

ECONOMICS

Topic Two — Australia's Place in the Global Economy

10.2 HSC Topic Two — Australia's Place in the Global Economy

25% of indicative time

The focus of this topic is an examination of Australia's place in the global economy and the impact of changes in the global economy on Australia's internal and external stability.

Outcomes

A student:

- H1 Demonstrates understanding of economic terms, concepts and relationships
- H2 Analyses the economic role of individuals, firms, institutions and governments
- H4 Analyses the impact of global markets on the Australian and global economies
- H5 Discusses policy options for dealing with problems and issues in contemporary and hypothetical contexts
- H7 Evaluates the consequences of contemporary economic problems and issues on individuals, firms and governments
- H8 Applies appropriate terminology, concepts and theories in contemporary and hypothetical economic contexts
- H9 Selects and organises information from a variety of sources for relevance and reliability
- H10 Communicates economic information, ideas and issues in appropriate forms
- H11 Applies mathematical concepts in economic contexts
- H12 Works independently and in groups to achieve appropriate goals in set timelines.

Content

Students learn to:

Examine economic issues

- Synthesise information from a variety of sources to evaluate the impact of the global economy on the Australian economy
- Examine the impact of changes in the global economy on Australia's economic performance
- Analyse the relationship between international competitiveness and structural change in the Australian economy
- Discuss the impact of free trade and protection policies on the quality of life in Australia

- Hypothesise about the structure of industry within Australia in the future with continued global interdependence

Apply economic skills

- Use supply and demand diagrams to explain how the value of a currency is determined under a variety of exchange rate mechanisms
- Analyse the impact of movements in the exchange rate on the Australian economy
- Explain the relationship between the current account balance, net foreign debt and net foreign liabilities
- Calculate and interpret the effects of changes in Australia's terms of trade index.

Students learn about: **Australia's trade and financial flows**

Value, composition and direction of Australia's trade and financial flows

- Trends in Australia's trade pattern
- Trends in financial flows

Australia's Balance of Payments

- Structure
 - Current Account
 - Capital and Financial Account
- Links between key Balance of Payments categories
- Trends in the size and composition of Australia's Balance of Payments
- Reasons for these trends

Issues associated with trends in the balance of payments, including:

- Terms of trade
- Size of the current account balance as a percentage of Gross Domestic Product
- Foreign debt and foreign liabilities
 - Debt and equity
- International competitiveness
- Structural change in the Australian economy

Exchange rates

- Measurement of relative exchange rates
 - To other individual currencies
 - Trade Weighted Index
- Factors affecting the demand for and supply of Australian dollars
- Changes in exchange rates
 - Appreciation/depreciation

- Determination of exchange rates including fixed, flexible and managed rates
- The influence of the Reserve Bank of Australia on exchange rates
- The effects of fluctuations in exchange rates on the Australian economy

Free trade and protection

- Australia's policies regarding free trade and protection
- The implications of Australia's policies for individuals, firms and governments
- Implications for Australia of protectionist policies of other countries and international organisations.

Australia's economic contact with the rest of the world

- All nations have contact with other countries
- Two broad types:
 - Trade of goods and services
 - Movement of funds or money capital for investment purposes, also known as financial flows. E.g. repayment of loans, purchase of assets or property
- Australia classified as an open economy
- Two indicators of openness of an economy is the ratio of exports to GDP and ratio of imports to GDP

Trend in Australian Trade Pattern

Composition of Trade: Exports

- Australia earlier largely dependent on exports of rural goods (agriculture)
- 1953/54 was 81% of GDP → 1998/99 was 20% of GDP
- Fall largely due to:
 - Protectionist policies of EU and USA – both EU and USA have increased protection of domestic farmers at expense of agricultural suppliers Australia and Argentina
 - Lower world population growth- this reduces the need for rural output
- Significant change in exports of Australia to elaborately transformed manufactured goods (ETM's) such as motor cars and high value goods
- Increase of ETMS's due to rapid growth and demand of China for goods and due to Australia's increased international competitiveness
- Significant growth f exports of services such as tourism

Composition of Xs	81/82	01/02	Mar 08
Rural	38	20	11
Resources	29	31	40
Manufactures	7	6	6
ETMs	9	23	21
Services	17	21	22

Imports

- Imports of goods and services in 2007 was \$227 billion and dominated by manufactured goods
- Most significant group of imports are the intermediary goods such used by Australian firms in production
- Capital goods - \$27 billion
- Consumption goods - \$33 billion

Composition of M	91/92	01/02	07/08
Consumption goods	20	26	23
Capital goods	17	18	40
Intermediate goods(parts)	37	38	18
Services	25	20	19

Direction of trade:

- 1950's Australia primarily traded with the UK and other European countries(62% of our exports while now only accounts for 14%)
- Shifted towards China, Japan and other ASEAN countries (Japan 7%(50's) to 20%(99) of our exports)
- Australia's major exporter has switch from Europe during the 1950s to Asia
- Asia accounts for 58% of X in 06/07, Japan(19.4%), china(13.6%) & ASEAN(11.3%) being our major exporters whereas the EU accounts for 11.4%
- The EU accounts for 21.6% of all imports then ASEAN (19.3%) & China (15%)

Trends in Australia's Financial Flow

- Prior to 1970's most international investment only involved transferring private funds (savings) to purchase assets or making loans to foreign countries
- Financial flows involve:
 - a. Short term movement of savings
 - Hot money that moves to nations with most attractive interest rates
 - Speculative funds aim to make profits by anticipating movements in interest rates and exchange rates
 - b. Long term movements of savings
 - Loans that earn interest income while being paid
 - Purchasing of existing assets (farms bonds shares) which would earn income in the form of profits, interest, dividends and rents
- Australia has tended to receive more foreign investment than it sends overseas

Balance of Payments

Is the record of the transactions between Australia and the rest of the world during a given period, consisting of the current account and the capital & financial account