DUBBO
HSC
ENRICHMENT SEMINARS

HSC Economics 2010
Global Influences, Economic Issues & Management

Presenter- Peter Kennedy
Head Teacher – Teaching & Learning
Castle Hill High School
Economics Tutor – Macquarie University

Part A - The HSC Economics Exam

The HSC Economics Examination tests students' knowledge, understanding and skills based on the individual outcomes for each topic. The time allowed for the examination is three hours plus 5 minutes reading time. Board approved calculators may be used in the examination. Use the reading time to select ONE essay from Section III (two stimulus based questions) and ONE essay from Section IV (two extended response questions 27 or 28). Also read the FOUR structured short answer questions in Section II as they are compulsory. Do the exam sections in the right order i.e. Section 1 first, then Sections II, III and IV.

The structure of the 2009 HSC Economics examination paper will be as follows:
Section I: (maximum of 20 marks) Allow 35 minutes max; but 10 to 15 mins actual.
Questions 1 – 20 test multiple choice skills based on the four HSC topics. All questions are compulsory and of equal value. Some may be based on stimulus material and all answers are recorded on the multiple choice answer sheet. Marks are NOT deducted for incorrect answers.
Based on past examination papers multiple choice questions in economics have tended to test five major skills:

- *Definitions of basic concepts,* e.g. structural unemployment, fiscal policy cost inflation, MPC, effect of a tariff, public good, enterprise bargaining etc.
- *Economics calculations,* e.g. the rates of inflation and unemployment, comparative and absolute advantage, marginal rates of taxation.
- *The interpretation of diagrams, statistics and economic models* e.g. exchange rates, aggregate demand and supply, or the Lorenz Curve.
- *The application of economic analysis to current economic issues* e.g. impacts of taxation reform and exchange rate depreciation.
- *The use of logical reasoning skills* e.g. the effects of changes in macroeconomic policy settings on economic activity and vice versa.

TIP: By practicing multiple choice questions and answers from past examination papers you will come to recognise the variety of ways in which examiners can test a particular concept, issue or model. The examiners have tended to test the same sorts of concepts over the years. The Board of Studies website has an excellent link which creates and marks multiple choice tests for HSC students.

Section II: (maximum of 40 marks) Allow 72 minutes max; 40-50 minutes actual.
Questions 21 to 24 test short answer skills such as the interpretation and analysis of statistics relating to key components in the four compulsory topics in the HSC course. The number of short answer questions was increased from two to four in the new exam format. All of the questions are of equal value (four 10 mark questions) and are divided into parts, with marks allocated according to the degree of difficulty of the question. Most (but not all) of the short answer questions are based on stimulus material (e.g. an economic diagram, extract of text or data from a relevant source such as Budget Statements or the RBA Bulletin).

The short answer questions may involve a calculation; use of a student's knowledge of economics in applying, interpreting, analysing or explaining an economic issue; and/or policy or principle. Answers have to be recorded in the spaces provided in the examination paper. Provide adequate detail in relation to the allocation of marks which tend to reflect the progression from low to higher order thinking skills. Show all working if a calculation is involved.

TIP: Practice calculation of inflation, economic growth and unemployment rates from hypothetical data and how to interpret economic trends. Apply your knowledge of economic policy to address specific economic problems or issues. Go over the interpretation of economic models or diagrams.

Presented in the table below are the topics covered in past HSC economics *Section II* questions.

Year	Question	Topic 1 and 2 Questions
2009	24	Subsidies, trade flows & the impact of protection
	28	Globalisation & development strategies of an economy other than Australia
2008	22	Globalisation & Economic Development
2008	24	FDI, CAD & Foreign Debt
2007	23	Globalisation, international financial flows & differences in the standards of living between nations
2006	24	Current account, capital & financial account
2005	21	Protection/tariffs
2005	23	Exchange rates/the TWI / RBA intervention
2004	21	Protection/subsidies
2003	21	Exchange rates/balance of payments
	23	Balance of payments, CAD, capital &financial account
2002	21	Exchange rates
2001	21	Protection & free trade

Year	Question	Topic 3 and 4 Questions
2009	21	Inflation & the depreciation of the Australian Dollar
	22	Budget, financing & distribution of income
	23	Public goods, externalities & economic growth
2008	21	Multiplier, National Income &Economic Growth
2008	23	Structural Change & Microeconomic Reform
2007	21	Lorenz curve and Gini coefficient
2007	22	Inflation and monetary policy
2007	24	Public goods, private costs and social costs
2006	21	Unemployment and the participation rate
2006	22	Fiscal policy and the budget
2006	23	Microeconomic reform
2005	24	Distribution of income & wealth
2005	22	Wage determination &wages policy
2004	22	Unemployment, participation rates & inflation
2004	23	Renewable resources, private and social cost, economic growth & the environment
2004	24	Microeconomic policy and structural change

2003	22	Economic growth & productivity
2003	23	External stability
2003	24	Monetary policy & interest rates
2002	22	Unemployment & the participation rate/ social cost
2002	23	Simple multiplier, economic growth and ESD
2002	24	Inflation, causes & effects/ policies to reduce inflation
2001	22	Lorenz curve ,Gini coefficient & costs of inequality
2001	23	ESD, renewable & non-renewable resources
2001	24	Microeconomic policy

Section III: (maximum of 20 marks) Minimum 35 minutes; Actual 50-60 minutes. Questions 25 and 26 test essay writing (extended response) skills where you are asked to apply your knowledge to a specific question based on stimulus material. You must choose either Question 25 or 26 and write your answer in a writing booklet. The big change from previous years is that questions are in one sentence format and not structured with bullet points as in the past. This requires more careful planning so that the essay is structured in parts in a logical fashion. The other important feature of one sentence questions is the use of operative words such as 'discuss', 'analyse', 'explain', 'assess', 'contrast', 'examine' etc. The Assessment Support Document contains a glossary of key words which you should be familiar with. Also be familiar with the rubric (i.e. instructions) used at the top of the page to present or introduce the question. Possible areas of examination in Section III include the topics on The Global Economy, Australia's Place in the Global Economy, Economic Issues and Economic Policies and Management.

TIPS: Learn to incorporate the rubric skills in your answer

- Practice planning as many one sentence questions as possible
- Refer to the plan as you write the answer
- Refer to the stimulus in your answer
- Demonstrate an understanding of the integrated nature of questions e.g. the relationship between an economic problem or issue to possible policy responses
- Be familiar with the list of operative words published by the Board of Studies
- Practice your interpretation of stimulus material especially quotations, economic statistics, graphs or diagrams

Presented in the table below are the topics covered in past HSC economics *Section III* questions.

Year	Question	Topic 1 and 2 Questions
2009	26	Australia & one other economy, impact of globalization & distribution of global wealth
2008	25	Trading Blocs & International Organisations
2008	26	Appreciation of the Australian Dollar / External Stability
2007	26	Implications of Australia's continuing CAD's
2006	25	Protection and the global economy
2005	25	Composition & direction of trade/ structural

		change
2004	25	Exchange rates
2001	25	Policy options to achieve external stability

Year	Question	Topic 3 and 4 Questions
2009	25	Microeconomic policies & Australia's economic performance
2007	25	Fiscal policy, resource use and economic activity
2006	26	Impact of macroeconomic and microeconomic policies
2005	26	Inflation/ inflation policy
2003	25	Unemployment/ economic & social problems
2003	26	Inflation/ policies available to control inflation
2002	25	Microeconomic policy & structural change
2002	26	Fiscal policy, economic growth, income distribution & external stability
2001	25	External stability/ policy options for external stability
2001	26	Economic growth / policy options to maintain growth

Section IV: (Maximum of 20 Marks) Minimum 35 minutes; Actual 50-60 minutes. Questions 27 and 28 are two extended response questions but do not refer to stimulus material as in Section III. You must answer one of the two questions in a separate writing booklet and broadly the same rules for planning, writing and interpreting the question apply as in Section III.

TIPS: It is most important that you present accurate and up to date data (statistics) in this essay. It is crucial to demonstrate a clear understanding of economic relationships and to use economic theory to bolster key arguments.

Presented in the table below are the topics covered in past HSC economics *Section IV* questions.

Year	Question	Topic 1 and 2 Questions
2009	28	Impact of global economy on Australia's economic growth & external stability.
2008	27	Effectiveness of Fiscal Policy
2008	28	Effectiveness of Monetary Policy
2007	28	Process of globalization/ government strategies – economy other than Australia
2006	27	Exchange rates/ impacts on the Australian economy
2005	28	Globalisation / impact on the standard of living
2004	28	Impact of globalization/ economic development/ environmental consequences
2003	27	Impact of globalization (Australia or other economy)
2002	27	Impact of global economy on Australia's CAD & foreign debt

2001	27	Impact of globalization on the economic performance of the Australian economy
2001	28	Impact of globalization on economic development strategies in an economy other than Australia

Year	Question	Topic 3 and 4 Questions
2009	27	Federal Government's macroeconomic policy mix to address inflation & unemployment
2007	27	Australia's labour market policies & employment
2006	28	Ecological sustainable development , economic growth & the evironment
2005	27	Economic growth and the unemployment rate
2004	27	Monetary & fiscal policy, economic growth & inflation
2003	27	Labour market policy

Part B - HSC Style Questions and Solutions

Topic 1: Impact of the Global Economy on Australia's Economic Performance

Section III (essay) Question

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

Examine the impact of changes in the global economy on Australia's economic performance.

"As the global financial crisis took hold, industrial production fell globally and exports collapsed. Household spending also fell as confidence slumped to record lows in many countries. With an estimated annualised contraction of -6.25%, the global economy experienced the sharpest and most synchronised downturn on record in the December quarter 2008. Virtually every advanced economy is expected to be in recession in 2009 with rising unemployment and falling trade."

Source: Commonwealth of Australia (2009), *Budget Overview*, May.

Essay plan:

The global or world economy refers to the sum of countries that produce goods and services and contribute to global GDP. In addition the global economy involves the international trade of goods and services, the international movement of capital (through direct and portfolio investment), as well as trade in financial assets such as foreign exchange and financial derivatives. Changes in the global economy, especially changes in world output, trade and the global business cycle, can affect the economic performance of domestic economies in three main ways:

- Changes in global output will affect the demand for a country's exports and influence its balance of payments and exchange rate;

- Changes in global trade flows such as exports and imports of goods and services will affect a country's balance of payments, exchange rate and rate of domestic economic growth; and

- Changes in global capital flows can impact on a country's rate of economic growth, its balance of payments and exchange rate.

The current global economic environment is one of international recession caused by the global financial crisis (GFC) that accelerated and deepened in the December quarter 2008. This led to a sharp and synchronised annual contraction in global output of around -6.25% (refer to the stimulus material), with most major advanced economies experiencing recession in 2009. This includes the USA (-3%), the countries in the Euro area (-4%), Japan (-6%) and ASEAN (-1.25%). Slowdowns have also been experienced in large emerging economies such as China (6.25%), India (4%), Brazil and Russia. The IMF forecasts that the global economy will experience a -1.5% contraction in GDP in 2009 before a recovery in growth to 2.25% in 2010. International trade flows are forecast to fall by as much as -20% in 2009 and international capital flows have also experienced a sharp decline from advanced to emerging or developing countries.

In response to the global financial crisis, major advanced and emerging economies have implemented expansionary monetary and fiscal policies to support aggregate demand and employment growth. These measures include substantial reductions in official interest rates and large fiscal stimulus packages to increase domestic spending, as export earnings and capital flows diminish, causing contractions in domestic output and employment. The other major reforms taken include the guarantee of bank deposits and a tightening of lending standards, as well as injections of liquidity into financial markets to support confidence and reduce volatility in asset prices such as interest rates, shares and real estate.

With substantial trade and financial linkages to the global economy, Australia has experienced a deterioration in its economic performance in 2008-09. Economic performance has three major dimensions:

- The extent to which a country achieves its potential in terms of sustainable economic growth;

- The extent to which a country achieves internal balance by minimising inflation and operating at the full employment level of national income; and

- The extent to which a country achieves external balance, with equilibrium in it balance of payments, a stable exchange rate, and the ability to service the cost of net foreign liabilities, including net foreign debt.

The economic forecasts provided in Budget Paper No 1 indicate that the slowdown in economic activity in Australia caused by the global financial crisis and global recession is less than in other countries. This is probably due to a few reasons including the relative flexibility of Australia's economy in adapting to external shocks because of the extensive microeconomic reforms carried out in the past 20 or so years. In addition the Australian financial system, including the major banks and NBFIs remain profitable and solvent, and well regulated by the Australian Prudential Regulation Authority, the Reserve Bank and ASIC. Finally the Australian government was in a sound fiscal position (because of accumulated budget surpluses and no public debt) before the onset of the crisis, giving it more scope to use discretionary fiscal policy to stimulate the economy through direct cash payments to households and increased spending on infrastructure.

Expansionary fiscal policy settings have helped to support spending, growth and employment through the targeting of new spending at households and the business sector. The stance of monetary policy has also been eased significantly since the scope for an easing in official interest rates was larger than in other countries. The cash rate was eased from 7.25% in August 2008 to 3% in April 2009, still allowing the Reserve Bank 'room to manoeuvre' in the future if it wishes to provide further stimulus to the economy.

Real GDP is forecast to record zero growth in 2008-09 as household consumption expenditure, business investment and exports contract, reducing aggregate demand and GDP. In 2009-10 the rate of growth is forecast to contract by -0.5%, a smaller average contraction than in other major advanced economies.

Inflation has fallen in the world economy because of lower commodity prices (including oil and food prices). This has helped to ease inflationary pressures from around 5% in Australia in 2007 to a forecast 1.75% in both 2008-09 and 2009-10. This will help to support the competitiveness of businesses in the export and import competing sectors of the Australian economy.

However with the fall in aggregate demand, employment growth is forecast to be negative in both 2008-09 (-0.25%) and 2009-10 (-1.5%). This means that insufficient full time and part time jobs will be created to meet the supply of labour looking for work. As a result, the unemployment rate is likely to rise from 6% in 2008-09 to peak at 8.25% of the labour force in 2009-10. Whilst jobs have been lost in manufacturing, the financial services sector, information technology and small business, the labour market has adjusted to lower employment opportunities, with employers switching people from full time to part time jobs, and changing hours and shift times to avoid widespread retrenchments of labour.

In terms of external balance the current account deficit is forecast to rise from -3% of GDP in 2008-09 to -5.25% of GDP in 2009-10. This reflects a decline in export earnings and an increase in the size of the merchandise trade deficit. Lower rates of domestic growth however will reduce import spending, helping to contain the deficit, whilst the lower exchange rate of US$0.80 from its high of US$0.98 in August 2008 is supporting the competitiveness of the export and import replacement sectors of the economy.

Topic 1: The WTO, World Bank and the IMF

Section II (short answer) Question

For the past twenty years, the rich countries have assigned the IMF and the World Bank a privileged position in relation to other UN agencies. The IMF provides assistance to developing countries on finance and budgetary issues and temporary financial assistance to help ease macroeconomic adjustments. The World Bank provides loans and grants, policy advice and technical assistance to help low and middle income countries fight poverty.

Source: Jeffrey Sachs (2005), The End of Poverty-
How We Can Make it Happen in our Lifetime

a) Define the term 'free trade'. 2 marks

b) Discuss the role of the WTO in promoting free trade.

4 marks

c) Discuss the importance and influence of the IMF and the World Bank in the global economy .

4 marks

....

....

....

....

....

....

....

SOLUTION:

a) Define the term 'free trade'.

Free trade requires the exchange of goods and services without the constraints of protective trade barriers such as tariffs, quotas and subsidies which are designed to divert rather than facilitate trade flows.

b) Discuss the role of the WTO in promoting free trade.

The World Trade Organisation (WTO) is an international organization designed to supervise and liberalise international trade. The WTO came into effect in January 1995 as the successor to the General Agreement on Tariffs and Trade (GATT). The WTO deals with the rules of trade between nations at a near- global level. It is responsible for negotiating and implementing new trade agreements and is in charge of policing member countries adherence to WTO agreements. The WTO continues trade talks and sector – specific discussions between comprehensive rounds of trade negotiations. Every two years, trade ministers from the member countries meet to set the WTO's policy objectives. In 2001, trade ministers meeting in Doha, Qatar, agreed to launch a new round of trade negotiations emphasizing issues of importance to developing countries. This became known as the Doha Development Agenda and led to five years of negotiations before the talks were suspended in July 2006.The inability of the member countries of the WTO to achieve a successful conclusion to the Doha round of trade talks reflects the uncertainty clouding the future of global trade liberalization.
The foundation of WTO agreements are the principles of ***national treatment*** and ***nondiscrimination***. National treatment is the requirement that foreign goods are treated similarly to the same domestic goods once they enter a nations markets. Nondiscrimination is embodied in the concept of most-favoured nation (MFN) status. MFN requires all WTO members to treat each other as well as they treat their most favoured trading partner. This in effect is a prohibition against discrimination. The WTO permits trade agreements such as the North American Free Trade Agreement (NAFTA) and the European Union (EU) as long as they do not harm the overall level of international trade even though such agreements require member countries to discriminate in favour of each other and implicitly against non- member countries.

c) Discuss the importance and influence of the IMF and the World Bank in the global economy .

The origins of the ***International Monetary Fund (IMF)***can be traced back to the period following the end of World War II when the United States and Great Britain along with a number of their allies participated in the Bretton Woods conference (July 1944). From these historic talks the guidelines for the development of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) were drafted. The IMF began operations in December 27, 1945 with a membership of twenty-nine countries. By 2003 its membership had grown to 184 members. The IMF provides loans to its members under different programs for the short, medium and long term. Each member is charged a fee or quota which entitles it to membership. In 2006, the IMF had over $315 billion in quotas. Important decisions within the IMF are made by vote with the weight of each nation's vote proportional to its quota. This means that certain high- income countries (such as the United States) have voting power which is disproportionate to their population size. The seven largest industrial economies (Canada, Italy, France, Germany, Japan, the United Kingdom and the United States) control almost 45% of IMF voting rights.

The most important and visible role of the IMF, is to intercede (after invitation) whenever a nation experiences a crisis in international payments. For example, if a country imports more than it exports, then it may run short of foreign exchange reserves. This will mean it will be unable to pay for its imports or pay the interest on its foreign debt liabilities. In this situation, the country may call on the IMF for assistance and the IMF will usually make a loan to the member country but at a price above and beyond the interest it charges. The price here will normally entail an agreement by the borrowing country to change its policies so that the problem cannot recur. This is what is commonly referred to as ***IMF conditionality.*** The required policy reforms may be as simple as requiring the country to cut the value of its currency, or place limits on its central banks creation of credit. During the ***Asian financial crisis of 1997-98*** the IMF became the main provider of funds and expertise to the struggling countries of East Asia. Much controversy surrounded and followed the IMF's role here, mainly regarding the advice and conditions it imposed on the countries requiring its support.

The IMF has its own currency, called ***Special Drawing Rights*** or an ***SDR*** which may be used by member countries to settle payments deficits or in place of foreign exchange or gold. The number of SDR's available to a particular country is proportional to its IMF quota and forms part of its international reserves.

The ***global financial crises (GFC)*** brought renewed demand for IMF assistance. During the GFC and its aftermath many developing and emerging countries had difficulty accessing private capital markets and sought access to IMF lending facilities. Around 21 countries have accessed these new lending arrangements and in response the IMF doubled normal borrowing limits and reduced the extent of economic reforms normally required of borrowing countries.

The ***World Bank*** was founded in 1944 at the same time as the IMF and likewise by 2006 had 184 members. Members buy shares in the Bank and as with the IMF, shareholding determines the weight of each member in setting the banks policies and practices. Originally, the World Bank was known as the ***International Bank for Reconstruction and Development, or IRBD***. The name reflected the fact that it was primarily created to assist in the reconstruction of the war-torn areas after the second world war. By the 1950s the IBRD was being encouraged to lend to developing countries in order to help these nations overcome the capital constraints that development economists widely agreed was holding back their growth and development.

Today the IBRD is one of five separate organizations that comprise the World Bank. The role of the IBRD is to lend money for specific development projects such as dams, highways, and schools. The World Bank also provides support through policy advice and assists developing countries with devising programs to better manage their resources. Only developing countries are allowed to borrow funds from the World Bank

Other organizations in the World Bank are focused on devising programs to assist the very poor, mainly through private sector development and loan guarantee programs. For example, the ***International Finance Corporation (IFC)*** is financing the ***Rural Electrification and Renewable Energy Development Project (RERED)*** in Bangladesh, one of the poorest nations in the developing world. This program entails the piloting of renewable energy schemes with the aim of installing 50,000 Solar Home Systems (SHS) in the regions of Bangladesh that are too remote to be served by a conventional electricity grid.

Topic 2: Causes and Implications of the CAD

Section IV (essay) Question

In your answer you will be assessed on how well you:

- Use economic data
- Apply economic terms, concepts, relationships and theory
- Present a sustained, logical and well structured answer to the question.

Discuss the main causes and economic implications of Australia's continuing current account deficits.

Essay plan

A range of factors has contributed to the continued widening of Australia's current account deficit (CAD) over recent years. The main influences either relate to Australia's controversial high inflation/high budget deficit deteriorating CAD period of the mid 1980s to early 1990s, or the more recent commodity cycle/ aggregate demand driven CAD expansion period.

The main structural influence on Australia's CAD remains the size of our net income deficit and the associated cost of servicing both debt and equity borrowings overseas (known as total external liabilities). The magnitude of our external liabilities means that the payment of interest, dividends and royalties to overseas lenders and investors exceeds the inflow of income from Australian investment and lending abroad. In 2006-07 the net income deficit was 78.9% of the current account deficit. During the period 1997- 2009 the net income deficit accounted for 50% or more of the CAD. Between 1998 – 00 and 2002-08 the cyclical deficit in goods and services also led to much higher current account deficits than in other years. Australia's stock of net foreign liabilities has continued to build passing the $500 billion mark during 2004- 05 and passing the $700 billion mark in 2008-09. The continued growth of our net external liabilities has been required to finance persistent current account deficits. Australia's net foreign liabilities (consisting of net foreign debt and net foreign equity) grew from $170 billion (46% of GDP) in 1989-90 to $517billion (60% of GDP) during 2004 – 05 and $725 billion by 2008- 09. Australia's net foreign debt alone, had reached an astonishing $430 billion (50.6% of GDP) by the end of 2004-05 and $633 billion (52.9% of GDP) by 2008-09.
The interest cost of servicing our net foreign debt has fallen over the last decade (to just over 6% of net foreign liabilities) reflecting lower interest rates on global markets. However, the recent international commodities boom has led to our resource companies making higher dividend payments to overseas shareholders. As a consequence, the net income deficit for the Australian economy jumped from around $23.7 billion in 2003-04 to $31.2 billion in 2004-05. By 2007-08 the net income deficit had reached an astounding $48.6 billion, however it did fall to around $43.6 billion in 2008-09.
Another important component of Australia's CAD experience has been our disappointing export performance over the last decade. During 1995 - 2005, the real volume of our exports has grew at an annual rate of only 4.8 percent and over the period 2001- 2005, our exporters only managed a growth rate of 1.8 percent per year. In short, Australia's share of world trade has been declining.
The recent global commodities boom gave Australian exports a boost over the past 3 years with higher commodity prices contributing to a fall in the goods deficit and subsequently the CAD during 2005-06. However, the improvement was short lived as by 2007-08 the CAD had risen to $68.25 billion (6.3% of GDP) due to a higher net income deficit.
Unfortunately, the same cannot be said for imports as our annual import volumes have grown at a rate of around 8.1 percent during 1995-2005. Some of this rise reflects the recent boom in export prices, with a large component of export income flowing back out of the economy in the form of payments for imported goods. Part of this spending is for capital goods, required for investment purposes by the export sector. The global

resources boom led to substantial imports of capital equipment by Australian mining companies during the 2006-08 period It also appears that Australia had become more involved in securitised lending, allowing the average Australian greater access to foreign borrowing which in turn boosted local housing and consumer spending on imports.

Due to persistent current account deficits over a number of decades, Australia is now one of the largest international debtors in the world for its size. Australia's level of net foreign liabilities is now above the $A700 billion mark (52.9% of GDP) and with net foreign debt continuing to climb (already reaching $A633b or 52.9% of GDP) it is not surprising that concerns about the external viability of the economy, are continually resurfacing.

In short there are three main factors that have been responsible for Australia's persistent current account deficits over the past couple of decades:

- The growth rate of the Australian economy. More specifically the tendency (particularly during 2001-03) for the Australian economy to grow faster than the world economy or the economies of Australia's trading partners. This means that import demand tends to outstrip export demand causing the goods balance of the current account to deteriorate. Australia's goods balance has tended to be in deficit since 1996-97.

- The growth in foreign borrowings (both private and public) since the 1980s. Foreign debt replaced equity investment as the main source of foreign capital and the net income deficit started to grow dramatically. The size of the increasing net income deficit - which reflects the cost of servicing Australia's debt and equity borrowings (total foreign liabilities) has been the major source of the growth in Australia's CAD over recent years. In 2006-07 the net income deficit was 78.9% of Australia's CAD.

- The saving-investment gap or spending-output gap. The CAD is associated with both negative domestic net savings $\{(T-G) + (S-I)\}$ and positive net capital inflow (Capital Account Surplus). The capital account surplus is required to finance the current account deficit, which in turn reflects the tendency for domestic expenditure to exceed the level of domestic output. These are the main structural factors responsible for Australia's persistent and growing CAD.

Regarding the economic implications of Australia's persistent current account deficit, there is a general tendency in the media and the public to interpret a current account deficit as a sign of weakness and as harmful to the nation's welfare. Another interpretation is that the deficit enables more investment than would be possible otherwise, and since higher investment is correlated with higher living standards, the current account deficit might be interpreted as beneficial. In addition, the capital inflows that are associated with current account deficits are an implicit vote of confidence by foreigners investing in Australia.

On the positive side, countries with good investment opportunities and high expected future rates of economic growth appear to be able to run current account deficits over considerable periods of time. As long as there are no distortions to savings or investment decisions (for example, because tax rules encourage investment or discourage savings), and as long as the government's budget deficit is small, the current account deficit will reflect utility maximising decisions by consumers and profit maximising decisions by firms making investment decisions. Under these circumstances, a current account deficit that arises may in fact be optimal. The implication of this is that governments should not try to alter the size of the deficit, as doing so will only make consumers or firms, or both, worse off.

On the negative side the most serious implications of persistent current account deficits are:

(i) Exposure to financial crisis: current account deficits may be the source of instability within financial markets and the economy in general. The capital inflows that occur with a current account deficit increase the stock of foreign owned assets inside the home country, raising the possibility that a change in investor expectations about the economy's future can lead to a sudden surge in capital outflows. In the worst case scenario, 'capital flight' is followed by a depletion of international reserves and a financial crisis. However the experiences of countries in the 1980s and 1990s has taught economists that financial crises are determined by more than the size of current account deficit and that there are no absolute thresholds between safe and dangerous levels for a deficit. While deficits of 3% to 4% of GDP begin to raise 'red flags', and deficits of 7% to 9% are considered extremely risky, there are too many other factors that must be taken into account before the probability of a crisis can be determined.

(ii) Higher levels of foreign debt: current account deficits must be financed through inflows of financial capital. Capital inflows take different forms, from direct investment to purchases of stocks, bonds and currency, to loans. Loans from abroad add to a country's stock of external debt and generate debt service obligations requiring interest payments and repayment of the principal amount borrowed. Theoretically foreign loans are no more harmful than any other type of debt. That is, as long as the borrowed funds are used to increase investment and exports, the borrower will be able to service the debt without difficulty. In practice however it is not uncommon for borrowed funds to be used in a manner that does not contribute to the expansion of the country's production capacity. Subsequently there is a risk that debt servicing will become an unsustainable burden that holds back economic development.

(iii) If a country incurs successive current account deficits, it may be more susceptible to exchange rate fluctuations and periods of currency depreciation. These depreciations may in turn lead to higher domestic inflation as import prices rise (imported inflation). Currency depreciation can also cause problems with foreign debt repayments, as the part of the foreign debt that is denominated in foreign currencies requires more domestic currency for repayment. This is known as the valuation effect on the stock of foreign debt, which serves to push up the debt servicing burden of domestic agents who have borrowed overseas.

(iii) The need for tighter monetary policy: persistent current account deficits may be interpreted by a country's monetary authorities as signalling the need for a tightening of monetary policy and higher interest rates. The interest rate increase is designed to slow down economic growth and reduce the demand for imports, to help rectify the economy's trade imbalance and reduce the current account deficit. However, higher interest rates are likely to have an adverse effect on the level of output and private sector investment. In this way the current account deficit is viewed as the economy's 'speed limit' to growth and represents an external constraint on the prospects for domestic growth.

Topic 3: Market Failure and the Management of Environmental Resources

Section II (short answer) Question

Marks

> "There is great uncertainty about the climatic outcomes of varying concentrations of greenhouse gases; about the impact of various climate outcomes; and about the costs and effectiveness of adapting to climate change.
>
> A dramatic transformation in humanity's use of fossil fuel based energy would be necessary sooner or later to sustain and to extend modern standards of living. It will be required sooner if the world is to hold the risks of climate change to acceptable levels. The costs incurred in making an early adjustment will bring forward, and reduce for future times, the costs of the inevitable adjustment away from fossil fuels."
>
> Source: Professor Ross Garnaut (2007), *Garnaut Climate Change Review*, 30th April.

(a) Define the term *market failure*. **1**

....

....

(b) Outline TWO causes of market failure with regard to the use of environmental resources. **2**

....

....

....

....

....

(c) Explain the difference between the private cost and the social cost of pollution. **3**

....

....

....

....

....

....

....

....

....

....

Marks

(d) Explain TWO economic instruments that a government may use to improve the management of environmental resources. **4**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

Question 24(a)

Criteria	**Marks**
States the correct meaning of market failure.	1

Answers could include:

- Market failure can be defined as when the market fails to allocate resources efficiently. A more detailed definition would state how market failure occurs when the market fails to ensure that resources are put to optimal use.
- Market failure is commonly linked to the allocation of resources that do not lead to a state of "Pareto optimality" being attained i.e. a state where no one can be made better off without at least one other person being made worse off.

Question 24(b)

Criteria	**Marks**
Sketches in general terms TWO causes of market failure with regard to the use of environmental resources.	2
Sketches in general terms ONE cause of market failure with regard to the use of environmental resources OR identifies rather than outlines TWO causes.	1

Answers could include:

Some of the main causes of market failure include:

- The existence of externalities also called external effects or spillover effects.
- Common property – where property rights cannot be assigned to individuals
- Public goods – these are goods and services which are non-rival and non-excludable in consumption
- Free riders – individuals obtain the benefit from the good or service whether they choose to pay or not

Question 24(c)

Criteria	**Marks**
Clearly and concisely demonstrates an understanding of the difference between the private cost and social cost of pollution.	3

Demonstrates a general understanding of the difference between the private cost and social cost of pollution.	2
Provides a limited response on the difference between the private cost and social cost of pollution.	1

Answers could include:
Private cost reflects the cost of resources to the individual consumer or business, while social cost involves the cost to the whole of society of the resources that an individual consumer or business uses.

Private cost is usually based on the market value of the productive factors used by the firm (i.e. labour, raw materials, capital equipment, etc) to produce some form of output. If a firm is able to dispose of pollutants by dumping them into the atmosphere or a river system then the private cost to the firm of pollution could effectively be zero. If however, the government forces firms to adopt pollution control measures and dispose of their waste products in a more environmentally responsible manner, the private cost of pollution will increase while the social cost will be reduced.

The social cost of pollution involves the cost to all parties that suffer from the negative external effects of exposure to pollutants e.g. health costs due to respiratory problems and illness, destruction of property or loss of amenity from the use of environmental resources. The social costs of pollution would also include the destruction of common property resources such as the killing of marine resources in oceans or the loss of air quality due to air pollutants released into the atmosphere.

Question 24(d)

Criteria	Marks
Explain two economic instruments that a government may use to improve the management of environmental resources.	3-4
Sketches in general terms two economic instruments that a government may use to improve the management of environmental resources OR Explains ONE economic instrument that a government may use to improve the management of environmental resources.	1-2

Answers could include: Any two of the following economic instruments could be explained as methods that the government can apply to improve the management of environmental resources:

- Legislation and regulations enforced by government authorities or agencies. In the most extreme cases, punitive measures such as fines and even gaol sentences may be applied to the offending parties.
- Environmental taxes and charges:
  - Pigovian taxes applied to the case of negative externalities and usually suggested as an approach for correcting the problem of pollution. The guiding principle is to tax the polluter according to the marginal social cost (MSC) they impose on others.
  - Pollution taxes and charges: such as a tax on petrol or a resource tax or charge where firms are taxed according to their use of a particular resource such as water or native timber.
- Tradeable permits/emissions trading schemes: These entail creating a market for the environmental issue of concern. Once a standard for behaviour has been set, for example a maximum level of a particular pollutant being allowed to be released into the atmosphere, it is possible to issue permits to polluters allowing them to discharge only a certain level of the pollutant. A market can then be established for the permits enabling them to be bought or sold. This is commonly referred to as a market for tradeable permits or transferable emission permits. An example is the proposed introduction of a Carbon Pollution Reduction Scheme (CPRS) by the Australian Government involving a cap and trade emissions trading mechanism to limit greenhouse gas emissions, helping to reduce the rate of climate change.

Topic 4: Fiscal policy
Section II (short answer) Question

The following information concerns the role of fiscal policy and the Federal Budget.

> "This budget delivers for working families and assists them in dealing with rising costs of living. The budget outlines far-sighted steps to address the long-term challenges of education, skills, infrastructure, health and climate change."

Source: Commonwealth of Australia, Budget Paper No. 1, 2008 – 2009.

Marks

(a) Outline TWO main objectives of fiscal policy in Australia. **2**

....

....

....

....

....

(b) Explain how the government uses fiscal policy to influence the level of economic activity in Australia. **3**

....

....

....

....

....

....

....

....

....

....

....

....

Marking Guidelines

Question 23(a) *Outcomes assessed: H1, H2*

Criteria	Marks
Sketches in general terms TWO objectives of fiscal policy in Australia.	2
Sketches in general terms ONE objective of fiscal policy in Australia OR identifies rather than outlines TWO objectives of fiscal policy in Australia.	1

Answers could include:

- The primary objective of fiscal policy is embodied in the federal government's medium-term fiscal strategy of ensuring fiscal sustainability. This requires the budget to be balanced, on average, over the course of the economic cycle.

- To provide funding through current and future budget surpluses for future capital investment in infrastructure, education and health.
- To bear down on inflationary pressures in the economy by reducing public demand.
- To ensure a strong financial position at a time of heightened uncertainty in the international economy.
- To entrench low public debt and ensure that over time, the current account reflects private saving and investment decisions.

Question 23(b) *Outcomes assessed: H1, H2, H6*

Criteria	Marks
Clearly and concisely demonstrates an understanding of how the government uses fiscal policy to influence the level of economic activity.	3
Demonstrates a general understanding of how the government uses fiscal policy to influence the level of economic activity.	2
States correctly ONE method through which the government uses fiscal policy to influence the level of economic activity.	1

Answers could include:

- Fiscal policy tools are used by the government to try and shorten recessions and to prevent booms in economic activity from becoming excessive. This has traditionally been termed *stabilisation policy.*
- When devising fiscal policy, government authorities will consider the need to stabilise aggregate expenditure and also the likely effects of government spending, taxes and transfers on the economy's level of activity.
- Fiscal policy measures may affect potential output as well as planned aggregate expenditure. With regard to expenditure, this includes investment in public capital, including roads, airports and schools which tend to play a major role in the growth or potential output in the modern economy.
- Government tax and transfer programmes influence the economic behaviour of households and firms through incentive and disincentive effects. For example, a high tax rate on income earned through interest rates may reduce the willingness of people to save in the future, while tax concessions afforded to businesses through the budget may encourage firms to increase their rate of capital formation.
- There has been a longstanding debate about the effects of reducing public debt, more specifically to what degree persistent fiscal surpluses may have reduced the level of economic activity over time.
- Another issue is to what degree the government may have surrendered its capacity to use fiscal policy as a counter cyclical policy tool by pursuing surplus budget outcomes. This reflects uncertainty and concern on the part of policy makers over the capacity for fiscal policy to be used as an effective tool for stabilisation. The emphasis for stabilisation has clearly shifted to the use of monetary policy in achieving the goals of sustainable economic growth, price stability and full employment.
- Sustained fiscal surpluses have been used to establish the Future Fund which will be used to finance increased future government spending due to the ageing of the Australian population.

Topics 3 and 4: Inflation and Monetary policy

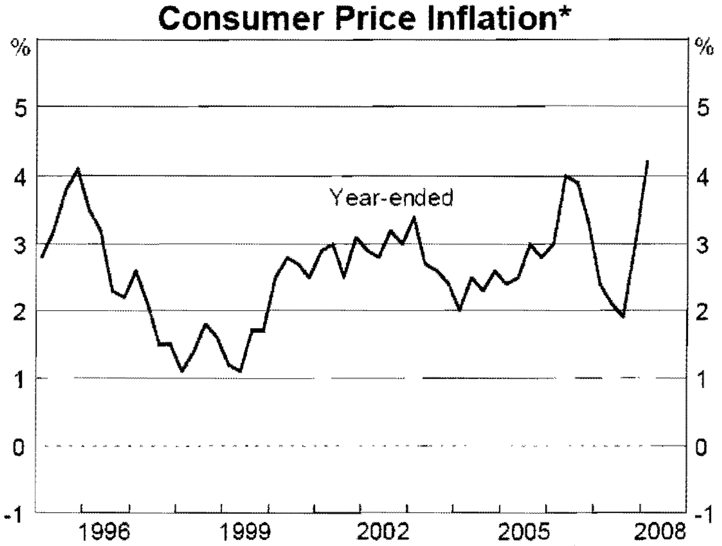
Section III (Essay) Question

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Discuss the causes of inflation and analyse the effectiveness of monetary policy in achieving price stability in the Australian economy.



* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000
Sources: ABS; RBA

> "Inflation increased over 2007, and in underlying terms reached the highest rate for 15 years or more. It is true that it was boosted by the international rise in oil and other commodity prices, but Australia's inflation rate has risen more than most of those in our usual peer group when measured on a comparable basis. It is also pretty clear that strong domestic factors were at work, with growth in local demand at a pace exceeding, by a large margin, any plausible estimate of the economy's long run potential rate of growth for output, at a time when capacity was already tight. So inflation has picked up and over time needs to be reduced."

Source: Statement by Glenn Stevens, Governor of the Reserve Bank, June 2008.

Essay plan:
Inflation is the general increase in prices in an economy over a period of time. The major causes of inflation include demand pull inflation, cost push inflation, imported inflation and rising inflationary expectations. Since the early 1990s Australia's inflation rate has averaged just under 3% per annum. However recent (2007-08) inflation figures have sparked concern, being over 4%, causing the Reserve Bank to tighten monetary policy by increasing interest rates.

The major causes of inflation include demand side factors, generally referred to as demand pull inflation and supply side factors called cost push inflation. Demand pull or excess aggregate demand inflation exists when the total level of demand is excessive relative to the level of production. The excess demand leads to an upward pressure on prices. The original theory of excess demand was developed by John Maynard Keynes. He recognised that an economy working at full capacity, which is unable to match the demands of the economy, will put an upward pressure on prices (i.e. an inflationary gap). Demand pull inflation originates from the demand side or expenditure side of the economy.

Cost push inflation refers to the situation where increases in the costs of production flow into the prices of goods and services. The increased costs can originate from higher costs of raw materials, higher interest rates and higher wage demands. Cost push inflation originates on the supply side of economies. Better students should include diagrams to illustrate demand pull inflation and cost push inflation. Other causes of inflation include imported inflation and higher inflationary expectations. These should be elaborated upon by better students.

The most common measure of the level of inflation in Australia is the Consumer Price Index (CPI). The CPI is compiled by the Australian Bureau of Statistics on a quarterly basis and is based on a 'sample' basket of goods and services which are weighted to reflect the relative importance in relation to expenditure patterns by an 'average' household. The annual rate of inflation is based on the addition of the quarterly rates of inflation. Reporting of inflation in Australia includes references to the headline rate of inflation and the underlying rate inflation. The headline rate is the inflation rate as measured by the CPI. The underlying rate of inflation excludes price changes of any volatile goods or services. In 1996 the Reserve Bank adopted the objective of keeping underlying inflation between 2% and 3%, on average, over the cycle.

The headline rate of the CPI has been highly volatile in Australia since 2003/04. More recently in March 2008 the annual rate of inflation was 4.2%. This was above the Reserve Bank of Australia's 2% to 3% inflation target. The underlying rate of inflation has also increased over the past two years and is also outside the Reserve Bank's target band.

Conditions which have added to inflationary pressure in the Australian economy include strong domestic demand relative to the economy's productive capacity (5.7% in 2007); strong commodity prices coupled with strong business investment; a tight labour market characterised by a serious skills shortage; rising global global oil prices; and rising costs of credit associated with the subprime mortgage and financial crises in the USA.

The response by the Reserve Bank to address inflationary pressures in the short term has been to increase interest rates. Tightening of monetary policy involves the Reserve Bank selling Commonwealth Government Securities. This has occurred on a number of occasions, including two rate rises in late 2007 and an additional two rises in February and March of 2008. The official cash rate now stands at 7.25%. The cash rate has not been at this level for fourteen years. A number of financial intermediaries have also passed on to borrowers increases in interest rates above the cash rate, due to increases in funding costs in global financial markets. This has occurred due to the crisis in the subprime mortgage market in the USA.

The contractionary stance by the Reserve Bank appears to be working with a slowdown in the Australian economy starting to occur. Retail sales fell in the March quarter 2008. There has been a sharp decline in consumer sentiment. Indicators of housing construction have fallen and ABS jobs data for March 2008 indicated the first fall in employment levels for 18 months.

Whether the slowdown in the economy continues will depend on whether the domestic factors mentioned previously continue to decline coupled with a number of global factors. These factors include the slowdown in some of the world's major economies and the continuing problems in overseas financial markets.

A study by the Reserve Bank published in 2003 revealed that monetary policy has been very effective in achieving price stability in Australia between 1993 and 2003. Inflation targeting had allowed short term flexibility and had also delivered medium term constraints on the economy. Inflation on average stood at 2.3% between 1993 and 2003. This figure was better than other OECD countries which had adopted inflation targeting over the same period. However, the inflationary pressures over the past three years have led to a significant reliance on monetary policy to reduce inflation to within the inflation target band.

Monetary policy has its critics. Estimates of the lags of monetary policy are sometimes significant. Shorter lags can be 12 months and some longer term estimates put lags at between 18 months to 24 months. Current changes in interest rates may eventually impact on the business cycle which is at a different stage from when the policy was enacted. Monetary policy has been referred to as a blunt instrument because it impacts on all types of spending including investment. Another argument relates to the inability of monetary policy to influence current price rises which are imported from abroad.

The task of achieving price stability is largely the responsibility of monetary policy. Recent Commonwealth Budgets have put emphasis on raising the economy's productive capacity or aggregate supply through greater spending on education and skills, health and infrastructure. The intention of the government in applying this policy is to, in part, reduce inflationary pressures on the economy. These measures, plus the call for additional microeconomic reforms, combine to form the recent policy mix being implemented to address inflation in Australia and achieve greater price stability.

Topics 3 and 4: Unemployment, Macroeconomic Policy and Microeconomic Policy

Section IV (Essay) Question

In your answer you will be assessed on how well you:

- Use economic data
- Apply economic terms, concepts, relationships and theory
- Present a sustained, logical and well structured answer to the question.

Discuss the main causes of unemployment and the measures that have been taken to deal with it.

Essay plan:

***Step 1*: Introduction**

The first part of this answer requires a detailed discussion of the ***main causes*** of unemployment.
It is important to commence your answer by ***defining*** what ***unemployment*** actually is.

Definition: Unemployment can be defined as the number of adult workers who are not employed and who are seeking jobs. It is measured in the Australian context as the percentage of the Australian labour force that is classified as unemployed. ***Involuntary unemployment*** occurs if there are qualified workers who would be willing to work at prevailing wage levels but cannot find jobs.

In your introduction you should also state the main types of unemployment:

- Structural
- Frictional
- Seasonal
- Cyclical /demand – deficient
- Wage induced

***Step 2*: The main causes of Unemployment**

In the main body of your essay you need to develop a ***detailed discussion*** of the main types of unemployment, ***substantiating or reinforcing*** your arguments with reference to the Australian economy.

Presented below is some sample text which illustrates how this can be achieved.

The main causes of unemployment have been identified as follows;

- ***Cyclical/ demand- deficient unemployment:*** Inadequate levels of aggregate demand (AD = C + I + G + X – M). Cyclical changes in domestic and international economic activity may lead to changes in the demand of labour. As the demand for labour is derived from the demand for final output, any decline in aggregate demand may lead to a rise in unemployment.
  - For example, in late 1989 unemployment was at a ten year low at just under 6 per cent. During the following two years the economy entered recession and then a very subdued economic recovery. As a consequence, by the end of 1992, Australia's unemployment rate had risen to 11 per cent, a new post-war high. More recently, following the global economic downturn during 2008-09 Australia's unemployment rate rose from 4.2% in early 2008 to 5.9% in July of 2009.
  - The Keynesian Deflationary Gap model or the Aggregate Demand Aggregate Supply models can be used here to demonstrate how deficiencies in the level of aggregate demand can lead to increases in the level of unemployment in the theoretical context.
- ***Structural unemployment***: Structural change is another factor that has led to increased levels of unemployment in most industrialized economies. Changes in the structure of the economy sourced to either technological change or changes in the overall pattern of demand are largely responsible here. Structural changes in consumption and production can cause the level of structural unemployment to rise.
  - In Australia for example, the introduction of labour saving technology has led to a fall in employment in industries such as the textile, clothing and footwear industries (TCF industries) and the passenger motor vehicle industries (MPV industries) have also been forced to reduce their workforces in response to cuts in tariffs and quota protection.
- ***Frictional unemployment :*** Another cause of unemployment which has tended to get less attention but has emerged as a major obstacle for reducing the level of structural unemployment in mature economies is the failure of the labor market to match skills with jobs. This mismatch between labor supply (available workers) and labor demand (the types of skilled workers expanding businesses require) leads to higher levels of frictional unemployment.
- For example, during March 2005 the Reserve Bank Governor, Ian Macfarlane, in a statement to the Federal Government drew attention to the urgent need to train more workers and address the shortages of labor in trades and services which were pushing up wage pressures and causing capacity constraints on various sectors of the Australian economy.

- ***Wage Induced unemployment:*** Wage expectations and increases in the price of labour relative to capital have also been seen as having a causal relationship with unemployment. Rises in real wage costs serve to reduce the demand for labour and provide an incentive for employers to substitute capital for labour which leads to an increase in the level of unemployment. When trade unions have substantial bargaining power which enables them to gain large wage increases which are not consistent with the capacity of industry to pay or increases in productivity levels, businesses may cut costs by reducing their wages bill through creating labour redundancies.
  - This was the case in Australia in the late 1970's and early 1980's when trade unions in industries such as building and construction and the metal trades were able to request large wage claims and use industrial action (strikes) to achieve their aims.
- ***Seasonal Unemployment***: this is generally included as part of frictional unemployment but is sometimes categorised separately in the context of industries or occupations

characterised by seasonal work. Such industries in Australia are particularly prominent in the agricultural sector (e.g. fruit picking and sheep shearing).

***Step 3*: The Measures Taken to Deal with Unemployment**

The second section of this essay would entail a discussion of the various policies that can be used to reduce the level of unemployment. The main policy approaches available to the Government in its attempt to alleviate unemployment are as follows:

- stimulatory monetary policy
- expansionary fiscal policy
- microeconomic policies

This part of the question can be addressed through a combination of concise definition of the alternative policies and examples of these policies as implemented in the Australian economy.

Presented below is some sample text which illustrates how this can be achieved.

Stimulatory Monetary Policy and Expansionary Fiscal Policy*:** Generally speaking policies to reduce unemployment can be grouped into two broad categories; those designed to alleviate ***cyclical unemployment and those suitable for alleviating ***structural*** unemployment. With regards to cyclical unemployment, ***monetary and fiscal policy*** have been the traditional weapons against cyclical down turns in the economy and the increasing levels of unemployment that accompany periods of slower economic activity. Fiscal stimulus (expansionary fiscal policy) and the easing of monetary policy have the potential to stimulate aggregate demand (C+ I + G + X – M) leading to increased output of goods and services in the economy. Given that the demand for labour is derived from the demand for goods and services that it is used to produce, higher levels of output will require increased levels of employment which in turn should lead to a lowering of the level of unemployment.

Reference would be made here to the recent global economic crises where during 2008-09 the global economy plummeted into recession and Australia faced its own economic downturn. Some economic commentators were suggesting that up to 500,000 Australian jobs could be lost during 2009-10. The Australian Government was quick to take decisive action and move fiscal policy into stimulatory mode through a number of initiatives including the $10.4 billion Economic Security Strategy, the $42 billion Nation Building and Job Plan. Along with the 2009 Budget (fiscal deficit of $53 billion or 4,5% of GDP) these measures were crucial in preventing the unemployment rate from rising above 5.9% during the depths of the global downturn. Furthermore during this period the stance of monetary policy was also eased with the cash rate being lowered through 6 separate adjustments between September 2008 and April 2009 from 7.25% to 3%.

Microeconomic Policies: Experience in economies such as Australia over the last couple of decades has shown that monetary and fiscal policies are relatively ineffective in terms of reducing structural unemployment. Greater emphasis has been placed on ***microeconomic policy*** in the form of labor market reform policies, government employment programs and education and training programs to help workers and employers adjust to structural changes taking place in the workplace.

Labor market reform policies are designed to reform labour markets and encourage more competitive work practices and higher levels of labour productivity. This in turn should lead to higher levels of employment as employers have greater incentive to hire additional workers.

Labor market deregulation and the movement towards **decentralised wage determination** where firms and employers are able to negotiate wage increases in the basis of improved productivity has been the central component of Australia's labour market reform agenda. The continuing process of award simplification in order to make awards simple instruments that do not impede workplace efficiency and employment growth, is another key element of the governments reform agenda

Labor market reform legislation (such as the Work Place Relations Act) incorporating measures designed to curb union powers and weaken unfair dismissal laws has been viewed by the Australian Government as essential for sustainable job creation and longer term reductions in the level of unemployment.

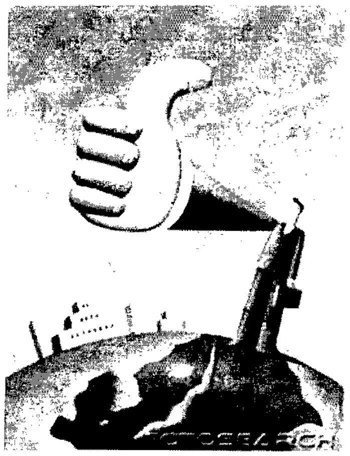
Labour market programs have traditionally been used as a means of direct intervention into labour markets in order to reduce unemployment. In the Australian context, numerous labour market programs to assist the unemployed have been implemented over the past two decades by labour and coalition government. These programs have usually involved one or more of the following measures;

a) job search assistance, job clubs or individual employment counselling services (including the Work for the Dole Scheme and the Youth Allowance).
b) public training programs, employment subsidies and direct job creation programs
c) special youth assistance programs involving apprenticeships and traineeships.
d) subsidies for private sector employment.

These programs generally aim to increase the ability of the unemployed to compete effectively in the labour market by increasing their basic work skills.

Finally ***education and training programs*** have always had their place in unemployment strategy with attempts being made to improve the links between school based education and the acquiring of skills necessary for successful entrance to the workforce. In Australia, emphasis has been placed in recent years on improving national literacy and numeracy standards in schools to raise basic educational skills and the employability of school leavers.

Step 4: Finish with a brief concluding statement...



Peter Kennedy 2010