

Analyse the changing sources of economic growth and their effects on the Australian Economy

Economic growth measures the total output or production of goods and services of an economy over a period of time. It is calculated by the Gross Domestic Product (GDP) value of the current year minus the GDP of the previous year divided by the previous year's value. The economy's level of aggregate demand and aggregate supply influences its economic growth which can be increased using macroeconomic and microeconomic policies respectively. The increase in economic growth will have impacts on the level of unemployment, inflation, income inequality and the environment. The COVID-19 pandemic caused a sudden and significant decline in Australia's economic growth which prompted the largest macroeconomic government response to increase aggregate demand in the economy's history. Labour market reforms in the 1980s and 1990s caused aggregate supply to increase in the long-term which in effect, increased economic growth.

In 2010-11, China used stimulus programs to initiate consumption to raise aggregate demand to recover from the recession caused by the Global Financial Crisis. As they started to experience higher economic growth rates, they started importing minerals from Australia to continue their construction of cities and roads which would then catalyst Australia's second mining boom (MB2). An increase in aggregate demand is when the demand curve shifts outwards shown in diagram A, as the new equilibrium is established as $P_1 \rightarrow P_2$ and $Y_1 \rightarrow Y_2$. The net export component of aggregate demand increased causing Australia to experience higher levels of economic growth as well as high levels of consumer confidence as the Australian dollar (AUD) appreciated, reaching a peak of USD\$1.11 in July of 2011. Australia's GDP growth in 2010-11 was 1.9% which then increased to 4.3% in 2011-12. High levels of economic growth meant increased consumer spending, due to higher consumer confidence, leading to increased demand for goods and services. However, as the increase in economic growth was not due to an increase to productivity or increase in aggregate supply, demand-pull inflation occurred. Headline inflation had increased from 1.77% in 2009-10 to 3.6% in 2010-11. Inflation would continue to fluctuate as in 2011-12, inflation fell to 1.2% as a result of less imported inflation as well as tightening of monetary policy by the RBA.

Diagram A - Increase in AD, $AD_1 \rightarrow AD_2$

Furthermore, Australia's Gini coefficient decreased from 0.329 to 0.32 which signified less wealthy individuals benefiting from MB2. This could be a result of MB2 only directly benefiting the mining industry as unemployment was at 5.1%, a moderate decrease from 5.75% from the previous year. MB2 would also prompt the government to respond to the country's environmental issues as in 2012, the government introduced the carbon tax as a tool to contract the economy's boom as it increased taxes for businesses as well as increased the CPI,

Kommentiert [1]: don't need to include this in your introduction

Kommentiert [2]: may want to include equation for AD

Kommentiert [3]: could break it down into its specific components and what was targeted or leave this for the body of your essay

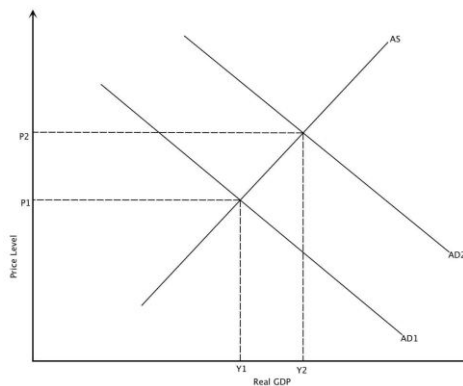
Kommentiert [4]: good intro

Kommentiert [5]: also investment component. any stats for export growth during this time period?

Kommentiert [6]: can explain this link further

Kommentiert [7]: maybe more so that the effects were more evenly distributed amongst the economy

increasing inflation, leading to less economic activity as well as a way to help discourage environmentally unsustainable production.



The onset of the COVID-19 pandemic caused a worldwide recession including Australia's first recession in 30 years. The virus outbreak caused the government to respond by quarantining the population and adding restrictions to their ability to consume goods and services. This slowed consumption and investments as consumer confidence was low which caused aggregate demand to decrease, shown in diagram B, as $PL_e \rightarrow PL_1$ and $Q_e \rightarrow Q_1$, creating a new equilibrium.

Australia's decrease in aggregate demand would lead to a 7% contraction in GDP,

which relative to other OECD countries is less severe however it far exceeded any of Australia's previous contractions of 3.7% in 1980s and 1.4% in early 1990s. Furthermore, net exports had worsened as other countries experienced the same slowed economic activity and had stopped importing which is reflected in the AUD's

Diagram B - Decrease in AD, $AD \rightarrow AD_1$
value of USD\$0.58 in March of 2020. As customers were no longer allowed into physical stores, businesses had to close or lay off inefficient employees to maintain sustainable revenue, causing structural and cyclical unemployment which caused the unemployment rate to increase to 7.4%, a 2.1% increase from the previous year's 5.3%. This would prompt Australia's largest ever macroeconomic response which cost the budget \$289 billion by mid 2020 in the form of the Jobkeeper program. It initially started as a \$70 billion program that subsidised wages for businesses' whose turnover had fallen by 30% or more due to COVID however the program was extended for a further 6 months. The government had also doubled the fortnightly payments of the existing unemployment program and had also handed out tax-free cash payments to small and medium businesses, between \$20,000 and \$100,000. This program would be the start of the economy's recovery shown in diagram C, as it was the only positive component of aggregate demand. Australia had experienced deflation after the government

Diagram C -

Contributions to GDP growth announced they would make childcare free, lowering headline inflation to -0.3%, a 1.9% drop from its previous quarter. Hence aggregate demand had a significant impact

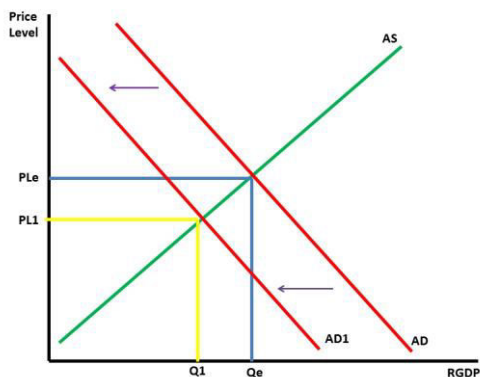
Kommentiert [8]: you have great depth of effects in this paragraph but remember to tie it all back to the question and emphasis the source of the growth ie increased exports. this allows you later on to more easily show how the sources of growth have changed

Kommentiert [9]: can add that consumption accounts for close to 60% of AD

Kommentiert [10]: can add that we saw large reductions in exports such as tourism and education

Kommentiert [11]: explain the impact of this policy on growth via the Keynesian multiplier, ie had greater than proportional increase

on Australia's economic growth which led to effects on unemployment and inflation as the effects of distribution of income and the environment are not yet determined.



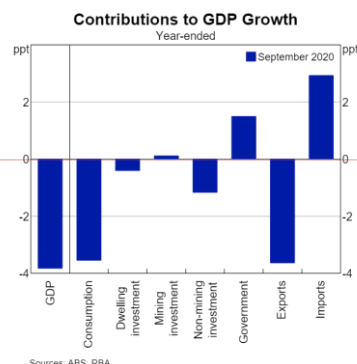
Another changing source of economic growth is the level of aggregate supply within an economy. Aggregate supply is determined by the quantity and quality of factors of production of an economy and is constrained by a shortage of skilled labour and the limitations of transport infrastructure as well as telecommunications infrastructure. To improve aggregate supply, the government will employ microeconomic policies which will increase the 3 types of efficiency (technical, allocative and dynamic). For example, in 1996, under the Howard government, the labour market was

Kommentiert [12]: within an economy

decentralised with the introduction of The Workplace Relations Act 1996 which shifted income towards enterprise bargaining and common law contracts. These forms of income tied pay directly to the productivity of the worker which meant that workers were rewarded for their efficiency as more efficient and skilled workers could negotiate more easily for higher wages. This motivated workers to strive to work harder and longer which boosts the economy's productivity, increasing the level of aggregate supply, shown in diagram D, where the supply curve is shifted outwards and $P_1 \rightarrow P_2$ and $Q_1 \rightarrow Q_2$ and a new equilibrium is established. This would

Kommentiert [13]: can include a link to theory here, ie much of the deregulation of markets in this time period occurred as a result of George Stigler's critique on regulation as it led to an inefficient allocation of resources, lost labour output and admin costs

Diagram D - Increase in aggregate supply, $AS_1 \rightarrow AS_2$ also incentivise workers to acquire new skills as highly skilled workers are more efficient and productive, increasing output and thus economic growth as well as reducing structural unemployment as the worker's skills are updated. Other microeconomic changes would be Howard's



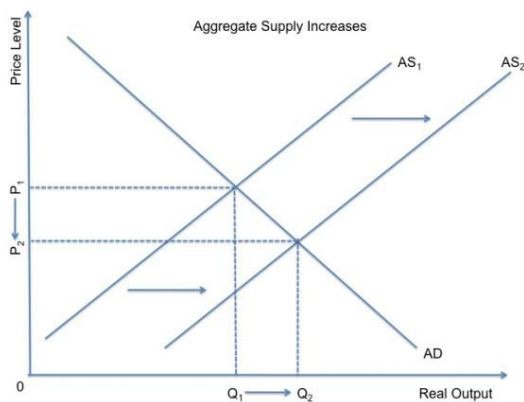
Kommentiert [14]: stats for the improvement to growth?

Howard's Government's program to intake more skilled migrant workers which would shift the economy's production possibility frontier and the aggregate supply curve outwards as it reduces the capacity constraints leading to economic growth. However in the short-term this may increase unemployment as the migrants take up jobs that Australians could have done as well as worsen

Kommentiert [15]: what about the current hybrid system 'Fair Work Act'. can link the minimum wage to increased consumption but structural ue

the distribution of income as skilled workers from English speaking backgrounds would have only come to Australia if their domestic job opportunities offered less income.

Hence, aggregate demand and supply influence Australia's economic growth which can be maintained through macroeconomic and microeconomic government policies to deal with its impacts on unemployment, distribution of income, inflation and environmental sustainability.



Overall, great essay!

I would say try and split up the components of AD further and look at how the sources of growth/components driving Aus growth have changed

Other sources of growth that you could consider include domestic interest rates, high asset prices and influx of FDI, microeconomic reform that aims to improve infrastructure and thus AS, and potentially look at the current labour wage determination system. Great use of statistics and theory. I would encourage you to incorporate and link to the multiplier effect

somewhere in your essay and a good opportunity would be when you mention government expenditure eg. jobkeeper payments in response to COVID

Kommentiert [16]: good conclusion, could link back to the specific examples (ie list them) if you wanted to