**The Australian and global economies — Sample responses**

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| **Participants in the Australian economy** | |
| **Question** | **Suggested answer** |
| 1 | |  |  | | --- | --- | | Any effort undertaken in the production of a good or service | Labour | | Things that can be used by businesses including land, labour, capital and enterprise | Resources | | Refers to the needs and wants of households | Consumer demand | | An institution that simultaneously stores and lends money – a well known example is a bank. | Financial intermediary | | The purchase of an item which may not be used or on-sold immediately. The consumer may wait until the item increases in value before deciding to sell it. | Investment | |
| 2 | ‘Land’ refers to all the raw materials and natural resources that go into the production of goods and services. It includes minerals dug up from the earth, food crops ready for processing, timber harvested from forests and raw fibres such as wool or cotton.  ‘Capital’ is defined as all the equipment used by human labour in the process of production. For example, an accountant uses a computer, a bricklayer uses a trowel and a farmer uses a tractor. |
| 3 | True. The household sector depends on the business sector to provide employment and wages, as well as the goods and services needed to satisfy demand. The business sector depends on the household as they purchase the goods and services it produces. |
| 4 | There are said to be four functions of money:   1. Medium of exchange: Money acts as a tangible item used to facilitate the exchange of goods and services. An example of this function would be a person using money to purchase a loaf of bread. 2. Measure of value: Money is used to put prices on goods and services. This price is a measure of what the good or service is believed to be worth. An example of this function would be Apple determining the price of the latest iPhone. 3. Store of value: Saving money for future use. An individual depositing money in a bank would be an example of this function. 4. Standard of deferred payments: Otherwise known as credit, this allows money to be used for purchases paid for at a later date. An individual using a lay-by system to purchase a large item would be an example of this function. |
| 5 | Financial intermediaries use the money deposited and invested in them to fund other business opportunities. In this way, they stimulate economic growth. |
| 6 | Demand refers to the quantity of goods and services consumers want to buy over a given period. |
| 7 | Responses may vary; a sample is shown below.  The government sector collects taxes and spends money on goods and services for the community that wouldn’t otherwise be provided and so we must count their contribution to the economy as a whole. |
| 8 | By all of the above. Governments can influence markets in a number of ways. Through the taxation system, governments can influence the amount of money consumers have to spend in an economy. Businesses are also heavily affected by taxation. After being collected, some taxes are redistributed to people in need. Once spent, such welfare payments re-enter the economy. Finally, governments also help fund building and infrastructure projects that may further stimulate economic growth. |
| 9 | The processes shown in the diagram are continuous — employees work, receive an income, buy goods and services and then they work again and produce more goods and services and so on. |
| 10 | The level of goods and services sold by Australian businesses would increase when:   * financial intermediaries make it easier for consumers to acquire credit cards * governments increase the level of welfare payments.   Increased household savings would decrease the level of goods and services sold by Australian businesses as individuals would be spending less money.  An increase in household taxation would have the short-term effect of decreasing goods and services as people would have less money to spend. However, some of these funds may be reintroduced to the economy through government spending or welfare payments. |

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| **Objectives of the Australian economy** | |
| **Question** | **Suggested answer** |
| 1 | True. Choices determine how we decide what the economy is going to do in terms of production and how we produce goods and services. They also help determine who receives the result of the productive process. |
| 2 | What to produce? By considering the needs and wants of consumers, businesses must decide what goods and services they are going to produce.  How to produce? The availability of land, labour, capital and enterprise will determine how businesses decide to produce their goods and services.  For whom to produce? By undertaking and then analysing market research, businesses will identify target markets for the goods and services. |
| 3 | A market is any organised exchange of goods, services or resources between buyers and sellers. |
| 4 | Established habits and experiences, changing tastes and preferences, marketing and advertising, and technological change can all help determine what to produce within an economy. |
| 5 | Responses may vary; a sample is shown below.  This is to determine which members of society receive the output of production. It is a question of distribution and is often linked to the setting of the price for goods and services. |
| 6 | Competition may influence business decisions as it causes businesses to consider their product range and efficiency, cost and the labour with which these products are produced. |
| 7 | Wages and prices determine to whom goods and services are sold to within an economy. If wages are low but prices are high, then only a small proportion of consumers will be able to afford particular goods and services. In order to succeed, businesses need to consider what their target market can afford. |
| 8 | An opportunity cost is what you have to give up if you choose option A over option B. The implications of an opportunity cost are not strictly financial and can include the emotional benefits of choosing one item over another. Opportunity cost is a natural result of relative scarcity because we have a wide variety of choices to make as consumers. Inevitably, we will choose one good or service over another. |
| 9 | **Motor vehicle manufacturer**  Land: Raw materials including metals and petroleum are extracted from natural environments.  Labour: Human labour is used in the design, manufacture and assembly of motor vehicles.  Capital: Complex machines are used in the design, manufacture and assembly of motor vehicles.  **Fruit and vegetable shop**  Land: Fruits and vegetables are harvested from natural environments.  Labour: Farmers harvest fruit and vegetables; factory workers are involved in the packaging and shipping processes; and retailers are involved in selling and delivering the produce.  Capital: Harvesting and sorting machines are used by farmers, and transportation technology is involved in delivering the product to wholesalers and consumers. |
| 10 | Responses may vary; a sample is shown below for (b) a fruit and vegetable shop.  A fruit and vegetable shop owner could use the building to own another type of shop, such as a fish and chip shop. By operating a fruit and vegetable shop they can’t operate a fish and chip shop at the same time in the same location. |

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| **Trade with other economies** | |
| **Question** | **Suggested answer** |
| 1 | False. Imports are goods and services which are bought from other countries and exports are those which are sold to other countries. |
| 2 | A trade deficit is where the value of imports exceeds the value of exports. |
| 3 | A trade surplus is where the value of exports exceeds the value of imports. |
| 4 | Trade allows countries to access goods and services they can’t produce themselves or can’t produce at an affordable price. It also allows a country to sell excess production and build relationships with other countries. |
| 5 | When Australian consumers spend money on imported goods, that money exits our economy cycle. Therefore, it is important that governments monitor the levels of imports that are allowed in domestic markets. |
| 6 | Responses may vary; a sample is shown below.  Exporting earns income for a country. A disadvantage is that the trading partner might expect that country to buy something from them which could cost more money than what was received from exports. |
| 7 | One benefit of importing goods into Australia is that it increases the range of products available to Australian consumers. However, one disadvantage of imports is that their presence in the market adds competition for Australian manufactures and retailers. |
| 8 | Responses may vary; a sample is shown below.  Australia exports a lot of raw materials and commodities but we import finished goods and services. Finished goods are more expensive than raw materials as these materials have been processed and had a value added to them. |
| 9 | 1. Australia’s trade with China was of greater benefit to our economy than that of the USA because we exported a lot more to China (A$123 274 million with a trade surplus of A$ 51 928 million) than to the USA (A$21 424 million with a trade deficit of A$27 328 million). 2. Australia has its greatest trade deficit with the USA. We exported a $21 242 worth of trade to the USA, but imported A$48 752, for a trade deficit of A$27 328 million. 3. Australia had the greatest trade surplus with China (A$123 274 million with a trade surplus of A$ 51 928 million). |
| 10 | Responses may vary; a sample is shown below.  It can be considered a problem if all the deficits outweigh all the surpluses. We should aim for an overall balanced trade position. |

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| **Imports and the Australian economy** | |
| **Question** | **Suggested answer** |
| 1 | Imports are goods and services produced overseas but sold in Australia. |
| 2 | China, USA and South Korea were Australia’s top three sources of imports in 2017–18. |
| 3 | Personal travel services made up Australia’s largest percentage of imports by value in 2017–18. |
| 4 | One reason Australia imports goods and services from overseas is that a particular product or service may not be available in the domestic market.  Another reason for imports is that the raw materials needed for the production of goods may not be in enough supply to fulfill demand. |
| 5 | Responses may vary; a sample is shown below.  Asia provides most of Australia's imports because Asian countries are able to supply them at a lower price; also, geographically, Asia is closer, so travel time and hence costs would be lower. |
| 6 | Invisible imports: the spending of money by Australians overseas  Invisible exports: the spending of money within Australia by overseas visitors |
| 7 | Purchasing imported goods can improve or reduce our standard of living.  Imported goods can improve our standard of living as they may provide us with access to goods and services which would otherwise be unavailable. They can also reduce our standard of living because high levels of imports can negatively affect the strength of the Australian dollar and the Australian economy. |
| 8 | Responses will vary. Sample response:  1. Ink cartridges for home computer printer – China  2. Dried cranberries – United States  3. Batteries – Japan  4. Walnuts – United States  5. Maldon sea salt – England |
| 9 | Responses will vary. Sample response:  Clothing store – clothing, shoes and accessories  Pet store – pet food and pet supplies/toys etc.  Delicatessen – various foods such as pasta, sauces, cheeses, and other specialty food items |
| 10 | Motor vehicle imports might be an option. As Australia no longer produces its own cars, all purchases in this area will need to be imported. |

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| **Global events and the Australian economy** | |
| **Question** | **Suggested answer** |
| 1 | A recession is a period of negative economic growth during which GDP decreases. In 2008 the American economy went into recession, with around 9 million people losing their jobs in the following two years. |
| 2 | Global economies are being increasingly interconnected. The economies of countries around the world have become reliant upon each other as markets and as suppliers. The consequence of this economic interconnectedness is that when one economy experiences a decline, the impacts are felt across the entire global economy. |
| 3 | Greater interconnectedness of countries can have a positive effect on Australia. We will benefit from more trade as the connections we make will allow us to work with other countries. |
| 4 | Global financial crisis refers to a crisis that affected many countries across the world. It progressed from the USA and travelled around the world as the issue spread. |
| 5 | Responses may vary; a sample is shown below.  (a) Natural disasters (such as droughts, floods and bushfires) can damage crops and decrease the goods produced by farms.  (b) However, it can build stronger relationships with other countries as they support Australia during this time. Over time, this can result in increased trade with these countries. |
| 6 | Responses may vary; a sample is shown below.  Improved technology allows better communication and improved technology allows for better, faster travel between countries. |
| 7 | Chinese economic growth has meant increased construction and development within China itself. To sustain this growth, China has imported billions of dollars of Australian goods, primarily raw materials. |
| 8 | False. A fall in house prices was one of the key factors which contributed to the global financial crisis of 2008–09. The decrease in house prices meant that many home owners had to abandon their loans. Without the repayment of home loans, American banks lost a significant amount of revenue. As banks are financial intermediaries, they lost much of their ability to fund other projects, eventually causing a recession in the US — one of the world’s largest economies. |
| 9 | One impact of the 2011 Japanese disasters was a decrease in the demand of Australian imports. |
| 10 | 1. Cyclone damage to banana plantations would decrease the number of bananas available to consumers. As a result, the price would increase. 2. True. Without the raw materials needed for its products, the Australian confectionery industry would suffer a decrease in revenue. 3. False. The sugar plantation industry in India would experience an increase in productivity as they would be able to fill the void left by the Australian sugar industry. |

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| **Global supply chains** | |
| **Question** | **Suggested answer** |
| 1 | Land, labour and capital |
| 2 | A supply chain is the sequence of processes involved in the manufacture and distribution of a product. |
| 3 | Originally, Nokia purchased phone components from overseas but manufactured their phones in **Finland**. Due to rising competition from other companies, Nokia was forced to globalise this part of its business. Manufacturing phones in Finland and then shipping them across the world was proving too costly for Nokia. As other phone companies joined the market, Nokia was forced to make the decision to move manufacturing from Finland in order to reduce supply chain costs. |
| 4 | |  |  | | --- | --- | | Cobalt and tantalum | Central Africa | | Copper wiring | Chile, Australia and Peru | | Plastics | Middle East | |
| 5 | One benefit to a business of operating as a transnational company is that there is access to more customers as they sell in more countries. This should lead to greater profits. |
| 6 | Sustainability means the avoidance of the depletion of natural resources in order to maintain an ecological balance both now and in the future. |
| 7 | Responses may vary; a sample is shown below.  Social responsibility is about taking into consideration the effects of business decisions on the social, environment and financial wellbeing of a country or community. Transnational businesses are often accused of sourcing labour and supplies from countries with less strict labour laws, and of exploiting workers for greater profits. |
| 8 | Responses may vary; a sample is shown below.  Consumers may only shop at stores and buy products made by companies that can demonstrate a commitment to social responsibility that the consumer also abides by. |
| 9 | Responses may vary; a sample is shown below.  Businesses should consider the social responsibility considerations of their decisions and ensure they treat workers and the environment in a socially responsible manner. They should treat people fairly and where possible source inputs from the same country where production occurs to reduce travel. |
| 10 | Responses may vary; a sample is shown below.  Developing countries often have low wages for workers but would welcome a transnational business as this may mean more jobs and the building of infrastructure to boost productivity. The governments also receive an increase in tax revenue. |

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| **Multinational Corporations** | |
| **Question** | **Suggested answer** |
| 1 | Companies that operate across several different countries are referred to as transnational corporations.  McDonald’s, Apple and Toyota are all examples of transnational corporations. |
| 2 | An economic entity is any person or organisation engaged in economic activity. It could be an individual, a household, a business, a government or a country. |
| 3 | Nestlé is the world’s most internationalised TNC with 97.8% of sales occurring overseas. |
| 4 | Energy production (electricity, oil and gas) represents the largest sector of business activity of transnational corporations. |
| 5 | Transfer pricing is a system of setting prices for goods in different countries to minimise the tax paid by a transnational company in each country it operates in. |
| 6 | Disadvantages for a host country of having a transnational corporation set up a factory or other operation in its territory:   * Profits are returned to the home country, rather than staying within the economy of the host country. * High-level jobs are usually reserved for employees from the home country, leaving only menial positions for employees from the host country. * The host country’s workers are often paid low wages and receive little in the way of pay, benefits or safe working conditions.   Advantages:   * Investment from TNCs brings money into a country’s economic cycle. * Technologies and innovations are shared across borders. * The standard of living in developing countries may increase as more jobs are created within their borders. |
| 7 | True. Many transnational companies set up production in countries that have high levels of poverty and lower wages. They provide unsafe working conditions and very little employee benefits. |
| 8 | The United Nations thought it necessary to draw up a code to govern TNC behaviour because in the past, TNCs have been found to be acting unethically. This has included not paying enough tax in countries in which they operate, paying low wages and not providing safe and healthy working conditions. Transnational corporations often use complex systems of transfer pricing to avoid paying tax on profits earned in the host country. This means that the government of the host country does not gain much additional revenue from the operations of the TNC. |
| 9 | Short-term benefits of TNCs always behaving ethically and respecting human rights could be that they make immediate changes in the conditions of workers in host countries where they operate. They could use this to promote themselves favourably to consumers, as well as avoiding any legal issues surrounding exploitation of workers.  Long-term benefits could include discovering new target markets of consumers who would prefer to pay more for ethically produced goods. |
| 10 | Reponses may vary; a sample is shown below.  In this situation it is difficult for countries to know who to prosecute if a company has offices in a variety of countries.  One possible solution might be that an international body is created to set up global laws regarding TNCs, that require them to follow the same set of regulations no matter where in the world they operate. This might also be an extension of the powers of the WTO. |

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| **Globalisation and the international economy** | |
| **Question** | **Suggested answer** |
| 1 | Globalisation is the process of growing interdependence between countries. The flow of goods and services between countries, and the money flows that accompany this trade, have increased global interdependence between trading countries’ household, business, financial and government sectors. |
| 2 | The World Trade Organization (WTO) is an international organisation that administers the rules of international trade and has the power to rule on international trade disputes. |
| 3 | The advantages of globalisation are that it:   * leads to free trade agreements between countries * increases competition between companies * leads to economic growth.   Globalisation can lead to economic growth by encouraging free trade between countries and opening new markets. The more products that are bought, the more profit companies make and the more they can afford to pay their staff. This income then cycles back into domestic and overseas economies as staff spend their earnings. Globalisation increases competition and therefore forces companies to consider efficient and effective business practices.  Unfortunately, globalisation can also have negative impacts. Some transnational companies have moved their manufacturing operations to poorer countries in search of lower labour costs. This trend can create unfair working conditions in these countries. A flow-on effect of this trend is that domestic companies are finding it increasingly difficult to compete with transnational companies who engage in this practice. Labour costs for domestic companies are simply too high and they are forced to sell their products at higher rates to recoup expenses and to earn a profit. In this way, globalisation is harming many smaller local businesses. |
| 4 | Globalisation opens Australia up to more imports, which can cost jobs in Australia. It can also lead to the development of larger companies, which can dominate markets, leading to increased prices. |
| 5 | Two positive impacts of globalisation on the Australian economy include:   * access to more goods and services * access to better-quality goods and services. |
| 6 | All of the above. Globalisation has led to increased demand for raw materials and natural resources. As such, it has placed significant new pressures on our environments. |
| 7 | 1. I recently purchased a new pair of running shoes online from Rebel Sport. 2. The product came from China. 3. Yes, there are local shops that sell this product. 4. I bought this product online because it was cheaper than buying it from a local store. |
| 8 | I agree with the view that globalisation risks damaging local cultures in smaller countries. The television shows, movies, music and food that we are all exposed to every day is largely influenced by American culture. Although globalisation has provided many countries with new cultural products, a better understanding of foreign values, and instant access to information from anywhere in the world, there is still the risk of Westernisation and smaller countries losing the distinct features that determine their local culture. |
| 9 | Responses may vary; a sample is shown below.  We benefit from interacting with other countries by gaining access to their food, music and art. |
| 10 | Responses may vary; a sample is shown below.  Countries can build relationships as we can now trade with more countries. Countries that trade are unlikely to have disagreements and so have a safer, more co-operative world. |