Chapter 11

THE AUSTRALIAN ECONOMY

INTRODUCTION

'Interest rates to rise'; 'The Australian dollar steady'; 'Unemployment falling'; 'Consumer spending contracting'; 'Inflation rate at ten-year low'. Such headlines appear regularly in our media. You may think that such issues have little impact on your lifestyle. However, whether you can find a job, afford to buy a car, take an overseas holiday or obtain a loan depends on events in the economy. The health of the economy affects us all.

Economic knowledge and understanding

- Describe how government policies affect the economy, society and environment.
- Analyse the role and significance of exchange, trade and globalisation in influencing Australia's standard of living.
- Analyse the role that governments and other institutions play in the economy.
- Explain the role and significance of savings and investment for individuals and for the economy.
- Predict economic consequences of proposed government policies.
- Explain the impact of macroeconomic and microeconomic policies on individuals.

Economic reasoning and interpretation

- Use economic reasoning, including cost–benefit analysis, to research and propose solutions to economic issues and problems.
- Plan and conduct investigations in order to research an economic problem.
- Use relevant economic concepts and relationships to evaluate economic propositions, proposals and policies, and debate the costs and benefits of contentious economics-related issues of local, national or international concern.
- Interpret reports about current economic conditions, both national and global.
- Demonstrate an awareness of the impact of values and beliefs on economic issues.

The Australian economy is a complex system.

GLOSSARY

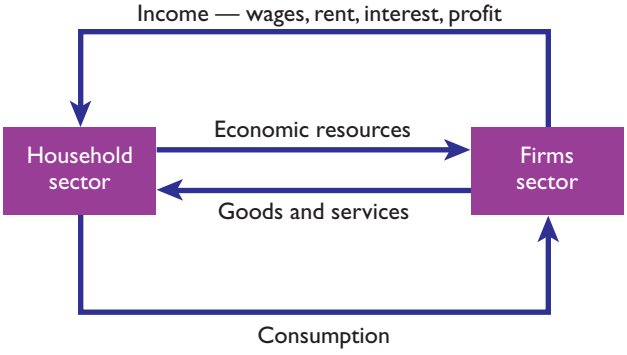
appreciation: an upward movement of the Australian dollar (or any currency) against another currency
balance of trade: the difference between the money received by a country when exporting goods and services and the money paid to other countries when importing goods and services. If more is imported than exported, there is a negative balance of trade.
business cycle: the cyclical fluctuations in the level of economic activity that an economy goes through over time
Consumer Price Index (CPI): measures quarterly changes in retail prices of about 80 000 goods and services
deficit budget: a budget where spending exceeds income
depreciation: a downward movement of the Australian dollar (or any currency) against another currency
depression: a severe contraction in the level of economic activity resulting in many business failures, high and sustained levels of unemployment
ecological sustainability: economic growth that meets the needs of the present population without endangering the ability of future generations to meet their needs
economic growth: an increase in a nation's gross domestic product
environmental footprint: the impact of human activity on the Earth's natural environment
exports: Australian-produced goods and services which are sold overseas
fiscal policy: spending and taxing by the government to influence the level of economic activity
foreign exchange (forex or **fx) market:** this market determines the price of one currency relative to another
foreign exchange rate: the ratio of one currency to another; it tells how much a unit of currency is worth in terms of another
globalisation: a trend that sees people, goods, money and ideas moving around the world faster and cheaper than before
gross domestic product (GDP): the total value, in dollars, of goods and services that a nation produces
imports: overseas-produced goods and services which are sold in Australia
inflation: an increase in the general level of prices
investment: the purchase of new equipment and plant
macroeconomics: the study of the economy as a whole
monetary policy: the Reserve Bank changing interest rates to influence the level of economic activity
purchasing power: the actual quantity of goods and services that may be bought with a given amount of money
real income: what an income will actually purchase in terms of the quantities of goods and services, after allowing for the effects of inflation
recession: a relatively mild contraction in the level of economic activity resulting in reduced spending, rising unemployment and a slow rate of economic growth
standard of living: the general level of material wellbeing of a nation's people
surplus budget: a budget where income exceeds spending
unemployment: when people are trying to find work but have so far been unsuccessful

A MODEL OF THE ECONOMY

Vanessa had a sudden flash of inspiration about how to best present her economics assessable task. 'I have always enjoyed model making so this could be a good place to start,' she thought. Vanessa's economics task was to explain the basic working of the economy. Her central theme was to be *income*. She had learnt many concepts in her course and wanted to include them in her task.

THE SIMPLE ECONOMIC MODEL

Vanessa had learned from her design teacher that when building a model it is easiest to start simply and build up to a more complex model. She started with just two groups of people. She called them 'households' and 'firms'. The household sector was made up of consumers. They were people who owned the economic resources (land, labour, capital and enterprise). Vanessa knew that they 'sold' their resources to firms that then used them to produce goods and services. This was called *production*. The firms paid an income for these resources. Households then used these incomes to purchase the goods and services produced by the firms. She knew this was called *consumption*. She called this version of the economy a two-sector model.

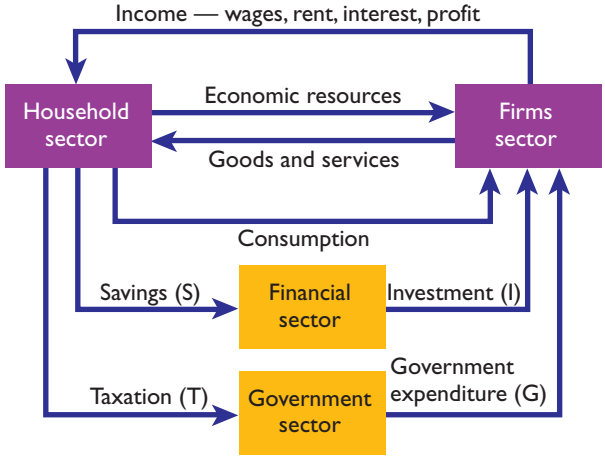


Vanessa's simple two-sector circular flow of income model

MORE COMPLEX MODELS

Vanessa realised that this simple model did not adequately represent the economy. For a start, she knew that people do not spend all their income on consumption, but instead save part of it. Also, having a part-time job, she couldn't forget the money taken out as tax by the government. This meant two other sectors had to be added.

She labelled these sectors the financial sector and the government sector. Vanessa knew that firms paid taxes to the government and also saved with the financial sector but, to keep her model uncluttered, she drew money flowing from the household sector to these two new sectors and returning to the system through the firms sector. Vanessa recalled that money which is saved with the financial sector often returns to firms in the form of **investment**, while the money from taxation is used for government spending. She called this new version of the economy a four-sector model.

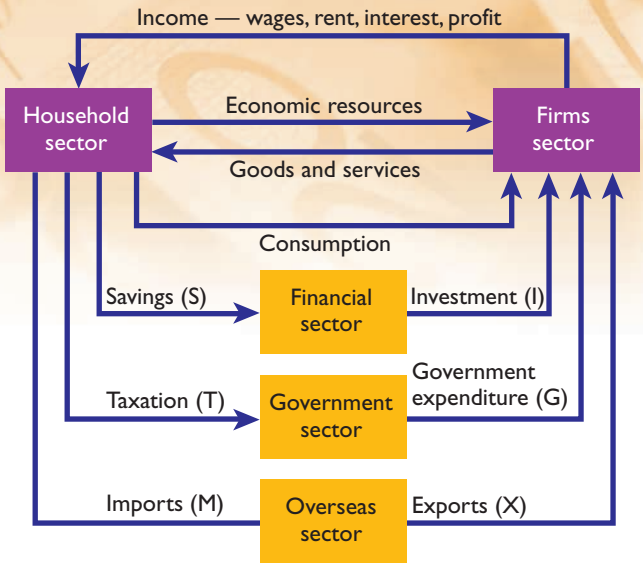


Vanessa's four-sector model of the economy

To complete her model, Vanessa had to add one more sector. Politicians are always talking about Australia's international trade, mentioning **exports** and **imports** and their effect on the economy. She called this the overseas sector and her final model was then ready to show the class.

Vanessa named her model 'The circular flow of income: a **macroeconomic** model'. When explaining it to the class, she said this:

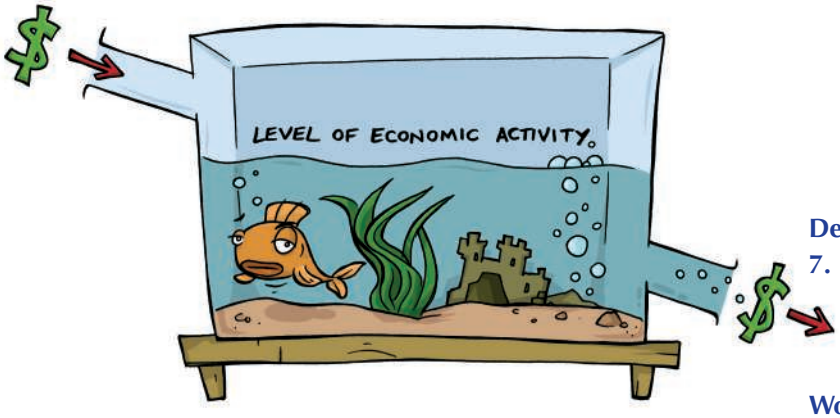
> The diagram shows how each sector is dependent on others through money flows. Savings, taxation and imports are referred to as leakages (money leaving) from the model. Investment, government



Vanessa's completed model of the economy

expenditure and exports are the injections (money entering) into the model.

Because leakages seldom equal injections, the level of economic activity fluctuates. Picture the economy as a fish tank. When more money enters the economy than leaves (injections are greater than leakages) the economy will expand and experience economic growth. When more money leaves the economy than enters (leakages are greater than injections) the economy will contract and experience economic decline. To avoid the problems associated with growth or decline, the government tries to influence the decisions made by sectors to alter the flows of money, in order to achieve the correct balance in the economy.



The effect of injections and leakages is to raise or lower the level of economic activity.

Activities

Understand

1. What five sectors comprise the Australian economy?
2. What is meant by the terms 'leakage' and 'injection'?
3. If leakages are greater than injections, as described by Vanessa's model, suggest the effect that this will have on the economy.
4. Complete the following table using appropriate symbols. The first one has been filled in for you.

Model (Sectors)	Leakages	Injections
(a) Three	__S__	_____
(b) Four	_____ + _____	_____ + _____
(c) Five	_____ + _____ + _____	_____ + _____ + _____

Think

5. Copy the following table into your notebook. Next to each statement indicate whether each event will expand or contract the level of economic activity.

Statement	Expand or contract
(a) Increased investment (b) Higher taxes (c) Rising export sales (d) Reduced government spending	

6. Using the completed five-sector model, identify the money flows which best describe each of the following transactions.
   (a) An employee collects his wages.
   (b) A car manufacturer installs a new welder.
   (c) A teenager opens a bank account.
   (d) A school student buys a mobile phone.
   (e) An Australian miner sells iron ore to China.
   (f) An employee pays income tax.

Design and create

7. Write and perform a song or poem, aimed at Year 10 students, which explains how the amount of money circulating within the economy influences the level of economic activity.

Worksheets

11.1 Economic links — the circular flow of income model

MANAGING THE ECONOMY

Just like individuals and families, governments in Australia manage the Australian economy with the use of budgets. They may choose to keep a balanced budget, where spending and expenses are the same. Governments may also choose a **deficit budget** by spending more money than they receive, or create a **surplus budget** where their income is greater than spending.

GOVERNMENT INCOME

Governments in Australia receive their income from taxes and charges on people. The Federal Government of Australia raises money through income tax, where a percentage of each Australian worker's earnings is given to the government.

Since 2000, the Federal Government has also had a goods and services tax (GST). Other governments in Australia also raise their own income. Each state government imposes taxes on businesses through payroll tax. State governments also receive income through stamp duty on the sale of properties, tolls on roads and from traffic fines. Local governments raise the bulk of their income through rates. These are fees placed on each property within their council.

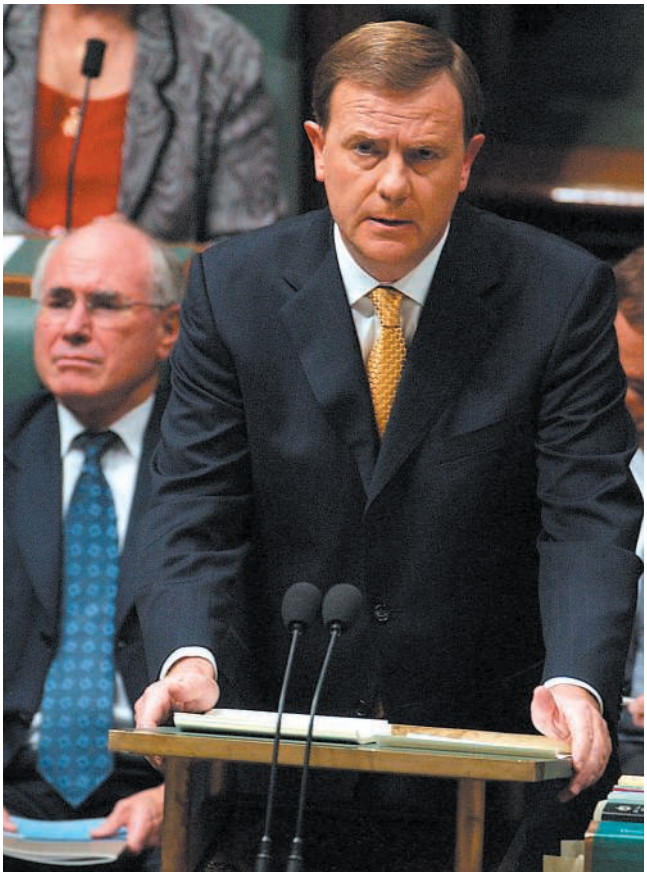
Personal income tax rates, 2006–07

Taxable income	Tax rate	Tax on this income
$0–$6000	0%	Nil
$6001–$25 000	15%	15c for each $1 over $6000
$25 001–$75 000	30%	$2850 plus 30c for each $1 over $25 000
$75 001–$150 000	40%	$17 850 plus 40c for each $1 over $75 000
Over $150 001	45%	$47 850 plus 45c for each $1 over $150 000

Speed it up or slow it down

Governments use the money they collect to provide community services such as schools, roads, and police and defence forces. By choosing to build a new freeway, a government creates a number of jobs for suppliers of goods such as concrete, bitumen, steel reinforcement, drainage pipes and road signs. Service providers that benefit from a new freeway project are engineers, drafters, line painters and machine operators.

When a government spends money, it stimulates the growth of an economy. Jobs created by government projects provide workers with an income. The workers then use their incomes to purchase goods and services, which in turn creates more employment and growth. A government may choose to send its budget into deficit by spending more money than it receives to help create growth and employment in an economy. Spending and taxing by the government to influence the level of economic activity is referred to as **fiscal policy**.



In his delivery of the 2006–07 Commonwealth Budget, Treasurer Peter Costello announced a budget surplus of $10.8 billion. The budget included cuts to income tax and a plan to simplify superannuation.

The Federal Government has other ways in which it can control the growth of the Australian economy. It can vary the interest rates set by the Reserve Bank of Australia (RBA). These are the rates at which people can borrow money. This is referred to as **monetary policy**. When interest rates are low, people are encouraged to borrow money. During these periods, many jobs are created in the building industry as more new houses are built. When interest rates are high, people are encouraged to save rather than spend. Repayments on loans for major purchases such as houses or cars cost more when interest rates are high. People also receive a higher rate of interest on money in bank accounts during periods of high interest rates.

Getting the balance right

When the level of production and spending is falling in an economy, unemployment rises and incomes fall. In 1991, the Australian economy experienced this condition, known as a **recession**.

When the level of production and spending is rising too quickly, prices rise and **inflation** occurs. Australia last experienced a period of high inflation in 1989–90 when interest rates rose in an attempt to slow spending.

Activities

Understand

1. Define the following terms: 'inflation', 'interest rates', 'recession', 'deficit budget'.
2. Why do governments tax people?
3. What type of budget might a government introduce to create more jobs?
4. What usually happens to the level of economic activity when total spending is less than total production?

Think

5. When interest rates rise, what benefits or problems are created for:
   (a) a small business with a large, long-term loan
   (b) a retiree with money invested in a managed fund with daily fluctuations in rates
   (c) a young couple with a mortgage where the interest rate has been fixed for five years?
6. How much income tax would have been paid in 2006–07 by a person earning $70 000 per annum?

Communicate

7. Explain how fiscal policy and monetary policy may be used to help control a recession.

SKILLS essentials

Interpret a political cartoon

Political cartoonists comment on topical issues. It is important to work out who the characters are in a political cartoon, and what positions they hold. In this case, Peter Costello, the Treasurer, is on the left; and Prime Minister John Howard is on the right. Look carefully at the cartoon below drawn by Sean Leahy and then answer questions 1–4.

1. Sometimes it is important to know where the cartoon is set. What clues are provided in the cartoon to tell you this?
2. The speech bubbles will usually set the context for the cartoon. What is this cartoon about?
3. Visual clues help the cartoonist comment on an issue. What issue is presented in this cartoon?
4. Is Mr Howard referring to monetary or fiscal policy?
5. Insert suitable words in the speech bubble of the cartoon below to communicate a political message. Try to also make it funny.

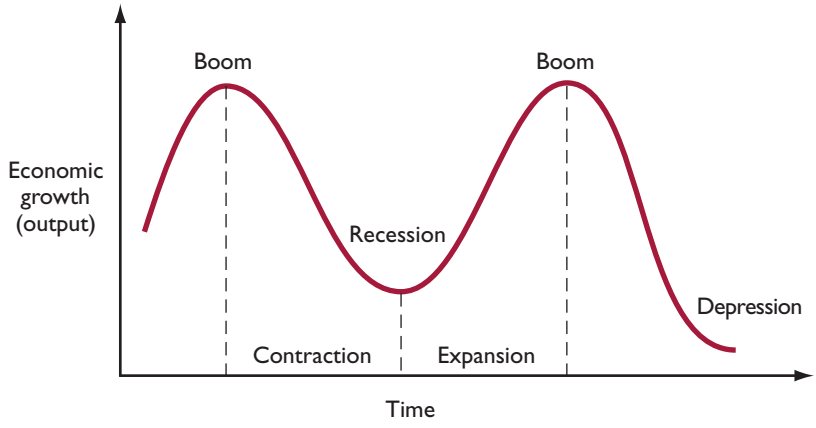
THE BUSINESS CYCLE

The level of consumer spending plays a significant role in determining the level of economic activity.

Imagine your local shopping centre to be a small-scale representation of the Australian economy. Now imagine what would happen to the businesses within the shopping centre if all their customers decided to shop at another centre for a day. Economic disaster! If this situation continued for a month then the centre's businesses would close, employees would be laid off, and landlords and suppliers would not be paid. Eventually, as the 'economy' plunged into a recession, business owners would lose confidence in the economy's future. However, at the rival shopping centre, new businesses would open, many new jobs would be created, landlords and suppliers would gain new customers and the confidence of the local business owners would soar. The 'economy' of this shopping centre would boom.

While such an extreme situation would not happen in reality, the Australian economy does experience a cycle of 'booms' and 'busts'. These periods of high and low economic activity are referred to as the **business cycle**. After a period of prosperity, business activity gradually slows until a recession or **depression** is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle. These cycles are a basic feature of our economic system.

No economic system works perfectly all the time under all conditions, and the Australian economy is no exception. The level of economic activity does not remain at a constant level. Instead, it fluctuates (moves up and down) over time. In other words, total production, incomes, spending and employment rise and fall. The main cause of the fluctuations in the level of economic activity is the change in the level of total spending — consumer spending (consumption), business spending (investment) and government spending — within the economy.



Contraction	Expansion
Key features • Falling levels of production (output) • Decreasing consumer spending • Rate of inflation may fall • Wage rates generally fall • Interest rates eventually fall • Level of unemployment rises	**Key features** • Rising levels of production (output) • Increasing consumer spending • Rate of inflation may rise • Wage rates generally rise • Interest rates eventually rise • Level of unemployment falls

Phases of the business cycle

CASE STUDY

The Great Depression

In America, especially, 1929 appeared to be a golden year. Economic growth and affluence seemed to be a permanent feature. America had never been richer. There was a great rush to buy shares in companies in order to profit from the expanding business wealth. Share prices rose to spectacular heights. People thought that buying shares was a gamble you could not lose.

But, on 24 October 1929, the euphoria rapidly evaporated. On that 'Black Thursday', the New York Stock Exchange saw share values begin to fall sharply. American factories now found it difficult to sell their goods. Employers were forced to reduce wages and dismiss many workers. This meant that even more people had less money to spend, causing the whole process to accelerate. US household spending fell from $79 billion in 1929 to $46 billion in 1933.

As a result, US businesses cut back on production and investment. Business and consumer confidence was shattered. Thousands of businesses were declared bankrupt. Mass unemployment was common, with approximately one-quarter of the entire US labour force jobless. Lifetime savings were wiped out when thousands of banks suspended operations. Farmers went bankrupt. Families were evicted from their homes for not being able to meet their mortgage repayments. And all the while, the unemployment queues grew longer. People who had worked hard all their lives, who had planned and saved for the future, found themselves financially ruined. The depression sowed doubt and fear among the population.

Along with the economic crisis came a social and moral crisis. With so much suffering and misery, a mood of growing despair took hold. The nation was frightened and bewildered. Even those optimists who thought that things would soon improve had, by 1932 at the depth of the depression, become disillusioned. America had plunged from the world's most prosperous country to one in which tens of millions lived in abject poverty.

As the US economy toppled, it dragged down other national economies. Like the ripples in a pond spreading out, the effects of the Great Crash of Wall Street soon appeared to touch every country in the world. The human suffering being experienced in the US was mirrored in most Western industrialised economies. The economies of these countries were devastated by the depression. Unemployment was stubbornly persistent. What began as a financial crisis of confidence in the United States ended up as the Great Depression of the 1930s.

The wrong government economic policies

The economic thinking at this time was that the best way to restart business activity and solve the persistent problem of unemployment was for governments to cut their spending and balance their budgets: 'pull their belts in'. In 1931, for example, state governments in Australia reduced their spending by a huge 20 per cent.

With later developments in economic theory, especially the work of the famous economist John Maynard Keynes, such a policy was totally inappropriate and actually contributed to the severity of the Great Depression itself.

Unemployed men queuing for soup and bread during the Great Depression

The fluctuations of the business cycle do not fall into a regular pattern. The periods of expansion can vary from several months to several years. A contraction need not result in a recession or a depression if a recovery begins before the economy falls too far. For example, if the Reserve Bank of Australia (RBA) lowers interest rates, this should raise people's confidence in the economy. This aims to encourage consumers and businesses to increase spending, which helps avoid a downward spiral to recession.

Sometimes there may be a downturn in only one kind of production, for example motor vehicles. However, because of the interdependent nature of our economy, a change in any direction tends to spread. An increase in business activity can also spread. An increase in the demand for goods and services can force production and incomes to rise.

RECESSION — TOO LITTLE SPENDING

Recessions (and depressions) are caused by lack of spending, not the inability of the economy to produce goods and services.

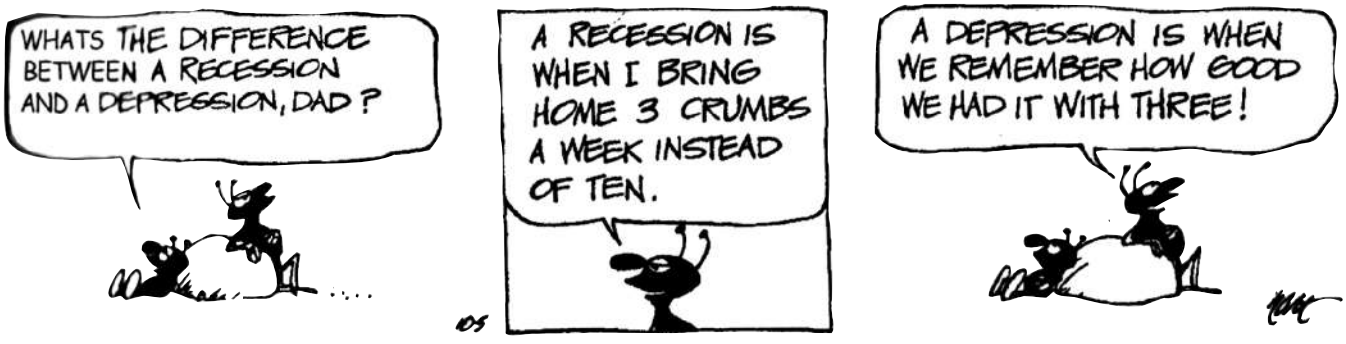
Most goods and services are produced before they are sold. The amount that is produced depends on how much the business thinks consumers, other businesses and governments will buy, which in turn is influenced by the level of economic confidence.

By choosing to spend some of your money, you send a signal to businesses to keep making the products you buy. If, however, some products are not bought, the business may cut back on production and some employees might lose their jobs and incomes. This causes total spending to fall even further as people's confidence in the future is shaken. In this way, a recession spreads and economic growth is slowed. When a recession becomes widespread and long-lasting, it is called a depression.

The key features of a recession include the following:

- Income and production are at their lowest level.
- Unemployment is at its highest level in the business cycle.
- Wages and salaries either fall or grow very slowly.
- Consumer demand and, consequently, business sales and profits, reach their lowest levels. Bankruptcies are everyday occurrences and the business outlook is bleak.
- Businesses have a lot of unused resources and there is no incentive to purchase new machinery.
- Interest rates remain low. There are few investment opportunities and a reduction in the number of creditworthy borrowers.
- The inflation rate tends to stay low.

The number of business closures increase during a recession.



A depression is a severe recession.

BOOMS — TOO MUCH SPENDING

The upside of the business cycle is growth and prosperity. Production, spending and employment rise. Businesses expand, employees are hired and incomes increase. Consequently, total spending increases even more. Consumer and business confidence are high. However, the economy cannot keep producing more goods and services indefinitely. There is a limit. When this happens, additional spending pushes up prices. Inflation, a general rise in prices, now becomes a major economic problem and will eventually bring to an end the continued growth.

The key features of a boom include:

- Income and production are at their highest levels.
- There is full employment of labour and all other resources.
- Wages and salaries are relatively high. Employees are now in a strong bargaining position as businesses compete for scarce labour resources.
- Businesses are operating at full capacity. Increases in consumer demand are met by increases in prices rather than by increases in production.
- Interest rates are high as loanable funds are in relatively short supply.
- The rate of inflation rises sharply.

Why inflation is harmful

For employees whose incomes do not keep up with rising prices and for retired people living on a fixed income, inflation means a lower standard of living. Inflation also makes people uncertain about their financial security. When prices are rising, money saved in bank accounts decreases in value. In fact, continued inflation might discourage saving. The danger of inflation is that, if not controlled, it could bring on a recession.

Activities

Understand

1. What is one main cause of recession and depression?
2. Total spending consists of spending by which three groups (sectors)?
3. What do you understand by the business cycle?
4. Identify the main phases of the business cycle. Use a diagram to illustrate your answer.
5. If our economy grows rapidly, why should we be concerned?

Think

6. Complete the following statements using the words 'down' and 'up'.
   (a) During times of recession, unemployment goes _____, consumer spending goes _____, total output goes _____, interest rates go _____, inflation goes _____, wage rates go _____, and economic confidence goes _____.
   (b) When the economy is growing rapidly, unemployment goes _____, consumer spending goes _____, total output goes _____, interest rates go _____, inflation goes _____, wage rates go _____, and economic confidence goes _____.
7. Read the case study about the Great Depression.
   (a) List the main economic and social effects of the Great Depression.
   (b) In groups, brainstorm the policies you would put into action to fix a depressed economy. Share your answer with the rest of the class.
   (c) Investigate, according to John Maynard Keynes, what economic role the government should play in a depressed economy. Compare and comment on your solutions with those developed by Keynes.

Communicate

8. Describe the general impact of the fluctuation in the business cycle on:
   (a) businesses
   (b) consumers.
   Prepare this as a PowerPoint presentation.

Use ICT

9. Examine the business cycle for the Australian economy since the late 1950s.
   (a) Which economic condition is more common, expansion or contraction?
   (b) During the 1950s and 1960s, Australia was referred to as the 'Lucky Country'. What evidence is there to support such a claim?
   Visit the website for this book and click on the RBA weblink for this chapter (see 'Weblinks', page xiii).

Dig deeper

10. Prepare a one-page report on living conditions in Australia or the USA during the Great Depression. You may wish to use a word processing package to write the report. In your report, refer to:
    - the number of people unemployed
    - the effects of unemployment on the individual.

Worksheets

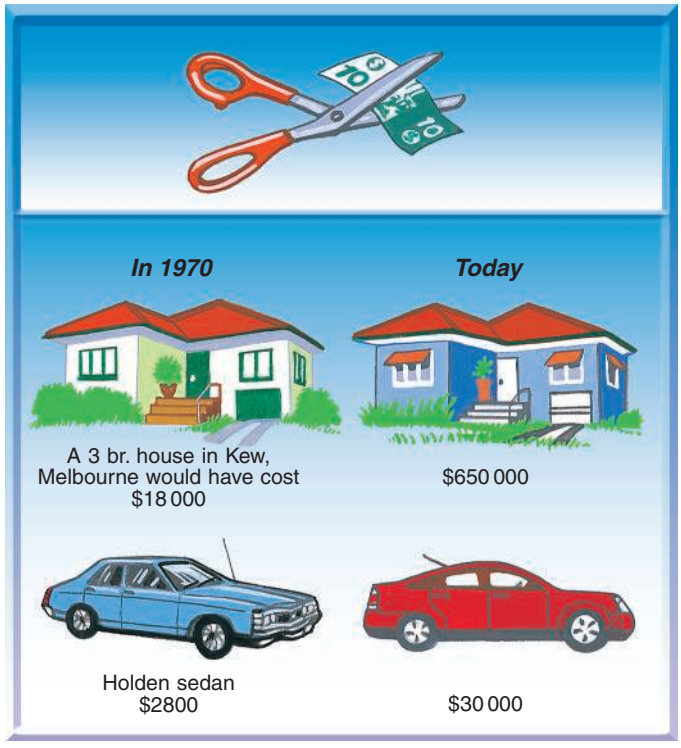
11.2 The 'ups' and 'downs' of economic growth

INFLATION

CONSUMER PRICES

Money's true value is its **purchasing power** — what it will buy. We work to earn money to give us this purchasing power. However, the money in your wallet or purse today will buy much less than it did when your parents or grandparents were teenagers.

When there is a period of continually rising prices (inflation) the purchasing power of our money decreases. This means more money is needed to buy goods and services. In other words, each dollar buys less and the purchasing power of money has fallen. For example, if prices double, a dollar will purchase half as much as it did before.



Inflation cuts the value of the dollar.

Measuring inflation

In Australia, the main method of measuring inflation is by comparing changes in the **Consumer Price Index (CPI)**. This figure is published quarterly. It is constructed from statistics that measure the prices of a wide range of goods and services considered to represent the normal spending patterns of an average household.

SKILLS *essentials*

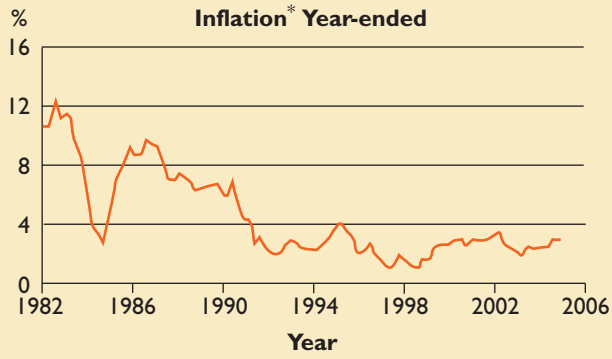
Interpret a line graph

Graphs make it easier to compare and interpret data. It would be much harder to absorb these data if described in words. To interpret graphs properly, however, you need to know what to look for.

Read the labels on both axes before interpreting information.

Is the graph line rising or falling? If so, is it doing so sharply? Check the axes to see what this means.

Does the graph line show a consistent trend over time, or are there some unusual trends?



* RBA estimate, excludes interest charges prior to the September quarter 1998, and adjusts for the tax changes of 1999–2000
Source: ABS and Reserve Bank of Australia

Australia's inflation rate

(a) What does this graph measure?
(b) Describe the trend in inflation since the peak of the mid 1980s.
(c) Suggest a reason why the inflation rate fell rapidly during 1983–1984. (*Hint:* Recall what you learned about the business cycle.)

ECONO *file*

Hyperinflation occurs when inflation rates are extremely high. This occurred in Germany between the years of 1919 and 1923. In 1923, 1 000 000 000 000 marks (the unit of German currency at that time) had about the same purchasing power as 1 mark in 1914. Prices were rising so rapidly that money lost over half its value within an hour, and wages were paid every day. Some employees had to wheel their pay home in a wheelbarrow!

Inflation and its effect on household income

EFFECTS OF INFLATION

Inflation has serious consequences for all sectors of the economy. As well, some people suffer more in times of inflation than others. For example:

1. *Wage rates*. For workers whose main incomes do not keep up with rising prices, their **real income** decreases. So, in spite of having higher incomes, their living standards do not improve. Only the few, whose wage rates rise faster than prices, because their jobs are in demand or have strong trade unions, are able to improve their standard of living.
2. *Fixed incomes*. People on fixed incomes, such as social welfare recipients or retirees with superannuation, find their incomes increase slowly. Their standard of living may fall because they are no longer able to afford the same level of goods and services.
3. *Business profits*. Inflation creates uncertainty. People do not know whether to spend or save. Some businesses may sell less while others may sell more. Should businesses expand now and be ready for the future or should they reduce production?

   If the Reserve Bank increases interest rates to control inflation, businesses may be reluctant to borrow and shelve plans for expansion. Ultimately, this may result in a recession and business profits will fall even further.
4. *Savers and investors*. Inflation makes it difficult to maintain financial security. This is because, if the CPI increases by 8 per cent in a year, but average interest rates paid on deposits are only 5 per cent, the money in savings accounts, superannuation funds and managed funds decreases in value. If inflation is expected to remain high, saving may be discouraged.

Activities

Understand

1. Write the following statements in your notebook, deleting the incorrect term or phrase:
   (a) Money is used to measure the (variety/value) of goods and services.
   (b) What we can buy with our money is called its (purchasing/performance) power.
   (c) CPI stands for (Consumer Purchasing Index/ Consumer Price Index).
   (d) A general (increase/decrease) in (values/ prices) is termed 'inflation'.
   (e) The CPI is published every (three months/ four months).
   (f) One group of people that suffers in times of inflation is (fixed/variable) income earners.
2. What determines the true value of money?

Think

3. During the past ten years, Abel's wages have increased from $300 a week to $600 a week, which represents an increase of 100 per cent. Abel says, however, that his real wages have increased only 50 per cent. Explain how both these statements can be true.

Teamwork

4. In small groups, determine whether in a period of inflation you would rather be a person who had borrowed money or one who had loaned it. Select a spokesperson to present your group's ideas to the rest of the class.
5. As a class, discuss the topic 'Inflation does not affect all income groups to the same extent. During periods of inflation there are winners and there are losers'. Make a list of the main discussion points on the board.

Use ICT

6. Find out what items are included in the CPI. To help you, visit the website for this book and click on the ABS weblink for this chapter (see 'Weblinks', page xiii). You may wish to prepare this as a PowerPoint presentation.

Dig deeper

7. Using your library and the internet, research countries that experienced hyperinflation during the last 50 years.

UNEMPLOYMENT

Over the last decade, the level of **unemployment** has steadily declined. However, in our economy there is a certain amount of unemployment, even during periods of economic prosperity.

To be counted as unemployed in our society, a person must be:

- without work
- available to begin work
- actively seeking employment.

Unemployment can result from:

- people leaving their jobs and going in search of others
- some jobs being seasonal; for example, fruit picking
- a fall in consumer spending which reduces the demand for workers
- the introduction of technology.

The cost of unemployment to the individual and society is high.

ECONO*file*

The total labour force is made up of all those people who have jobs; that is, are employed, plus all those people who are *actively seeking* work; that is, are unemployed (employed persons + unemployed persons).

The unemployment rate is calculated by using the formula:

$$\frac{\text{Number unemployed}}{\text{Total labour force}} \times \frac{100}{1}$$

For example: $\frac{500\,000}{9\,000\,000} \times \frac{100}{1} = 5.6\%$

ECONO*file*

Full-time school students who do not have part-time jobs, though they may be 15 years or older, are not considered part of the labour force because they are not available for full-time work. They are therefore not considered to be unemployed.

SOCIAL COST OF UNEMPLOYMENT

Those who experience periods of long-term unemployment suffer economically and socially. Combined, the individual costs are felt by the whole of society. Families may have to relocate to other areas in search of work. Family members may become separated in the process. Society's living standards are reduced and production of goods and services decreased, while government spending on social welfare payments increases. Overall, society's quality of life and economic stability are diminished.

YOUTH UNEMPLOYMENT

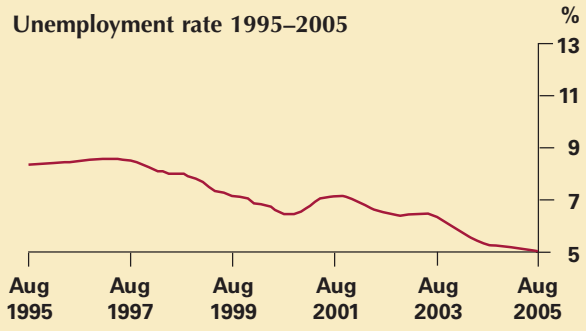
Long-term youth unemployment can result in serious personal and social costs. Without a job, there is no regular income. Social welfare payments only maintain a person at a level below the poverty line. With plenty of time but limited by a shortage of money, many long-term unemployed young people become frustrated and bored. This can sometimes lead to vandalism, crime and other anti-social behaviour. Most worrying of all, though, is the loss of self-esteem. Our society places a lot of importance on the type of work a person does. A person who is unemployed can often lose self-confidence.

Unemployment is a fact of life — for some.

SKILLS *essentials*

Interpret a line graph

Look at the line graph below showing Australia's unemployment rate and then answer the questions:



1. What was the unemployment rate in:
   (i) August 1995
   (ii) August 2005?
2. In which years was the unemployment rate above 7 per cent?
3. In which two-year period did the unemployment rate decrease the most?
4. Describe the trend in Australia's unemployment rate over this ten-year period.
5. Suggest some reasons for the change in the unemployment rate.

Activities

Understand

1. Complete this sentence: 'To be classified as unemployed a person must be . . .'
2. Copy and complete the table below and then answer the questions that follow.

Country	Number of people employed	Number of people unemployed	Labour force	Unemployment rate %
A	3 500 000	200 000		
B		1 500 000	17 250 000	
C	1 600 000		1 900 000	

   (a) Which country has the:
   (i) largest (ii) smallest
   number of people unemployed?
   (b) Which country has the:
   (i) highest (ii) lowest
   unemployment rate?
   (c) What is the benefit of expressing the unemployment rate as a percentage figure?

Communicate

3. Write a letter to a local newspaper outlining your concerns about the level of youth unemployment. You may wish to use a word-processing package to write the letter. In your letter, refer to the following points:
   - effects of unemployment on the individual and society
   - unemployment and young people.

Think

4. In what ways might long periods of unemployment 'go against you' when applying for a job?
5. Why is it often difficult for unemployed people to find things to fill in their time?

Teamwork

6. In groups of four or five, prepare a list of all the effects of unemployment on the individual and on society. Present your information in a table similar to the one below. Alternatively, prepare this as a PowerPoint presentation.

Unemployment

Effect of unemployment on individuals	Effect of unemployment on society

7. In small groups, provide some solutions to the high level of youth unemployment. Select a spokesperson to present your group's ideas to the rest of the class.

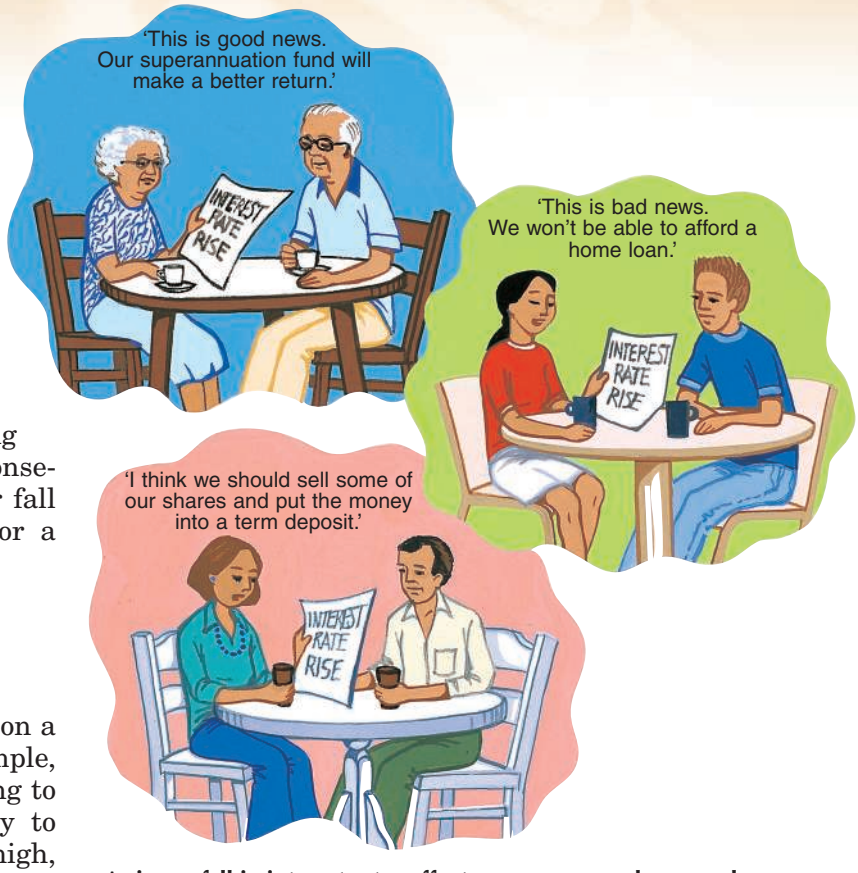
Design and create

8. Write and perform a song or poem, aimed at Year 10 students, which expresses the feelings of long-term unemployed people.

RISING AND FALLING INTEREST RATES

One factor that influences the level of interest rates is the actions of the Reserve Bank of Australia (RBA). In trying to avoid massive swings in the business cycle, the RBA will adjust short-term interest rates. It raises interest rates to slow down an economy that is expanding too rapidly and lowers them when the economy is heading for a recession.

Rising and falling interest rates will directly affect consumer and personal financial decisions. Rising interest rates make saving relatively more attractive and borrowing relatively more expensive. Falling interest rates have the opposite effect. Consequently, the effect of an interest rate rise or fall will depend on whether you are a saver or a borrower.



A rise or fall in interest rates affects consumers and personal finance decision making.

THE REPAYMENT OF DEBT

The level of interest rates has a direct effect on a consumer's ability to repay a loan. For example, when interest rates are low, people are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, people are reluctant to borrow because repayments on loans cost more. Some consumers may even find it difficult to meet their existing loan repayments, especially if interest rates increase faster than the rise in a consumer's income. If interest rates rise sharply and stay high for a long period, some consumers will default on their loans.

THE CHOICE OF FIXED OR VARIABLE INTEREST RATES

When interest rates continually rise, you can protect yourself from having to make larger repayments by taking out a fixed loan. Conversely, when interest rates fall, your repayments will be lower if you select a variable interest rate loan. The difficulty you and all consumers face is trying to accurately predict whether interest rates will increase or decrease in the future.

THE CHOICE OF A PERSONAL INVESTMENT STRATEGY

When you invest, you want to achieve the highest return for the most acceptable risk. Therefore, there will be times when you will switch from one investment product to another. The level of interest rates will be one factor you will take into account when selecting an investment product. For example, when interest rates rise, demand for housing slows and prices fall. At the same time, saving money in a financial institution becomes more attractive. If you expect this situation to continue for some time, you may move out of property and place your money in a term deposit. Alternatively, you might decide to sell some shares because a term deposit offers a better return for much less risk. When interest rates are falling, you may decide on the opposite course of action.

ECONOfile

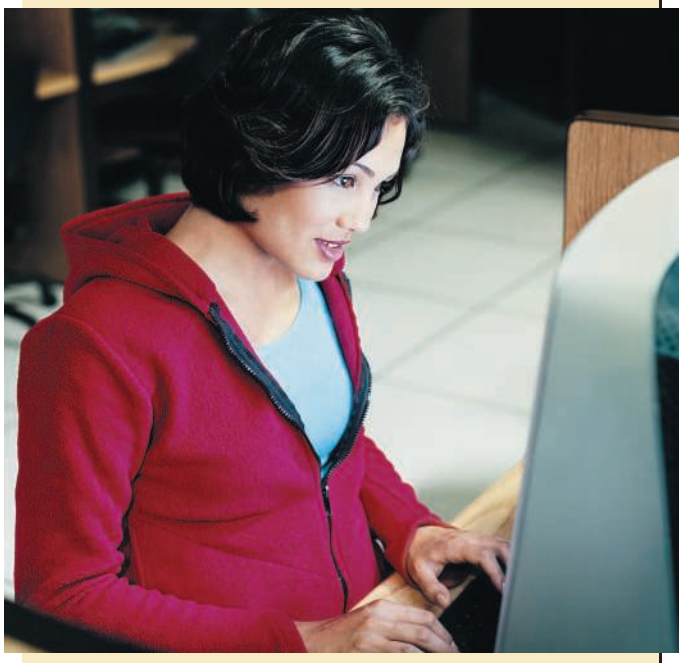
RBA figures estimate that, in 2006, household debt represented 139 per cent of disposable income. Total consumer debt reached $900 billion.

SKILLS essentials

Loan calculators

Many of the major banks provide a variety of loan calculators on their websites to help people work out how much they can borrow and what the possible repayments might be. Visit the website for this book and click on the Calculator weblink (see 'Weblinks', page xiii) to estimate the monthly repayments for the following loan amounts:

1. $295 000 at 6.24% for 25 years
2. $120 000 at 7.42% for 25 years
3. $500 000 at 6.80% for 25 years.



Loan calculators are available on the internet.

Activities

Understand

1. Why do interest rates vary over time?
2. 'Interest rates are both a reward and a cost.' Explain this statement.

Think

3. Imagine you are a financial adviser. Write a reply to the following letter. You may wish to use a word-processing package to write the reply.

> **Dear financial adviser,**
>
> Recently there has been a lot of media speculation about a possible rise in interest rates. I have 16 years left on my 20-year home loan. With interest rates likely to increase, should I refinance the loan to a fixed rate so that I know exactly what my repayments will be? Are there any fees or charges if I decide to refinance? Please advise me.
>
> *Gemmina*

4. What benefits or problems are created for people in the following situations when interest rates rise?
   (a) A small business with a large, variable short-term loan.
   (b) A young person with a small, fixed personal loan.
   (c) A retiree with money invested in a managed fund with daily fluctuations in rates.
   (d) A young couple with a mortgage where the interest rate has been fixed for five years.
   (e) A middle-aged couple with a mortgage where the interest rate is variable.

Use ICT

Use a loan repayment calculator from the Skills Essentials opposite to answer the following questions.

5. You have just bought your dream home with a $180 000 loan from a bank. Calculate the fortnightly payments required if:
   (a) the interest rate is 8 per cent and the loan is for 25 years
   (b) you wish to repay your loan, which has a rate of 6 per cent, in ten years.
6. Imagine you decide to repay your $180 000 loan over 30 years.
   (a) Your initial interest rate is 9 per cent. Calculate your monthly repayment.
   (b) The bank announces a 1 per cent increase in interest rates. Calculate the new monthly repayment.
   (c) If interest rates increase to 12 per cent, calculate how much more you would need to meet your repayments.

Dig deeper

7. Research the rates and conditions offered by four banks lending to consumers. You will need to access their websites, or find brochures, that will help to obtain the information. Draw up a table to compare your data.

GLOBAL MARKETS

We Australians live in a large, wealthy country. However, we cannot produce all the goods and services that we require. Also, our population and our domestic market (the market within Australia) are small compared with those of many other countries. These two factors mean that we need to trade with the rest of the world. International trade has always played an important part in Australia's economic development.

EXPORTS

Mambo, Holden Ltd and Golden Circle all have one thing in common. They all sell their products on the world market — that is, they export to overseas countries. An export is a good or service sold to another country. Australian businesses now export a huge variety of goods and services. These include tourism, coal, wool, genetic technology, education and foodstuffs.

Australia is one of the world's main trading nations, and our export sales have grown rapidly over the last 20 years. By trading in the world market, Australian businesses are able to sell to a global market of over five billion people.

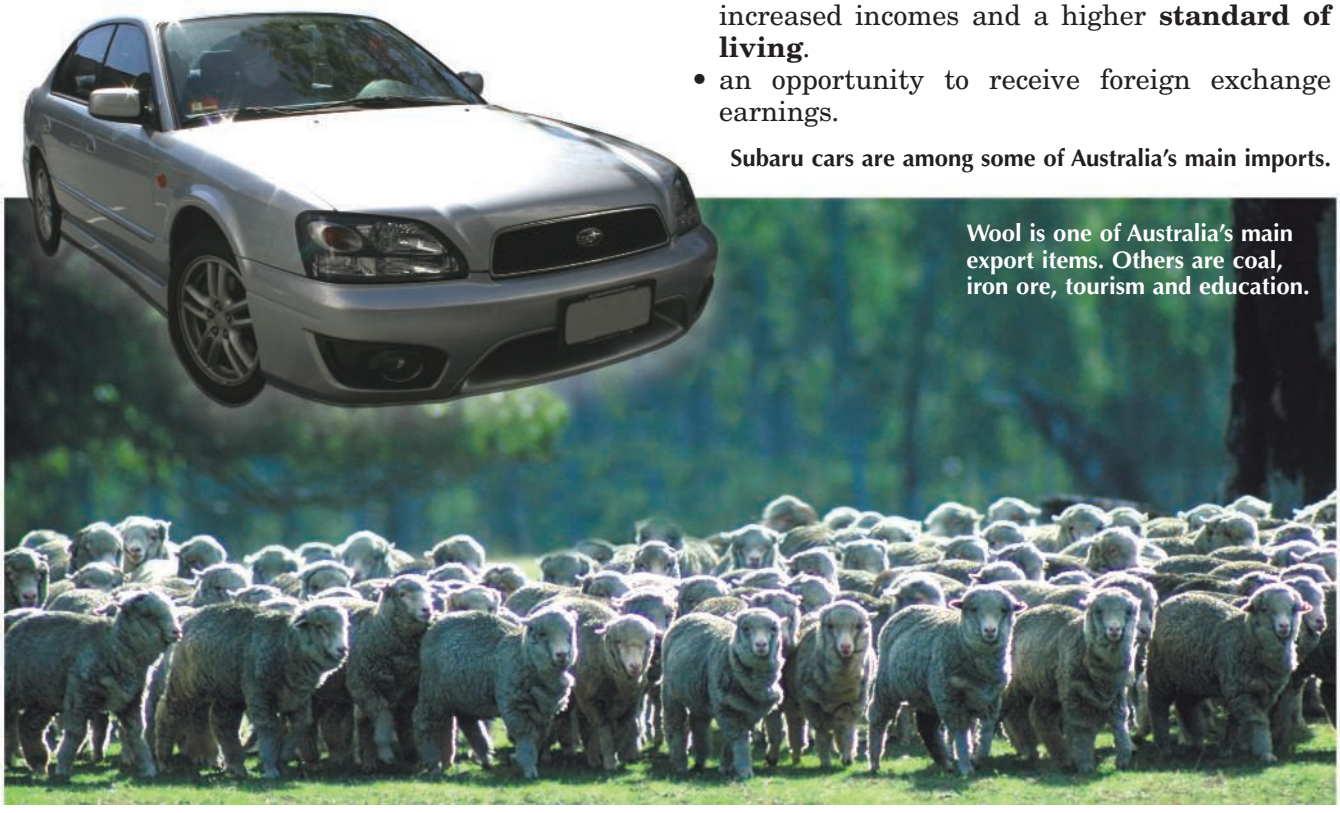
IMPORTS

Imagine all the Subaru cars, Nike sports shoes and IBM personal computers that have been sold in Australia during the past year. These products make up just a small part of the imports that Australian consumers buy. An import is a good or service bought from another country. Australia imports goods and services either because we can purchase them more cheaply from overseas or because we cannot produce them ourselves.

BENEFITS OF GLOBAL TRADE

Three of the main economic benefits of increased international trade are:

- more job opportunities. Approximately 1.7 million jobs are directly or indirectly connected to the production of exports.
- increased **economic growth**. This leads to increased incomes and a higher **standard of living**.
- an opportunity to receive foreign exchange earnings.



Subaru cars are among some of Australia's main imports.

Wool is one of Australia's main export items. Others are coal, iron ore, tourism and education.

Three of the main non-economic (non-monetary) benefits of international trade are:

- opportunities for Australians to work overseas
- development of personal and business relationships with people overseas
- development of closer links with the rest of the world.

FOREIGN EXCHANGE EARNINGS

Export sales generate foreign exchange earnings — that is, money from other countries that comes into Australia as a result of selling Australian goods and services overseas. It is usually better for our economy when export sales are greater than the amount of imports purchased. If imports are greater than exports, this creates a negative **balance of trade**, which can lead to foreign debt. Over time, foreign debt can become a serious economic problem.

Exports help Australia to gain foreign exchange earnings.

Activities

Understand

1. Why does Australia need to trade with the rest of the world?
2. Explain the difference between exports and imports.
3. Which photograph on page 276 represents:
   (a) an Australian export (b) an Australian import?
4. Use each of the following terms in a sentence to explain their meaning:
   (a) foreign exchange earnings (b) foreign debt.

Think

5. Predict what would eventually happen if Australia continually bought more imports and sold fewer exports.

Design and create

6. In small groups, design a television advertisement to promote one of Australia's main export products to a particular overseas country. Think about the scenario to be filmed, the dialogue (if appropriate), the overall message, and the song or music that will accompany your advertisement. Think, too, about what aspects of the product might appeal to people in your chosen country.

Use ICT

7. Imagine you are the business reporter for a daily newspaper. Your editor has asked you to write a story about Australia's future exports. In your article, refer to emerging exports such as biotechnology and information communication technology (ICT). To help you, visit the website for this book and click on the Austrade weblink (see 'Weblinks', page xiii).

SKILLS *essentials*

Interpret a line graph

Source: Department of Foreign Affairs and Trade

Propose

Look at the above line graph showing Australia's exports and answer the following questions:

1. What was the approximate value of Australia's exports in:
   (i) 1980 (ii) 1992 (iii) 2004?
2. Between which two years did exports increase the most?
3. Between which years did exports decrease only very slightly?
4. Describe the trend in Australia's exports over this period.

EXCHANGE RATES

Countries have their own currency, which they use for domestic purposes. This means that when transactions are conducted on a global scale, one currency must be converted to another. For example, if you want to buy a computer software program you saw advertised on the internet from a business in the United States, the US business will want to be paid in US dollars, not Australian dollars. Similarly, if an American tourist visits Australia, he or she will pay for accommodation, restaurant meals and other products in Australian dollars, not US dollars. Therefore, in all global transactions it is necessary to convert one currency into another. This transaction is performed through the **foreign exchange market**, commonly abbreviated to **forex** or **fx**, which determines the price of one currency relative to another.

EXCHANGE RATES

Foreign exchange dealers around the world are constantly buying and selling each other's currency. In this way, the price or value of each country's currency is established. This value or price is called the exchange rate.

Exchange rate indicator

The **foreign exchange rate** is the ratio of one currency to another; it tells how much a unit of one currency is worth in terms of another. For example, if A$1 = US$0.70, that means one Australian dollar is worth 70 US cents. Conversely, one US dollar would be worth A$1.43 (US$1 divided by A$0.70 = A$1.43).

ECONO*file*

The worldwide volume of foreign exchange trading is estimated at US$1.3 trillion per day — that is, US$1 300 000 000 000!

EFFECTS OF EXCHANGE RATE FLUCTUATIONS

Exchange rates fluctuate over time due to variations in demand and supply.

Such fluctuations in the exchange rate have positive and negative effects on Australian consumers and businesses. For example, suppose that the value of the Australian dollar falls from US$0.70 to US$0.60. This downward movement of one currency against another is called a **depreciation**. (Of course, this means that the value of the US dollar has increased against the Australian dollar, with one US dollar being worth A$1.66.)

ECONO*file*

In 1983, Australia floated the Australian dollar. This meant that the market forces of demand and supply set the value of the Australian dollar. Prior to 1983, the exchange rate for the Australian dollar was set by the government.

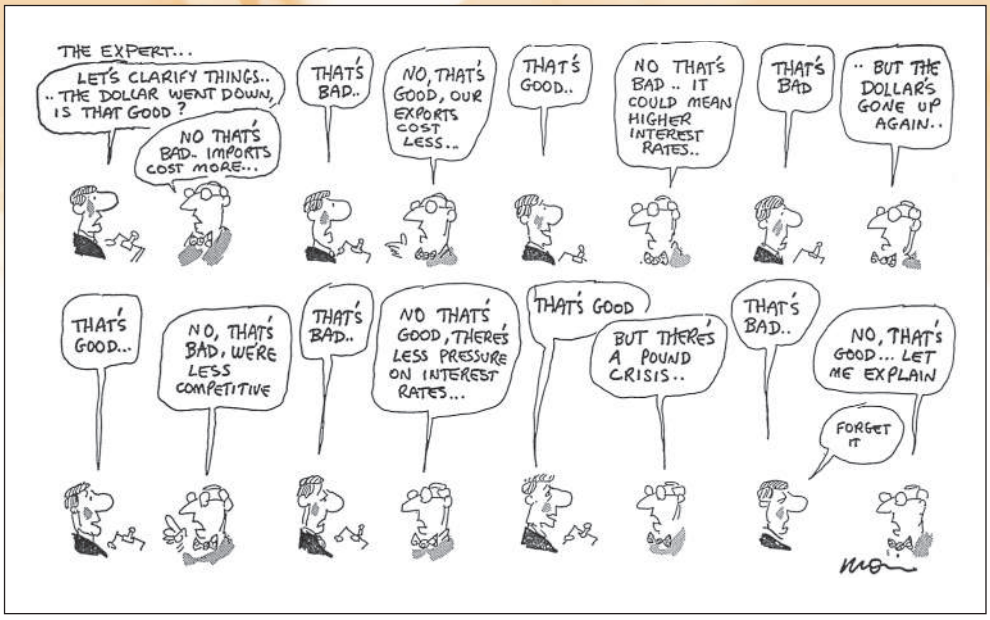
The impact of this currency fluctuation is twofold:

1. A depreciation lowers the value of the Australian dollar in terms of foreign currencies. This means that each unit of foreign currency buys more Australian dollars. However, one Australian dollar buys less foreign currency. Therefore, a depreciation makes our exports cheaper on international markets, but prices for imports will rise.

   Depreciation, therefore, improves the international competitiveness of Australian exporting businesses which, in turn, affects profitability. However, imported goods, overseas travel and foreign shares and investments will cost more, so Australian consumers are worse off.

2. A currency **appreciation** has the opposite impact. An appreciation raises the price of Australian dollars in terms of foreign currencies. Therefore, each unit of foreign currency buys fewer Australian dollars. The result is that our exports become more expensive and the price of imports falls.

   An appreciation, therefore, reduces the international competitiveness of Australian exporting businesses which, in turn, affects profitability. However, imported goods, overseas travel and foreign shares and investments will cost less, so Australian consumers are better off.



Currency fluctuations

Activities

Understand

1. What is meant by the term 'exchange rate'?
2. Write out the following exchange rates as sentences.
   (a) A$1 = US$0.85
   (b) A$1 = US$0.70
   (c) A$1 = US$0.63
   (d) A$1 = US$0.52
   Do the rates (a) to (d), when taken sequentially, show the Australian dollar depreciating or appreciating?
3. Calculate the value in Australian dollars of one US dollar for each of the rates in the previous question.
4. What effect do (a) depreciation and (b) appreciation have on the price of exports and imports?

Think

5. Using the table of Australian dollar conversions below, calculate the value of the transactions that follow.

Currency	Exchange rate (A$)
US$	0.72
Yen¥	74.00
NZ$	1.16

   (a) Karen is visiting a friend in the United States and she wants to change A$1000 she has saved for her trip. How many US dollars will Karen receive?
   (b) Alicia wants to buy a Japanese kimono she has seen advertised on the internet. The kimono is priced at ¥7000 (7000 yen). What will the kimono cost in Australian dollars?
   (c) Marshall received a dividend of NZ$1200 from a New Zealand company in which he owns shares. How much is the dividend in Australian dollars?

Teamwork

6. In small groups, explain the possible impact of currency fluctuations on Australian businesses and consumers. Select a spokesperson to present your group's ideas to the rest of the class.
7. In small groups, predict what would happen if a domestic firm borrowed US$5 million offshore just before a massive depreciation of the Australian dollar against the US dollar. You may wish to prepare this as a PowerPoint display. Include graphics to enhance the presentation of information.

Communicate

8. Forex rates can be found in the business sections of most daily newspapers. Access this information and record the value of the Australian dollar against five other currencies over a three-week period. Comment on the trend.

Worksheets

11.3 Currency converter

GLOBALISATION

DID YOU KNOW?

Here is what happened in the 'average' Australian household this morning.

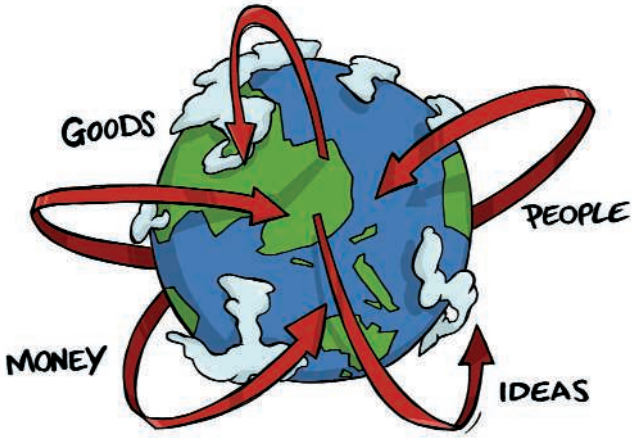
Jake, the youngest member of the family, awoke first, switched on the *Philips* plasma TV and watched *Teletubbies* while eating a plateful of *Kellogg's Fruit Loops*. Sam tuned to Triple J on his *Sony Midi* hi-fi system. Yasmin washed her hair using *Palmolive Naturals* shampoo and later dressed in her *Levi* jeans, *Nike* sweatshirt and *Reebok* joggers. For breakfast, she decided to have a cup of *Dilmah* tea and *Sara Lee* croissants covered with *Kraft Single* cheese slices. Sam was playing soccer that morning so he cleaned his *Adidas* soccer shoes and got out his *Nike* tracksuit. For his breakfast, he decided to have a cup of *Nescafe* coffee and *Vogel* cereal. Dad finally emerged from the bathroom after shaving with his *Remington* and caught a glimpse of the latest *CNN* news report. He grabbed the *Hyundai* car keys before gulping down a cup of filtered coffee made by the *General Electric* percolator.

Another day of 'global interdependence' had just begun.

WHAT IS GLOBALISATION?

We live in a global world rather than a world limited by national borders. Consider the news and entertainment we receive from around the world, the clothing and footwear brands being sold worldwide, the rapid telecommunications access to all parts of the globe, and the large number of products Australia buys and sells on the world market.

This process has been strengthened by the impact of **globalisation**: a trend that sees people, goods, money and ideas moving around the world faster and cheaper than before.



Growth of the global economy

Globalisation of production — Vietnamese factory workers stitching shoes for Nike in Ho Chi Minh City

Globalisation is not a new process. Trade, exploration, and the movement of people and ideas around the world has been occurring for centuries. However, it is only since the 1950s and, in particular, the last twenty years, that the world has experienced such rapid and widespread globalisation. We have moved away from a world in which national economies are relatively isolated from each other. Now, they are merging into one huge, interdependent global economic system at an ever-accelerating rate.

BENEFITS OF GLOBALISATION

Globalisation offers numerous exciting opportunities:

- Many small, innovative businesses are springing up and succeeding in the global marketplace in new or specialised fields.
- Knowledge-based services in the areas of health, business, communication, education and culture are finding new overseas markets. Employment in these industries is growing.
- Specialised (niche) markets are being created for new and emerging industries such as biotechnology, information communication technology (ICT) and environmental technologies.
- Consumers can choose from a wider range of goods and services at competitive prices.

COSTS OF GLOBALISATION

Globalisation has not been welcomed by everyone. Critics of the process point to:

- exploitation of workers, especially in developing countries
- loss of jobs in developed countries due to industrial rationalisation
- loss of national economic control to an external money market
- an increasing economic divide between globalisation's 'winners' (skilled and educated people) and 'losers' (unskilled and poorly educated people).

ECONO*file*

Business-to-consumer (B2C) transactions cover products sold or distributed over the internet. By 2010, B2C sales are expected to reach about $50 billion per year.

SKILLS *essentials*

PMI (Plus, Minus and Interesting) technique

The PMI technique is a simple but effective strategy to examine different viewpoints.

1. For two minutes, record your ideas about the meaning of and the perceptions associated with globalisation.
2. Select a partner. For about five minutes share your ideas with your partner. Then have your partner share his or her ideas with you.
3. In your pairs, devise a definition for globalisation. Next, draw up a table which records shared views about globalisation using the headings Plus points, Minus points and Interesting points.
4. Analyse these views and explain each point. It is important that you can support each point with reliable evidence (not unsubstantiated claims). Therefore, your final task is to search for evidence to support each point.

Activities

Understand

1. What do the letters 'B2C' represent?

Think

2. Demonstrate the impact of globalisation upon your daily life. (*Hint:* Start by examining some consumer items you use regularly.)

Communication

3. In small groups, design a television advertisement about globalisation based on the information presented on these pages. Think about the scenario to be filmed, the dialogue (if appropriate), the overall message, and the song/music that will accompany your advertisement. Think, too, about the aspects of globalisation that might appeal to people in your local area.

Teamwork

4. As a class, discuss what issues globalisation raises for the Australian:
   (a) consumer
   (b) worker
   (c) economy.
   Record your responses on the board. At the conclusion of the discussion, complete the following statement:
   'From this discussion, I learnt that globalisation is ……..'
5. Set up a class debate to consider the topic 'Globalisation is good for all Australians'. Share roles so that those not debating are involved either in assisting with research, running the debate and also keeping notes on the arguments of both sides.

Design and create

6. Draw a simple flow chart or diagram to outline the meaning of globalisation.

Worksheets

11.4 Globalisation ezine

CREATING AN ECOLOGICALLY SUSTAINABLE ECONOMY

Imagine that the world is like a business. As owners of this business you would be concerned about its future prospects. Every year, more output is demanded and consequently its production lines work faster and faster. However, the raw materials used to produce the vast array of goods and services are shrinking at a frightening rate. In the effort to increase output, essential maintenance is sometimes ignored. The business's water and power supplies are under increasing threat. To continue on this way will be unsustainable and the business will eventually fail.

Does this sound unbelievable? Possibly. But in many ways this is what is happening to the world we live in. For quite a while people have treated the Earth just as they like, without giving much thought to the long-term consequences. However, the past is catching up with us. It is obvious that we cannot continue as we have; things will have to change. The good news is that these changes are already occurring. There are signs that people are becoming more environmentally aware. Instead of a 'grab-it-while-you-can' lifestyle, people are adopting practices of recycle, renew and regenerate. Many businesses are adopting a 'green' attitude, developing products and creating ideas that are environmentally friendly.

We must become a clever country in the use of our natural resources. This requires a balance between economic growth and environmental deterioration. Attention needs to be given to **ecological sustainability**.

ECONOMIC GROWTH AND STANDARD OF LIVING

As part of their economics task, Zara and Grant arranged to interview Mr Paul Noble, Senior Economist for Westport Limited. Listen in on their interview.

DID YOU KNOW?

Interview

Grant: Mr Noble, what does the term standard of living mean?

Mr Noble: It refers to the general level of material wellbeing of a nation's people. It is determined by the quality and quantity of a country's economic resources and how well the economic system works.

Grant: So not all countries have the same standard of living?

Mr Noble: That's right. Some perform better than others. However, one feature of all successful economies is economic growth.

Zara: How is a nation's standard of living related to economic growth?

Mr Noble: A nation's standard of living depends on its total production. The more goods and services a country produces in proportion to its population, the larger the share will be for each person.

Grant: Just like if Zara and I ordered a small pizza and shared it, and then next time we ordered a large pizza. The second time we experience economic growth because we each have a larger slice of pizza.

Mr Noble: Yes, an interesting example Grant. You must be feeling hungry!

Zara: How is economic growth measured?

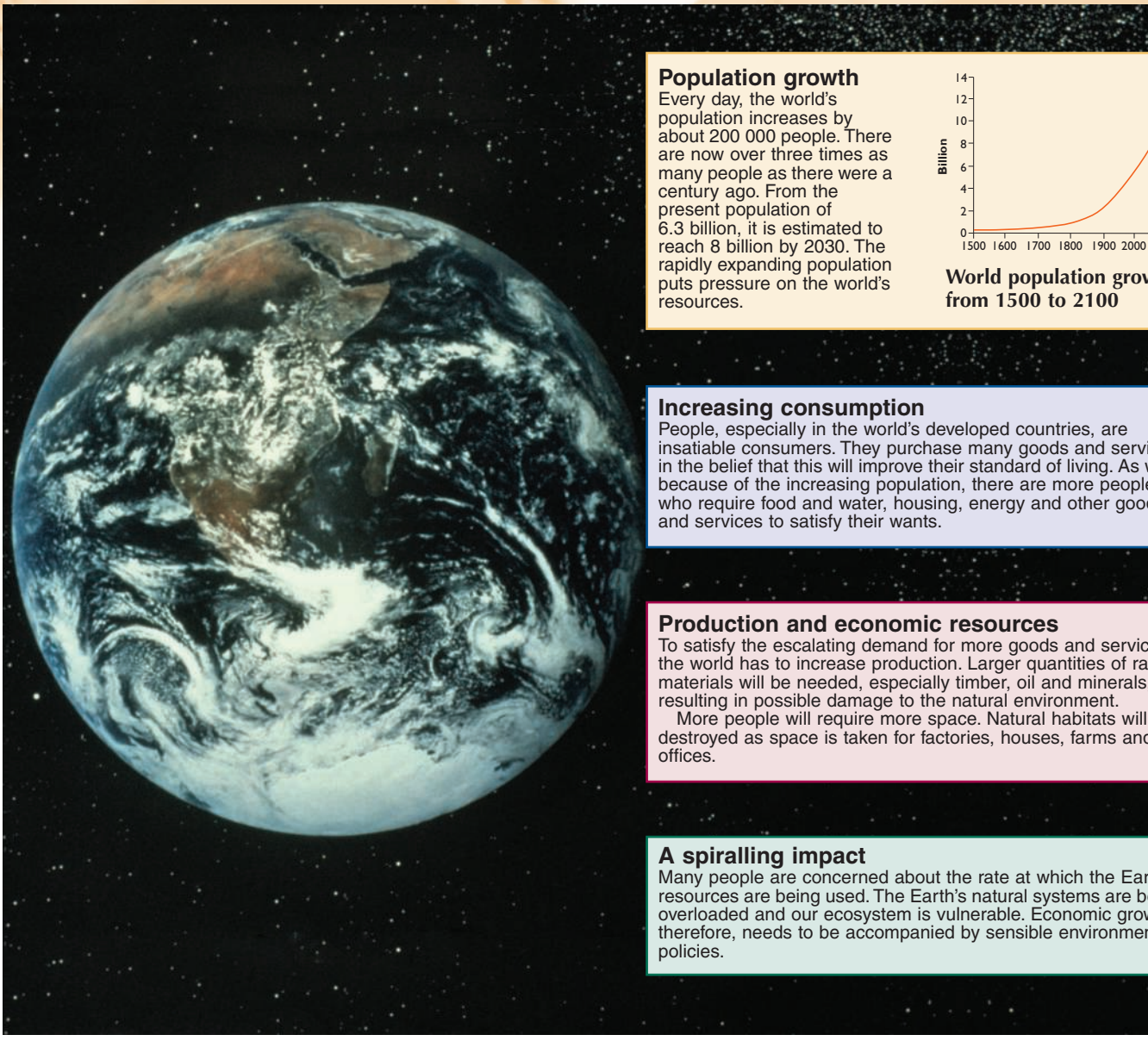
Mr Noble: Economic growth is measured using **gross domestic product (GDP)**. GDP represents the total value, in dollars, of goods and services produced and consumed in a country.

Grant: How do we compare economic growth between countries with different populations?

Mr Noble: Quite easily. We divide the total GDP by the population of the country to determine what is called GDP per head, or per capita, of population.

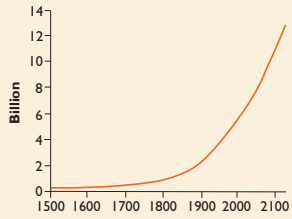
Zara: I have heard people mention **'environmental footprint'** when discussing economic growth. What does this mean?

Mr Noble: A country's population increases but the Earth's natural resources are finite. Therefore, our shrinking supply of natural resources must provide for an increasing number of people. And, as total production increases, our consumption of natural resources increases. Environmental footprint is the impact on the Earth's natural environment of this activity.



Population growth

Every day, the world's population increases by about 200 000 people. There are now over three times as many people as there were a century ago. From the present population of 6.3 billion, it is estimated to reach 8 billion by 2030. The rapidly expanding population puts pressure on the world's resources.



World population growth from 1500 to 2100

Increasing consumption

People, especially in the world's developed countries, are insatiable consumers. They purchase many goods and services in the belief that this will improve their standard of living. As well, because of the increasing population, there are more people who require food and water, housing, energy and other goods and services to satisfy their wants.

Production and economic resources

To satisfy the escalating demand for more goods and services, the world has to increase production. Larger quantities of raw materials will be needed, especially timber, oil and minerals, resulting in possible damage to the natural environment.

More people will require more space. Natural habitats will be destroyed as space is taken for factories, houses, farms and offices.

A spiralling impact

Many people are concerned about the rate at which the Earth's resources are being used. The Earth's natural systems are being overloaded and our ecosystem is vulnerable. Economic growth, therefore, needs to be accompanied by sensible environmental policies.

Planet under pressure — only one Earth

THE NEED FOR GROWTH

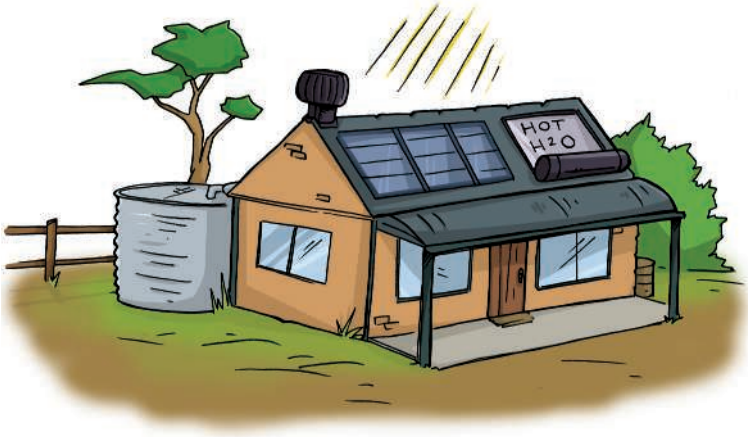
Economic growth provides a number of important benefits.

1. *Improved quality of life*. Economic growth makes available to a country the financial resources necessary to provide hospitals and schools; transportation systems; entertainment facilities; national parks and so on. The enjoyment of these facilities and the services they provide greatly improve our quality of life.
2. *Higher standard of living*. People consume goods and services to satisfy their basic needs or to fulfil their desires. We often buy things that we believe will improve our lifestyle or as an expression of who we would like to be. Therefore, consumption is an integral part of our livelihood.
3. *Creates employment*. People need jobs in order to earn an income. With this income, they consume the products available within the economy. A job also provides a way of gaining self-worth, recognition and satisfaction.
4. *Generates wealth*. People are prepared to invest their money in new business ventures. The profits earned by successful businesses are used to generate wealth for investors (share dividends), employees (wages) and business owners (profits).

ECOLOGICALLY SUSTAINABLE PRACTICES

So far, we have painted a somewhat bleak picture of the possible future. Fortunately, however, the world is moving away from many of its past practices. Economic growth must be achieved sustainably. It should not occur at the expense of polluting and degrading the air, water and forests that are essential to support life on this planet. There needs to be a balance between economic and environmental concerns — in other words, ecological sustainability. The main ecologically sustainable practices include:

1. *Sustainable housing* as showcased at the Sydney 2000 Olympics where solar technology, 'green' construction materials, and water reclamation and re-use systems were used.



Ecologically friendly dwelling

2. *Sustainable farming* where agricultural practices such as planting trees, fencing remnant vegetation, contour ploughing and mulching are being used to ensure that the land is productive for years to come.

The major aim of sustainable farming is to protect or restore the natural biodiversity.

3. *Sustainable tourism* is being encouraged, so that a balance is achieved between the site, the number of visitors and the local community.

Ecotourism: a balancing act

4. *Sustainable manufacturing* incorporating water and energy conservation, waste minimisation, recycling and reuse of waste products

Recycling minimises waste.

5. *Sustainable energy* sources including wind, solar and biofuel that will reduce the production of greenhouse gas emissions. In the future, we will depend far more on renewable sources.

Alternative energy sources

Activities

Understand

1. Name one characteristic of all successful economic systems.
2. What factors determine a nation's standard of living?
3. The following table lists some of the sustainable practices currently being used in different areas of economic activity. Copy the table into your notebook. Then, for each practice provide an example.

Economic activity	Sustainable practice example
Housing	
Farming	
Tourism	
Manufacturing	
Energy	

Think

4. The following table shows Gross Domestic Product (GDP) data for two hypothetical economies.

Country	Population (mill.)	GDP ($ bill.)	GDP per capita
A	15	750	
B	20	950	

   (a) Complete the table.
   (b) Which country has the higher GDP per capita?

Communicate

5. Complete the two mind maps below. The first one has been started for you.

Teamwork

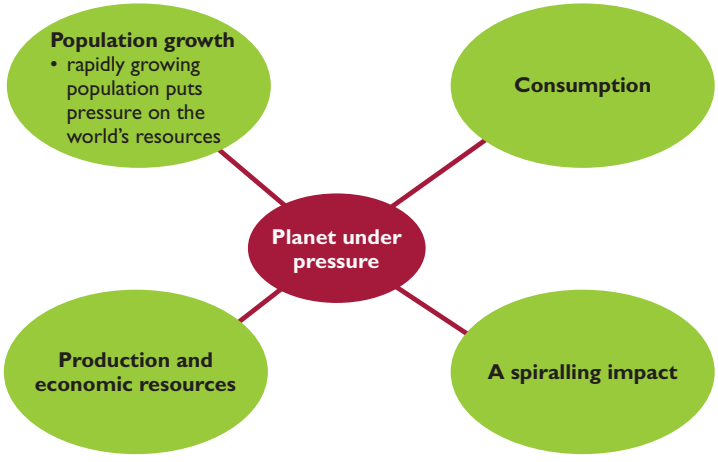
6. As a class, discuss whether:
   (a) you agree with any of the following statements
   (b) there is any way in which each statement can be tested.
      (i) People want more goods and services because they believe this will increase their standard of living.
      (ii) Additional possessions bring enjoyment and satisfaction.
      (iii) Wants are never satisfied and people remain dissatisfied even though their possessions are increasing.
7. In small groups, investigate the sustainable practice of reduce, reuse, or recycle used in your school. Present your findings using the following table.

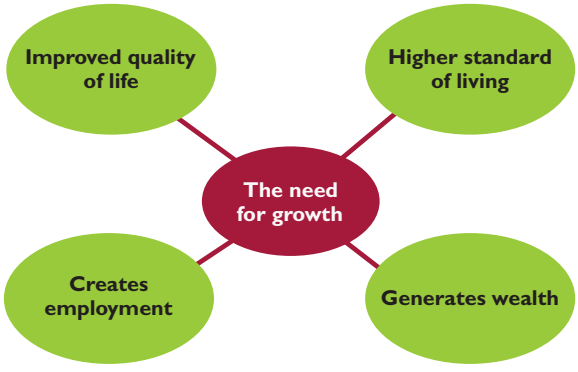
Sustainable practice	Practice 1	Practice 2	Practice 3
Reduce			
Reuse			
Recycle			

8. In small groups, discuss the implications of living sustainably. As part of the discussion, explore the meaning of the statement, 'Think globally, act locally'.

Design and create

9. In small groups, design a poster showing what people can do to reduce the size of their environmental footprint. Display your posters in the classroom.





Check & Challenge

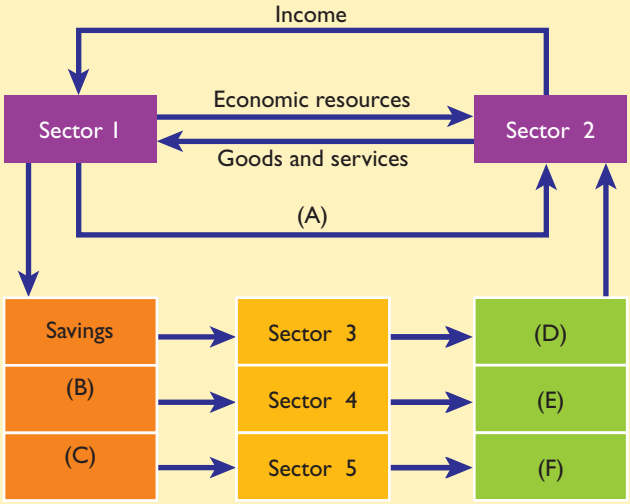
KNOWLEDGE

1. Match the terms below with the correct definitions:

   Terms
   (a) exports
   (b) standard of living
   (c) macroeconomics
   (d) fiscal policy
   (e) globalisation

   Definitions
   i. The general level of material wellbeing of a nation's people
   ii. The study of the economy as a whole
   iii. Australian-produced goods and services which are sold overseas
   iv. Spending and taxing by the government to influence the level of economic activity
   v. A trend that sees people, goods, money and ideas moving around the world faster and cheaper than before

2. Examine the five-sector circular flow model below and answer the questions that follow.



Five-sector circular flow

   (a) Name the sectors numbered 1 to 5.
   (b) Name the flows labelled (A), (B), (C), (D), (E) and (F).
   (c) Identify three leakages in the five-sector model above.
   (d) Identify three injections in the five-sector model above.
   (e) What happens to the size of the circular flow if leakages exceed injections?

3. (a) What does GDP per capita measure?
   (b) How is GDP per capita calculated?
4. What is one main cause of recessions?
5. Explain how fiscal policy and monetary policy may be used to help control (i) unemployment and (ii) inflation.
6. (a) Assuming that A$1 = US$0.72, how much would one US dollar be worth?
   (b) If the exchange rate changed to A$1 = US$0.65, how much would one US dollar be worth?
   (c) Is this a depreciation or appreciation of the Australian dollar?
   (d) What impact would this exchange rate movement have upon Australian exports?

APPLICATION

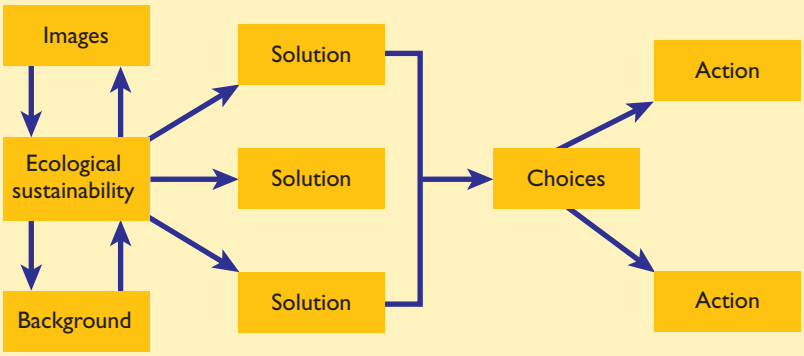
1. Examine the table below and calculate the value of each transaction that follows.

Currency	Bank's buy rate	Bank's sell rate
US dollar ($)	0.650	0.635
Japanese yen (¥)	63.700	63.300

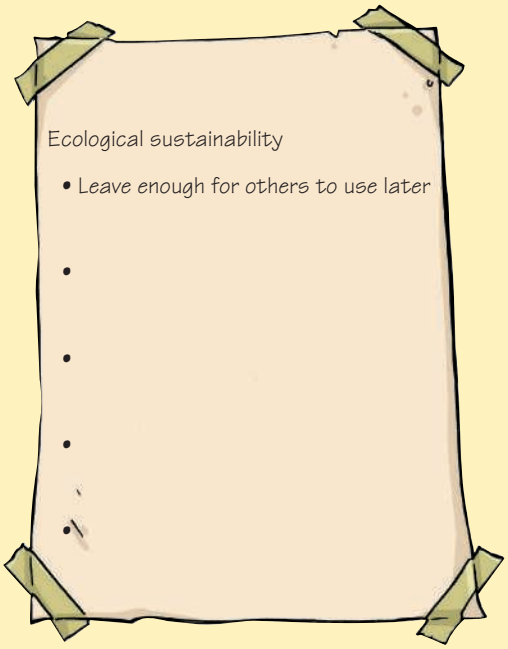
(a) Vince is travelling to Washington and converts A$1000 into US dollars. How much does he receive?
(b) Tamara purchases a CD from a Japanese internet site. The book costs ¥5800. What will the book cost in Australian dollars?

2. In small groups, select an environmental problem you are aware of: it can be local, national or international. Discuss the following five questions that relate to the environmental problem. Present your answer using a flow chart like the one shown below.

1. ***Images:*** **What do you think about the environmental problem?**
2. ***Background:*** **What has happened so far, and why?**
3. ***Solutions:*** **What are all the possible solutions you can think of?**
   What are the consequences, good or bad, of each solution?
4. ***Choices:*** **What are the best possible solutions?**
5. ***Action:*** **What, if anything, can we do about the issue?**



3. In small groups, complete the following poster highlighting the meaning of ecological sustainability. To help you, visit the website for this book and click on the Ecological sustainability weblinks for this chapter (see 'Weblinks', page xiii).



4. Copy and complete the table below and then answer these questions.
   (a) Which country has the:
   (i) largest (ii) smallest number of people unemployed?
   (b) Which country has the:
   (i) highest (ii) lowest unemployment rate?

Country	No. of people employed	No. of people unemployed	Labour force	Unemployment rate %
A	5 500 000	300 000		
B		3 500 000	27 500 000	
C	9 600 000		9 200 000	
D	58 450 000	3 650 000		