



COMM1150 Notes

Global Business Environments (University of New South Wales)

COMM1150

1. INTRODUCTION & SUSTAINABILITY LENSE

Pre-learning

The business environment

- The business environment includes everything that occurs outside the walls of the business that is relevant to the business.
- This includes economic activity, politics, culture, and the physical environment.
- The business environment is, in fact, neither homogeneous nor static, and the decisions that managers must make must consider the extra layer of complexity around heterogeneity and change.
- There are differences in stakeholder relations and laws, and the nature of stakeholder relations and laws may change.
- Managers must consider the extra layer of complexity around such heterogeneity and change when making business decisions.

The global business environment

- First, to get a complete picture of the environment we must look at the entire planet that we call Earth
- For example, if we do not look at the global level, we may discover shockingly that there are both opportunities for new markets and threats to our own market that we had no idea existed.

- At the same time, we cannot forget to pay attention to the local context. Second, we think about the globe metaphorically, as illustrated by the phrase “don’t see the forest for the trees”.
- We may be paying attention to important details, but we may be forgetting to pay attention to the bigger picture.
- As research has found, effective leaders have a global mindset, and to have a global mindset we must think about the globe—both literally and metaphorically.

The four lenses of the global business environment



Socio cultural lens

- Different groups from parts of the world have different belief systems, lifestyles, and ways of organizing and doing things.
- The socio-cultural lens will help you think about and understand how culture works to produce the differences and similarities we share with others.
- More specifically, the socio-cultural lens will introduce the concept of culture and its implications for organisations and individuals working in global business environments.
- The socio-cultural lens will provide insights that will be relevant for successfully navigating global business environments in which we are likely to encounter people, practices, and products from diverse backgrounds and traditions.

Political-legal lens

- The political and legal systems around the world vary widely across the globe and constitutes a great source of complexity and challenges: Corporate tax rates differ across countries; the extent of rule of law also varies widely; and the level of political and economic freedom fluctuates over time.

Economic lens

- The economics lens will give you a framework to understand how individual economic decisions interact to determine what happens at the level of the economy as a whole and how both local and global economic shocks—such as a boom in Sydney property prices or a global pandemic or financial crisis—affect the economic environment.

- A successful business must not only be able to navigate the economic environment in the place and time in which it now operates.
- It must understand how the key elements of its own environment differ across locations and are determined by the broader economic environment.
- It must also be able to foresee changes in its environment to anticipate future threats and take advantage of emerging opportunities.
- The economics lens will provide insights into the causes and consequences of economic trends and fluctuations, and the response of economic policy, that shape the economic environment.

Sustainability lens

- Sustainability is an ecological imperative that includes both environmental and social sustainability benchmarks as the necessary basis for beneficial growth.
- Sustainability recognises the importance of resource limits and reducing negative impacts on the world we live in, to create the future we want to see.
- Our businesses need to be ecologically sustainable to support flourishing societies and a future for our planet.
- This means understanding resources through supply chain analysis which takes into account environmental and social costs, which we will do through this lens

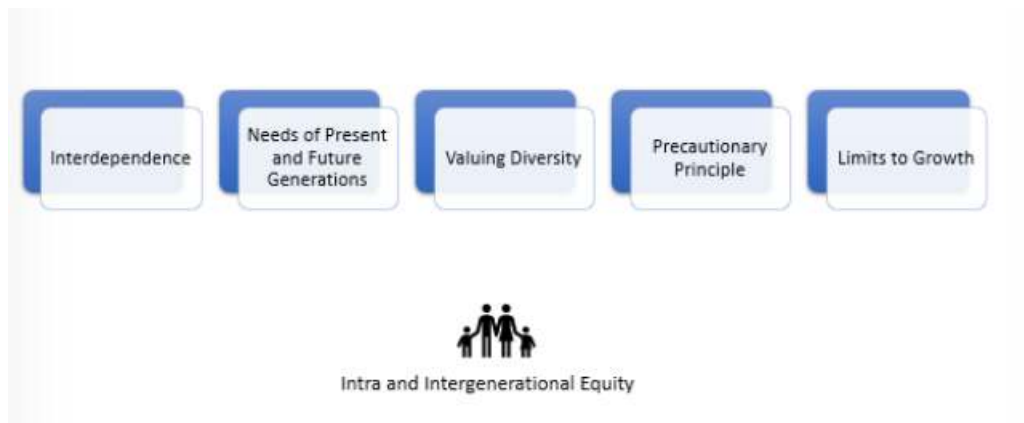
Threats and opportunities from the global environment

- Threats and opportunities are changes in the environment or unforeseen features of the existing environment that require managers to consider a response.

Sustainability lens introduction

- When we think about sustainability deeply we need to question the biases, assumptions and mental models underpinning some of what we see when we use other lenses.
- Sustainability writers argue that
 - the dominant market model with its emphasis on short-term profits has contributed to many of the problems faced by societies.
 - the earth's resources are finite, and this in itself places limits on continued economic growth.
- Five dimensions of sustainability

○



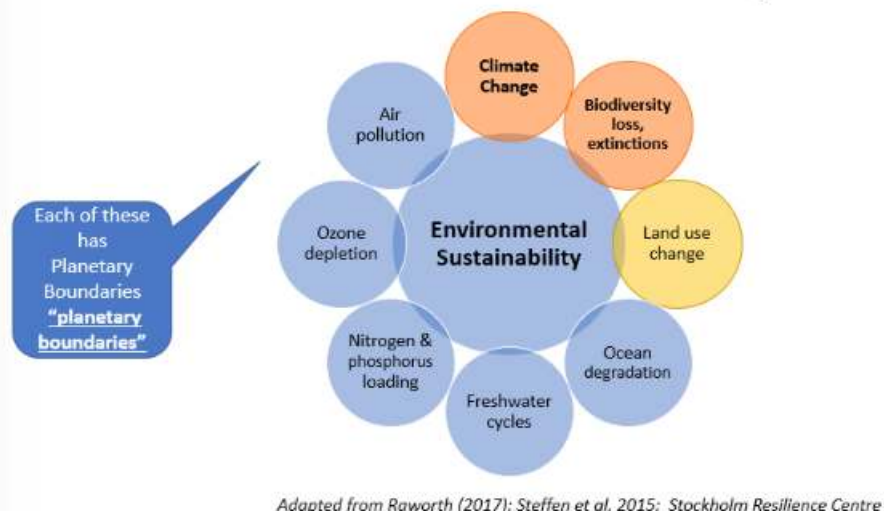
Environmental sustainability

- Because human life is dependent on the physical and natural environment, environmental sustainability draws on science and an understanding of Complex
- Adaptive Systems to address key survival issues and the use of ecosystem resources. Key issues include; ecosystem protection, resource availability and use, species extinction, and anthropocentric climate change.

Examples of ecosystem services

- Provisioning Services – food, raw materials, fresh water, medicinal resources.
- Regulating Services – climate, air quality, carbon sequestration, moderation of extreme weather events, waste-water treatment, pollination, reduction of erosion and biological control (pests and diseases).
- Habitat or Supporting Services – habitat for species, genetic diversity and habitable environments
- Cultural Services – physical and mental health, tourism, spirituality, art and design.

Elements of environmental sustainability



Social sustainability

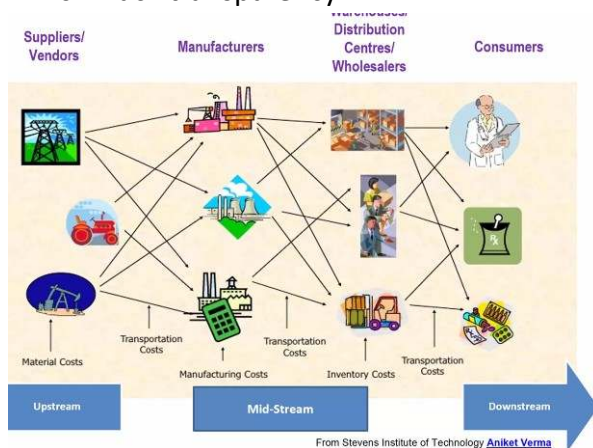


Lecture notes

Business and sustainability:

supply chain management

- Supply chains are:
 - Complex
 - Involve many stakeholders
 - Lack transparency



Pre-Tutorial notes

the global mindset of managers



Global intellectual capital

- Consequently national intellectual capital is comprised of the knowledge, wisdom, capability and expertise that provide countries with a competitive advantage over other countries and determine a country's potential for future growth.
- Need to identify different cultures
- Knowledge of geography, history, economic and political issues
- How business conducted around the world
- Analytical and problem solving skills
-

Global psychological capital

- An individual in a company needs to ensure that they have a personal mindset in which has a passion for diversity.
- Positive psychological capital is defined as the positive developmental state of an individual as characterized by high self-efficacy, optimism, hope and resiliency.

Global social capital

- Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable.

Tutorial notes

Socio-cultural

Global	<ul style="list-style-type: none"> • Covid-19, pandemic
International	<ul style="list-style-type: none"> • Conflicts/war, movements in countries for equality
National	<ul style="list-style-type: none"> • Change in government → different policies for climate
Local	<ul style="list-style-type: none"> •
Individual	<ul style="list-style-type: none"> •

2. SOCIO-CULTURAL LENS

Pre-learning

Socio cultural lens

- Differences between cultures causes a great source of complexity
- Understanding and appreciating diversity in the global world is an important step to manage this complexity → like to encounter people, practices and products from unfamiliar
- Train employees to achieve cultural competency

What is culture

- We could call the definition 'the arts and other manifestations of human intellectual achievement regarded collectively' a narrow meaning of culture, and the second 'the ideas, customs, and social behaviour of a particular people or society' a broad meaning of culture.
- Culture is familiar to us because we largely think of the first definition when we hear the term culture. So we think about music, movies, novels, paintings, etc.
- Culture means what and how we think (ideas), our accepted ways of behaviour (customs), and more broadly how we act and interact with others (social behaviour) as a member of a particular people or society.
- In short, culture fundamentally shapes who we are and what we do as members of society; therefore, our knowledge of how culture works, and influences people is a key to understanding the world including the global business environment.
- Culture is a property of a group, not an individual

Why Starbucks failed in Australia

- According to the story, the Australian coffee culture is different from the American coffee culture.
- There is much variation in when, where, and how people drink coffee and the kinds of experiences people expect when they enter a café.

- Therefore, when the American company expands to Australia, the company needs to adjust to its new cultural environment in Australia, and its failure to do so has resulted in poor performance.
- Food is a big part of culture: we must all eat to survive, but we see different diets across the globe.
- Interestingly, our diets have changed significantly over time.
- Going back to the example of coffee, coffee drinking did not spread to Europe until the 1600s, but now it is a global phenomenon and part of global culture; almost everywhere in the world, you can find many coffee drinking consumers for whom it is part of a daily routine.
- Companies like Starbucks are the big reason for the ubiquity and popularity of coffee around the world.
- But still there is much heterogeneity as shown in the Starbucks story.
- In sum, coffee or coffee drinking is global culture, but national or regional levels, coffee and café culture take very different forms and companies in this market needs to understand the cultural differences across countries and markets.
- The Starbucks example illustrates the importance of understanding the culture of a market or environment in which businesses operate.
- However, the relevance of culture extends well beyond understanding the preferences and behaviour of consumers, particularly with regard to the two ideas we are exploring in the course: heterogeneity and change.
- First, heterogeneity means people from different cultural contexts or influences do not think, (inter)act, and live alike. So understanding the differences would be crucial to doing well in a market in a different cultural context (e.g., Starbucks in Australia).
- But in a highly global world in which people are frequently moving from one location to another, we are likely to encounter others influenced by different cultures.
- Especially, in a multi-cultural society like Australia, developing cultural competence—that is, the awareness of culture's diversity and encompassing influence on people would be an important skill for future managers who will be working with a diverse set of people.
- Second, given the influence of culture on people, understanding how and why culture changes would help organisations to adapt to the dynamic environment.
- Whether through migration or technology, culture evolves.
- However, associated changes could present opportunities or threats depending on one's awareness.
- For example, COVID has changed the way we work, and companies could insist on the old way of doing things or adapt to this shift in work culture.

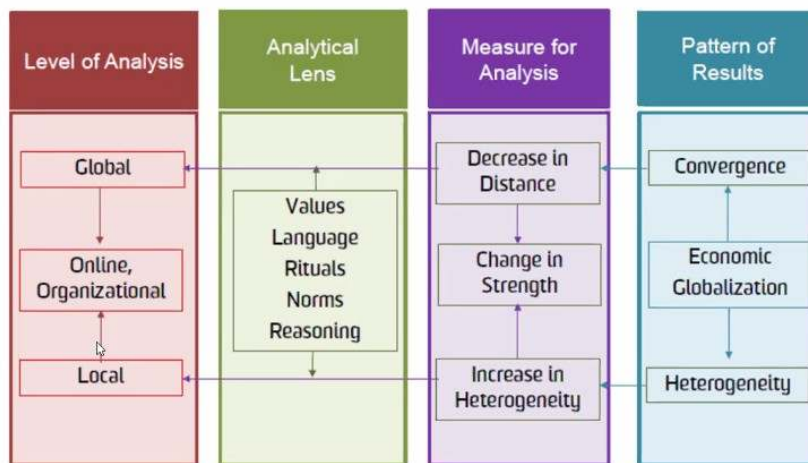
Lecture notes

Assessment

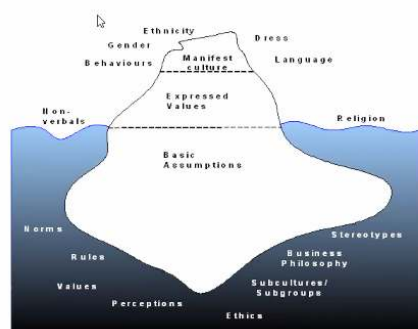
- Something that is part of your culture
- How technology has transformed that something

- Consequences and importance of cultural issues
- Impact the way people communicate

LAMP model – sociocultural environment



- The collective programming of the mind which distinguishes the members of one category of people from another
- A learned, shared, compelling interrelated set of symbols whose meanings provide a set of orientations from members of society
- Everything that people have, think and do as members of society
- A system of values and norms that are shared among a group of people and that when taken together is a design for living
- That complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by a person as a member of society
- Culture powerfully shapes behaviour but it is largely invisible
 - Culture influences an individuals behaviours
 - Culture relates to an individuals values and understanding of the world
 - Culture can be tight or loose



- Dimensions of culture”
 - Global
 - Regional
 - National
 - Local
 - Industry

- Organisation
- Operating unit
- Individual

World or global culture

- Culture is a set of distinctive spiritual, material, intellectual and emotional features of society or a social group
- It encompasses lifestyles, ways of living together, values and systems, traditions and beliefs.
- Respecting and safeguarding culture is a matter of human rights
- Cultural diversity presupposes respect of fundamental freedoms namely freedom of thought, conscience and religion, freedom of opinion and expression, and freedom to participate in the cultural life of one's choice

Culture and global business environments

- Scholars have classified countries according to specific cultural characteristics or dimension and group them into clusters of countries that share similar cultural attributes
 - Hofstede study of value dimensions
 - The globe study
 - The world values survey

Hofstede's value dimensions

Hofstede's value dimensions

Value dimension	Relevance to business context
Power distance (Distribution of Power)	Relations between superiors & subordinates; Degree to which less powerful accept power distribution
Uncertainty avoidance (Tolerance for Ambiguity)	Propensity for risk; threatened by unknown situations or ambiguity
Individualism vs. collectivism (Integration into groups)	Individual's identification with organization and group dynamics; Loose ties between individuals
Masculinity vs femininity (Achievement etc. vs. caring..)	Emotional gender roles are clear and distinct; men are supposed to be more assertive, tough, and focused on material success vs. emotional gender roles overlap and both men and women are supposed to be modest, tender, and concerned with quality of life.
Long vs short-term orientation	Oriented toward future rewards (perseverance and thrift) vs. present and past orientation; Time horizon for decision making

Collectivism and individualism at workplace

- Collectivism:
 - Education= learning how to do
 - Occupational mobility lower
 - Diplomas price entry to higher status groups
 - Employees are members of in groups who will pursue their in groups interest
 - Hiring and promotion decision take an employees in group into account

- The employee-employer relationships is basically moral, like a family link
- Management is management of groups
- Relationship prevails over task
- Individualism:
 - Education=learning how to learn
 - Occupational mobility higher
 - Diplomas increase economic worth
 - Employees are economic men who will pursue the employers interest if it coincides with their self interest
 - Hiring and promotion decisions are supposed to be based on skills and rules only
 - The employer-employee relationship is a contract between parties on a labour market
 - Management is management of individuals
 - Task prevails over relationship

Power distance in the workplace

- Smaller power distance:
 - Inequalities should be minimized
 - Hierarchy = inequality of roles
 - Decentralization
 - Narrow salary range
 - Fewer supervisory personnel
 - Subordinates expect to be consulted
 - Ideal boss = “resourceful democrat”
 - subordinate-superiors’ relations are pragmatic.
 - Manual work has the same status as office work.
- Larger power distance
 - Inequalities expected and desire
 - Hierarchy = existential inequality between lower and higher levels
 - Centralization
 - Wide salary range
 - More supervisory personnel
 - Subordinates expected to be told what to do
 - Ideal boss = “good father”
 - Subordinate-superior relations are emotional.
 - White-collar jobs are valued more than blue-collar jobs.

Similarities and differences across cultures

Globe (Global Leadership & Organizational Behaviour Effectiveness)

1. Study of middle managers
2. 9 cultural dimensions
 1. Power distance (distribution of power)
 2. Uncertainty avoidance (reliance of social norms to alleviate unpredictability of future events)
 3. Institutional collectivism (collective distribution of resources and collective action)
 4. In-group collectivism (pride, loyalty and cohesiveness of in-group)
 5. Humane orientation (collective rewards for being fair, altruistic, etc.)
 6. Assertiveness (confrontational and aggressive with others)
 7. Gender egalitarianism (a collective minimizes gender inequality)
 8. Future orientation (future-oriented behavior, delayed gratification, planning)
 9. Performance Orientation (performance improvement and excellence)

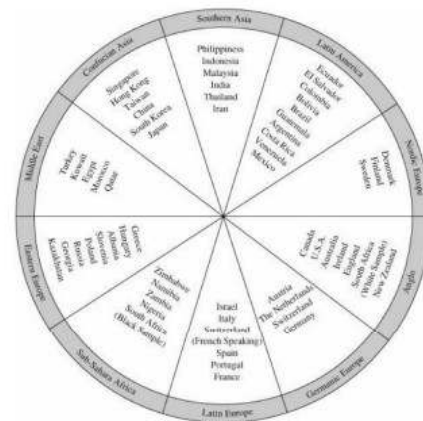


FIGURE 2.3. Country clusters according to GLOBE

Dealing with culture at the organisational level

- External:
 - Negotiations with government, other firms
 - Understanding different consumer preferences
 - Using local expertise e.g. distributors, joint venture partner
- Internal:
 - Managing cross-cultural workforce
 - Cross-border communication
 - Expatriate management
 - Management orientation
 - Cross-cultural training
 - Adapting functions and operations; learning

Exhibit 4.5 Cultural differences and the ideal managerial role

Country	Percentage of managers who agreed with each statement		
	"Managers must have the answers to most questions asked by subordinates."	"The main reason for a chain of command is so people know who has authority."	"It is OK to bypass chain of command to get something done efficiently."
China	74	70	59
France	53	43	43
Germany	46	26	45
Indonesia	73	83	51
Italy	66	NA	56
Japan	78	50	NA
Netherlands	17	31	44
Spain	NA	34	74
Sweden	10	30	26
United Kingdom	27	34*	35
United States	18	17	32

Source: Data from Andre Laurent reported in John Saxe, *Managing Organizations in a Global Economy*. Mason, OH: Thompson/Southwestern, 2005. pp. 39–42.

Taken from: Steers, Sanchez-Runde, & Nardon (2010) *Managing across cultures*. Cambridge: Cambridge University Press. P. 103.

○

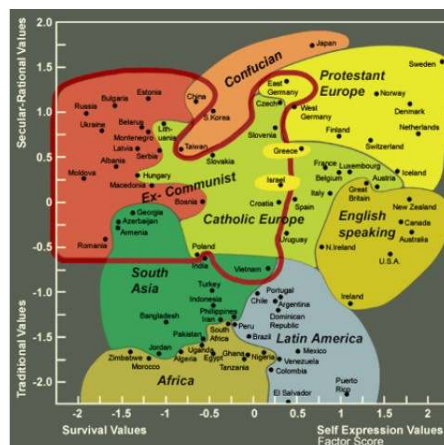
Dealing with culture at the individual level

- Cultural awareness, recognition of cultural difference
- Avoid:
 - Ethnocentrism: a belief that one's own group is superior to others;
 - Self-reference criterion, i.e., unconscious use of one's own culture to
 - assess new environments
- cross-cultural literacy
- making cultural adjustments is necessary

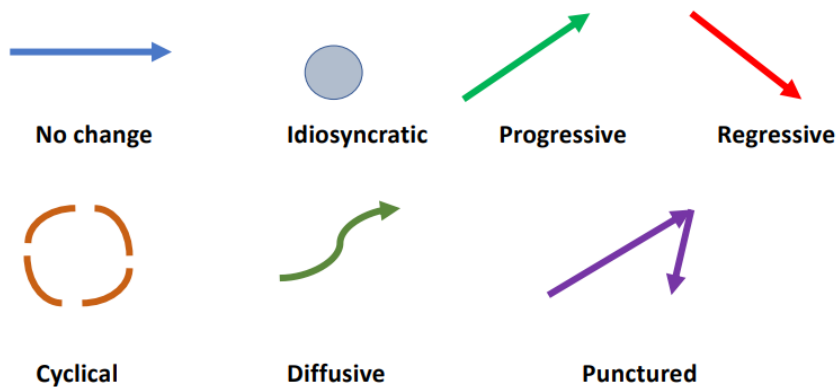
cultural change

- key drivers of cultural change
 - environment
 - technology

world values survey



Change and Time - Trends



Cross cultural aspects of organisations

- business contract
- negotiations
- communication
- teamwork
- organisational structure
- decision making
- workplace norms
- managing employees
- performance incentives
- product choice and promotion

Tutorial notes

1. a: Chinese noodle salad, b: Paneer pizza
2. a: sustainability (locally difficult to source), increase demand for food of different cultures (locally) b: globalisation achieved through advancements in technology
→ ingredients, recipes, more prone to seeing different culture, social media

cultural trends

- environmental/sustainable culture
 - this trend is cultural
 - A system of values and norms that are shared among a group of people and that when taken together is a design for living
 - That complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by a person as a member of society
- consumption of media
- influencers

- retro
 - Culture influences an individual's behaviours → choices in fashion, items e.g. record players, people want a reward for their efforts "have think and do"
 - Different levels: international through social media trends, different regions
 - Economic: more demand, opens a second-hand market, thrifting
 - Sustainability: recycled items, increased plastic do to modern spins on 80s

3. POLITICAL LEGAL LENSE

Pre-learning

Intro

- Global political order in action → airport
- Different societies abide by different sets of rules and regulations

The nation-state system: the political structure of the global business environment

- The political structure of the world, or the nation-state system, fundamentally shapes how we think and talk about the world.
- The world is made up of what we call nation-states (or countries).
- The nation-state is the fundamental political unit and building block of the world and constitutes the business environment whose socio-cultural, economic, and political-legal conditions and contexts shape organisations and individuals in significant ways.
- We could say that this environment at the national level is what we usually think about when it comes to the business environment.
- Of course, the global business environment is a little more complex than that. Internally, the nation-state encompasses various local levels of jurisdiction (state/provinces, cities, etc.). Externally, countries are embedded in the global system, which is represented as the global level.
- The nation-state system is fundamental to how we think and talk about the world. For example, import and export are about things (goods and services) moving in (import) and out (export) of the borders of a country.
- A domestic market falls within the borders of a country, and international markets refer to the ones that exist beyond the borders of a country.
- In short, the political structure of the international system provides the basic vocabulary for describing and understanding the world.

Sovereignty

- The international order based on the nation-state system rests on the principle of sovereignty.
- Sovereignty in the domestic context means that the supremacy of authority in a given country lies with its government, and individuals and organisations within that territory must respect the ultimate authority of the government.
- The government has a monopoly over the legitimate use of force (the military and the police, for example) and, therefore, enforces the laws.
- The government also controls its borders by regulating who and what can come in and go out.
- Sovereignty in the international context means that all countries must respect the ultimate authority of other states and the supremacy of their authority within their borders.
- That is, sovereign countries recognise one another as such and do not interfere in the internal affairs of other sovereign countries.
- This mutual recognition is manifested in the establishment of diplomatic interaction and relationships and in the membership in the United Nations.

The centrality of the state (government) in the global business environment

- The political-legal environment is a great source of heterogeneity and change in the global business environment, creating the conditions productive activities and shaping the opportunities and threats for organisations and individuals.
- Nationally, such basic things—basic only if they are reliably produced and reproduced for the benefit of society and economy—as running water and electricity to public education, health, and transportation as well as a more abstraction notion of rule of law—are the products of the political and legal structures and processes.
- Internationally, war and peace, the fight against climate change and pandemics, and bi-lateral and multi-lateral instruments and institutions to promote trade all concern this dimension of the global business environment.
- Central to all these basic ingredients of a functioning society and market and the globalizing world are political and legal institutions, particularly, the state. T
- he capacity and effectiveness of the state vary significantly across the globe: some states are able to develop and support a thriving environment for their citizens.
- Changes in the political-legal realm, such as democratisation, the rise and fall of authoritarian regimes, and the enactment of particular laws and regulation (e.g., related to taxes and minimum wage) can fundamentally shape the opportunities and threats relevant for businesses.
- Moreover, collaboration among governments around the world has become ever more urgent.
- The grand challenges facing humanity and Planet Earth such as climate change, global inequality, modern slavery, and global health just to name a few require tighter relationship among countries.

Political risk and business

- More specifically, the impact of the political-legal environment has become much more apparent in recent years
- . From the Russian invasion of Ukraine and the growing tension between China and the West, to the Brexit and the election of Trump in the United States, we have seen how unfolding geo-political events, predictable or not, could have disruptive influences in the global business environment.
- Of particular interest is political risk.
- Narrowly defined, political risk means the danger created by the actions of the state such as nationalisation of strategic industries and mismanagement of the economy or shifts in government policy (trade barriers or liberalisation, tax cuts etc) that could negatively impact businesses.
- Political risk could more broadly refer to the probability of any political action that could significantly—or more precisely negatively—impact businesses.
- This broad definition or understanding of political risk allows businesses (and us) to see beyond the state as the primary source of political risk.
- In a highly global, interconnected world with rapidly advancing information and communication technology, the list of potential risk generators is getting longer and is not limited to governmental entities

Lecture notes

Tutorial notes

4. THE ECONOMIC LENS

Pre-learning

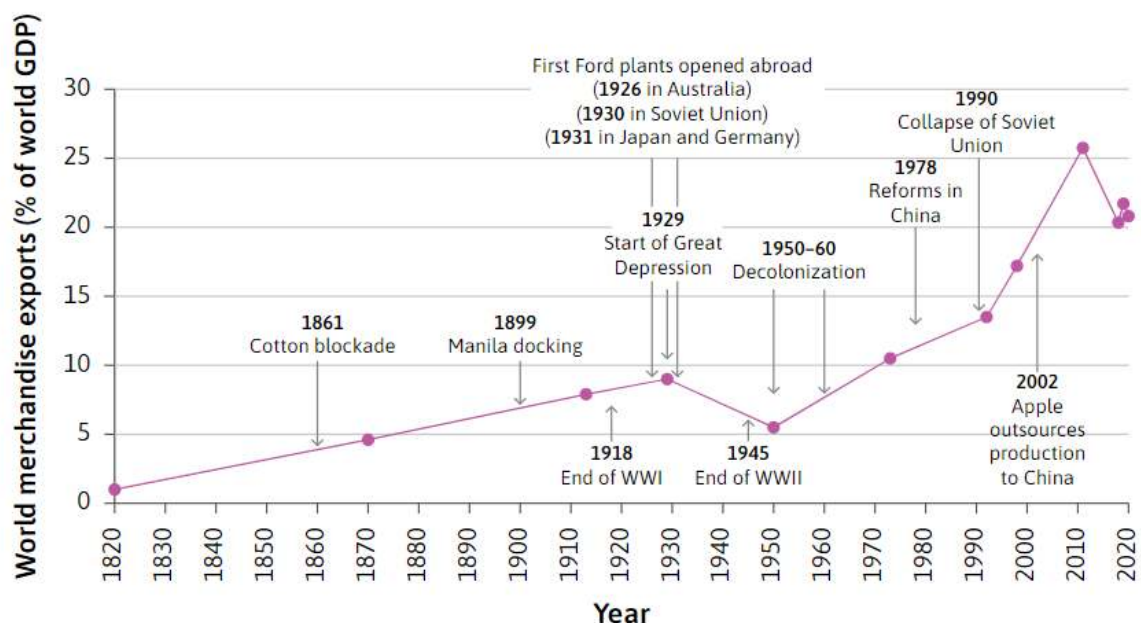
Economic lens

- Economic market different among countries
- Multiple markets
- Interdependent
- Drivers and consequences of economic trade
- Before the modern waves of technological advancement and globalisation, trade was mostly a local phenomenon.

- While ancient trade routes like the Silk Road led to goods being traded across much of the world, until the 20th century, most of the goods people bought were produced nearby.
- This all changed over the past century, with the most rapid change happening over the past 30 years.
- An even more recent phenomenon is the increase in international trade in services.
- This rapid expansion of international trade, along with increased migration and exchange of ideas and information, is commonly called globalisation.

Globalisation and deglobalisation in the long run

- Trade in services is a more recent phenomenon, although it has also been occurring for centuries.
- Services that are commonly traded across borders are tourism, financial services, and legal advice.
-

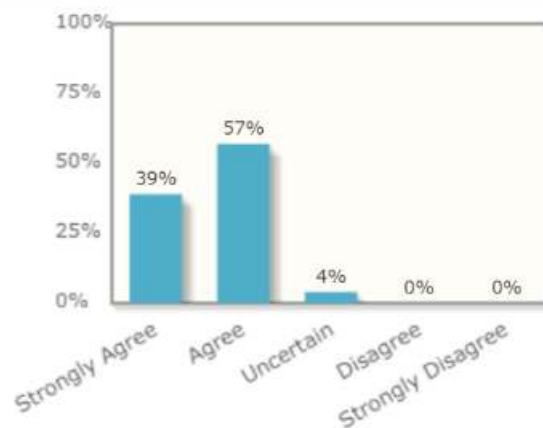


- A second method is to measure the additional costs associated with exporting goods relative to selling them domestically.
- When the costs of trading between countries fall, then in economic terms, the world has shrunk.
- In the right circumstances, globalization can benefit both exporting producers and importing consumers.
- It does so by bringing them closer together, and it leads to an increase in both the supply of exports and the demand for imports.
- Globalization should lead to falling import prices: But if we observe falling import prices, this does not necessarily mean that globalization is occurring. The demand for the good in question may simply have declined (or the supply may have increased).

- Globalization should also lead to rising export prices: But rising export prices do not necessarily imply globalization. Demand for the good in question may simply be rising (or the supply may have declined).
- Declining price gaps between importing and exporting countries are a much surer sign of globalization: This is particularly true if we can also observe rising trade volumes.

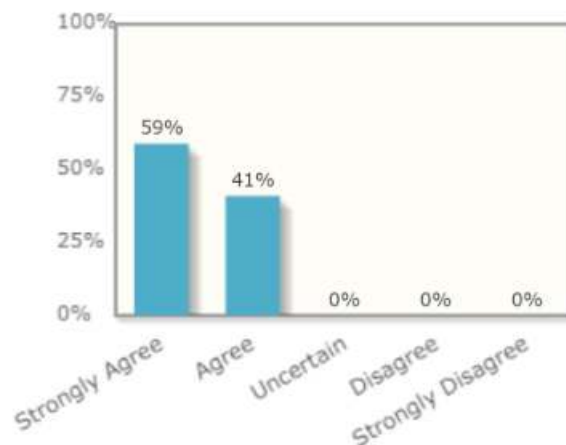
IGM economic experts panel- politics of globalisation

- Freer trade improves productive efficiency and offers consumers better choices, and in the long run these gains are much larger than any effects on employment



○

- Trade with China makes most Americans better off because, among other advantages, they can buy goods that are made or assembled more cheaply in China.



○

(Responses weighted by each expert's confidence)

- Given that many people are wary of the effects of increased international trade and globalisation, it is not surprising that tariffs and other trade restrictions are still common around the world.
- In fact, there have been some notable increases in the past few years, such as the trade war between the United States and China and the recent economic sanctions on some Russian exports.

Globalisation- the trade offs

- The modern labour movement in Western countries led to popular support for trade restrictions aimed at protecting higher wages and better working conditions for low-skilled workers in developed countries.
- This meant "hyper-globalisation" was not compatible with having both democratic politics in these countries and the national sovereignty that allows them to enact trade restrictions.
- economics is a set of tools to analyse trade-offs and predict the likely outcomes of different choices.
- While most economists hold the view that the benefits of free trade generally outweigh the costs, most analyses also find that there are real costs and trade-offs that must be considered.

Article: pushing back on "the end of globalization"

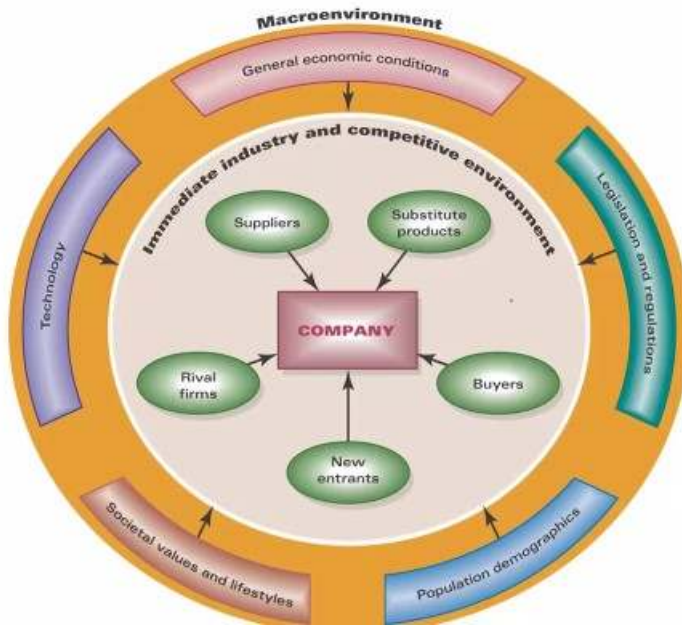
- International trade booms despite protectionist rhetoric, supply chain issues, ostensible trade war with China
- In response to global uncertainty, companies diversify their trading partners, which can result in even more trade
- Current moment of relative weakness for Chinese economy could provide an opening to address long-standing trade disputes
- A new era of "corroding globalization" in which nations are "trying to retreat into separate corners, looking to protect themselves by withdrawing from the global economy."

Federal government's 'gas trigger' to keep supplies onshore may not be pulled just to put a lid on high prices

- The rising cost of gas and coal on the international market is a significant cause, despite Australia being a major global exporter of both commodities.
- As Europe weans off Russian gas and coal following its invasion of Ukraine, international demand for the commodities has risen dramatically.
- Coal and gas prices here are driven by the global market, so any supplies needed outside of existing contracts are subject to volatile international spot prices.
- APPEA acting chief executive Damian Dwyer said international price volatility and electricity generation issues are behind the price rises, and points out most domestic gas users have not been immediately affected.

Lecture notes

The complexity of global business environments



5. POLITICAL LEGAL LENSE

Pre lecture learning

Law of property

Intellectual property law

- Over many centuries property law was developed to protect interests in land but, in modern times, the tradition of property law has extended to personal property, where the rights of ownership can be exercised.
- Personal property encompasses goods and certain intangible properties (which means cannot be seen or touched) which are created by law, such as intellectual property (IP), shares in a corporation, beneficial rights in a trust property, rights in superannuation and some contractual rights.
- When an individual or business develops a new product, service, process or idea it is considered their IP.
- Some forms of IP right such as a trademark (protects logos, words, colours, shapes and other branding), design (protects the product's visual design) and patent (protects inventions and new processes) are registered rights and need formal application and examination to claim a right to their ownership.
- Other forms of IP protection, such as the law of confidential information (concerns protection of information imparted to another in confidence against unauthorised use or disclosure) and copyright (Includes art, writing, music, film, and computer programs) do not need to be registered. Copyright protection is automatic under the Copyright Act 1968 (Cth).
-

Trademarks

- Brand names and branding of products is a valuable marketing tool in the marketplace. A trademark is a distinctive word, a phrase, or a symbol used in commercial dealings to show a connection between a particular business and its product.
- In Australia, trademarks are regulated by the Trademarks Act 1995 (Cth). A trademark must be registered to gain protection under the Act: A trademark will only be registered if it does not contain a proscribed sign, is able to be represented graphically and is distinctive

Patents

- A patent is a form of legal protection granting the creator of a new technology the exclusive right to use and exploit that new technology for a limited period.
- A patent is intended to encourage invention and innovation by rewarding the creator with a potentially valuable limited monopoly.

- Patent protection is not automatic; the patent must be registered with the Patents Office of IP Australia.
- Inventions can be protected under the Commonwealth Patents Act 1990 (Cth).
- A patentable invention is an invention which is a manner of manufacture; is novel and involves an inventive step; is useful and was not used secretly in Australia before the priority date.
- A standard patent gives long-term protection and control over an invention. It lasts for up to 20 years from the filing date of the patent application, or up to 25 years for pharmaceutical substances. The invention claimed in a standard patent must be new, involve an 'inventive step' and be able to be made or used in an industry.
- The invention must differ in some way from existing technology.
- This difference must be something more than the simple application of published information or standard background knowledge.
- Before a standard patent can be granted, the application is examined by IP Australia to ensure it meets legislative requirements.
- Depending on the circumstances and the type of protection being applied for, the examination by IP Australia can take from six months up to several years.
- Innovation patents were created to provide protection for an invention with a short market life that might be superseded by newer innovations, such as computer-based inventions.
- They were designed to protect inventions that do not meet the inventive threshold required for standard patents.

Employee protection

Fair work protection

- The Fair Work Act 2009 (FW Act) and Fair Work Regulations 2009 govern the employee/ employer relationship in Australia.
- They provide a safety net of minimum entitlements, enable flexible working arrangements and fairness at work and prevent discrimination against employees.
- Australian law an employer cannot take an adverse action against an employee for exercising a workplace right.
- Adverse actions include dismissing, injuring,
- discriminating against or altering the employee's position to their disadvantage.

Common workplace rights include the right to:

- Take sick leave or maternity leave
- Request flexible working arrangements
- Commence legal action, or
- Make a complaint under workplace laws.

Human rights protection

- Businesses may be unaware of the risk that they have slavery in their business or supply chains.

- 'Modern slavery' refers to situations of exploitation when a person cannot refuse or leave work because of threats, violence, coercion, abuse of power or deception.
- The Modern Slavery Act 2018 (Cth) established a national reporting requirement for large businesses to identify/address their modern slavery risks and maintain responsible and transparent supply chains.
- The Modern Slavery Act 2018 requires businesses to pro-actively and specifically look at any indicators or risks of modern slavery in their supply chain, particular where products are being sourced and supplied from regions where it is known that labour regulation and working conditions are weak or non-existent

Whistle-blower protection

- An objective of the Treasury Laws Amendment (Enhancing Whistle-blower Protections) Act 2019 (Cth) is to help uncover misconduct that might not otherwise be detected.
- The Act is designed to give individual employees, in public and listed companies, confidence in the system which would make them more likely to report any potential wrongdoing.
- Whistle-blowers are individuals or groups who 'blow the whistle' to alert authorities when they have identified and wish to report misconduct and harm to consumers and the community

Corruption and bribery

- The offence of bribing a foreign public official is contained in section 70.2 of the Criminal Code Act 1995 (Cth).
- A person is guilty of an offence if the person provides a benefit to another person, offers or promises to provide a benefit to another person, or causes a benefit to be provided, offered or promised to another person AND the benefit is not legitimately due to the other person AND step 1 was carried out with the intention of influencing a foreign public official (who may or may not be the other person) in the exercise of the official's duties as a foreign public official in order to obtain or retain business or obtain or retain a business advantage which is not legitimately due.

Who is a foreign public official?

- The definition of 'foreign public official' is very broad and includes an employee / official of a foreign government, a member of the executive, judiciary or magistracy of a foreign country, a person who performs official duties under a foreign law, a member/officer of the legislature of a foreign country, or an employee / official of a public international organisation (such as the United Nations).

Corporate and agent liability

- Companies may be liable for the actions of their employees and agents under Australian law and foreign law.
- People that engage in bribery while acting as an agent may be individually liable and prosecuted under Australian or foreign law.

- It is important to be aware of what obligations companies have to ensure employees and agents comply with the law. The foreign bribery offence is defined in Division 70 of the Criminal Code.
- Nature of corporate liability is defined in Division 12 of the Criminal Code.
- Companies and individuals engaging in bribery may be liable under laws governing the foreign public official and may be liable under laws of third-party countries.

Defences to bribery

- There are two defences to the foreign bribery offence. First, the advantage was permitted or required by the written laws that govern the foreign public official.
- This defence applies where a written law governing the foreign public official expressly permits or requires the benefit to be given. Subsection 70.3(1) of the Criminal Code lists the laws that govern different public officials.
- Second, the benefit provided constituted a 'facilitation payment'. A defence is also provided where a benefit constitutes a 'facilitation payment'. This defence can apply where the benefit is of 'of a minor value', the benefit was offered 'for the sole or dominant purpose of expediting or securing performance a routine government action of a minor nature', and the person made a record of the payment as soon as practicable afterwards.

Competition law and consumer protection

Unconscionable conduct

- Businesses should always be mindful of consumer protection and their obligations when providing goods or services to consumers in Australia.
- These obligations are contained in the Australian Consumer Law (ACL). Found in Schedule 2 of the Competition and Consumer Act 2010 (Cth), the ACL is a single national law and principal legislation in Australia governing consumer protection and liability of manufacturers, suppliers and distributors of consumer products for losses or injuries caused by products. It deals with consumer issues such as misleading and deceptive conduct, unfair contract terms, statutory consumer guarantees, unsolicited sales practices, product safety and manufacturer liability (among other things).
- The consumer protection provisions of the ACL provide a number of statutory remedies for breaches of the ACL. The Australian Competition and Consumer Commission (ACCC) is the regulatory authority for competition law and consumer law.

Technology challenges of political and legal norms

Cybercrime

- Businesses are now even more susceptible to being victims of crime, with new digital technologies being used to penetrate organisations and create false information, fake documents and IDs to infiltrate and defraud susceptible organisations.
- Digital technology has improved organisational performance worldwide, particularly in the way organisations do business and connect with consumers, with their local and global reach enhanced by email, online forums and social media.

- However, such technology can also be a cyber accelerant for organisational fraud, with dire consequences that can have political, economic, socio-cultural impacts and serious flow-on effects on public/private infrastructure.
- A deeper, hidden, sinister parallel dark web under a cloak of anonymity, provides an internet marketplace for crime, including cybercrime, identity theft, dark web hackers and black market purchases (Ormsby, 2019) of credit card numbers, counterfeit money, hacked accounts and software.
- PwC's 2018 Global Economic Crime and Fraud Survey warns organized crime syndicates using the dark web are becoming more 'sophisticated, thorough and devastating' (Lavion et al, 2018:19).
- Fraudsters manage to move billions of dollars between bank accounts daily, with new digital technologies used to penetrate organisations and create false information, fake documents and IDs to infiltrate and defraud susceptible organisations (Lavion et al, 2018).
- Global knowledge of the extent of such activities may be shielded by corporations wary of reporting cyber-incursions to law enforcement, in concern their business and corporate stock value could be affected (Leukfeldt and Holt, 2019).
- The features that most expose organisations to cyber misconduct are high levels of non-face-to-face delivery; large customer base, high levels of outsourcing of customer-facing processes, limited oversight/influence over third party providers; where funds are easily stored/transferred both domestically and internationally; low level of organisation investment in risk mitigation and transaction monitoring and limited review of systems and controls (Lavion et al, 2019).
- Cybercrime offences are criminalised under the Criminal Code Act 1995 (Cth) and each State and Territory also has its own computer crimes that are similar to the Commonwealth legislation
- Australian cybercrime law is constantly evolving to keep up with new threats, often raising complex international jurisdictional questions.
- The Budapest Convention, serves as a guideline for national legislation against cybercrime and as a framework for international cooperation between signatory parties.

Pre lecture learning condensed

Intellectual property law

- Over many centuries property law was developed to protect interests in land but, in modern times, the tradition of property law has extended to personal property, where the rights of ownership can be exercised.
- Personal property encompasses goods and certain intangible properties (which means cannot be seen or touched) which are created by law, such as intellectual property (IP), shares in a corporation, beneficial rights in a trust property, rights in superannuation and some contractual rights.

Corruption and bribery

- Bribery is the offering, giving, receiving, or soliciting of something of value for the purpose of influencing the action of an official or other person in authority to discharge his or her public or legal duties.
- There are multiple ways in which corruption and bribery can affect a private company or business.
- This includes an actual loss of money/property as a result of the actions of an agent/employee; an inferior product or service chosen or provided as a result of the bribe which may result in a drop in productivity/capability; a loss of confidence in the company from customers and staff.
- There may also be an impact on confidence in the share market, resulting in the devalue of the company share price and a general climate of dishonesty may persist within the organisation.

Employment law

- The law has established fundamental rights, duties and obligations in relation to employment.
- Employee law encompasses basic common law rights as an employee and a range of significant legislation in relation to human rights as an employee, which includes, but is not limited to:
 - the right to a safe work environment
 - the right for equal opportunity
 - protection against unfair treatment
 - protection against discrimination, workplace health and safety as well as protection for whistle-blowers (The disclosure by a person, usually an employee
 - of some wrongdoing in a public or private organisation).

Competition law and consumer protection

- In the 21st century, the Competition and Consumer Act 2010 (CCA) was introduced as a regulatory framework to govern the operation of competition and consumer law in Australia.
- The CCA contains consumer protection provisions in Schedule 2 of the Act. Schedule 2 is referred to as the Australian Consumer Law (ACL).
- The ACL rationalised a vast array of national, state and territory laws into a single national consumer law.
- There are different types of conduct and a number of specific practices that damage competition.
- The ACL deals with these types of conduct that most affect consumers and provides remedies and penalties for individuals and corporations when there is a breach.
- The ACL includes a general prohibition on misleading or deceptive conduct, unconscionable conduct, unfair practices, conditions and warranties, product safety information, and manufacturer's liability for goods with safety defects.

Technology challenges of political and legal norms

- Globalisation, with its accompanying technological advances, has progressively produced significant features and changes in the political, economic, social, cultural, health and environmental landscape.
- Since the birth of the internet nearly 40 years ago and the development of the 'World Wide
- Web' has evolved a multidimensional internet with many positive uses in commerce, research and communications.
- Both the internet and digital technology have improved organisational performance worldwide and can provide global exposure to fraudulent activities in organisations that were previously dealt with 'in-house.'
- A positive aspect is in the development of social media and its ability to progressively connect and inform organisations and society generally.
- For example, in recent years the social media platform has demonstrated strong political, social and cultural impact on society and has been a powerful component in political elections.
- However, social media can also be used as an instrument of fraudulent political power.
- A lack of media independence and political integrity, as well as electoral misconduct, has recently dominated international headlines where activist organisations have misinformed the electorate as to polling results and/or committed or coordinated electoral fraud.

Lecture Notes

Legal environment

- Network of rules and regulations
- Governmental social control
 - Encouraging useful or good conduct
 - Discouraging harmful or bad conduct
 - Attaching 'legal consequences' to particular behaviours

The rule of law

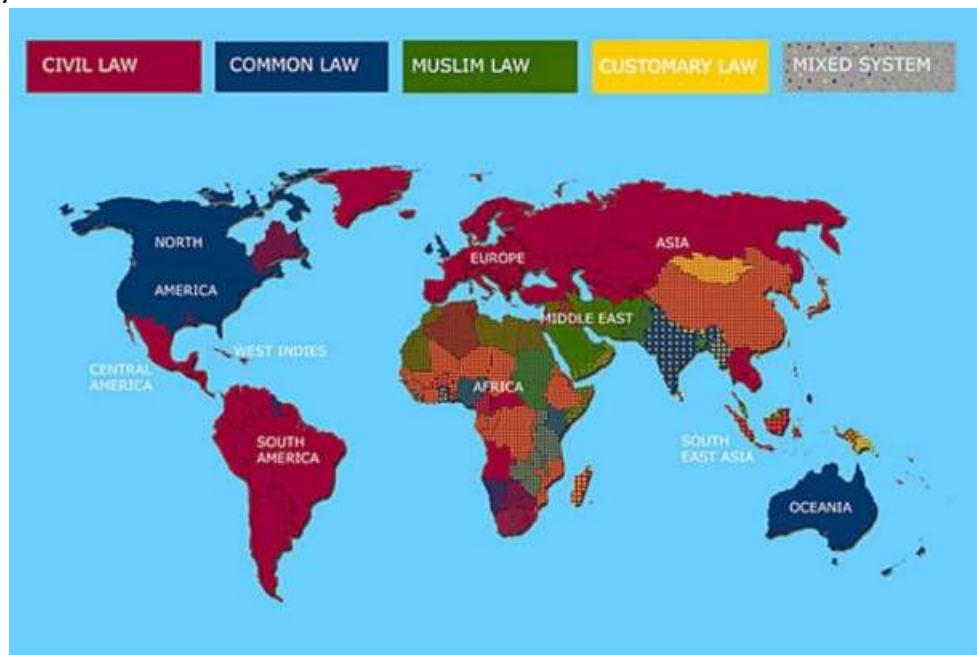
- "the rule of law is a durable system of laws, institutions, norms, and community commitment that delivers accountability, just law, impartial government and accessible and impartial justice" (world justice project)
- Central to this is that nobody is above the law.

Lenses, levels and blindspots

- The political legal lens illustrates the complexity encountered by businesses"
 - Not only are politics and law closely linked, but
 - Politics covers international, national, state and local
 - Law also covers different legal systems

Legal systems

- A system of rules and laws that regulate behaviour and the structures, institutions and processes that 'breathe life' into them
 - Content, structure, and culture
 - Social control
 - Claims of right
 - Dispute resolution/settlement
 - Distribution of goods and services
 - Social change and maintenance.
- Legal systems around the world



-
- Common law:
 - Body of law built through case law i.e. accumulate of judge-made binding precedents
 - England then to the rest of British colonies (U.S and Australia)
 - Judges interpret the law and apply to individual cases
 - Relatively ill-specified, contingencies need to be spelled out more in contracts; therefore it is more expensive but has greater flexibility than civil law
- Civil law:
 - Comprehensive legal codes the basis for system; case law guidance only
 - Contracts tend to be shorter
- Theocratic law:
 - Based religious doctrines or principles
 - Islamic law, tribal law (customary law)

Common law vs civil law

Common law	civil law
<ul style="list-style-type: none"> • Developed in England during the Middle Ages 	<ul style="list-style-type: none"> • Derived from Roman law and developed in

<p>and applied within British colonies</p> <ul style="list-style-type: none"> • Uncodified (No comprehensive compilation of legal rules and statutes) • The basic principles were found in case law (the body of opinions written by judges and developed by judges in the course of deciding particular cases). • The doctrine of precedent: a judge is bound by what has already been decided • Adversarial in form: • the party's control what evidence is produced in court and the judge plays a relatively passive role compared with the Civil law system • The court can only rely on evidence that is introduced into the court by the parties when coming to a decision • The court is not entitled to rely on evidence not submitted by the parties when coming to a decision • Common law is made up of statute law and case law and the court is required to interpret statute law as parliament intended. • The legal principles from higher courts are binding on lower courts who are required to apply these same principles when faced with a similar factual scenario 	<p>continental Europe in the Middle Ages and applied to the colonies of Spain and Portugal (e.g., South America) and to Africa except former British colonies, and later adopted by Russia and Japan and others when reforming legal systems.</p> <ul style="list-style-type: none"> • Codified systems: A complete code of written laws whose primary source of law is legislation arranges the whole field of law in an "orderly, logical, and comprehensive" way. • The civil law country has a body of law passed by parliament that can be referred to in each individual case and there is no such thing as binding precedent • It is an inquisitorial legal system where the court takes more control of the proceedings. • The court must apply the code to specific factual situations, Where the code doesn't provide the answer • The court fills in the gaps with general principles • The parties have a relatively passive role compared to the adversarial system. • The court can rely on evidence not introduced by either party and can even go the crime scene to gather evidence • Under a civil code, your inquiry stops with the statute rules and regulations or the civil code itself. There are no creative interpretations of the law • Most Civil codes were adopted in the 19th and 20th centuries
---	---

Competition law

- Competition law promotes competition by preventing businesses from obtaining and using market power to engage in anticompetitive practices
- Most Australian businesses increase their customer base and their profits honestly through:
 - continual innovation to improve products or services
 - sales and marketing showing the genuine benefits of their products or services
 - keeping costs down so they can offer competitive prices.
- Competition Policy Reform and Misuse of Market Power amendments updated the Competition and Consumer Act 2010 (Cwlth) in 2017, prohibiting certain types of anti-competitive practices, for example:
 - Price Fixing
 - Price Rigging
 - Cartel conduct (when businesses agree to act together instead of competing with each other.)
- Australian Competition and Consumer Commission (ACCC) implements the legislation

- E.g., Flight Centre vs. ACCC

Consumer protection law

- Consumer Protection Law protects individuals and businesses against unscrupulous conduct of others such as misleading and deceptive conduct, unconscionable conduct and unfair terms in contracts, and provides consumer guarantees in goods and services etc.
- The Australian Consumer Law (ACL) is in schedule two of the Competition and Consumer Act 2010 (Cth)
 - The ACL prohibits misleading and deceptive conduct(s 18) and unconscionable conduct(s 21) in trade or commerce and includes a provision that makes unfair terms(s 23) in consumer contracts void
 - The ACL also prohibits certain false or misleading representations (s 29), the supply of unsolicited goods or services, pyramid schemes and harassment or coercion
 - The ACL also provides certain consumer guarantees in relation to goods and services. (S 51 – 67)
- International Consumer Protection Enforcement Network (ICPEN)
 - A cooperative and collaborative forum of consumer protection authorities that encourages global cooperation aimed at combating fraudulent, deceptive and unfair practices that affect consumers around the world.
 - There are 65 member countries in the group and they respond to cross border issues faced by consumers

Employee protection law

- The Fair Work Act 2009 (FW Act) and Fair Work Regulations 2009 govern the employee/employer relations in Australia
 - They provide a safety net of minimum entitlements, enable flexible working arrangements and fairness at work, and prevent discrimination against employees. •
 - An employer cannot take an adverse action against an employee for exercising a workplace right.
 - Adverse actions include dismissing, injuring, discriminating against or altering one's position to one's disadvantage
 - Common workplace rights include the right to:
 - Take sick leave or maternity leave
 - Request flexible working arrangements
 - Commence legal action
 - Make a complaint under workplace laws.
- Fair work protection: The Fair Work Act 2009 (Cth) outlines terms and conditions for employment and rights and responsibilities for employees and employers in relation to that employment.
- Human rights protection: The Modern Slavery Act 2018 (Cth) established a national reporting requirement for large businesses to identify/address their modern slavery risks, and maintain responsible and transparent supply chains
- Whistleblower protection: An objective of the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019 (Cth) is to help uncover misconduct, in public and listed companies, that might not otherwise be detected.

The rule of law in global business environments

- Four universal principles:

○



Accountability

The government as well as private actors are accountable under the law.



Just Law

The law is clear, publicized, and stable and is applied evenly. It ensures human rights as well as contract and property rights.



Open Government

The processes by which the law is adopted, administered, adjudicated, and enforced are accessible, fair, and efficient.



Accessible and Impartial Justice

Justice is delivered timely by competent, ethical, and independent representatives and neutrals who are accessible, have adequate resources, and reflect the makeup of the communities they serve.

- The rule of law as a durable system of law:

○

The Rule of Law as a Durable System of Law



Constraints on Government Powers

Factor 1 of the WJP Rule of Law Index measures the extent to which those who govern are bound by law. It comprises the means, both constitutional and institutional, by which the powers of the government and its officials and agents are limited and held accountable under the law. It also includes non-governmental checks on the government's power, such as a free and independent press.



Absence of Corruption

Factor 2 of the WJP Rule of Law Index measures the absence of corruption in government. The factor considers three forms of corruption: bribery, improper influence by public or private interests, and misappropriation of public funds or other resources. These three forms of corruption are examined with respect to government officers in the executive branch, the judiciary, the military, police, and the legislature.



Open Government

Factor 3 of the WJP Rule of Law Index measures the openness of government defined by the extent to which a government shares information, empowers people with tools to hold the government accountable, and fosters citizen participation in public policy deliberations. This factor measures whether basic laws and information on legal rights are publicized and evaluates the quality of information published by the government.



Fundamental Rights

Factor 4 of the WJP Rule of Law Index recognizes that a system of positive law that fails to respect core human rights established under international law is at best "rule by law," and does not deserve to be called a rule of law system. Since there are many other indices that address human rights, and because it would be impossible for the Index to assess adherence to the full range of rights, this factor focuses on a relatively modest menu of rights that are firmly established under the United Nations Universal Declaration of Human Rights and are most closely related to rule of law concerns.



Order and Security

Factor 5 of the WJP Rule of Law Index measures how well a society ensures the security of persons and property. Security is one of the defining aspects of any rule of law society and is a fundamental function of the state. It is also a precondition for the realization of the rights and freedoms that the rule of law seeks to advance.



Regulatory Enforcement

Factor 6 of the WJP Rule of Law Index measures the extent to which regulations are fairly and effectively implemented and enforced. Regulations, both legal and administrative, structure behaviors within and outside of the government. This factor does not assess which activities a government chooses to regulate, nor does it consider how much regulation of a particular activity is appropriate. Rather, it examines how regulations are implemented and enforced.



Criminal Justice

Factor 8 of the WJP Rule of Law Index evaluates a country's criminal justice system. An effective criminal justice system is a key aspect of the rule of law, as it constitutes the conventional mechanism to redress grievances and bring action against individuals for offenses against society. An assessment of the delivery of criminal justice should take into consideration the entire system, including the police, lawyers, prosecutors, judges, and prison officers.



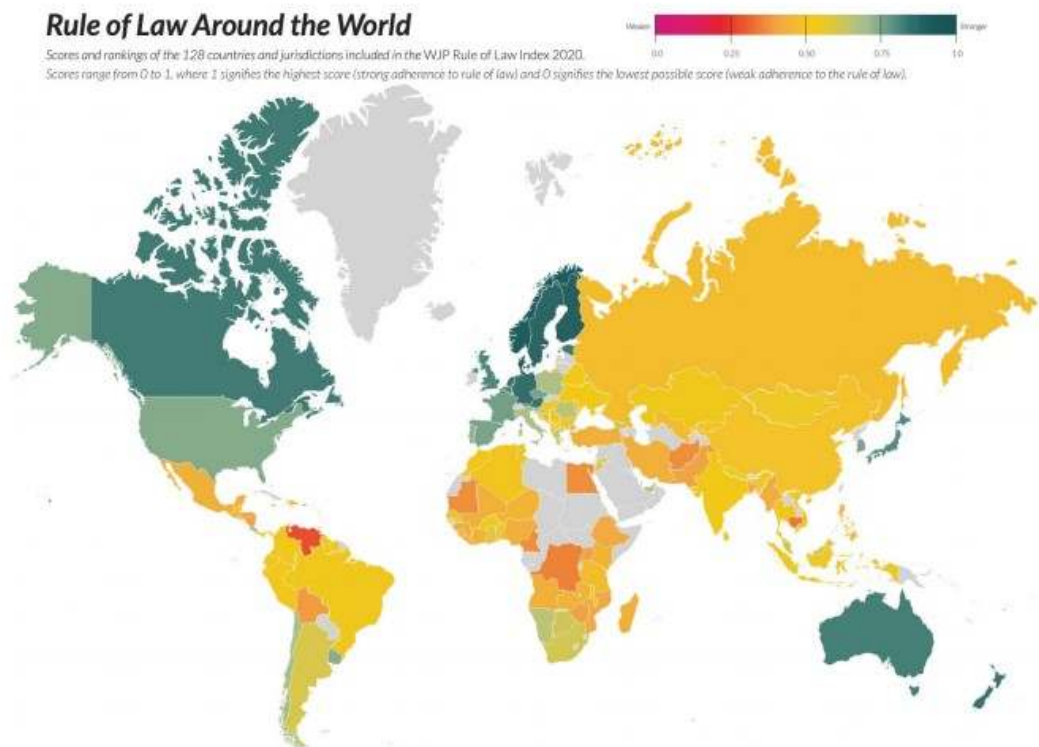
Civil Justice

Factor 7 of the WJP Rule of Law Index measures whether ordinary people can resolve their grievances peacefully and effectively through the civil justice system. It measures whether civil justice systems are accessible and affordable as well as free of discrimination, corruption, and improper influence by public officials. It examines whether court proceedings are conducted without unreasonable delays and whether decisions are enforced effectively. It also measures the accessibility, impartiality, and effectiveness of alternative dispute resolution mechanisms.

<https://worldjusticeproject.org/about-us/overview/what-rule-law>

- Rule of law around the world:

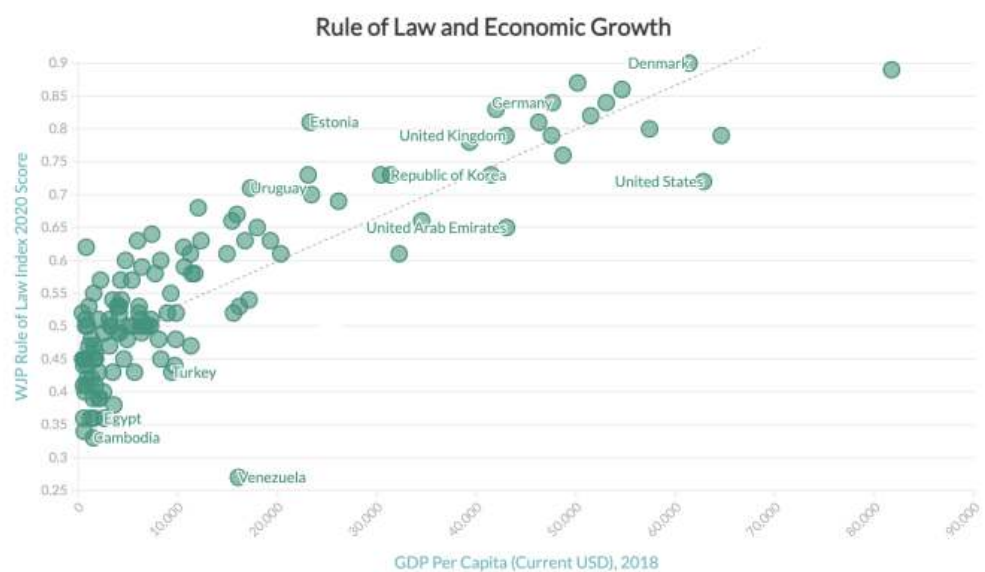
○



- The rule of law and its impact in global business environments:

○

The Rule of Law and Its Impact in Global Business Environments



Contract law in business environments

- A contract spells out the conditions under which an exchange is to occur and specifies the rights and obligations of the parties to the contract
 - A contract is an agreement or a bargain between two or more people to do work (buy/sell, build a house, etc.) in which one person or business promises something in exchange for something else (e.g., product/services for money).
 - “Contract” is a legal/technical term that needs to meet certain standards/conditions.
 - For example, a valid contract requires two parties with “legal capacity”.
- Contract Law is a body of law that governs “voluntary agreements” or legally enforceable agreements between individuals and/or businesses.
- Contract Disputes in International Trade
 - • The United Nations Convention on Contracts for the International Sale of Goods (CISG) in 1988
 - Uniform set of rules governing commercial contracts between sellers and buyers
 - Part of the Competition and Consumer Act 2010 (Cwlth)
 - About 89 countries, including New Zealand, Japan, etc., have ratified it.

Legal system and markets in global business environments

- The importance of contract law: The operation of markets depends on enforceable contracts.
- The rules, and their enforcement depend on the robustness of the legal system (& rule of law).
 - Increase transaction certainty for business and individuals in the market
 - Create trust into commerce and signal to market participants about what can be expected from the courts and the legal system.
 - Promote commerce and fairness
- A reached agreement is not enough for a contract to be formed. For a contract to happen, the parties must intend that what they agree to will be legally enforceable in a court of law •
- The idea is that when determining intention of the parties, their subjective intention (state of mind) is not relevant
- Instead, it is the intention of a reasonable person in the position of the parties (party) that matters
- Therefore, caution needs to be exercised when negotiating and settling on terms of an agreement. Arguably, this provides more certainty.
- That’s why we rely on expert professional service.

Legal environment and legal risk (and opportunity)

- Legal Risk: Likelihood of a legal system failing to provide safety (to businesses) and the likelihood of a lack of legal knowledge or understanding and/or illegal, reckless behaviour negatively affecting business
 - Contractual risks in overseas markets i.e. risk of contract being broken/nullified

- Risks of liability for injuries or defective products, and subsequent litigation
- Risks of corruption in the legal system
- Violation of property rights, including intellectual property
- Risk of infringement of data protection requirements (importance to e-commerce).
- Stability/effectiveness of legal system
 - Rule of law: supremacy of law over government and citizens (Principle of equality before the law)
 - Independence of judiciary/degree of corruption
 - Judicial system load (potential delays)/costs
 - Implementation/enforcement of laws/regulations
 - extent of appeals procedure.

Intellectual property law in global business environments

- The knowledge society (economy)
 - The growing importance of high-technology goods as % of international trade
 - Economy based on production and distribution of knowledge
 - Increasing importance of intellectual property assets
 - Multi-nationals are important drivers of innovation and knowledge production
- patents
 - Legal right granted by the government to inventors, for a fixed period of years, to exclude other persons from making, using or selling a patented product or using a patented method or process.
 - A patent is valid only within the territory of the state granting it. Some
 - implications:
 - There is NO global patent.
 - There are variations in national patent laws.

Copyright and trademarks

- Copyright
 - In Australia, copyright is protected under the Copyright Act 1968 (Cth)
 - Exclusive right to copy a particular form of expression of literary, dramatic, musical or artistic work
 - No registration required- Copyright Act comes into existence upon publication of original work
 - Only specified matter is covered (literary, musical, dramatic artistic works)
 - Recent case: Google LLC v. Oracle America Inc 141 S.Ct 1183 (2021).
- Trademarks
 - A distinctive symbol which distinguishes goods or services dealt with or provided by a particular trader in the course of trade
 - A trade mark provides information to consumers of goods regarding the commercial origin of goods
 - Trade marks ensures that consumers can make informed decisions when making their purchases •

- An application for a trademark can be made under s.27 of the Trademarks Act 1995 (Cth). The owner of an unregistered trademark has limited protection from it being used by others. •
- Trademarks will not be accepted if they are scandalous, be contrary to law or likely to deceive or cause confusion
- S. 21 of the Trade Marks Act provides that a registered trademark is personal property

International law and global business environments

- International Law is a body of law that regulates the conduct of sovereign states and other legal entities possessing international legal personality
 - Established by sovereign states
 - Rules and principles facilitating the conduct of states and international organisations
 - Customary rules and treaty rules that are legally binding among sovereign political entities
- General International Law, examples include:
 - Air & Space Law (Jurisdiction on air craft, aviation standards, etc.)
 - Law of the Sea and maritime boundaries (e.g. access to maritime resources, navigation, safety at sea)
 - Antarctic Law
- International Security law
 - Legal constraints on the use of military force •
 - International humanitarian law (e.g., detention of persons during armed conflict)
 - Disarmament, non-proliferation, safeguarding of conventional weapons and weapons of mass destruction
 - International Human Rights law
 - International Trade Law

World trade organisation

- A successor international organisation to the General Agreement on Tariff and Trade (GATT)
- Located in Geneva
- Established in 1 January 1995 by the Uruguay Round of GATT (1986-1994)
- Currently there are 164 member states
- Representing 98% of world trade
- Aims to ensure trade flow as freely as possible
- Provide forum for trade negotiations and settle trade disputes
- Monitor and enforce agreements

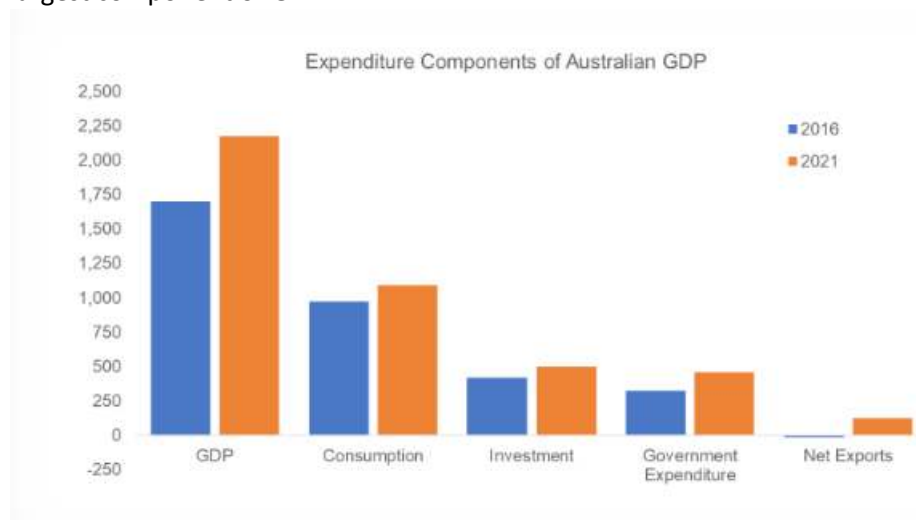
6. WEEK 7: ECONOMIC LENS

PRE-LEARNING

- It is important for businesses to understand what they measure and what their values can tell them about the economic environment in which they operate or in places they would like to do business.
- Key indicators of economic activity:
 - Gross Domestic Product (GDP)
 - Price Indices and the Inflation Rate
 - The Balance of Payments
 - The Unemployment Rate
 - Interest Rates
 - Exchange Rates

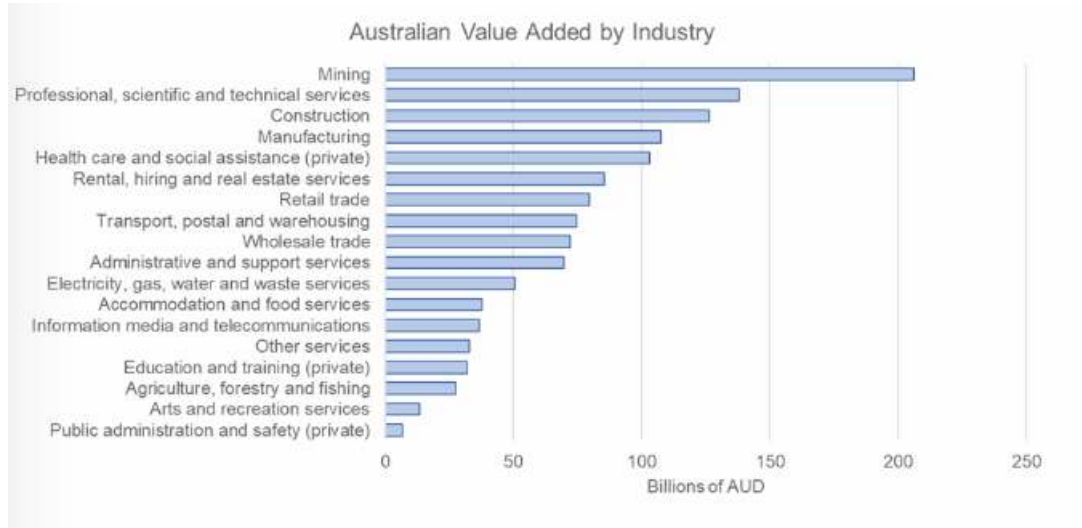
GDP

- Gross Domestic Product, or GDP, is a key indicator used to measure the size and growth of the economy.
- GDP can be calculated using three different approaches.
- It is also very useful because it means that there are multiple ways to break down GDP into its components.
- By zooming in to a lower level of analysis in multiple ways, you can get a better picture of how and why GDP differs across countries and varies over time.
- Based on the expenditure approach, GDP can be broken down into various sources of expenditure in the economy.
- The main components are household consumption expenditure, business investment, government expenditure, and net exports (export minus imports).
- In the chart below, you can see that, like most countries, consumption expenditure is the largest component of GDP.

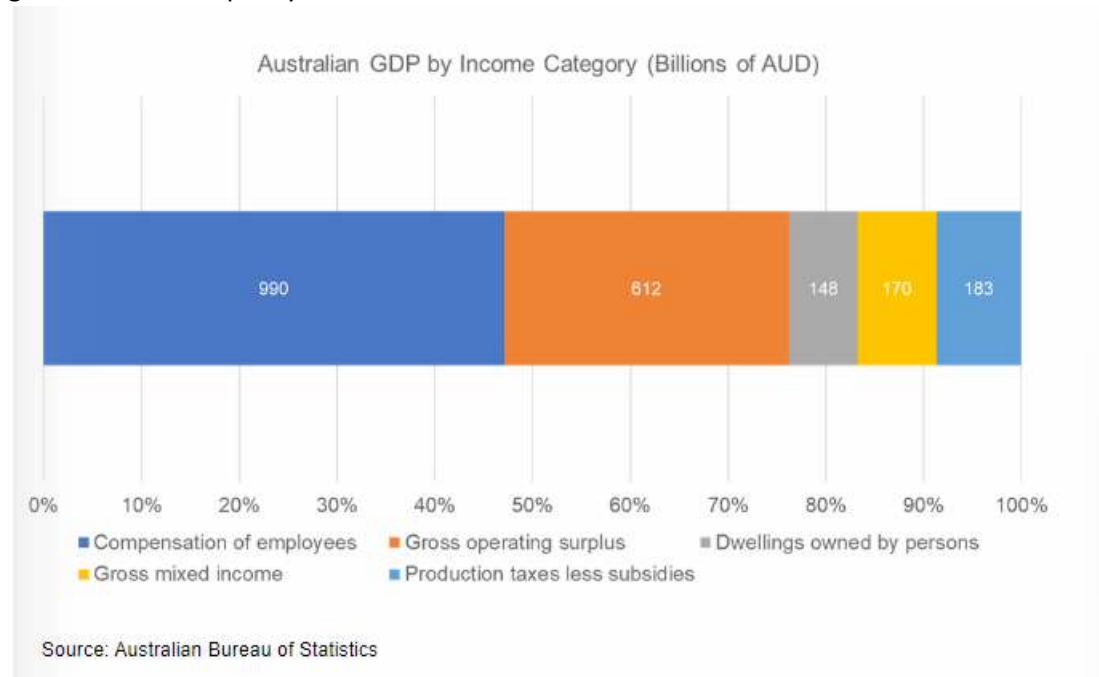


-
- Based on the production approach, GDP can be broken down into value added by industry.

- Recall that GDP measure the value of final goods and services, not the value of intermediates.
- Value added is the value of the goods and services a business sells minus the cost of intermediate inputs.
- So adding the value added of each business in each industry gives us a measure of GDP based on the production approach.
- In the following chart, you can see that the mining industry is a key contributor to Australian GDP, followed by construction, manufacturing, and health care.



- Based on the income approach, we can also break down GDP into types of income.
- The chart below shows that compensation of employees makes up the largest share of GDP.
- This is related to what is known as the labour share of income, which is the share of total income that goes to individuals working for a wage or salary, as opposed to income to owners or shareholders of companies
- . As we will discuss in the lecture, after remaining remarkably steady for 50 years after World War II, the labour share has been declining in most countries in recent years, contribution to global income inequality.



- Finally, GDP can be broken down by geographical area.
- Because statistically agencies are usually part of national governments, aggregate economic statistics tend to be collected at the level of the nation-state.
- The value of nominal GDP could be higher in one country than another or in one time period versus another for three reasons:
 - Each of the residents of the country produce more goods and services on average.
 - The country has more people.
 - Market prices are higher.

Nominal vs Real GDP

- Often when we are comparing GDP over time, we want a measure of GDP that holds prices constant so that we can see how much production of goods and services has changed.
- DP adjusts nominal GDP for changes in prices by calculating the value of goods and services using prices from a given base year.
- Note: When you are looking at GDP statistics, real GDP is often referred to as GDP measured at constant prices, while nominal GDP is referred to as GDP measured at current prices.

GDP vs GSP per capita

- Often, GDP is used as a measure of the standard of living or economic well-being of the residents of a country.
- Whereas GDP measures the overall amount of goods and services produced by an entire economy, for this purpose a measure of how much is produced per person on average is more appropriate.
- GDP per capita, or GDP divided by a country's population, is appropriate for these cases.
- When we divide real GDP by population, we get real GDP per capita, which is the most common and readily available measure of the standard of living in a country.
- We will consider the shortcomings of this measure for this purpose on the next page, but first it is useful to consider what it tells us.
- Real GDP per capita measures the amount of real economic activity—how much useful stuff was actually produced—in an economy per person.
- In other words, it is a measure of what the average person in the economy has available to them to meet their daily needs and wants or to be invested for the future, such as in education, R&D, or manufacturing equipment.
- It also measures the real value of income the average person has available to purchase goods and services.

GDP vs Happiness

- A related criticism of GDP is that it only measures material goods that are produced and bought and sold in markets. It does not measure things like health, education, or happiness.
- As with the other shortcomings, this is not really a criticism of GDP as a measure but an argument that it is useful to look at other measures of social and economic development and sustainability.
- However, when we do want to look a single measure overall wellbeing, real GDP per capita is still often the best place to start.
- This is because real GDP per capita is highly correlated with other measures of wellbeing across countries.

- For example, the figure below shows a strong, though far from perfect, correlation between GDP per capita and self-reported life satisfaction.
- One likely reason for this is that, as humans' basic material needs are met, it frees up time and other resources to spend on other important things like looking after their health, pursuing higher education, or spending time with friends and family.

The balance of payments

- The balance of payments accounts, which record transactions between the residents of one country and the rest of the world.

$$Y = C + I + G + EX - IM$$

$$= C + I + G + \text{trade balance}$$

- Australia's balance of payments captures the transactions between Australian 'residents' and the rest of the world, in a given period. 'Residents' are defined broadly to include people who live in Australia, businesses that operate in Australia, the Australian government and other organisations that operate here.
- The balance of payments divides transactions into two broad accounts:
 - the current account
 - the combined capital and financial account
- In essence, the current account captures the net flow of money that results from Australia engaging in international trade, while the combined capital and financial accounts capture Australia's net change in ownership of assets and liabilities.
- These broad accounts are often referred to as the 'two sides' of the balance of payments.
- The balance of payments are put together according to international standards (set out by the International Monetary Fund (IMF) and the United Nations) that make it easier to compare Australia's balance of payments with that in other countries.

The current account

- The current account records the value of the flow of goods, services and income between Australian residents and the rest of the world.
- There are three components to the current account – the "trade balance", "primary income balance" and "secondary income balance".
- In economic analysis or commentary, most attention is usually given to the trade balance, which records the difference between the value of our exports and imports of goods and services.
- This is because the trade balance forms part of gross domestic product.

Trade balance	<ul style="list-style-type: none"> • The value of goods and services that Australian residents export less those that they import.
primary income balance	<ul style="list-style-type: none"> • The income that Australian residents earn from, less that they pay to, the rest of the world from working (e.g. wages) and from financial investments (e.g. dividends)
Secondary income balance	<p>Consists of two parts:</p> <ul style="list-style-type: none"> • The income that Australian residents earn from, less that they pay to, the rest of the world from the government (e.g. tax payments and refunds). • Current transfers: transactions between Australian residents and the rest of the world where one party provides something to be consumed

	by another party without receiving anything in return (e.g. emergency food aid).
--	--

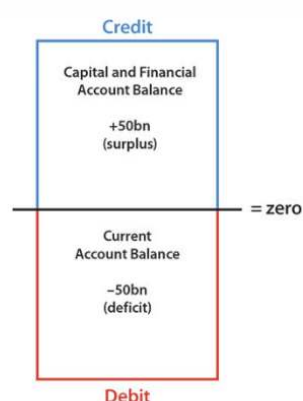
The capital and financial account

- The combined capital and financial account records the capital and financial transactions between Australia and the rest of the world.
- The capital account component records two main types of transactions involving capital.
- The first is "capital transfers", where one party has transferred ownership of something to another party without receiving anything in return; capital transfers include conditional grants for specific capital projects (e.g. a foreign aid project to build roads) and forgiveness of debt.
- The second type of transaction involves "non-financial, non-produced assets"; this type of asset includes intangible assets (e.g. brand names) as well as rights to use land or water (e.g. for mining or fishing).
- The much larger financial account component records transactions between parties that involve a change of ownership of Australia's assets or liabilities.
- It is structured according to the different classes of investment that owners of these assets or liabilities can undertake.

The relationship between the accounts

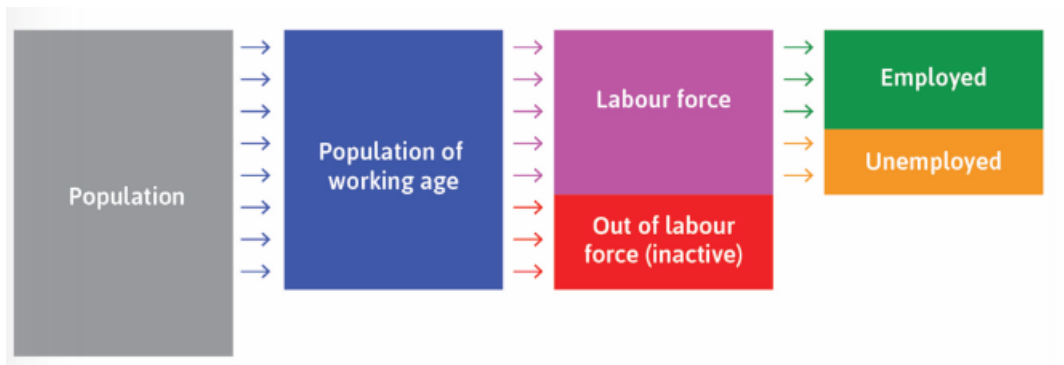
- The current account is always offset by the capital and financial account so that the sum of these accounts – the balance of payments – is zero.
- The logic underlying this, and represented in the double-entry accounting framework, is that the value of whatever is traded (recorded in the current account) is offset by a movement of some form of asset to pay for it (recorded in the capital and financial account).
- Consequently, when the balance of one account is in surplus (i.e. has a positive value, representing a credit), the balance of the other account must be in deficit (i.e. has a negative value, representing a debit).
- We can summarise the relationship between the accounts with an example of Australian economic developments.
- Australia has tended to borrow from overseas, reflecting investment in the Australian economy.
- The capital flowing into Australia is recorded as a credit in the balance of payments and has been associated with a capital and financial account surplus.
- This surplus is matched by a current account deficit (recorded as a debit). Part of the reason for Australia's current account deficit is the interest Australia pays to the rest of the world on its international borrowing.

Stylised Balance of Payments for Australia



The labour force and unemployment

- If real GDP per capita is the first statistic typically used to assess the health of a country's economy, the unemployment rate is often the second.
- However, while GDP is the main indicator of whether an economy is in a boom or a recession, the main concern for many businesses and policy makers is the level of unemployment.
- Unemployment refers to people who would like a job but cannot find one. Unemployment is a major concern for several reasons:
 - It is a source of considerable anguish for those who experience it and their families.
 - It leads to a significant reduction in spending on businesses' products due to both lost income and uncertainty about the future.
 - It is profoundly inefficient, as productive potential employees do not contribute to the economy.
 - It leads to lost skills.
 - It increases economic inequality.
- Because of this, it is important for businesses and policy makers to have access to a useful measure of unemployment.
- Unemployment is formally defined as the share of the labour force that is unemployed.
- To be considered unemployed a person must meet the following criteria:
 - Have not worked in the previous week.
 - Be actively looking for work.
 - Be immediately available for work
- The figure below illustrates these definitions.
- Of the entire population, those aged 15 years and over are considered to be of working age. Of the working age population, those who are actively looking and available for work, are considered part of the labour force.
- And of the labour force, those who are not currently working are considered unemployed, with the remainder considered employed.



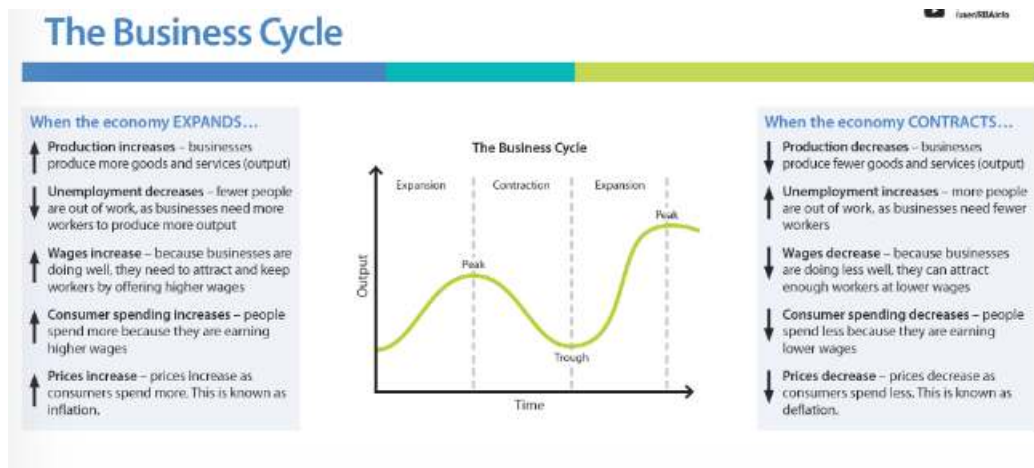
- In addition to the unemployment rate, there are several other statistics that help us get a picture of the state of the labour market in a country.
- The labour force participation rate is the share of the working age population that is in the labour force.
- The employment rate is the share of the working age population that is employed.
- Whereas the unemployment rate gives us a sense of how difficult it is to find a job. The participation rate and employment rate show how much of the working age population is engaged in the labour market.
- This is important because if a person is discouraged from seeking a job because of low prospects, they are not counted as part of the labour force.
- This means that a low unemployment rate could be the result of few people being unemployed or of few people feeling it is worthwhile to look for a job, and looking at the participation rate can help to distinguish the two stories, which have very different implications.
- The final measure that is often reported is the underemployment rate.
- This measure includes not just those who are unemployed but those who are working but who are available and would like to work more hours

7. WEEK 8 ECONOMIC LENS

Pre leaning

Business fluctuations

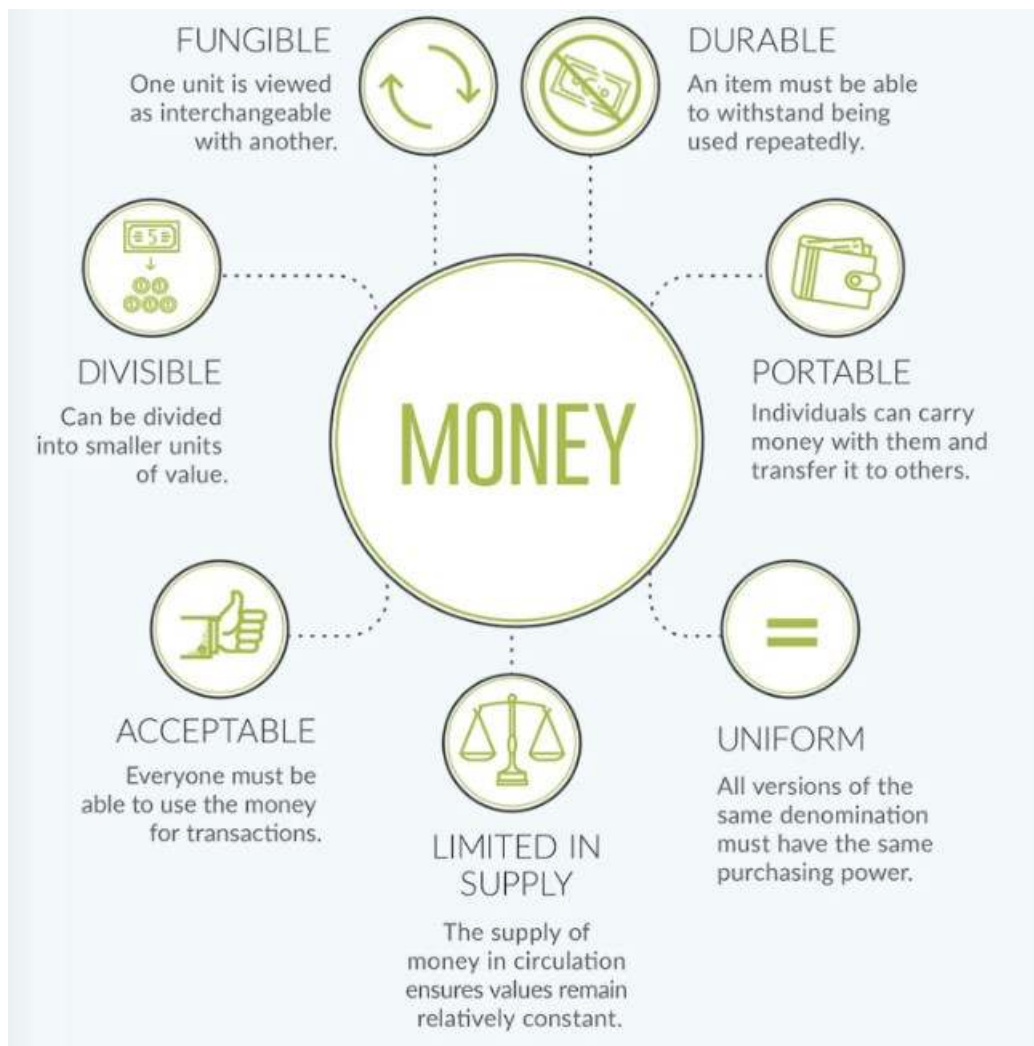
- Since the beginning of the industrial revolution in the 18th century, economies have tended to grow, with living standards in industrialised countries, measured by real GDP per capita, increasing by roughly 2% per year.
- But, that growth has not been smooth. Instead, there have been periods of rapid growth followed by periods of slow or negative growth.
- We call these fluctuations in economic growth the business cycle.
- While from one generation to the next, the economic fluctuations over the business cycle are dwarfed by the long-run trend, these fluctuations are felt acutely when they occur, and major economic downturns, like the Great Depression or the "Great Recession" that followed the Global Financial Crisis, can take a decade or more to recover from and have major social, political and environmental consequences.



-
- Much of macroeconomics is devoted to understanding what drives the business cycle, and how government policy can (or cannot) help to smooth out the fluctuations.
- A country's prosperity depends on human capital, product capital
- Economy changes
- Recessions are significant widespread declines in employment and income
- Land and capital underused in recession → waste in resource, economy operating below its potential

What is money

- As we turn to the monetary side of the economy, we will consider how interest rates and inflation are determined and their effects on other elements of the economy.
- Both of these are related to money.
- An interest rate is the price of borrowing money, and inflation is the rise in the general level of prices of goods and services over time in terms of money.
- So we go further, it is useful to understand what we mean by the term money.
- Most of us use money so frequently that we take it for granted, but defining it is more difficult than you might think.
- Economists typically define money by how it is used.
- It is anything that is generally accepted in exchange for goods or services.
- Money is generally considered to serve three main purposes in society: a medium of exchange, a unit of account and a store of value.
- It is useful to have one thing that serves all three purposes so that prices tend to be expressed in terms of the same currency that people use to buy them and so that people can use the same money to buy something today or to hold to allow them to buy something tomorrow.



-
- Money has arisen independently in many forms throughout human history.
- Examples include metal coins, rice, salt, beads, feathers, cigarettes, shells, large immovable boulders, and instant noodles—throughout human history.
- Look at the list of properties that a good form of money should possess, and you will see how these items could fulfill the role that paper and, increasingly, electronic currency now play.
- However, money was not always a part of society.
- Money came to replace the social conventions that allowed exchange within tight-knit communities—with both good and bad consequences—to allow the types of exchanges we make with strangers in the modern global economy we now live in.

What causes inflation

- How many times a dollar gets used a year is the velocity of money
- $M, V, P(\text{price level}), Y(\text{finished goods and services is sold})$
- Y is real gdp
- $Y \times P$ is nominal gdp
- $M \times v$ is nominal gdp
- $M \times v = p \times y$
- $Mv/y = p$
- When prices change

- Y is stable
- M is stable
- The velocity of money is the average number of times a dollar is used to purchase goods and services
- Only this that can increase p is an increase in m
- Increases in prices are caused by increases in money supply
- When more money chases the same amount of goods and services, prices must rise
- If v and y are not growing then the growth rate of m should be equal to the growth rate of prices
- Money is neutral in the long run

Sticky prices

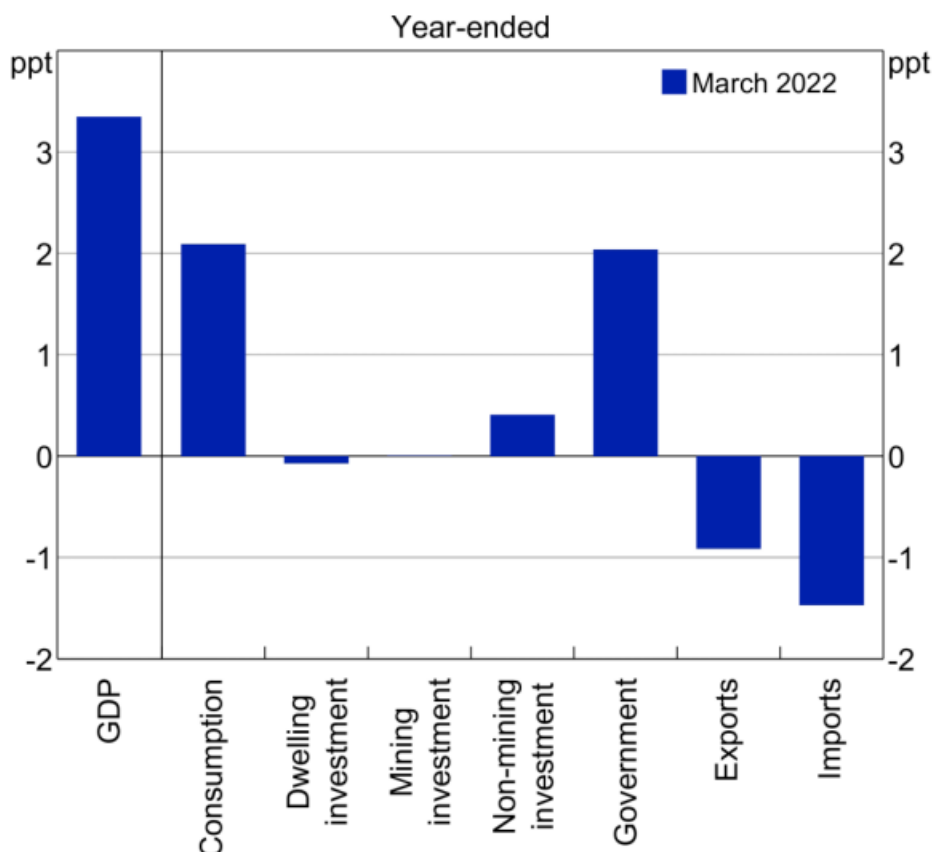
- GDP (and employment) is determined in the short run—i.e., at business cycle frequencies of a couple months to a year.
- An important assumption of this model—which traces back to Keynesian economic analysis, named for British economist John Maynard Keynes—is that prices tend to adjust slowly in response to changes in supply and demand, a phenomenon called sticky prices.
- Wages get stuck and fail to adjust
- Keynesians believe that, because prices are somewhat rigid, fluctuations in any component of spending—consumption, investment, or government expenditures—cause output to change.
- If government spending increases, for example, and all other spending components remain constant, then output will increase.
- Some modern economists have argued in a Keynesian spirit that, along with wages, other prices may be sticky, too.
- Many firms do not change their prices every day or even every month.
- When a firm considers changing prices, it must consider two sets of costs. First, changing prices uses company resources: managers must analyze the competition and market demand and decide what the new prices will be, sales materials must be updated, billing records will change, and product labels and price labels must be redone.
- Second, frequent price changes may leave customers confused or angry—especially if they find out that a product now costs more than expected.
- These costs of changing prices are called menu costs—like the costs of printing up a new set of menus with different prices in a restaurant.
- Prices do respond to forces of supply and demand, but from a macroeconomic perspective, the process of changing all prices throughout the economy takes time.
- Some of the basic features of Keynes theory of income and employment are as follows:
 - Output employment and income are interchangeable terms.
 - Employment and income depend on effective demand.
 - Effective demand is governed by aggregate demand and aggregate supply.
 - Since aggregate supply remains constant in the short-run, Keynes concentric on the aggregate demand.
 - Aggregate demand in a two sector economy (i.e., households and firms) is determined by consumption expenditure and investment expenditure.
 - Consumption expenditure is determined by (i) the size of income, and (ii) propensity to consume.

- Propensity to consume may be of two kinds
 - Average propensity to consume,
 - and (ii) Marginal propensity to consume.
- The propensity to consume is relatively stable.
- If the propensity to consume remains unchanged, employment depends upon the investment expenditure.
- Investment depends upon (i) the rate of interest, and (ii) the marginal efficiency of capital.
- Marginal efficiency of capital, in turn, is determined by (i) supply price of capital asset, and (ii) prospective yield from the capital asset.
- The rate of interest is determined by (i) the supply of money, and (ii) the demand for money. The demand for money depends upon the liquidity preference.
- The liquidity preference is determined by three motives : (i) Transactions motive, (ii) Precautionary motive, and (iii) Speculative motive. The supply of money is controlled by the government.

Lecture notes

Recall: $GDP = C + I + G + EX - IM$

Contributions to GDP Growth



History of economic thought

- Classical/Neoclassical approach
 - Adam Smith, Alfred Marshall

- Prices clear markets → the economy is self-regulating
- Laissez fair- no need for government intervention
- Suppose G (or C or I or EX) increases
 - No change to the productive capacity of the economy
 - Prices adjust
 - GDP/employment do not change
 - only 'real' shocks- e.g., technology/productivity matter
- Keynesian approach
 - Stick prices: prices (including wages) adjust slowly
 - Government policy plays a role in the short run
 - Suppose G (or C or I or EX) increases
 - Businesses increase production to meet demand at existing prices
 - Businesses demand more labour
 - Household incomes go up
 - Households demand more goods and services

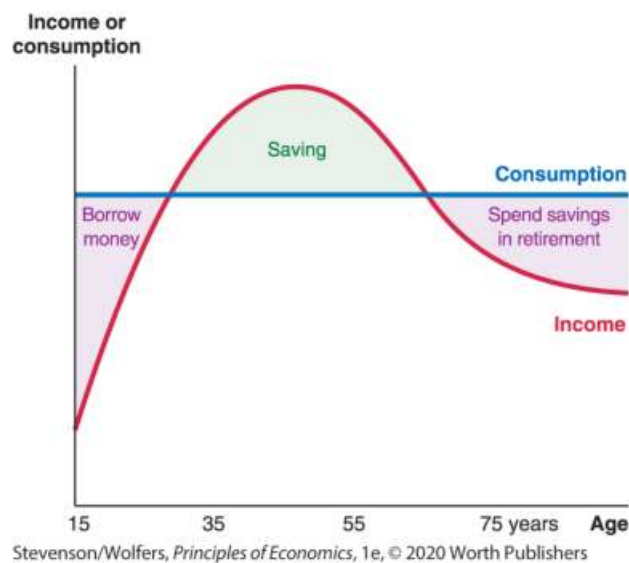
Definition: Aggregate Demand = $C + I + G + EX - IM$

Assume:

- $I, G, (EX - IM)$ are **exogenous** (determined outside the model).
- C depends on *disposable income*.
 - $\text{Income}(Y) - \text{Taxes and other commitments}(T)$
- Let $C = \bar{C} + a \times (Y - T)$
 - \bar{C} – exogenous (or “autonomous”) consumption expenditure
 - a – **Marginal Propensity to Consume (MPC)**
- GDP = TOTAL INCOME = TOTAL PRODUCTION= TOTAL EXPENDITURE
- GDP =Y=AD

Consumption smoothing

- Diminishing marginal benefit → spread consumption over time
- Permanent income hypothesis:
 - Consumption depends on the present value of lifetime income
 - Small consumption response to temporary changes income
 - Large responses only to unexpected permanent changes in income



Hand-to-mouth households

- Many households are borrowing constrained
 - Would like to borrow to increase consumption today but cannot
- Hand to mouth households
 - Consumer every additional dollar earned today
 - Large consumption response to temporary changes in income
- To types
- Poor hand to mouth:
 - Householders with little wealth
 - Small share of GDP
- Wealth hand to mouth
 - Households with liquid wealth
 - Substantial liquid wealth
 - Significant share of GDP

Keynesian fiscal stimulus

- Demand creates supply
- Government should intervene to reduce unemployment
- Expansionary fiscal policy
 - Increases government spending
 - Lower taxes
 - Typically financed by increasing government budget deficit

Fiscal policy

- Fiscal policy is the use of government spending and tax policy to reduce economic fluctuations
- Fiscal policy works in two ways:
 - Automatic stabilisers: the tendency for a system of taxes and transfers to automatically reduce the size of GDP fluctuations

- Unemployment insurance, social safety net, progressive income taxes
- Discretionary fiscal policy: deliberate changes in government spending, transfer payments or tax rates to influence the level of economic activity,

Problems with fiscal policy

- Time lags: it takes time to”
 - Recognise the need for policy action
 - Decide on appropriate action
 - Pass legislation to implement fiscal policy
 - See effects of policy once implemented
- Funding: expansionary policy required higher taxes or borrowing
 - Taxes have discretionary effects, reducing potential output
 - Government debt
 - May crowd out private investment, by increasing interest rates.
 - May not be sustainable in the long run.

What is money?

- Many functions for money:
 - Medium for exchange
 - Used to exchange for goods and services
 - Unit of account
 - Used to measure the economic value of goods and services
 - Store of value
 - Used to hold wealth
- Many types of money
 - Commodity money
 - Something with intrinsic value used as money
 - Gold, silver, rice,
 - Fiat money
- Many measures of money
 - Currency
 - Money base: Currency + deposits of banks with the RBA.
 - M1: Currency + cheque and savings accounts
 - M3: M1 + all deposits of the private nonbank sector
 - MZM: Currency + cheque and savings accounts + money market funds
 -

What is inflation?

- The rise in the general level of prices of goods and services over time



Costs of inflation

- Costs of expected inflation:
 - Indexing costs: have to incorporate into contracts
 - Menu costs: have to change prices more often
 - Shoe-leather costs: consumers must go to bank more often
- Costs of unexpected inflation:
 - Inconvenience: hard to plan when prices keep changing
 - Relative price distortions: prices of some goods adjust more rapidly than others
 - Uncertainty: Can distort investment

Benefits of inflation

- Source of revenue for the government
 - Called seigniorage
- If nominal wages are “sticky”, government can use inflation to reduce real wages in recessions.
- Causes nominal interest rates to be higher than real interest rates, giving the central bank “room to work” by cutting interest rates.

Redistributive effects of inflation

- Unexpected inflation:
 - Lowers wealth of lenders: retirees and banks
 - Raises wealth of borrowers: young home-owner (and government)

The inflation fallacy

- The (mistaken) belief that inflation destroys purchasing power.
- This is only half the story:
 - Inflation decreases the purchasing power of \$1.
 - This makes a buyer (with cash) poorer, BUT it makes a seller richer
- Inflation is an overall rise in all prices, including wages and the prices businesses charge.

Types of inflation

- Headline inflation: % change in the CPI.
 - What we usually mean when we just say “inflation”.

- Underlying inflation: An inflation measure that excludes items that have particularly large price changes.
 - Intended to exclude price changes due to temporary factors.
 - For example, supply disruptions due to weather events.
 - Many possible measures of underlying inflation, for example
 - CPI excluding volatile items
 - Trimmed mean

What causes inflation

$$\text{Velocity of money} = V = \frac{P \times Y}{M}$$

-
- Measures spending per dollar over a period of time.
- How fast a dollar travels around the economy.
- If GDP = \$20 and there are 4 x \$1 notes in the economy, then $V = 5$.

Quantity theory of money

- Assumes that in the long run
 1. Real output Y is independent of the money supply M
 2. Velocity V is constant: P changes proportionately with M
- Implies that:
 - The price level is determined by the money supply
 - Inflation is determined by growth in money supply

The central bank (RBA)

- Issues currency
- Banker to the banks
 - Banks hold accounts to settle debts owing to other banks.
 - Banks short on cash can borrow from the central bank if they cannot borrow enough from other banks.
- Banker to the government
- Regulates financial markets
- Implements monetary policy

It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:

- a. the stability of the currency of Australia;
- b. the maintenance of full employment in Australia; and
- c. the economic prosperity and welfare of the people of Australia.

Reserve Bank Act 1959

-

The RBA's toolkit

- The RBA has three goals and one major tool
 - Central banks used to target the money supply. Why?
 - Today, most target interest rates.
- The Interbank Overnight Cash Rate (Cash Rate)
 - The interest rate on unsecured overnight loans between banks.
 - The (near) risk-free benchmark rate for the Australian economy
- How does the RBA set the cash rate:
 - It announces the rate
 - Allows banks to borrow
 - Conducts open market operations
 - If $i < \text{target}$, the RBA sells government bonds to banks, taking cash out of the market.
 - If $i > \text{target}$, the RBA buys government bonds from banks, injecting new cash into the market.
 - So, to $\downarrow i$, \uparrow the money supply; to $\uparrow i$, \downarrow the money supply.

Other (nominal) interest rates

- Does your mortgage interest rate depend on the cash rate?
 - Yes!
- The cash rate is the bank's opportunity cost of lending money
 - Lenders charge an interest rate that covers their lending cost
 - Plus compensation for risk
- $\text{interest rate} = \text{risk free rate} + \text{risk premium}$
- Cash rate \approx risk free rate
 - Short-term, backed by government bonds

Real interest rates

- If lenders expect high inflation, they will demand a higher interest rate.
- If prices are sticky
 - Inflation will adjust slowly to changes in i .
 - The central bank can influence real interest rates

Interest rates and the economy

- Household consumptions/savings
 - Lower $i \Rightarrow$ less costly to borrow/spend today
 - Increase in i , i (new housing)
- Business investment
 - Lower $i \Rightarrow$ lower opportunity cost of new capital equipment
 - Increase in i
- Cash flow
 - Lower mortgage rates, means more cash in pockets to spend today.
 - Increase in i (especially for hand-to-mouth households)
- Asset prices
 - Lower i tends to increase asset prices.
 - Easier for (wealthy hand-to-mouth) consumers to get loans.

- Consumption smoothers feel richer and spend more today.
 - Increases \bar{C}
- Exchange rates
 - Lower \bar{C} tends cause the Australian dollar to depreciate.
 - Australian goods and services are cheaper for foreigners.
 - Increases \bar{C} , decreases \bar{C}
- Fiscal policy
 - Lower $\bar{C} \Rightarrow$ government debt is less of a concern.
 - Increases G

Transmission of monetary policy

- Short run income expenditure model

$$Y = \bar{C} + a(Y - T) + I + G + EX - IM$$

- Components of GDP all increase with decrease in r

$$Y = \bar{C}(r) + a(Y - T) + I(r) + G(r) + EX(r) - IM(r)$$

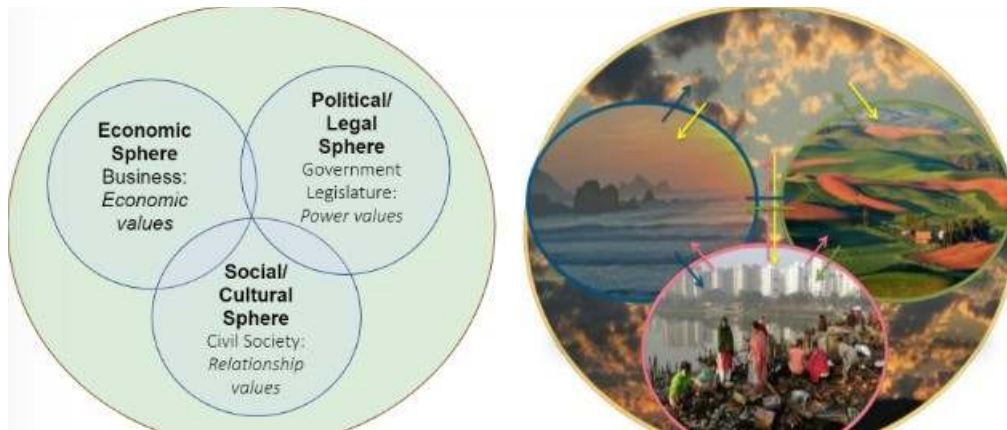
Why macroeconomic policy is hard

- Monetary and fiscal policy are blunt instruments
 - There are many competing objectives but two main tools.
- Data availability
 - Not clear what is happening until after the fact.
- What is the “potential” output?
 - Supply-side shocks
 - Short-run output-inflation trade-off.
- Zero lower bound for nominal interest rates.
 - Requires “unconventional” monetary policy.

8. WEEK 9 SUSTAINABILITY

PRE-LECTURE NOTES

The sustainability lens; social and environmental



- Intra and intergenerational equity underpin the five dimensions of sustainability



○

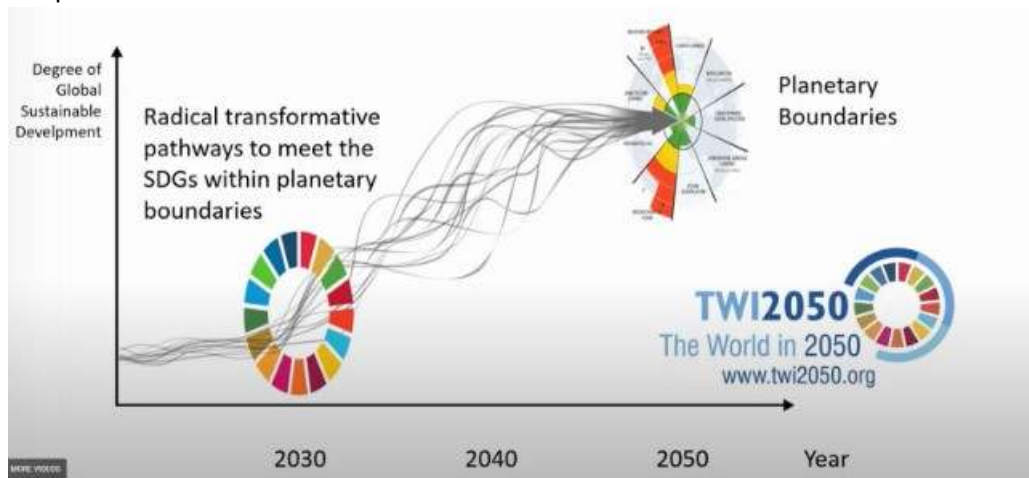
Environmental sustainability and ecosystem services

- An example of the complexity involved in human activity and complex adaptive systems, as found in nature and society, is the impacts of climate change.
- Arguably the greatest challenge with climate change is not the complexity of the natural systems being impacted but the human systems that are unable to agree on coordinated action.
- Climate change is a result of the externality associated with greenhouse-gas emissions – it entails costs that are not paid for by those who create the emissions.
- It has a number of features that together distinguish it from other externalities:
 - It is global in its causes and consequences.
 - The impacts of climate change are long-term and persistent.
 - Uncertainties and risks in the economic impacts are pervasive
 - There is a serious risk of major, irreversible change with non-marginal economic effects.

Global initiatives and agreements: Political and Legal approaches

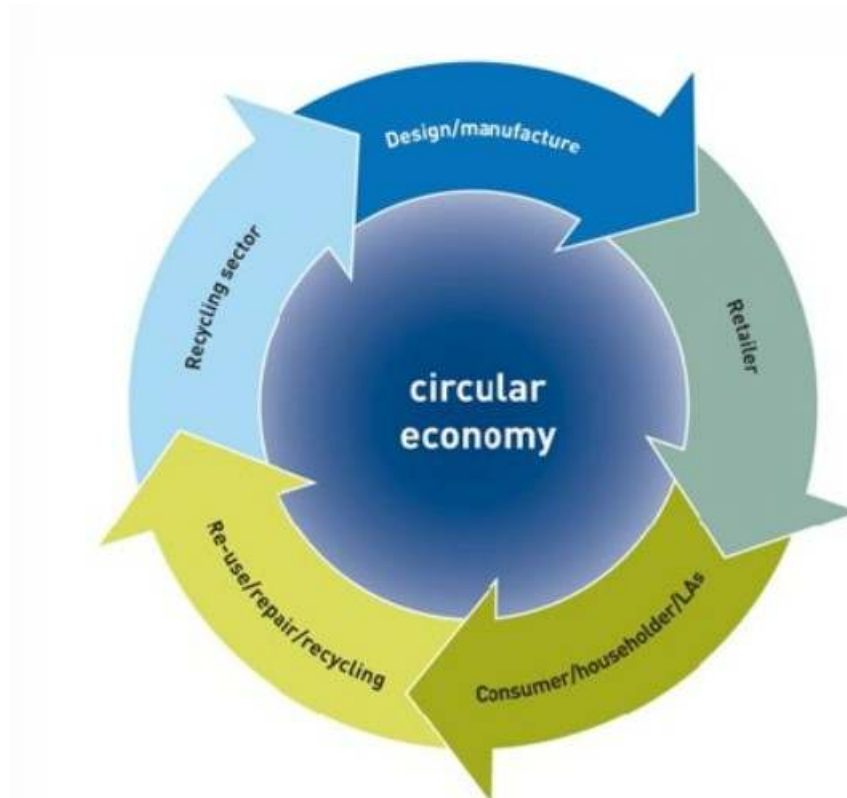
- Countries have debated how to combat climate change since the early 1990s. These negotiations have produced several important accords, including the Kyoto Protocol and the Paris Agreement (COP 21).
- The Paris Agreement marked the beginning of a shift towards a low-carbon world - it provided a roadmap for climate actions that will reduce emissions and build climate resilience.
- Governments generally agree on the science behind climate change but have diverged on who is most responsible and how to set emissions-reduction goals.
- There has been increased concerns that current targets are not sufficient.

- The UN climate change conference (COP26), took place in Glasgow in November 2021 with a renewed commitment to reducing emissions of carbon and methane by a number of countries. However there is ongoing debate as to whether these gains are enough to address the problem.



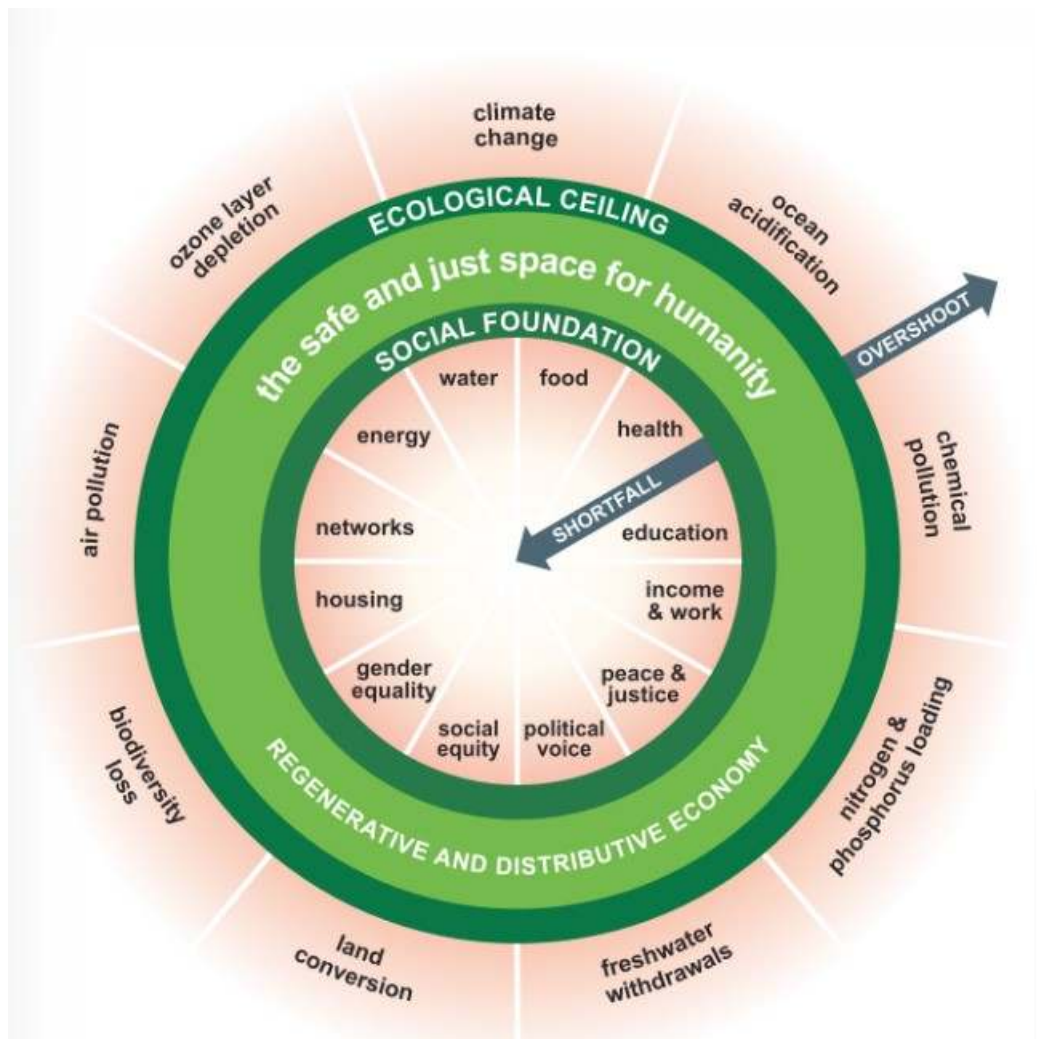
Rethinking supply chains: from linear to circular (closed loop)

- Circular economy:
 - Looking beyond the current "take, make and dispose" extractive industrial model, the circular economy is restorative and regenerative by design.
 - Relying on system-wide innovation, it aims to redefine products and services to design waste out, while minimising negative impacts.
 - Underpinned by a transition to renewable energy sources, the circular model builds economic, natural and social capital.
 - "For biological materials, the essence of value creation lies in the opportunity to extract additional value from products and materials by cascading them through other applications"



-
- Doughnut economy:
 - Changes the goal from endless GDP growth to thriving in the 'Doughnut'.
 - Begins economic analysis by seeing the big picture and recognising that the economy is embedded within, and dependent upon, society and the living world.
 - Recognises that human behaviour can be nurtured to be cooperative and caring, just as it can be competitive and individualistic.
 - Understands that economies, societies, and the rest of the living world, are complex, interdependent systems that are best understood through the lens of systems thinking.
 - Proposes that growth is a healthy phase of life but nothing grows forever and things that succeed do so by growing until it is time to grow up and thrive instead.

○

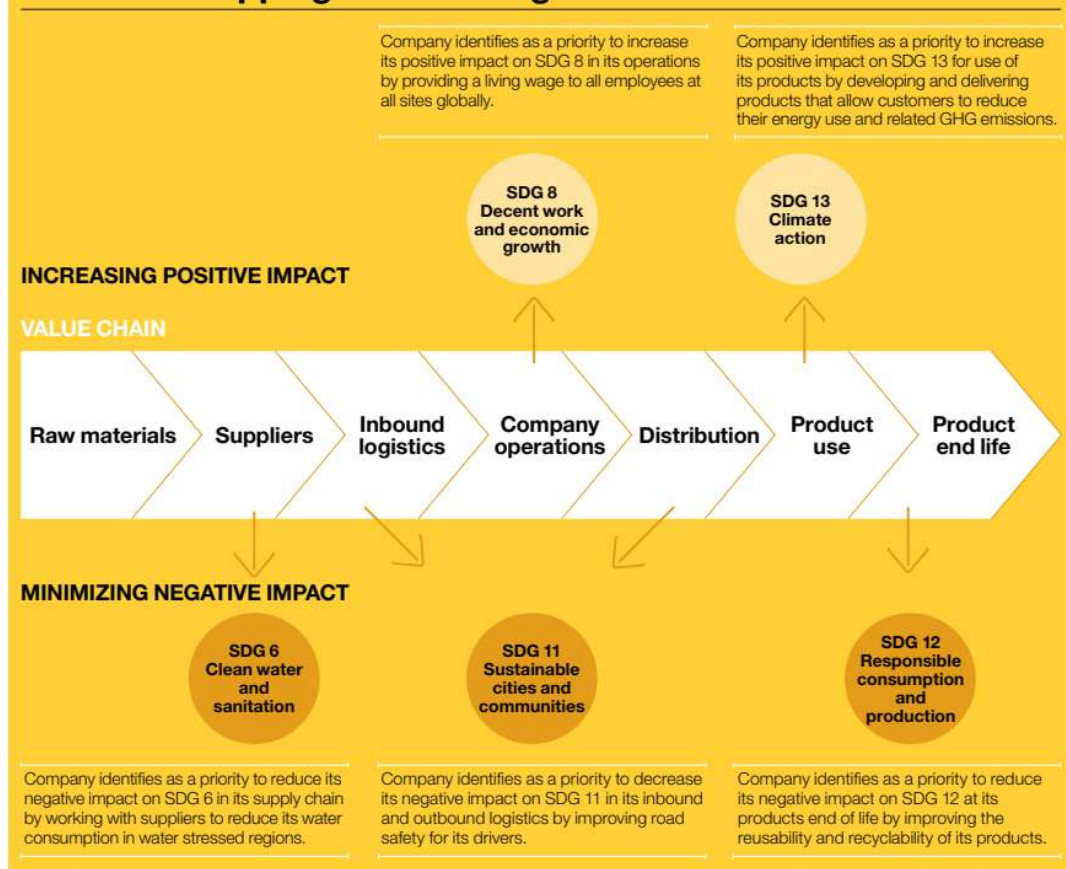


Pre-lecture learning

SDG Compass

- Companies are encouraged to start this impact assessment by doing a high-level mapping of their value chain to identify areas with high likelihood of either negative or positive impacts on the issues that the SDGs represent. Due consideration should be given to both current impacts and the likelihood of future ones.
- This mapping does not entail a detailed assessment of each SDG at each stage of the value chain, but rather a high-level scan of where impacts can be expected to be greatest.
- This means examining each segment of the value chain falling within the scope of the assessment to identify areas where:
 - Your company's core competencies, technologies and product portfolio currently or potentially contribute positively to the implementation of one or more of the SDGs
 - Your company's activities directly or indirectly across the entire value chain may have current or potential negative impacts on one or more of the SDGs.

In action: Mapping the SDGs against the value chain



- The three actions suggested in this step are designed for impact assessment at entity level, but may be applied at product, site or regional level as required. Whatever choice is made, it is important to be transparent about the boundaries that have been selected and clear about whether and why