

9. 'Lumpy' investment in large infrastructure projects such as mines, electricity generation or water desalination plants will, in the short term, result in:
 - a. a short term fall in labour productivity because no output is yet being produced.
 - b. a fall in labour productivity because there is no infrastructure available.
 - c. a rise in productivity because the amount of capital equipment per worker increases.
 - d. a rise in labour productivity because very few workers are required to run capital-intensive plants.
10. Which government body is currently responsible for resolving industrial disputes?
 - a. The Australian Competition and Consumer Commission (ACCC)
 - b. The Reserve Bank of Australia (RBA)
 - c. The Fair Work Commission (FWC).
 - d. The Productivity Commission.

Data interpretation

The table below shows the growth in productivity over a four year period.

Year	Labour productivity	Multifactor productivity
1	0.3	-2.0
2	3.0	0.4
3	2.2	1.0
4	1.9	0.1

- a. In which years were total productivity growth highest and lowest? [2 marks].
- b. Explain the concept of multifactor productivity, and why might it rise over time? [3 marks].
- c. Calculate the capital deepening contribution to productivity for each year. Explain why capital deepening is important for productivity growth. [5 marks]

Extended responses

Each of the following questions should be answered in 2-3 pages of writing. Include diagrams and examples where appropriate. Pay attention to the allocation of marks.

1. Using a number of indicators, discuss the major structural changes that have occurred in the Australian economy over time. Discuss the factors were responsible for these changes? [20 marks]
2. Using the aggregate demand /aggregate supply framework, show how rising productivity and government-sponsored competition policy can increase the rate of economic growth and reduce the level of inflation. [20 marks]
3. Explain the role that THREE of the following might play in increasing the level of efficiency and competitiveness of the Australian economy:
 - a. tax reform;
 - b. reducing road congestion;
 - c. trade liberalisation; or
 - d. improved management education. [5+5+5 marks]

Answers to multiple choice questions

Ch	Page	Answers
1	24	1d; 2d; 3d; 4d; 5b; 6c; 7c; 8d; 9c; 10c; 11b; 12b; 13a; 14b; 15b; 16a; 17b; 18b; 19d; 20d.
2	50	1c; 2c; 3d; 4d; 5d; 6b; 7b; 8a; 9c; 10c; 11c; 12c.
	55	1b; 2a; 3c; 4a; 5d; 6b; 7b; 8a; 9c; 10d; 11d.
3	65	1a; 2d; 3b; 4a; 5b; 6a; 7c; 8c; 9c; 10a; 11a; 12a; 13b; 14d.
4	85	1d; 2d; 3a; 4d; 5a; 6d; 7d; 8c; 9c; 10d; 11a; 12d; 13d; 14c; 15a.
	90	1b; 2a; 3a; 4c; 5a; 6c; 7c; 8a; 9c; 10d; 11a; 12c; 13a; 14a; 15b.
5	101	1d; 2b; 3b; 4b; 5d; 6c; 7d; 8c; 9b; 10b; 11a; 12a; 13b; 14d; 15c; 16c; 17d.
6	120	1c; 2b; 3c; 4b; 5b; 6d; 7b; 8b; 9d; 10b; 11c; 12d; 13a; 14d; 15d.
7	140	1b; 2b; 3b; 4c; 5d; 6b; 7c; 8d; 9c; 10c; 11c; 12a; 13d; 14 d; 15b.
	144	1a; 2c; 3b; 4d; 5b; 6c; 7b; 8a; 9c; 10a; 11b; 12c.
8	164	1c; 2b; 3c; 4b; 5d; 6d; 7c..
9	193	1c; 2b; 3d; 4c; 5d; 6b; 7b; 8c; 9a; 10b; 11c; 12b; 13b; 14a; 15c.
10	210	1b; 2a; 3c; 4c; 5c; 6b; 7b; 8a; 9a; 10b; 11d; 12c; 13c; 14d; 15c.
11	227	1a; 2c; 3d; 4c; 5b; 6b; 7c; 8b; 9a; 10b.
12	250	1b; 2a; 3d; 4d; 5a; 6c; 7b; 8c; 9c; 10d.
13	272	1d; 2c; 3a; 4c; 5b; 6a; 7c; 8b; 9c; 10c; 11b; 12d; 13d; 14a; 15a.
14	298	1d; 2b; 3c; 4c; 5c; 6d; 7c; 8b; 9a; 10c.

Index

Numeric

12 pillars of competitiveness 10

A

absolute advantage 31
 AD/AS model and the business cycle 205
 AD, SRAS and LRAS curves 202
 AD, SRAS and LRAS model
 contractionary gap 203
 expansionary gap 205
 aggregate demand 198
 definition 198
 policies to manage 224
 aggregate demand (AD) curve 199
 and the price level 199
 shifts in 200
 aggregate expenditure
 and the business cycle 188
 changes in 177

components of 168
 definition 168
 determinants of 171
 equation 168
 Keynesian model 177
 aggregate expenditure model
 and the multiplier 187
 Keynesian model 182
 aggregate supply 200
 aggregate supply curve
 movemenst and shifts 201
 short run and long run 201
 alternative AD/AS model 207
 anti-globalisation 18
 appreciation 108
 arguments for protection 43
 arguments for trade liberalisation
 46, 48
 ASEAN 59
 Association of South East Asian
 Nations (ASEAN) 48
 AUD

appreciation costs and benefits
 117
 appreciation 110, 113
 demand for 109
 depreciation 110
 depreciation cost and benefits
 117
 factors affecting 114
 floating exchange rate 110
 recent trends 113
 supply of 109
 volatility 113
 AUD movements
 depreciation 108
 Australia
 balance of payments 73
 composition of trade 61
 current account 73, 75, 78
 debt to GDP ratio 246
 direction of trade 63
 economic growth by decade 219
 economic policy institutions 224

- foreign debt 130
 - foreign investment flows 138
 - foreign liabilities and assets 126
 - free trade agreements 49
 - importance of foreign investment 126
 - international competitiveness 80
 - links with the global economy 4
 - macroeconomic record: 1980–2022 218
 - main exports and imports 62
 - main trading partners 64
 - net foreign debt 132
 - productivity performance 282
 - quarterly GDP data 2014–2022 159
 - rank in global exports 58
 - recent fiscal policy 243
 - recent macroeconomic conditions 157
 - recent monetary policy 264
 - small open economy 28
 - stock of foreign investment 126, 135
 - tariff cuts 47
 - terms of trade 96
 - trade balance 80
 - trade by region 64
 - trade intensity 59
 - trends in exchange rate 113
 - Australia - actual vs potential GDP 208
 - Australian Bureau of Statistics (ABS) 70
 - Australian Government Securities (AGS) 266
 - automatic stabilisers 236
 - average propensity to consume (APC) 180
 - average propensity to save (APS) 180
- B**
- balanced budget 233
 - balance of payments 77
 - account structure 71
 - and a free exchange rate 111
 - and terms of trade 99
 - and the exchange rate 108
 - capital and financial account 71, 76
 - credits 70
 - current account 73
 - current account deficit 79
 - current account surplus 75
 - debits 70
 - definition 70
 - primary income 74, 78
 - secondary income 75
 - structure of accounts 72
 - two broad accounts 70
 - balance on current account 75, 79
 - base year 94
 - Big Mac index 14
 - bond prices and yields
 - in QE 267
 - budget
 - three functions 232
 - budget deficit
 - ways of financing 234
 - Budget: expenditure and revenue 2022–23 232
 - budget outcomes 233
 - planned vs actual 233
 - budget outcomes since 1980 243
 - budgets and government finance 234
 - budget stance
 - structural vs cyclical 240
 - business cycle 151
 - aggregate expenditure model 188
 - causes 154
 - contraction 189
 - endogenous causes 154
 - exogenous causes 155
 - expansion 189
 - Keynesian model 188
 - phases 151
 - business cycle model 152
 - business cycles
 - shocks 155
 - business expectations 174
 - business services sector 278
- C**
- capital account 70
 - capital and financial account 71, 76
 - capital deepening 281, 286
 - cash rate
 - and consumption 172
 - cash rate and inflation 264
 - cash rate targets 2015–2022 259
 - central bank policy rates 269
 - central banks 255
 - ceteris paribus assumption 224
 - changes in the exchange rate
 - demand and supply model 107
 - Classical range (AS) 207
 - coincident indicators 156
 - collective or enterprise agreements 289
 - commodity currency
 - AUD 116
 - comparative advantage 32
 - demand/supply model 36
 - sources of 38
 - competition and industry policy 224
 - competitive advantage 277
 - competitiveness
 - drivers of 11
 - national determinants 12
 - consumer and producer surplus 37
 - consumer preferences 278
 - Consumer Price Index (CPI) 257
 - consumer sentiment 172
 - consumption
 - and aggregate expenditure 168
 - and household wealth 172
 - and interest rates 171
 - factors affecting 171
 - types of 168
 - consumption function 171, 178
 - and APC, APS 180
 - and MPC, MPS 179
 - equation 179
 - contraction 153
 - contractionary gap 204
 - contractionary monetary policy
 - models 260
 - contractionary stance 238
 - policy options 238
 - costs and benefits of foreign investment 137
 - COVID-19 2, 151, 158, 216, 219, 278
 - fiscal policy measures 245
 - crowding out 234
 - currency appreciation
 - and aggregate demand 118
 - and businesses 118
 - effects of 118
 - currency depreciation
 - costs and benefits 117
 - current account 73
 - balance analysis 79
 - balance on 79
 - foreign liability income flows 129
 - income deficit 79
 - primary income 74, 78
 - savings - investment gap 81
 - secondary income 75
 - trends in 77
 - current account balance
 - and a free exchange rate 112
 - influences on 80, 84
 - current account deficit 126
 - causes of 79
 - factors influencing 84
 - significance of 84
 - structural and cyclical causes 79
- D**
- deadweight loss 41
 - decision lag 226, 241, 263
 - deficit budget 233
 - policy measures 236
 - deflationary gap 237
 - demand for a currency
 - determinants 109
 - demographic change 277
 - depreciation 108
 - and competitive advantage 117
 - and inflation 117
 - causes and effects 118

- effects of 81, 112, 117
- deregulation and competition policy 295
- determinants of aggregate expenditure 171
- direct investment 76
- direction of trade 63
- dirty float 111
- discretionary fiscal policy 236
- disposable income 171
- diversification argument for protection 44
- drivers of productivity 284
- dumping
 - in trade 43
- durable goods 168
- 'Dutch disease' 100

E

- economic efficiency 217
- economic growth 218
 - and Australian trade 38
- economic indicators 155
 - balance of payments 77
 - coincident 157
 - examples 157
 - lagging 157
 - leading 157
- economic objectives
 - 1945 White Paper 216
- economic policy institutions 224
- economic policy objectives
 - conflicting and compatible 223
- economic roles of government 216
- economic shocks
 - and budget outcomes 234
- economic transactions 70
- economic value 286
- economic welfare
 - and exports 37
 - and imports 37
- education and training policy 292
- effect lag 226
- effect of a subsidy 41
- effects of a tariff 40
- efficiency
 - and productivity 287
 - types of 287
- efficient resource allocation and productivity 222
- elasticity
 - and interest rates 174
- embodied technological change 286
- equilibrium 178, 181, 182
 - short and long run 204
- equitable distribution of income 217
- European Union (EU) 48, 59
- exchange rate 106
- exchange rates
 - and current account 81
 - and external shocks 112

- and hedging 113
- and the mining boom 112
- dirty float 111
- effects of movements in 117
- factors affecting 114
- fixed or floating 108, 110
- trade weighted index 106
- exchange settlement accounts 259
- expansion
 - business cycle 151
- expansionary fiscal policy
 - AD/AS model 238
 - aggregate expenditure model 237
- expansionary gap 205
- export price index (XPI) 95
- exports
 - changing pattern of 60

F

- financial account
 - direct investment 76
 - portfolio investment 76
 - surplus 76
 - transactions 76
- financial account surplus 126
- financial sector 254
 - role of 180
- fiscal policy 226
 - AD/AS model 238, 240
 - aggregate expenditure model 237, 239
 - and aggregate supply 243
 - and time lags 241
 - case studies 244
 - contractionary stance 238
 - expansionary stance 236
 - in a boom 239
 - in a trough 236
 - inflexibility 241
 - MMT perspective 247
 - orthodox view 247
 - strengths 241
 - strengths and weaknesses 241
- fiscal policy and the multiplier 239
- fiscal policy in a boom 239
- fiscal policy in a trough 237
- fiscal stances 233
- floating exchange rate 110
- foreign assets 126
- foreign borrowing
 - and interest payments 131
- foreign debt
 - a problem? 132
 - as a stock variable 132
 - gross vs net 130
 - potential costs 139
 - public vs private 130
- foreign direct investment
 - by source 137
 - examples 135

- foreign direct investment (FDI) 17
- foreign equity
 - examples 135
- foreign exchange hedging 113
- foreign exchange market 106, 109
 - spot market 113
- foreign investment 133
 - and living standards 138
 - and the balance of payments 129
 - as borrowing 134
 - as equity 134
 - costs and benefits 137
 - definition 126, 133
 - direct and portfolio 134
 - forms of 76, 127
 - types 134
- foreign liabilities 126
 - and the current account 129
- free (floating) exchange rate
 - advantages 112
 - disadvantages 113
- freely floating exchange rate 110
- free trade
 - case for 43
 - theory 38
 - winners and losers 22
- free trade agreements 46, 49
- frictional unemployment 221
- full employment objective 221
- functions of the budget 232

G

- gains from specialisation 35
- gains from specialisation and trade 29
- GDI 98
- GDP 98
 - actual and potential 208
 - growth over time 208
- GDP: Australia 1980-2022 150
- GDP gap 222
- General Agreement on Tariffs and Trade (GATT) 19, 46
- Global Financial Crisis (GFC) 5, 154
 - and fiscal policy 244
- globalisation 2, 15, 18, 278
 - costs and benefits 15
 - effects of 21
 - factors affecting 19
 - index of 18
 - indicators of 16
 - measures of 17
 - waves of 18
- global supply chains 278
- global value chains (GVCs) 9
- government bonds 234, 235, 266
- government debt 246
- government economic objectives 216
- government expenditure
 - and aggregate expenditure 170
 - current and capital types 170

potential growth
determinants 218
price stability 219
principle of absolute advantage 31
principle of comparative advantage 32
production possibilities frontiers
and comparative advantage 33
productivity 12, 280
AD/AS model 287
and capital deepening 281
and capital investment 286
and foreign investment 138
and macroeconomic objectives viii, 286
and public infrastructure 287
and taxation reform 289
Australia's performance 282
drivers of 284
importance of 284
labour 280
measurement of 282
microeconomic reform 283
multifactor (MFP) 281
policy 287
policy examples 288
Productivity Commission 225, 283, 288
and trade liberalisation 47
profitability
and investment activity 174
protection 39
arguments for 43
costs of 39
types of 39
purchasing power parity (PPP) 13

Q

quantitative easing (QE) 266
quotas 39

R

RBA
policy objectives 217
RBA Board 258
real gross domestic income
(real GDI) 98
Real Gross Domestic Product 150
real interest rates 255
real rate of interest 173
real unit labour costs 12
recent fiscal policy in Australia 243
recession 153
recognition lag 226, 263
Regional trade agreements (RTAs) 48
regional trading blocs 19
research
categories of 294
research and development (R&D)
281, 293

Reserve Bank of Australia 225
Reserve Bank of Australia (RBA) 77, 255
and the exchange rate 111
resources boom 60

S

saving and investment gap 129
savings - investment gap 81
savings rate 172
self-sufficiency 30
services 169
significance of international trade 28
globalisation 18
specialisation
and trade 31, 47
stabilising the economy 235
strengths of fiscal policy 241
structural balance 241
structural change 276
and economic growth 279
causes 277
the impact of 279
structural unemployment 221
subsidies 39, 41
supply of a currency
determinants 109
'supply-side' economic policy 288
surplus budget 233
impact on public finance 235

T

tariffs 39
adverse effects 41
deadweight loss 41
temporary protection 43
Term Funding Facility
RBA 266
terms of trade
and current account 84
and exchange rates 114
and net exports 176
and the trade balance 99
definition 94
effects of changes 97
favourable 98
favourable movement 95
impact of movements 98
interpreting movements in 98
unfavourable 98
unfavourable movement 95
terms of trade index 94
calculation 94
construction 95
the gains from exports 36
the gains from imports 37
the multiplier 184
time lags 156, 263
nature and impact 225

trade

importance to Australia 29
reasons for 8
trade balance
and world business cycle 80
proportion of GDP 80
trade barriers 22
trade blocs 48
trade creation 49
trade diversion 49
trade intensity 5, 59
trade intensity ratio 58
trade liberalisation 45, 291
arguments for 46
trade openness 17
trade openness ratio 58
trade-to-GDP ratio 58
trade transactions types
goods 74
investment income 74
primary income 74
secondary incomes 74
services 74
trade war 45
trade weighted index (TWI) 106, 113
trade-weighted index (TWI) 12
transmission mechanism 260
trends in the current account 77
types of financial markets 254

U

Ukraine war 160
unconventional monetary policy 266

V

Vernon Report (1965) 216

W

weaknesses of fiscal policy 241
wealth effect 172
welfare effects of a tariff 40
World Bank 20
world competitiveness ranking 10
World Economic Forum 10
world merchandise exports 7
world tariff rates 19
World Trade Organisation (WTO) 3, 18, 46