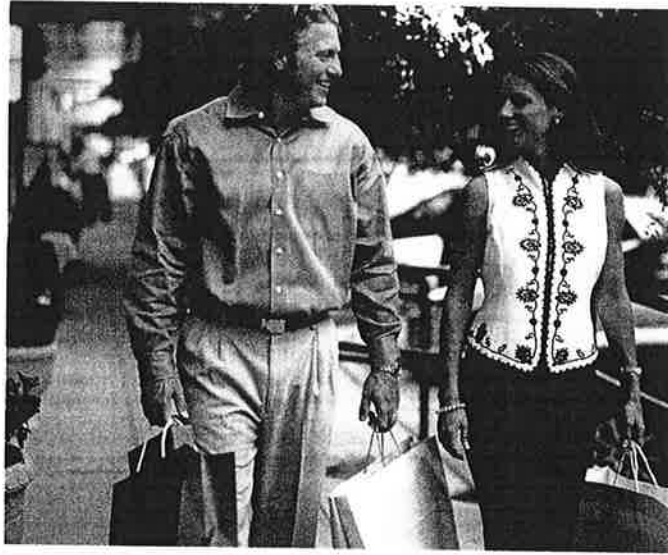


# 8

## Our economy



[8.1] Satisfying wants

## Economic change

**economy**  
a system in which goods and services are produced and consumed



Another sector, the overseas sector is dealt with briefly at the end of this chapter and again in chapter 9.

In Australia we have a commercial economy in which we satisfy our wants by buying goods and services. There are key players involved in a complex framework of economic interaction. The key players are consumers, producers, employees, employers, and the government. This can be illustrated in a simple circular flow diagram showing the interaction between the three basic sectors of the economy: the household sector (consumers and employees); the business sector (employers); and the government sector [8.2]. Sometimes the business sector is referred to as the private sector and the government as the public sector.

### Consumers

Consumers aim to gain maximum satisfaction from the purchase of goods and services, relative to their price. Consumers use their money income

**consumer sovereignty**

the power that consumers as a whole have to decide what will be produced

**producers**

people (or companies) who make or supply goods and services

**resources**

the basic ingredients used to produce goods and services

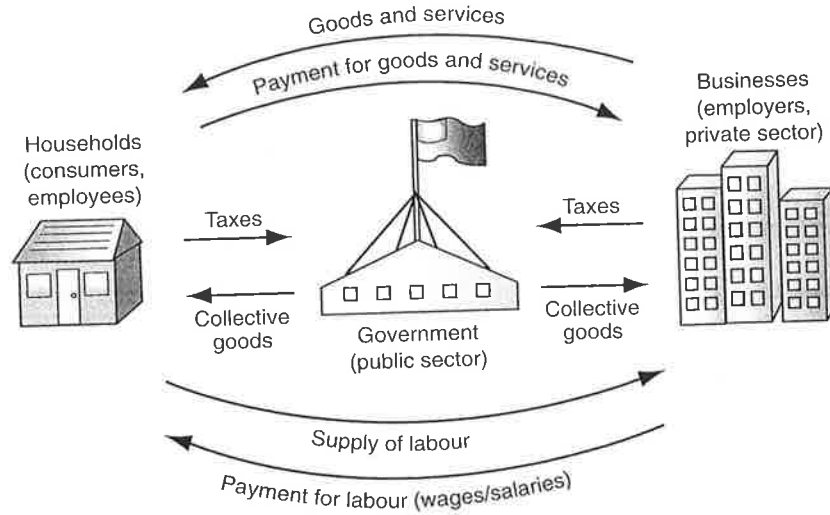
**enterprise**

organisational skills needed to produce goods and services

**interdependence**

a system in which people rely on each other to satisfy their wants

from various sources to satisfy their needs and wants. It is consumers who ultimately decide what will be produced. Goods and services will not continue to be produced if consumers are not buying them. Although individual consumers have little influence, consumers as a group have the power to decide what producers supply. This is called **consumer sovereignty**.



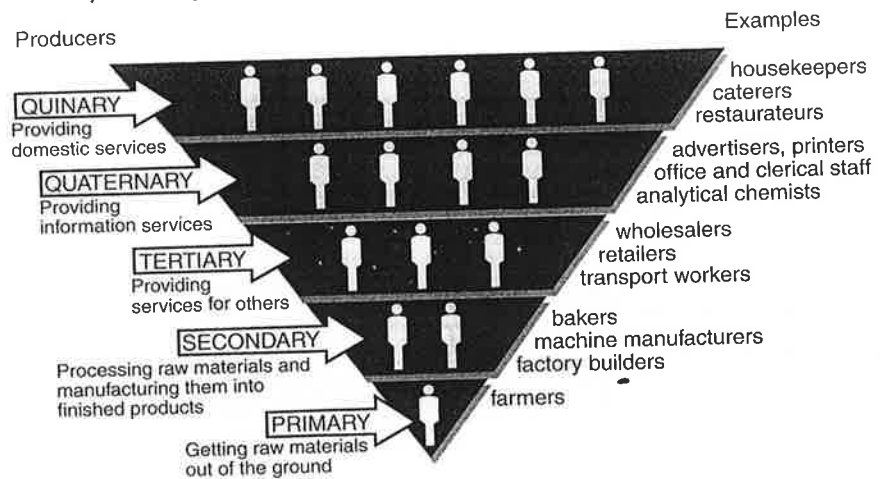
[8.2] The circular flow of money and resources

**Producers**

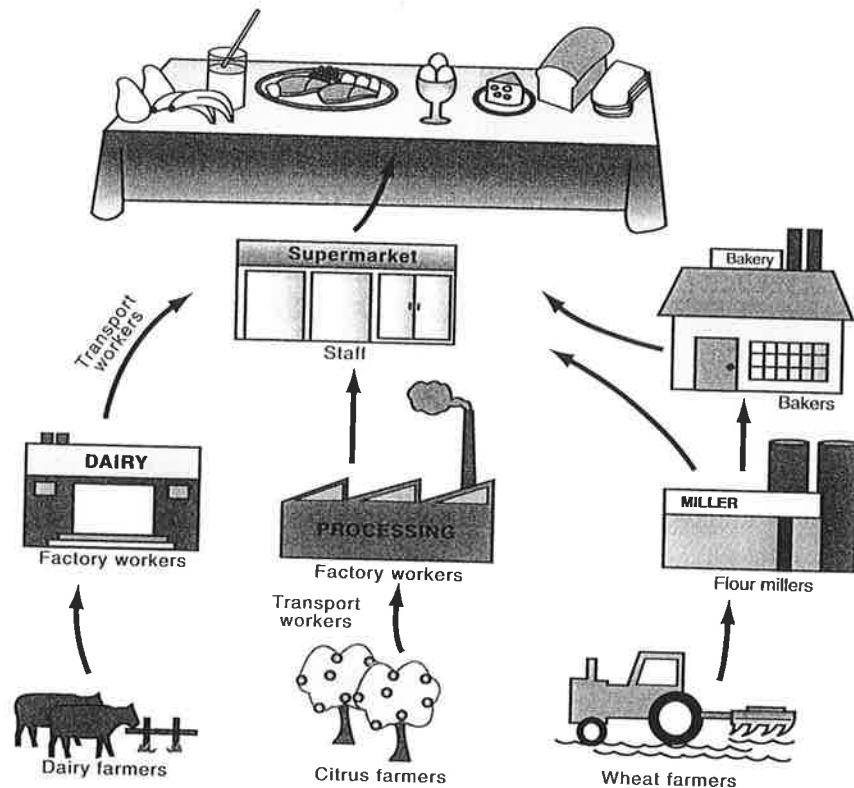
Producers supply these goods and services. They use different resources, such as materials, tools and equipment, labour and **enterprise** to produce the goods and services consumers want.

As businesses, their aim is to maximise their profits. There are three basic types of producers in a commercial economy: primary producers; secondary producers; and tertiary producers. However, there are now so many different kinds of tertiary producers in our economy that two additional groups—quaternary and quinary—have been added [8.3].

All the producers in the economy work together to produce the goods and services that people want. Consumers rely on this cooperation to ensure that the goods and services they want are always available. Today's commercial economy is very complex. People rely on each other to satisfy their needs and wants. This is known as **interdependence** and it is essential to our way of life [8.4].



[8.3] Types of occupations



specialisation  
concentrating on a particular task  
and doing it well



[8.5] Jeans factory workers  
would be employed by  
secondary producers



[8.6] Hotel staff are tertiary  
producers and provide  
services such as tourism

[8.4] A flow diagram illustrating interdependence

## Employees

Employees are people who work for wages or salary. They may work for another person, for a business or for the government. Their aim is to maximise their income but also to gain job satisfaction from the work they do.

The list of occupations in today's modern economy is long and growing fast as new technology is introduced and as people think of new goods and services to offer to consumers. This specialisation is an important part of the economy and the trend towards more specialisation is growing. Some doctors concentrate on a particular branch of medicine and may be known as ear, nose and throat specialists, skin specialists, anaesthetists, radiographers. By specialising in a particular field they can concentrate their energies in a certain direction and therefore become more expert. The more specialised the commercial economy becomes, the better the quality of the goods and services and the higher the standard of living. This has also been made possible through the use of advances in technology, especially information processing technology (such as is provided by computers).

## Employers

Employers are people who are in business for profit. They need people to work for them and so they employ workers (employees). The main aim of employers is to maximise profits. However, they may have a secondary aim of providing their employees with a pleasant working environment to get the best from them. They may also look to provide 'job satisfaction'.

**collective goods**  
goods (and services) that are supplied by government for the benefit of the entire community

## Government

The government basically represents the interests of the community. It is elected to:

- provide some goods and services, known as **collective goods**
- to create a stable, efficiently functioning economy—this involves such issues as income distribution, living standards, price stability, employment and economic growth.



[8.7] Collective goods supplied by the government, such as this public school

More detailed information on the government as a manager and regulator is found later in this chapter.

## Learning about ...

- 1 Who are the main players in the economy and how do they interact? Use the circular flow diagram [8.2] to explain this interaction.
- 2 What are the three sectors of the economy?
- 3 What is meant by consumer sovereignty?
- 4 What are the resources needed to produce goods and services? Why do you think enterprise is an important aspect of this?
- 5 Draw a flow diagram showing how different producers are involved in bringing a piece of toast to a consumer's breakfast table. Check the flow diagram [8.4] for ideas.
- 6 Classify the following according to type of producer in a table under the column headings Primary, Secondary and Tertiary:  
shop assistant, diamond mine worker, accountant, carpenter, train driver, computer operator, waiter, nurse, macadamia nut farmer, car assembly worker, motor mechanic, hotel porter, bank clerk, pilot, housekeeper, insurance clerk.
- 7 Explain how specialisation can lead to an improvement in living standards.
- 8 What is the government's role in the economy? Make a list of its functions.

## Learning to ...

- 1 As a class, make up a list of as many different occupations as you can. You may then try to classify these occupations according to type (primary, secondary, tertiary—quaternary and quinary).
- 2 Visit your nearest shopping centre and study the goods and services for sale. Make a list of some of the occupations of people who would have been involved in producing these goods and services.
- 3 As a class, on the blackboard create a concept map to show how the economy is based on interdependence. Draw in the links to illustrate how interdependence works.

## The business cycle

**economic indicators**  
statistics or graphs that illustrate trends in a particular aspect of the economy

The level of economic activity is never constant but tends to go in cycles. It can be measured by means of **economic indicators**. Retail sales figures, new car registrations, new housing approvals, employment figures, wage and income levels are all examples of economic indicators. They are often portrayed graphically and show progress in the level of economic activity (as shown in [8.8] and [8.9]).