

## 7.3 How markets operate

### LEARNING INTENTION

By the end of this subtopic, you will be able to explain how each good, service or employee is part of a specific market as well as the broader market economy.

### 7.3.1 What is a market?

A market exists in any situation where buyers and sellers come together to exchange goods and services for money. A market can exist in a single physical location, it can be spread across a number of locations, or can have no physical trading location at all, such as online retailing. It is the act of buying and selling, not the actual location, that creates the market. We will now look at a number of different markets that exist within the Australian economy: retail markets, labour markets, financial markets and stock markets.

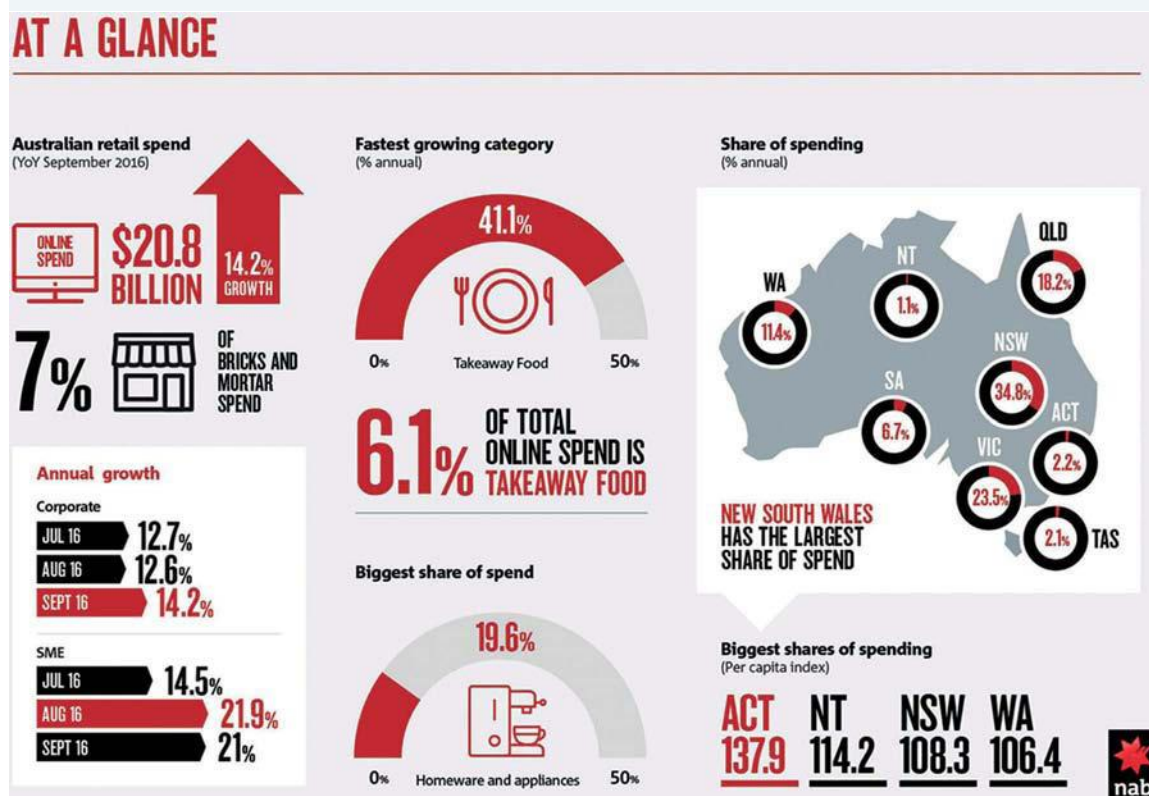
### 7.3.2 Different types of markets

#### Retail markets

We are all very familiar with retail markets. These are the markets that allow us to buy most of our goods and services. They include:

- shopping areas in the central business districts (CBDs) of our large capital cities
- huge suburban shopping malls such as Carillon City in Perth, Westfield Parramatta in western Sydney and Chadstone in Melbourne
- local shopping centres with a supermarket and a number of specialty stores

**FIGURE 1** Online shopping continues to grow each year.



- shopping strips located along major roads and near public transport hubs
- the groups of shops gathered in the main streets of country towns and regional centres
- online shopping websites.

Online shopping has become so popular that in 2016 it accounted for 7 per cent of all household spending. It was valued at \$20.8 billion – a 14.2 per cent increase on the previous year.

## Labour markets

At any given time, there are people looking for a job. Some of them are unemployed and want to find work, while some of them already have a job but want to work for a new company or do different work. At the same time, many businesses are looking to employ people to work for them. Prospective employees are hoping to sell their labour to employers. Those employers wish to buy the skills and effort of suitable employees. This combination of buyers and sellers of labour constitutes the labour market.

Like many other markets, the labour market does not operate in a particular physical location. The labour market relies on a variety of means of communication between the sellers of labour (potential employees) and the buyers of labour (employers). These allow employers to advertise vacancies in their businesses, and potential employees to find out about job opportunities. The operation of the labour market can involve the following:

- The simple placement of a sign in a shop or café window indicating that the owner has a job vacancy
- Newspaper advertisements for job vacancies. This method has declined significantly in recent years, with relatively few vacancies advertised this way today.
- Online ‘jobs boards’ such as SEEK, Indeed and Australian JobSearch. These are the fastest growing source of job advertisements, updated every day. Employers pay a fee to advertise their vacancies, and jobseekers can apply online for the vacancies advertised.
- Any person receiving **unemployment benefits** from the government is usually required to take an active role in looking for work. The government pays independent agencies to assist unemployed people to find work. Many of these are run by community organisations and a list of these, including Matchworks and the Salvation Army, can be found on the Australian JobSearch website.

The price the employer pays as a buyer of labour is known as a wage or salary. Wages and salaries are quite highly regulated in Australia. There is a **minimum wage** that must be paid to all employees over the age of 21 years. It is adjusted every year to account for rises in the **cost of living**. At 30 June 2019 this was set at \$18.93 per hour, or \$719.20 (before tax) for a standard working week. This figure is expected to be revised.

**FIGURE 2** Online job boards such as SEEK are the fastest growing source of job advertisements.



**unemployment benefits** welfare payments by government to people who are unemployed and looking for work. Such payments in Australia are generally known as the Newstart Allowance.

**minimum wage** the legally binding minimum that must be paid to any employee over the age of 21 years

**cost of living** the level of prices paid by consumers for goods and services

## Financial markets

Just as there are a number of markets for goods and services throughout the economy, there is also an important market for money. While households earn money in the form of wages and salaries, they will often choose to borrow money to buy larger items such as cars or houses. Businesses make money from selling goods and services to consumers, and generally try to make a **profit** by doing so. Sometimes part of that profit will be invested in expanding the business, but if the profits are not large enough to do this, the business may also want to borrow money to help it grow.

### The functions of money

Money performs four very important functions in our market system:

1. *Medium of exchange* – Money allows us to exchange goods and services using a common means of exchange we all accept. Employees exchange their labour for money, and all businesses accept money in exchange for the goods and services they supply.
2. *Measure of value* – We use money to put a price on the goods and services we exchange. The price is a measure of what we believe the goods or services to be worth, when compared with other goods and services.
3. *Store of value* – We are able to save our money to spend at a later date.
4. *Standard of deferred payments* – Using money allows us to purchase goods and services on credit, with both buyer and seller knowing how much has to be paid at a later date.

### The working of financial markets

Just as all goods and services have a price, so too does money. The price of having access to money that actually belongs to someone else is known as **interest**. When you deposit your money in a bank account, the bank will pay you interest on your savings. This is usually based on a percentage figure. If you deposit \$100 in your account and the bank is paying 3 per cent per annum (per year), the bank will pay you three dollars in interest after a year. Interest is often calculated monthly or even daily, so that if you withdraw your money before the year is up, you will be paid a lesser amount to cover the time the bank had the use of your money. Banks then lend out the money that they have deposited with them to other consumers or to businesses. They will usually charge a higher rate of interest to borrowers than they pay to their depositors. This is how they make a profit.

**FIGURE 3** Money performs important functions in our economy.



**FIGURE 4** Stockbrokers buy and sell shares on behalf of their clients.



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

**interest** a charge made for the use of money that has been deposited or borrowed



If you have money to deposit, it is often worth shopping around to get the best rate of interest. Sometimes it is possible to earn a higher rate of interest if you agree to leave the money in the bank for a fixed period of time. This is known as a term deposit, because the money is deposited for a fixed term, or period of time. If you borrow money, you want to pay the lowest possible rate of interest, so it is worthwhile to shop around a number of lenders to get the best deal.

Financial markets operate like any other market, with sellers wanting to charge the highest price they can for their goods and services, and buyers wanting to pay the lowest price they can. If you are selling the use of your money (i.e. you are a depositor), you want to get the best price (interest earnings) you can for allowing someone else to use that money. If you are buying the use of someone else's money (i.e. you are a borrower), you want to pay the lowest price (interest payments) you can.

## Stock market

Like other markets, the stock market (also called the share market) is simply a relationship between buyers and sellers. In this case it is shares in companies that are bought and sold. A share is a unit of ownership in a company. Large companies divide their ownership into millions of shares, which can be bought and sold through the stock market, known in Australia as the Australian Securities Exchange (ASX). The ASX was formed in 1987 by amalgamating the six capital-city stock exchanges. Today the ASX is based in Sydney, but also has offices in Perth and Melbourne.

There are more than 2000 companies listed on the ASX. These include large retailers such as Woolworths and Wesfarmers (owners of Coles), the four big banks (ANZ, CBA, NAB and Westpac) and large mining companies such as BHP Group Limited and Rio Tinto. The value of shares can go up and down, depending on the demand for those shares. When a company reports that it has had a successful year, many people may want to buy shares in that company. If there are more people wanting to buy than to sell, the price tends to rise. If the company appears to not be performing well, there may be more shareholders wanting to sell their shares than there are buyers, so the price is likely to go down.

As the price of a company's shares goes up or down, so too does the value of a shareholder's investment. The value of most shares tends to rise over time, even though the prices can fluctuate daily. People who hold shares for long periods (generally more than 10 years) benefit from **capital growth**. Owning shares means you can also benefit when the company makes a profit, as profits can be distributed to shareholders as **dividends** or in extra shares.

**FIGURE 5** Buying shares listed on the ASX enables you to become a shareholder in a variety of different businesses.



The buying and selling of shares is usually handled by stockbrokers. These are licensed agents who have access to the ASX, and who conduct share transactions on behalf of the general public in exchange for a small fee. Most stockbrokers will recommend that their clients buy shares in a variety of different companies. If you only buy shares in one company and that company experiences problems, the value of your shares can drop and you lose money. Buying shares in a number of different companies reduces your risk, as you have a better chance of having some shares that will perform well. You have probably heard the saying 'don't put all your eggs in one basket', which means you should spread your risks among a number of ventures.

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

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

However, as with retail, it is possible for individuals to buy shares in companies themselves, online, by creating their own account, usually through their bank. Commsec and ANZ Etrade are examples of online trading platforms that allow consumers to buy shares if they have an account with that bank and have a minimum amount of money available – usually \$600.

## on Resources

 **Video eLesson** Share market basics (eles-0256)

 **Weblinks**  
Australian JobSearch  
Fair Work  
ASX

### 7.3 ACTIVITIES

- Watch the **Share market basics** video eLesson in the Resources tab and then answer the following questions.
  - What are you buying when you buy shares?
  - What would be the situation if you owned 100 per cent of the shares in a company?
  - What is the role of a stockbroker?
  - When is the stock market report published?
  - Copy the following table into your workbook and explain the meaning of each term as found in the stock market report.

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

#### Economics and Business concept: Allocation and markets

- Examine the stock market report in a daily newspaper or use the **ASX** weblink in the Resources tab, and answer the following questions.
  - Identify two companies that experienced an increase in share price in the previous day's trading.
  - By how much did each increase in price?
  - How many shares were bought and sold for each company?
  - What is the highest and lowest price each company's shares reached during the last year?
  - Is the current price closer to the highest or lowest experienced during the past year?
  - From what you can see of the shares in these two companies, do you think they would be good value to buy right now? Explain your answer.
- Use online resources to investigate a 'job board' website and search for each of the following jobs in your local area: nurse, bricklayer, hairdresser, taxi driver.
  - How many vacancies were available for each type of job?
  - What sort of information is provided about each job?
  - Explain the process for applying for one of these jobs online.
- Use online resources (such as the **Fair Work** weblink in the Resources tab) to answer the following questions.
  - What is the current rate of the minimum wage for workers over the age of 21?
  - By how much has the minimum wage increased from the previous year?

#### HASS skills: Questioning and researching

### 7.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at [www.jacplus.com.au](http://www.jacplus.com.au).

#### Learning pathways

##### LEVEL 1

Questions  
1, 2, 6

##### LEVEL 2

Questions  
3, 4, 5, 8

##### LEVEL 3

Questions  
7, 9, 10

#### Check your understanding

1. Describe three examples of retail markets.
2. What is the ASX?
3. Define each of the following in your own words:
  - a. unemployment benefits
  - b. interest
  - c. award
  - d. capital growth
  - e. enterprise bargaining
  - f. dividend.
4. What is being bought and sold on the labour market?
5. What is being bought and sold on financial markets?
6. Explain each of the four functions of money.
7. Distinguish between money as a measure of value and a store of value.

#### Apply your understanding

8. Explain what is meant by a 'market' and provide reasons why markets don't need to have a physical presence.
9. All markets are affected by specific factors. Explain a common factor that impacts the retail market and the financial market.
10. Explain the relationship between the labour market and the retail market.

For sample responses to every question, go to [www.jacplus.com.au](http://www.jacplus.com.au).