LIST OF QUESTIONS

TOPIC 2:

- Assess the importance of factors that determine the size and composition of Australia's Balance of Payments
- Explain how changes in the domestic and global economy have impacted Australia's exchange rate
- Assess the implications of depreciated AUD on Australia's economy.
- Discuss the implications for Australia of domestic and global protectionist policies
- Analyse the influence of different factors Australia's trade and financial flows
- Assess the impact of domestic movements towards free trade on the Australian economy
- Assess the impact of exchange rate fluctuations on the external stability of the Australian economy.

TOPIC 3:

- Analyse the changing sources of economic growth and their impacts on the Australian economy.
- Analyse the causes of unemployment and discuss the social and economic effects created by unemployment. Evaluate the policies available to control the level of unemployment in the Australian economy.
- Analyse the causes of inflation and discuss the effects of inflation on the Australian economy. Evaluate the policies available to control the level of inflation in the Australian economy.
- Discuss the economic concerns that the Australian Government takes into account when formulating policies to manage the environment. Evaluate the effectiveness of these policies on the level of Australia's ecologically sustainable development.

TOPIC 4:

- Discuss how the government's goal of sustainable economic growth may conflict with their key economic objectives
- Evaluate the effectiveness of fiscal policy in achieving Australia's economic objectives.
- Analyse how recent trends in Australia's economy were influenced by macroeconomic policy.
- Discuss the short term and long term impacts of changes in the federal budget.
- Discuss the role of environmental management policies in Australia in managing climate change.
- Assess Australia's environmental management policies in meeting its international agreements and targets.
- Discuss the effectiveness of labour market reform in Australia in achieving sustainable economic growth and internal stability (ue and inflation)
- Explain the economic concerns the taken into account when formulating environmental

- policies. Assess the effectiveness of environmental policies used to target these concerns.

Websites
https://www.dfat.gov.au/publications/minisite/tradethroughtimegovau/site/index.html
https://www.abs.gov.au/statistics/research/70-years-inflation-australia

TOPIC 2

Assess the importance of factors that determine the size and composition of Australia's Balance of Payments

Plan
Paragraph 1
- The BoP is a record of all transactions between Australia and the rest of the world
- Consists of KAFA and CA
- Since floating the dollar in 1983, more FDIs, become subject to more global influences
- Domestic and global factors include Australia's historic low international competitiveness and low savings ratio and recent changes in China's growth rates due to COVID, lowering of global interest rates influences the size and composition of Aus BoP
- Recently there has been slower FDI inflows reflected in the first stimulus which lead to less NPY debits, causing an improvement in the current account as seen in stimulus 2.

Section I - Australia's historic narrow export base and low productivity
Paragraph 1
- Lack of international competitiveness in manufacturing → import capital goods to fund capital intensive industries
- Low productivity and thus higher real unit labour costs
    - 0.83% in 2015-20 which is almost below average, 0.5% to 3.5%
    - Highest minimum wage in the OECD countries and 2nd highest in the world at $19.84
- Leads to worsen BOGS
- The trade balance can be seen in stimulus 2 to have an average of below 0% GDP

Paragraph 2
- Narrow export base → high reliance on low-value added goods and services → low export revenue
    - Mining was 40% of trade flows composition in 1989-90 and increased to 60% in 2018-19

    - Manufacturing decreased from 14% in 1989-90 to 9% in 2018-19
- Worsen BOGS
- Trade balance can be seen in stimulus 2 to have average below 0%

Paragraph 3

- Historically, Australia's household savings ratio have been low, 3.5-3.9% in 2017-18 compared to 11.6-12% in 2020-21, along with a small population leads to a smaller domestic savings pool and thus a savings-investment gap, causing firms to borrow from overseas, increasing the FDI inflows and thus induced servicing costs and NPY debits and CAD, seen in stimulus 2 from 1990 to 2018, average NPY account was at -3% of GDP
- Conversely, 2019 saw savings ratios rise to 6.1% and a further to 7.9% in January of 2020. The onset of COVID would then see household ratios increase to 22% in July, contributing to the decrease in overseas borrowing and thus induced NPY debits, causing the current account to enter a surplus.

Paragraph 4

- Short run J-curve
    - 2013-16 → depreciation (1.04 → 0.7)
    - As volume stays the same → from 2013-14 to 2014-15 → lost of $12 billion (331 → 319 bn) decrease again in 2015-16 by $5 billion in export revenue
    - Terms of trade
        - 2013-14: 104.6 (deterioration)
        - 2014-15: 92.8 (deterioration)
        - 2015-16: 87.9 (deterioration

Paragraph 5

- Long run J-curve
    - 2016-18 → appreciation (0.7 → 0.8)
    - As volume increases → from 2015-16 to 2016-17 → increase of 59.8 billion (314 → 373.8 bn) increase again in 2017-18 and 2018-19 to 470.2 bn.

Paragraph 6

- Increased Investments into Australia
    - Investments increased to $3.27 trillion in 2017
    - Increased to $3.51 trillion in 2018
- Depreciated from 0.78 to 0.71
- Increase in interest servicing costs on foreign debt → Australians buy less foreign currency with domestic currency with which to pay interest → increase in income outflow → increases CAD
- Increase AUD value of foreign income earned on Australian's investments abroad → improves NPY
- Increased value of foreign assets → domestic investment into Australia → less financial outflows
- Less expensive to invest in Australia → increase foreign investment → increase financial inflow

- Valuation effect
    - Value of Australian-owned foreign assets → liabilities decrease in value
    - Negated by hedging [Chinese investors choosing to be paid back in AUD and not Chinese currency]
    - 95% of Australian debt is hedged against AUD

Paragraph 7
- COVID contracted most economies
- To stimulate their economy, China increased their demand for iron ore, increasing Australia's export revenue by $1.8bn or 6%
- Caused BOGS to further increase its surplus to 2.5% GDP
- Terms of trade improved from 95.2 in January 2020 to 114 in January 2021

Paragraph 8
- Low global growth rates led to decrease financial flows as profits decrease
- Also investor uncertainty
- Contributed to fall in FDIs, and thus less NPY debits, causing further CAS
- Low global and domestic interest rates
    - Cash rate cut twice in 2020, from 0.75% to 0.25% in March and then 0.1% in November
- Less direct investments, more portfolio investments
- Foreign investment decreased by 1.6% according to department of foreign affairs and trade in 2020

Explain how changes in the domestic and global economy have impacted Australia's exchange rate

<u>Plan</u>
Paragraph 1
- Since floating the Australian dollar in 1983, Australia's exchange rate is determined by supply and demand on foreign exchange markets where changes in both domestic and global economies will influence its value. For example,
- Outline changes in the domestic and global economy
    - Global Growth Rates
    - Relative inflation rate differentials
    - Consumers tastes and preferences
    - Interest rates differentials
    - Exchange rate expectations
    - Investment opportunities

- These changes will impact the supply and demand of the Australian dollar and hence determine its value.

Section I

- Global Growth rates
    - If global growth rates > domestic growth rates → increase in demand for domestic exports → increasing demand of AUD → appreciation
    - If global growth rates > domestic growth rates → decrease in domestic demand for imports → decreasing supply of AUD → appreciation
- Mining Boom 2
    - In 2010-11, China was Australia's largest two-way trading partner ($113.3 billion),
    - Direction of exports: China, Japan, USA, New Zealand
    - The country's GDP growth in 2011-12: (AUS: 4.3%)
        - China: 5.2%
        - USA: 4.7%
        - Japan: 2.3%
        - UK: 1.5%
    - AUD peaked at US$1.11 in July of 2011
    - Exports at $297bn with a BOGS surplus of $21bn

Section II

- Relative inflation rate differentials
    - An increase in domestic inflation rates relative to overseas inflation rates → lower international competitiveness of domestic exports → less demand for AUD. Coupled with increase in domestic demand for imports → increase supply of AUD. Both will lead to depreciation.
- 2018-19
    - In 2018-19, inflation rate in Australia was at 1.8%
    - Exports at $470.2bn with $48.8bn BOGS surplus
    - Exchange rate at USD$0.70
    - Inflation rates in 2018-19
        - China: 2.9%
        - USA: 2.44%
        - Japan: 0.98%
        - UK: 2.48%

Section III

- Consumer tastes and preferences
    - Increased consumer preference towards Australia exports → increased demand for exports → demand for the AUD → appreciation
    - If there is greater preference towards foreign produced goods and services → increased demand for imports → greater supply of AUD → depreciation
- 2010-11
    - Australia had competitive advantage in mining, leading to greater demand for mining exports → increased demand for AUD → appreciation → $1.11AUD per USD

- Australian consumers prefer imported cars
    - 605,522 cars sold in Australia during the first half of 2018
    - Japan accounted for 30.45%, 184,398 cars
    - Thailand (Ford, Toyota, Mitsubishi) sold 159,421 (26.33%)
    - Korea sold 91,368 (15.1%), Hyundai and Kia
    - Germany sold 50,589 (8.35%), (BMW, Mercedes-Benz, Audi, Holden Commodore)
    - AUD: 0.78 → 0.70

Section IV

- Interest rate differentials
    - If Australia's interest rates is higher than other countries → positive interest rate differential → increased capital inflows → increased demand for AUD → appreciation
    - If global interest rates are higher than Australia's → negative interest rate differentials → higher demand for overseas assets → capital outflow → increased supply of AUD → depreciation
- 2015-16
    - Interest rates
        - Australia at 2.5-2.25%
        - China at 5.2%
        - USA at 0.25%
        - UK at 3%
        - Japan at 0%
    - Financial Flows inwards
        - 3.51 trillion (DI - 967.5 bn; PI - 1.836.3 bn; O - 508 bn; D 202.6 bn)
        - US - 27%
        - UK - 19%
        - Japan - 7%
    - Financial flows outwards
        - $2.28 trillion (DI - 695.6 bn; PI - 1,124.8 bn; O - 439.7 bn; D - 197.2 bn)
        - US - 28%
        - UK - 16%
        - Japan - 4%

Section V

- Exchange Rate Expectations
    - Speculators believe AUD will appreciate → increased demand for AUD → appreciation
    - If speculators believe the AUD is to depreciate → increase supply of AUD → depreciation

Section VI

- Investment opportunities
    - Increased investment opportunities in Australia → influx of investment into Australia due to potential capital gains → increased demand for AUD → appreciation

    - If investment opportunities overseas are greater or more profitable than Australia → increased demand for overseas assets → increased supply of AUD → depreciation
- Mining boom 2
    - 2 trillion into Australia

Assess the implications of depreciated AUD on Australia's economy.

<u>Plan</u>

Paragraph 1

- Define depreciation and how it occurs
- Outline 4 implications

Section I

- Short run J-curve
    - 2013-16 → depreciation (1.04 → 0.7)
    - As volume stays the same → from 2013-14 to 2014-15 → lost of $12 billion (331 → 319 bn) decrease again in 2015-16 by $5 billion in export revenue
    - Terms of trade
        - 2013-14: 104.6 (deterioration)
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-

Section II

- Long run J-curve
    - 2016-18 → appreciation (0.7 → 0.8)
    - As volume increases → from 2015-16 to 2016-17 → increase of 59.8 billion (314 → 373.8 bn) increase again in 2017-18 and 2018-19 to 470.2 bn.
    - Terms of trade
        - 2016-17: 100.6 (improvement)
        - 2017-18: 102.5 (improvement)
        - 2018-19: 111.6 (improvement)
- Cheaper exports → increase in export revenue → improve CAD in medium term → boosts international competitiveness
- Imports are more expensive → fall in import spending → improvement in CAD

Section III

- Increased Investments into Australia
    - Investments increased to $3.27 trillion in 2017
    - Increased to $3.51 trillion in 2018
- Depreciated from 0.78 to 0.71

- Increase in interest servicing costs on foreign debt → Australians buy less foreign currency with domestic currency with which to pay interest → increase in income outflow → increases CAD
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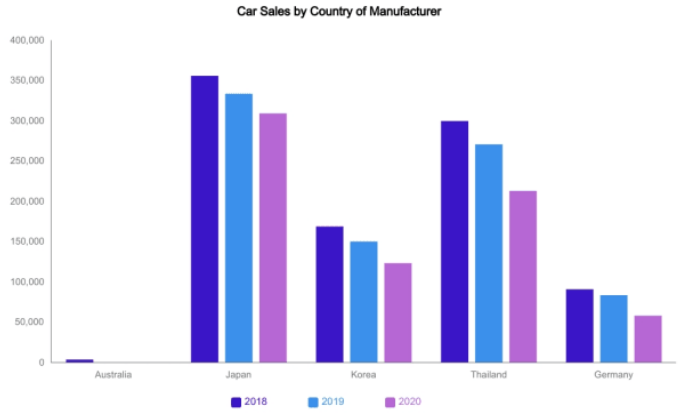
- Valuation effect
    - Value of Australian-owned foreign assets → liabilities decrease in value
    - Negated by hedging [Chinese investors choosing to be paid back in AUD and not Chinese currency]
    - 95% of Australian debt is hedged against AUD

Section IV

- Imported inflation
- 2018-19
    - From Feb-18 to Feb-19 was 0.81 → 0.72 $USD
    - From Jan-18 to Jan-19, import prices rose from 104.5 → 112.7, 7.84% increase.
    - Motor vehicles have increased to its highest price since 2002



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    -
- Increased imported inflation → downward pressure on retail prices → retail prices rise by 0.9% since 2018

Section V

- Economic growth
    - Depreciation → BOGS surplus → AD = C + I + G + (X-M) as (X-M) -> + → higher economic growth
    - GDP 2.3% in 2014-2015
    - GDP 2.8% in 2015-16

Section VI

- Unemployment

- Depreciation → higher domestic demand for import substitutes → higher demand for labour
- Depreciation → higher global demand for exports → higher demand for labour
- AUD 2014-2019: From US$0.93 → US$0.67
- U/E rate: From 6.06% to 5.18%

Discuss the implications for Australia of domestic and global protectionist policies

Assess the impact of domestic movements towards free trade on the Australian economy

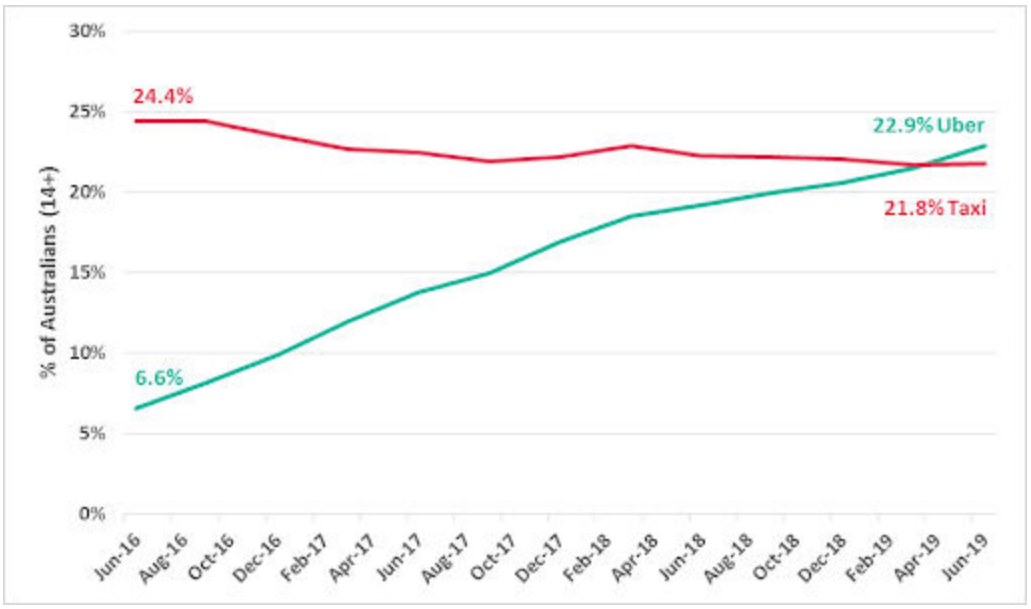
<u>Plan</u>

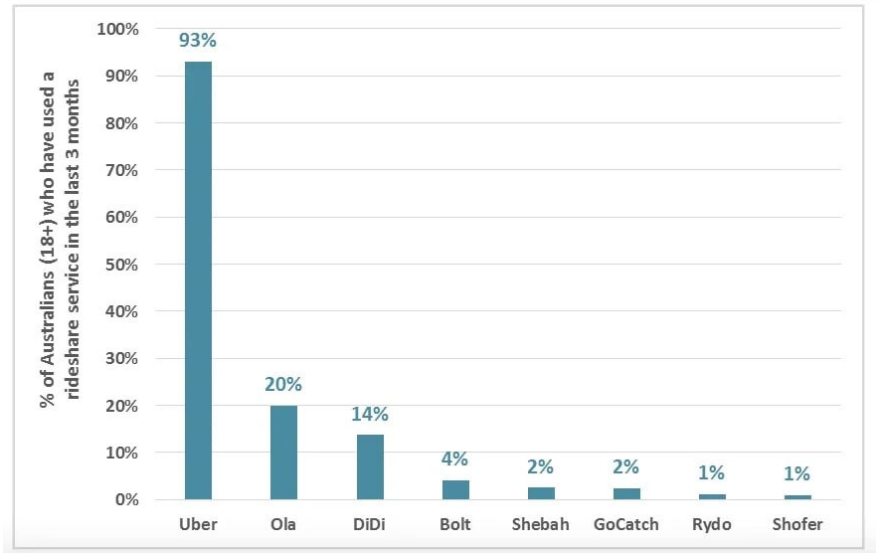
Paragraph 1

- Define free trade
- Outline 3 examples of movements towards free trade
- Outline 6 impacts of free trade

Section I

- Standard of Living
  - Increased foreign competition leads to lower import prices and greater consumer choice
- Uber
  - Introduction of Uber → loss of jobs and revenue in the taxi industry

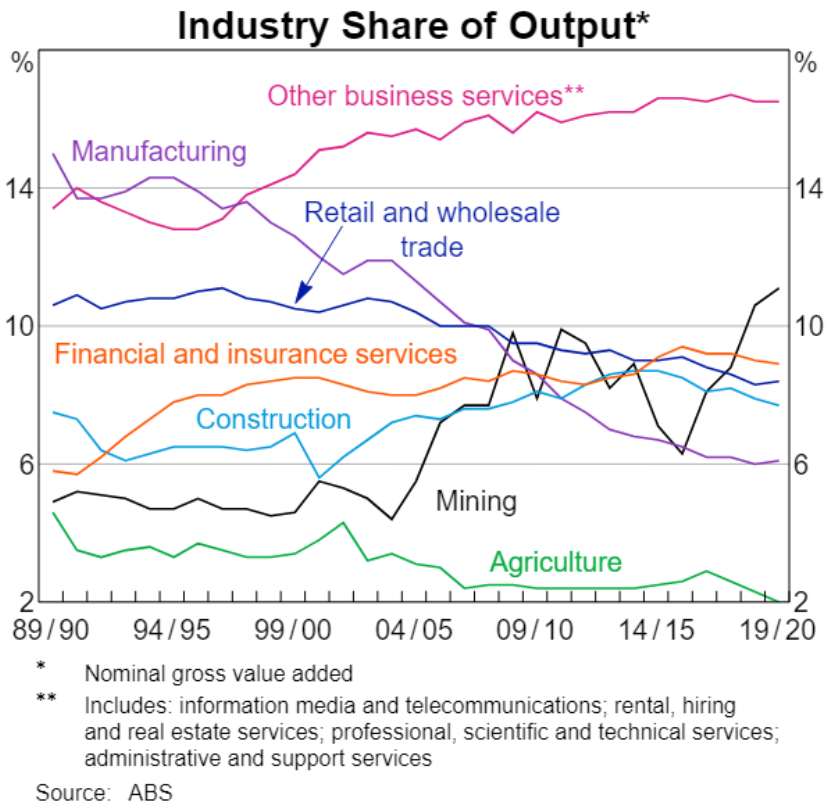
- 

- Supply of drivers met demand
- 

- Greater convenience at lower prices from a range of ride-sharing providers compared to when it was only taxis

Section II

- Higher technical efficiency
  - Domestic businesses can source lower production/input costs → lower inflation → technical efficiency → increased aggregate supply

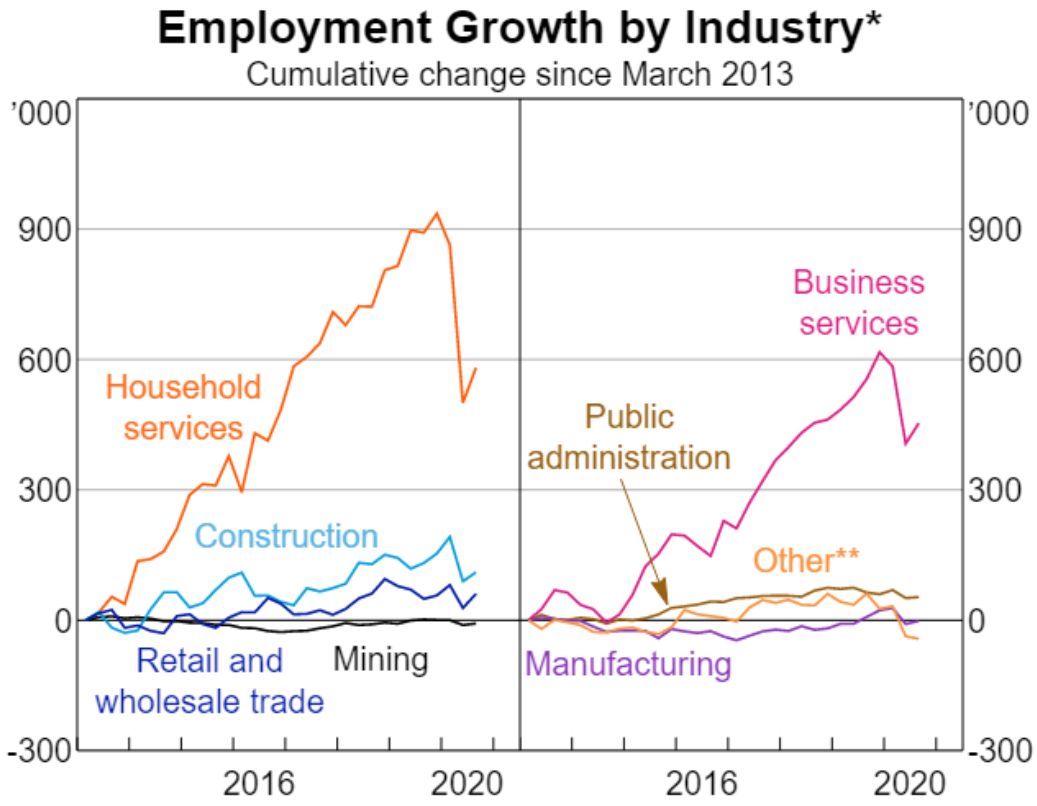


Section III (ST)

- Unemployment
  - Inefficient industries → lost of jobs in the short term as they can't keep up
  - Worsen income inequality as those with low skill and thus lower incomes who become jobless
  - Those with high wages will become greater because they have access to efficient global markets worsening income inequality
- Manufacturing has declined over the years, notably the car industry failed to compete against other economies with lower labour costs
  - The discontinuation of subsidies for the PMV industries caused an estimated 50,000 people to become structurally unemployed, causing the rise in U/E from 5.2% in 2011 to 6.1% in 2013. Government spending had gone down from allocated $500 million to $100 million.

Section IV (LT)

- Higher allocative efficiency
  - With access to the global market, efficient industries will grow → jobless inefficient workers move to more efficient industries (absorption of structural unemployment) → higher allocative efficiency
  - Also achieve economies of scale



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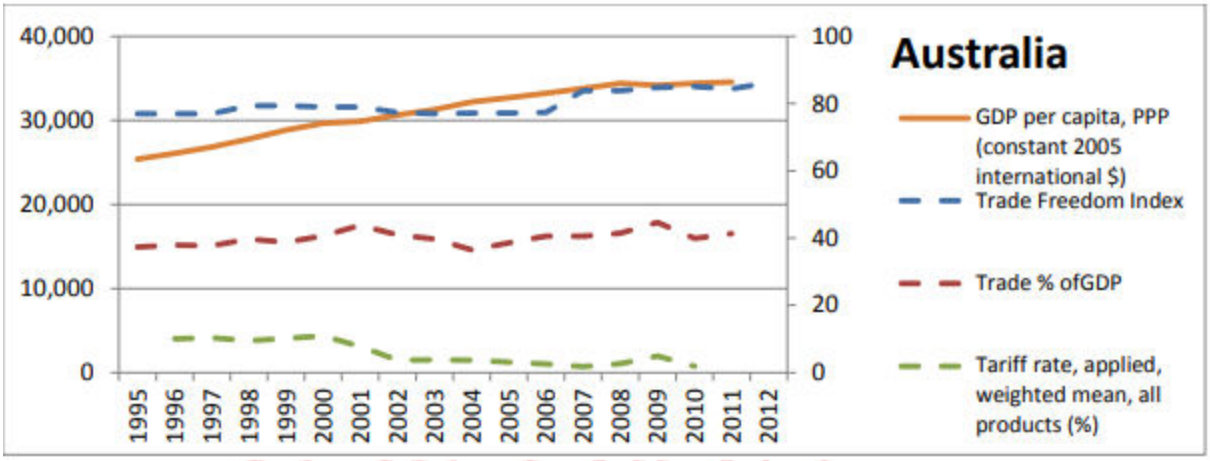
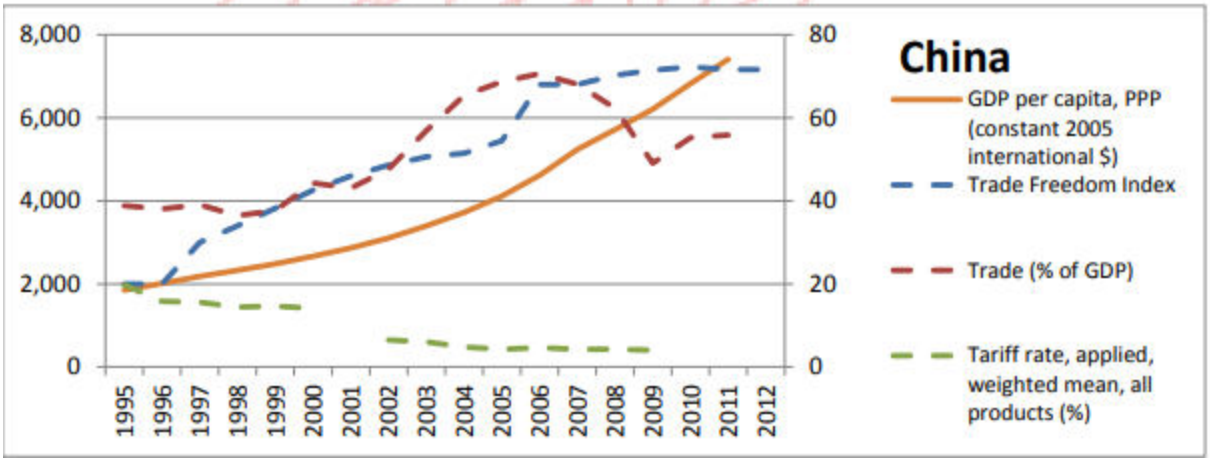
Section V

- Economic growth
  - The increase in allocative and technical efficiency leads to increased aggregate supply leading to higher economic growth
- Productivity Commision estimated that free trade has led to a gain of $4 billion in Australia's GDP
- Study done in 2012, named 'Does free trade result in higher GDP per capita? An international perspective' found a correlation between a country's trade freedom index and its GDP per capita.





Section VI

- BOGS improve
    - Higher aggregate supply → increased international competitiveness → increase exports → BOGS improve
- TPP (Aus, Canada, Japan, NZ, and Vietnam)
    - Agreement with a population of 800 million people, contributing 32.6% of Australia's total trade and 37.5% of global GDP
    - Reduces 98% of tariffs for Australian agricultural exports → Japan was able to accept an additional 6000 tonnes of Australian rice per year
    - Estimates indicate a $3.67 billion increase in agricultural exports
    - Also cuts to tariffs on iron ore, copper, nickel and reduction in service barriers in areas of finance, tourism and education.
    - Shown through composition, mining was 40% in 1989-90 increased to 60% in 2018-19 while rural was at 26%, decreasing to 10% in 2018-19 and manufacturing at 14%, decreasing to 9%.

Analyse the influence of different factors Australia's trade and financial flows

Plan

Introduction

- Outline Interest rates, IBC, Intl. Comp., Exchange rates
- Outline MB2, Post MB2 and COVID

Section I

- Interest Rate (MB2)
- Cash rate was 3% in 2009 decreased to 4.75% in 2010 → increase foreign investment → drove mining boom 2
- $854.7 billion, an increase of $79.6 billion on the previous year. (KAFA)
- NPY worsened by $5bn
- rose $2,550m (44%) to $8,374m in the December quarter 2011 (CAD)
- China had a 6% economic growth during the GFC however due to economic stimulus packages → recovered to a growing economy of 11.9%
- Narrowed savings-investment gap

Section II

- International Business Cycle (China's slowing growth)
- 2014-15, China's economic growth, 7.4% → 6.9%
- European Sovereign Debt Crisis + Brexit + US election
    - Consumer and investor confidence
    - Less investment, more portfolio, less direct investment
    - J-curve SHORT RUN

Section III

- Australia's International competitiveness (LNG)
    - Infrastructure projects
        - Sydney Metro
    - Structural change since the MB2
        - BYE BYE PMV industry
    - Tot
        - 92.4
    - Narrow-export base
        - Minerals = 30%
        - Services = 8%
        - NATURAL GAS = 7% ---> 38.5% increase from the last year
    - J-Curve LONG RUN
        - AUD decreasing to 0.72 however peaked to 0.77

Section IV

- Exchange Rate (COVID-19)
    - Dollar at a minimum at $0.58 in March 2020
    - Demand for iron ore increased

        - 103 ToT in 2021
    - Lower imports
    - Less Australian investment overseas
        -
    - Higher foreign investment

Assess the impact of exchange rate fluctuations on the external stability of the Australian economy.

Plan
Paragraph 1

Section I
- Mining Boom 2 (KAFA/NPY + BOGS → CAD)
    - BOGS was $21bn
    - Investment into Australia: $2 trillion
    - Investment overseas: $1.2 trillion
    - NPY deficit of -54
    - CAD of -3.4% GDP

Section II
- Post-MB2 (SHORT RUN J-CURVE)
    -

Section III
- LNG exports (LONG RUN J- CURVE)

Section IV
- 2018-19 (NET FOREIGN LIABILITIES)

Section V
- COVID-19 (HOW TO GET CAS IN 3 STEPS)

Analyse the effects of changes in the Balance of Payments on the Australian Exchange Rate

Plan
Paragraph 1
- Define BoP
- Define exchange rate and state system
- Introduce different accounts
- Mention factors influencing

Section I - NPY/KAFA
Para 1 - NPY cyclical: Interest Rates/Inflation rate, growth rates
- 2012-2016: cash rate fell, AUD fell
- Loosening monetary policy, inflation was low
- Decreasing demand for AUD as investment opportunities decrease
- Lower investor confidence → lower financial flows, European sovereign debt crisis

Para 2 - NPY structural: S - I gap, K-intensive industries

- Net importer of capital, increase supply of AUD
- NFL stats
- CAD restricts growth and AUD value

Para 3 - CAS → higher AUD in 2020

- Low investor confidence → low financial flows → KAFA deficit
    - Household savings increased since 2012
    - Low interest rates
    - During COVID, savings ratio at 19.7% and superannuation has increased
    - KAFA deficit reduces demand for the AUD, saw in depreciation during last 5 years
- Recovery from China, stimulus packages → high demand of exports
- BOGS surplus means high demand of AUD → appreciation

Section II - BOGS

Para 1 - BOGS cyclical

- Export demand increase
- ToT improve
- Demand for AUD increases
- Price of exports and AUD increase
- In long run → worsen BOGS - J curve

Para 2 - BOGS structural

- Intl comp up
    - Structural change
    - Increase aggregate supply
    - Minimum wage
- Narrow export base
- Low population
- High labour costs
- Low productivity
- Capacity constraints

Para 3 - Growth rates, direction of flows

- ASEAN and China rather Europe and Japan

Assess the extent to which the move towards free trade restricts the Australian Government's ability to achieve its economic objectives of full employment, distribution of income and external stability.

<u>Plan</u>

Intro

- Define free trade
    - Free trade is the situation when there are no government imposed artificial barriers that restrict the free exchange of goods and services between countries.
- Signposting
    - Listing out impacts (positive and negative) on 3 economics issues

Body 1 - Context for free trade

- Why do we engage in free trade?
- General trends
    - 1972 Whitlam tariff cuts by 25% across the board (unilateral cut)
    - ChAFTA enables 95% of Australian exports to enter the Chinese economy duty free
    - Removal of PMV subsidies

Body 2 - Full employment ST

- Define full employment
- Theory of free trade on full employment
    - In the situation of free trade, foreign competition is allowed to access domestic markets. As unemployment increases for inefficient industries, domestic industries begin to close down (i.e manufacturing)
- Judgement
    - Since cyclical + structural unemployment increases, the goal of full employment is more difficult and thus hindered by movements to free trade in the short term

Body 3 - Full employment LT

- Theory
    - In the ST labour is displaced and growth decreases, worsening full employment
    - To account for the increase in structural unemployment, the government can implement ‘labour retraining programs’
    - 2019-20 budget, VET was allocated $525 million to increase upskilling of the workforce
    - $200.2 million to fund 80,000 apprenticeships
    - To account for the increase in cyclical unemployment, the government could enact countercyclical fiscal policy to increase aggregate demand
- Judgement
    - Overall, the NAIRU has fallen from 7% estimate in 1996 to its current 4.5% estimate
    - Therefore the effect of free trade on full unemployment in the long term depends on the government’s ability to compensate the losers.

Body 4 - DOI (bad)

- Define DOI
    - Refers to the extent to which income is distributed equally in an economy
- Theory (FT → DOI)
    - More import spending in ST, which leads to decreased revenue for inefficient industries (eg. manufacturing) → “Losses concentrated at this sector”

    - If firms close down → structural unemployment, tends to be lower income earners
    - If firms manage to compete → may cut costs by lowering wages (underemployment) → increase income inequality
    - Gini coefficient rose from 0.311 in 1990 to 0.34 in 2014
- Judgement

Body 5 - DOI (good)

- Theory
    - An increase in free trade → lower prices → increase purchasing power → improves DOI
    - Governments can compensate the losers through the automatic stabilisers system (u/e benefits → increase income → improves DOI)
- Progressive tax system
    - As wages decrease in inefficient industries, marginal rate of tax will also decrease
- Judgement

Body 6 - External stability

- Define
    - External stability refers to the ability of the government to promote sustainability on its external accounts
- Theory
    - ST: imports increase → worsens BOGS
    - LT: increase allocative efficiency → increase in export industry output → improve BOGS
- Judgement

Body 7 - External stability

- Theory
    - Free trade leads to specialisation in current account → creates a ‘narrow export base’
    - Creates potential for a terms of trade collapse
    - During GFC, the ToT crashed by 21% (because of a decrease in export prices in mining)
    - Specialisation in capital-intensive industry leads to increased import debits → worsens BOGS and current account
    - Creates the need for capital inflow → increase equity debit servicing costs, further worsening current account in LT
    - NPY averaged negative 2-3% of GDP in the last 2 decades
- Judgement

TOPIC 3

Analyse the changing sources of economic growth and their impacts on the Australian economy.

Plan

Paragraph 1

- Define economic growth and its measurements
- Outline the causes of aggregate demand and supply.
    - COVID and microeconomic labour market reforms
- Impacts of unemployment, inflation, income inequality and environmental sustainability.

Section I

- Changes in aggregate demand are caused by the business cycle. (use diagram)
    - In an upswing → increased consumer confidence as there is a strong economic outlook → increased consumer spending → increased demand for goods and services → demand-pull inflation as AS stays constant → investments increase due to higher economic activity → increased aggregate demand → high economic growth
    - Contractionary and tightening of fiscal and monetary policy will follow as to lower inflation.
- Mining boom 2 statistics
    - GDP growth: 1.9% in 2010-11 to 4.3% in 2011-12
    - Australian dollar peaked at US$1.11 in July 2011
    - Unemployment at 5.2% as only the mining industry received benefits of the increase in exports which had a negative impact on other industries such as PMV as there was a decrease in international competitiveness.
    - Inflation was at 3.6% in 2010-11 but dropped to 1.2% in 2011-12, lower imported inflation for headline.
        - Underlying inflation was at 2.7%
    - Gini Coefficient at 0.32, improvement as previous years were 0.329 and 0.336
    - Introduction of the carbon tax the following year → $23/tonne on businesses emitting larger than 25,000t carbon emissions. → raised $27.4bn revenue over 3 years → increased CPI by 0.7%

Section II

- Changes in aggregate demand are caused by the business cycle.
    - In a downswing → decreased consumer confidence as there is a weak economic outlook → decreased consumer spending → higher saving ratios → decreased demand for goods and services → lower demand-pull inflation → investments decrease due to low economic activity and high uncertainty → decreased aggregate demand → lower economic growth
    - Expansionary and loosening of fiscal and monetary policy will follow as to increase inflation
- COVID-19 statistics

    - Economy shrunk by 7% (-7% GDP in first half of 2020), however less severe compared to other OECD countries, far exceeded contractions in the economy during previous recessions (-3.7% in 1980s and -1.4% in early 1990s)
    - AUD dropped to 0.58 in March of 2020
    - Unemployment peaked at 7.4%
    - Australia had experienced deflation by in June (-0.3%), inflation was at 1.3% falling by 1.9% after childcare was made free.
    - Effects on distribution and environmental sustainability are not yet determined.
    - Largest macroeconomic policy intervention in Australian economic history, costing the budget $289 billion in measures by mid 2020 leading to the largest ever deficit.
    - JobKeeper was initially a $70 billion program that subsidised wages ($1500 per fortnight per employee whose turnover had fallen by 30% or more due to COVID) however the program was extended for another 6 months
    - The government also increased unemployment benefits in the form of doubling fortnightly payments and handing out tax-free cash payments between $20,000 to $100,000 to eligible small and medium businesses.
    - Economists believe that without the intervention of government spending, economic activity would have decreased to the point of bankruptcies and unemployment and a significant fall in investments and consumption.

Section III

- Microeconomic changes in the labour market in the form of regulations
    - As aggregate supply increases → output and economic growth increases
    - Aggregate supply is determined by the quantity and quality of the factors of production and is constrained by shortage of skilled labour and the limitations of transport infrastructure
- The Workplace Relations Act 1996
    - Shift towards enterprise bargaining and common law contracts
    - Pay increases tied to productivity rewarded for efficiency strive to work harder and longer boost productivity increase AS
- Increase in AS diagram and explain
- Consequences:
    - Incentivises workers to acquire new skills more highly skilled workers are more productive and efficient increase output increase economic growth
        - More quality labour force
        - Also lowers unemployment if workers have up-to-date skills
- Microeconomic changes in the market in the form of protection and deregulation in financial markets
    - Trade liberalisation and deregulation resulted in a more competitive marketplace, improving the overall efficiency of the economy.
    - Increases investment (overseas and domestic)
- Microeconomic changes in the market in the form of increasing skilled migration intake
    - Howard Government → increased migration from migration program
- Microeconomic changes in the market in the form of increasing retirement age

    - 2017-2023 they increased retirement from 65 to 67
- Microeconomic changes in the market in the form of investing heavily into education and training

Analyse the causes of unemployment and discuss the social and economic effects created by unemployment. Evaluate the policies available to control the level of unemployment in the Australian economy.

Analyse the causes of inflation and discuss the effects of inflation on the Australian economy. Evaluate the policies available to control the level of inflation in the Australian economy.

<u>Plan</u>
Intro
- Define inflation

Section I - Causes
Para 1: Demand-pull
- MB2
- Economic growth - 3.4% from 2.7% in 2010-11
- Underlying inflation at 4.7% up from 2.7%

Para 2: Cost-push
- Cyclone Yasi
- $300m hit to agricultural production (banana and sugarcane crops)
- Queensland provides 90% of bananas
- Banana prices were $12/kg
- 75% of banana crops destroyed
- Inflation rose to 3.3% in 2011

Para 3: Imported Inflation
- 2016-17
- AUD fell from 0.76 → 0.72
- Inflation rose from 1.28% → 1.95%

Section II - Effects
Para 1: Worsen CAD
- Inflation was at 2.51% in 2014-15, average inflation 2014-2020 is 1.61%
- CAD was -5.4% of GDP in 2015, up from -3.1%

Para 2: Unemployment
- Inflation at 2.51% high contributed to 6.4% unemployment that year

Para 3: Worsens income inequality
- Inflation (2008-2015): 4.4% → 1.51%
- Gini coefficient: 0.34 in 2008 to 0.32 in 2015

Para 4: Benefits of inflation
- Price stability
- Wage adjustments
- Not deflation

Section III - Policies

Para 1: Monetary Policy (mention how fiscal isn't useful in controlling inflation)
- 2016 - inflation hit 1% which is below 2-3%
- Cash rate fell to 1.5% and continued to fall
- Inflation rose to 2% in 2017
- 1991 started inflation targeting
- 1990: 7.33% inflation to 1994: 1.9% inflation, remains within 2-3% for the next decade

Para 2: Microeconomic (Reduction in protectionist barriers or linking wages to productivity)
- 1983-1984: Inflation dropped from 10.4% to 3.96% (reduction in protectionist barriers)
- 2009 - 2019: inflation 4.44% → 1.91% (enterprise agreements, fair work act)

Discuss the economic concerns that the Australian Government takes into account when formulating policies to manage the environment. Evaluate the effectiveness of these policies on the level of Australia's ecologically sustainable development.

<u>Plan</u>
Include policies in all
Cause and impact
Intro

Section I - Preservation of Natural Environment

Para 1: Excessive Resource Exploitation
- Australia is largest LNG exporter, largest coal exporter
- Exports increasing from 77.5 Mt to 78Mt from 2019 to 2020
- Coal expected to last another 125 years
- Government policy: National Hydrogen Strategy

Para 2: Land Degradation

- Deforestation → salinity of soil increases → affecting downstream or downslope water quality.
- 7% of agricultural area of western australia is suffering from this problem
- CSIRO estimates that the land degradation costs about $1 billion annually as the soil have limited capacity to recover
- More than 30% of Australia's agricultural land is 'severely degraded', and costs Australia around $3.5 billion a year in lost agricultural production. The direct costs of salinity are expected to rise each year
- Government policy: Decade of Landcare
- https://globalizationandhealth.biomedcentral.com/articles/10.1186/s12992-019-0509-3

Para 3: Pollution

- Australia is ranked 95th most air polluted country in the world
- Intensive agriculture affects coats and oceans, particularly estuaries and environments near shores
- Predicted around 19,000 tonnes of phosphorus and 141,000 tonnes of nitrogen are discharged into the rivers
- Sources from Industrial, shipping, boating, aircraft, motor vehicles
- Each square km of Australia's sea surface water is contaminated with 4,000 pieces of plastic
- Government policy: National Environment Protection Measures

Section II - Pollution

Para 1: Increased health costs

- Almost 5000 Australians die from exposure to air pollution each year
- Thousands suffer health effects like stroke, heart disease and asthma
- Estimated cost of $2.4 billion annually for health
-

Para 2: Loss of recreation facilities

- Impact wants and needs
- Beaches

Para 3: Loss of use value of economy

- Brain drain China
- Brain Drain has been a very severe problem for China. 70% of Chinese overseas students never come back to China. Since 1978, only 275,000 students out of 1,060,000 overseas Chinese students have returned home.
- Lower aggregate supply
-

Section III - Climate Change

Para 1: Burning of fossil fuels

- Australia's exports represent 3.6% of global CO2 emissions

- Industrial emissions have increased by 60% since 2005, EU projects an increase of 110% by 2030, by comparison, EU policies will decrease industrial emissions by 36% over the same time period
- Account for 94% of energy in Australia
- Permanent damage to Great Barrier Reef due to rising sea levels and global warming
- Increased incidence of skin cancer and malaria
- Increased frequency of drought
- Reduction in Australia's GDP by 4.8% by 2100, The Garnaut Report (2008)

Para 2: Policies for fossil fuels

- Paris agreement
- Possible carbon tariffs against Australian producers from foreign countries
- Emissions reduction fund
- National energy productivity plan
- Banning imports of HFCs

Section IV - Renewable and Non-Renewable Resources

Para 1: Shifting to renewable energy

-

Random Policies

Australia's waste export ban

TOPIC 4

Discuss how the government's goal of sustainable economic growth may conflict with their key economic objectives

Plan

Introduction

- State sustainable goal of 3-4%
- Done through aggregate demand, macroeconomic policies
- Done through aggregate supply, microeconomic policies

Section I - Eco growth vs U/E

Para 1: Effect of AD led economic growth on U/E

- High aggregate demand driven growth → increased incomes → increased consumption → since labour is a derived demand, increased demand for labour → lower unemployment
- Seen in MB2, export driven economic growth led to unemployment dropping from 5.75% to 5.2%

Para 2: Effect of AS led economic growth on U/E

- Stimulating AS led growth, the govt. May implement structural change however increases structural unemployment
- Seen as the removal protection for PMV industry led to the loss of 50,000 jobs
    - In the LT, MER improves eff. And prod.

Section II - Eco growth vs Inflation

Para 1: Effect of AD economic growth on infl.

- High aggregate demand driven growth → increased income → increased consumption → demand-pull inflation
- Seen during MB2, exports drove economic growth to 3.4%, headline inflation rose to 3.33%

Para 2: Effect of AS economic growth on infl.

- Conversely, aggregate supply led economic growth through MER leads to decreased cost-push inflation

Section III - Eco growth vs External Stability

Para 1: Effect of economic growth on CAD and NFD as % of GDP

- Increased growth → increased incomes → increase import expenditure and worsening BOGS
- Conversely, increased growth leads to increased FDI due to high return on investment leading to worsened CAD and NFD
- Economic growth rose from 1.9% to 4% from 2001 to 2002
- CAD rose from 2% to 6.3% due to MB1
- NFD rose from 50% to 55%

Para 2: Effect of economic growth on AUD

- Increased growth may attract more FDI and thus increased AUD, worsening intl. Comp.
- Increased growth leads to increased incomes leading to increased import spending and thus depreciation.

Section IV - Eco growth vs income distribution

Para 1: Effect of economic growth on DOI

- Economic growth tends to benefit high incomes earners more than low income earners due to wage indexing and asset price inflation. Hower economic growth will lead to increased demand for labour → decreasing unemployment → increasing incomes and improving DOI
- 2008 to 2015, gini went down from 0.34 to 0.32
- Economic growth → 2.1% to 2.9% 2008 - 2015

Para 2: Piketty's Theory

- When the return on capital is greater than the level of economic growth, inequality will increase
- This is because if national wages i.e eco growth are slower than capital gains, held by high Y earners, worsening DOI & W
- r > g = up inequality

Section V - Eco growth vs environmental sustainability
Para 1: Effect of economic growth on enviro. Sus.

- Increased economic growth will require an increase in output → increase in pollution and greater resource depletion, worsening enviro. Sus.
- LT, eco growth is dependent on environmental sus as the depletion of resources will limit the economy's PPF and thus lower AS.
- Up growth → up output → up pollution & down resources → down enviro.
- Australia's exports represent 3.6% of global CO2 emissions
- Industrial emissions have increased by 60% since 2005, EU projects an increase of 110% by 2030, by comparison, EU policies will decrease industrial emissions by 36% over the same time period
- Account for 94% of energy in Australia
- Permanent damage to Great Barrier Reef due to rising sea levels and global warming
- Increased incidence of skin cancer and malaria
- Increased frequency of drought
- Reduction in Australia's GDP by 4.8% by 2100, The Garnaut Report (2008)

Evaluate the effectiveness of fiscal policy in achieving Australia's economic objectives.

<u>Plan</u>
Introduction

-

Section I: Jobkeeper and Jobseeker
Para 1 - Effect on AD led growth (not AS → inflation)

- $291 bn injection → increase in Y → increase in C & I → increase AD → increase in Y → induces simple multiplier effect → increase in economic growth → effective → not effective for AS thus compromising sustainability and inflation
    - Economic growth at -1.1% 2020
- Downside is deficit which will have to be financed later → 'crowding out effect' → restrain private investment or increase in foreign debt
    - Budget deficit expected to be 11% of GDP

Para 2 - Effect on distribution of income

- Jobkeeper was a $1500 cash handout per fortnight for people earning below $1500 per fortnight before March
- Increase in C → decrease UE as labour is a derived demand → reducing cyclical unemployment → effective

    - UE at 6.9%
- Policy supported low-skilled workers as they tend to be ue due to COVID → thus reduce worsening of DOI

Section II: Automatic stabilisers
Para 1 - Effect on ST economic growth & DOI & employment
- Lower taxation & increased transfer payments → curb fluctuations in business cycle
- In 2010-11: Taxation increased by 29 billion whereas expenditure increased by 11 billion
- In 2020-21: Unemployment was projected to increase to 10% and economic growth projected to contract 6% overall however unemployment only peaked at 7.6% and economic growth was at -1.1%, supported by automatic stabilisers

Section III: JobTrainer Fund
Para 1 - Effect on AS led eco growth
- Spending on education and training → equipping young workers with in-demand skills → increased occupational mobility → increased efficiency and productivity → increased AS → LT economic growth however long impact time → slow
-

Para 2 - Effect on distribution of income
- Spending on low-income group → increased skills and thus income → better income equality

Section IV: Enviro policies (-ve, if they focus on AD led growth, compromise ESD)
Para 1 - Effect on AS led eco growth
- ST economic growth → lower ESD → increased pollution & depletion of resources → worsen environmental quality
- However in the long run, investing in ESD will improve AS in the LT

Para 2 - Effect on resource allocation
- Spending on ESD → improving environmental and intergenerational equity
- Increased subsidies on merit goods & goods with positive externalities → increase supply → betterment of society and improved resource allocation
- Taxation on demerit goods and goods with negative externalities → decrease demand & supply → better society and improve resource allocation

Analyse how recent trends in Australia's economy were influenced by macroeconomic policy.

<u>Plan</u>
Introduction

Section I: Post MB2 (fiscal consolidation) (policy mix conflict)
Para 1: Fiscal response (discretionary + automatic stabilisers)

- Budget was contractionary stance → fiscal consolidation as economic growth was high → decreased eco growth from 3.9% to 2.6%
- Introduced Resources Super Profits Tax, 40% of mining company profits → unemployment grew from 5.2% to 5.6% (2012-13)
- Removed subsidies from PMV → UE up → 50,000 unemployed
- Tax receipts expected to grow 7% in 2012-13 (predicted in 2012)
- Increase in cigarette tax over the next 5 years by 25%
- Increase superannuation to 12% from 9% → CAD went from 4% to 3% from 2012-2013

Para 2: Monetary policy
- 4.25 → 3.25 → expansionary
- CAD continued to fall from 3% to 1.6% from 2013-2016
- Inflation reduced from 2.49% to 1.49% from 2013-2016
- Ineffective for inflation → between 2015-2019, under 2% average

Lower taxation & increased transfer payments → curb fluctuations in business cycle
- In 2010-11: Taxation increased by 29 billion whereas expenditure increased by 11 billion
- In 2020-21: Unemployment was projected to increase to 10% and economic growth projected to contract 6% overall however unemployment only peaked at 7.6% and economic growth was at -1.1%, supported by automatic stabilisers

Section II: COVID recovery
Para 1: Fiscal response (discretionary + automatic stabilisers)
- $291 bn injection jobkeeper and jobseeker kept 3.8 million people in their job → unemployment lower than pre-covid levels at 5.6%
- The cashflow boost supported over 800,000 businesses
- Consumer sentiment is at its highest in 11 years
- Business conditions reached record highs
- Net debt increase to 30% of GDP in 2021 and 40.9% of GDP in 2025
- Deficit reaching $161 billion in 2021 due to tax cuts and increased spending
- Australia only contracted 2.5%

Para 2: Monetary policy
- RBA reduce cash rate to 0.25 in March and 0.1 in November
- Quantitative easing

Discuss the short term and long term impacts of changes in the federal budget.

Introduction
- d

Section I: Fiscal Consolidation
Para 1 - ST

- Increase taxes and decreased government spending → decreased Y → decreased C & I → decreased aggregate demand → lower ST eco growth → increased unemployment and decreasing inflation
- Increasing taxes at the upper end of the MRT → greater than proportionate impact on high Y income earners → improving DOI
- Increasing the compulsory superannuation rate from 9% to 12% will improve wealth inequality as it forces lower income earners to save, generating more wealth.
- Furthermore, increasing super rate → increases domestic savings pool → less reliance on foreign borrowing → less FDIs → less NPY debits → improved CAD and NFD as % of GDP → improved external stability

Para 2 - LT

- Once the budget reaches a surplus → uses surplus to finance debt → reduce debt obligations in the future → increase LT economic growth
- Surplus → financing debt → improved investor confidence and reduce risk of capital flight → improved/stable credit rating → more FDIs → increased funds able to invest in R&D and capital deepening → increased efficiency and productivity → increased aggregate supply → increased LT eco growth however worsening external stability

Section II: Infrastructure projects

Para 1 - ST

- Increased government spending on infrastructure projects → increased demand for jobs → lower unemployment → increased Y → increased C & I → increased AD, inducing the simple multiplier effect → ST economic growth
- This is a direct intervention in order to improve resource allocation
- However, increased government expenditure may lead to budget deficit → inducing the 'crowding out effect' → decreasing private investment → increasing international borrowing → increased NPY → worsen CAD and NFD as % of GDP → worsen external stability

Para 2 - LT

- Increased expenditure into merit goods such as hospitals → increased benefits to society → improvement in health → better quality of workers → increased productivity and efficiency → increased AS → LT economic growth
- Roads → increased technical efficiency → LT economic growth
- Increased expenditure into merit goods → better allocation of resources → improved allocative efficiency and resource allocation.

Section III: JobTrainer Fund

Para 1 - ST

- Spending on low-income group → increased skills and thus income → better income equality

Para 2 - LT

- Spending on education and training → equipping young workers with in-demand skills → increased occupational mobility → increased efficiency and productivity → increased AS → LT economic growth however long impact time → slow

Section IV: Enviro policies (Excise duty)
Para 1 - ST

- ST economic growth → lower ESD → increased pollution & depletion of resources → worsen environmental quality
- Spending on ESD will lead to lower ST economic growth and thus lower u/e → unused workers → worsened resource allocation in the ST

Para 2 - LT

- Spending on ESD → improving environmental and intergenerational equity
- (INDIRECT INTERVENTION) Increased subsidies on merit goods & goods with positive externalities → increase supply → betterment of society and improved resource allocation
- Taxation on demerit goods and goods with negative externalities → decrease demand & supply → better society and improve resource allocation

Discuss the role of environmental management policies in Australia in managing climate change.

Introduction

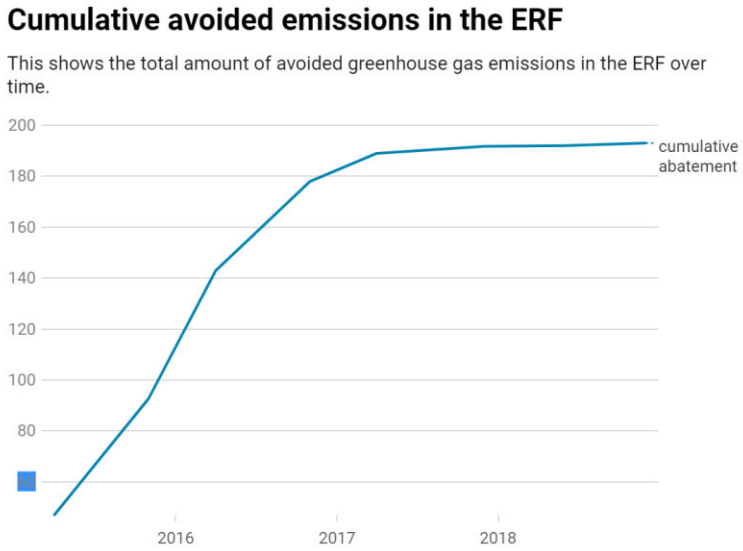
Section I
Para 1 - International Agreement (Paris)

- Emission target of 26-28% reduction of 2012 levels by 2030
- Limitations

Section II - Emissions reduction fund (regulation)
Para 1 - explain how it work

- Private firms are incentivised to reduce carbon emissions as they recent credits which can be exchanged for income by selling to government or other firms.
- This is good as smaller businesses can receive more credits which allows them to increase their income and thus allow for investment to increase capital and R & D which can improve emissions in the future as carbon substitutes are developed.

Para 2 - stats and why it limitation



- Since its implementation, ERF has reached a flatline, reducing its effectiveness.
- Cancel contracts due to council permissions not being granted

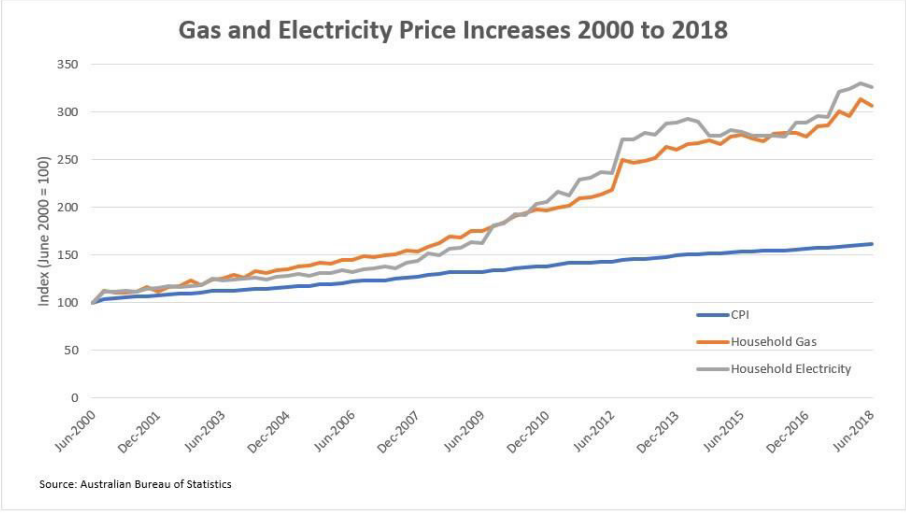
<u>Section III - National energy productivity plan (regulation)</u>

Para 1 - explain how it work

- Public sector innovate technologies → carbon substitutes → less emissions and reduced production costs → increased productivity and efficiency → increased aggregate supply → LT eco growth
- Contribute to reducing energy costs by 40% by 2030

Para 2 - explain why it dont work

- Public sector is inefficient



- Energy prices have been increasing

<u>Section IV - Banning imports of HFCs (regulation)</u>

Para 1 - explain why it work

- Banning the production and goods containing HFCs leading to lower demerit goods in the economy → improving environmental quality → achieve long term allocative efficiency and thus productivity → increased aggregate supply and economic growth

Para 2 - explain why it really good

- 85% of HFCs cut down → new technologies being innovated and using HFC substitutes

Section V - Subsidy of solar panels (market-based policies)

Para 1 - explain why it work

- Spending on ESD → improving environmental and intergenerational equity
- Increased subsidies on merit goods & goods with positive externalities → increase supply → betterment of society and improved resource allocation
    - Solar panel subsidisation → incentive to buy solar panels → shift to renewable energy

Para 2 - explain why good

- Taxation on demerit goods and goods with negative externalities → decrease demand & supply → better society and improve resource allocation
    - Mining tax → increase in revenue - $40 bn in 2018-19 → mining companies try to innovate to mitigate taxation on emissions

Assess Australia's environmental management policies in meeting its international agreements and targets.

Plan

Include policies in all

Cause and impact

Intro

Section I

Para 1 - International Agreement (Paris)

- Emission target of 26-28% reduction of 2012 levels by 2030
- Limitations

Section II - Preservation of Natural Environment

Para 1: Excessive Resource Exploitation

- Australia is largest LNG exporter, largest coal exporter
- Exports increasing from 77.5 Mt to 78Mt from 2019 to 2020
- Coal expected to last another 125 years
- Government policy: National Hydrogen Strategy

Para 2: Land Degradation

- Deforestation → salinity of soil increases → affecting downstream or downslope water quality.
- 7% of agricultural area of western australia is suffering from this problem
- CSIRO estimates that the land degradation costs about $1 billion annually as the soil have limited capacity to recover

- More than 30% of Australia's agricultural land is 'severely degraded', and costs Australia around $3.5 billion a year in lost agricultural production. The direct costs of salinity are expected to rise each year
- Government policy: Decade of Landcare
- https://globalizationandhealth.biomedcentral.com/articles/10.1186/s12992-019-0509-3

Para 3: Pollution

- Australia is ranked 95th most air polluted country in the world
- Intensive agriculture affects coats and oceans, particularly estuaries and environments near shores
- Predicted around 19,000 tonnes of phosphorus and 141,000 tonnes of nitrogen are discharged into the rivers
- Sources from Industrial, shipping, boating, aircraft, motor vehicles
- Each square km of Australia's sea surface water is contaminated with 4,000 pieces of plastic
- Government policy: National Environment Protection Measures

Section III - Pollution

Para 1: Increased health costs

- Almost 5000 Australians die from exposure to air pollution each year
- Thousands suffer health effects like stroke, heart disease and asthma
- Estimated cost of $2.4 billion annually for health
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Para 2: Loss of recreation facilities

- Impact wants and needs
- Beaches

Para 3: Loss of use value of economy

- Brain drain China
- Brain Drain has been a very severe problem for China. 70% of Chinese overseas students never come back to China. Since 1978, only 275,000 students out of 1,060,000 overseas Chinese students have returned home.
- Lower aggregate supply
-

Section IV - Climate Change

Para 1: Burning of fossil fuels

- Australia's exports represent 3.6% of global CO2 emissions
- Industrial emissions have increased by 60% since 2005, EU projects an increase of 110% by 2030, by comparison, EU policies will decrease industrial emissions by 36% over the same time period
- Account for 94% of energy in Australia
- Permanent damage to Great Barrier Reef due to rising sea levels and global warming
- Increased incidence of skin cancer and malaria
- Increased frequency of drought

- Reduction in Australia's GDP by 4.8% by 2100, The Garnaut Report (2008)

Para 2: Policies for fossil fuels

- Paris agreement
- Possible carbon tariffs against Australian producers from foreign countries
- Emissions reduction fund
- National energy productivity plan
- Banning imports of HFCs

Discuss the effectiveness of labour market reform in Australia in achieving sustainable economic growth and internal stability (ue and inflation)

Intro

Labour market reform refers to structural change within the labour market. These changes can either gear the market towards centralisation or decentralisation which will attempt to achieve economic objectives of sustainable economic growth, employment and price stability. In the long term, economic growth is considered to be sustainable at 3 - 4%. Labour market reforms will achieve employment through increasing the labour force participation rate which will decrease structural and long-term unemployment. Price stability is achieved through decreasing production costs and thus cost-push inflation with a target of 2 - 3% inflation. Labour market reform is one of the more effective government policies as it is only limited by time lag and political constraints. Examples of labour market policies include Fair Work Act 2009 and recent policies such as JobTrainer and JobMaker.

Section I - Centralised vs Decentralised

- Adv vs Disadv of both
- Much deregulation has occurred in Australia driven by George Stigler's critique on regulation.
- Lost output, rent seeking behaviour, inefficient allocation of resources, large administrative costs. Inspired Work Choices but greater economic instability. Adopt a hybrid system similar to that of a Keynesian argument

Section II - Fair Work

- In 2009, Kevin Rudd implemented the Fair Work Act, which involved a three-tiered system of wage determination and a shift towards a more centralised labour market.
- Support consumption (60% AD)
- Strong safety net (equitable DOI)
- 122 modern awards, containing 10 national employment standards (NES) which were nonnegotiable and included annual leave entitlements and notice of termination, amongst others and 10 industry specific conditions and relevant minimum wage
- BOOT for enterprise agreements meaning employees had to be suitably compensated for trading away their conditions.

- Under Fair Work, high income earners are covered by common law contracts enforceable by the courts and unfair dismissal laws were reinstated.
- The introduction of the BOOT enhanced the bargaining power for low income earners. In turn this improved the distribution of income with the Gini coefficient falling from 0.336 in 2007/08 to 0.323 currently, shown by an inward shift of the Lorenz Curve
- DOI gini still above the long-run average and the distribution of wealth remains very unequal with a corresponding Gini coefficient of 0.576 currently
- The reduced importance of individual productivity would lead to falling levels of aggregate supply and consequently lower economic growth
- There is some empirical support for this, as long run growth trends have fallen from 5% in 2006/07 to 2% in 2016/17.
- Lower productivity would have also been expected to increase inflation. However, this has had minimal impact on the Australian economy with inflation at the lower bound of the
- RBAs target in recent years and currently at 1.1%.
- This is a by-product of historically low wages growth, 1.5% currently, which is also constraining consumption levels and thus demand pull inflation.

Section III - JobTrainer

- What it is
- Impacts and stats

Section IV - Dispute Resolutions

- What it is
- Impacts and stats

Section V - Minimum wage

- Minimum wage is considered annually based upon broad economic and social indicators as well as workforce competition.
- As per the productivity commission “Australia was one of the first economies to provide a minimum wage sufficient for a relative highly standard quality of living”.
- Currently $19.84
- The imposition of a minimum wage also has the immediate impact of creating short term structural unemployment
- As wages are estimated to compromise up to 60% of Australian business costs – firms are disincentive from hiring labour and thus unemployment is created from Q1 to Q2.
- Microeconomic policies introduced to the labour market in recent federal budgets have sought to minimise this excess of supply, and incentivise the use of labour as a factor of production, reducing structural unemployment.

National infrastructure plans

- 2021/22 budget: $110 bn in total, additional $15.2 bn to infrastructure over the next 10 years Support over 30,000 jobs e.g. $2bn for Melbourne Intermodal Terminal

Explain the economic concerns the taken into account when formulating environmental policies. Assess the effectiveness of environmental policies used to target these concerns.

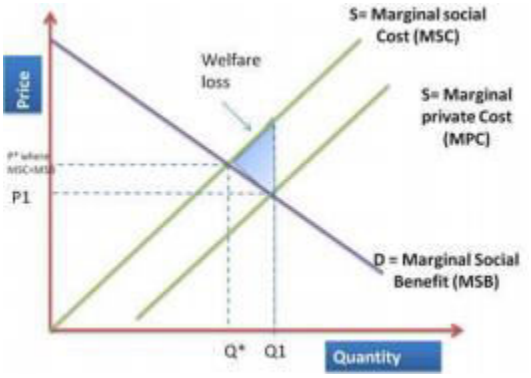
Intro

Section I - Trade-off between the objectives

- Ecologically sustainable development is intrinsically tied to the principle of intergenerational equity – whereby resources are to be made available to multiple generations – and the pursuit of maximum short term economic growth does not make this possible.

Section II - Pollution and Negative Externalities

- Market failure occurs when the free market fails to allocate resources efficiently, leading to socially undesirable outcomes, since producers pay private production costs and neglect social costs
- Negative externalities: Excessive marginal social costs relative to marginal private costs result in an overproduction and overvaluation of goods generation of electricity via the burning of fossil fuels has a quantity of burned fossil fuels (Q1) greater than the socially optimal level (Q*), causing the private cost P1 to be lower than the social cost at P. The shaded area (welfare loss) illustrates the health problems associated with the burning of fossil fuels, such as climate change, which threaten long term economic growth and ecologically sustainable development



Section III - Climate Change

- Climate change, often as a result of burned fossil fuels and human activity, may damage long-term economic growth via higher emissions and greenhouse gases, depleting available resources for production.
- Failure to achieve intergenerational equity
- Such a concern was echoed by the 2006 Stern Report, arguing that climate change is “the greatest market failure ever seen”, stating that a business-as-usual approach may lead to higher carbon emissions causing a temperature increase of 2-3 degrees within the next 50 years. As such, the business-as-usual approach is expected to reduce global GDP by 5% per year on conservative estimates as per the Stern Report, which may limit economic growth for Australia

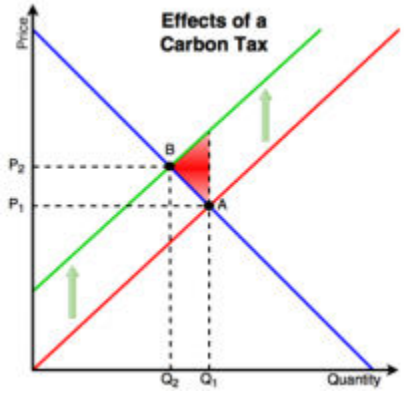
- Damage to GBR → key export and industry. GDP fall by 4.8% by 2100 due to climate change

Section IV - Resource depletion

- Link to ESD
- Maintaining a mining sector that accounts for 7% of national GDP and 50% of exports.
- Maintaining the environment and protecting renewable resources, in particular fish stocks, ensures that excess use does not lead to extinction and non-renewable resource use. TOC
- The Water Management Act of 2000 ensures that 10% of water runoff is within property to prevent the depletion of rivers, since water is an important input into the agricultural industry.

Section V - Pigou Tax

- 2012: $23/tonne for top 500 polluting firms
- Such a policy was expected to raise $27.4b in revenue over three years, using the revenue to fund transfer payments and benefit lower income earners.
- Internalise the negative externality and produce an optimal allocation of resources that improves society's welfare.
- As a result of this policy, emissions from firms affected by the tax were cut by 8.6% within the first 6 months of implementation, reducing pollution levels and improving environmental sustainability within Australia.
- Increased the increase in price to P2 as a result of the carbon tax so repealed in 2014.
- Government that caused a rising emission level, reaching 556.1m tonnes in 2018.
- Electricity as a factor of production raised in cost by 9.5%, which also deteriorated real incomes for households and thus deteriorated living standards for Australia



Section VI - Emissions trading scheme

- seeking to undermine the use of carbon in its entirety – eventually reducing the quantity, and charging such a high price that firms would have, essentially, no choice but to invest in alternative energy production.
- As Australia relies heavily on fossil fuels for production; the implementation of a scheme like this addresses the economic concern that lies within the native of production

methods. If the patterns of resource use and production could be changed, without directly imposing immediate costs on firms – ESD could be achieved.

Section VII - Subsidies

- Subsidies reduce the production costs for firms domestically, allowing them to adopt more efficient mechanisms of production that maintain ecologically sustainable development the government has opted for the 2014 Direct-Action policy that provides subsidies for firms and farmers to lower emissions, with an aim of achieving lower emissions of 5% on 2000 levels by 2020.
- However, the Direct-Action Plan has been critiqued due to its lack of enforceability and vagueness, with the government stating that "over pollution will induce some kind of penalty" that has not been enforced clearly. Further to this, emissions increased by 6 million metric tons from 2016 to 2018 and have been relatively flat,

Section VIII - Budget

- budget (2017-18) outlined plans to upgrade the Snowy Hydroelectric Scheme; investing up to $90m to improve infrastructure and efficiency.

Section IX - International Agreements

- Limit the effects of global warming to a 1.5-2 degree rise and reduce the risks of climate change
- Nationally determined contributions → Australia 26-28% emissions. Aus not on track: should implement a 50% cut in greenhouse gas emissions by 2030 and reach net zero before 2050

Random

Effects of inequitable distribution of income + evaluate policies

- Theory
- Incentive Effect (benefit)
- Higher savings (benefit)
- Increased spending on social welfare and taxation burden on high Y earners (cost)
- Reduction in consumption (cost)
- Policies: Income inequality
- Policies: Wealth inequality

Impacts of worsen external stability

- Debt Trap cycle
- Undermine investor confidence
- Pitchford Thesis
- Pitchford counter
- Exchange rate and increased exposure to volatile commodity prices/external shocks

Importance of structural change → growth and international competitiveness

- Financial Deregulation
- Labour Market reform
- National competition policy
- Fall of agriculture
- Rise and decline of manufacturing
- Long term rise in services sector

Evaluate effectiveness of recent fiscal policy

- Infrastructure
- LMITO
- Superannuation
- Environment

Effects of inflation + evaluate economic policies

- Positive effects
- Negative effects
- Monetary policy
- Microeconomic reform
- Fiscal policy

Reasons for changes in composition and direction of Aus trade + changes in protectionist policies

- Trade flows
- Australian government protection cuts
- FTAs
- Doha Round
- PMV
- Trade war

Effectiveness of macroeconomic policies in achieving external stability and distribution of income

- Fiscal policy (income dist)
- Monetary policy (income dist)
- Fiscal policy (ext. stab.)
- Monetary policy (ext. stab.)

Describe relationship btween u/e and infl. + effectiveness of macro policies