

INTRODUCTION INTO ECONOMICS - CONTENT NOTES

Examine economic issues

- identify the **opportunity costs** involved in economic decisions made by individuals, businesses and governments at local, state and national levels
- examine the ways that the economic problem affects individuals at different income levels
- examine the implications of unemployment and technological change using production possibility frontiers
- compare and contrast the ways that different economies deal with specific problems or issues

Apply economic skills

- construct and interpret production possibility frontiers
- distinguish between equilibrium and disequilibrium situations in the circular flow of income model
- explain how an economy might return to an equilibrium situation from a disequilibrium situation
- identify bias in media items on economic issues affecting the local, state and national economies
- identify key features of an economy through analysis of a variety of information types and sources
- work in groups to investigate aspects of economics and economies.

CONTENT

The nature of economics

- the economic problem – wants, resources, scarcity
- the need for choice by individuals and society
- opportunity cost and its application through production possibility frontiers
- future implications of current choices by individuals, businesses and governments
- economic factors underlying decision-making by:
 - individuals – spending, saving, work, education, retirement, voting and participation in the political process
 - business – pricing, production, resource use, industrial relations
 - governments – influencing the decisions of individuals and business

The operation of an economy

- production of goods and services from resources – natural, labour, capital and entrepreneurial resources
- distribution of goods and services
- exchange of goods and services
- provision of income
- provision of employment and quality of life through the business cycle
- the circular flow of income
 - individuals, businesses, financial institutions, governments, international trade and financial flows

Economies: their similarities and differences

- examine similarities and differences between Australia and at least one economy in Asia in relation to:
 - economic growth and the quality of life
 - employment and unemployment
 - distribution of income
 - environmental sustainability
 - the role of government in health care, education and social welfare.

INTRO INTO ECO

THE NATURE OF ECONOMICS

WHAT IS AN ECONOMY :

A collection of **consumers, businesses and government** that collaborates to **produce, trade and consume** goods and services.

A SYSTEM OF EXCHANGE

- A system where goods and services are produced, sold and purchased for money.
- **ECONOMY:** Movement of money between people for good and services

GOODS	SERVICES
Tangible Items (thing one can touch) Eg. books, cars, roads	Intangible items (cannot touch) Eg. Hire a plumber to fix the toilet, Advice on what stocks to invest in.

WHY ECONOMIES EXIST:

1. Money earned in return for production of g/s (so people can produce goods)
2. Use money as a means of exchange (earn money in return)
3. Consumption (Use that money to buy things one wants)

~ Provide a **means to exchange** what one has, for what one wants (**consumption**) (we could not spend our money or sell or get new things otherwise - no buying or selling).

~ Provide a means of **employment** to earn **money** in exchange for **labour**. (additionally allowing good and services to get produced)

KEY TERMS

CONSUMPTION: Buying of goods and services

GOODS/SERVICES: tangible & intangible items that satisfy wants and provide utility

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The economic problem – wants, resources, scarcity

THE ECONOMIC PROBLEM: Unlimited wants but limited means to satisfy wants
'How can society satisfy wants (individuals and communities) with limited resources available?'

~ We desire to **satisfy 'wants'** (material desires of individuals or community that provide pleasure or satisfaction when consumed)

~ Wants are **'unlimited'** (People always want more than they have)

~ Give up **money** in **exchange** for satisfying wants

INDIVIDUAL WANTS	COLLECTIVE WANTS
Good and services individuals buy and choose by themselves (Use individually) <i>Eg. Cars and clothes</i>	Goods and services that people desire in groups or many people will use together (used in groups) <i>Eg. Parks and roads</i>

~ Satisfying wants through consumption gives people utility

~ Economies exist to help people or groups of people gain *utility* by *satisfying* their individual and collective *wants*.

KEY TERMS

UTILITY: Satisfaction from gaining good and services

INDIVIDUAL & COLLECTIVE WANTS

INTRO INTO ECO

The need for choice by individuals and society

ECONOMY: **ECONOMICS:** Study of choices

The IMPORTANCE OF CHOICE:

- Choice is important in solving the economic problem as if the best choices are made, the best possible use of the limited resources so as many wants can be satisfied as possible (consumption)

Good choices: Most satisfaction from resources (limited resources -> Areas of most value))

ECONOMIC PROBLEM: WHOLE ECONOMY

INDIVIDUALS: Provide money in exchange for g/s

WHOLE ECONOMY: Satisfies more wants if it increases outputs

- **Output** is limited due to **limited inputs**
- Every economy has a limited supply of land, labour and machinery, therefore economic problem applies to the whole economy

THE 4 KEY ECONOMIC ISSUES:

ALL ECONOMIES MUST ANSWER

- Choices economy makes as a whole decide how limited inputs can create outputs

- **WHAT TO PRODUCE?**

Which g/s (what people want to buy)

- **HOW MUCH TO PRODUCE?**

Make everything the right proportion for people to consume them - produce too much: wastage

- **HOW TO PRODUCE?**

What mix of inputs will be used to make the output? AIM: EFFICIENCY & LOW COST - Labour or machinery?

- **HOW TO DISTRIBUTE PRODUCTION?**

Who consumes g/s? - higher income buys more.

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opportunity cost and its application through production possibility frontiers

OPPORTUNITY COST:

The **value** of the **next best** alternative we give up when we make a particular choice over another

INDIVIDUALS

- Every Time an individual makes a choice, they give up what they would have got from the alternative choice.
- *Eg. \$10 to buy a subway and thus gave up other goods that could be bought for \$10 (eg. magazine)*

The opportunity cost of the sandwich is the magazine (*lost value of the magazine from spending \$10 on the sandwich*)

- *Not what we paid - value of next best thing chosen w/ resources available*
- *The OC of magazine is higher than the OC of the sandwich as sandwich is valued more*

MAKING CHOICES:

People's choices should minimize opportunity cost, it means choosing alternative where forgo as little of happiness as possible (*choose alternative to give up AS LITTLE as possible*)

BUSINESS

- **Combination of inputs** to produce outputs
- **OC= Profit** from producing next best alternative

Eg. Apple is deciding to release a new iphone, ipad or mac (can only choose 1 - limited resources - limited amount of staff)

Profits: Iphone (\$20b), Ipad (\$13b), Mac (\$15b)

Best alternative = iphone (greatest profit)

Next best = Mac (Apple gave up \$15b and therefore \$15b = OC)

GOVERNMENT

- **Money** to spend on a range of investments

Eg. \$5 billion left to spend (spend on hospitals, schools, roads, welfare?)

Whichever option chosen - an alternative is given up (OC)

Trade off

THE PRODUCTION POSSIBILITY FRONTIER (PPF)

PPF = Graphical representation of all possible combinations of production limited by available resources of the economy (possible choices of various combinations of two alternative products that can be produced, based on available resources)

Oil	160	120	80	40	0
Leather	0	20	40	60	80

Figure 1.1 – Production possibility schedule for oil and leather

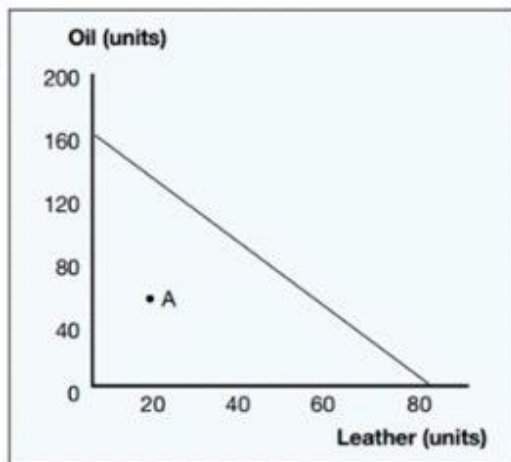
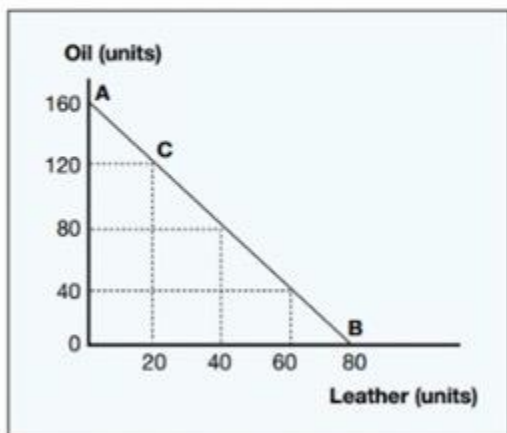


Figure 1.5 – Unemployed (or underemployed) resources

- Point C represents a particular combination of oil and leather where the economies resources are used to full capacity. (120,20)

- Point A represents a different choice, where all resources are completely used (160,0)

An economy at A but wants to move to C. In order to get the 20 units of leather, it would have to give up (OC) 40 units of oil. The opportunity cost of obtaining the 20 units of leather is 40 units of oil.

- When an economy attempts to reach a point outside the PPF - it cannot actually reach that point as it does not have enough resources.

PPF LINE - Maximum possible output

SLOP = OC (rise/run)

- If resources are not being fully used, then the economy is operating at a point within the PPF (eg. point A)

- Making less than what we could if utilising all resources as best as possible

- Point A is an inefficient allocation of resources (as more could be produced with workers and machines - satisfy more wants

- Point UNDER the PPF = unemployment (resources not being used to full potential)

- Points ABOVE the PPF = unattainable due to resource constraints & represent the economic problem at work.

- Points ON the PPF = Optimal (full employment of resources)

Shows what amounts of each good can be produced when using all inputs (A choice needed to be made about where to sit on PPF)

Factors affecting PPF:

§ New technology: More output with same resources

§ New resources: More input More output (e.g. immigration population expansion) & Unemployment:

Under-utilised resources total output < max output (Maximum satisfaction of wants is not achieved with minimum opportunity costs)

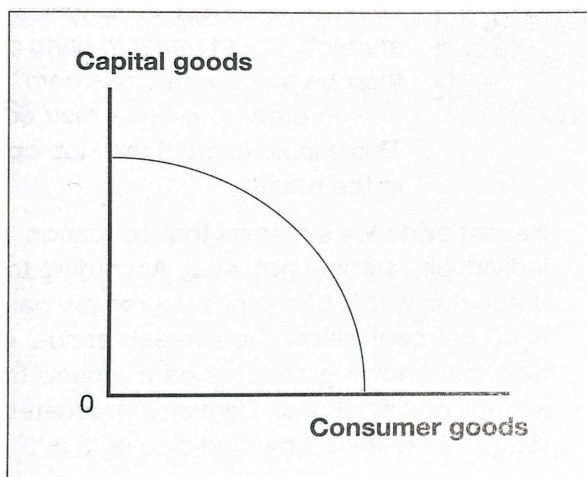
Max capacity - cannot make more output

Future implications of current choices by individuals, businesses and governments

- In making economic choices today, we can influence economic outcomes in the future

In a general sense, an economy as a whole can choose between:

- Producing goods that satisfy consumer demand **IMMEDIATELY** (consumer goods)
- Goods that will increase our productive capacity in the **FUTURE** (capital goods - such as machinery)
 - Capital goods allow us to satisfy the wants we want now, in the future by expanding our ability to produce



Trade-off between producing consumer goods & capital goods

→ In the long run, an economy that **focuses more on the production of capital goods** will **increase its productive capacity** and experience a higher level of economic growth

→ A country that is producing at a **higher point on the frontier will, in the long term be able to satisfy its consumer wants better** than a country at a lower point on the frontier

→ The country choosing to produce **more capital goods now** is making the choice to forgo satisfying some wants today, in order to **satisfy a greater number of (consumer) wants tomorrow**

Economic decision making has future implications

INDIVIDUALS	BUSINESS	GOVERNMENTS
<p>Eg. Individuals choose to go without a holiday or extravagant lifestyle and instead take out a mortgage and purchase a house.</p> <p>In long term, home ownership improves an individual's financial security as they will not have to pay rent & also have an asset to pass on</p>	<p>Business must choose to focus on one area of business activity over another. They have limited FOC & other resources so must focus on products which likely max. profits.</p> <p>Eg Many business that invested in communications and IT decade ago achieved extraordinary financial success</p>	<p>Eg. Gov may choose to give highest priority in its spending to satisfying immediate needs eg increased welfare benefits & healthcare and provide less funding to eg. education.</p> <p>In long term, result in lower level of economic growth as country has lower skills in workforce</p>

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KEY TERMS

CONSUMER G/S: Items produced for immediate satisfaction of individual & community needs & wants

CAPITAL GOODS: Items that have NOT been produced for immediate consumption BUT will be used for the production of other goods

Economic Factors Affecting Decision Making

INDIVIDUALS				
AGE Young and retirees spend a large proportion of income	INCOME Higher income → More saving, more consumption	ATTITUDES TO RISK Can you afford to lose big on investments?	FAMILY CIRCUMSTANCES Children require spending	FUTURE PLANS & EXPECTATIONS Ensure individual has enough money for future
<p>In general:</p> <p>More income + fewer expenses = more consumption</p> <ul style="list-style-type: none">• But people consider future income and expenses too• Factors change over time as individual wants are always changing• Factors affecting how much people save and spend spending, saving, work, education, retirement, voting and participation in the political process				

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BUSINESS – pricing, production, resource use, industrial relations				
PRICING STRATEGIES	MARKETING STRATEGIES	COST MINIMISATION	ETHICAL ISSUES	INDUSTRIAL RELATIONS
<p>Tradeoff between prices</p> <p>Higher</p> <p>Make more per unit Sell less units (\$\$)</p> <p>Lower</p> <p>Make less per unit Sell more units</p>	<p>\$ set to appeal to target market</p>	<p>Big objective - increases profits & depends on resource</p> <p>Higher quality equipment Lasts longer More productive (output) More expensive</p> <p>Lower quality Cheaper (but) more likely to break/fail</p>	<p>When activities of the business impact the environment & society</p> <p>Extra costs to preserve environment</p> <p>Or sacrifice environment to save money</p> <p>Pay to prevent harm to society -mining companies pay to repair & prevent damage</p>	<p>Decisions regarding staff</p> <p>Pay more - encourage better preformance</p> <p>Or minimum wage</p>

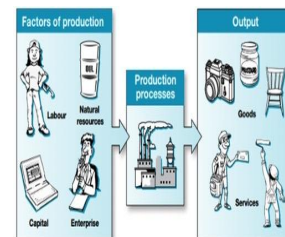
GOVERNMENTS influencing the decisions of individuals and business
<p>The main way gov makes economic decisions - determining patterns of spending & taxation</p> <ul style="list-style-type: none"> Why? Gov makes things more/less expensive eg. tax on cars Items bad for society - tobacco, illegal drugs - tax to discourage Collective wants (benefit all of society)(what society wants) Where gov spends its money and gets its taxes from Spending & taxation policies have impacts on individuals & businesses

THE OPERATION OF AN ECONOMY

Production of goods & services from resources - natural, labour, capital and entrepreneurial resources

FACTORS OF PRODUCTION (LLCE) Resources & inputs used to make goods & services

LAND All naturally occurring materials used in production process	LABOUR Productive efforts of workers to make g/s	CAPITAL Machines used to produce output	ENTERPRISE Organising all factors of production to produce g/s
Includes: <ul style="list-style-type: none"> Water Oil Forests Space to locate a business <p>&</p> <p>RENT: Income someone receives for providing natural resources</p>	What determines labour supply: <ul style="list-style-type: none"> Size of pop. willingness to work <p><i>Which in turn, depends on</i></p> <ul style="list-style-type: none"> Birth and death rates Immigration school leaving Age Training Age of retirement 	<p>‘Produced means of production’</p> <p>Capital goods not produced for immediate consumption BUT to be used in the production of other g/s</p> <p><i>How to get capital?</i> Payment for capital = money to buy machines</p> <p>Machinery</p> <ul style="list-style-type: none"> Tools, factories, computers <p>Infrastructure</p> <ul style="list-style-type: none"> Capital owned by the community (GOV) (eg. railways, roads, schools) Help businesses operate 	<p>Entrepreneurship:</p> <ul style="list-style-type: none"> Risk takers who supply products to a market to make a profit They combine land, labour and capital in ways that produce valuable output



RESOURCE	Natural resources	Labour	Capital	Enterprise
REWARD	Rent	Wages	Interest	Profit

Distribution & exchange of goods and services

Distribution: **How** we decide **how much** of the economy's **output** each person receives

- Distribution of output **dependent** on WHO provides the FOP
- Those who **contribute the most FOP**, receive **most output** (rewarded output according to how much contributed)

Market economies distribute g/s based on the individuals contribution to the production process - the larger the contribution, the greater amount of output received

- Earn money from FOP - used to buy *output*

HOW MUCH TO PRODUCE?

- **Quantity & quality of FOP determines how much we can produce**

DISTRIBUTION OF G/S

- Individuals contribute to production process Market economy provides them with income Income is used to obtain goods and services
 - o Factors influencing income
 - § Scarcity of resource and level of demand
 - § How much they work
 - § Skills and expertise
 - § Educational qualifications
 - § Bargaining power with employers
 - o Income is redistributed by government through taxation (social welfare)

EXCHANGE OF G/S

- Money is used as a medium of exchange
- Prices are indicators of the relative value of goods and services
- Exchange occurs in a market economy

PROVISION OF INCOME

- Individuals are paid rewards for their contribution (Wages, Rent, Interest, Profit)
- Final Income = Income – Taxation (Direct and indirect)
- Government redistributes income

The System of Distribution in market economies:

ADVANTAGE	DISADVANTAGE
Encourage to contribute to economy's output <ul style="list-style-type: none"> • Work harder • Better skills 	Inequality & Unfairness for disadvantaged groups (unable to contribute) <ul style="list-style-type: none"> • Illness • Age • Disability <p>Why GOV provides <i>welfare payments</i></p>
KEY TERM - GDP: Total amount of g/s produced in economy in a given year (sum total)	

Provision of employment & quality of life through the business cycle

BUSINESS CYCLE

Fluctuations in the level of economic growth due to domestic or international factors

Economy follow a repetitive up and down cycle of growth

(y=growth, x=time)

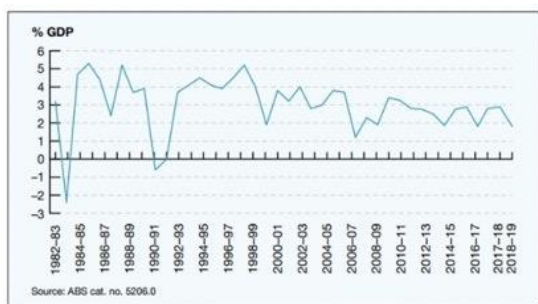


Figure 2.3 - Australia's economic growth performance

EXPANSION ↑

- Economy tends to grow fast for a few years
- Fast growth, high consumption, production and investment

CONTRACTION ↓

- Economy tends to go through a few years of of contraction or slow growth, with less activity, before recovering

Economic Problem

- We want lots of activity so that we increase output → implications for quality of life

Causes of the business cycle

Why doesn't the economy grow at a **stable rate**?

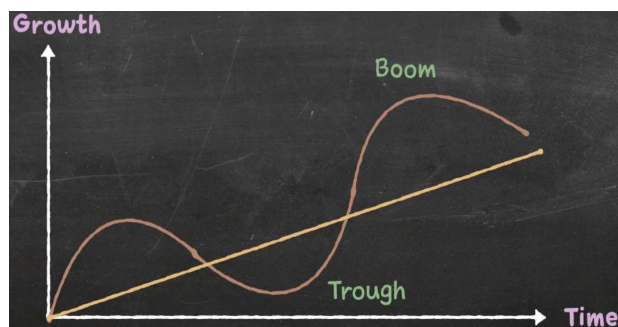
- When there is a peak in activity, people are **confident**, but it cannot last forever
- Eventually, individuals/consumers get worried about economy not being able to **sustain the boom** (because it has been growing too fast for too long)

Concern that economy cannot sustain growth → **Save, invest less, reduce consumption**

↓
Recession

(as people expect bad times ahead. It reduces economic activity)

- Recovery begins when recession bottoms out and **people get optimistic again** & cycle repeats



IMPACTS OF THE BUSINESS CYCLE

Recession

Falling production of goods and services
Falling levels of consumption and investment
Rising unemployment
Falling income levels
Falling quality of life

Boom

Increasing production of goods and services
Rising levels of consumption and investment
Falling unemployment
Rising income levels
Rising quality of life

Impacts and Labelling of the business cycle	
B O O M → Sustained periods of above average economic growth	
<ul style="list-style-type: none"> • People confident in economies well being • Everyone gets more wealthy = bull markets <p>Eg 'The mining boom' → a result of China purchasing many resources such as coal and iron ore from Australia. Saw significant increases in growth, assisted by demand from China.</p>	
Impacts	<p>→ Lower savings, higher spending → hire more workers for higher output = lower unemployment</p> <p>→ Businesses: Capital investment, product more → increased quality of life (people consume more + find more work easily)</p> <p>→ Booms coincide with: Inflation = price rise</p> <p>Consumer demands grow too fast for businesses → business increase prices & people buy less (makes economic problem worse)</p> <p>Followed by...</p>
T R O U G H S → Downturns or periods of 'recession'	
<p>If worse: RECESSION → 2 consecutive quarters of negative economic growth (output shrinks for ½ a year)</p> <ul style="list-style-type: none"> • Everyone gets less wealthy = bear markets <p>Eg. 'Global financial crisis of 2008' → Aus experienced a downturn but did not have a recession - only declined for 1 quarter (growth negative) not 2</p>	
Impacts	<p>→ People worry about job security → Save more consume less</p> <p>→ Businesses forecast lower demand → less investment into capital equipment</p> <p>→ Businesses forced to lay off workers → Unemployment rises</p> <p>Less production & consumption of g/s → Increased unemployment & quality of life lowered</p>
RESPONSES	
<p>Boom - bust cycle</p> <p><u>Problem:</u> Instability & uncertainty of when economies booms & busts are going to occur → consumers and business less confident about their spending/saving/employment decisions</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">GOV & RBA (reserve bank)</p> <ul style="list-style-type: none"> - Attempt to make the 'boom - bust cycle' less volatile (liable to change rapidly) - avoid instability by 'smoothing' cycle → Booms smaller & recessions less deep <p>From this, economy tends to grow at a more stable trend than it would without Gov. intervening</p>	

The 5 Sector (firms) Circular Flow of Income

A model that describes the operation of the economy & the linkages between the main sectors/groups in the economy

- Shows the flow of **money** in the economy



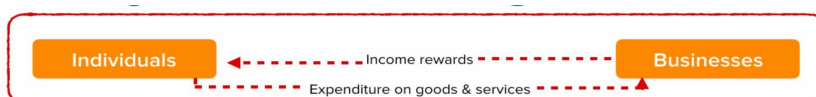
LEAKAGES (outflows)

- Activities that **remove money** from the circular flow of income
- S, T, M (imports)

INJECTIONS (inflows)

- Activities that **add money** to the circular flow of income
- I, G, X (Investment, Gov spending, Export)

FINANCIAL SECTOR (Private Sector) Eg. Organisations -Banks, Super funds, credit unions



- Institutions which borrow & lend money - intermediaries between savers & borrowers of \$
- Savings** - Take individuals deposits - saving instead of spending - **LEAKAGE**
- Investment** - People borrow \$ & spend in capital investment - **INJECTION**
 - The balance of savings and investment - determines whether financial system adds/takes away from economic activity

GOVERNMENT SECTOR (Public & Domestic) Eg. Levels of Gov- Cwealth, state & local



- Taxation** - Imposes taxes on consumers & businesses to satisfy collective wants - **LEAKAGE**
- Expenditure** - Uses tax revenue to undertake in various Gov spending - \$ on welfare, education, & health creates jobs - **INJECTIONS**
 - The amount of gov spending against taxation - determines whether gov causes injection or leakage to economy
- Difference between Taxation - Expenditure - '**budget balance**' - gov tries to control eco act. To smooth out business cycle

INTERNATIONAL SECTOR



- The impact trade has on injections & leakages
- **Imports** - Aus consumers purchase something from overseas, sending \$ overseas so cannot be spend in our economy - **LEAKAGE**
- Eg. Aus buys luxury car from Germany
- **Exports** - Aus sells to an economy overseas & MONEY is given in return - **INJECTIONS**
- Eg. Aus sell coal to China - injects money into Aus economy - Aus busin. Receive revenue
 - The amount of exports & imports determines whether trade is a leakage or injection (trade surplus for Aus economy)

What the model predict for economy

EQUILIBRIUM

The economy is in a **stable** state (neither growing or shrinking)

$$\text{Sum Injections} = \text{Sum Leakages}$$

$$\begin{array}{lcl} \text{Investment} & & \text{Savings} \\ + & & + \\ \text{Govt. Spending} & = & \text{Taxation} \\ + & & + \\ \text{Exports} & & \text{Imports} \end{array}$$

- **Equilibrium** occurs in the circular flow of income when the sum of all leakages is **equal** to the sum of all the injections to an economy

$$\begin{array}{lcl} \text{Savings} & = & \text{Investment} \\ + \text{Taxation} & & + \text{Government expenditure} \\ + \text{Imports} & & + \text{Exports} \\ \hline \text{S} + \text{T} + \text{M} & = & \text{I} + \text{G} + \text{X} \\ \hline \text{Leakages} & = & \text{Injections} \end{array}$$

DISEQUILIBRIUM

The economy growing at an **unstable** rate (will expand or contract)

EXPAND



- As people get wealthier - spend more on imports, are taxed more and have more money to save
- Leakages gradually rise - so net injection (inj - lea) will shrink overtime until eco reaches *equilibrium*

CONTRACT



- Shrinking eco - less income - less saving, taxed, imports
- Leakages gradually fall until eco reaches *equilibrium* - stops shrinking

Further examples of injections and leakages in each sector

Individuals & businesses are **INTERDEPENDENT** (depend on each other)

BUSINESSES - Individuals supply:

- resources required for the production process
- Consumption of the g/s produced

INDIVIDUALS - Businesses

- Produce g/s their demand
- Provide income to buy the g/s

BUSINESSES (Private sector)

- Sector of all business firms engaged in the production and sale of g/s. Concerns all activities involved with buying FOP, and using them to produce and sell g/s

INDIVIDUALS (Private sector)

- Individuals supply FOP'S (input) such as labour & enterprise to businesses, which they use to produce g/s.
- As a reward for supplying resources such as labour and enterprise to firms, individual receive incomes in the form of rent, wages, interest and profit

ECONOMIES: THEIR SIMILARITIES & DIFFERENCES

Economic Growth & Quality of Life

- 4th largest economy when compared to Asian economic region (China GPD 2014 US B\$10360 AU-1454)
- Top 6 = Group of 20
- **Asian economic region** = Fastest growing economic region since WWII
 - o 1st Phase: 1950s and 1960s = Japan's rapid industrialisation
 - o 2nd Phase: 1970s and 1980s = South Korea, Singapore, Hong Kong, Taiwan
 - § Pursued growth strategies (competitive labour costs + growing export markets, particularly for manufactured goods)
 - o 3rd Phase: Emerging and developing economies
 - § Average annual economic growth of 7.5% (China, Indonesia, India)
 - § Newly industrialised economies: 5.7% (SK, Singapore, HK, Taiwan)
 - § Developed economies = 1.8% (Japan)
 - § Industrialisation = V. rapid economic growth, slows down once finished
- **Australia's average economic growth** = slower than most Asian economies
 - o Achieved industrialisation + high living standards before WWII (3.3%)
- **Quality of life:** Measure of welfare based on more than just economic output per capita
 - o Human Development Index: A measure that takes into account income, life expectancy adult literacy and educational levels

Employment & unemployment

- Australia's unemployment rate = 6.2% → Lower than unemployment rates of Indonesia and Philippines
→ Higher than rates of fast-growing economies (Japan, Korea, Singapore)
- AU's employment patterns: similar to most advanced economies
 - o Majority (<75%) employed in services industries (retail, business, real estate)
 - o Manufacturing and construction = Substantial number of jobs
 - o Agricultural sector: smaller than previous decades (<5%)
- **Less developed economies:** Large proportion of workforce in agriculture (Indonesia: 51%)
 - o Process of mass urbanisation People moving from rural to urban areas for work

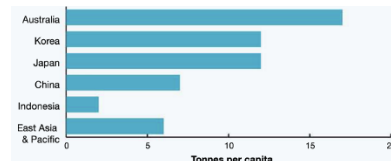
Distribution of Income

- Pure market economies:** Unequal distribution of income → Who own resources/have most skills > People who lack resources
- Agricultural developing economies:** Unequal distribution
- o Divisions between urban and rural populations
 - o Concentration of land ownership amongst wealthier group
- Mixed economies:** More equal distribution of income → Government intervenes for redistributing income (progressive tax)
- General industrialised economies: Relatively equal distribution (Japan, NZ, AU)
 - Fiercely pro-market economies: Skewed distribution (Singapore, Hong Kong)
 - Other Asian economies: Relatively unequal (poor and rural/wealthier urban areas)

GNI index - AUS 32.8 CHINA 54.7 less equal

Environmental Sustainability

- **AU:** ↑ Environmental qualities (↓ water/air pollution, ↑ efficient industrial processes)
 - o Poor record of preserving biodiversity (megadiverse, ↑ species than others)
 - § >50 birds/mammals have become extinct over the past 2 centuries, one third of the global total
 - § 1700 animals/plants at risk of extinction
 - o Low water productivity (\$US of economic output/m³)
 - § AU = \$38, relatively low compared to Japan (\$53) and South Korea (\$47)
 - § Higher than NA (\$27) and avg. East Asia and Pacific region (\$13)
- **China:** V. ↑ air/water pollution, widespread health problems (pollution, toxic chemicals)
- Climate change: Emission of greenhouse gases (CO₂, NO, CH₄)
 - o 14/15 warmest years = 21st century
 - o Ice thickness has decreased 40% since 1960s
 - o Extreme weather events occurring with greater frequency
 - o Avg. global temperature = ↑ between 1.0 and 5.4 degrees in this century
 - o Consequence of rising temperatures: Rising sea levels, ↑ harsh weather events, ↑ threats to economic health, food security, human health
- Difficult to achieve international agreement on how to reduce greenhouse gas emission
 - o 2009: Copenhagen Convention (confine global temp increases to <2 degrees Celsius)
 - o No binding international agreement to reduce greenhouse gas emissions
 - § Previous = Kyoto Protocol, 1997-2012
- Australia: Reduce carbon emissions to 26-28% of 2005 levels by 2030
 - o Direct Action Initiatives: Grants for businesses for project that lower carbon emissions
 - o 17 tonnes of CO₂/person (>50% than Japan/Korea, >70% average adv. economies)
- Asian economies also face unique problems
 - o Indonesia: Significant contributor to climate change (deforestation)
 - o China's CO₂ emissions: Major impact on climate
 - o India: Poor urban planning, outdated infrastructure
 - o Domestic policies + greater global cooperation required



GOVERNMENT INTERVENTION

MARKET ECONOMY PROBLEM AREAS (MARKET FAILURE)

Income Distribution (Inequality)

- To create fairer society & look after people

GOV RESPONSE: Progressive tax & welfare payments

Resource Allocation

- To provide g/s that would not otherwise be provided by private sector
- To restrict production of harmful goods (make illicit drugs illegal)

GOV RESPONSE: Taxes to discourage & subsidies (\$) to encourage

Economic Stability

- To smooth out sharp fluctuations in the economic cycle
- To ensure stability in the economy & financial system

GOV RESPONSE: Macroeconomic policy

The role of government in healthcare, education and social welfare

ASIAN ECONOMIES

- o Market economies: East Asia, e.g. Japan, Korea, Singapore, Indonesia
 - § Promote development of competitive export sectors and rapid industrialisation
- o Planned economies: Asian continent e.g. China, Vietnam, India, Cambodia
 - § Reduced govt. control over economic decision-making

AUSTRALIA -Market forces in agriculture, mining, construction, and manufacturing. Government for telecommunications, aviation, banking, and insurance

- o Recent decades: Reduced role through deregulation and privatisation policies

HEALTH CARE

- o **Australia:** Well-established system of universal health care (Medicare)
 - § 6.3% of GDP spent on health care
- o **Developing economies:** Rel. undeveloped public health systems, reliance on private health care
 - § Diseases of poverty: poor water and sanitation
 - § Lifestyle diseases: obesity, diabetes, and cardiovascular diseases
 - § Serious respiratory disease problems (high rate of smoking)
 - 20% (AU) vs 50% (China, Indonesia, Korea)

EDUCATION

- o **Australia:** Universal free education for primary and secondary (1/3 attend private schools), HECS for repaying student loans
 - § Above average funding
- o **Asia:** Compulsory primary school, most schools being run and funded. Schools become voluntary during high school years (increased private funding)
 - § Education = Culturally significant (Intl. surveys of maths/science = strong education systems in Singapore, Korea, Japan, other East Asian countries)
- o Low govt. spending reflects larger reliance on private contributions, e.g. Korea/Japan
- o Dev. countries: Low govt. spending = greater competition for scarce govt. resources

SOCIAL WELFARE

- o **Australia**
 - § Greater assistance level: Min. living standard for people unable/looking for work
 - § Unemployment benefits, pension, disability/family payments, paid maternity leave
 - § Trend = restricting social welfare by tightening eligibility
 - 'means' test, limiting benefits for people w/other sources of income
 - § Aging population: Govt. faces growing pressure to sustain social welfare (providing other priorities, e.g. health care, education, and infrastructure)
- o **Asian economies**
 - § Demands for social welfare will increase