

13.1 Economic change

Getting technical

Budget, the The Budget is the annual announcement of the federal government's fiscal policy. In the Budget, the government sets out the tax changes proposed for the following tax year, and also how it plans to spend that revenue.

business cycle/economic cycle The tendency of economies to move, over time, through periods of boom and slump. The business cycle is made up of the fluctuations in the rate of economic growth that take place in the economy. The peak of the business cycle is usually referred to as a *boom*, and the trough as a *recession* or *depression*.

capital Manufactured resources; for example, machines, factories and offices. Capital is one factor of production.

economic growth Typically refers to an increase in a country's output of goods and services. It is usually measured by changes in gross domestic product (GDP).

enterprise Entrepreneurial skill. The term *enterprise* is often used to describe entrepreneurship as a factor of production. It is the skills and ability to take risks and create profit.

entrepreneurship An entrepreneur is an individual who takes risks and organises the factors of production to generate a product with the aim of making a profit. Entrepreneurship is the skill involved in being an entrepreneur.

exports Goods, services and capital assets sold overseas.

financial stability Maintaining financial stability is one of the main purposes of the Reserve Bank of Australia (RBA). The focus of this work is the monitoring of developments and events in financial markets in Australia and overseas. Although maintaining financial stability is not the RBA's most public role, it is vital if we are all to maintain trust in the financial system.

imports Goods, services and capital assets purchased from overseas.

Key ideas

A knowledge of the way our economy works is important if we are to maximise our own financial wellbeing and take full advantage of the commercial opportunities available to us. The key ideas we will be dealing with in this topic include those discussed in the following pages.

Economics

Economics is a term that is generally used to refer to how a nation tries to satisfy people's needs (such as clean water, food, shelter and health care) and wants (non-essential goods and services) with limited resources. There are three main players in our nation's economy—consumers, businesses/employers and governments—and they all work together trying to solve the economic problem of choosing which needs and wants to satisfy with their limited resources. A nation's economy is also affected by other nations' economies through the trade of imports and exports.

In Australia we live in a commercial economy. The study of economics involves looking at how goods and services are produced and consumed and how income is earned and spent on a national basis.

It therefore includes looking at topics such as saving and investing, interest rates, wage rates, inflation, unemployment, trading with other people and other countries, paying taxes and being governed.

Resources

Economic resources include **labour** (human effort), use of **land** (natural resources, such as soil, rivers and forests) and **capital** (such as machinery and technology that are used to create goods and services). Some economists add a fourth resource of **enterprise**—defined here as the people who bring all the resources together for the purpose of production. This is also called **entrepreneurship**. Since each of these resources is in limited supply, they are often referred to as **scarce resources**. A nation must decide how to best use these scarce resources—what to produce, how much to produce, how to produce and for whom to produce are questions an economy must answer in its efforts to solve the economic problem.

Mixed economy

In Australia we have a **mixed economy**. It is also sometimes referred to as a *modified market economy*. We do not have a **laissez-faire system** (where the market is left to sort itself out) and we do not have a centrally planned system (where the government controls everything). We have an economy where the market runs itself but with some influence and participation by the government.

inflation The rise in general prices and the reduction in value of money. It is usually measured by the consumer price index (CPI).

interest rates Interest is the reward for giving up use of money and is an amount paid to a lender over and above the original sum borrowed. The overall level of interest rates are determined by the Monetary Policy Committee of the Reserve Bank of Australia.

investment The purchase of capital equipment; that is, the purchase of equipment and factories, for example, that firms need to enable them to produce.

labour The resources provided by people in the production process.

laissez-faire system The term *laissez-faire* is used to describe an economic system where the government intervenes as little as possible and leaves the private sector to organise most economic activity through markets.

land Natural resources, including farmland and fishing grounds.

market economy A system where resources are owned by households. Markets allocate resources through the price mechanism, and income depends on the value of resources owned by an individual.

mixed economy A society where resources are owned by both private individuals and the government.

price mechanism Prices act as a signal to businesses and consumers to adjust their economic behaviour. The price mechanism is where, for example, a rise in a good's price encourages producers to switch to making that item but at the same time encourages customers to switch to a cheaper substitute product.

recession A period of negative economic growth at the trough of the trade cycle. A recession is usually defined as two consecutive quarters of negative economic growth.

scarce resources A lack of resources to meet all consumer needs and wants.

total output/gross domestic product (GDP) A measure of economic activity within Australia. It is the total value of all goods and services produced over a given time period (usually a year) excluding the value of imports.

unemployment The number of workers without a job who are willing and able to work.

wage rate Pay per time period; for example A\$ per hour.

The government influences the markets through laws and taxes to make the market as fair as possible and participates through its own businesses, such as Australia Post. The government is also an employer through its business operations, provision of services (such as health and education) and general operations (administration of government). The federal **Budget** can also affect the economy. The Reserve Bank of Australia (RBA), a statutory body, implements policy to ensure, among many objectives, that Australia maintains **financial stability**.

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Reserve Bank of Australia

The Reserve Bank of Australia website <www.rba.gov.au> provides a great deal of information that is relevant to our economy.

Activity

Access the RBA website. Research:

- the history of the RBA
- what monetary policy is
- the RBA's role in setting monetary policy.



Figure 13.1a The key players in our economy.