full-time employment.

FIGURE 1 Various ways money is earned



- A** Many teenagers start earning wages when they are 15 as casual workers at places such as supermarkets and bakeries. If you work more than your allocated hours per week, you may be eligible for overtime payments. You also may earn **penalty rates** for working on public holidays and weekends. Employees' rights are protected by awards. Taxation is payable on wages.
- B** You may be financially rewarded for performing odd jobs. For example, if you helped your neighbours to build a front fence, they might pay you \$50 for a day's work. Some parents pay their children to mow the lawn, wash the car, weed the garden or walk the dog. Odd jobs require you to complete the task before you are paid. Pocket money is usually freely given to children by parents or grandparents.
- C** Millions of people in Australia rely on government payments for full or partial support. These include unemployment benefits and sickness benefits.
- D** Salary earners have full- and part-time jobs where the employer provides entitlements such as sick leave, superannuation and long-service leave. There is more certainty in salaried employment than in casual work, where people are paid by the hour and can be dismissed at short notice.
- E** People such as real estate agents and sales assistants in car yards may elect to be paid on commission. This means they are paid according to the volume of sales they generate through their work.
- F** Self-employed people make their own income. Many choose to protect the security of this income by taking out income protection insurance.

TABLE 1 Average weekly earnings of adults in full-time employment

Sex	2008	2009	2010	2011	2012	2013	2014	2015
Males	\$1232	\$1311	\$1362	\$1420	\$1492	\$1532	\$1588	\$1604
Females	\$1030	\$1081	\$1131	\$1174	\$1230	\$1271	\$1293	\$1328

Source: Adapted from Australian Bureau of Statistics, *Average weekly earnings* (cat. no. 6302.0).

As well as wages and salaries, there are a number of alternative forms of income. Some of these alternative sources of income are outlined in [table 2](#).

TABLE 2 Alternative sources of income

Alternative source of income	Description
Superannuation	Superannuation is the money that people save for their own retirement. Money is deducted from a person's weekly income and placed into a superannuation fund. People are able to access their superannuation upon retirement. Given that Australia's population is ageing, superannuation will become an increasingly important form of income. (It will be dealt with in more detail in subtopic 4.6.2.)
Commission	People such as real estate agents may earn a commission. This means that for every sale they make they receive a small percentage of the money made. The more they sell, the larger the commission they receive.
Welfare payments	People may receive a welfare payment for a range of different reasons. Some retired people receive a pension to help them with their living expenses. Other people may receive a welfare payment if they are unemployed or if they are not working for some other reason (such as illness).
Rental income	A large number of people in Australia own an investment property. An investment property is one that the owners do not live in. Instead, they rent it out to tenants. The rent payments received from tenants provide an alternative source of income for the owners of the property.
Dividends	Some people choose to invest in companies. To do this they buy a 'share' in the company. These people will then become part owners of the business and they are known as shareholders. When the company makes a profit, they give some of the profit to the shareholders and this is called a dividend.

4.5 ACTIVITIES

REMEMBER

1. Define the following terms:
 - a. pocket money
 - b. wages and salaries
 - c. superannuation
 - d. penalty rates.

2. Examine figure 1 to find two examples of people who may receive an income through:
 - a. welfare payments
 - b. commission
 - c. wages
 - d. odd jobs.

3. What are the main sources of income for school-age children?

THINK

4. Some employees' rights are protected by awards, which set out employment conditions.
 - a. Why do you think awards are important?
 - b. Do you think that all employers would still 'do the right thing' by their employees if there were no awards? Explain.

DISCOVER

5. Use the table 2 to complete the following:
 - a. Draw a line graph to show the average weekly earnings for males and females between 2008 and 2013.
 - b. How much more did a full-time male earn in 2013 than in 2008?
 - c. Suggest reasons for the differences between male and female incomes.
 - d. Using spreadsheet software, prepare a line graph that shows the difference in the average weekly earnings of males and females for each year between 2008 and 2013.

4.6 Retirement income

4.6.1 Planning for your future

Your parents probably started planning your future from the time they knew a baby was on the way — from how to furnish your bedroom, to what sort of education they would like you to receive and how it could be funded. As you get older, you assume the responsibility for planning your life and start to make your own plans — about buying a car, travelling overseas, undertaking further training or education, buying a house, getting married, having children, perhaps helping your children achieve their goals, and finally retiring. Your plans need not be so conventional, of course, but you cannot work all your life and you must expect to retire one day. Although that day seems like it is very far away, retirement is something you should start planning for from the time you begin working and paying taxes.

FIGURE 1 Although it will probably be decades before you retire, you should start planning for retirement as soon as you begin earning money and paying taxes.



4.6.2 Age pension

Australian men and women can access the age pension at 65 years of age, but by 2035 this will rise to 70 years of age. Other countries have different rules about when people can access government benefits after they retire. In France, for example, the age at which both men and women can access the pension is 62 years. Sweden has a flexible retirement age, allowing Swedes to retire and claim the state pension as early as 61 years. This is partly due to this country's strong economy and steady population.

4.6.3 An ageing population

Australia's population is ageing, and the Baby Boomers (those born in the two decades following the end of World War II) will be reaching retirement age in the next few years. This will have a great impact on the nation's ability to provide support during their retirement years. In the past, the government has supported retirees by providing them with an income in the form of a government pension. This may no longer be an option by the time the bulk of the Baby Boomers retire because there will be more people in the non-working category than there are in the working category.

FIGURE 2 Improvements in science and technology have decreased infant mortality and increased life expectancy, creating an ageing society.



The federal government is responsible for developing retirement policies to help ensure that most Australians can live a decent life after they stop working. It has made significant changes to its retirement age policies, prompted mainly by the increased life expectancy of Australians. Advances in medicine — mainly due to technology in the form of new surgical equipment and new drug development resulting in new medicines — have enabled people to live longer. As you can see from [table 1](#), by 2012 life expectancy had reached 79.9 years for males and 84.3 years for females. Life expectancy in 1996 was lower at 75.2 years for males and 81.1 years for females.

TABLE 1 Life expectancy (in years) at birth in Australia, 2001–2012

	2001–2003	2002–2004	2003–2005	2004–2006	2005–2007	2006–2008	2007–2009	2008–2010	2009–2011	2010–2012
Males	77.8	78.1	78.5	78.7	79.0	79.2	79.3	79.5	79.7	79.9
Females	82.8	83.0	83.3	83.5	83.7	83.7	83.9	84.0	84.2	84.3

Source: ABS 3302.0 — *Deaths, Australia 2013*.

4.6.4 If you retire ... where will your income come from?

Having enough income is vital if you want to enjoy your retirement. While working, you receive a regular income which you use to pay bills and buy goods and services to satisfy your needs and wants. You adapt your spending to suit your income pattern. For example, you will probably pay your bills or buy your groceries on pay day. Taxation automatically comes out of your wage and is managed by your employer so you don't have to really worry about it. What happens when you retire — where will your income come from and how much money will you need?

The Association of Superannuation Funds of Australia (ASFA) Retirement Standard regularly releases figures showing how much an individual or a couple will need in order to live modestly or comfortably when they retire. For example, in June 2014 it estimated that a single retiree living a modest life required \$23 363 per year while a couple needed \$33 664. For a slightly more comfortable lifestyle, a single retiree would require \$42 433 while a couple would need \$58 128. A modest life is defined as having a lifestyle which is better than the current age pension but still only able to afford fairly basic activities, while a comfortable retirement lifestyle is defined as a lifestyle that enables:



an older healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

Source: Association of Superannuation Funds of Australia.

Sources of retirement income include superannuation, retirement income streams, the age pension, private savings and part-time work.

Superannuation

One source of retirement income is superannuation. Superannuation is a way of accumulating money for retirement through a combination of employer, employee and government contributions towards a special fund for this purpose. If you earn more than \$500 a month, your employer automatically pays a contribution towards your superannuation. (You can see the amount listed on your pay slip.) In addition, you could start making your own contributions to your superannuation fund as part of a savings plan. When you retire you can then access your superannuation — but not before that time other than in exceptional circumstances.

Upon retirement you are given a choice as to how you will receive your superannuation income: as a lump sum, or as a regular weekly or fortnightly income. You are then faced with another decision:

- invest all of your superannuation into a retirement income stream and receive an income stream rather than a lump sum; or
- use the lump sum to buy a retirement income stream from a new fund.

Retirement income streams

A retirement income stream is simply a way for you to invest either your savings or the lump sum you receive from superannuation into a scheme that will provide you with a regular income. You will then receive an income just like the wage or salary you received when you were working. This gives you the freedom to make your own decisions about what you do with your income and how you spend it.

Most retirement income streams are tax exempt, which means that there is no need for you to pay taxes on the income you receive. There are two types of retirement income streams:

- a pension — an income stream that is paid to the retiree from his or her superannuation fund
- an annuity — an income stream that is paid to the retiree from an insurance company.

The annuity is purchased by the retiree from the life insurance company. In exchange for buying the annuity (using savings or a lump sum of money), the retiree receives a guaranteed series of income payments either for a set period of time or for life. Although an annuity and the superannuation pension operate in very similar ways, they are legally two different options.

Annuities come in two different types:

- account based annuities — these give you greater flexibility as what you end up with is an investment balance account. This balance account increases when investment earnings are added and decreases when money is withdrawn.
- non-account based annuities — these do not have an account balance; you are simply allocated a pension.

FIGURE 3 An annuity allows retirees to draw out a set amount of money — monthly, quarterly, yearly or half-yearly — similar to the wage or salary they received before retirement.



Age pension

By the time you are old enough to retire, there is a real possibility that the only support for retirees will come from funds like superannuation and annuities. Your grandparents, however, were able to receive the age pension. The age pension consists of income support payments from the government to people needing social security and other related government programs. Other pensions and allowances are currently paid to the unemployed, the disabled, the sick, certain families with children, veterans and their survivors, and some students.

Private savings

Another source of retirement income is any savings that you have accumulated during your working life and the interest received from banking those savings. You can then use these savings to buy an annuity, or be very frugal and dip into your savings to pay your living expenses until your money runs out.

Part-time work

For many retirees, a natural progression towards retirement is to gradually leave the workforce by reducing their working hours. Simply changing from full-time to part-time employment can ease the transition towards retirement. During 2009–10, one-quarter of the total population in Australia was aged 55 years and over, and one-third of this age group was part of the labour force. The government has encouraged seniors to remain part of the workforce, and to contribute to the economy, by offering them tax benefits. It has also increased the minimum age at which they become eligible for the pension, thereby forcing many to remain at work.

Older workers — those aged between 45 and 64 years — currently account for nearly a quarter of those who are officially unemployed. In reality, this figure is likely to be even higher, as many older workers become discouraged about finding work, stop looking and 'retire'. Older workers are also much more likely to experience periods of long-term unemployment than younger workers. This is due to several factors:

- Some employers have negative attitudes towards older workers and discriminate on the grounds of age.
- Some employers believe older workers are slower and unable to adjust to new technology.
- Some employers have the attitude that older workers are likely to leave the job earlier as they are closer to retirement.
- Some older workers are reluctant to work under a younger manager.
- Some older workers are inflexible.

More men than women report that they are discriminated against on the basis of their age. The fact is there are laws that protect workers from discrimination at work on the basis of their age. Whatever our age, we all have the right to be treated fairly and to be given the same opportunities.

4.6 ACTIVITIES

REMEMBER

1. Are the following statements true or false?
 - a. The Baby Boomers will be a major financial drain on Australia's economy in the next few years.
 - b. There are more people in the non-working category than there are in the working category.
 - c. The current retirement age in Australia is 61 years.
 - d. The government is responsible for developing policies about retirement.
 - e. People are living longer because of developments in technology.
 - f. There is only one way of accumulating money in your superannuation fund — by waiting for your employer to contribute to it.
 - g. Retirement schemes provide regular income for retirees.
 - h. A pension and an annuity are legally the same thing.
 - i. The age pension will still be available when it is your time to retire.
 - j. Many older workers are often discriminated against.

EXPLAIN

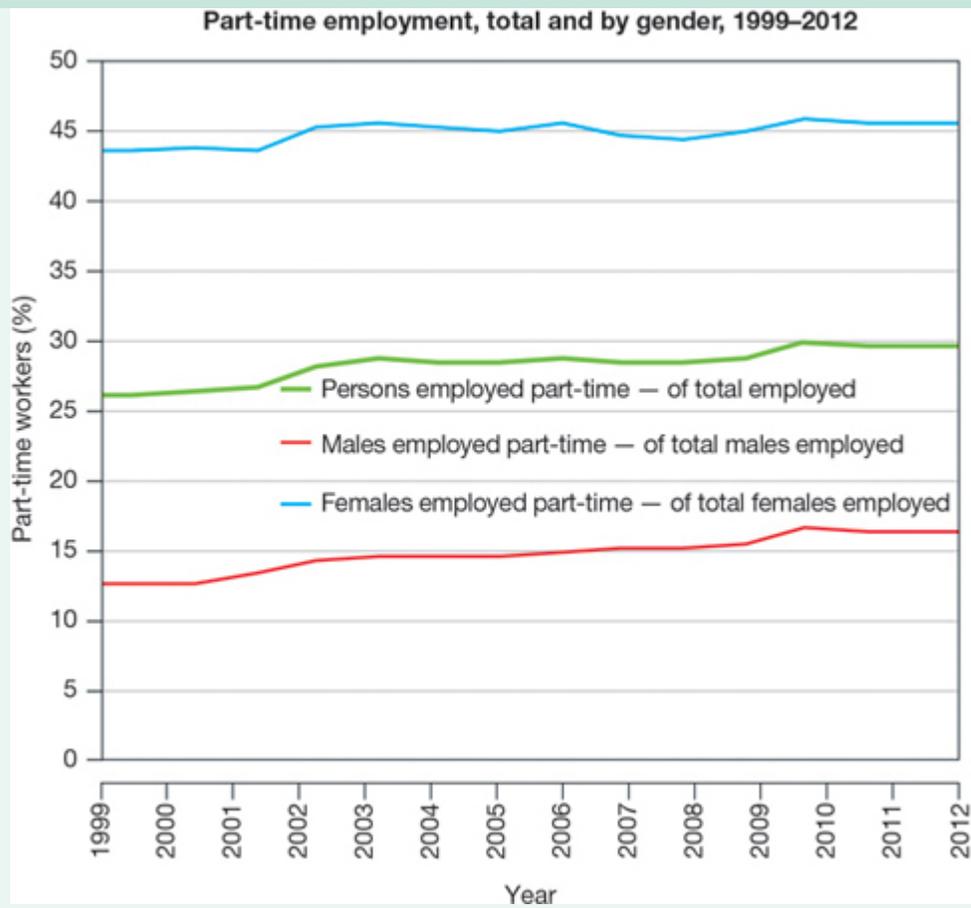
2. Distinguish between annuities and a superannuation pension.
3. To what can you attribute the increase in life expectancy for males and females in Australia?
4. Discuss the importance of keeping older workers at work.

THINK

5. Choose three job positions for which an older person would be suitable. Justify your choices.

6. Look at [figure 4](#) below. Compare the rate of part-time employment for men with the rate for women. Identify any differences and similarities.

FIGURE 4 The total number of part-time workers compared to the number of male and female part-time workers, 1999–2012



Source: Graph based on data compiled from ABS 4102.0 *Australian social trends, data cube* — Work (February 2013).

4.7 SkillBuilder: Analysing and interpreting graphs

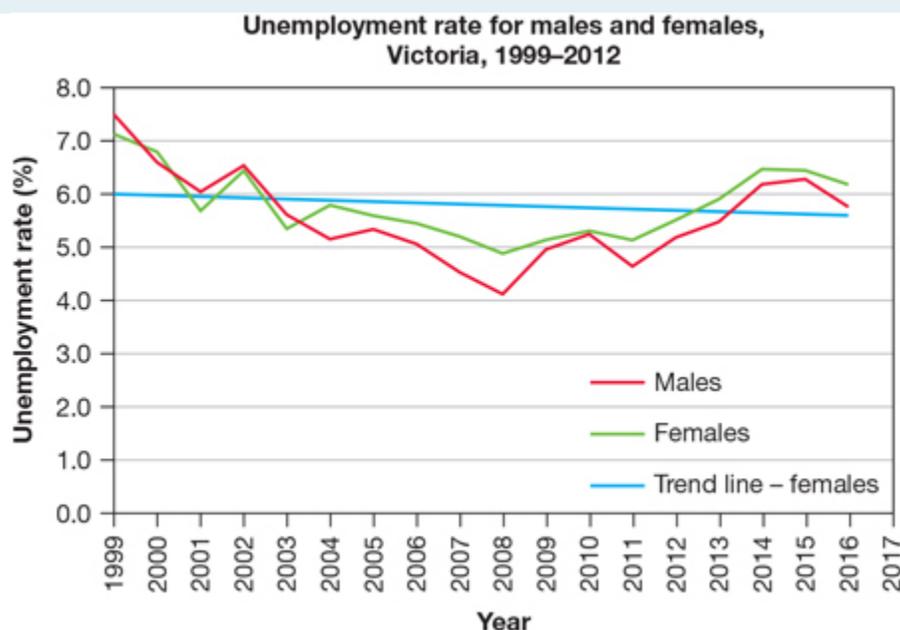
4.7.1 Tell me

Throughout this chapter, you have seen different graphs displaying information about various aspects of work and income in Australia. We will now examine the line graph in greater detail.

4.7.2 Show me

Line graphs are useful for showing trends (patterns of change over time) and comparing data. When reading line graphs, find points on the graph where two variables meet to obtain specific information. For example, in [figure 1](#) the variables being measured are the unemployment rates for males and females. We can see that the two curves cross at various points, indicating that the unemployment rate for males and females was the same at those points in time. We can see from the horizontal axis that the most recent time this occurred was in 2003 and the vertical axis shows that the unemployment rate was about 5.5 per cent, so we know that the unemployment rate for both sexes in 2003 was about 5.5 per cent.

FIGURE 1 Victoria's unemployment rate by gender, 1999–2016



Source: Graph based on data compiled from Australian Bureau of Statistics, *Labour force, Australia*, May 2016 (cat. no. 6202.0.).

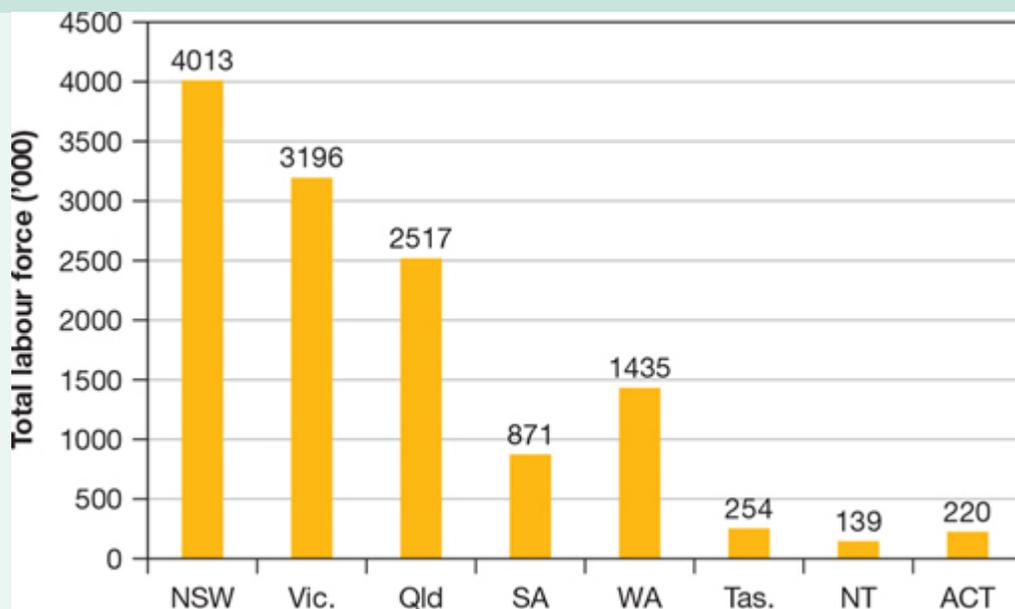
4.7.3 Let me do it

4.7 ACTIVITIES

Examine the graphs below and answer the questions which follow. Use what you have learned about the line graph (trend line, vertical axis and horizontal axis, variables and the point at where variables meet) to analyse what each graph tells you.

1. Examine [figure 2](#) below and answer these questions:

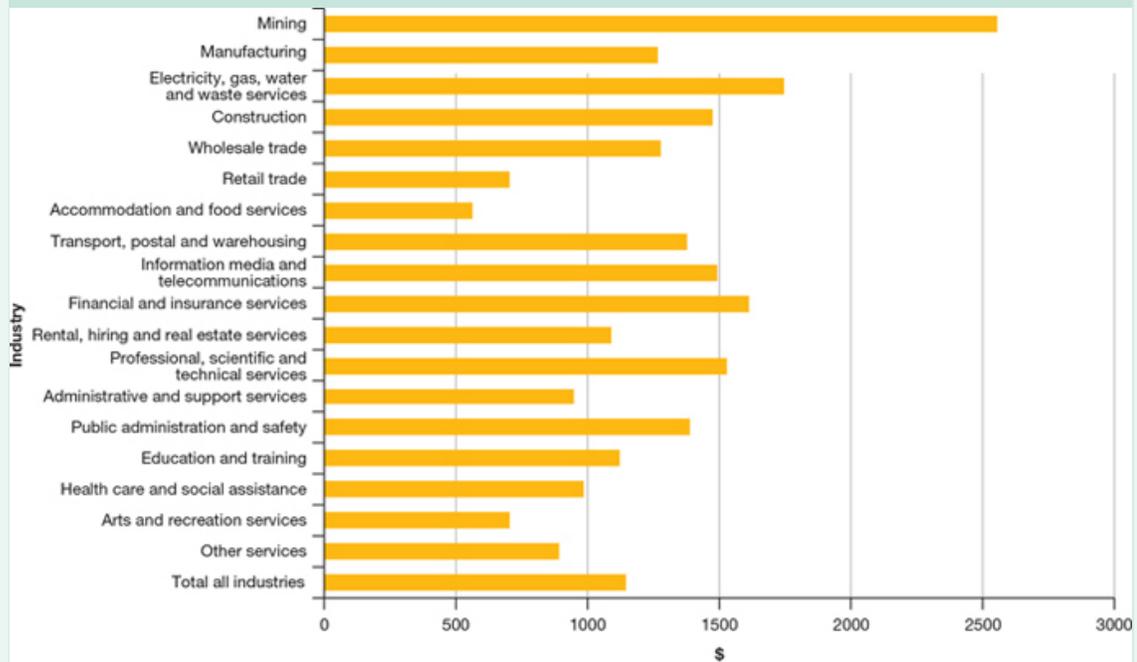
FIGURE 2 Total labour force by state, 2015–16



Source: Graph based on data compiled from Australian Bureau of Statistics, *Labour force Australia, May 2016* (cat. no. 6202.0).

- a. Which state employs the greatest number of people?
 - b. What state employs the least number of people?
 - c. How many people does Victoria employ?
2. Examine [figure 3](#) below and answer these questions:

FIGURE 3 Full-time average weekly earnings, 2015



Source: Graph based on data compiled from Australian Bureau of Statistics, *Average weekly earnings, Australia, Nov 2015*. (cat. no. 6302.0).

- a. Which industry offers the highest average weekly earnings?
- b. Which industry offers the lowest average weekly earnings?
- c. What is the average weekly earnings of a person in the construction industry?
- d. In which industry sector would a nurse be included?

3. Examine figure 4 below and answer these questions:

FIGURE 4 Average weekly earnings, 2013



Source: Graph redrawn from ABS 1301.0 — *Year Book Australia, 2012*.

- What percentage of males work in home duties?
- What percentage of females work in home duties?
- What percentage of males care for children?
- What percentage of females care for children?

4. Examine [table 1](#) below and answer these questions:

TABLE 1 Employed and unemployed persons, 2011–16

	May 2011	May 2012	May 2013	May 2014	May 2015	May 2016
Employed persons ('000)	11 196.2	11 390.0	11 485.4	11 546.1	11 766.2	11 974.8
Unemployed persons ('000)	589.8	620.4	675.8	717.0	729.9	715.5

Source: Data from Australian Bureau of Statistics, *Labour force, Australia, May 2016* (cat. no. 6202.0).

- What trends do you see in the number of employed people during the period?
- What trends do you see in the number of unemployed people during the period?
- To what can you attribute these trends?

4.8 Review

4.8.1 Summary

Work is an important part of every person's life, necessary to fund the purchase of goods and services to meet needs and wants. Work also has non-financial benefits. The nature of work has changed significantly over the past two decades.

- Work can be paid or unpaid.
- Work can be voluntary, and volunteers make an important contribution to the community.
- It is important to have a balance between work and life.
- The labour force consists of people aged 15 and over who are able to work, and are either employed or looking for work.
- There are more males than females in full-time employment. Women tend to have more part-time or casual employment.

- Work contributes to the Australian economy by helping to reduce poverty, improve productivity and generate income.
- Alternative forms of income include superannuation, commission, welfare payments, rental income and dividends.
- The population of Australia is ageing as infant mortality falls, life expectancy rises, and new technology and medicines are developed.
- It is a good idea to start planning for your retirement as soon as you start working.
- Retirees still need to have an income.
- Retirement income streams consist of superannuation, pensions and savings.

4.8.2 Your turn

4.8 ACTIVITIES

1. Discuss the benefits of being employed.
2. Explain how the concept of work has changed over time.
3. How do Australia's employment and unemployment rates compare with other countries?
4. Research one other country in terms of employment and unemployment and make direct comparisons with Australia.
5. Research one volunteer group that offers its services to the community. Examine what contributions it makes to society and how society or the community views them.
6. 'More males work full time than females.' Do you agree? Explain your response.
7. List all the activities you perform that could be classified as work but for which you don't get paid.

Resources

-  **Try out this interactivity:** [Multiple choice](#)
Searchlight ID: [int-5425](#)
-  **Try out this interactivity:** [True/false](#)
Searchlight ID: [int-5426](#)
-  **Try out this interactivity:** [Crossword](#)
Searchlight ID: [int-5427](#)

GLOSSARY

age pension regular payments made by the government to people to support them after retirement

bank overdraft an agreement by which a bank allows an individual or business to draw out more than they have in their account as a means of overcoming short-term cash flow problems

budget an estimate of future income and expenses used to assist financial planning

business activities the combined economic activities of buying, selling and investing performed by an organisation

business an organisation that provides goods and/or services to consumers in order to make a profit

capital growth an increase in the value of shares or property over time

cash flow the amount of money moving in and out of the business at any given time

cash payments journal a summary of all the business cash payments in the order in which they occurred

cash receipts journal a summary of all the business cash receipts in the order in which they occurred

casual describes an employee who works only when needed

consumers people or groups who are the final users of goods and services produced within an economy

controlling the process of comparing what was expected to be achieved with what was actually achieved

cost of goods sold the amount paid for goods that were purchased to be resold, or for raw materials used to produce goods for sale

customer survey the polling of customers to identify their level of satisfaction with the business's products and quality of service

dividends company profits paid to shareholders, either in cash or in more shares

EFTPOS Electronic Funds Transfer at Point Of Sale — a means by which money can be transferred instantly from the buyer's bank or credit card account to the seller's bank account

employed describes someone working in return for a wage or salary

employees people who work for a wage or salary

employer a person or organisation hiring others to work for them

enterprise the creative or bold efforts made by someone to achieve something new

enterprising behaviours describes a range of skills including adaptability, initiative, communication, management, leadership and problem solving, and associated behaviours such as working productively with others to achieve common goals, planning and organising, using resources effectively, analysing issues and managing risk

entrepreneur a person who takes on a risk by starting a business with an idea, hoping to make a profit through initiative and enterprise

entrepreneurs people who are willing to take the risks involved in starting up their own business

entrepreneurship the ability to demonstrate the skills and risk taking related to the creation, organisation and management of a business or enterprise

ethical management the decisions made by the business owner abiding by moral standards

financial anything to do with money — particularly income, expenses and savings

financial records written records of all the financial activities of a business or individual

financial transactions any commercial or business exchange of goods or services for money

full-time describes an employee who works 35 hours or more per week, or who works the minimum number of hours stipulated by the industrial award for that occupation or industry

goods physical items that satisfy needs and wants

gross profit the amount of profit gained from selling goods to the public, calculated by subtracting the cost of goods sold from the revenue gained by selling those goods

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

income money earned through employment or investment

industry-wide awards legally binding documents that set out the minimum wages and other entitlements for all employees in an industry or occupation

initiative the first step or opening move in a series of actions

innovation either adding a new product to an existing product line, or significantly improving an existing product or process

interest a charge made for use of money that has been borrowed, usually calculated as a percentage

journals lists of transactions recorded in the order in which they occurred

labour force people aged 15 and over who are able to work, and are either employed or looking for work

labour the performance of laborious mental or physical tasks and/or the provision of time and effort in exchange for money

leading the process of motivating or inspiring staff to achieve the goals of the business

mortgage loan a loan advanced to allow a person to buy a house or other property, with the property itself used as security for the loan

needs goods or services that are essential for life

net profit the final profit figure, calculated by subtracting operating expenses from gross profit

niche market a market in which a limited and clearly defined range of products is sold to a specific group

organisations an entity formed for a specific purpose, usually related to the production or provision of a good or service

organising the process of working out the resources necessary for completing the tasks that need to be performed so that the goals of the business are achieved

part-time describes an employee who works less than 35 hours per week

passing trade the sales a business makes as a result of customers walking or driving past the store

penalty rate an increase in the usual rate of pay due to particular circumstances, such as working on a public holiday or weekend

percentage mark-up a way of determining selling price by adding a fixed percentage to the cost of the product

planning the process of identifying goals for the business and the steps that will need to be followed to achieve those goals

premises the land and buildings occupied by a business

producers individuals or businesses involved in the production of goods and services

productivity a measure of how efficiently inputs are used to produce outputs

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

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

remuneration payment for work or services performed

retail describes a business that sells goods and services to consumers

salary fixed or regular payment for work completed or services performed

seasonal describes an employee who usually works during a season, such as winter or the fruit-picking season

self-funded retirees a person who has saved enough during their working life to be able to support themselves in retirement

services actions done for you by others to satisfy your needs and wants

shareholders the owners of a company

socially responsible management the decisions made by the business owner reflecting the business's obligations to the wellbeing of society

standard of living quality of life as measured by the amount of money made by an individual or household (using income per capita or income per household)

superannuation fund an account that accepts, invests and eventually pays out superannuation contributions

superannuation a proportion of a person's income that is invested for their retirement

target market a market at which a product is deliberately aimed

unemployed describes someone without work who is looking for work that will provide a wage or salary

vision a statement expressing where a business is going or what it will be like in the future

wage regular payment for work completed or services performed

wants non-essential goods and services

wellbeing an overall measure of quality of life

word-of-mouth the passing of information about a business from a satisfied customer to prospective customers

work-life balance a balance between working time and leisure/recreation

work human labour — whether paid or unpaid, including voluntary labour

working conditions refers to all those things an employer has agreed to provide in exchange for the employee's work, ranging from the physical work environment to hours of work, rates of pay and leave entitlements

zoning regulations the decisions made by local council outlining the purpose for which a building or land can be used. Zones are usually based on land uses such as residential, commercial or industrial.