13

Our economy

Focus statement

In this chapter we learn about changes in our economy. We look at how these changes relate to existing trends in the economic cycle, and explain the implications of these changes for consumers and businesses.

In this chapter you will learn about:

- economic change
- the links between Australian consumers, employers, businesses and governments
- the economic cycle and how changes in total output, consumer confidence and spending, inflation, wage rates, interest rates and unemployment affect the economy
- interest rates and the effect of rising and falling interest rates on consumer and personal financial decision making
- price changes (inflation)
- the effects of changes in the value of the Australian dollar on consumers and businesses
- current issues relating to changes in economic activity.

13.1 Economic change

Getting technical

Budget, the The Budget is the annual announcement of the federal government's fiscal policy. In the Budget, the government sets out the tax changes proposed for the following tax year, and also how it plans to spend that revenue.

business cycle/economic cycle The tendency of economies to move, over time, through periods of boom and slump. The business cycle is made up of the fluctuations in the rate of economic growth that take place in the economy. The peak of the business cycle is usually referred to as a *boom*, and the trough as a *recession* or *depression*.

capital Manufactured resources; for example, machines, factories and offices. Capital is one factor of production.

economic growth Typically refers to an increase in a country's output of goods and services. It is usually measured by changes in gross domestic product (GDP).

enterprise Entrepreneurial skill. The term *enterprise* is often used to describe entrepreneurship as a factor of production. It is the skills and ability to take risks and create profit.

entrepreneurship An entrepreneur is an individual who takes risks and organises the factors of production to generate a product with the aim of making a profit. Entrepreneurship is the skill involved in being an entrepreneur.

exports Goods, services and capital assets sold overseas.

financial stability Maintaining financial stability is one of the main purposes of the Reserve Bank of Australia (RBA). The focus of this work is the monitoring of developments and events in financial markets in Australia and overseas. Although maintaining financial stability is not the RBA's most public role, it is vital if we are all to maintain trust in the financial system.

imports Goods, services and capital assets purchased from overseas.

Key ideas

A knowledge of the way our economy works is impor-tant if we are to maximise our own financial wellbeing and take full advantage of the commercial opportunities available to us. The key ideas we will be dealing with in this topic include those discussed in the following pages.

Economics

Economics is a term that is generally used to refer to how a nation tries to satisfy people's needs (such as clean water, food, shelter and health care) and wants (non-essential goods and services) with limited resources. There are three main players in our nation's economy—consumers, businesses/employers and governments—and they all work together trying to solve the economic problem of choosing which needs and wants to satisfy with their limited resources. A nation's economy is also affected by other nations' economies through the trade of imports and exports.

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

Resources

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

Mixed economy

In Australia we have a **mixed economy**. It is also sometimes referred to as a *modified* **market economy**. We do not have a **laissez-faire system** (where the market is left to sort itself out) and we do not have a centrally planned system (where the government controls everything). We have an economy where the market runs itself but with some influence and participation by the government.

inflation The rise in general prices and the reduction in value of money. It is usually measured by the consumer price index (CPI).

interest rates Interest is the reward for giving up use of money and is an amount paid to a lender over and above the original sum borrowed. The overall level of interest rates are determined by the Monetary Policy Committee of the Reserve Bank of Australia.

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

labour The resources provided by people in the production process.

laissez-faire system The term *laissez-faire* is used to describe an economic system where the government intervenes as little as possible and leaves the private sector to organise most economic activity through markets.

land Natural resources, including farmland and fishing grounds.

market economy A system where resources are owned by households. Markets allocate resources through the price mechanism, and income depends on the value of resources owned by an individual.

mixed economy A society where resources are owned by both private individuals and the government.

price mechanism Prices act as a signal to businesses and consumers to adjust their economic behaviour. The price mechanism is where, for example, a rise in a good's price encourages producers to switch to making that item but at the same time encourages customers to switch to a cheaper substitute product.

recession A period of negative economic growth at the trough of the trade cycle. A recession is usually defined as two consecutive quarters of negative economic growth.

scarce resources A lack of resources to meet all consumer needs and wants.

total output/gross domestic product (GDP) A measure of economic activity within Australia. It is the total value of all goods and services produced over a given time period (usually a year) excluding the value of imports.

unemployment The number of workers without a job who are willing and able to work.

wage rate Pay per time period; for example A$ per hour.

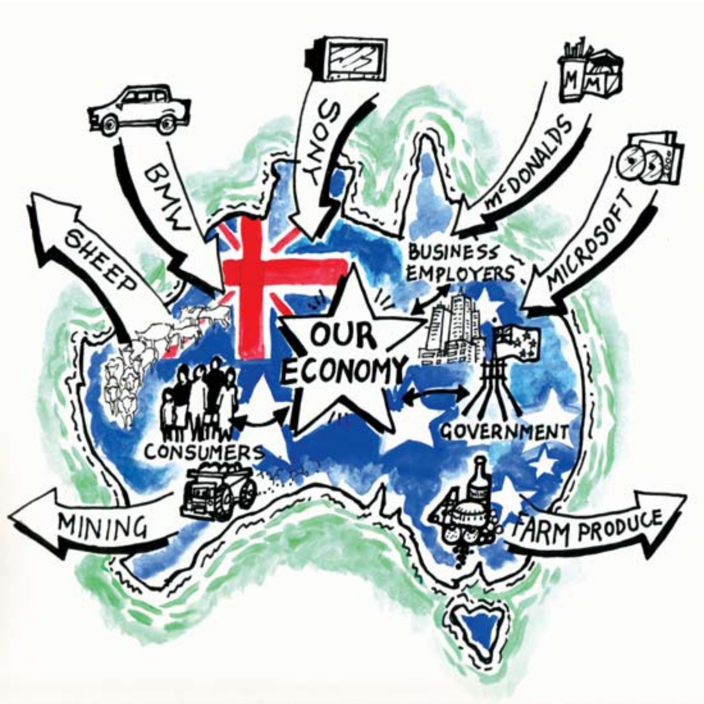

Figure 13.1a The key players in our economy.

The government influences the markets through laws and taxes to make the market as fair as possible and participates through its own businesses, such as Australia Post. The government is also an employer through its business operations, provision of services (such as health and education) and general operations (administration of government). The federal **Budget** can also affect the economy. The Reserve Bank of Australia (RBA), a statutory body, implements policy to ensure, among many objectives, that Australia maintains **financial stability**.

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Reserve Bank of Australia

The Reserve Bank of Australia website <www.rba.gov.au> provides a great deal of information that is relevant to our economy.

Activity

Access the RBA website. Research:

a the history of the RBA

b what monetary policy is

c the RBA's role in setting monetary policy.

Prices

In Australia, the price of a product is mainly determined by the market. That is, businesses set the prices of their products at a level at which consumers are willing and able to pay (this is known as demand) but also at a level that the business is willing to offer to ensure they receive a profit (this is known as supply). When demand for a product is high, the price is usually higher than if the demand was low. This is because buyers are competing for a limited supply, and price determines who receives the product on the basis of affordability.

In Australia, the government also influences some prices through taxes and, occasionally, will set maximum prices so that more consumers can afford certain products.

Comprehending the text

1 a Define the term *economics*.

b Describe what the economic problem is.

2 What are scarce resources? Provide examples.

3 List the different type of economies that exist. For each one, try to give examples of countries that have that type of economy (or a similar type of economy).

4 How are prices for goods and services set in Australia?

5 In what ways can the government affect the economy?

Activities

1 Look at Figure 13.1a (page 265). As a class, discuss the economic linkages portrayed.

2 Research information on the most recent federal Budget. Describe what the Budget is and find out what areas will have the most federal government money allocated to it in the coming year. Discuss your findings with the class. (Note: All major newspapers extensively report on the federal Budget each year).

Economic change

Economic change can occur for a number of reasons. In Australia, our economy has remained relatively stable for the last 10 years or so as there have been no significant changes to the way consumers, businesses and government have worked together in providing for their needs and wants. However, what would happen if tomorrow you woke up and interest rates had dramatically risen or businesses started laying off large numbers of employees?

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

Economic links

To fully understand economic change we must initially understand the linkages between the key players in our economy. Figure 13.1a (page 265) gives a simplistic overview of what occurs in our economy both internally and externally. The following three diagrams (Figures 13.1b to 13.1d) provide a more detailed view of the various economic links that exist in our economy. Each diagram builds upon the previous.

Figure 13.1b shows a model of a two-sector economy. Households (an economic measure for a group of consumers) provide labour to businesses in return for income. In addition, households buy products (goods and services) from the businesses.

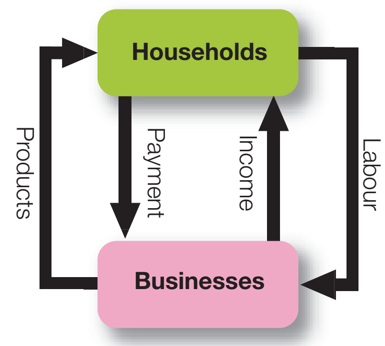

Figure 13.1b A two-sector economy.

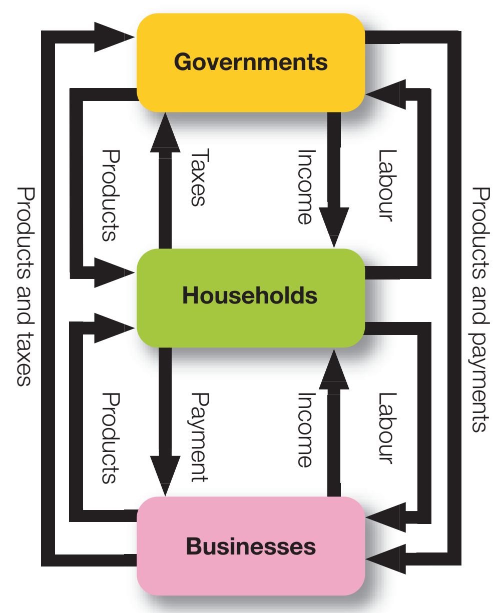

Figure 13.1c A three-sector economy.

Figure 13.1c shows a model of a three-sector economy. The government has been added to the model. Households and businesses pay taxes in return for goods and services that businesses are unable or unwilling to provide, such as health, education and roads. (The government also tries to manage the economy by trying to control inflation and unemployment.) The economy grows when the actions of businesses, households and government lead to a rise in the amount of goods and services available per person.

Figure 13.1d includes the link between the Australian economy and the world economy. When businesses (including government businesses) sell goods and services overseas, the products are called **exports**. Australia exports many goods and services, including meat, wheat, minerals (such as iron ore) and our education system. When businesses and households buy from overseas the products brought into Australia are called **imports**. Australia imports many products, ranging from Adidas shoes to X-Boxes.

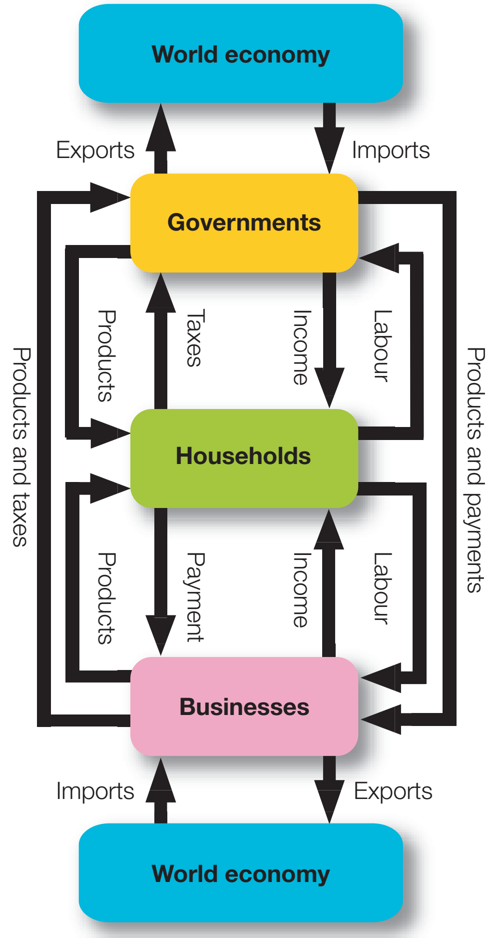

Figure 13.1d A three-sector economy plus the link between the Australian economy and the world economy.

The economic cycle

The term **economic cycle** (also commonly referred to as the **business cycle**) refers to the changes or fluctuations in economic activity that occur over time. (See the box 'The economic cycle', page 268.) The changes in the level of economic activity are reflected in total output, spending and consumer confidence, inflation, wage rates, interest rates and unemployment.

Total output

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

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

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

Total output (or GDP) = C + I + G + (X–M)

where:

C = consumers' consumption of goods and services
I = **investment** in goods and services by business
G = government spending on goods and services
X = exports
M = imports.

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

The economic cycle

Total output (GDP) periodically rising and falling is called the economic cycle. **Economic growth** is experienced when GDP is persistently rising. Economic **recession** is experienced when GDP is persistently falling. When GDP falls for an extended period it is called a *depression*. When GDP first starts rising it is referred to as recovery. Australia started a growth period early in the 1990s and GDP was still rising.as at September 2006. Hence, there has been over a decade or so of sustained economic growth. This has generally meant that there has been strong economic confidence in Australia for 15 years. Many economic analysts believe that the length of a growth period will end up mirroring the length of a recession. Let us hope that is not the case this time!

An economic cycle is measured from the peak of a growth period to the peak of the next growth period. In other words, it starts and ends just as an economy is starting a recession period. When the economy turns from a recession to a recovery period it is referred to as a *trough*, as can be seen in Figure 13.1e. The length of time an economic cycle takes varies considerably.

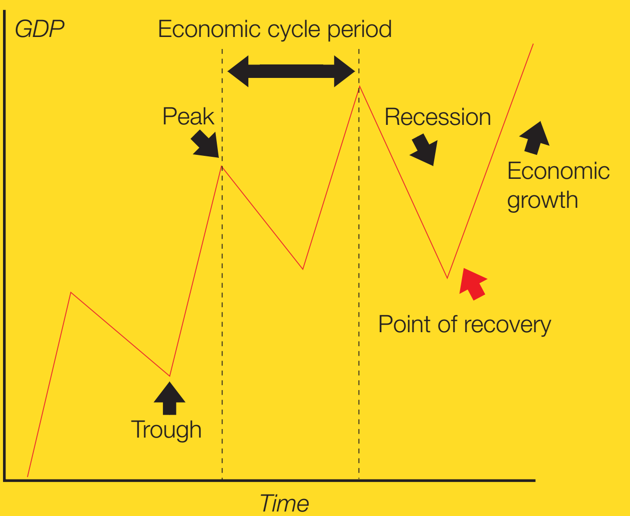

Figure 13.1e The economic cycle.

Spending and consumer confidence

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

When consumers and businesses are feeling unsure about their incomes they do not spend as much on goods and services. When consumers and businesses lack confidence, and they reduce their spending, GDP will fall, unless the government makes up the difference with its spending. When GDP falls for a sustained period the economy is said to be in recession.

Inflation

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

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

Wage rates

If the economy is experiencing high inflation, consumers often demand higher **wage rates** so they can afford more goods and services. When wages rise faster than improvements in productivity it further adds to inflation because businesses increase their prices to cover the increased costs of production the wage rises have caused. In the past, wage rises helped fuel the level of inflation. Today, wage rates are not usually linked to price rises. Instead, wage rates are generally tied to productivity (through workplace agreements and enterprise bargaining, as discussed in Chapter 4), so inflation is more contained.

Interest rates

Interest rates also influence consumer spending. High interest rates encourage consumers to save rather than spend. As interest rates increase so do the required payments on mortgages so that many consumers with mortgages need to reduce spending in other areas. Also, when interest rates are high, consumers often defer entering the housing market, which means total output would be lower than it would otherwise have been.

Business spending also drops as interest rates rise because high rates make it more expensive to borrow funds to invest in capital. Interest rates will be examined in more detail in Section 13.2.

Employment/unemployment

The unemployed, as officially measured by the Australian Bureau of Statistics (ABS), are Australians aged over 15 who are not currently working but are seeking employment and are available to start work.

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

Economists argue that when wages are prevented from rising rapidly, businesses have more opportunity to employ more workers and invest in more capital, thereby contributing to an increase in total output (GDP). During the 1990s and the early years of the twenty-first century, Australia has experienced a sustained period of economic growth without accompanying inflation. During this time, the number of jobs grew and unemployment levels dropped.

Figure 13.1f Who's stirring the pot?

Comprehending the text

1 List the four functions of an economy.

2 Define the term *total output*.

3 **a** What is the economic cycle?

b Explain the relationship between various points in the cycle and economic confidence.

4 Define the term *productivity*.

Activities

1 In pairs, copy Figure 13.1d (page 267) onto a large piece of cardboard. Find examples in magazines or other publications for each of the flows in the diagram and paste them onto the poster. (For example, paste a picture of a Ferrari next to the term *import*).

2 Interpret the following data (by using the GDP formula given on page 267) and make a conclusion about economic activity for the relevant years.

Year	C ($'000)	I ($'000)	G ($'000)	X ($'000)	M ($'000)
2005	400	500	300	300	200
2006	300	500	300	300	300
2007	200	200	400	500	400

3 Look at Figure 13.1f. In small groups, discuss the role each player has in our economy. In doing this consider:

a Who (if anyone) has the biggest role and whether this changes for different types of economies.

b How each player can affect what is in the pot.

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

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

5 Write a paragraph about the implications of economic changes for consumers and businesses using as many terms as possible from the list above.

13.2 Interest rates

Interest rates play a major role in shaping the nature and level of economic activity.

Saving and borrowing

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

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

Short-term and long-term interest rates

The Reserve Bank of Australia (RBA) has target cash rates for the short term, which it achieves by setting the rate for its own overnight lending and borrowing to financial institutions. The short-term cash rate of the financial community generally follows the RBA's rate.

Generally, the longer the period of a loan the higher the rate will be to cover the risk of changes in the short term. Interest rates also tend to be higher in the long term to reward lenders for not having access to their funds for a longer period of time.

Fixed and variable interest rates

Variable interest rates are those that the lender can change at any time during the loan period. *Fixed interest rates* are those that the lender cannot change during the loan. Fixed interest rates are generally higher than the variable rate for the period of the loan. This is to compensate the lender for missing out on unexpected rises in the variable rate. Fixed rates provide certainty for the borrower but present the risk of missing out on a lower variable rate as an average over the period of the loan. A *honeymoon rate* means that at the start of the loan period the interest rate is fixed at an attractively low rate.

When the fixed period is over, the loan is then either subject to a variable interest rate or a high fixed rate to compensate for the honeymoon period.

Rising interest rates tend to dampen consumer confidence and spending because the cost of borrowing money increases. Falling interest rates tend to increase consumer confidence and spending because the cost of borrowing money falls.

Movements in interest rates also affect people's investment decisions. When interest rates are low, people adjust their investment strategy–moving out of products such as term deposits into those that offer the promise of a greater return; for example, property and shares.

Comprehending the text

1 Explain the relationship between interest rates and consumer and business borrowing and investment.

2 Explain why short-term and long-term interest rates differ.

3 Why do changes in interest rates affect consumer and business confidence?

Activities

1 Obtain a recent business section of a leading newspaper and research the difference between the various types of published interest rates. Over a period of five lessons, graph any changes in these rates.

2 In pairs, copy and complete the following table in relation to changes in interest rates.

Effect on			
Change in interest rates	**Repayment of debt**	**Choice between fixed and variable rate**	**Choice of personal investment strategy**
Increase in interest rates	Likely to extend the repayment period/duration of loan as debt becomes more expensive		
Decrease in interest rates			

13.3 Price changes

Getting technical

appreciation An increase in the value of an asset. The term can also be used to refer to the appreciation of a currency. A currency appreciates when its value, expressed in terms of another currency, rises.

consumer price index (CPI) The main measure of inflation in Australia. The CPI shows the amount by which prices have increased for spending on an average basket of goods. As with all index numbers, it has a base year, and all changes are expressed as percentage changes around that base.

depreciation When the value of one currency, expressed in terms of another currency, falls.

exchange rate The price of one currency in terms of another currency. For example, the exchange rate between the A$ and the US$ may be A$1 = US$0.65. This means that you need to pay a price of A$1 to get US$ 65 cents.

wage price index (WPI) a measure of changes in wages and salaries.

Inflation

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

In Australia, inflation is measured using the **consumer price index (CPI)**, which is produced by the ABS. The CPI measures the changes in the price of a fixed basket of goods and services acquired by household consumers. Every three months the ABS finds the cost of each item in its theoretical basket of goods and compares the total cost to the total cost at the time of the base period. The CPI had a base index rate of 100 from 1989–90. At the end of September 2007 the CPI was 158.6. This means that over the last 17 years prices have risen, in general, by 58.6 per cent. At the end of September 2006 the CPI was 155.7. This means the percentage change over the year was 158.6 divided by 155.7, minus 1, times 100, which is 1.9 per cent. This can be expressed as (158.6/155.7) – 1) × 100 = 1.9 per cent.

The **wage price index (WPI)** measures changes in the cost of wages and salaries using a similar method to the CPI, but for a mixed basket of jobs instead of goods and services.

The percentage change in the CPI from September 2006 to September 2007 was 1.9 per cent. The percentage change in the WPI from September 2006 to September 2007 was 4.2 per cent. This would indicate that over the financial year 2006–07 wages increased more than prices. That is, wages outstripped inflation and, hence, had greater purchasing power. This would be particularly be due to an increase in productivity.

Since 1995, the Reserve Bank of Australia (RBA) has aimed to keep Australia's inflation between 2 and 3 per cent. One reason for this is to reduce economic uncertainty. When prices change dramatically, consumer and business confidence falls. Saving levels drop due to consumers being nervous about interest rates keeping pace with inflation. If consumers are not saving they are spending, which further adds to the inflation process. The RBA has been quite successful with this goal, except when the goods and services tax (GST) was introduced in 2001.

Exchange rates

An **exchange rate** is the amount for which one currency is exchanged for another. For example, at the start of 2008, $1.00 Australian was worth $0.88 US. To express this the other way round, US$1.00 could be exchanged for A$1.14. To buy a car costing US$10 000 in the United States you would need to take A$11 400 out of your Australian bank account.

When the Australian dollar decreases in value relative to other currencies in the world it makes the purchase of imports (goods and services produced overseas) more expensive. This is called a **depreciation** of the Australian dollar. For example, if an Australian business paid US$100 to a US supplier for each pair of US designer jeans they imported, the jeans would cost the equivalent of A$114 each. If the importer wanted to order another batch of jeans and, in the meantime, the Australian dollar had lost value (depreciated) against the US dollar, the US supplier would still want US$100 for each pair of jeans but they would then cost more than A$114 each. If the Australian dollar **appreciated** (that is, improved relative to the US dollar), the jeans would cost less.

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

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

Of course, the reverse applies when the Australian dollar appreciates. Even though the Australian dollar is worth more, it isn't so beneficial for the Australian economy. Exporters suffer the most. After the Australian dollar appreciates, foreign businesses no longer perceive Australia as a cheap source of goods and services. In 2003, Australia started to come out of a crippling drought and farmers were just returning to a decent level of production. However, the Australian dollar appreciated around this time - and has continued to appreciate - so the price of their produce was less attractive to foreign buyers.

Table 13.3a Impact of a strengthening (appreciating) or weakening (depreciating) Australian dollar

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

Comprehending the text

1 What is the CPI and how is it measured?

2 What is the WPI and how does it differ from the CPI?

3 Explain why it would be useful to compare the CPI and the WPI.

4 Explain what is meant by the term *exchange rate.*

5 **a** What does an appreciation of the Australian dollar mean?

b What does a depreciation of the Australian dollar mean?

Activities

1 Go to the business section of a recent leading newspaper and record the exchange rates of the Australian dollar against the US dollar, the British pound, the euro, the yen and the NZ dollar. Over the next five lessons track any movements and discuss the implications any changes would have on our economy.

2 Go to the ABS website <www.abs.gov.au> and obtain figures for the CPI and WPI for the last five years. Create a line graph and interpret the graph.

3 Copy the advantages and disadvantages listed in Table 13.3a onto a piece of paper (there are 13 in total). Cut out each of the advantages and disadvantages into strips. Jumble the strips of paper and pass them to a partner. Without looking at the textbook, reconstruct Table 13.3a by placing the strips under the correct headings shown in the table below.

Change in value of $A	Advantages	Disadvantages
Strengthening dollar		
Weakening dollar		

Check your efforts against Table 13.3a in the textbook before gluing your work into your notebook.

13.4 Current issues relating to changes in economic activity

As you now know, the state of the economy can change for a number of reasons. Because of this, at any time a particular economic issue could be the latest 'hot topic'. This could range from how far the Australian dollar will continue to appreciate (or depreciate) to the effect on our exporters of trade talks with our international trading partners. The possibilities are numerous and the consequences of changes to economic activity on the government, businesses and everyday Australians can be far reaching.

Be aware that many economic issues also have implications beyond what is traditionally thought of as 'economics'. Political and social aspects of economic issues, for instance, are often not addressed or taken into account by economists. For example, the impact of unemployment on family and community relationships are rarely considered in economists' discussions of the labour market. Environmental factors are also not fully taken into account in most economic models and data. Damage to our environment, for example, is not generally considered when prices of products are determined, and impacts on the environment from damage caused by pollution are not usually included in economic data. 'Environmental economics' is slowly developing as economists tackle these environmental issues.

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State of our ecomony

For the latest information on the current state of the economy, the ABS provides the most comprehensive source of economic information. Check out the ABS website <www.abs.gov.au>. Commentary on the current and expected future state of the economy can be found in newspapers, business magazines and websites of organisations, such as banks, employer associations and the Australian federal Treasury <www.treasury.gov.au>.

Activities

1. Look at Figure 13.4a. In small groups, compile two lists headed 'Economic implications' and 'Environmental implications'. Using the figure as a stimulus, brainstorm as many points as possible to list under each heading. Discuss why political and social aspects should be considered when discussing our economy.
2. Pretend you live in a rural community (such as the one depicted in Figure 13.4a) and the government has allowed the local river to be diverted, enabling a new cotton farm and processing factory to be built. The farm and factory will employ 500 people. Take a stance on this issue: do you agree or disagree that this will boost your economy? Write a letter to your local member of parliament outlining your views. You should aim to discuss the political, social and traditional economic implications of this situation.

Figure 13.4a Consequences of solving the economic problem.

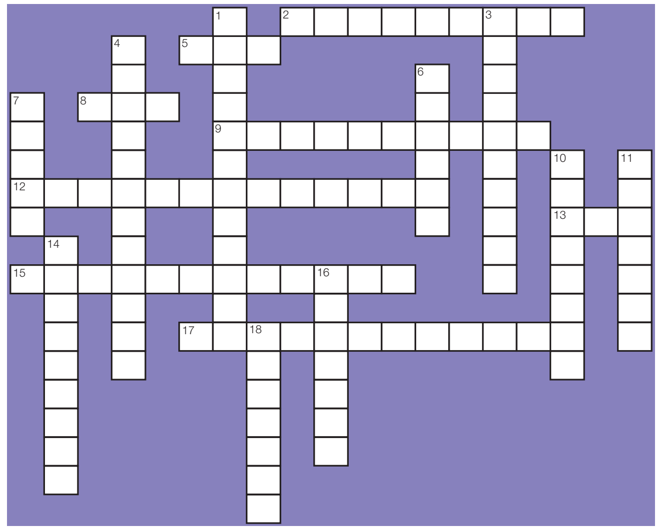
Chapter review

Activity 1: mindmap

Pretend your teacher has asked you to explain the topic 'Our economy' to a new student. Prepare a mindmap to help you in your task. Explain your completed mindmap to another student in your class.

Activity 2: crossword

Copy the crossword opposite and then complete it.



Across

2 A fall in the value of money because general prices have risen

5 The main measure of inflation in Australia

8 The measure of changes in the cost of wages and salaries

9 Entrepreneurial skill

12 The term used to describe the tendency of economies to move through periods of boom and slump over a period of time (two words)

13 A measure of economic activity within Australia; also known as total output

15 A ________ of a currency is when one currency's value falls in terms of another currency

17 The number of workers without a job who are willing and able to work

Down

1 An ________ of a currency is when one currency's value rises in terms of another currency

3 Businesses undertake this when they purchase capital equipment, such as factories

4 The price of one currency in terms of another currency (two words)

6 A ________ economy is a system where resources are owned by households

7 An economy where resources are owned by both private individuals and the government

10 The pay you receive per time period of work (two words)

11 One of the factors of production. It includes machines, factories and offices

14 Two consecutive quarters of negative economic growth

16 Goods, services and capital assets purchased from overseas

18 Goods, services and capital assets sold overseas

Activity 3: group work and report

In groups of three or four, outline each of the factors that can cause a change in economic activity and how each of these can affect:

a personal and business finances

b employment/unemployment

c ultimately, economic confidence.

At the end of the session, individually write a report titled 'The effects of economic change' that brings together the previous group work.

Activity 4: research and presentation task

Research newspapers and other publications for a current economic issue and present a five-minute speech on the topic to your class. In doing so, consider adopting a research action plan, using the steps below:

a Select a topic; that is, identify an economic issue that is of importance at the present time. Careful examination of the print and electronic media will give you ideas. It would be useful to collect a media file.

b Identify the stakeholders in this issue; that is, determine who has something to gain or lose from the issue and who has opinions on the topic.

c Consider what the experts have to say on the issue, and whether their view is biased in any way. Another country may have faced the same economic issue. Consider how the issue has affected the economies of other countries.

d Prepare your speech using a report format. Discuss the economic issue and its relevance to the Australian government, businesses and household sectors.