2020 HSC Study Day Series

AURORA COLLEGE

HSC Economics

HSC 2020

NSW Department of Education

www.aurora.nsw.edu.au

2020 HSC Study Day Series

AURORA COLLEGE

Details

Date: Thursday 25th June, 2020

Time: 8:50am – 3:10 pm

Location: Adobe Connect room https://connect.schools.nsw.edu.au/aurora-hsc-study1/

Materials: Available to download via this Dropbox link

Recordings: The sessions will be recorded and accessible for registered participants after the event via the same Dropbox link above. These recordings will be accessible until the HSC exam.

Program

Time	Session
8:50 – 9:00 am	**Welcome and introduction**
9:00 – 9:40 am	**Moving up a mark range** *Sue Powell, Killara HS and Aurora College*
9:45 – 10:55 am	**Topic 1 – The Global Economy** *Ross Gittins, Economics Editor, Sydney Morning Herald*
10:55 – 11:15 am	*Morning tea break*
11:15 – 12:15 pm	**Topic 2 – Australia's place in the global economy** *Richard Nikolovski, Georges River College – Oatley Senior Campus*
12:20 – 1:20	**Topic 3 – Economic Issues** *Sue Powell, Killara HS and Aurora College*
1:20 – 2:00	*Lunch break*
2:00 – 3:00	**Topic 4 – Economic Policies and management** *Richard Nikolovski, Georges River College – Oatley Senior Campus*
3:00 – 3:10	**Conclusion**

Image on front cover attribution: Sourced from https://www.forbes.com/sites/richkarlgaard/2020/05/03/global-stock-markets-could-predict-economic-future-post-covid-19/#63d72148402c

2020 HSC Study Day Series

AURORA COLLEGE

Setting up Adobe Connect

Teachers will need:

- A good, stable Dept of Ed internet connection using an ethernet cable (wifi not recommended)
- Data projector
- Speakers

The sessions will be held via Adobe Connect. Please ensure there is only one connection per school. The presentation can be displayed on a data projector through any computer with an ethernet cable and speakers. The information below will help with setting up if you are not familiar with Adobe Connect.

- You will need to perform all necessary setup in advance of your online session so that you have time to resolve any connection or access issues. The Adobe room will be opened 30 mins prior to commencing to allow time for set up.
- Test your computer prior to accessing your online room by going to the Meeting Connection Diagnostic. Ensure you install any add-ins, if prompted to do so by the connection test.
- The following guide may also be useful Quick Start Guide for Participants.

Entering the Adobe room

Teachers log in once for their class. Students are NOT to log in individually. To enter your online room, click on the Adobe Connect link provided above. Enter by typing in your Department of Education ID (eg: *jane.citizen@detnsw)* in the *Username* field then your DoE password in the *Password* field. The first thing you should do when you enter the room is complete the audio setup wizard. ('Meeting' drop down menu-> Audio Setup Wizard)

For technical help:

If you are having any issues with technology, please contact the Aurora College IT Support Team on 1300 610 733 or support@aurora.nsw.edu.au

Rights and responsibilities

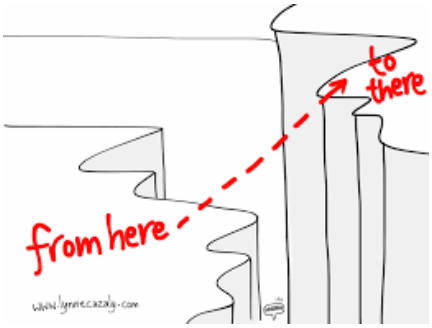
Duty of care for students throughout the day remains with the registered schools and their respective teachers. Please ensure adequate supervision is provided during the day. Respectful and active participation in the event is strongly encouraged through the 'chat' pod.

Evaluation

Constructive feedback is essential, links to online surveys will also be distributed during and shortly after the event. There are two surveys and they both close on 21st September:

- Teachers https://www.surveymonkey.com/r/HSCSTUDYDAYSTEACHER2020
- Students https://www.surveymonkey.com/r/HSCSTUDYDAYSSTUDENT2020

We look forward to your participation.



HSC Economics

Moving up a mark range

Lies and the HSC

- Lie # 1: The HSC is Everything
- Lie # 2: The HSC is Pointless
- Lie # 3: The ATAR is the only way
- Lie # 4: Scaling
- Lie # 5: Someone else will get my mark
- Lie # 6: This Game only has 1 winner (and it's not me)

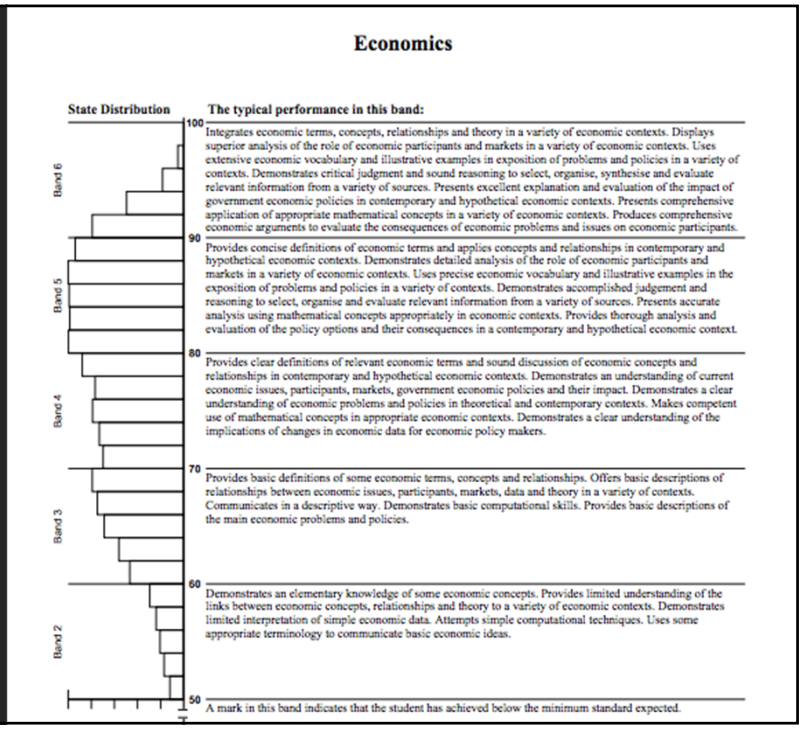
Moving up a mark range

Know the bands!!

What are the Bands?

- ‘Bands’ are how your HSC exams will be graded: your exam results will be placed in a specific band.
- Essentially bands are categories used to identify how well a response fulfils specific criteria. There’s Band 1 through to Band 6, with Band 6 being the highest and most sophisticated band to achieve.

What is this Game?



Economics

State Distribution	The typical performance in this band:
Band 6 — 100	Integrates economic terms, concepts, relationships and theory in a variety of economic contexts. Displays superior analysis of the role of economic participants and markets in a variety of economic contexts. Uses extensive economic vocabulary and illustrative examples in exposition of problems and policies in a variety of contexts. Demonstrates critical judgment and sound reasoning to select, organise, synthesise and evaluate relevant information from a variety of sources. Presents excellent explanation and evaluation of the impact of government economic policies in contemporary and hypothetical economic contexts. Presents comprehensive application of appropriate mathematical concepts in a variety of economic contexts. Produces comprehensive economic arguments to evaluate the consequences of economic problems and issues on economic participants.
Band 5 — 90	Provides concise definitions of economic terms and applies concepts and relationships in contemporary and hypothetical economic contexts. Demonstrates detailed analysis of the role of economic participants and markets in a variety of economic contexts. Uses precise economic vocabulary and illustrative examples in the exposition of problems and policies in a variety of contexts. Demonstrates accomplished judgement and reasoning to select, organise and evaluate relevant information from a variety of sources. Presents accurate analysis using mathematical concepts appropriately in economic contexts. Provides thorough analysis and evaluation of the policy options and their consequences in a contemporary and hypothetical economic context.
Band 4 — 80	Provides clear definitions of relevant economic terms and sound discussion of economic concepts and relationships in contemporary and hypothetical economic contexts. Demonstrates an understanding of current economic issues, participants, markets, government economic policies and their impact. Demonstrates a clear understanding of economic problems and policies in theoretical and contemporary contexts. Makes competent use of mathematical concepts in appropriate economic contexts. Demonstrates a clear understanding of the implications of changes in economic data for economic policy makers.
Band 3 — 70	Provides basic definitions of some economic terms, concepts and relationships. Offers basic descriptions of relationships between economic issues, participants, markets, data and theory in a variety of contexts. Communicates in a descriptive way. Demonstrates basic computational skills. Provides basic descriptions of the main economic problems and policies.
Band 2 — 60	Demonstrates an elementary knowledge of some economic concepts. Provides limited understanding of the links between economic concepts, relationships and theory to a variety of economic contexts. Demonstrates limited interpretation of simple economic data. Attempts simple computational techniques. Uses some appropriate terminology to communicate basic economic ideas.
50	A mark in this band indicates that the student has achieved below the minimum standard expected.

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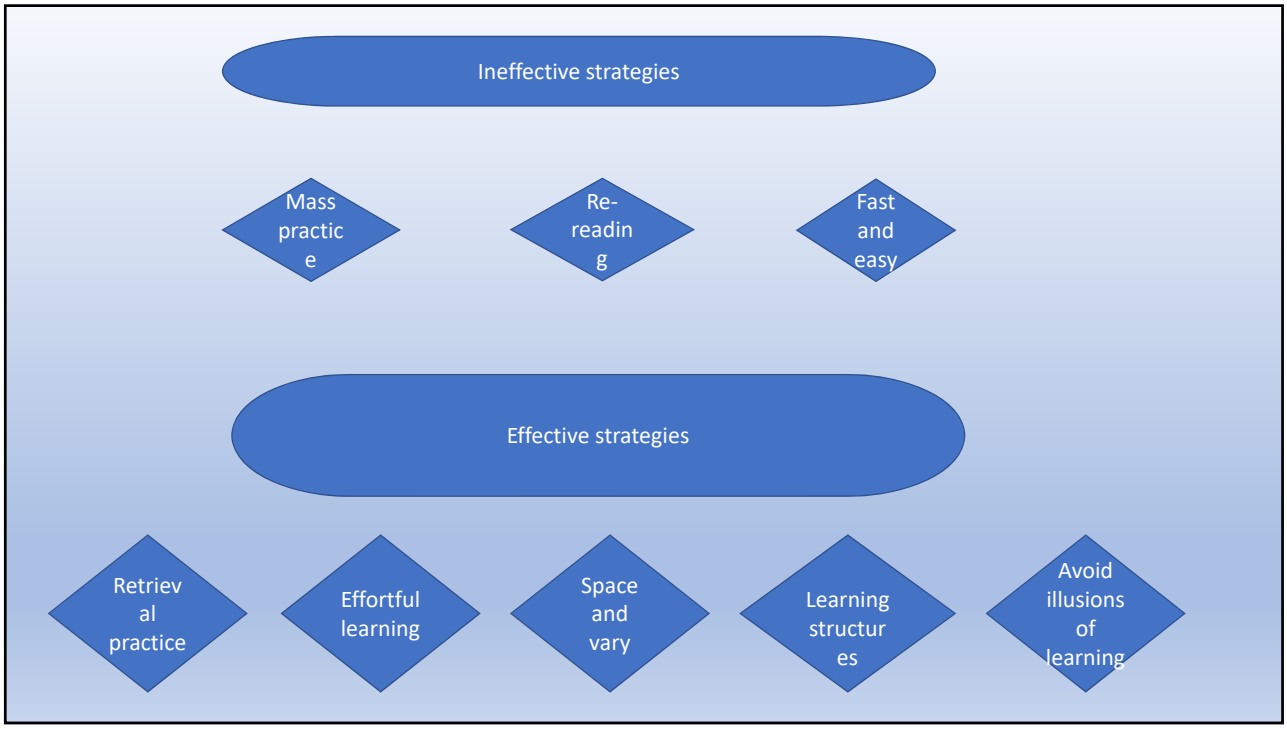
Which means
Think and Assess
Understand and explain
Know and describe
Know

How to make learning stick – it's not magic!



Increase your abilities

Your brain and intellectual abilities are not fixed.

Practicing something can strengthen existing neural pathways and abilities

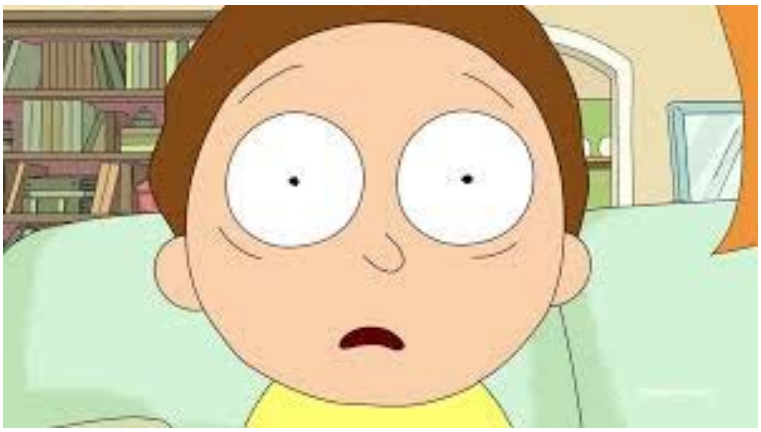
Varying your learning experiences can build new connections

You don't need great genes for outstanding performance. You can achieve mastery with discipline, persistence and the right strategies for you.

The key?

Know more and show more

So what? That's too complicated!



Yes, but… what does it mean?

Know your content

Put it into context

Show me the proof!

20 marks
Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

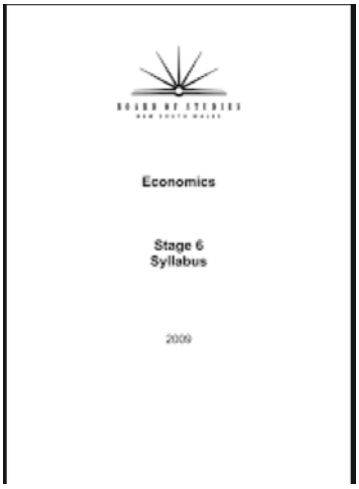
Answer the question in the Sections III and IV Writing Booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
- apply relevant economic information, terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Which content?

- It's the syllabus, silly.



Which context?

smh.com.au
The Sydney Morning Herald

THE AUSTRALIAN
THE HEART OF THE NATION

THE CONVERSATION

Khan Academy

The Economist

A band 6 means that you can…

- Show that you have a strong, very detailed understanding of exactly how time and place (context) will colour your response; you can adapt your content to reflect WHAT you are being asked; other influences can shape meaning, which is supported with examples. You can also evaluate these things (analyse and judge them) in a sophisticated way.

An example will help

2013 HSC - Economics
Band 5/6
Sample 1 Question 21

Question 21 (10 marks)

(a) A highway currently passes through a country town. The government is proposing to build a bypass that diverts highway traffic away from the town. **4**

Discuss the costs and benefits of this proposal.

Infrastructure such as a bypass allows for greater efficiency as transport costs are lowered for producers, which are then passed on to the consumers as cheaper products. However, this could cause ~~th~~ structural unemployment through the ~~redistribution of~~ lowered demand for goods and services in the town such as mechanics or food. This would lower the quality of life in the town as the skills of displaced workers are unused.

MOU1

2013 HSC - Economics
Band 5/6
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MOU1 Microsoft Office User, 30/07/2018

What can I do with that?

- Well, get out a pen and circle the economics terms.

Think about this response.

First, a short answer needs no introduction

Use the space provided

Use ONLY the space provided

Integrate the stimulus

Use specific examples

Task	Topic	Focus
Discuss	Public goods	Costs and benefits

The lower band response

2013 HSC - Economics
Band 4/5
Sample 1 Question 21

Question 21 (10 marks)

(a) A highway currently passes through a country town. The government is proposing to build a bypass that diverts highway traffic away from the town. **4**

Discuss the costs and benefits of this proposal.

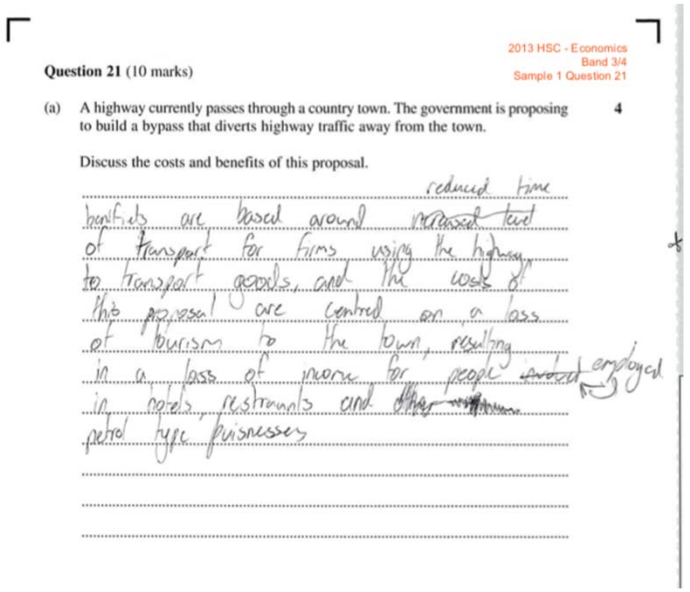
The construction of the highway to divert traffic will employ people and provide employment. Additionally it will reduce pollution around the country town.

However the bypass will require land and the ~~peep~~ environment affected. Furthermore, since it diverts traffic away from the town it may decrease demand for produce in the town and decrease~~s~~ revenue.

What are you noticing?

- Simpler language (restating parts of the question)
- Less vocabulary (employment Vs structural unemployment)
- Simple statements (decrease in demand leading to decreased revenue vs transport costs lowered and being passed on as lower prices for consumers)
- Word count (51 Vs 67)

… and a Band 4 response



2013 HSC - Economics
Band 3/4
Sample 1 Question 21

Question 21 (10 marks)

(a) A highway currently passes through a country town. The government is proposing to build a bypass that diverts highway traffic away from the town. **4**

Discuss the costs and benefits of this proposal.

reduced time
benefits are based around ~~increased~~ cost of transport for firms using the highway to transport goods, and the cost of this proposal are centred on a loss of tourism to the town, resulting in a loss of income for people employed in hotels, restaurants and other petrol type businesses

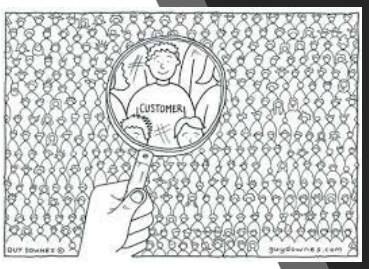
- Simpler cause and effects
- 47 words
- Descriptive of the costs and benefits

Keys to success – statistics!

- Create yourself a table that looks like this one for

Topic	Statistic Required	Statistic
International economic integration	Growth in GWP Growth in global financial flows Growth in global trade flows Growth in movement of labour Growth in TNC's and International Mergers & Acquisitions Statistics on AFC, and GFC as evidence for IBC and RBC	

Major focus areas



Key areas you need to cover include

- Budget – current budget outcome, and last 2 years + key expenditure items
- Monetary policy movements – so the cash rate and interest rates (current and historical for 5-10 years)
- $AUD (current, and historical movements over last 5 years)
- TOT (current, and historical – highs and lows across last 20 years)
- CAD (current size of CAD and it's key components, and how this compares with historical trends)
- Inflation (current and historical over last 5 years)
- Economic Growth (current and historical over last 20 years)
- Unemployment (current and historical over last 20 years)
- Distribution of Income and Wealth – Australia's Gini Co-efficient

For the essays in Section 3 and 4 - leave time to edit

Watch for :

- Sentences that are too long, too wordy or don't flow well
- Overt repetition of words/phrases/ideas and rambling
- Poor spelling/grammar
- Specific vocabulary underlined or highlighted, quotes not in italics
- Lack of quotes, diagrams and other examples
- Paragraphs that seem much longer/shorter than 250 words
- Anything that doesn't make sense (sentences, phrases, etc.)
- Doesn't seem to answer or be integral to the question

Rules of Sections 3 and 4 (the essays)?

- Use statistics and examples extensively.
- Stick to the time allocation
- Surely there is an appropriate graph? Think a shift in a demand/supply curve? Surely an economic cycle sketch can be appropriate? Choice and PPF diagram??
- Directive: refer to it regularly as you DO WHAT IT SAYS.
- **How** and **Why** are relatively new directive terms. How implies a process (action leads to reaction). Why seeks out a cause

How to revise for short answer questions

Know ALL the syllabus dot points and practice by **convert syllabus dot points into short answer questions**

A great way to test your knowledge as you write down key points is to turn syllabus dot points into questions.

This way as you're doing this exercise you're simultaneously doing short answer questions and developing your exam technique!

What's more, it's simple! Add a verb at the beginning and question mark at the end.

Like this

- **Example #1**
- **Syllabus Dot Point:**

  the basis of free trade – it's advantages and disadvantages

- **Converted into a Short Answer Question**
- **Explain** the basis for free trade and **outline 3** advantages and disadvantages?

Example #2

- **Syllabus Dot Point:**

  trends in the size and composition of Australia's Balance of Payments

- **Converted into a Short Answer Question**
- **Discuss the consequences** of the trends in the size of composition of Australia's Balance of Payments?

One final point

- The HSC marking process is rigorous, exhaustive, and fair.
- All markers are selected on the basis of their knowledge of the syllabus and their extensive experience in the process.
- The marking process is a positive one. This means that the markers are actively looking to reward you for what you have included, not looking for what you have left out.
- Have faith, and be kind to yourself. You are in good hands.

Need more??

- Email me with a question or a comment.

- ***susan.m.powell@det.nsw.edu.au***

THE GLOBAL ECONOMY

Aurora College Economics HSC Study Day, Sydney, Thursday, June 25, 2020

Ross Gittins, Economics Editor, The Sydney Morning Herald

Website: rossgittins.com

Every year there's some event in the news that's relevant to your study of the global economy, and this year's is the biggest ever: the coronavirus pandemic. A pandemic is a global event by definition, and this pandemic has big implications for the global economic growth and for the future of the globalisation push. Although none of us has any experience of pandemics and the response of stopping their spread by closing down large parts of the economy, there's nothing new about epidemics starting in one country then spreading to many other countries. It's been happening for millennia. Epidemics are spread by the movement of people between countries (even when it was the fleas on the rats on their ships that did the spreading).

The coronavirus pandemic

Globalisation is about the breaking down of natural and government-imposed barriers between national economies. What's different this time is that whereas in olden times the spread of an epidemic took years, this one took only a few weeks – thanks to a significant element in the renewed globalisation process: the advent of cheap air travel around the world. So there is no denying that this pandemic is an adverse consequence of the globalisation process we've seen over the past 40 years. Another element in this event is the globalisation of world's news media, which means anyone anywhere in the world can receive daily reports about the spread of the virus in any particular country. Another thing that's different this time is that, though we started out knowing little about the characteristics of this particular virus, we do know a lot more about how to respond to epidemics in general, and how to medically assist people who contract the virus.

For our purposes, however, a more significant point is that the pandemic has revealed a major weakness in the drive for the greater economic integration of countries: it's left all countries more exposed to pandemics than they were and, in some respects, made it harder for us to respond to them. A major motive for greater economic integration has been for all countries to reap the "gains from trade" that arise from greater "specialisation and exchange"; for countries to focus more closely on their "comparative advantage". This has led many high-income economies (including us) to leave the manufacture of many low-value items such as masks, face-shields, hand sanitisers and so forth to countries such as China. China also plays a big role in the production of many pharmaceuticals. Which saves us a lot of money – until the breakdown of normal trading arrangements caused by a pandemic cuts us off from the huge quantities of personal protective equipment we suddenly need. Economists believe national self-sufficiency is wasteful – it stops us getting richer – which is fine until international trade breaks down. Similarly, we've benefited greatly from the development of international supply chains – where, for example, an iPhone contains components from the United States, China, Taiwan, South Korea, Japan, Germany, Italy and the Netherlands. But many supply chains have been disrupted by the crisis. What happens when you need parts from a country that's ceased producing them because it's in lockdown?

We've been reminded that epidemics are another instance of "market failure". They're not a problem that can be left to the market to fix. Rather, the government needs to intervene in markets and order businesses to do things to a degree that wouldn't be acceptable in normal times.

Recessions are usually events that happen by accident, and take a year or two to develop. The recession that the response to the virus has led to in most economies, joining to become the worse world recession since the Great Depression of the 1930s, is one that has been brought about by governments and so has happened suddenly. This gives those governments an even greater than usual responsibility to get economic activity and unemployment back to normal as soon as possible. Because the recession has happened by government decree, you might expect that, once the lockdown has been reversed, economic life should return to normal pretty quickly. There's sure to be some bounce-back as restrictions are removed, but we have yet to see how extensive it will be. My instinct is that economies can't be turned off and turned back on quiet so easily. It may be a long time before the rates of unemployment and underemployment return to where they were before the crisis.

From a global perspective, it maybe some years before the pandemic has died down in every country, particularly developing countries. This means it may be some time before restrictions on international travel can be lifted.

Professor Dani Rodrik, of Harvard University, a specialist in the study of globalisation, has predicted that the pandemic is likely to reshape the global economy in three respects. First, it will cause the relationship between markets and the government to change, with governments being more inclined to regulate markets than they were. It may lead to increased protectionism in the name of greater self-sufficiency.

Second, it will cause a retreat from "hyper-globalisation" in favour of greater national autonomy. National governments will be more inclined to do things that reduce their economy's integration with other economies.

Third, it will require people to accept that the world economy, and particular economies, will not be able to grow as strongly as they were in earlier times. Recent decades have seen the developing economies growing at much faster rates than the advanced countries, pushing up the rate of growth in the world economy, to the benefit of all. But the pandemic is hitting the poor countries harder than the rich countries, so that the developing world will be unable to grow as quickly as it used to.

Professor Rodrik notes that all three of these trends were running before the pandemic, but it is likely to accelerate them. Point of information: in early April, the World Trade Organisation forecast that the pandemic could lead to a fall world trade of between 13 and 32 per cent in 2020.

Definition

The OECD defines globalisation as "the economic integration of different countries through growing freedom of movement across national borders of goods, services, capital, ideas and people".

That's a good definition, but I like my own: globalisation is the process by which the natural and government-created barriers between national economies are being broken down.

A process

With this definition I'm trying to make a few points. The first is that globalisation is a process, not a set state of being. Because it's a process, it can go forward – the world can become more globalised – or it can go backwards, as national governments, under pressure from their electorates, seek to stop or even reverse the process of economic integration. This is just what Donald Trump promised to do in the US presidential election in 2016.

Among the advocates of globalisation there has tended to be an assumption that the process of ever greater integration is inevitable and inexorable. That was always a mistaken notion, but this has become more obvious since Brexit and the amazing exploits of Trump. First, the British have voted to reduce their degree of economic integration with the rest of Europe – a decision most outsiders see as involving a significant economic cost to the Brits' economy. Second, the Trump Administration has withdrawn from the Trans Pacific Partnership, an agreement between the US and 11 other selected countries (including Australia) to reduce barriers to trade between them – although the remaining 11 have finalised the agreement without the US. Third, the Trump Administration has withdrawn from the Paris global agreement on reducing greenhouse gas emissions. Fourth, Trump has launched a trade war with China.

Earlier globalisation

The point is that the process of globalisation is and always was reversible. People should know this because this isn't the first time the process of globalisation has occurred and then been rolled back. The decades leading up to World War I saw reduced barriers and greatly increased flows of goods, funds and people between the old world of Europe and the new world of America, Australia and other countries. But this integration was brought to a halt in 1914 by the onset of a world war. And the period of beggar-thy-neighbour increases in trade protection, to which countries resorted in response to the Great Depression of the early 1930s, greatly increased the barriers between national economies. Indeed, you can see that, in the years after World War II, the many rounds of multilateral tariff reductions brought about under the GATT – the General Agreement on Tariffs and Trade, which has since turned into the World Trade Organisation – were intended to dismantle all the barriers to trade built up in the period between the wars.

The channels of globalisation

The four main economic channels through which the world's economies have become more integrated are:

1) Trade in goods and services

2) Finance and investment

3) Labour

4) Information, news and ideas.

Trade is probably the channel that gets most attention from the public. Donald Trump's populist campaigning against globalisation has focus on the belief that America's greater openness to trade – particularly with developing countries – has caused it to lose many jobs, particularly in manufacturing, as cheaper imports caused many domestic producers to lose sales, or as factories have been moved offshore to countries where wages are lower, without America receiving anything much in return. These sentiments would be shared by many voters for One Nation.

Surprisingly, financial globalisation didn't get as much blame as it could have for the global financial crisis and the Great Recession it precipitated. But it's easier for Australians to remember that the global crisis of 2008 was preceded by the Asian financial crisis of 1997-98, indicating that our highly integrated global financial markets are prone to crises – crises which invariably spill over from the "financial economy" of borrowing and lending, saving and investing, to the "real economy" of producing and consuming goods and services. The push by the G20 to strengthening the capital and

liquidity requirement imposed on the world's banks, though the Basel agreements, is intended to make financial markets more stable.

Most countries have not liberalised the flow of labour into their economy in the way they have the other factors of production. Although increasing numbers of people are fleeing their country to escape war, famine and persecution, many choose the country they'd like to arrive at on economic grounds. Many voters object to the inflow of immigrants, whether they be boat people arriving in Australia, Mexicans crossing the border to the US, or Poles taking advantage of the European Union's single market to look for jobs in Britain. Immigration seems to have been a major motive for some Brits voting in favour of Brexit.

Income distribution and the gains from trade

One of economists' core beliefs is that there are mutual gains from trade. Provided the exchange of goods is voluntary, each side participates only because it sees some advantage for itself. This is undoubtedly true, but in the era of renewed globalisation we've been reminded that, though the gains may be mutual, they are not necessarily equal. Some countries do better than others.

Similarly, the benefits to a particular country from its trade aren't necessarily equally distributed between the people within that country. When, for example, a country imports more of its manufactured goods because they are cheaper than its locally made goods, all the consumers who buy those goods are better off (including all the working people), but many workers in the domestic manufacturing industry may lose their jobs.

Another factor that has been working in the same direction is digitisation and other technological change which, in its effect on employers' demand for labour, seems to be "skill-biased" – that is, it tends to increase the value of highly skilled labour, while reducing the value of less-skilled labour. It seems likely that, between them, trade and technological advance have worked to shift the distribution of income in America, Britain and, to a lesser extent, Australia, in favour of high-income families and against many middle and lower-income families.

The unwelcome surprise many politicians and economists have received from the high protest votes for Brexit, Trump and One Nation is causing them to wonder if too little has been done to assist the workers and regions adversely affected to retrain and relocate, and too little to ensure the winners from structural change bear most of the cost of this assistance.

Shares of the World Economy, 2018

	GWP	Exports	Population
China	19	11	19
United States	15	10	4
Euro area (19 countries)	11	26	5
India	8	2	18
Japan	4	4	2
Advanced economies (39)	41	63	14
Developing economies (155)	59	37	86
	100	100	100

Source: IMF WEO statistical appendix; GWP based on purchasing power parity

Australia's place in the global economy

Richard Nikolovski

Head Teacher Georges River College Oatley Senior Campus

PAGE 1

- Australia's trade and financial flows
- Balance of payments
- Exchange rates
- Free trade & protection

Presentation Outline

PAGE 2

Australia's place in the global economy

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

PAGE 3

Australia's place in the global economy

- Australia has become a more open economy and internationalised as a result of significant structural change in the 1980s and 1990s .
- Significant periods of change in Australia's economic history:
  - 1983 the financial system was deregulated and the exchange rate was floated.
  - In the 1980's, 1990's and 2000's levels of protection were reduced.
  - Participation in both bilateral and multilateral trade agreements.
  - Shift in the direction of trade towards the Asian-pacific region with major trading partners now China, Japan and Korea.

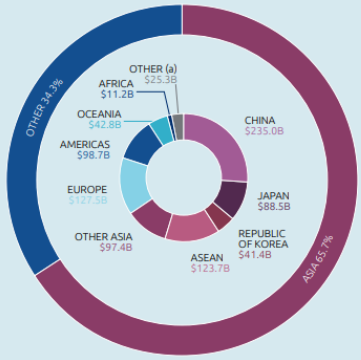
PAGE 4

Australia's Trade Flows - Direction

Two-way trade

Asian partners dominate Australia's two-way trade flows, as Australia's economy continues to complement those of a growing Asia. Dynamic changes underway in our region will continue to drive our economy and offer Australia significant opportunities. Asia overall stands to deliver nearly two-thirds of global growth to 2030.

Australia's Two-Way Trade by Region 2018-19



Australia's Top 10 Two-Way Trading Partners 2018-19

($ billion)

Rank	Trading partners[a][b]	Goods	Services	Total	% share
1	China	213.0	22.0	235.0	26.4
2	Japan	81.4	7.1	88.5	9.9
3	United States	48.7	27.7	76.4	8.6
4	Republic of Korea	38.0	3.4	41.4	4.6
5	Singapore	21.4	11.3	32.7	3.7
6	New Zealand	17.8	12.8	30.6	3.4
7	United Kingdom	15.1	15.2	30.4	3.4
8	India	21.1	9.2	30.3	3.4
9	Malaysia	21.4	3.7	25.1	2.8
10	Thailand	20.7	4.0	24.7	2.8
	Total top 10 trading partners	498.8	116.3	615.1	69.0
	Total two-way trade[c]	692.9	198.7	891.6	100.0
of which:	APEC	534.1	118.3	652.4	73.2
	ASEAN	92.4	31.3	123.7	13.9
	EU28	76.8	37.5	114.3	12.8
	OECD	279.9	96.0	375.9	42.2

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

Australia's Trade Flows - Composition

Australia's Exports by Sector[a] 2018-19

(a) Balance of payments basis.

Based on ABS catalogues 5302.0 & 5368.0.

Australia's Top 20 Exports 2018-19

Rank	Commodity[a]	$ million	% share	% change
1	Iron ores & concentrates	77,189	16.4	25.7
2	Coal	69,592	14.8	15.3
3	Natural gas	49,731	10.6	60.9
4	Education-related travel services [b]	37,556	8.0	15.2
5	Personal travel (excl education) services	22,450	4.8	5.2
6	Gold	18,867	4.0	-2.2
7	Aluminium ores & concentrates (incl alumina)	11,358	2.4	20.2
8	Beef	9,476	2.0	19.0
9	Crude petroleum	8,491	1.8	30.5
10	Copper ores & concentrates	5,936	1.3	4.1
11	Professional services	5,626	1.2	8.3
12	Meat (excl beef)	5,152	1.1	13.8
13	Telecom, computer & information services	5,081	1.1	20.4
14	Financial services	4,933	1.0	8.0
15	Technical & other business services	4,662	1.0	5.1
16	Aluminium	4,251	0.9	3.8
17	Copper	3,968	0.8	37.3
18	Wool & other animal hair (incl tops)	3,815	0.8	-4.2
19	Wheat	3,657	0.8	-21.4
20	Other ores & concentrates	3,554	0.8	13.2
	Total exports[c]	470,170	100.0	16.6

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

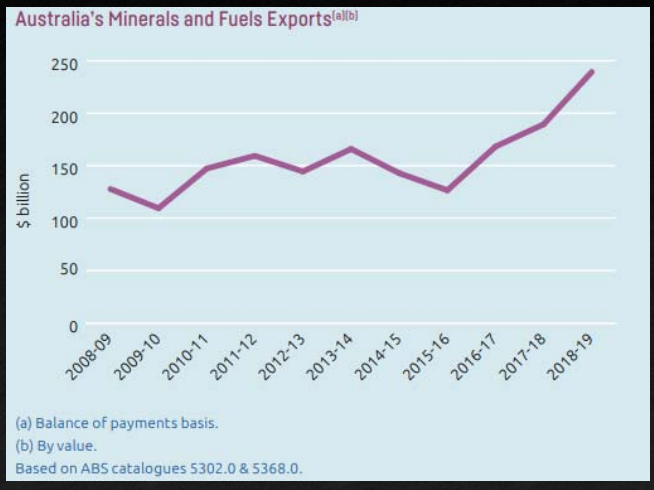
Past HSC Question

8 Which pair of sectors contribute most to Australia's export income?

A. Mining and Services
B. Mining and Agriculture
C. Services and Agriculture
D. Services and Manufacturing

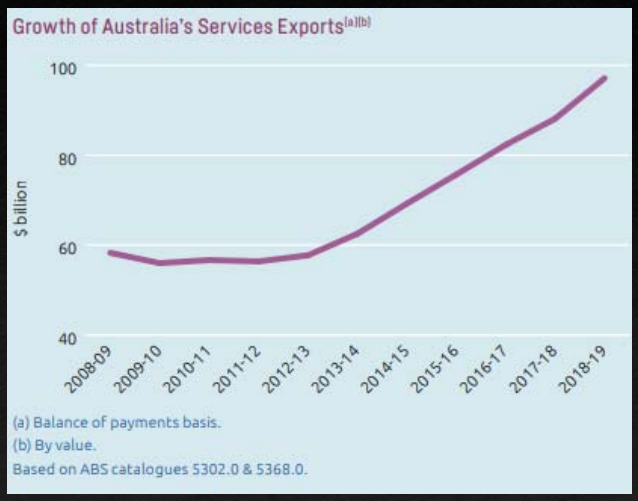
Commodities

In 2018-19, Australia's minerals and fuels exports grew by 26.4 per cent. Australia's exports of iron ore, coal and natural gas were our top three exports overall and recorded strong increases over the year of 25.7 per cent, 15.3 per cent and 60.9 per cent respectively.



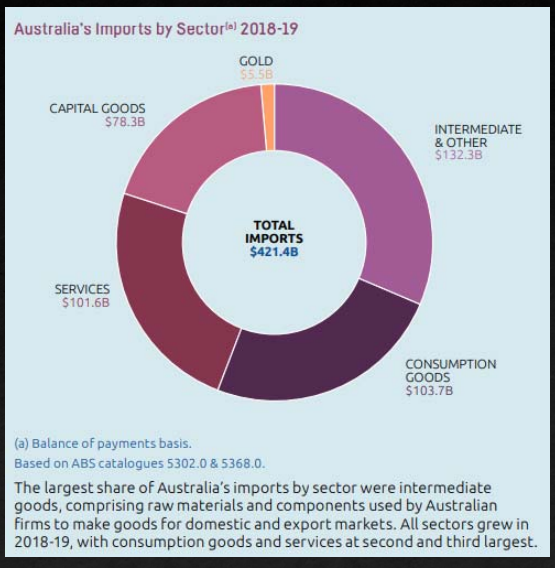
Services

Australia's services exports rose 10.2 per cent to $97.1 billion in 2018-19. Services exports benefitted from strong demand from overseas students seeking a high-quality education and successful tourism campaigns attracting increasing numbers of international visitors. Tourism and international education together account for over 60 per cent of total services exports.



PAGE 9

Australia's Trade Flows - Composition



The largest share of Australia's imports by sector were intermediate goods, comprising raw materials and components used by Australian firms to make goods for domestic and export markets. All sectors grew in 2018-19, with consumption goods and services at second and third largest.

Australia's Global Import Ranking 2018

How we compare with the rest of the world (US$ billion)

Rank	Economy	Goods[a]	Services[b]	Total imports	% share
1	United States	2,612	559	3,172	12.5
2	China	2,136	525	2,661	10.4
3	Germany	1,286	351	1,637	6.4
4	Japan	748	200	949	3.7
5	France	673	257	929	3.6
6	United Kingdom	674	235	909	3.6
7	Netherlands	645	229	874	3.4
8	Hong Kong[c]	627	82	708	2.8
9	India	514	177	691	2.7
10	Republic of Korea	535	124	659	2.6
11	Italy	501	125	626	2.5
12	Canada	471	113	583	2.3
13	Belgium	450	129	579	2.3
14	Singapore	371	187	558	2.2
15	Mexico	477	37	514	2.0
22	Australia	237	73	310	1.2
	Total imports	19,867	5,604	25,471	100.0

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

PAGE 10

Australia's Financial Flows

- Foreign investment plays an important role in the Australian economy by promoting economic activity that helps sustain and generate jobs.
- Portfolio investment includes the purchase of securities, such as stocks or bonds, or equity and debt transactions where the investor does not gain any control over the operation of the enterprise. This is the largest type of investment overall for Australia.
- Foreign direct investment (FDI) occurs when a foreign individual or entity establishes a new business or acquires 10 per cent or more share of a local enterprise and, importantly, has some control over its operations.
- FDI ownership supported the employment of nearly 1.2 million people or 1 in 10 jobs in Australia in 2014-15.
- Businesses with foreign investment generated around 40 per cent of Australia's total exports, worth around $132 billion.
- The global marketplace for foreign investment is highly competitive and businesses must show the

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

PAGE 11

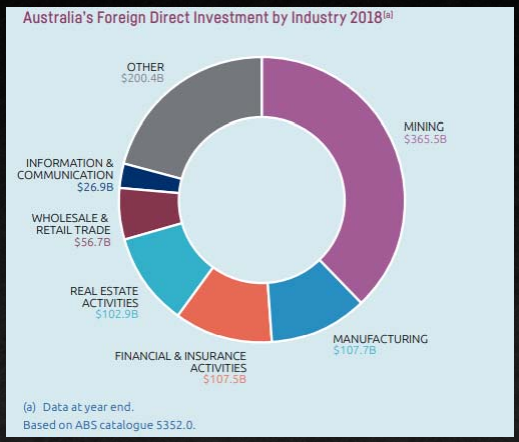
Australia's Financial Flows

Inbound Investment

At the end of 2018, total foreign investment in Australia reached $3.5 trillion, a record level in this country. The United States was Australia's largest foreign investor by a wide margin, accounting for $939.5 billion in investments in Australia at the end of 2018, up 3.7 per cent on 2017. The United States also received the largest portion of Australian investment overseas, again by a wide margin, accounting for $718.9 billion of the total at the end of 2018, up 6.2 per cent on 2017.

PAGE 12

Australia's Financial Flows - Composition



The majority share of FDI went to Australia's mining industry at 37.8 per cent of the total, up by 6.4 per cent over 2017. Manufacturing, the second most popular sector for FDI, grew by 5.8 per cent, while financial and insurance activities recorded the largest increase in FDI over the year of 45.6 per cent.

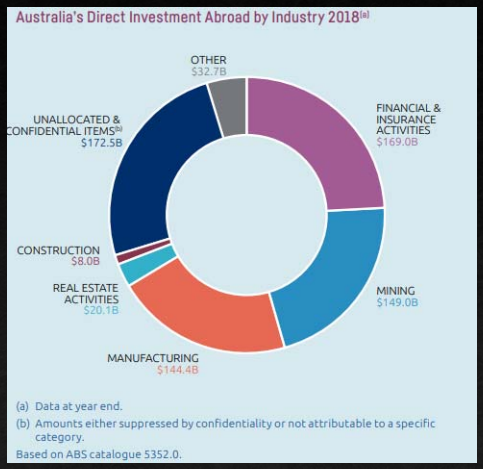
Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

PAGE 13

Australia's Financial Flows - Composition

Outbound investment

The stock of Australian investment abroad rose by $180.2 billion or 7.6 per cent to $2.5 trillion at the end of 2018. The top destination for Australian direct investment abroad was the United States, followed by the United Kingdom in a narrowing margin.



The most attractive industry for Australian direct investment abroad at the end of 2018 was financial and insurance activities. Although investment in this sector decreased by 3.9 per cent to $169.0 billion at the end of 2018, it accounted for 24.3 per cent of the total.

Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

PAGE 14

Balance of Payments

Is a record of all transactions between Australian residents and the rest of the world.

Current Account + Capital and Financial Account = 0

<u>Current Account (CA)</u>

The CA covers external transactions which are non reversible and current in nature. This includes the balance on goods and services, the net primary income and the net secondary income.

<u>Capital and financial account (KAFA)</u>

The capital and financial account records all reversible transactions. This includes the borrowing, lending, sales and purchases of assets between Australia and the rest of the world.

Credits: Money received
Debits: Money spent

Past HSC Question

16 The table shows components of the Balance of Payments for a hypothetical economy.

Components of the Balance of Payments	*$ billion* (bn)
Balance of Goods and Services	10
Net Primary Income	–20
Net Secondary Income	–5
Balance on Capital Account	1
Balance on Financial Account	?

What is the balance on the Financial Account?

(A) A deficit of $14 billion
(B) A deficit of $16 billion
(C) A surplus of $14 billion
(D) A surplus of $16 billion

PAGE 16

Past HSC Question

13 Australia's mining boom has resulted in a significant increase in foreign investment.

Which of the following shows the effects of this increase on Australia's Balance of Payments?

	Primary income account	*Capital and financial account*
(A)	Credit increase	Debit increase
(B)	Credit increase	Credit increase
(C)	Debit increase	Debit increase
(D)	Debit increase	Credit increase

PAGE 17

Past HSC Question

9 An Australian company purchases a foreign company that pays a dividend to Australian shareholders.

How would these transactions be recorded on Australia's balance of payments?

	Purchase of the company	*Payment of the dividend*
A.	Debit on the financial account	Credit on the current account
B.	Credit on the financial account	Debit on the current account
C.	Credit on the capital account	Debit on the financial account
D.	Debit on the capital account	Credit on the current account

PAGE 18

Past HSC Question

Question 22 (10 marks)

(a) A large agricultural property in Australia is sold to a foreign investor. **2**

Outline how this transaction can affect TWO components of Australia's balance of payments.

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PAGE 19

Links between key Balance of Payments categories

(c) Analyse the effects of rising interest rates on both the current account and the capital and financial account of the balance of payments. **5**

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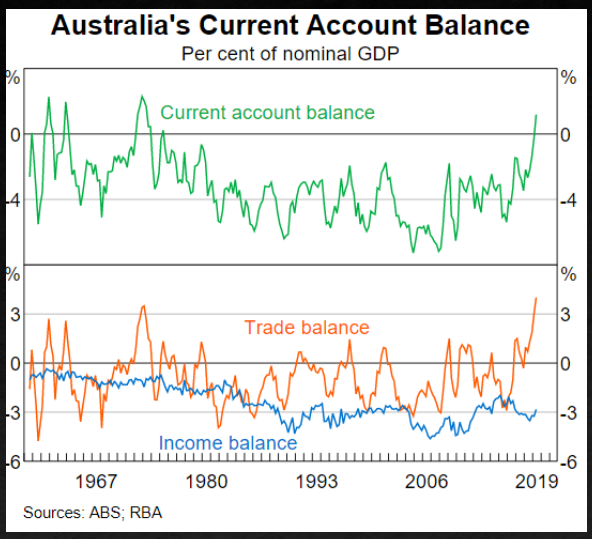
International borrowing will require regular interest payments. These interest payments, or servicing costs, are recorded as debits on the net primary income. Rising interest rates will increase income payable on existing debt to overseas investors on the income account of the current account. It will also cause an inflow of foreign investment which will credit the financial account.

PAGE 20

Trends in Australia's BOP



The current account balance fluctuates due to a range of cyclical and structural factors.

Australia has generally had a current account deficit (averaged approx. -4% of GDP since 1970s), reflecting attractive investment opportunities in the economy that exceed our capacity to fund via domestic saving.

Changes in the size of the current account deficit have been largely driven by developments in the trade balance, which tends to be volatile from quarter to quarter, while the income balance has been more stable over time.

In the June quarter 2019, the current account was in surplus for the first time since 1975.

PAGE 21

Recent trends in Australia's BOP

- Through the 1980s, 1990s and 2000s, the CAD [current account deficit] averaged approximately -4 per cent of GDP.
- Since 2015, the CAD has narrowed to average around -1 per cent of GDP. Much of it due to a rising trade balance from mining exports and services such as education and tourism now accounting for 21% of all exports.
- Since 2013 Australians have been investing even more in foreign businesses than foreigners have been investing in Australian businesses. Australia has become a net foreign investor, with a record A$2.9 trillion worth of superannuation.
- We receive more in dividends from overseas than we pay out in dividends to overseas investors.
- Australia's future trade performance will depend on how deep the global recession is and how exports and imports are affected, especially with rising trade tensions with the Chinese economy.

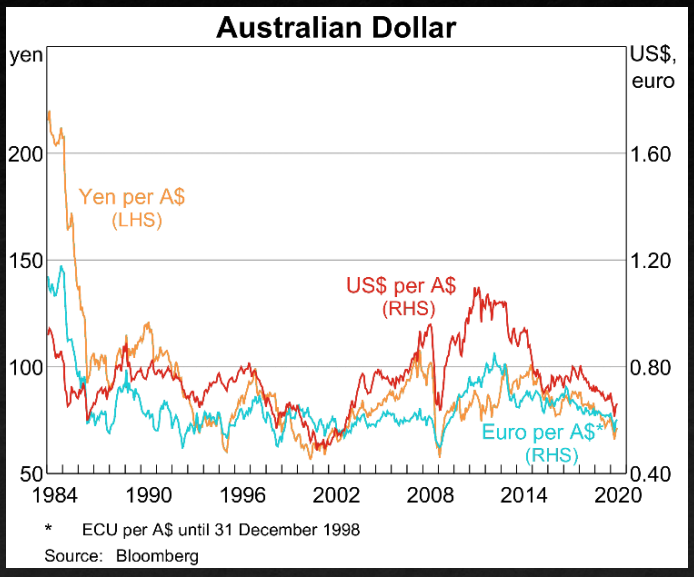
PAGE 22

Exchange Rate

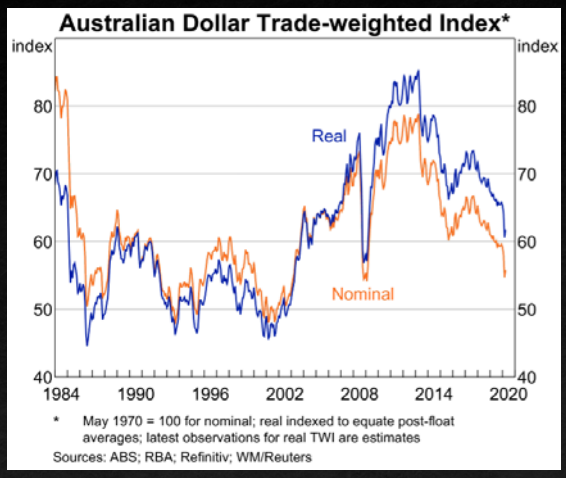
"The exchange rate is the price of one currency quoted in terms of another."

The exchange rate will determine the international competitiveness of exports and the price of imports

Bilateral Measurement



Trade Weighted Index (TWI)



Currency	Weight: From 2 December 2019	Weight: 3 December 2018 – 30 November 2019
Chinese renminbi	29.9577	27.7137
Japanese yen	11.1923	10.9287
United States dollar	9.5682	9.6788
European euro	9.3676	9.7397
South Korean won	5.2207	6.4751
Singapore dollar	4.1744	3.9780
New Zealand dollar	3.9075	4.0210
Indian rupee	3.8721	4.1447
United Kingdom pound sterling	3.8711	3.9507
Malaysian ringgit	3.2069	3.0481
Thai baht	3.1633	3.5284
New Taiwan dollar	2.4790	2.2068
Indonesian rupiah	2.2246	2.3643

Calculated by measuring the value of the AUD against the currencies of Australia's major trading partners compared with a base year. The currencies that are more prominent in Australia's trade are given a higher weighting so that they have a greater influence on the TWI.

Past HSC Question

(b) Explain why Australia's exchange rate against the US dollar might NOT move in the same direction as Australia's Trade Weighted Index. **3**

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The TWI is the value of the AUD against a weighted basket of the currencies of major trading partners. The USA is only one of many partners and hence movements in the value of the USD relative to AUD may not reflect the general value of the AUD against other trading partners. AUD may depreciate (appreciate) against the USD but because of the amount of demand for AUD by China and/or other economies, the TWI will continue to appreciate (depreciate).

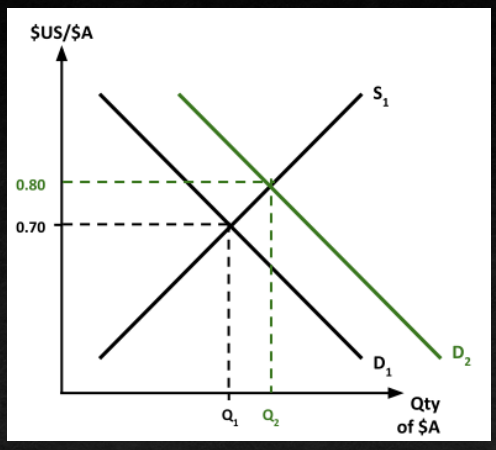
PAGE 25

Demand for $A

The demand for $A is represented by everyone who wishes to **BUY** $A.

For example:

- Foreign investors who wish to invest in Australia
- The demand for Australian exports
- Speculators who have expectations of a future appreciation of the $A
- People who wish to travel to Australia (relatively small influence on demand)



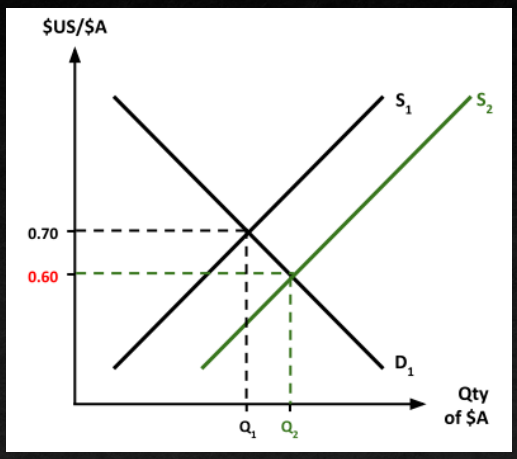
PAGE 26

Supply of $A

The supply of $A is represented by everyone who wishes to **SELL** $A (to buy other currencies).

For example:

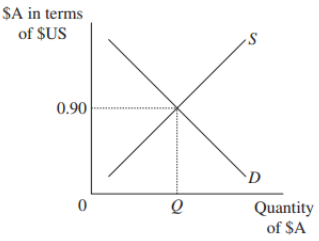
- Australian investors who wish to invest overseas
- Domestic demand for imports
- Speculators who have expectations of a future depreciation of the $A
- Australians who wish to travel overseas



PAGE 27

Past HSC Question

10 The graph shows the demand for, and supply of, Australian dollars.



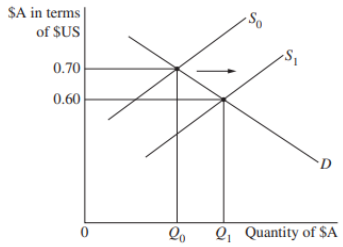
Which combination of shifts in the demand and supply curves must result in a depreciation of the Australian dollar?

	Demand curve shift	*Supply curve shift*
(A)	Left	Right
(B)	Left	Left
(C)	Right	Left
(D)	Right	Right

PAGE 28

Past HSC Question

The diagram shows movements in the Australian dollar against the US dollar.



(a) Outline a reason for the change in supply of the Australian dollar as shown in the diagram. **2**

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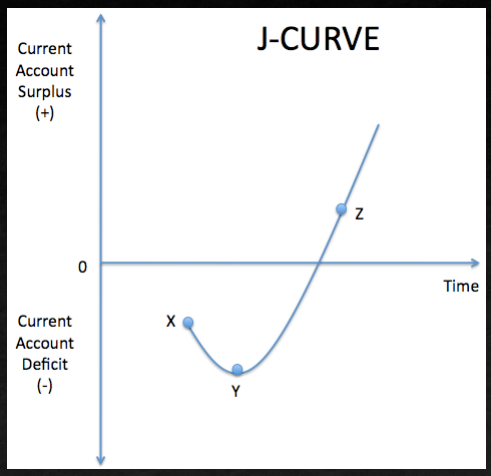
Increase in outbound tourists from Australia to USA. This means more Australian dollars will be supplied to the market. Answers could include:

- More imports
- Less capital inflows
- More capital outflows
- Speculation

PAGE 29

The Economic Effects of a Depreciation

- The direct short term impact of a depreciation is that a lower exchange rate will lead to higher import prices and lower export prices.
- However, over the long term this change should increase the international competitiveness of Australia's export sector and import competing industries.
- In the medium to long term a depreciation will lower export prices and should lead to a greater volume of exports being sold, which should lead to an improvement in the goods balance and therefore a lower CAD.



PAGE 30

Free Trade & Protection

Free trade and protection

- Australia's policies regarding free trade and protection
- Australia's multilateral and bilateral free trade agreements – (overview of two examples of each type of agreement)
- the implications of Australia's policies for individuals, firms and governments
- implications for Australia of protectionist policies of other countries and trading blocs.

- Australia now has some of the lowest tariffs and protection structures in the world. Australia has reduced protection below that which is agreed to do under the WTO agreements, or under free trade agreements.
- The average rate of tariff assistance has declined from 36% in 1969 to 1.8% in 2015

The *Productivity Commission Act 1998* defines government assistance to industry as:

> … any act that, directly or indirectly: assists a person to carry on a business or activity; or confers a pecuniary benefit on, or results in a pecuniary benefit to, a person in respect of carrying on a business or activity.

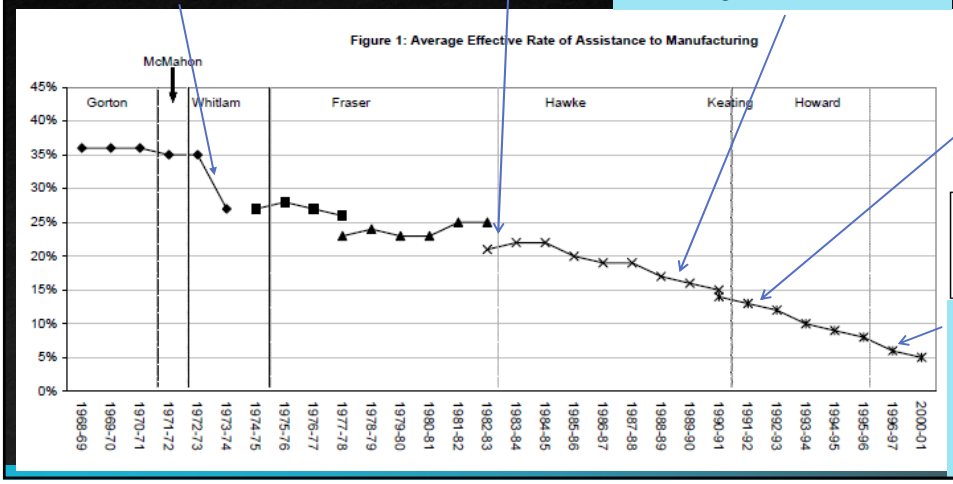
PAGE 31

<u>1973</u>
Whitlam 25% across the board reduction(although really to address inflation). The day before the cut quarterly inflation had risen by 3.3%

<u>1982/3-1987</u>
First 5 years of Hawke government, average rate fell 2%(to 19%).

<u>1988 tariff cut</u>
- tariffs above 15% to be reduced in annual steps to 15% in 1992.
- Tariffs between 10-15% to be reduced to 10%.
- Exceptions for textiles, clothing, footwear and cars.

<u>1991 cut</u>
- Cars tariff to continue to fall by 2.5% per annum, to 15% in 2000.
- Radical reduction in textile and clothing protection.
- For all other manufactured goods, the maximum tariff rate was to be reduced to 5% in 1996.

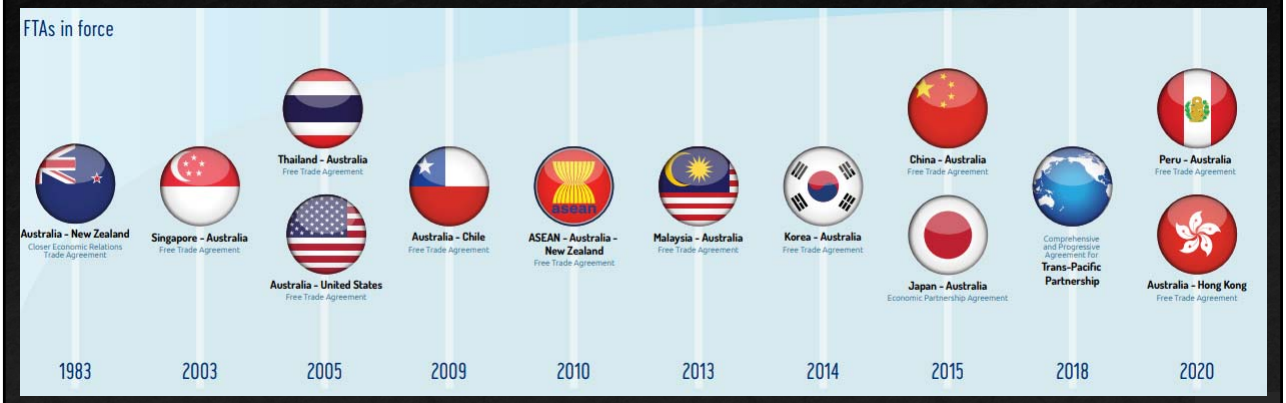


<u>Howard 1997</u>
PMV and Textile Clothing: Intention to achieve tariffs of 10% for cars, textiles and footwear by 2005.

PAGE 32

Australia's Bilateral Free Trade Agreements

- The Australian government has engaged in the process of bilateral free trade agreements with major trading partners.
- Australia had 13 regional and bilateral FTAs as at March 2020, including new agreements with Hong Kong and Peru that came into force on 17 January and 11 February 2020 respectively.



Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

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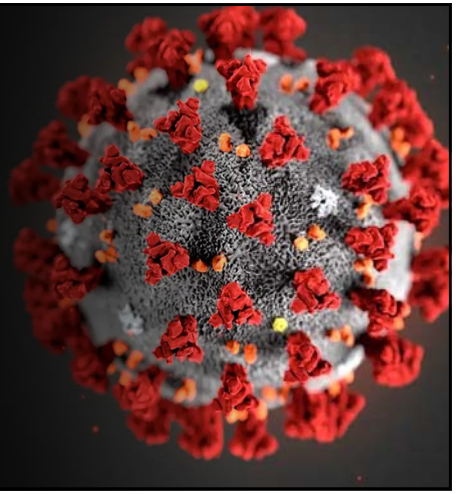
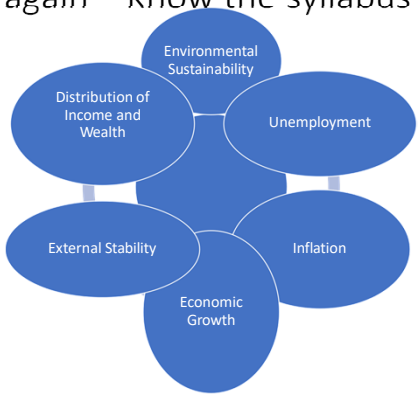
Then let's get going!

HSC Economics
Economic issues

…and the elephant in the room?



The refrain again – Know the syllabus



Statistics

Economics is a social science, so all commentary must be evidence-based.

Remember : know your stats

First, the numbers…

… and then there are words

THE CONVERSATION

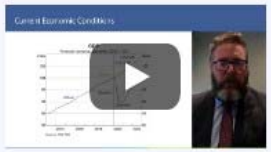
The Sydney Morning Herald
INDEPENDENT. ALWAYS.

THE AUSTRALIAN

And most importantly, visit the RBA, a lot

Summary of Current Economic Conditions – 7 May 2020

Mark Chambers, Deputy Head, Economic Analysis, talks about current economic conditions in Australia.



Let's look at each issue referred to in the syllabus, looking at the definition, measurement method, trends and how policy responses can affect the issue.

External Stability

Definition

- External stability refers to the situation in which Australia is able to meet its international commitments.
- This means being able to afford the imports we want and also being able to service any external debt we have accrued.

… and the syllabus says…

- **Measurement**

Current Account Deficit (CAD) as a percentage of Gross Domestic Product
Net foreign debt as a percentage of Gross Domestic Product
Net foreign liabilities as a percentage of Gross Domestic Product

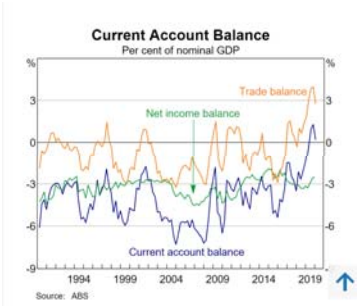
- **terms of trade**
- **exchange rate**
- **international competitiveness**
- **trends**
- positive and negative causes and effects
- Discuss the effect of a continued current account deficit on an economy

Measurement

- There are three important measures we examine when looking at our external stability:
  - The "current" section in the balance of payments
  - The exchange rate
  - The level of net foreign liabilities

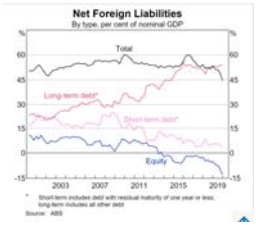
The CAD as a % of GDP

- Australia's persistent(!) CAD must be financed by a surplus in the Capital and Financial Account. The present situation of a Current Account Surplus means we are less reliant on foreign investment. Could this be due to supperannuation?



Net Foreign Liabilities (NFL) as a % of GDP.

- We service both **debt** and **equity** with interest and dividends
- There are two types of debt: public sector debt (est 10%) and private sector debt (est 90%)



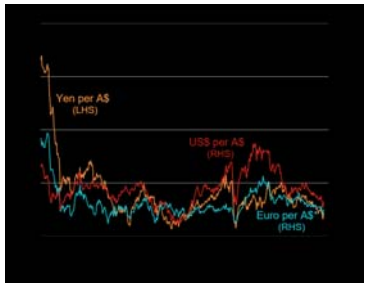
Net Foreign debt as % GDP

Pitchford Thesis – Consenting Adults

- Simply says that current account deficits (CAD) don't matter in an era of floating exchange rates, as the most debt is in the private sector.

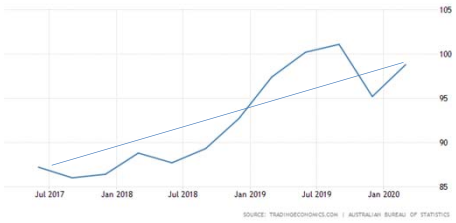
Exchange Rate

- The value of the AUD should be relatively stable over time and reflect changes in Australia's economic performance.



Terms of Trade

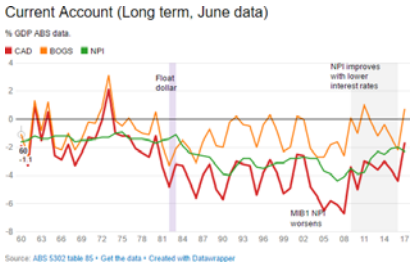
- **(export price index / import price index x 100.**
- Note the TREND



International Competitiveness

- Australia is an economy with high labour rates and relatively high transportation costs, Australia's relative lack of international competitiveness is a result in a narrow export base with a high dependency on commodity exports for which we are a price taker. In this way our external stability is very tied up with commodity prices, the terms of trade and the international business cycle

Trends



Past HSC Questions 2016

19 The table shows hypothetical data for the Australian economy.

Loans owed by foreigners to Australians ($ billions)	150
Loans owed by Australians to foreigners ($ billions)	600
Australian assets owned by foreigners ($ billions)	100
Foreign assets owned by Australians ($ billions)	250

What is the value of Australia's Net Foreign Liabilities?

(A) $300 billion
(B) $400 billion
(C) $600 billion
(D) $1100 billion

2009

8 The table shows selected data for an economy.

Real GDP ($bn)	*Net foreign liabilities* ($bn)	*Net foreign debt* ($bn)
1120	780	550

What is the value of net foreign equity as a percentage of real GDP?

(A) 20.5%
(B) 30.3%
(C) 49.1%
(D) 69.6%

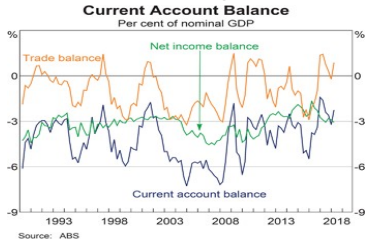
2008

(a)Define foreign direct investment (FDI) 2

(c) Analyse TWO possible consequences of foreign debt for an economy. 5

The CAD as a % of GDP

- Australia's persistent CAD was financed by a surplus in the Capital and Financial Account. This represents a the difference between domestic saving and investment.



Environmental Sustainability

Again the refrain, to the syllabus

- examine the economic issues associated with the goal of ecologically sustainable development
- use economic concepts to **analyse a contemporary environmental issue**
- *Environmental sustainability*
- ecologically sustainable development
- private and social costs and benefits – externalities, market failure
- public and private goods – free riders
- environmental issues:
  - preservation of natural environments
  - pollution, climate change
  - depletion of renewable and non-renewable resources.

Definition

- Australia's *National Strategy for Ecologically Sustainable Development (1992)* defines ecologically sustainable development as: 'using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, **now and in the future**, can be increased'.

Why is this an issue?

- The role of economists has shifted to apply **economic analysis** to environmental factors as aspects of the environment such as pollution, climate change, and rising fuel costs have impacted individuals, forms and governments.
- Intergenerational equity

Environmental sustainability and economics?

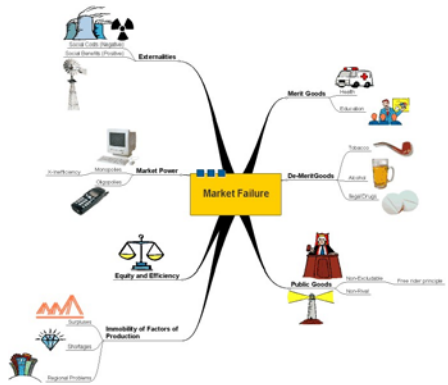
- **Scarcity.**

It is this concept that enables us to use supply and demand to arrive a price equilibrium that balances the needs and wants of producers and consumers.

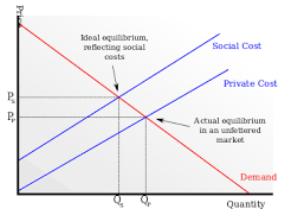
- **Market failure**

We can use economic rationale to explain how to change a price to include private and social costs and benefits (ie **positive** AND **negative** externalities)

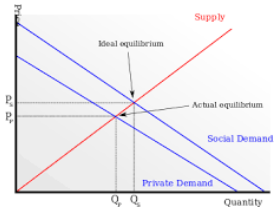
How does market failure work?



- An unintended negative outcome is not reflected in the price of the good.



- An unintended benefit is also not reflected in the price of the good.



More essential terms

Public goods

Non-excludable (ie anyone Can use even if they are not willing to pay eg street lighting

•**Non-rival** (ie, use by one Does not diminish the use by others, eg law and order)

Private Good

Purchased by one person, and its consumption prevents another from consuming it.

Provision of public goods

- Provided by the government
- BUT not all government provided goods are pubic goods. For example, public education is a **public sector** goods
- **Free riders**, people who do not pay for the good, but enjoy it anyway.

More detail on environmental issues

Preservation of natural environments

Preserved with access restrictions for leisure and commercial use/exploration/mining, programs to preserve endangered species and habitats, regulations in relation to emissions or negative externalities and remediation of sites after commercial exploitation or use.

Great Barrier Reef, Murray Darling Basin

Pollution and climate change

- Pollution is a consistent feature of industrialised economies with emissions from electricity generation (burning coal or gas), industry emissions, and vehicle emissions. BRIC economies, in particular, face challenges with rapid growth rates and rapid emissions and pollution increases especially in India and China. These emissions have led to global warming and the substantial risk of climate change.: changes in climate as a result of the level of carbon dioxide emissions.
- Review how an Emission Trading Scheme (ETS) works.

Depletion of renewable and non renewable resources

- renewable resources are those which can grow naturally (fishing, forestry etc), whereas non renewable resources are those that are consumed in the production or consumption process that will not regrow (fossil fuels, oil, coal, gold). Higher levels of economic growth are generally associated with higher levels of emissions and higher levels of depletion of non renewable resources. Consumption of non renewable resources generates intergenerational equity issues.

Coal power generation

Some HSC questions (2017)

18 It can be argued that a book in a public library is NOT a public good.

Which of the following explanations best supports this argument?

A. People can borrow a different book.
B. Only one person can read the book at a time.
C. Anyone can become a member of the library and borrow the book.
D. The contents of the book do not change regardless of the number of times it has been read.

2016 HSC

Q22

(a) Outline the difference between a *private benefit* and a *social benefit*. **2**

(b) Explain why developed and developing nations may take different approaches to environmental sustainability. 4

2015 Q21

(c) Explain how market-based policies can be used to address market failure in relation to environmental management. 5

Unemployment

Off to the syllabus  Unemployment

Measurement and trends (including calculations)

labour force
participation rate
unemployment rate

types and causes

cyclical, structural, frictional, seasonal, underemployment, hidden, long term

non-accelerating inflation rate of unemployment (NAIRU)
main groups affected by unemployment
effects of unemployment – economic and social costs (investigate)

3 calculations required

- **Labour Force** : all employed and unemployed persons at a point in time
- **Unemployment Rate** = $\frac{\text{Unemployed}}{\text{Labour force}} \times 100$
- **Participation Rate**: $\frac{\text{Unemployed + Employed}}{\text{Labour force}} \times 100$

Why is unemployment an issue?

- All economic systems have job creation at the heart because it an a critical input into the production process.
- When workers are idle there are significant costs to society in terms of foregone production, increased welfare costs and lower economic growth.

The main types of unemployment - seasonal

Regular seasonal changes in employment due to demand for labour

Structural Unemployment

Arises from the mismatch of skills and job opportunities as the pattern of labour demand I the economy changes

Frictional unemployment

Transitional unemployment due to people moving between jobs.

Cyclical unemployment

- Caused by a fall in the level of aggregate demand, leading to a decline in GDP and an uptick in unemployment.

Hidden Unemployment

- Those who are **NOT** in the labour force because they have given up looking for work, sometimes called discouraged workers.

Underemployment (underutilisation)

Long Term

- More than 12 months

Non Accelerating Inflation Rate Unemployment

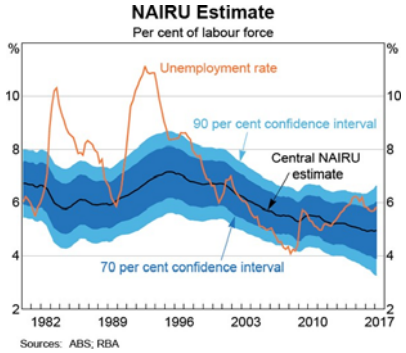
aka "**full employment**" and the **natural rate** of unemployment.

Closely aligned to the Keynesian idea of the nexus between changes in demand and the unemployment rate.

Does **NOT** include the cyclical unemployed

The NAIRU concept around the lower limit of unemployment below which the economy will experience accelerating price rises, due to both cost and demand inflation.

In Australia, it is around 5% of the labour force

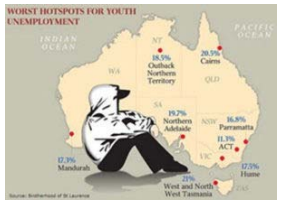


Importance of NAIRU

- Workers bargaining power - as unemployment falls, consumption increases, and business needs to lift production levels to meet the extra demand.
- The Phillips curve is a diagram that illustrates the inverse relationship between unemployment and inflation.

Main groups affected by unemployment

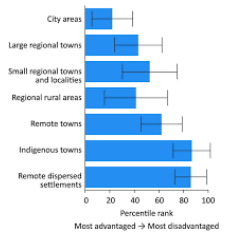
- Youth



Older workers

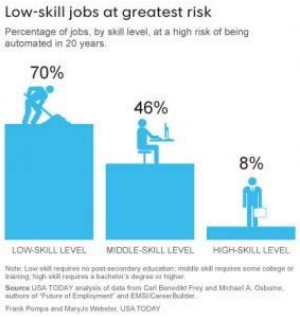
Indigenous Australians

Remote areas



New Migrants

Low skilled workers



Economic and social costs of unemployment

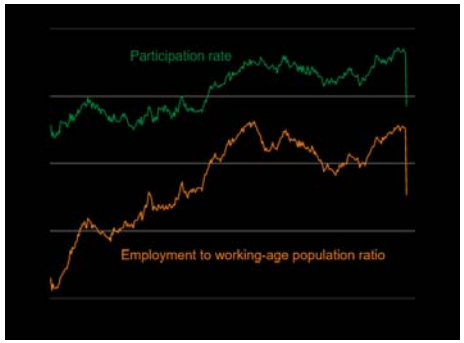
- An economic costs are quantified in financial terms
- Social costs are the personal human costs
- Although they are distinct within themselves, these costs are closely linked; economic costs can lead to social costs which have economic consequences.

Economic Costs	Social Costs
Opportuniitiy cost	Increased inequality
Lower living standards	Homelessness
Decline in labour market skills esp for long term unemployed	Increased debt
Costs to government	Decline in confidence and self esteem
Lower wage growth	Family tensions
	Social isolation

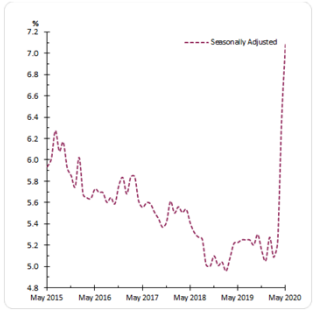
Policy responses

- Difficult to manage, and long time lags evident.
- Government responses can be hampered by the need for counter-cyclical policies that may exacerbate the problems for some groups
- A combination of policies directed at minimising the impacts of unemployment
- Conflicts with policy implementation can arise when there are differing views on the causes of unemployment.
- Need for a focus on education and training, policies to improve the matching of skills with the unemployed and also making it attractive to employ workers

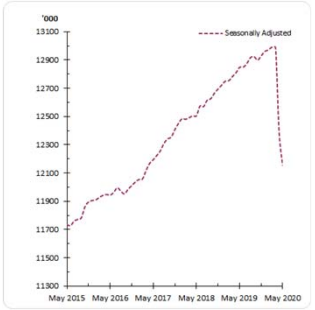
Trends



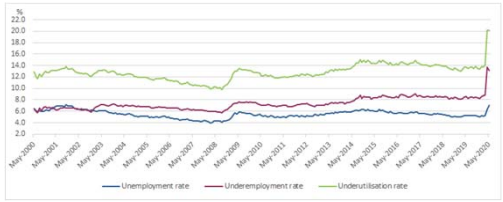
Unemployed



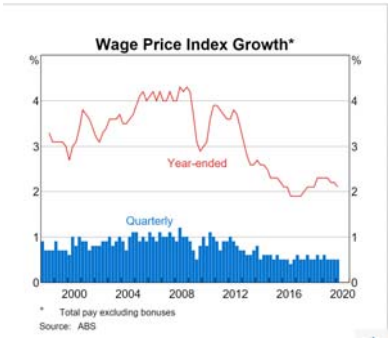
Employed



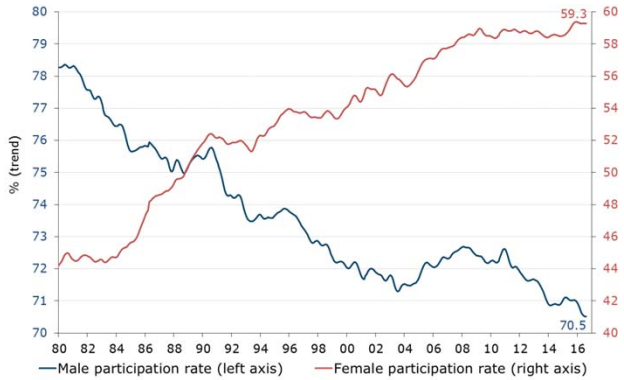
… and think about this one.



How might this affect unemployment levels?



By gender



2017 HSC

(a) Identify ONE type of unemployment that is present at full employment and ONE type of unemployment that is not. **2**

Present at full employment: .....

Not present at full employment: .....

(b) Explain how unemployment affects economic growth in an economy. **4**

2015

(a) How is the measurement of the unemployment rate in Australia influenced by hidden unemployment? **2**

(c) A country's economy is operating at the non-accelerating inflation rate of unemployment (NAIRU). **5**

What are the policy implications of this for the country's government if its aim is to reduce unemployment?

Distribution of Income and Wealth

Once again, we need to revisit the syllabus

- investigate recent trends in the distribution of income in Australia and identify the impact of specific economic policies on this distribution
- analyse the economic and social costs of inequality in the distribution of income
- interpret a Lorenz curve and a Gini coefficient for the distribution of income in an economy
- *Distribution of income and wealth*
- measurement – Lorenz curve and Gini coefficient
- sources of income as a percentage of household income
- taxation, transfer payments and other assistance
- sources of wealth
- dimensions and trends, according to gender, age, occupation, ethnic background and family structure
- economic and social costs and benefits of inequality

An equitable distribution if income and wealth is one of the 6 goals of economic management

It's achievement is fundamental to successful government of all political persuasions

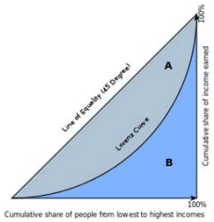
How it is achieved may differ across political parties

A society that is more equitable is more cohesive, less subject to instability and division and will impact the achievement of other economic goals

How to achieve this goal depends on your perceptions of the economic and social costs of inequality

… and the measurement method is…

- The **Gini coefficient** is the ratio of the area between the line of perfect equality and the Lorenz curve. The **Lorenz curve** is a graphical representation of wealth or income distribution. The **Gini** coefficient is used to express the extent of inequality in a single figure.



$$G = \frac{A}{A+B}$$

G: Gini coefficient
A: Area A, the area between the diagonal and the Lorenz curve
A+B: The whole area under the diagonal of equality.

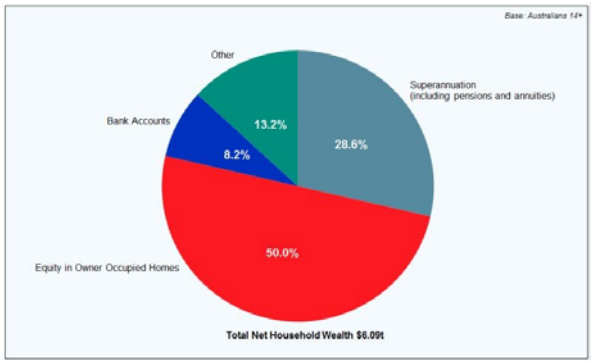
Income? Wealth?

- Language is important. It allows precision in our analyses and interpretation.

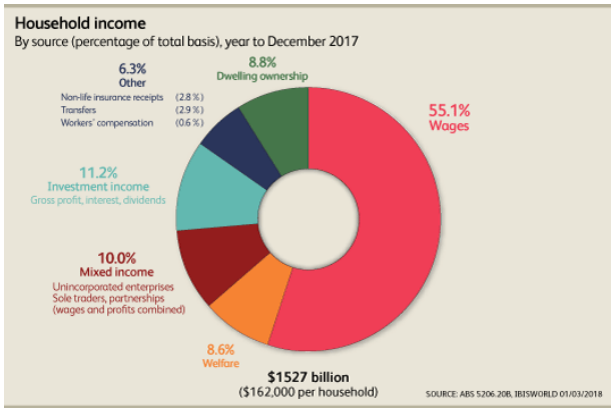
The Difference between Income and Wealth

Income	Wealth
Income is a **flow of money** going to factors of production	Wealth is the current **value of a stock of assets** owned by someone or society as a whole
Wages and salaries from jobs	Savings in bank accounts
Rental income from property	Ownership of property
Interest from savings	Shares / stocks in businesses
Profits flowing to shareholders	Wealth held in pension schemes

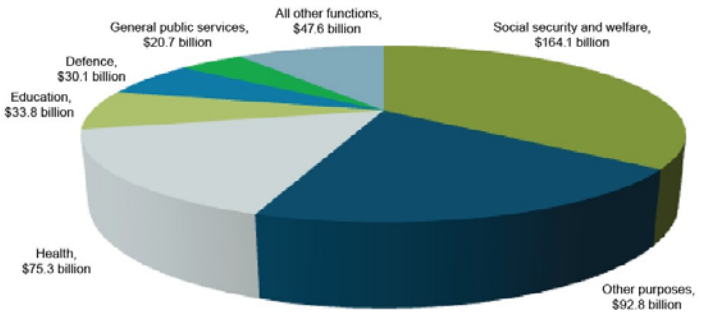
Sources of Household Wealth



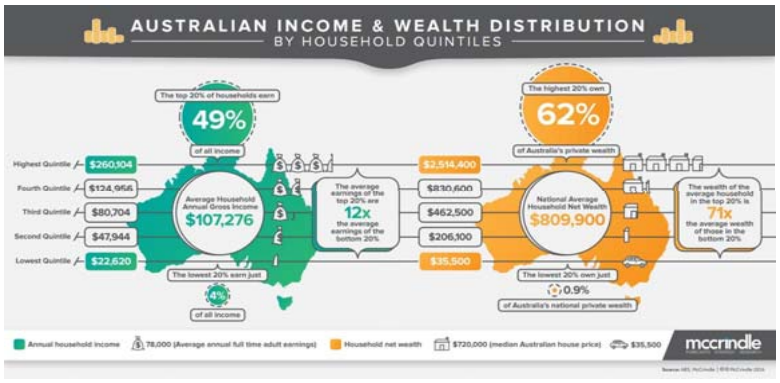
Sources of Household Income



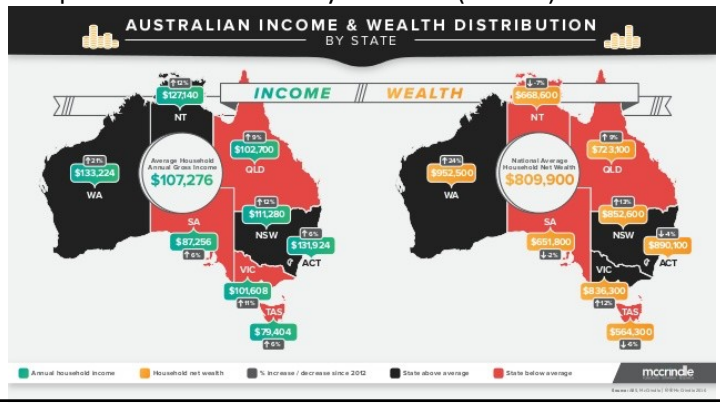
Taxation, transfer payments and other assistance



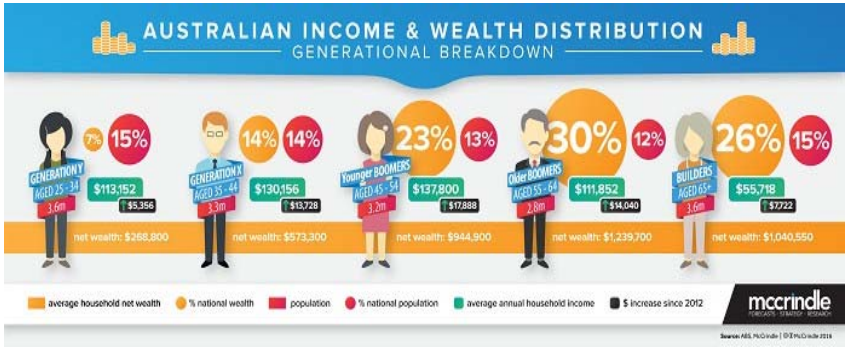
What dos Australia look like??



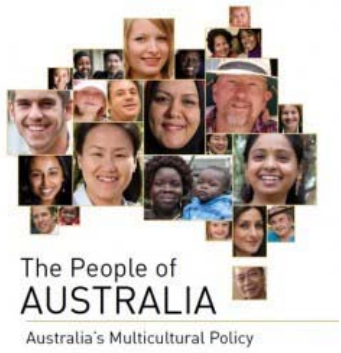
It depends on where you live (2016)



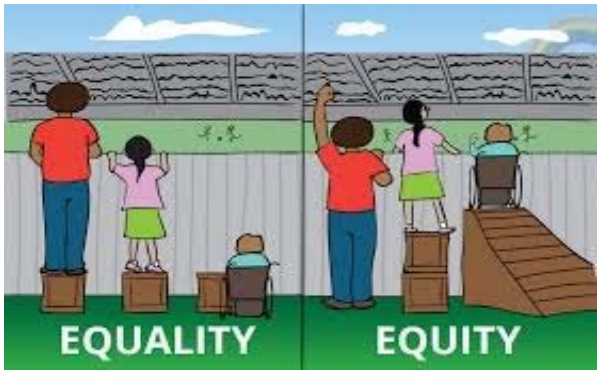
… and how old you are



… and where you come from



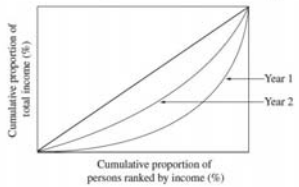
… but it doesn't come cheap!



Past HSC questions

2016, Question 8

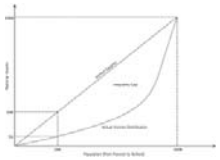
8 The diagram refers to the change in the distribution of income in a hypothetical economy.



Which of the following is most likely to increase as a result of the change in income inequality from Year 1 to Year 2?

(A) Consumption
(B) Labour force mobility
(C) Risk-taking by entrepreneurs
(D) Saving and capital investment

Question 23 (10 marks)
(a) The diagram shows the Lorenz Curve for an economy



ON the diagram, draw another Lorenz Curve that represents a MORE equal distribution of income for this economy. 1
(b) Outline an economic benefit of income inequality. **2**

(c) Why are average weekly earnings for males higher than average weekly earnings for females in Australia? 3

(d) Explain the ways in which fiscal policy can reduce income inequality. **4**

Definition

- Economic growth is the increase in the total value of all goods and services produced in an economy (GDP) over a period of time.

Why is economic growth an issue?

- There are pros and cons for increasing economic growth rates.
- There is the goldilocks theory of economic growth: not too much (inflationary), not too little (unemployment) but just right
- Are the goals and interests of firms, individuals and governments aligned at the same rate of growth?

The conflict looks like this

- Bobby Kennedy on GDP: 'measures everything except that which is worthwhile'

Economic Growth – the maths

$$\text{Economic Growth (\%)} = \frac{\text{real GDP (current year)} - \text{real GDP (previous year)}}{\text{real GDP (previous year)}} \times \frac{100}{1}$$

- Learn the formulae for how to measure changes in economic growth rates from year to year.
- We need this because we can then compare changes over time, as well as compare different economies.

… but there is more…

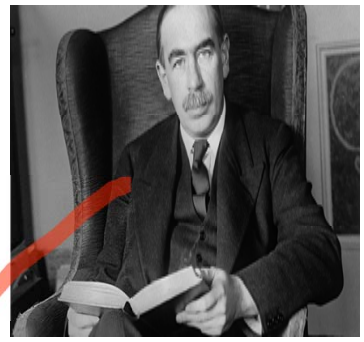
Real GDP = Nominal GDP /CPI

This enables you to compare changes in the **value** of goods and services produced by discounting inflation

Which model do we use?

NO!

YES!



Aggregate Demand and Supply - Keynes

- An important way to understand how a market economy operates.
- Aggregate demand – Total of all the expenditures in an economy over a period of time (hear economic growth?, GDP?)

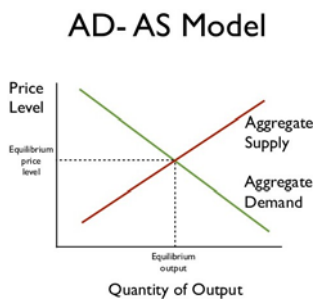
Formula: AD = C + I + G + (X-M)

This accounts for spending by all sectors, ie individuals (C), firms (I), and government (G), as well as net exports (X-M).

And, because spending needs to be spent on something, there needs to be a production equivalent or **aggregate supply**.

…and fortunately, we can demonstrate the concept with curves!

Aggregate Demand and Supply



But it doesn't end there…

We need a proof!

AD = C + I + G + (X – M)	Y = C + S + T
WHERE:	**WHERE:**
AD = aggregate demand	**Y** = aggregate supply or national income
C = consumer spending by households	**C** = consumer spending by households
I = investment spending by businesses	**S** = saving by households
G = government spending	**T** = taxation by the government
X = export revenue	
M = spending on imports	

… and equilibrium looks like this:

Equilibrium occurs when:

Aggregate supply = Aggregate demand

Y = AD

Substituting for aggregate demand gives:

Y = C+I+G+(X-M)

Substituting for aggregate supply gives:

C+S+T = C+I+G+(X-M)

By rearranging the equation:

S+T+M = I+G+X

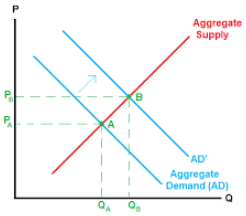
Leakages = Injections

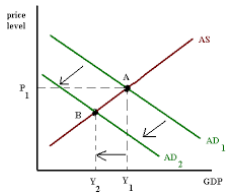
Breaking down the AD equation in Australia

- C = about 55% of total spending
- I = about 20% of total spending
- G = about 15% of total spending
- X-M is the remaining 10% of the total

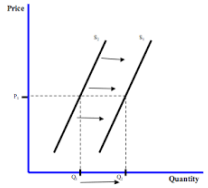
Policies can have a direct impact on economic growth through shifting the AD curve

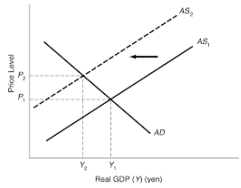
- Fiscal policy, with its focus on government spending and taxation revenue can be seen to directly impact on the **Aggregate Demand** curve, causing the AD curve to shift to either the right OR left, as required. This is called Keynesian economics.





And we can shift the Aggregate Supply Curve too!





Theses shifts occur through improvements in **efficiency** (measured through productivity), for example through the improvements in technology. This is called using supply side policies (or MER)

That's nice, but what does it mean?

- Once we understand the processes used in determining how economic growth is measured and where the impacts may be felt, we can then use that information to dig deeper into how different levels of growth impact different sectors in the economy, and how these changes amplified by **policy responses**.
- This can be used to predict an outcome so that impacts can be anticipated to a certain extent.

These are very useful in highlighting what policy responses are appropriate.

- There are 3 to choose from:

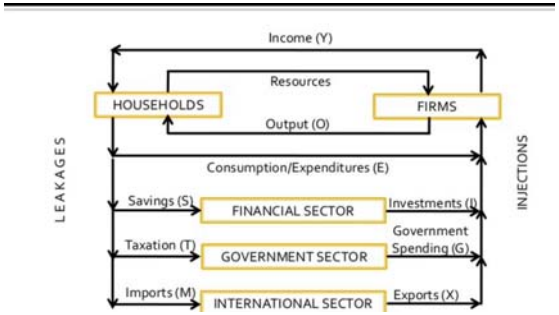
Fiscal Policy

Monetary Policy

Microeconomic Reform

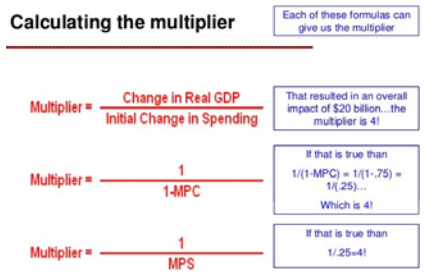
The movement can them be magnified

Remember this?



Through a process called the multiplier

Then there is more maths with the multiplier!



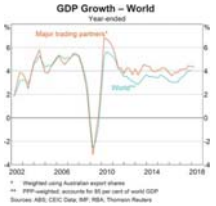
Where the multiplier = k

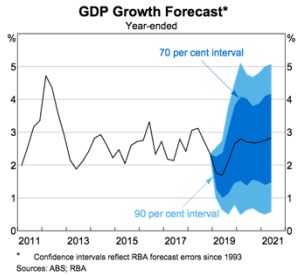
What goes up, can also come down

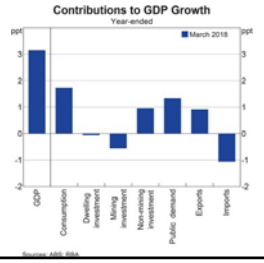
Positive Multiplier and Negative Multiplier Effects

Positive multiplier	Negative multiplier
When an initial increase in an injection (or a decrease in a leakage) leads to a greater final increase in real GDP.	When an initial decrease in an injection (or an increase in a leakage) leads to a greater final decrease in real GDP.

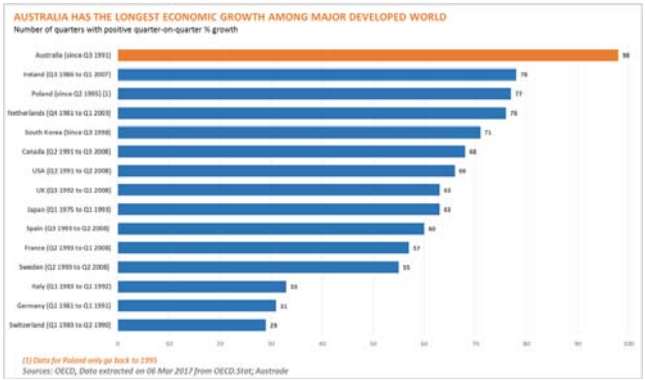
Trends in economic growth







… and an international trend



Australian contemporary scene

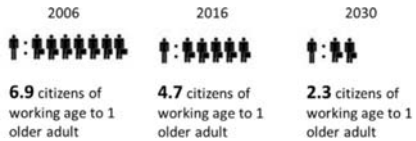
- Recent economic growth figures have been below trend, with expectations the we will continue to have a protracted period of below trend economic growth (“lower for longer”).
- Lower growth means lower inflation
- Lower inflation means lower interest rates

The virus does NOT impact the relevance of the syllabus dot points

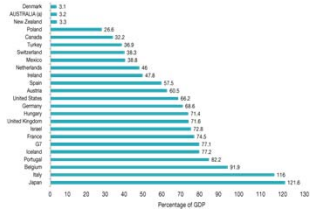
- **Economic growth**
- •aggregate demand and its components: Y = C+I+G+X–M
- • injections and withdrawals (I+G+X; S+T+M)
- • the simple multiplier: k = 1/(1–MPC)
- •measurement of growth through changes in real Gross Domestic Product
- • sources and effects of economic growth in Australia
- •increases in aggregate supply – improvements in efficiency and technology
- • trends in business cycle

Other factors

- Demographics
- An aging population



- Government debt – relatively small, but persistent.



Multiplier questions

(a) Calculate the simple multiplier for an economy in which the MPS = 0.25. 1

(b) How does the multiplier process increase national income? 2

12 The table shows selected data for a hypothetical economy.

Year	*C*	*S*	*I*
1	100	50	400
2	200	150	400
3	300	250	400

What is the value of the multiplier?

(A) 0.2
(B) 0.5
(C) 1.0
(D) 2.0

And some economic growth questions…

- Always, a calculation. Can be in multiple choice like this

14 The table shows hypothetical data for an economy.

G	M	T	I	X	S
25	60	30	20	70	35

Which statement about this economy is correct?

A. It is expanding because exports are greater than imports.
B. It is contracting because savings are greater than taxation.
C. It is expanding because injections are greater than leakages.
D. It is contracting because leakages are greater than injections.

Or a short answer, like this: (2008 HSC)

Question 21 (10 Marks)

(a) Calculate the simple multiplier for an economy in which the MPS= 0.25 **1**

(b) How does the multiplier process increase national income? **2**

(c) Outline ONE effect of economic growth on an economy. **2**

(d) Explain how ONE domestic influence and ONE global influence affects Australia's economic growth. **5**

Inflation

Inflation is a sustained increase in prices over a period of time.

Why is it an issue?

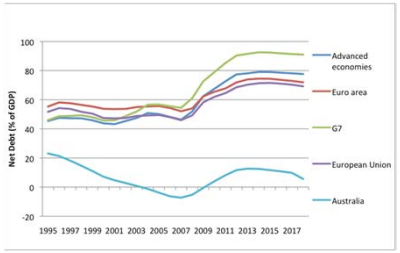
- The causes of inflation can vary
- The impact of inflationary pressures can effect some more than others
- Once it has started, it can be hard to control
- It can lead to a misallocation of scarce resources
- It can influence economic decision making, and not in the most efficient way.
- It can impact the achievement of other government goals
- It can be addressed through policy decisions of government, and this can lead to significant unintended consequences.

Measurement method

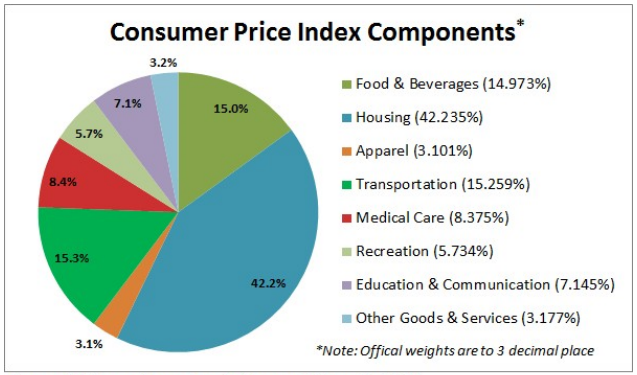
Consumer Price Index (CPI)

A **consumer price index** (**CPI**) measures changes in the price level of market basket of consumer goods and services purchased by households. The **CPI** is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

International Comparison



What's inside the basket?



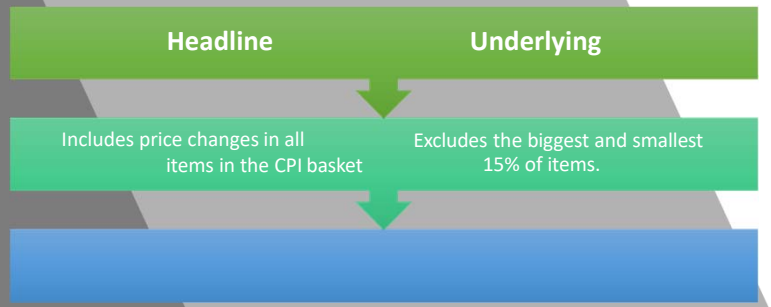
Source: BLS: The most recent reweighting was in December 2015.

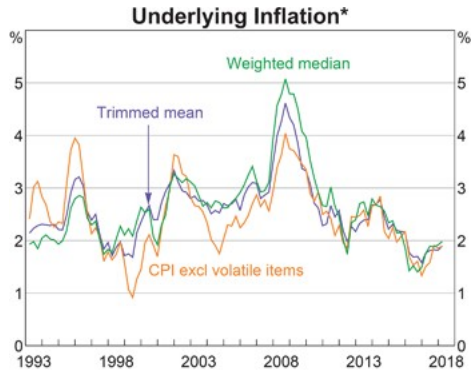
Measuring the change over time.

The equation:

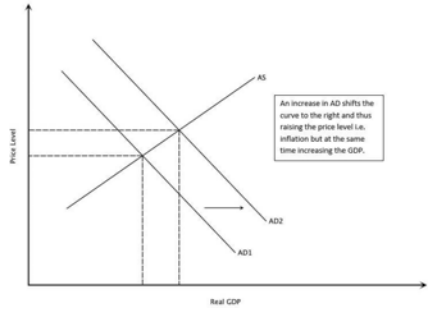
$$\text{Inflation rate in year 2} = \frac{CPI_2 - CPI_1}{CPI_1} * 100$$

Two types of inflation

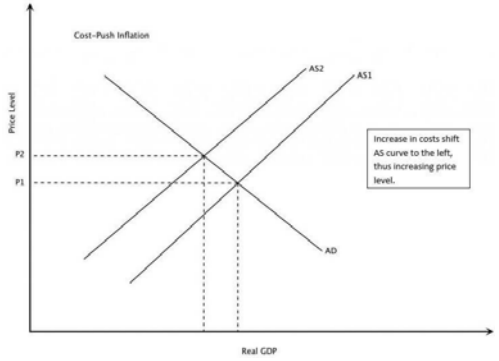




Four causes of inflation – Demand Pull



Cost Push



Inflationary Expectations

- If you think prices may be higher in the future, you may bring forward your purchasing decisions, causing an increase in consumption and more demand pull inflation

OR

- If you think prices may rise in the future, you may try to negotiate a higher wage increase in anticipation. This may lead to producers lifting their prices causing more cost push inflation

Imported inflation

- As the cost of imports rise due to inflation taking hold in the source country.

OR

- A depreciation in the AUD can also effect prices in the same way, ie more AUD required to purchase the import.

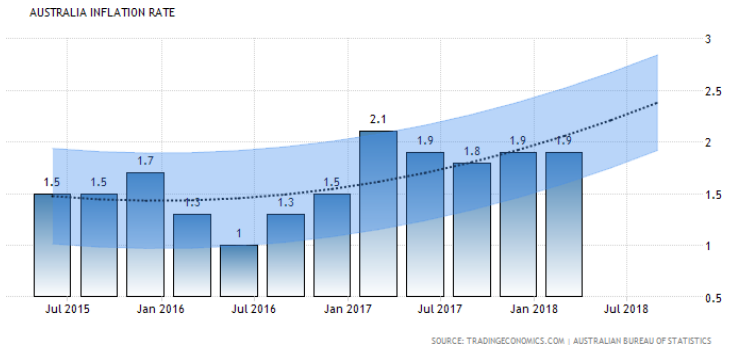
Effects of inflation

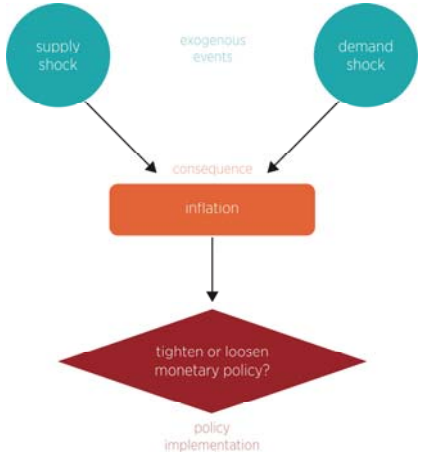
As with all the issues, there are both positive and negative effects of inflation.

It can be useful to construct a table that lets you see that any one factor can be both, and it can be tipped into the other side through the *animal spirits.*

Effect	Positive	Negative
Economic growth and uncertainty		
Wages		
Income distribution		
Unemployment		
International competitiveness		
Exchange rate		
Interest Rates		

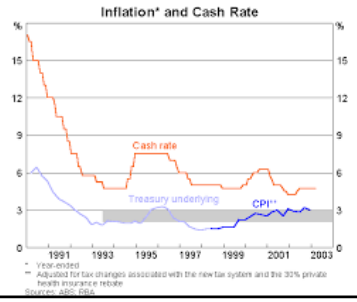
Trends – note "The Band"





Policy response

- The major tool is monetary policy, and since the RBA formally adopted inflation targeting in the early 1990s, you can see how effective it has been.



Typical inflation HSC questions

18 The table shows hypothetical data for the Australian economy.

Year	*$A in terms of $US*	*Headline inflation (%)*
1	0.70	2
2	0.75	1

All other things being equal, how did the purchasing power of Australian consumers change overseas and domestically from Year 1 to Year 2?

	Purchasing power of Australians travelling overseas	*Purchasing power of Australian consumers domestically*
(A)	Increased	Increased
(B)	Decreased	Increased
(C)	Increased	Decreased
(D)	Decreased	Decreased

From the 2012 HSC

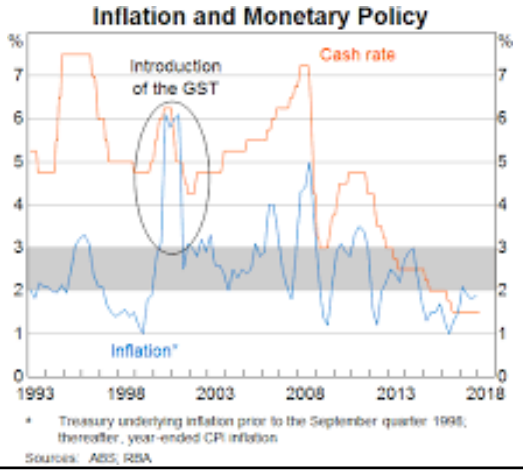
- **Question 22** (10 marks)

(a)The consumer price index (CPI) is 120 in Year 1 and 126 in Year 2.
Calculate the inflation rate between Year 1 and Year 2. 1

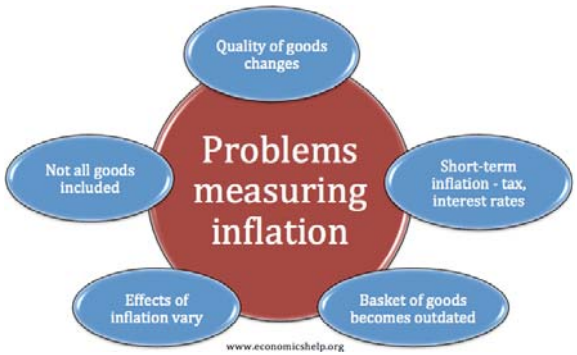
(b) What is the difference between the *headline rate* and the *underlying rate* of CPI inflation? 2

(c) How might inflationary expectations affect inflation? **3**

(d)Explain the possible effects on the domestic economy if domestic inflation is high relative to inflation in other countries. 4



Limitations of the measurement method



Economic Issues Skills Practice (HSC Questions)

1. The table shows selected data for a hypothetical economy.

Year	*C*	*S*	*I*
1	100	50	400
2	200	150	400
3	300	250	400

What is the value of the multiplier?

(A) 0.2

(B) 0.5

(C) 1.0

(D) 2.0

2. The table shows hypothetical data for an economy.

G	M	T	I	X	S
25	60	30	20	70	35

Which statement about this economy is correct?

A. It is expanding because exports are greater than imports.

B. It is contracting because savings are greater than taxation.

C. It is expanding because injections are greater than leakages.

D. It is contracting because leakages are greater than injections.

3.

The following information refers to a hypothetical economy.

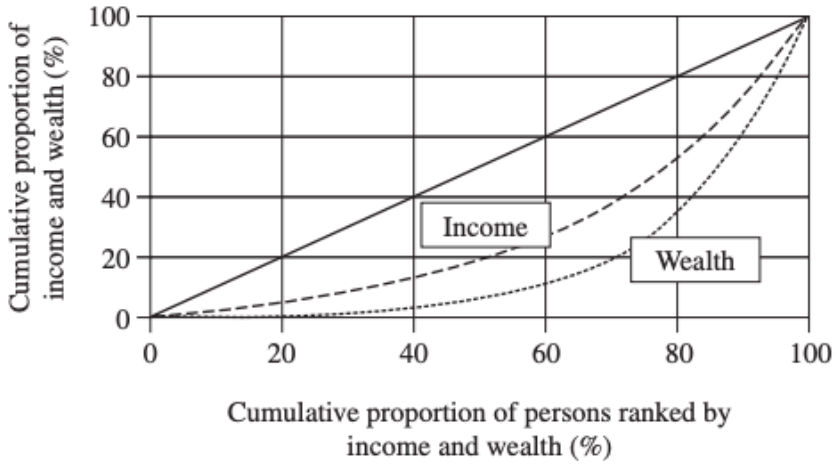
Year	*Real GDP* ($ billion)	*Consumer price index* (CPI)	*Unemployment rate* (% workforce)	*Current account balance* (as a % of real GDP)
1	1000	100	8.9	–4
2	1100	110	6.2	–4.5
3	1220	132	3.5	–5.5

(a) Calculate the inflation rate in Year 3. **1**

.....

.....

4. The diagram refers to the distribution of income and wealth in a hypothetical economy.



According to the diagram, which statement is correct for this economy?

(A) Wealth has a higher Gini coefficient than income and the distribution of wealth is more unequal than the distribution of income.

(B) Income has a higher Gini coefficient than wealth and the distribution of income is more unequal than the distribution of wealth.

(C) Wealth has a lower Gini coefficient than income and the distribution of wealth is more unequal than the distribution of income.

(D) Income has a higher Gini coefficient than wealth and the distribution of income is more equal than the distribution of wealth.

5. The table shows employment data for a hypothetical economy.

Year	*Population* (millions)	*Working age population* (millions)	*Number employed* (millions)	*Number unemployed* (millions)
1	10	5	2	1
2	20	8	3	2
3	30	16	7	3
4	40	20	9	6

In which year is the unemployment rate 40% and the participation rate 62.5%?

A. 1

B. 2

C. 3

D. 4

6. The table refers to a hypothetical economy.

Year	*National income* ($)	*Savings* ($)
1	1000	400
2	1500	500
3	2000	600

If the government wishes to raise the level of national income by $1000 in Year 4, by how much will it have to increase investment?

(A) $100

(B) $200

(C) $500

(D) $800

7. Australia's headline annual (CPI) inflation rate has fallen from 3% to 2%, while the underlying annual inflation rate remains unchanged at 3%.

The divergence between these two measures of inflation is most likely due to

(A) a decrease in house prices.

(B) an increase in house prices.

(C) a decrease in world oil supply.

(D) an increase in world oil supply.

8. The table shows selected data for a hypothetical economy.

Year	*Money GDP* ($ millions)	*Population* (millions)	*CPI*
1	1000	100	100
2	1500	150	110

All other things being equal, how are real Gross Domestic Product (GDP) and the Human Development Index (HDI) most likely to change from Year 1 to Year 2?

(A) Real GDP and the HDI both increase.

(B) Real GDP and the HDI both decrease.

(C) Real GDP decreases and the HDI increases.

(D) Real GDP increases and the HDI decreases.

9. The table shows selected data for an economy.

Year	*Nominal GDP*	*Real GDP*
2013	100	100
2014	105	103

According to the data, what has happened to the consumer price index (CPI) between 2013 and 2014?

(A) The CPI has fallen by less than the change in nominal GDP.

(B) The CPI has fallen by more than the change in nominal GDP.

(C) The CPI has risen by less than the change in nominal GDP.

(D) The CPI has risen by more than the change in nominal GDP.

10. The table shows economic information for a hypothetical economy experiencing cyclical unemployment.

Non-accelerating inflation rate of unemployment (NAIRU)	5%
Marginal propensity to consume (MPC)	0.8
Change in national income (Y) required to reach full employment	$5 billion

The government of this hypothetical economy increases its expenditure by $1 billion.

All other things being equal, what will be the consequence of this action?

A. National income will rise by $1 billion.

B. The rate of unemployment will equal the NAIRU.

C. The NAIRU will exceed the rate of unemployment.

D. The economy will experience a rapid increase in inflation.

Economic Policies & Management

Richard Nikolovski

Head Teacher Georges River College Oatley Senior Campus

PAGE 1

Presentation Outline

- Economic Objectives
- Macroeconomic Policies
- Microeconomic Policies

PAGE 2

Economic Objectives

- economic growth and quality of life
- full employment
- price stability
- external stability
- distribution of income
- environmental sustainability

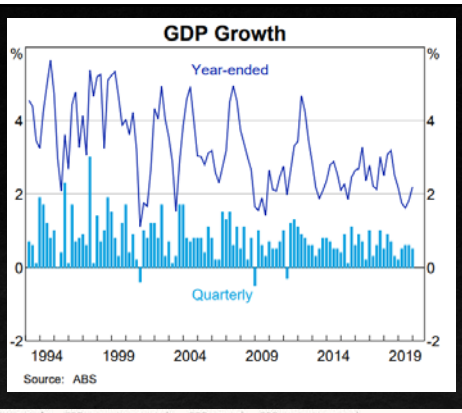
PAGE 3

Economic Growth

"28 years of economic expansion"

Growth in real GDP which is at a sustainable rate in terms of resulting in employment growth and rising real incomes

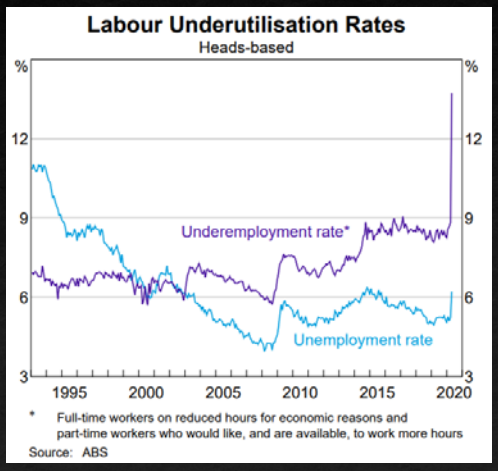
- ❑ *Growth has averaged approx. 3-4% since 1994*
- ❑ *Slowed to 2.5% between 2012-2018*
- ❑ *Australian GDP fell 0.3% in the March quarter 2020*

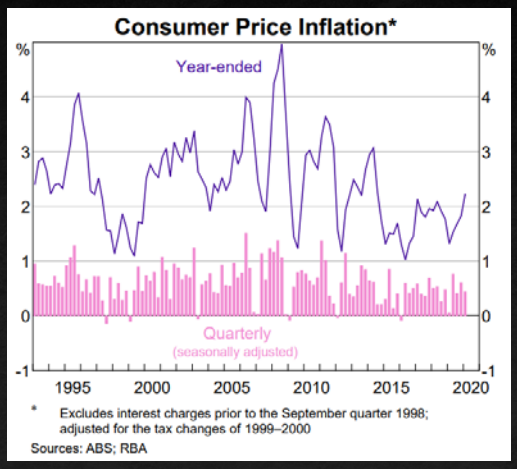


PAGE 4

Internal Balance *"low unemployment, low inflation"*

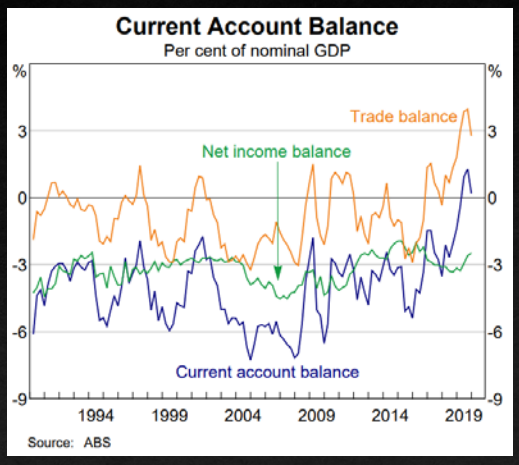
The achievement of full employment and price stability (2-3%)

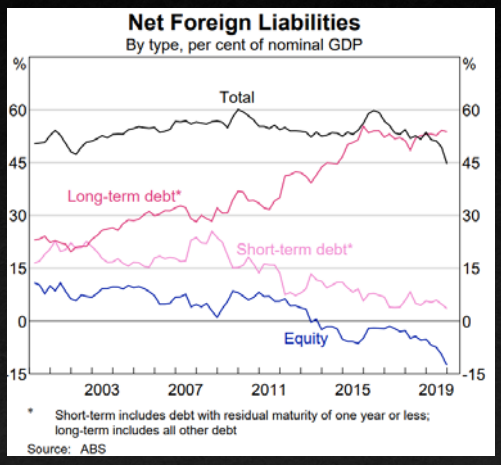




PAGE 5

External Balance *"CAD, stability of the exchange rate, level of net foreign debt"*





PAGE 6

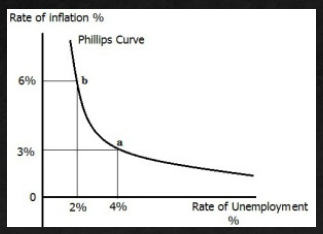
Past HSC Question - 2016

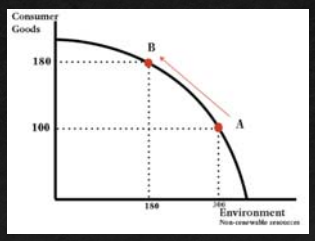
Question 26 (20 marks)

Explain why an Australian Government may not be able to achieve all of its economic objectives. In your response, refer to the economic information provided.

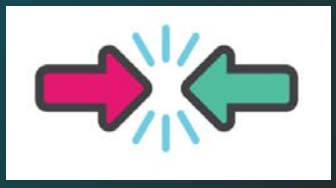
TRADEOFF

- Price Stability vs full employment
- Economic growth vs environmental quality
- Economic growth vs external balance





Potential conflicts among objectives



PAGE 7

Macroeconomic Policies "Policies aimed at stabilising Aggregate Demand"

The two main macroeconomic policies are:

- **Monetary Policy** - involves changes in the cash rate which influences interest rates in the economy. Monetary Policy is managed by an independent board of the Reserve Bank of Australia and its primary role is to the achieve the objective of *internal balance*.

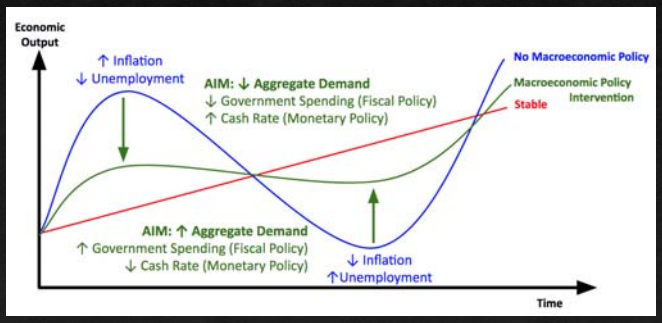
- **Fiscal Policy** - changes in level and composition of government spending and taxation. The only macroeconomic policy directly controlled by government.

PAGE 8

Macroeconomic Policies "policies aimed at stabilising Aggregate Demand"

The goal of macroeconomic policy is to provide a stable economic environment that is conducive to fostering strong and sustainable economic growth, on which the creation of jobs, wealth and improved living standards

The impact on the economy is in the short to medium term (6 - 24 months)



PAGE 9

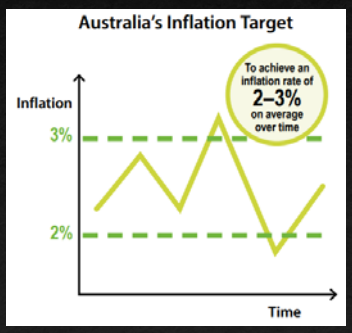
Monetary Policy

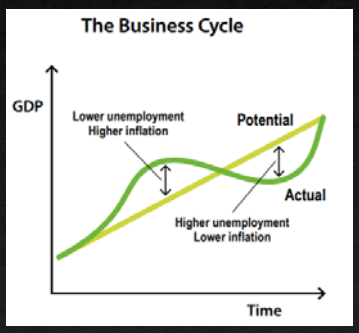
"Monetary policy involves using interest rates to influence aggregate demand, employment and inflation in the economy. It is one of the main economic policies used to stabilise business cycles"

Objectives

The Reserve Bank Board sets interest rates so as to achieve the objectives set out in the *Reserve Bank Act 1959*

- the stability of the currency of Australia;
- the maintenance of full employment in Australia; and
- the economic prosperity and welfare of the people of Australia.





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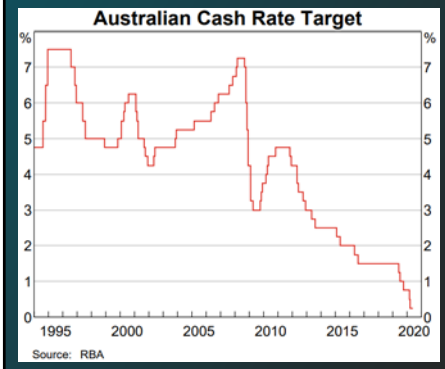
Recent Conduct of Monetary Policy



- Monetary policy is conducted in accordance with the inflation target, to hold the inflation rate between 2-3% over the business cycle
- Monetary Policy was the main instrument to support Australia's economic recovery following the GFC (2008-9). Rate was cut from 7.25% (Sept 2008) down to 3% (April 2009).
- The RBA has adopted an expansionary stance of monetary policy since November 2011. The cash rate has been progressively eased 17 times, from a rate of 4.75% in November 2011, cut down to 0.25% March 2020.
- However, following the Australian bushfire crisis and the Covid-19 pandemic, the stance of monetary policy has been eased further due to exceptional circumstances, falling from a rate 0.75% in February 2020, down to 0.25% March 2020.
- Monetary policy acts with a 'long and variable lag' and the RBA is forward-looking when determining policy decisions.

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Past HSC Question

10 The central bank of a hypothetical economy reduces the cash rate.

All other things being equal, what is the likely effect of this action?

A. A decrease in consumer expenditure

B. An increase in the rate of unemployment

C. An appreciation of the economy's exchange rate

D. An increase in the price of assets in the economy

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Fiscal Policy

"Fiscal policy is the Australian government's use of its annual budget to affect the level of economic activity, resource allocation and income distribution"

- The federal budget is an annual statement of expected government revenue and expenditure for the forthcoming year.
- The budget strategy and stance of fiscal policy can influence the achievement of the government's objectives of economic growth, internal and external balance.
- The two main instruments of fiscal policy are government spending (G) and taxation (T).
- Changes in the level of taxation and expenditure can impact:
  - Aggregate demand and the general level of economic activity
  - Pattern of resource allocation
  - Distribution of income between high, middle and low income earners
- The budget has inbuilt automatic stabilisers, progressive taxation and welfare payments, which help offset the extremes of the business cycle.

PAGE 13

Past HSC Question

16 Which of the following is an example of a fiscal policy that is both contractionary and discretionary?

A. Decreased tax-free threshold

B. Increased infrastructure spending in rural regions

C. Increased spending due to unexpectedly higher unemployment

D. Decreased unemployment expenditure due to higher than forecasted economic growth

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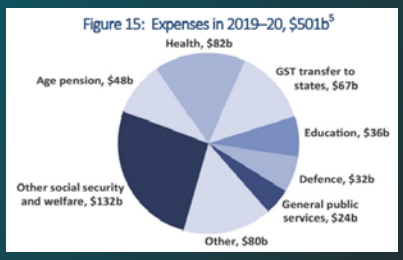
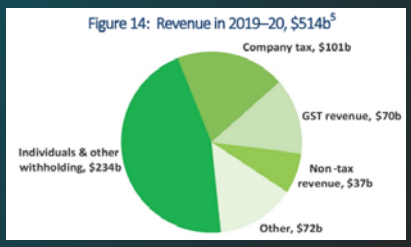
Recent Trends in Fiscal Policy





- The 'Budget Repair Strategy' was designed to deliver sustainable budget surpluses building to at least 1% of GDP as soon as possible. Deficit has fallen from -$35 billion in 2016-17 to -$7.4 billion in 2018-19.
- The government's medium term fiscal strategy has been to achieve a budget surplus over the course of the economic cycle. The budget was expected to deliver a small surplus of $3.7billion by 2019-20.
- However, the Covid-19 pandemic has forced the government to postpone the 2020-21 budget until October.
- The Australian government has introduced a large range of fiscal support measures to mitigate the effects of the coronavirus pandemic on households and businesses.
  - $70 billion JobKeeper wage subsidy scheme to help guarantee jobs for up to 6 months. $1500 per fortnight per employee.
  - Early release of superannuation. Individuals to access up to $10000 in 2019-20.
  - Coronavirus supplement ($14.1billion) of $550 per fortnight for Jobseeker paid for the next 6 months.

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Past HSC Question

(c) Analyse how ONE possible strategy to reduce the budget deficit could affect income distribution. **4**

One strategy to reduce the budget deficit is to increase the GST. Other things being equal, increasing the GST would increase government revenue and reduce the budget deficit. The GST is a regressive tax because it is a flat rate on all taxpayers and lower income earners spend a higher proportion of income. Raising the GST would increase the relative burden of taxation on lower income households therefore increasing income inequality. Could also include.
- Improve or worsen income distribution
- Progressive Income Taxation
- Changes to transfer payments
- Various changes to taxation and expenditure

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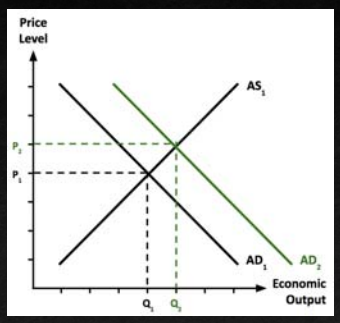
Expansionary Fiscal and Monetary Policy

Graphical Analysis

When the RBA decreases the cash rate or when the federal government decides to increase government spending and/or decrease the level of taxation, this will have an expansionary effect on aggregate demand and economic activity. This is expressed in the diagram below.



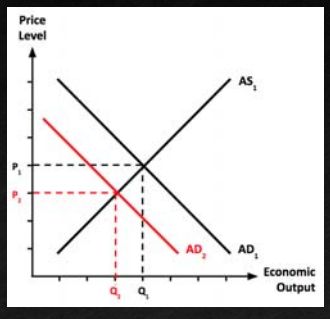
An increase in aggregate demand will **shift right** from AD_1 to AD_2. This will **increase economic output** from Q_1 to Q_2 and put **upward pressure on prices** from P_1 to P_2 which leads to inflation.

PAGE 17

Contractionary Fiscal and Monetary Policy

Graphical Analysis

When the RBA increases the cash rate or when the federal government decides to reduce government spending and/or increase the level of taxation, this will have an contractionary effect on aggregate demand and economic activity. This is expressed in the diagram below.



A decrease in aggregate demand will **shift left** from AD_1 to AD_2. This will **decrease economic output** from Q_1 to Q_2 and puts **downward pressure on prices** from P_1 to P_2.

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Past HSC Question

11 Which change in budget outcomes from Year 1 to Year 2 represents an expansionary fiscal stance?

	Budget outcome in Year 1	*Budget outcome in Year 2*
A.	$5 billion surplus	$10 billion surplus
B.	$10 billion deficit	$5 billion deficit
C.	$10 billion deficit	$15 billion surplus
D.	$10 billion surplus	$5 billion deficit

Past HSC Question

Use the table to answer parts (a) and (b).

The following information refers to a hypothetical economy.

Year	*Real GDP* ($ billion)	*Consumer price index* (CPI)	*Unemployment rate* (% workforce)	*Current account balance* (as a % of real GDP)
1	1000	100	8.9	–4
2	1100	110	6.2	–4.5
3	1220	132	3.5	–5.5

(b) Justify an appropriate monetary policy stance for this economy. Support your answer with reference to the economic indicators provided. **4**

Monetary policy stance .....

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Stance: Contractionary Monetary Policy The economy is experiencing growth above the ideal rate, as indicated by increasing high inflation, rapidly falling unemployment and increase in CAD (as a % of GDP). The increased cash rate will reduce aggregate demand, decreasing output hence slowing employment growth. This will also decrease inflationary pressures. The slower growth will also reduce demand for imports and stabilise the cyclical part of the CAD.

Microeconomic Policies "faster growth, with greater flexibility"

The goal of microeconomic policy is to raise the economy's level of efficiency, productivity and international competitiveness. It works on the supply (production) side and is used to increase an economy's long run aggregate supply curve.

How does microeconomic policy work?

1. Decreased government intervention in markets, leads to greater competition in markets.
2. Increased competition creates pressure on firms to increase their productivity and technical efficiency – reducing cost push inflation.
3. This increase in competition also puts pressure on firms to decrease prices and improve their services.
4. Increase competition also acts to spur increased dynamic efficiency to adjust to new market conditions.
5. Decreased cost pressures and reduced prices improve the allocation of resources and increase AS.

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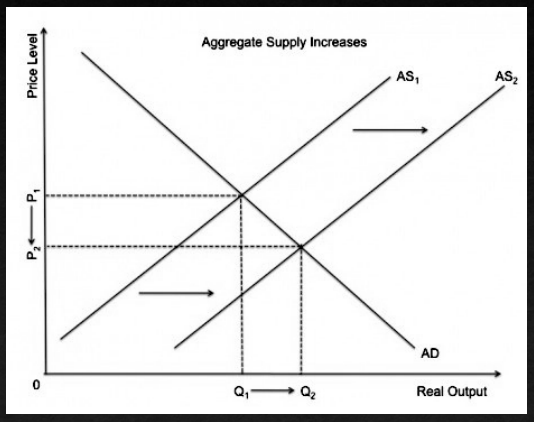
Microeconomic Reform

Graphical Analysis

The aim of microeconomic policies is to shift the aggregate supply curve to the right. This leads to an increase in output (economic growth) and a lower price level.



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Microeconomic Policies "faster growth, with greater flexibility"

Microeconomic reform policies were used widely by the Hawke and Keating governments in the 1980s and 1990s as a means of raising the efficiency of production, competition in markets, and the productivity of labour and capital.

Microeconomic reform of factor and product markets include:

- Decreased border protection – exposure to international trade and competition
- Deregulation of financial markets – 1983 increased competition and financial services
- Floating of the dollar – reflect market forces and cushion the economy from external shocks
- Reforming the tax system – Broadening of tax base and changing tax mix
- Labour market decentralisation – decentralisation of wage negotiations
- Privatisation – reform of public monopolies
- Competition policy – Competition Policy Act 1995 to reduce anti-competitive behaviour

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Past HSC Question

(c) Why might it be difficult to implement microeconomic reform during a period of low economic growth? **3**

Microeconomic reform typically involves long-term benefits and short run costs (higher structural unemployment). During periods of low economic growth the newly unemployed will find it harder to find jobs. Governments may therefore be reluctant to undertake such reforms.

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Microeconomic Policies "faster growth, with greater flexibility"

- Microeconomic reform has made the economy more flexible and resilient in the face of economic shocks.
- Microeconomic reform in the late 80's and early 90's is assumed by most economists to have led to a surge in the rate of productivity improvement in the second half of the 1990s.
- Greater competition within many product markets, the floating of the dollar and a move from centralised wage-fixing to bargaining at the enterprise level, in particular, have greatly reduced the problem of cost-push inflation pressure and made the economy less inflation prone.
- Greater labour market flexibility has also made the economy less unemployment-prone, as shown by employers preference for shorter hours rather than layoffs during periods of economic contraction.
- The more flexible an economy becomes, the easier it is for the government to achieve internal balance (low inflation, low unemployment) and a stable rate of economic growth.

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Past HSC Question

(d) Explain how labour market reforms can help government achieve the objectives of full employment and price stability in the long term. **4**

Reforms such as deregulation of the labour market should help achieve full employment by making workers more affordable to firms and more mobile, ensuring that they can easily be re-allocated from declining to growing industries. Deregulation of the labour market can also help price stability by reducing the bargaining power of workers in negotiating wages and conditions. This reduces the pressure on firms to raise product prices.

Answers could include:
- Improved training and education equips labour force with skills improving employment prospects
- Linking of wages more closely to productivity improves affordability of labour thus improving both full employment and price stability
- Reduction of employment compliance costs for firms

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