NSW HSC

Economics

Study Notes

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1. Global Economy

Global world product: total output of all goods and services by all economics in the world over a period of time. (not usually adjusted with PPP)

Australia is heavily reliant on global trade (exports and imports) by 47%.

Advantages of globalisation: specialisation, greater access to products, increased quality of life and decreased poverty.

Disadvantages: exploitation, corruption, dark economy, wealth inequality and difficult regulation.

As well as the trade of products and services, there is the trade of social and cultural factors.
Trade: a measure of how goods and services produced in one economy are consumed in other economies.
Trade is need as:

- Economies do not produce everything they need.
- Economies have specialisations: produce some products better with a lower opportunity cost.
- Improved transport and technology making it easy to trade.

Countries are shifting from trading manufactured goods to trading raw materials and services (tourism, education and finance) due to increased protectionism.

Finance is the most **globalised** sector of the world economy as money moves quicker than goods or people, it is supported by the financial **deregulation** and increased technological innovation in communications.

Financial flows through derivatives: futures and options, shares and bonds. Largely speculative flow of money, when there is a downturn there is a sharp pull away from an economy leading to financial instability, volatility and decreased exchange rate (making imports harder).
FDI (foreign direct investment) only makes up 20% of investment while the other proportion is internal.

Technology is one of the strongest drivers of globalisation allowing for tight integration with other economies especially in communication, transportation and finance.

People move for money, opportunities or QoL.
Mostly either really high skilled or low skilled people move.
Developed countries have immigration restrictions and language & cultural issues with some qualifications not being accepted.
While others are forcibly displaced due to war or resource shortage: *refugees.*
TNCs look for the most efficient and cost-effective labour, this is **offshoring** as they find the lowest cost country especially for services or manufacturing.

Developed economies have a <u>service</u> advantage, while emerging economies have a <u>manufacturing</u> advantage and developing economies have a <u>rural</u> environment.

International business cycle how much countries' economies are intertwined.
Strengthened international business cycle *connectedness*:

- Trade flows
- Investment flows
- TNCs
- Financial flows
- Financial market and consumer confidence
- Global interest rates
- Commodity prices
- International organisations

Weakened international business cycle *connectedness*:

- Interest rates
- Economic policy decisions (fiscal policy)
- Exchange rates
- Structural factors
- Regional factors

Regional business cycle: localisation of economic fluctuations.

Comparative advantage – specialisation and advantages in producing one type of good very efficiently. Measured through opportunity cost.
Absolute advantage – the amount of goods produced with a given set of inputs.

Free trade = higher levels of growth due to higher efficiency with cheaper costs with imports.

Advantages of free trade:

- Obtain goods and services you cannot produce.
- Countries can specialise production.
- Encourage efficient allocation of resources.
- Leads to economies of scale.
- Overall competitiveness improves as domestic businesses compete with international businesses.
- Encourages innovation and spread of new technologies.
- Leads to higher living standards.

Disadvantages of free trade:

- Unemployment may rise as local businesses readjust to the most efficient industries.
- Developing economies struggle to build new industries.
- Dumping practises which significantly harm local businesses.
- May encourage environmental irresponsible practices.

Protection: a government action that gives domestic producers an advantage over foreign competitors.

Dumping: where a foreign company floods a local market with very cheap goods to gain market share or hurt local businesses.

Arguments for protection:

- Supporting infant industries: can lead to inefficiencies.
- Prevention of dumping: <u>only</u> (valid economic) reason for protection as it hurts efficiency.
- Protection of domestic employment: locks up inputs in inefficient industries.
- Self-sufficiency: for national security and for essentials, decreases dependencies in times of crisis.

Countries can complain to the WTO about dumping which can lead to legal imposition of tariffs.

Government could introduce protection for several reasons:

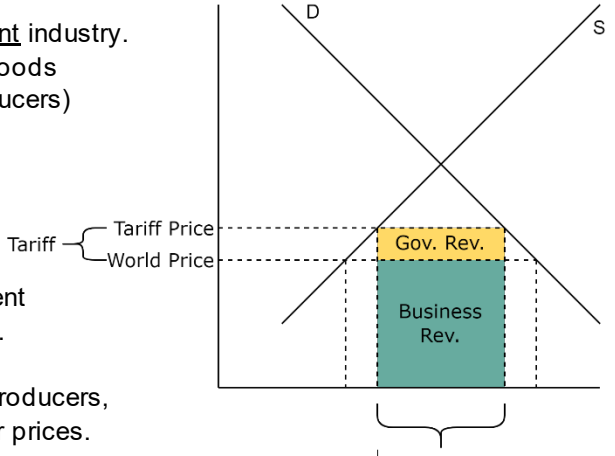
- To protect local industries from artificially low-cost external labour (i.e., low labour standards, banned unionisation)

Cultural factors:

- To block goods made with forced labour.
- To block goods made with insufficient environmental protection.
- To block goods made with stolen intellectual property.

Tariffs: a government-imposed tax on <u>imported</u> goods.

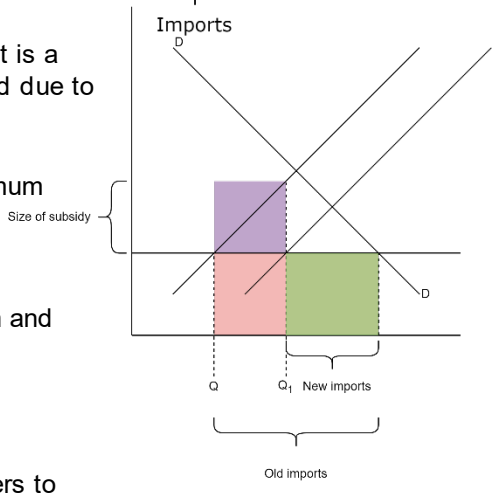
- Domestic producers can now supply a greater quantity (due to increased prices), increased production and employment.
- Resources are allocated to a <u>less efficient</u> industry.
- Consumers pay a higher price for less goods (redistribution of resources to local producers)
- Government income can increase
- Retaliation can occur



Quota: controls the volume of a good that is allowed to be imported over a period. Same economic effects as a tariff except no government revenue. A lower quota leads to <u>more</u> protection.

Subsidies are financial assistance to domestic producers, allowing them to compete with imports with lower prices.

Consumer now pay a lower price and receive more goods; however, it is a burden upon the government to pay for these subsidies. It is preferred due to its short-term nature.



Local content rules: mandate that goods and services contain a minimum proportion of locally made parts. Usually encouraged through a lack of an application of a tariff.

Export incentives: encourage businesses to export through education and advice, allows businesses to penetrate global markets.

Protectionism leads to:
- Reduced trade between nations
- Reduced living standards and economic growth: due to barriers to specialisation and efficiency.
- Developing economies are hit the hardest: as they are excluded from markets of advanced economies.

Trade agreements: countries to trade together with reduced barriers (e.g., no tariffs or import duties)
Trading blocs: countries form together in a formal preferential trade agreement.
Multilateral/region is 3 or more countries, bilateral is 2 countries.

Free trade agreements are more *preferential agreements* as they allow for better access to goods and services to one group of nations compared to another.

Trade agreements can create **trade diversion** were a country switches its imports from the most efficient producer to a country it has a free trade agreement with.

EU and ASEAN are an example of a trading blocs, while the EU is also an example of a monetary union.

Trade agreements issues:
- Impact in terms of trade is often small.
- Large cost in establishing and implementing trade agreement.

Australia's FTA:
- APEC: Aus + Eastern Asia + Americas: liberalised trade.
- AANZFTA: Aus & NZ + ASEAN, unification of some standards and decreased tariffs.
- ANZCERTA: Aus + NZ: very comprehensive agreement unifying trade and standards.

- ChAFTA: Aus + China: large reduction in tariffs allows for easy trade of materials and services.
- KAFTA: Aus + S. Korea: elimination of tariffs on resources, easy service trade and more investment.
- AI-ECTA: Aus + India: goal of eliminating all tariffs to allow access to fast growing economy.
- JAEPA: Aus + Japan: more agriculture and resources allowed in Japan.
- RCEP: Aus + Eastern Asia: large treaty for easy trade of goods and investment.

International organisations:
WTO multilateral free trade agency that seeks to promote free trade and settle trades disputes even in the wake of decreasing globalisation.
IMF lends out funds to countries in financial crisis promoting international stability and trade, some countries don't like their forced reforms.
World Bank provides funding to promote economic development through its children institutions:
- The International Bank for Reconstruction and Development (IBRD): loans funds for infrastructure
- The International Development Association: provides soft loans (without interest)

United Nations promotes economic growth and development, free trade and globalisation. Largest global organisation.
OECD carries out economic research and policy recommendations to **highly developed** countries.

G7 (US, UK, France, Germany, Canada, Japan and Italy) tries to coordinate macroeconomic policy, climate change, poverty and security policies.
G20 comprises of 80% of global GDP worked to solve financial crisis and support relief for developing countries.
Both these organisations are in *decline* as they don't represent whole globe and deglobalisation movements.

Living standards of those around the world vary a lot leading to different life prospects (health, education, income and life expectancy).

Income = *flow* (constant stream of money), **wealth** = *stock* (lump sum that changes value over time)

Economic growth is the increased **use** of productive resources (land, labour, etc.) and increased **productivity** with existing resource use.
Economic development is broad measure of welfare within a nation considering structural change needed for economic growth to occur.

Gross National Income (GNI) = sum of the value of all products in an economy plus primary income from foreign sources.
Real GNI includes the effect of inflation.
Purchasing Power Parity (PPP) adjusts GNI to adjusts for the purchasing power of currency (minimises effect of exchange rates).

Wealth = value of assets held. It provides a 'safety net' for people when they don't have an income and can be used to generate income (e.g., education, housing)

HDI is the main alternative to GNI it combines life expectancy, educational attainment and GNI p.c. (PPP)

There are three categories of development:

Type of economy	Economic development	Economic growth	Structure of economy
Advanced	Highly developed with many close ties with other economies.	Slow, consistent growth	Largely based around services and

			advanced manufacturing
Developing - Low-income - Middle-income	Low-income levels, with high income inequality. Has poor education and health outcomes, productivity and innovation	Moderate growth with high population growth	Heavily reliant on agriculture and (in some cases) foreign aid
Emerging	Varied income levels, process of industrialisation	Strongest growth rates and favourable prospects	Substantial manufacturing

Causes of inequality can be split into local and global factors.
Development economics: identifies problems and enables conditions needed for sustainable economic growth and development.

Global factors of inequality:

Global trade system:
- Wealthy countries protect their agricultural sector which makes it difficult for developing countries to export.
- Regional trading blocs usually exclude poorer nations due to lack of benefit for them joining.
- WTO's Doha Round would have benefited poorer nations, yet it was pushed back from advanced economies.
- Benefits of FTAs not accessible to developing nations due to cost of implementations and appealing protection.

Global financial architecture:
- FDI flows historically favoured developed/emerging economies.
- Short-term financial inflows favour emerging economies due to better returns. Yet these flows can lead to economic volatility due to sudden outflows.
- Low-income economies don't have robust banks to manage trade flows.
- International financial laws haven't kept pace with globalisation.
- Developing countries have large burden due to foreign loans.

Global aid and assistance:
- Developed countries put low amounts of money towards aid.
- A large proportion of aid is 'phantom' (money goes towards contractors) and does little to improves the lives of the poor.
- This aid is usually tied to strategic or military considerations.

Global technology flows:
- Technology can entrench inequalities = digital divide.
- New technologies are usually funded by high-income countries for high-income countries.
- New technology can be adopted in countries with good infrastructure and education.
- IP rights restrict the benefits of technology to those who can pay for it.

Domestic factors for inequality:

Economic resources:

Natural resources:
- Economies with abundant resources have better opportunities for development though they may become reliant on them.

Labour supply & quality:
- High income countries have highly educated and skilled labour. Barriers to female education can lead to much less productivity and employment.

Access to capital and technology:
- Less access to capital for investment leads to lower economic development.
- Low income leads to lower savings which could be used for investment.
- Undeveloped financial system limits access to loans.
- Low research means little innovation.

Entrepreneurial culture:

- History and social institutions can impact on economic success like:
    - Strong civil societal institutions.
    - Disapproval for corruption and respect for rule of law.
    - Aspiration for enterprise and responsibility.

High levels of inequality:

- High levels of wealth concentration stifles economic growth & development. GINI above 0.4 is considered bad for GDP.

Institutional factors of inequality:

Cultural factors:

- Reflected in legal structures and institutions within a country, gender inequality leads to weaker social development.

Economic policies:

- Being too focused upon market forces or intervention can stifle both growth and development.

Government response to Globalisation:

- Policies on trade and financial flows impact a country's ability to take advantage of integration. Integration leads to:
    - Economic restructuring and efficiency
    - Access to foreign capital and foreign technology
    - Access to overseas goods markets

Impact of Globalisation:

Economic Growth:

- Developing countries can grow through producing goods for global consumer markets attracting new technologies and FDI.
- High-income economies have global growth opportunities through TNCs in services and supply chains.
- Increases risks of cybercrime and pandemics.
- Advanced economies have seen weak growth since 2000 despite being highly interconnected, while the other economies have seen strong growth
- Globalisation is punctuated by China's rise and China's growth has helped economic development.

Economic Development:

- Impacted mainly through economic growth, as it lifts incomes and provides resources for public goods.
- Between 1980s and 2010s, almost all countries experienced massive lift in HDI except those with political/economic turmoil.
- Large growth can accelerate environmental damage and climate change.

Income inequality:

- In developing countries: export opportunities can raise income, can experience brain drain.
- In advanced economies: shift of employment towards services hurts manufacturing workers.
- Financial flows: provides employment and fuels growth.

Trade, Investment and TNCs

- Globalisation → increased trade and foreign investment
- TNCs play key role in trade and investment.
- Trade has become ½ of global product.
- Countries can utilise their comparative advantage in global supply chains.
- Globalisation has led to increased reliance of foreign sources of investment for generating economic activity. Can destabilise countries.
- TNC provide a large amount of employment, but don't favour local communities. TNCs costs governments around the world billions in lost tax revenue due to not operating under the laws of one country.

Environmental Sustainability:

- Low-income countries can sacrifice the environment for more investment and economic activity.
- Climate change is a significant threat to individual nations.
- Reaching global agreements on this has been slow but allows for innovation and new technologies.

Financial Markets:

- Big increase in the speed and breadth of global information and communications which drive global markets.
- Allows for greater transparency, FDI and forex.
- Can collapse economies due to investor confidence leading to economic shocks.

International Business Cycle:

- Deepening ties between economies has allowed countries to sustain higher growth at the cost of intensified downturns.

Chinese development:

- Open door policy and SEZs attracted foreign investment.
- Household Responsibility System (HRS) increased productivity and income.
- Membership in WTO: signed up to global trade policies.
- Reforms of State-Owned Enterprises (SOEs) fresh wave of labour to private enterprise
- Devaluation of RMB: exports are more competitive.

2. Global Economy

Australia used to have very high tariffs and protected its domestic economy in the 1960s, it shifted to a very open nation in the 1990s and 2000s were almost all tariffs were phased out and made Australia one of the most open countries in the world (low rates of protection).

Australia still has protection on luxury cars and used cars.

RECP (regional comprehensive economic partnership): Australia, NZ, ASEAN, China, India, S. Korea & Japan

Australia is geographically isolated, yet it has strong trade links with Asia especially China and ASEAN (south-east Asia).

Australia has become reliant on China especially as its main exports comprise of minerals and metals, services in Australia have growth prospects due to our sophisticated industries and skilled workers.

In early 1970s, many countries had fixed exchange rates.

Direct investment = establishment of company or purchase of large portion of a business (> 10%) – longer-term investment
Portfolio investment = loans, securities and shares

Financial deregulation allowed for foreigners to start to make portfolio investments
Australia is a net capital importer, so lots of FDI (leads to KAFA surplus).

Credit = inflow of money. Debit = outflow of money

Balance of Payments (BOP)	Current account	Balance on Goods and Services (BOGS)	Net goods	Exports and imports of goods
			Net services	Exports and imports of services
				Exports and imports of income flows and non-market transfers.
			Net primary income	Australians receiving dividends, interest payments or rent on *foreign* land
				Dividends of Australian shares, interest paid by Australians on *foreign* debt
			Net secondary income	Non-markets transfers (income not from factor of production), remittances, pensions, insurance payouts
	Capital and Financial Account		Capital account:	Capital transfers, mainly conditional foreign aid grants and debt forgiveness
				Net Acquisition/Disposal of Non-Produced, Non-Financial assets: IP rights, franchises
			Financial account: (investments)	Direct investment: purchase of companies or substantial portions of companies

				Portfolio investment: buying of land, shares, foreign debt and securities.
				Financial derivatives (options)
				Other investments: mainly trade credits, loans, currency & deposits
				Reserve Assets (controlled by RBA): gold, special drawing rights (SDRs), forex reserves
				Net errors & omissions: statistical errors and adjustments

Repayments of loans fall under capital account, while the income/interest generated from the loan falls under primary income.

BOP balance should equal zero.

When there is a surplus in the current account, this means that money is flowing into Australia so demand for A$ ↑ and exchange rate ↑ this incentivises investors to invest into foreign markets leading to a **balance** in payments. This also works in reverse when there is a deficit.

Strong link between primary income and KAFA (capital and financial accounts), when there are current account deficits meaning that large loans are taken out causing inflows in KAFA. These loans need interest to be repaid which increased primary income debits.
Money sourced through:

- International borrowing (foreign debt): requires regular interest payments or servicing costs.
- Foreign investment (foreign equity): requires returns, e.g., rent, dividends and profits.

Debt trap = an economy has to borrow more from overseas to pay interest on existing debt.

BoP indicates the health of the economy and **Australia's ability to fulfil its obligations to the rest of the world.**
It can reflect the structure of the economy and imbalances between the relationship between Australia and the global economy.

Current account deficit (CAD) increases when domestic growth is stronger than world growth, as demand outstrips local supply and boosts imports. Also works in the inverse.

Current account balance is cyclical:
Cyclical factors (business cycles): Australian economy grows faster than the world economy. Import demand tends to grow faster than export demand → BOGS goes into a deficit → CAD widens.
Slower global growth → fall in commodity prices → lower income from Australian exports.

- Changes in global demand for commodities.
- Australia's terms of trade: with an improvement in the terms of the trade, it reflects an increase in the demand for exports which appreciates the A$.
- Exchange rate value: a depreciation in the A$ decreases the price of Aus exports for foreigners.

Structural factors (permanent): underlying cause of the current account deficit is the size of the net primary income deficit, which is the servicing cost of Australia's overseas debt and borrowing – payments of interest, profits and dividends to foreign lenders and investors.

- Structure of Australia's export base
- International competitiveness of exports
- Level of national savings

Terms of trade: ratio of export price index to import price index.

If the index increases it implies that more is being received for the same exports or an increase in export prices relative to import prices, which is a favourable outcome.

Primary income account:
Cyclical factors:
- Exchange rate: appreciation of currency, decreases local currency value of debt servicing (meaning there is less of a fiscal burden).
- Domestic and Global Interest Rates.
- Domestic Business Cycle – Dividends.

Structural factors:
- Savings and investment gap.

Net foreign liabilities = net foreign debt + net foreign equity.
Net foreign debt = total level of outstanding loans minus the loans we give.
Net foreign equity = the value of assets held by overseas entities minus the assets we own.

Consequences of a high CAD:
- Growth of foreign liabilities.
- Increased servicing costs (interest).
- Increased forex volatility (due to lots of money flows).
- Constraint on domestic economic growth: as increased growth would increase imports.
- Loss of international investor confidence.

A high CAD can reflect:

Reckless and struggling economy	**Productive and growing economy**
Competition problems as excess investment compared to savings maybe due to a consumption binge. Reckless fiscal policy (spending)	Over investment into productive industries. Use of intertemporal trade, importing capital goods to expand future productive capacity.

Exchange rate is the cost of using one currency to trade for another. Exchange occurs in the forex (FX) market, which is mostly participated by speculators and currency traders. So little usage by trade and investment.

Fixed exchange rate: the government officially sets the exchange rate through the buying and selling foreign currencies. (pegged)
Managed exchange rate: the government updates its value for the exchange rate daily to allow for adjustments. (crawling peg)
Flexible exchange rate: the value of the currency is determined by market forces.

In Dec 1983, Australia floated its currency exposing us to global financial flows.

A floating rate **benefits**:
- Reflects the most realistic and reasonable price of the Australian Dollar.
- Allows for monetary policy to focus on domestic objectives, instead of just keeping exchange rate steady.
- Increases capital integration and mobility.
- Acts like an **automatic stabiliser**.

Revaluation = is an increase in the fixed rate set by a central bank.
Devaluation = is a decrease in the fixed rate set by a central bank.

A fixed rate system benefits:
- Increased confidence and certainty over value of currency.
- Can choose an intentionally low exchange rate to make exports more competitive.

- Helps control inflation, higher exchange rate makes imports cheaper and contraction of local businesses (less exports).

Trade weighted index: a broad measure of the purchasing power of the Australian Dollar, by valuing it against a range of other currencies.

Factors affecting supply and demand of currency:
Demand mainly affected by demand for exports.
Supply mainly affected by demand for imports.
Interest rates relative to external rates.
Commodity prices
Expectations of future movements

Appreciation = rise in exchange rate value of A$, increase in demand & decrease in supply.
Depreciation = fall in exchange rate value of A$, decrease in demand & increase in supply.

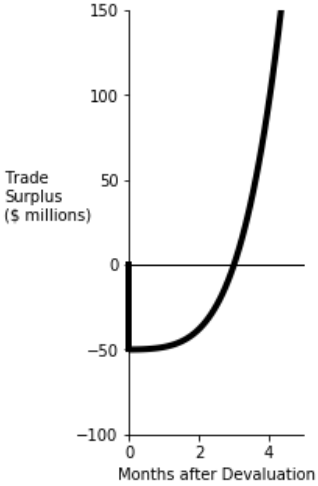
Effects of appreciation:

Positive	**Negative**
Import prices fall Debt servicing costs fall Inflation falls	Export demand falls Decreased domestic competition & employment Decreased foreign demand for local assets Capital outflow

Economists consider an exchange rate which most closely matches supply and demand to be the most favourable. True forces = supply & demand due to the exchange of goods, services and finances between Australia and the rest of world, shaped to not include speculation.

Balance of payments influence the exchange rate: as levels of import and export imbalance effect the demand/supply for A$.
Perceptions: market participants can have pre-existing ideas about a country changing their risk tolerance.
Exchange rate influences BoP: e.g., a depreciation in currency makes imports more expensive and imports cheaper.

J curve effect: a depreciation in currency takes a while to affect the market as there is a lag in business and consumer habits.



RBA may influence the exchange rate when:
- Serious misalignment of equilibrium (change inflation levels)
- Inefficiencies in speculations
- Avoidance of excess depreciation (ensuring wealth)

Influence through:
- Sell on forex market
- Change levels of interest rates
- Change macroeconomic policies (influencing economic growth)
- Jawboning – making announcements of future actions, particularly effecting speculation.

Implications of reduction of protection:

Short-term	**Long-term**
Businesses that cannot compete with imports go out of business Lower input costs for firms	Efficient firms can better compete on global level
Structural unemployment increases Increased standard of living – with cheaper imports	Job opportunities increase in internationally competitive sectors

Reduces government revenue Government spending on unemployment benefits increases and firm structural help	Sustainable economic growth raises revenue

Tariffs lead to:

- Australian exports being less competitive.
- Reduction in output in Australian economy (especially from agricultural protection).
- Australian service industries face the most prohibitive barriers.

Service industry	**Potential trade barriers**
Financial services	Foreign ownership restrictions.
Transport services	Flight route restrictions.
Professional services	Licensing laws which only recognise certain education qualifications.
Construction services	Mandated use of local suppliers.
Utility services	Government monopolistic provisions.
Environmental services	Preferences for local suppliers.
Media	Local content requirements/laws.

External protectionist policies impact Australia:

- Reduced international competitiveness.
- Restricted ability to invest.
- Reduced ability to migrate.
- Higher cost of exporting.
- Insecurity for investing.
- Restricted access for exports.

3. Economic Issues

Economic growth is the growth in volume of goods and services produced by an economy over time.

$$\text{Economic growth (\%)} = \frac{\text{real GDP}_{\text{current}} - \text{real GDP}_{\text{previous}}}{\text{real GDP}_{\text{previous}}} \times 100$$

Real GDP refers to the national output of goods and services over time adjust for inflation.

GDP data is estimated every quarter by the ABS, utilising national accounts (income, expenditure and products).
Time periods for GDP growth:

- Quarterly
- Year-on-year: quarter compared with this previous corresponding quarter
- Annual: one whole year compared with previous whole year.

Traditionally supply was seen as the most important factor in an economy. However, Keynes realised demand is the most important factor as everyone doesn't necessarily spend all their income.
Aggregate demand is measured through: $AD = C + I + G + (X - M)$

AD = aggregate demand
C = consumption (consumer spending on goods and services)
I = investment (by businesses)
G = net government spending (expenditure - taxation)
X = exports
M = imports

Equilibrium occurs when $\overbrace{S + T + M}^{\text{leakages}} = \overbrace{I + G + X}^{\text{injections}}$, (consumption is removed from equation)

The equilibrium level of income occurs when $AD = AS$, where $Y = AD$ and $Y = C + I$

Changes in economic growth is largely driven by changes in level of aggregate demand, in turn is influenced by:
Consumption and savings (55% of AD), from both consumers and firms:

- Income level = most important factor influencing consumption
- Consumer expectations
- Level of interest rates
- Distribution of income

Business investment (most volatile, 10-15% of AD):

- Cost of capital equipment
- Business expectations

Government spending (20-25% of AD):

- Want to maintain steady employment and economic growth

International activity (20-25% of AD):

- Overseas income levels influence amount of exports
- Domestic income levels influence amount of imports
- When we have desirable exports, exports stay stead needless of price increases.

Multiplier affects the three-sector circular flow model: (Households, firms, financial institutions)
When there is a change in either expenditure or savings, its effect is multiplied.
The multiplier is the number of times that money affects the economy and changes GDP.
The multiplier is calculated by $k = \frac{1}{\text{MPS}} = \frac{1}{1 - \text{MPC}}$

Aggregate supply determines long-term economic growth and measures a economies potential.
Increased through improvements in factors of production (microeconomic policies):
Land: resource discovery.
Labour: population growth, increased education for skills.

Capital: investments in capital, new technology, measures to increase efficiency, government deregulation (decreases overhead) or new competition policies.
Entrepreneurship: mentorship programs.

Without an increase in AS, an increase in AD will just lead to inflation.

Nominal is just the numerical increase in prices over the period measured.
Real GDP accounts for inflation (so assumes prices are constant across periods):

$$\text{Real GDP} = \text{Nominal GDP} \times \frac{100}{\text{CPI}}$$

Economic growth is the most important object of economic management as it many knock-on effects.
Faster economic growth boosts GDP per capita and real wages.
Economic growth creates jobs, but too high growth can create an inflation spiral.
High economic growth can widen the CAD, so policymakers can slow economic growth to counter this.
Economic growth could only impact higher-income earners and owners of capital – increasing inequality.
Economic growth can also have adverse effects on the environment.

Australia has seen slower productivity growth due to increase natural disasters and slowing knowledge exchange, this doesn't lead to sustainable economic growth. If this were to continue, economic growth could decline. Productivity drives 80% of economic growth.
Higher population growth in advanced economies from migration has helped drive growth but decreased GDP per capita.
Policies can be used to maintain a sustainable rate of growth, such as fiscal or macroeconomic policies.
The terms of trade has seen a decline as consumers adjust spending and inventories of businesses.
Cash rate is tied to economic growth and can act like a handbrake/accelerator for economic growth.
As asset prices increase, people feel more secure this may be from house prices or other.

Main aim of economic management is to sustain high rates of economic growth and increase standards of living.
Macroeconomic policies affect economic growth in the short term.
Fiscal policies use economic objectives to boost growth.
Monetary policies allow for a change in level of AD.
Microeconomic policies aim to change sustainable growth rates by influencing AS.

Inflation has a negative impact upon economic growth, competitiveness, exports and inequality. It is a sustained increase in CPI (consumer price index) over time, RBA target of 2-3%.
Deflation is a general decrease in prices, which is hard for the government to get out of.

Inflation is the change in CPI as a percentage.

CPI includes very volatile components (fruit & veg and petrol) which is shown in headline inflation. While underlying inflation seeks to remove this volatility and is calculated using trimmed mean & weighted median.

Ever since the RBA instituted a 2-3% inflation target across economic cycles, increased competition and technological changes, has led to inflation decreasing to 2.7%.

With wars, pandemics and natural disasters inflation has again increased outside of the target range.

Causes of inflation:
Demand pull: excess AD is over productive capacity, meaning consumer bidding rises prices.
Cost push: producer's increase in costs in factors of production, passed on to consumers.
Inflation expectations: individuals expect higher inflation, acting in a way which causes this inflation.

Consumers bring forward purchases which leads to *demand-pull* inflation.
Consumers expect higher wage growth which leads to *cost-push* inflation.

Imported inflation: rising import prices and a depreciation of the dollar will drive up domestic prices.
Price gouging: reduced competition allows business to raise prices more than needed.
Government policies: changes in tariffs, price controls, price monitoring and products provided by the government.
Excessive increases in money supply: increase in money supply means more chasing same amount of goods and services.

Generally, the higher the inflation the more negative effects.
Effects of inflation:

Factor	Effects		
	Short term	**Long Term**	
Economic growth	Excessive growth raises inflationary pressure **Distorted** decision making, makes people more likely to save Discourages business investment due to uncertainty Makes consumer bring forward spending (increases MPC)		**High**
	Moderates economic growth Removes distortion, more investment in long-term assets Makes consumer more likely to save		**Low**
Wages	Employees will seek larger wage increases due erosion of purchasing power can lead to **wage-price** spiral		**High**
	Helps to reduce annual wage growth		**Low**
Income Distribution	Low-income earners or people with fixed income don't have incomes which match inflation (aren't indexed) Lower-income earners may face higher interest rates on borrowings Erodes value of savings		**High**
Unemployment *Government can either choose to focus on employment or inflation*	Contractionary policies leads to slower economic growth and higher unemployment.	Low of levels of unemployment can lead to <u>high</u> inflation.	**High**
		High levels of unemployment can lead to <u>low</u> inflation.	**Low**
International competitiveness	Increased prices for Australia's exports <u>reducing</u> international competitiveness. Consumers are more likely to switch to import substitutes, growing trade deficit.		**High**
	Improves international competitiveness Aus product prices are more attractive, imports less attractive, improvement on BOGS		**Low**
Exchange rate	Appreciation of exchange rate, as encourages speculators	Causes currency to depreciate, as exports less competitive	**High**

Factor	Effects		
	Short term	Long Term	
		Fosters confidence in Australia, appreciates currency	Low
Purchasing Power Parity: goods that are traded globally should cost roughly the same in different countries. Not a perfect theory due to local factors			
Interest rates	Results in higher interest rates as central banks try to reduce negative effects of inflation		High
	Reductions in interest rates		Low

Unemployment is all people are willing and able to work and are actively seeking work – but are not currently employed. $\frac{\text{unemployed persons}}{\text{labour force}} \times 100$

High levels of unemployment lead to less production, slower economic growth, lower tax revenue, higher welfare payments.
It also leads to a range of social issues: inequality, poverty, family problems, crime, social unrest.

Labour force: is the population 15 and older who is working or actively seeking work. So students, children, retirees and permanent unemployed (and not looking for work) are not in the labour force. $\frac{\text{labour force}}{\text{population 15+}} \times 100$

Structural unemployment: unemployment arising from skills not matching job opportunities due to technology changes.
Cyclical unemployment: due to a downturn in level of economic activity (AD).
Frictional unemployment: those who temporarily unemployed as they change jobs.
Seasonal unemployment: due to the seasonal natures of some work (fruit seasons) or labour force (uni students).
Hidden unemployment: discouraged from seeking work and are no longer looking for work.
Underemployment: people who work less hours that they want to.
Long-term unemployment: people who have been out of work for 12 months or longer, makes it harder to re-enter the workforce.
Hard-core unemployment: long-term unemployed people due to personal circumstances, e.g., disabilities, drug abuse or anti-social behaviour.

Causes of unemployment:

Level of **economic growth**, demand for labour is a derived demand.
Macroeconomic policy stance can affect levels of *cyclical* unemployment.
Inflationary pressures lead to constraints on economic growth from policy, increasing unemployment.
Rising **participation rates**, with a higher portion looking for work this may stall improvements in unemployment.
Structural change changes in globalisation and working environments, change short-term costs.
Technological change, rapid change and automation leads to unemployment, but can also create new job opportunities.
Productivity:

Short-term	Long-term	Rates of productivity growth

Increased unemployment, fewer workers needed.	**Decreased** unemployment, as higher economic growth driving more demand for workers.	**High**
Decreased unemployment, more workers to meet demand.	**Increased** unemployment, as lower international competitive means less exports.	**Low**

Levels of training and investment lower levels of training means that shortfalls need to be filled by skilled migration.
Increased labour costs from increased on-costs, shortage of labour, increase in minimum wage and wage increases due inflation.
Inflexibility in labour market high minimum wage decreases attractiveness of labour.

NAIRU (non-accelerating inflation rate of unemployment): the theoretical low bound to unemployment, until it starts causing inflation.
Mainly consists of frictional, structural, seasonal and hard core unemployed. So, can be brought down by policy actions that reskill workers.
When unemployment is above NAIRU, there is spare capacity in the market. While when it is below, increases in economic growth will boost inflation.

Economic costs of high unemployment:
Lower wages growth, excess labour should lead to fall in wages but there is a 'stickiness' of wages – very difficult to cut wages.
Opportunity cost, economic resources are not being used to their full capacity, lower household incomes and lower investment.
Living standards, lower income = less taxes and less production of consumer & capital goods.
Skills, long-term unemployed suffer loss of skills, confidence and experience. *Hysteresis* cyclical unemployment turns into long-term structural unemployment. New members of labour force find it difficult to gain skills.

Social costs:
Inequality increases, low-income earners lose sources of income and increased poverty.
Increased incidence of social problems (crime, abuse, health issues) among long-term unemployed.
Costs are borne by communities.
Backlash against globalisation/established systems.

Main groups affected by unemployment:
- Young people (15-19)
- ATSI
- Older people
- Rural people
- Migrants
- Discriminated groups

Okun's law: the rate of economic growth has exceeded the sum of productivity growth and workforce growth for unemployment to go down.

$$\Delta\text{Economic Growth} > \Delta\text{Productivity growth} + \Delta\text{Workforce growth} \Rightarrow \text{Unemployment decrease}$$

Policies to reduce unemployment:
Macroeconomic policies: used to reduce cyclical unemployment.
- Economic growth is required to counter this type of unemployment.
- Fiscal: lower taxes and increased government spending

- Monetary: expansionary monetary policy to stimulate consumer spending and business investment.

Labour markets:
Regulation of the labour market: balancing the flexibility for employers and fair pay/conditions for employees.
Policies to move individuals off welfare into employment:
- Mutual obligation scheme
- Points based activation system

Microeconomic policies:
- Training (VET & TAFE)
- Immigration policies (immigration ≠ increased unemployment)
- Tax and welfare interaction:
    - Unemployed and low-income earners face regressive tax rates.
- Paid parental leave and affordable childcare
- Reducing frictional unemployment through job search programs
    - Commonwealth Employment Service
    - Workforce Australia Online

External stability refers to the ability of a country to meet its foreign liabilities in the medium to long term and avoid currency volatility. With high external stability, Australia's relationship with the global economy doesn't impede any domestic policy goals.

Australia has experienced issues with external stability due to a persistent CAD, volatile terms of trade, lack of international competitiveness, growth of foreign debt, rising foreign ownership and volatility of the Australian dollar.

External stability concerns within Australia have receded due to the CA going into surplus and external imbalances not having a significant impact upon the economy.

CAD was originally seen as a **trade** problem, now it is seen as **structural** issue.
CAD as a **trade deficit** problem: slow export growth and expanding growth for imports.
- A lack of international competitiveness especially with elaborately transformed manufactures (ETM)/complex consumer goods.
- Australia's manufacturing industries lost domestic and international markets because they couldn't compete with low-cost, large-scale manufacturing elsewhere.
- Lack of competitiveness exacerbated by higher A$ exchange rate.
- Terms of trade has a major impact upon CAD, narrow export base and relying on one importer (China).

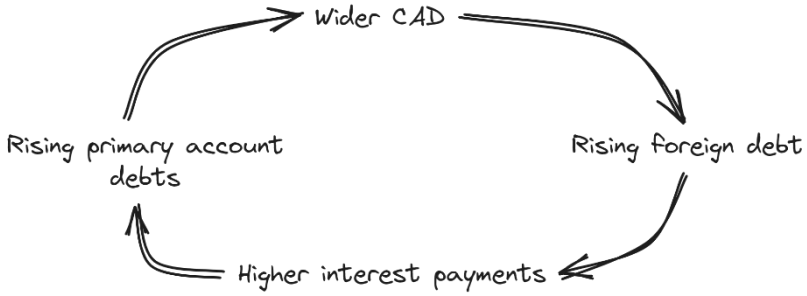
CAD as a **savings-investment** problem: the gap between domestic savings and needed domestic investment – meaning that companies seek investment from external sources.
- If domestic spending exceeds domestic output, it results in a CAD.
- Government budget deficits reduce national savings.
- Record-low global interest rates and lower investment have narrowed gap.
- A small population has meant we have relied on foreign capital to develop.
- As long as foreign capital is forthcoming and always increases productive capacity, CAD will be sustainable.

CAD: Pitchford/'Consenting Adults' thesis:
As long as a CAD is due to savings and investment decisions from the private sector there is no concern for an economy's external stability.

Net foreign liabilities: Australia's total financial obligations (debt + equity):

Impact of net foreign debt:

Debt sustainability problem: if foreign debt outpaces GDP, it means that higher interest payments decrease standards of living.
Debt trap scenario:



International credit rating: a lower credit rating, increases the cost of borrowing.

Debt servicing ratio: proportion of export revenue used to pay interest of foreign debt. As high as 20% for Aus, now only 6%.

Impact of net foreign debt:
Australian banks have decreased their reliance on offshore funding after GFC.
Australian bonds have become sought after (especially due to AAA rating).

Impact of net foreign equity:
- Since 2013, the value of Australia's foreign assets has been greater than foreign ownership of Australian assets.
- Equity servicing costs can create a strain Australia's external accounts.

Exchange rates has a significant impact upon international competitiveness and external stability.

Exchange rate volatility:
- Australian exchange rates can be highly volatile, particularly due reliance on commodities ⇒ increased speculators.

Exchange rate and external stability:
- Floating exchange rate = powerful stabilising mechanism.
- Volatile exchange rate and BOP can lead to policy changes.
- Sudden, large depreciation can discourage foreign investors and reduce confidence (and lead to a vicious cycle).
- Dutch disease: where a country expands production of a valued commodity so much, that exchange rate goes high killing all other exporting industries.

External stability from economic policy:
- Monetary policy: used to reduce consumer spending and CAD. Considered temporary and ineffective.
- Fiscal policy: address national savings levels.
- Superannuation: contributes to Australia's overseas investments.
- Microeconomic reforms: increase efficiency and productivity, increase competitiveness and workforce participation.
- Medium-term policy settings: inflation target, budget surplus goal and reforms to maintain confidence.

Distribution of income and wealth: government tries to ensure fairness in this spread of wealth and income. Economies with fair conditions increase health and social outcomes.

Inequality is increased by policy which:
- Encourage market forces.
- Reduce income tax rates.
- Restrict welfare.
- Reduce spending on the public services.
- Deregulate labour market.

Lorenz curve plots the percentage of total income against cumulative percentage of income recipients. If income was distributed perfectly, it would be a straight diagonal line = the line of equality. The difference between the line of equality and the Lorenz curve (the actual conditions) is measured in the Gini coefficient, 0 is perfectly equal and 1 is perfectly unequal.

Wealth inequality has been relatively stable. Worsened inequality is due to the fact that owners of capital accrue wealth in time of growth and decline.

Sources of household income:
- Wages from labour or super.
- Rent from land.
- Earnings from capital.
- Profit from entrepreneurship.
- Transfer payments.

Sources of wealth: household net worth = value of household assets minus household liabilities.

Levels of inequality has increased slightly in Australia in recent decades. Income distribution is asymmetric, with a small number of high incomes and large number of low incomes.

80% of households have net worth below average.

Inequality is affected by:
- Family structure
- Age and education
- Ethic and cultural background (ATSI)
- Gender and occupation
- Geography

Economic costs of inequality:
- Decreased overall utility.
- Reduced economic growth (lower income earners have high MPC)
- Creates conspicuous consumption.

Social costs of inequality:
- Creates poverty and social problems.
- Increases cost of welfare support
- Social class divisions

Economic benefits of inequality:
- Encourages labour force to upskill.
- Encourages labour force to work longer and harder.
- Make labour more mobile.
- Encourages risk taking from entrepreneurs.
- Creates potential for higher capital formation.

Social benefits of inequality: there are few overall social benefits.

Inequality of opportunity due to:
- Inequality of wealth
- People have different mental and physical attributes.
- Inheriting of wealth
- Don’t have access to same networks of people to build opportunities.

2024 Federal Budget

Stage 3 tax cuts, taxpayers will receive a tax cut.
$300 energy bill relief for every household.
HECS index changes, $3 billion in student debt waved.
Increased rent assistance, cheaper medicine, more homes and money towards Australia becoming a renewable energy superpower.

The budget is expansionary and is creating a deficit.

This will boost economic growth, yet economic growth is still forecast to be stubbornly low.
In the short term, it will lower inflation but in the long-term inflation will increase.
Unemployment will increase with slow consumption and economic growth, high migration and tight monetary policy.
External stability will decrease, as TOT is decreasing, and commodity prices are forecast to decline.
Income will become more equal due to the tax cuts.

Government policies and inequality:

- Employment is the main source of income for households, unemployment is the main reason for poverty and low income.
- Jobkeeper aimed at minimising job losses, therefore decreasing unemployment.
- Can increase employment with re-entry programs into workforce.

Change in labour market:

- Increased amounts of underemployment
- Gig economy
- Decentralisation of labour market (and wage setting agreements)
- FWC minimum wage

Government policies to reduce inequality: tax, transfer payments, assistance and super:

- Taxation allows for money to be redistributed to low-income households.
    - Taxation and transfer payments have lowered inequality by a third.

Indirect impact of government policies:

- Monetary policy: high interest rates disproportionately impact low-income households, as they struggle to pay off debt.
- Microeconomic reform: economic restructuring, privatisation and reform to improve efficiency all decrease employment.
- Housing policy

Environmental sustainability: is the protection and enhancement of the natural environment.

Australia faces some significant challenges:
Land degradation, greenhouse gas emissions, depletion of non-renewable resources and pollution of water systems.

Prioritising environmental concerns will have negative short-term impacts, by positive long term impacts.

Environmental economy: incorporates the hidden costs of economic costs on the environment into theory.

Overuse and exploitation of natural resources for short-term growth can deplete the environment, into state that it reduces productivity of sectors of the economy.

Ecologically sustainable development:
- Integrating economic & environmental goals in policies.
- Ensuring environmental assets are properly valued.
- Managing environmental risks with caution.
- Ensuring fairness in allocating costs and assets between generations.
- Considering global effects of environmental issues.

Long-term purpose: improve quality of life for many.

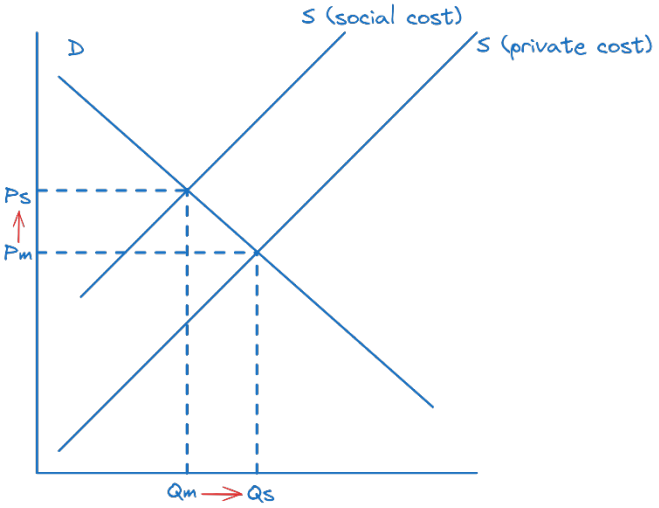
Price mechanism = interaction of supply and demand to reach equilibrium price and quantity.
This mechanism doesn't account for long-term effect of economic activity, producers enjoy private benefit from the activity and the market price by consumers doesn't reflect social costs.

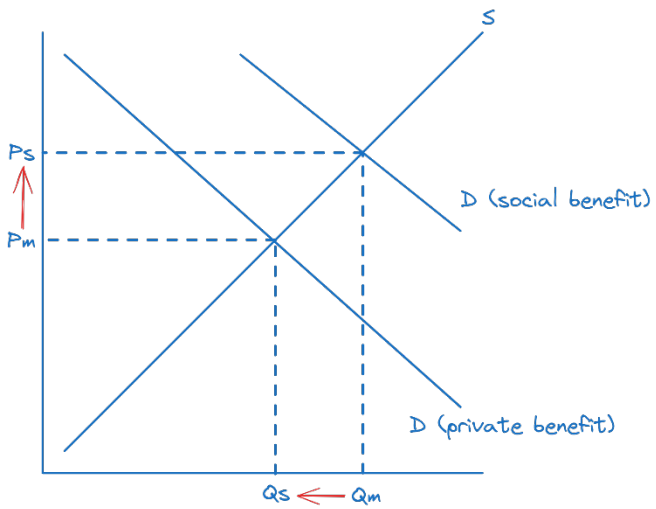
Market failure: price mechanism doesn't account for wider social costs and benefits felt by society.
Demerit goods = goods and services with negative externalities.

Tragedy of the commons = market failure where common (shared) resources are destroyed through overuse.

Price mechanism has a limited role in protecting the environment, as it only works for resources sold in the market.

Negative externalities: equilibrium price is lower than social price and over produced.
Positive externalities: equilibrium price is lower than social price and is under produced.





Public goods are non-excludable (a producer cannot exclude consumers from enjoying the benefit of a good once provided) and non-rival (the consumption of a good by one consumer doesn't limit the amount of goods available to another).

Potential for free riders means that the market doesn't provide or under-provide public goods because private firms cannot charge compensation.

Public sector goods: goods and services provided by government but are excludable and/or rival. e.g., beaches, trains.

Major environmental issues: experts often disagree on how to calculate the environmental costs of economic activities and on which policies are most effective at solving environmental problems.

Measures to preserve the natural environment:
- Restricting development in environmentally sensitive areas.
- Protecting native plants and animals from extinction.
- Controlling emissions of waste products.
- Requiring replanting where logging has occurred.

Government actions: environmental protection and biodiversity conservation (EPBC), manages the environmental protection at a federal level.

Problems faced by government when persevering the natural environment:
- Reduction in economic growth.
- Higher costs for industries to meet environmental standards, reducing competitiveness.
- Cost of repairing damage is often borne by taxpayer.

Impact of pollution can travel far from its source, government policies: bans, quotas and subsidies.

Renewable: can naturally regenerate or replace themselves in a relatively short period. But can be depleted to the point where they become non-renewable.
Non-renewable: natural resources that are limited in supply and cannot replenished/take a long time to replenish.

Depletion of natural resources: environmental and economic problem. Impact is greatest on future generations.
Sustainable resource management aims to ensure the present generation doesn't overconsume resources and minimise depletion of non-renewable resources.

Optimal rate of resource use: what level of resource use is sustainable.
- Renewable resources = threshold exploitation that allows for the resource to regenerate.
- Non-renewable resources = rate of decline that is acceptable for present and future generations. Includes eliminating overuse and moving to recycling.
    - Challenging to calculate optimal rate, as hard to predict future habits or current stock.

Australia's resources: reliance on primary commodity exports, especially non-renewable energy resources are unlikely to be sustainable in long term.
Economies increasingly focused on renewable energy and Australia will need to diversify to achieve greater economic energy and environmental sustainability.
Policy debate in Australia on future energy and resource use has been fraught, Australia has favourable conditions for solar and wind.

Future Made in Australia is a $22.7 billion policy to invest in the green energy and sustainable transition, including investment into renewable energy: solar, batteries; green hydrogen > green steel and investment into engineering careers.

Government policies to maintain environmental sustainability fall into two broad categories:

Discouraging environmentally harmful activities.	Providing **incentives** for environmentally responsible conduct.
Bans on production or sale – most extreme action	Subsidies or funding to certain environmentally sustainable practises.
Imposing a tax on production or use.	Policy recommendations and targets for future climate actions.
Government monitoring and measuring use.	

Challenges to policies:

- Public opinion and political expediency
- Budget impact (changes in taxes and cuts in other funding)
- Unemployment
- Inefficiencies
- Businesses not cooperating
- Risks of failure

4. Economic Policies and Management

A major rationale for government intervention is to stabilise fluctuations in the business cycle, increase long term economic growth and better living standards.

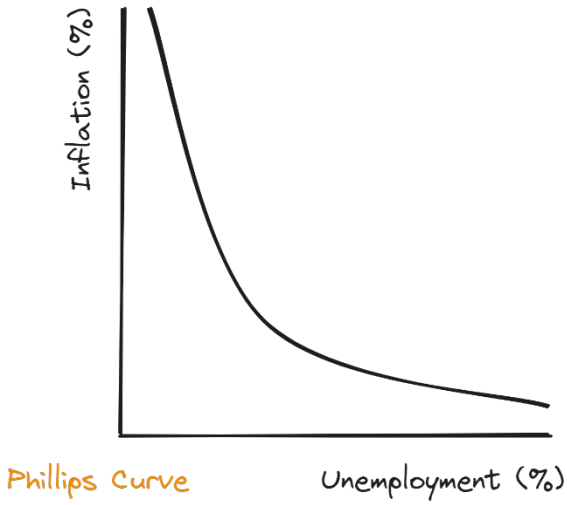
Objectives include:

1. Economic growth at a sustainable rate (measured in real GDP)
    a. Employment growth and rising real incomes
    b. Minimising inflationary pressures and CAD (% GDP)
2. Internal balance: full employment of resources (including labour) and price stability (inflation in target)
3. External balance:
    a. Financing import expenditure with export income
    b. Stability of exchange rate
    c. Stability of levels of net foreign liabilities and net foreign debt as % of GDP

Current goals of government in 2024:

- Containing inflationary pressures: RBA has implemented the most aggressive interest rates hikes coupled with contractionary fiscal policy.
- Fiscal consolidation: wants to stabilise debt and reduce the debt-to-GDP ratio.
- Maintaining low unemployment: government has spent money on boosting skills training and increased migration.
- Increasing productivity and sustainability of long-term growth: boost training of skilled workers, improve infrastructure, promoting competition but slow productivity growth remains a risk for the future.
- Improving distribution of income and wealth: education funding to disadvantaged schools, welfare changes, NDIS and Stage 3 tax cuts.
- Transition towards Net Zero: long-term economic objective, government finds it difficult to balance economic objectives and environmental goals. However, economists now see opportunities in renewables industries seen by the new *Future Made in Australia* policy

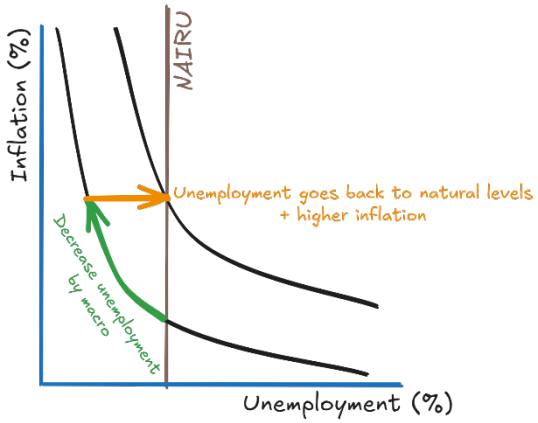
Conflicts in Objectives:
Achieving lower unemployment often conflicts with achieving lower inflation, as stronger AD causes job growth but also puts upward pressure upon prices. This relationship is shown by the Phillips curve.



In the 1970s, Australia experienced stagflation where high unemployment coexisted with high inflation, showing that the relationship doesn't always exist.

Theory was developed into the long-run Phillips Curve.
Natural rate theory: there will always be some level of unemployment. If government use macroeconomic policies to lift demand and push unemployment lower, workers will demand higher wages which increases inflation leading to less demand for workers as businesses cut costs – push unemployment back to its natural rate.

Reversing the process through tighter macroeconomic policy doesn't really work as the rising the level of unemployment in the short-term leads to people losing skills and motivation increasing long-term unemployment: **hysteresis**.
Moving the natural rate to the right.



Implications of the long-run Phillips curve:

1. Expansionary macroeconomic policy cannot reduce level of unemployment in the long run.
2. Expansionary macroeconomic policy will only increase level of inflation in the long run.
3. Contractionary macroeconomic policy will increase unemployment in the long run through hysteresis.
4. The only way to reduce unemployment is through supply-side/microeconomic policies.
5. It is important to contain and constrain inflationary expectations.

Achieving economic and external stability: strong economic growth is usually associated with increased consumption and investment, which leads to increased imports.

- There is a balance of payments constraint
- Limitations on rate of growth because of its impact on the CAD.

Impact of growth on environment and income distribution.

- Economic growth can lead to environmental change
- Measures to improve environmentally sustainability can slow economic growth
- Economic reforms may have negative social effects

Short and long-term objectives: microeconomic reform to bring about structural change can increase unemployment and lead to extra costs for government. Long-term objectives may not deliver benefits for some time.

Instruments of economic policy:

- Macroeconomic
    - Government budget and interest rates
    - Affect overall level of economic activity and aggregate demand (AD)
        - Manages business cycle to minimise fluctuations in a counter-cyclical nature
- Microeconomic
    - Measures to improve operation of firms, industries and markets
    - Changes are made at the level of individual firms and industries
    - Policies influence level of aggregate supply (AS)
        - Improve levels of productivity and efficiency so that the overall level of supply is increased
    - Improves resource allocation and long-term to address potential constraints on growth

Fiscal policy affects economic activity (AD), resource allocation and income distribution. The budget stance (deficit, surplus or neutral) helps the government to influence economic growth, internal and external balance.

The Budget is an annual statement from the government of income and expenditure plans, shows whether a deficit or surplus is forecast. Includes a Mid-Year Economic and Fiscal Outlook (MYEFO) with updated forecasts.

Budget has all types of revenue, i.e., tax and other revenue.

Deficit is the amount that government spends more than its receipts.

Debt is the total amount that government owes.

Budget measures:
Underlying cash balance: all money when collected or spent
Headline cash outcome: underlying cash balance + purchase/sale of assets
Fiscal balance: accrual accounting version
Net operating balance: is the government able to meet recurrent obligations

Cash accounting: records when money is received or paid out.
Accrual accounting: records when revenue is earned or expenses when incurred.

Components of the budget:
- Discretionary: deliberate changes in the structure of the budget
- Non-discretionary: cyclical component/automatic stabilisers

Budget stances: contractionary and expansionary have different effects on economic growth.

Funding budget deficits:
Borrowing from the domestic private sector: selling treasury bonds to the domestic private sector under a tender system (to the lowest bidder).
Advantages:
- No fall in money supply
- Money borrowed is returned

Disadvantages:
- Government takes money from savings pool and pushes to bonds, meaning it is harder for individuals and businesses to borrow, has larger effect in a boom leading to the crowding out effect.

Borrowing from overseas: insurance of securities in overseas markets
- Leads to accumulation of government debt and foreign debt (worsening external stability).
- It will reduce effects of 'crowding out'.

Borrowing from RBA:
- Government instructs RBA to print money to buy bonds.

Advantages:
- No change in interest rates
- No accumulation of public debt

Disadvantages:
- Increase in money supply
- Risk of rising inflation

Seling assets:
- Asset sales can reduce headline budget deficit but not net operating deficit
- It doesn't impact demand for national savings

Using surpluses:
1. Paying off government debt, reduces interest payable – removing recurrent expenditure
2. Paying off international debt, reduces interest payable overseas and size of income deficit
3. Save it in RBA, can be used for lending purposes in the private sector.
4. Influencing future resources use, create an investment fund to provide for the future.

Public sector borrowing and debt:
- Public sector includes federal/state/local government, public trading enterprises (PTEs) or government business enterprises (GBEs)
- Comprehensive indicator of fiscal impact public sector = underlying cash
- Public sector debt is generally exclusively Australian debt

Impact on resource use:
Direct influence will be used if the market will not provide resources quickly enough.
Indirect influence tax and spending decisions to control resource production.

Impact on income distribution:
Changes in fiscal policy play most important role in determining distribution of income, while changes tax arrangement and spending also have impacts.

Impact on savings and CAD:
Budget deficit decreases national savings as government borrows from public, also leading to 'crowding out'. While continual deficits cause CAD to grow.

Fiscal policy:
- Fiscal policy plays a supporting role in the policy mix with monetary policy being primary tool for macroeconomic management
- In those years, governments focus on medium term fiscal policy goals rather than the shorter term
- However, once a decade a major downturn will constitute fiscal policy action

Terms of trade has positive cyclical influences on budget come due to price rises in commodities.

Fiscal policy has impacts upon:
Economic growth – Keynesian theory that an expansionary budget will accelerate growth.
A sharp rise in debt and deficit can hurt an economy in the future as it leads to higher interest rates and increased austerity measures.

Unemployment – expansionary policy can help reduce unemployment, address market failure in labour market (e.g., employers unwilling to fund young workers' training due to their tendency to switch jobs)

Allocation of resources – market generally has to allocate resources and government reduces market failure.
Government used to be heavily involved in provision of services.

National savings – fiscal policy affects national savings through budget outcomes, aim for budget surpluses over medium term to ensure that government doesn't add to savings imbalance.
Twin deficit thesis, a budget deficit leads to a CAD. Usually in reality a number of factors influence CAD.

Distribution of income – fiscal policy measures have a significant effect on distribution of income, usually help vulnerable people.

Monetary policy is used to smooth fluctuation in the business cycle and influence economic activity. RBA uses cash rate through open market operations (OMOs).

Contractionary monetary policy: high interest rates limits the amount of funds available households, while expansionary does inverse.

RBA has three goals:
- Stability of Australia's currency
- Maintenance of full employment (when cyclical unemployment is zero)
- Promotion of economic prosperity and welfare of people

Difficult to achieve all three, so usually priorities low inflation.

RBA has been independent since 1990s, removing political pressure from monetary policy decisions.

Effect of 2-3% on average over time target:

- Flexible target allows for RBA to adjust to shocks and events outside RBA control
- These targets entrench expectations of low and stable inflation, RBA can slow inflation.

RBA monetary policy is centred around price stability, with low unemployment/full employment and promoting prosperity.
Pre-Covid, monetary policy was less effective due to weak growth and low inflation.
During Covid, unprecedented amounts of stimulus.
Post Covid, due to high amount of stimulus which led to sharp rise in inflation.

Review of RBA (2023), led to many changes in the RBA.

All banks must hold a portion of their funds with the RBA to settle transaction with other banks and the RBA. These funds are trade within the overnight money market which allows for implementation of the cash rate.

Open market operations (OMOs) are where the RBA engages with buying and selling of government bonds.

ES Account Stances		
Scarce reserves	Pre-Covid	RBA closely managed supply of ES funds so they met the estimated demand. This meant it was equally likely for ES balances to either be in deficit or surplus. RBA soaked up excess cash with OMOs.
Abundant reserves	Covid	RBA ceased use of OMOs, and dramatic injection of ES balances meaning they were in consistent surplus. Now they manipulate interest rates through policy rate corridor.
Ample reserves	Post-Covid	RBA continues to use policy rate corridor to police interest rates, less costly than abundant reserves (as have to pay less interest).

Other than cash rates, other items influence the cash rate:

- Banking sector competition
- Regulations
- Domestic and global financial market conditions

Transmission of Monetary Policy			
First Stage			
Cash rate determines interest on overnight loans in the domestic money market, strong influence upon deposit and lending rates for individuals. Conditions in financial markets, changes in competition, risk with loans can also impact interest rates. Monetary policy acts with a lag of 6 to 9 months.			
Second Stage			
Changes in monetary policy impact economic activity and inflation. Lower interest rates impact AD through stimulating spending, however it takes a while for supply of goods and services to rise as more workers, equipment and infrastructure is needed – increasing inflation.			
Saving & investment	Cash-flow	Asset prices & wealth	Exchange rate
Lower interest rates reduce incentives to save. Lower interest rates for loans increase borrowing, supporting higher demand for houses. Increases investment spending by	Reduction in lending rates, increases disposable income available to households. Reduction in interest rates reduces the amount of income that households get from their deposits, reducing their spending.	Lower interest rates support higher assets prices through stimulating demand. Higher assets prices also increase the equity of an asset that is available for banks to lend against.	Lower interest rates reduce returns overseas investors garner, leading to decreased investment in Australia. This reduces the exchange rate, making foreign good

businesses, as cost of borrowing is lower and demand is higher.	These two effects work in opposition to one another, yet mortgage borrowers are more likely to pick up spending.	Increase in asset prices increases people's wealth. Which can lead to higher consumption and housing investment.	and services more expensive. Boosting export activity.

During the pandemic many households had a stockpile of savings which were deployed after Covid boosting spending.

Unconventional monetary policy:

1. Asset purchases (quantitative easing – QE): RBA purchases government securities from the secondary market (i.e., banks) and deposit new ES funds in account.
2. Forward guidance: RBA makes statement on future actions (jawboning) and leaves cash rate unchanged until inflation under control
3. More liquidity: increased loans to banks at very cheap interest rates, to increase loans to small businesses.
4. Increasing corridor floor: giving banks higher interest rates, allowing them to reduce interest for households and businesses.
5. Negative interest rates (never used by RBA): considered ineffective at stimulating economic activity.

Risk with monetary policy measures is that demand rise too rapidly causing inflation.
Unconventional monetary policy flattens the yield curve and reduces longer-term interest rates.

Main effect of changing interest rates is changing the demand for credit: high interest rates make borrowing more expensive and vice versa.

Fall in interest rates discourages financial inflows, depreciating the currency. Making Australian goods more competitive and stimulating AD.

Monetary policy limitations:

- Time lag of 6 to 18 months
- Transmission affects consumption in various ways
    - Effects 'borrower' and 'saver' households in inverse ways

Main factors explaining monetary policy:

1. Low inflation objective: RBA states that high economic growth will ensue from aggressive rate policies.
2. Inflationary expectations: low inflation leads to unions demanding less for wages.
3. Labour costs: these costs are unable to decline, so limiting them is important.
4. RBA is committed to economic growth and lower unemployment.
5. Want to reduce downturn from global economic conditions.

Microeconomic policy is aimed at improving the efficiency of firms and industries to maximise output.
Want to increase sustainable growth and reduce inflation constraints.

Australia raising long-term economic growth requires structural changes to lift productivity, effects supply.
Reduces business costs and improves competitiveness, productivity and efficiency.

Structural changes: are changes in pattern of production.
This can result in some areas disappearing.
These changes are to make product and factor markets more efficient.

Microeconomic theory: product and factor markets will be more efficient if there is greater competition and less government interference.

Reforms can operate on many different levels: one company to an entire industry.

Improving efficiency:

Allocative efficiency:	Minimising misallocations in economy to shift resources to the most efficient users.
Technical efficiency:	Achieving maximum level of output form a given number of inputs.
Dynamic efficiency:	Ability to respond to changing demand patterns, with legislative burden.

Deregulation is the process of removing rules to increase efficiency and simplification/removal of rules that constrain market forces.

Microeconomic reform is always associated with short-term costs (unemployment, businesses closures) and long-term gains.

Productivity growth in recent years has been extremely weak in recent years leading to reduced competition, high taxes and increased inequality.

Privatisation can lead to the selling of vital assets increasing prices and can benefit high-income earners over low-income earners.

Recent reforms in different sectors:

Sector	Reform
Financial	RBA recently gave more autonomy to banks to set interest rates. Removal of barriers for foreign banks to enter the market.
Agriculture	Large amount of government owned businesses which were sold, and there were a large amount of monopolies which were removed by deregulation and incentives to innovate.
Transport	The National Transport Commission (NTC) was created in 2003 to help make sure that standards are consistent across Australia especially for road vehicles. Australia deregulated the aviation sector allowing for more entrants.

Microeconomic reforms:

Benefits	Costs
Greater efficiency and productivity growth	Higher unemployment (especially structural) in the short term.
New business and job opportunities	Closure of inefficient businesses
Higher economic growth and living standards	Greater work intensity
Lower inflation	Less equal distribution of income

Australia has realised that it should put more productivity investment into services (as it makes up 90% of the workforce).

Australia tries to preserve its environment as our economy cannot keep growing with a degraded environment.
Policies to protect the environment:

- Restricting development in environmentally sensitive areas
- Protecting native plants and animals from extinction
- Controlling emission of waste products
- Requiring new plantation in areas where logging has occurred

Pollution = natural environment is degraded, contributors to pollution = manufacturing, agriculture, households.
Impact of pollution can travel far from the source.

Climate change is significant threat to the global environment.
Australia has an economic reliance on fossil fuels, leading to problems with policies.

Depletion of natural resources: environmental and economic problem.
- Impact is greatest on future generations
    - Need sustainable resource management
- Optimal rate of resource use:
  Renewable resources: threshold exploitation, non-renewable acceptable rate of decline.

Environmental policies address these issues with regulations or market-based policies.
Both state, local and federal governments are responsible for these policies.

Regulations:
Laws or rules that govern economic behaviour such as:
- Prohibiting an action
- Specifying how a good or service is produced/consumed

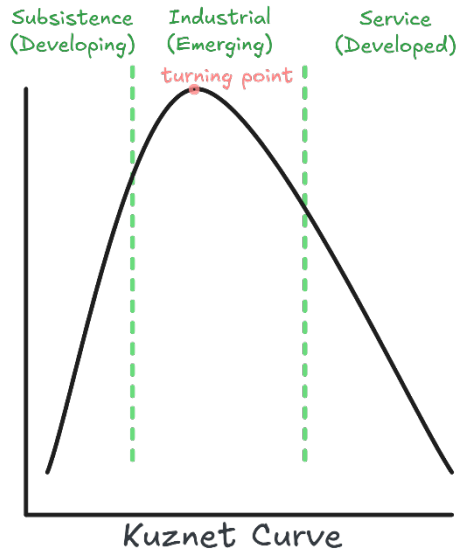
e.g., New Vehicle Emission Standard reduces CO_2 emission levels from all new cars in Australia from 2025.

Market-based policies: provide incentives or disincentives to influence behaviour of households or businesses, e.g., taxing a negative externality.
Government can provide subsides to encourage production of a certain good or service.
Taxes are preferred as they discourage certain practises and raise revenue.

International agreements are used for large-scale environmental action, used to incentivise countries to enact policies and to prevent the tragedy of the commons.

Shift toward market development and supporting investment in the private sector.
Water management has seen market-based reforms in this area.

International climate change policies:
- Kyoto protocol: agreement to limit greenhouse gas emissions
- Paris conference: limit global temperatures to below 2°C



Developed vs developing nations:
- Developed nations: large per capita emissions
- Developing nations: lower but rising levels of emission as they develop
- Kuznets curve: economic development as differing attitudes to the environment

Targets: developed under Nationally Determined Contribution (NCD) from Paris Agreement
- Reduce emissions by 43% by 2030 and net zero by 2050

Australia has a higher cost when implementing these policies (higher *abatement* cost) due to reliance on fossil fuel industry.

Policies implemented:
Carbon pricing scheme (Gillard – 2012): put a price on every tonne of CO_2 emitted.

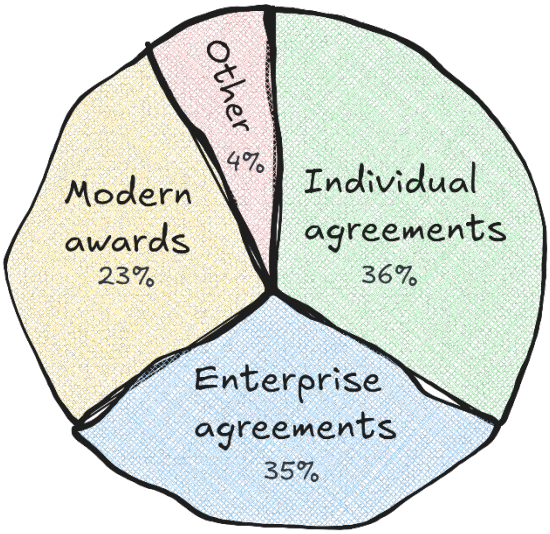
Emission Reduction Funds: firms are paid to lower their emissions.

Australian Carbon Credit Unit (ACCU):
Businesses who run programs to sequester carbon earn ACCUs which they can then sell on the secondary market to buyer who want to voluntarily offset emissions or meet compliance requirements.

Emission trading schemes are used globally.

State of Australian environmental policy:
State and trend of environment is poor and deteriorating. Australians rank among the world's biggest polluters.

The government intervenes in labour markets:
- To achieve macroeconomic stability: low inflation
- To achieve microeconomic objectives: productivity growth and improved competitiveness
- Change distribution of income and wealth



The system used to be made up of a mix of Federal and State laws, now it has been consolidated and *referred* into the Federal system with the Fair Work Act (2009).
- Creates simpler awards

Covers 9 in 10 workers, doesn't cover independent contractors, business owners or state government employees.

National employment standards set 10 guaranteed employment conditions (for anyone in the national system), which set out conditions such as leave, hours or notices.

National minimum wage, which is updated annually by a panel who consider economic conditions and sets wage and casual loading.
Types of work agreements:
- Modern awards: set pay and conditions for a specific occupation or industry
  - Have an individual flexibility agreement
- Enterprise agreement: must pass BOOT test and is negotiated between employer/s and employees (usually represented by unions)
- Common law contracts: between just an employee and employer, allows for more flexibility and differing conditions
- Independent contractors: are not covered by any FWC conditions, instead they completely negotiate their terms

BOOT test
Makes sure that terms given to workers are actually beneficial to them.

Dispute resolution is a crucial part of the industrial relations system, as issues can arise over wages, working conditions and business structure. Disputes can lead to industrial actions.

Australia has special tribunals to resolve industrial relations disputes:
- Conciliation: FWC helps parties reach a mutual agreement
- Arbitration: FWC makes a legally binding ruling on a dispute

FWC only intervenes when:
- Compulsory dispute settlement agreements, often in awards or enterprise agreements
- Not bargaining in good faith, failure to share info
- Intractable bargaining declaration, the negotiations become untenable

Disputes have fallen in popularity due to:
- Employer/employee relationship changes
- Increased competitive pressures
- Changes in industry structure
- Lower union membership

Industrial action:

More severe ↑	**Employee**	**Employer**
	Strikes, refusal to work Work bans, refusal to undertake certain aspects of work	Lockouts, refuse entry into workplace

Decentralisation of Labour market:
Australia's industrial relations system has undergone a shift in recent years from highly centralised wage determination to a system where wages are determined through enterprise bargaining at individual businesses.
Centralised labour market = tribunal sets labour market outcomes
Decentralised labour market = outcomes set an enterprise or workplace level

Australia's system of wages used to be set by a Commonwealth Court which changed in the 1990s to provide greater flexibility.

Pros for decentralisation:	Cons for decentralisation:
- More efficient allocation of resources and structural change - Promotes productivity - Wages inflexibilities help labour market adjust to shocks	- Leads to greater inequality through wage dispersion - Outcomes can reflect imbalances in bargaining power - More difficult to enforce wage entitlements - Centralised wage determination could be an additional policy tool to meet economic objectives

Education, training and employment policies:
- Funding individuals to obtain training
- Subsidising employers for staff training
- Wage subsides to encourage specific hires
- Funding employment agencies

Government shapes the education system, needs to provide skills and training to many students. Government also has labour market programs to increase people's readiness for the labour market, especially for those with a disability, mental illness or long-term unemployment – tied into welfare payments.
Employment services, Workplace Australia:
- Matches people to jobs and gives training
- Agencies help unemployed into jobs, receive subsidies when do

Range of policies ranged at increasing workforce participation:
Especially with childcare subsidies, paid parental leave and apprenticeship funding.

Decentralised Labour market outcomes:
1. **Wages growth and inflation**
   A decentralised system means that market forces drive wages, meaning that high inflation or growth drive higher wages. Lower union membership has led to historically low wage growth due to less bargaining power.
2. **Work practices and productivity growth**
   Australia has low productivity growth due to less competition and low business investment.
3. **Unemployment**
   Labour market usually responds flexibly to changing circumstances, allowing for labour to better reflect demand for goods and services. The semi-centralisation of wages has created a price floor and increase underutilisation.
4. **Income inequality**
   Low wages growth as businesses are not forced to raise wages, it also means that business owners and stakeholders can receive larger shares of the income.

Effectiveness and limitations of economic policies:

Time lags:

Policy	Implementation time lag: time to introduce new policies	Impact time lag: time to impact economy
Fiscal	Major changes in the budget have to go through meetings, planning and be approved to make it into the budget.	Quick impact as money disperses around the economy. (1-2 months)
Monetary	RBA meets often and when outcome is announced it has immediate impact on markets.	Takes a while for individuals and businesses to adjust their behaviour. (6-18 months)

Microeconomic	Can take a long time to implement due to planning and policymaking, involves coordination with states.	Structural changes take a while as the resources must be reallocated. (3-10 years)

Political constraints:

- Government may not be able to fulfil election promises due to changing circumstances
- They have to mindful of public opinion
- Unpopularity has been greatest barrier to economic reform
- Parliamentary opposition especially in the Senate
- Federalism, as power and policy must be shared with the states for parts of the economy
- Special interest groups, businesses or unions have influence over policies of parties
    - Lobbyists employed to influence government policy

Global influences:

- Conditions in the global economy have effects on Australia
    - As markets react to economic mismanagement
    - High priority to **maintain confidence** of international investors
    - Markets like policies that promote stronger trade and financial links

  This limits government policy, as must appease markets – especially with historically large CADs.

- Global financial markets can also impact monetary policy
- International business cycle heavily impacts CAD, as if growing in a downturn, imports will outpace exports

To judges effectiveness of a policy you need to evaluate the outcomes against the objectives.

Can assess with:

1. What where the objectives of the policy?
2. Was the policy implemented effectively?
3. Outcomes of policy versus the objectives
4. Time lags
5. Other factors that affected the outcomes
6. Side effects/externalities

Macroeconomic policy: aim is to achieve maximum, sustainable rate of economic growth.
Australia's long-term potential growth has been revised down to 2.5%.

Microeconomic policy: aim is to improve productivity and competitiveness in order to achieve high economic growth in the long term.
Australia achieved the longest unbroken run of economic growth, with an average of 2.9% in 30 years.

Other measures for living conditions and economic development:
- HDI
- Wealth reports
- Prosperity index

Economic management since the 1990s has been mostly effective as conflict between policies have been better managed.
Compared to 70s and 80s where constant tensions in objective for low inflation and reducing unemployment.

Australia's economic performance reflects favourable external conditions:
- Large quantities of natural resources
- Terms of trade expansion
- Strong population growth

Economic growth bolstered by policies which avoided major fluctuations in business cycle.

Inflation is helped by clear inflation targeting system which creates a clear framework for monetary policy and increases productivity growth.

Unemployment has been around OECD average and underemployment has grown.

External imbalances, Australia has seen a structural improvement in the CA and net foreign liabilities due to:

- China's emergence
- Turnaround in Australia's terms of trade
- Long period of global record-low interest rates.

This has led to CAS and external balances is less of a concern now than in recent decades. Australia has a high level of foreign liabilities and is vulnerable to external shocks.

Environmental sustainability: Australia's greatest long-term vulnerability may come from the impact of climate change.

Australia has seen increases in inequality especially due to globalisation and structural changes, which has affected some groups disproportionately.

Some objectives conflict with one another, e.g., carbon emission reductions versus impact on economically vital carbon-intensive industries.

Monetary policy: inflation target mostly achieved, occasionally falls out of target.
Limitations:

- More effective to contract economy, may require unconventional policies to expand the economy
- Demand management policy, can't address supply-side structural causes such as low productivity or capacity restraints
- Blunt policy instrument

Fiscal policy:

- More effective policy to stimulate the economy and job creation during downturns
- Less effective in slowing down overheating economy

Limitations:

- Expansionary fiscal policy leads to long-term budget deficits → rising CAD and the crowding out effect

Microeconomic mis/management:

- Lack of economic reform in recent decades
- OECD has particularly called for higher GST, stamp duty replaced with land tax, reduce inequality in education

Structural weaknesses of Australia:

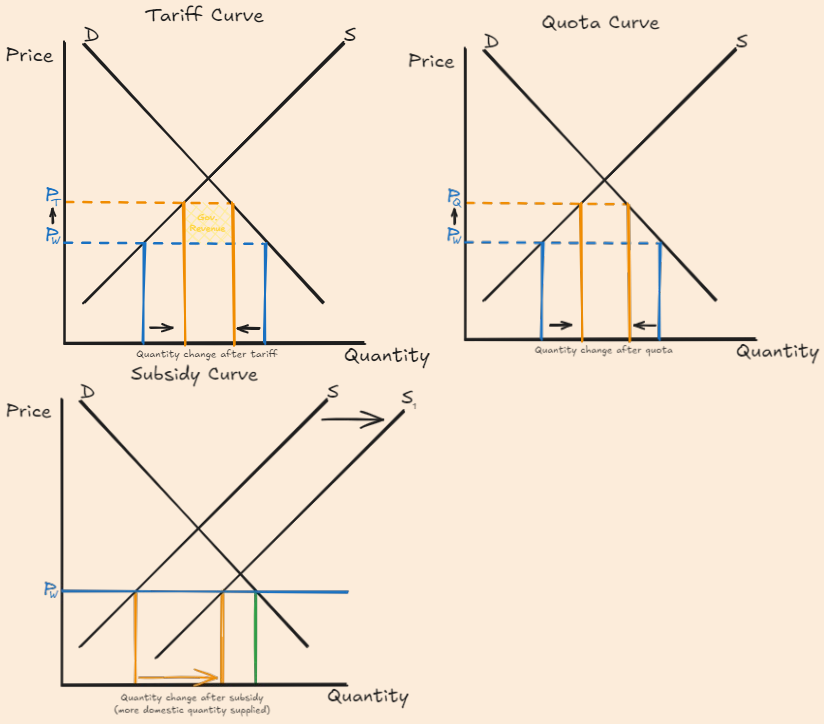
- Too reliant on resource exports to developing economies
- Weak productivity growth
- Inconsistent and unclear policies to address climate change
- Ageing population
- Low international competitiveness

Effectiveness of economic policies also need to be judged by wellbeing changes, addressing generational concern to inequality and sharing Australia's wealth with poorer nations.

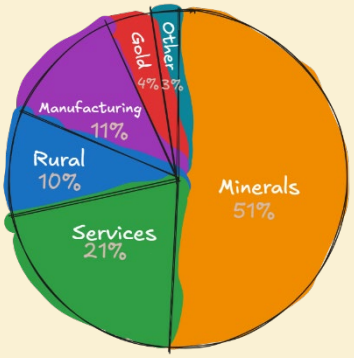
Economic Phraseology

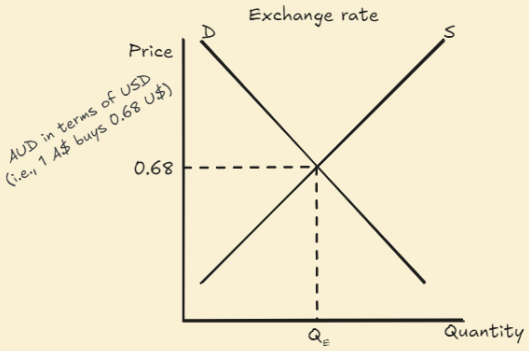
Topic	Phrases
Topic 1 Global Economy	- Financial contagion - Autarky = country that has no trade
Topic 2 Australia's Place in the Global Economy	- Trade diversion
Topic 3 Economic Issues	- NAIRU - Hysteresis: unemployment increases the rates of the long-term unemployed - Phillips curve
Topic 4 Economic Policies and Management	- Internalising negative externalities

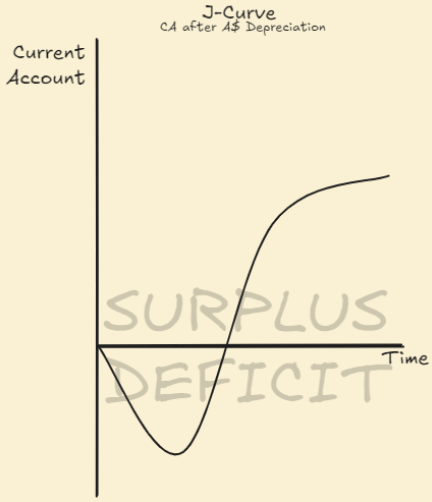
Economic Graphs/Diagrams

Topic	Graphs
Topic 1 Global Economy	

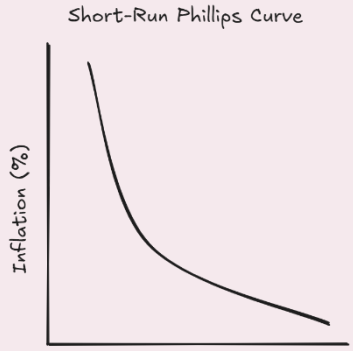
Topic 2
Australia's Place in the Global Economy

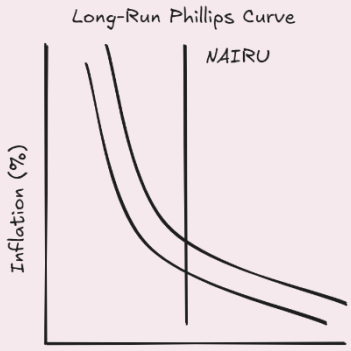


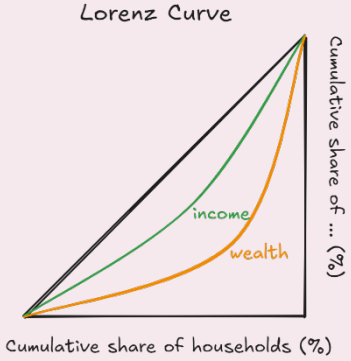


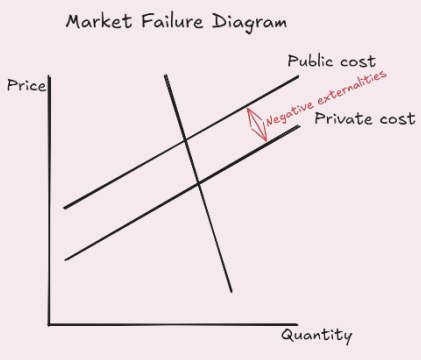


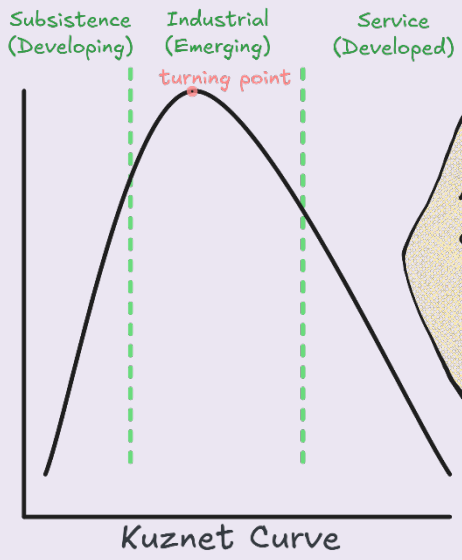
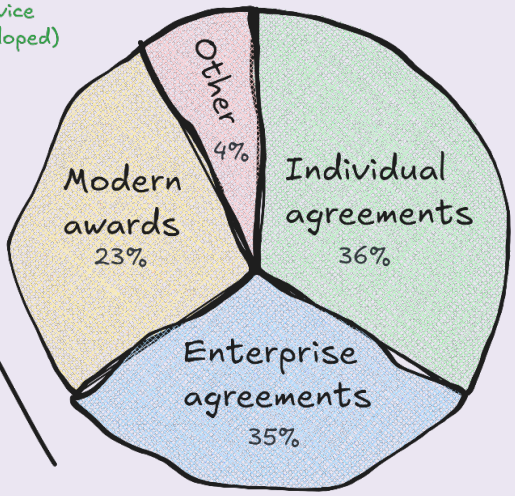
Topic 3
Economic Issues









Topic 4 Economic Policies and Management	 

Economic Statistics

CURRENT AS OF 08/2024

Topic 1: The Global Economy

Syllabus	Stat	Fact
Gross World Product	U$105.4 Trillion	GWP is 80x 1960s figure
Global Trade	U$30.86 Trillion, 29.3% of GDP	Global trade is beginning to flatline, with its peak being reached in 2022 with 31% of GDP (which was the same as 2008), and there is a trend of decreasing trade.
Global exchange rates		Turnover in global forex reached $7.5 trillion per day, which is 30 times greater than daily GDP. World is seeing greater exchange rate **volatility** especially after uncertain interest rate levels, commodity prices and global unease.
Global FDI		Massively **declined** since 2015 levels, with it now being 60% of that peak – as globalisation decreases.
International division of labour	120 million people have been forcibly displaced	Approx 2% of work hours will be dropped by 2030 due to climate change Anti-work movement against toxic workplaces
Technology	Technology transfers add $300 billion to GDP every year	Economies which gain technological infrastructure increase GDP growth rate by 40%
International businesses cycle	Global GDP grew by 2.7% in 2023 Shrunk by -2.7% in Covid	
Trade agreements		The largest trade agreement RCEP, which contains Oceania and Eastern Asia contains 31.6% of world GDP. RCEP removes 90% of tariffs between partners.
Protection	Average tariff rate decreased from 8.6% in 1994 to 2.6% currently.	Every $1 extra of protection decreases GWP by $0.66
Distribution of income and wealth	Global top 10% holds 76% of global wealth. Bottom 50% holds 2% of global wealth	
Developing economies	4% GDP growth average for developing	Developing economies' share of global trade rose from 22% to 44%
Effects of globalisation		Global income inequality has risen by ~3% since 1980
Climate change	Cost $38 trillion per year by 2049	

China: Case Study
- **1958-1962** – **Great Leap Forward**: failed to centrally plan industry – led to mass famine (60 million). - **1978-1994 – Agricultural reforms**: *Household Responsibility System,* allowed farmers to sell excess stock after quotas were met, $^{4}/_{5}$ worked in agriculture (78) → $^{1}/_{2}$ (94), 0% l. productivity growth (80) → 12% (84), wheat (million tonnes) 283 (77) → 407 (84) - **1980 – 'Open door policy':** special economic zones (SEZs), FDI: ~0 to U$100 billion (94), 60% export growth

- **1994 – Taxation reforms:** centralised tax collection: Central Government revenue grew by 203.5%, Chinese fiscal revenue out of GDP 12.3% (93) → 22.6% (12), FDI up by 30%
- **Financial reforms:** partial deregulation of banks, stock exchanges opened yet exchange & interest rate still regulated.
- **2001** – **Joining WTO:** allowed for more specialisation and structural change, avg. tariff rate 32.2% (92) → 7.7% (02), net exports of GDP 2.6% (02) → 7.7% (07)
- **2008-2010** – **Fiscal Stimulus:** amidst GFC, U$572 billion stimulus especially for *infrastructure* (GDP 11% growth)
- **2013 – One Belt, One Road (BRI):** regional integration and policy coordination, value of U$67.8 billion in infrastructure
- **2021 – Dual Circulation:** trying to increase domestic consumption currently 42% of GDP

China stats:

China *(All U$)*	**Latest**	**Value in 2010**	**Value in 1990**
Population	1.41 billion	1.338b	1.135b
GNI pc PPP c/ USA	21 250 13 400	9 220 49 050	980 23 640
Consumer spending	$7.23 trillion	$2 089.5 billion	$180.4 billion
Balance of trade	$576.65 billion	$222.4 bill.	$9.76 bill.
FDI (% of GDP)	1%	2.6%	1%
GINI	37.1	43.7	32.2
HDI (rank) Components (L, eS, mS, lpc)	0.768 (79) 78.2, 14.2, 7.6, 17 504	0.691 (106) 75.6, 12.4, 6.7, 8 846	0.484 (108) 68.0, 8.6, 4.1, 1 468
% in eX poverty (< U$2.15)	0.1%	13.9%	72%

Aus stats:

Australia	**Latest**	**Value in Covid**	**Value pre-Covid**
GNI pc PPP	60 830	55 570	50 260
HDI (rank)	0.946 (10)	0.948 (5)	0.941 (11)
Inflation	3.5%	2.1%	1.6%
NFL %GDP	32%	45%	54%
Terms of Trade	94.9	91.8	79.9

Topic 2: Australia's Place in the Global Economy

Syllabus	Stat	Fact
Value of Aus Trade	Australia's economy is the 13th largest globally, HDI rank of 10 (significant decrease)	2% of GWP
Flow of Aus trade	Australia has 30% of its exports towards China, Japan used to be our largest trading partner until 2008	83% of our exports go to Asia Newest agreement was signed with UK, after their exit from EU
Composition of Aus trade	Export shares: 62.5% resources/minerals 17.9% services 10.2% rural	Australia has seen a definite shift from a broad to a narrow export base. Mining only employs 2.1% of workforce.
Trends and direction of Aus financial flows	Australia has begun an outflow of capital, leading to KAFA deficit.	Super companies now have balances of 1.5 times Australia's GDP, $2.9 trillion
Aus BoP	Ever since 2019, Australia's current account has shifted into a surplus of around 1%	CAS driven by high commodity prices, volatile net income

International competitiveness	Australia's international competitiveness ranking is 19th out of 63 countries	Australia has extremely low economic complexity of 78th in the world on par with Sri Lanka due to heavy reliance on minerals
Terms of trade	Terms of trade rose by 0.2% in last quarter	Terms of trade have risen 32% in the past 10 years while Australia records massive trade surpluses
Foreign investment and international borrowing	Net foreign liabilities went from a peak of 63% in 2016 to 32% of GDP	Net foreign debt has been growing in line with GDP Net foreign equity fluctuates over time
Effects of BoP		Changes in BoP can change Aus' exchange rate and inflation
Exchange rate and TWI	Fifth most traded currency 1 AUD = 0.65 USD 61.2 TWI	In 2011, went over U$1 due to Chinese demand 95% of trading is currency speculation
Changes in exchange rate		Decreasing demand for resources due to sluggish global growth and Chinese real estate collapse leading to a decrease in value High commodity prices create recessionary pressures in developed economies (harder to buy and manufacture)
Free trade agreement	Trade contributes 45% to Australian GDP	1 in 5 jobs in Australia is trade related
Protectionist policies		Increases in protectionism are leading to 100 thousand job losses

Topic 3: Economic Issues

Syllabus	Stat	Fact
Economic growth	Latest quarterly growth in Australia was 0.1%, the economy is just stagnating due to falls in investment and capital	
Unemployment	Currently Australia is seeing unemployment at 4% after a low of 3.5% post-covid and an average of ~5.25% pre-covid. Unemployment predicted to reach 4.5% next year, which is the level of NAIRU	Unemployment is growing particularly in publicly funded jobs (especially due NDIS work), entry-level job vacancies declined by a ⅓.
Underutilisation	Underutilisation is currently at 10.5%, which is low compared to the past 20 years driven by low unemployment allowing for more hours	
Causes of unemployment	Half of jobs vulnerable to automation Decreasing worker wellbeing prospects	
Participation rate	Participation rate has continued its steady increase to 67%, driven by higher retirement age + the prospect of higher super	
Inflation	Inflation at its monthly figure is 3.8%, trimmed mean fell to 3.9% from 4.0%	Australia's underlying inflation (trimmed mean) numbers have dropped from 4%

		to 3.9% demonstrating that pricing pressures are starting to ease.
Productivity	Australia is experiencing a productivity decline, due to decreasing levels of hours worked and decreased levels of capital investment. Productivity has only grown by 1.2% in the past 20 years.	
External stability	Australia currently has a current account surplus of 1% of GDP, a depreciated currency – making exports more competitive yet it is more reliant on minerals	
Debt servicing ratio	Australia's net foreign liabilities has fallen by less then 32% of GDP indicating Australia's strong growth.	
Income and wealth distribution	The highest 10% of Australia had 2.5x the income of the middle 20% and 7x of the lowest 20%. Highest 10% holds 44% of all wealth in Australia mainly tied in property.	Features such as bracket creep and restrictive social services are limiting equality.
Tax changes and inequality	The are *"large and persistent gaps"* in equality across Australia, especially in disadvantaged groups. Tax cuts for every tax payer, decreasing tax thresholds.	
Environmental sustainability	Australia has massively increased its funding towards conservation efforts with $1.7 billion spent per year	
Climate change	Australia has enshrined its agreements to net zero in law to help embolden policy.	

Topic 4: Economic Policies and Management

Syllabus	Stat	Fact
Economic objectives	Current economy objectives are to balance a cost-of-living crisis – record low levels of household disposable income and increasing inflation, while reducing a chance of a recession.	
Budget stance	The current Budget is a surplus of $9.3 billion due to higher commodity prices and personal income taxes. The budget is expansionary as it shifts into a deficit in further years.	
Current inflation response	Inflation is too high due to persistent high demand, exacerbated by a tight labour market leading to a high cash rate at 4.35%.	
Future predictions for fiscal	The Australian Budget is more into ever larger deficit, especially with new Stage 3 tax cuts which leads to less receipts for the government, $243 billion cost to government.	
RBA	Markets expect the RBA to lower rates in late 2024 or early 2025, especially with the US lowering rates imminently.	

Micro federal	The government has contributed $1.5 billion to increase housing infrastructure to increase the construction of new dwellings.	
Micro state	New right to disconnect laws have been put in place to boost employee wellbeing and productivity in turn.	
Labour markets		Labor government made wage theft a crime Put gender pay equality in FWA
Environment		Increased spending on Future Made in Australia, $22.7 billion policy to support the net zero transition and massively increase investment into renewable industries