23 The market system, government, and consumer protection

23.1 Overview

Content to come

23.1.1 The Australian economy

Development of the market economy

Consumers will seek to buy the goods and services that satisfy their needs and wants.

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On television news, current affairs programs and throughout the media, we frequently hear politicians and commentators referring to the 'Australian economy'. What is the 'economy' and how does it work? In simple terms, the Australian economy is the total of all activities undertaken for the purpose of producing, distributing and consuming the goods and services we require to satisfy our needs and wants.

Let us look at this definition in more detail. As human beings we all have needs and wants. *Needs* can be described as those things that are essential for our survival. They include food, clothing and shelter. *Wants* include those things we desire, but which are not necessary for survival or to meet the basic standard of living in a community. They can include everything from TV sets, to motor vehicles, to mobile phones.

We satisfy our needs and wants by acquiring goods and services. *Goods* are physical, tangible items that can be seen and touched. They include all those products we actually buy from shops. *Services* are the actions done for you by others that are designed to satisfy needs and wants. They include the services provided by doctors, dentists, banks, telephone companies, entertainers, mechanics and teachers, among others. Whenever we make use of goods and services we are said to *consume* those goods and services, and so are regarded as *consumers*.

Goods and services have to be provided by someone, and we usually expect businesses to do this. Any activity within the economy that results in the provision of goods and services is known as *production*.

In order for us to be able to consume the goods and services that have been produced, we need systems of *distribution*. This means that the goods and services have to be supplied at locations that are convenient for consumers. This could mean a local shopping mall, an office block in the city centre, or even through a website. The distribution process also includes the setting of prices to be paid for goods and services.

As consumers, we all hope to earn the income necessary to purchase our needs and many of our wants. We would like a fair go when dealing with businesses and we would like to know our rights. We should recognise that this doesn't always happen as some business owners and employees fail the fairness test when it comes to serving their customers.

This is where we need the government to provide a legal and justice system so that buying and selling occurs within a set of rules that is fair to all participants. In Australia, federal and state parliaments have passed a number of laws that are designed to protect consumers from being exploited by unscrupulous businesses. Laws have also been passed to ensure that businesses can compete fairly with each other. If there is a large number of businesses competing for customers in any market, those customers are more likely to get a fair deal.

The current law that regulates competition and the rights of consumers in the marketplace is the Competition and Consumer Act. This law was passed by the federal parliament in 2010, and came into operation on 1 January 2011.

In order to make sure that businesses comply with the Competition and Consumer Act, there are a number of different government bodies that have the power to enforce the law. These include the Australian Competition and Consumer Commission (ACCC), as well as a number of state and territory bodies, such as Consumer Affairs Victoria.

If a consumer believes that a business has breached the Australian Consumer Law, these government bodies can assist in resolving the dispute. They can also intervene if a business owner believes that another business has been acting in a way that could destroy fair competition in the market.

Providing choice, friendly service and good value to customers will help a business owner conform to the Australian Consumer Law.

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In this topic, we will examine Australia's economic system, the activities of producing, distributing and consuming the goods and services we require to satisfy our needs and wants and the protections available to consumers in their dealings with businesses.

on Resources

Video eLesson Development of the market economy (eles-1811)

LEARNING SEQUENCE

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23.2 Participants in the market system

23.2.1 Consumers and producers

Markets refer to places where buyers (consumers) and sellers (producers) meet and exchange goods and services. Producers provide the goods and services and consumers purchase them. Markets need not have a physical location – online shopping have created markets in cyberspace but for most of us, the exchange of money for goods and services takes place in a physical setting – a shop or supermarket or market stall.

Consumers and producers are at the centre of Australia's market system. All of us are consumers, and those of us who are employed are also producers. We satisfy our needs and wants by working to earn money, and then buying goods and services from businesses that produce those goods and services. When we are working, we are providing our **labour** to contribute to the process of producing goods or services for other consumers to buy. When we are spending our money, we are consumers, purchasing goods and services that others have produced, in order to satisfy our needs and wants.

FIGURE 1 People who are employed are considered to be producers.

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The total of all consumers in the economy is sometimes called the **household sector**. The total of all producers is sometimes known as the *business sector*.

We can examine the relationship between the business sector and the household sector by looking at the following model. It demonstrates how labour is exchanged for money, and how that money is used to purchase goods and services.

FIGURE 2 Model showing the flow of money, goods and services between households and businesses

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We can simplify this model by removing the flow of goods and services, and simply showing the flow of money between households and businesses. This tells us about the financial relationship between consumers and producers in our market system. Economists sometimes refer to this as the circular flow diagram, because it illustrates how money circulates in a simple market economy.

FIGURE 3 The circular flow of money between households and businesses in our market system

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23.2.2 The financial sector

Do you spend every cent you receive in pocket money or in return for any work you do, or do you set some aside as savings? While most people of your age don't save much, many others in the economy do put aside some of their income as savings. This money is usually deposited in a bank or similar **financial institution**.

DISCUSS

Are you a saver or are you a spender? Would you like to be able to save more money? What advantages do people who save their money have over those who spend their money?

[Personal and Social Capability]

Banks and other financial institutions receive deposits, and use this money to lend out to others who need to borrow money. Most businesses will borrow money, particularly when they need to expand the business. This may involve buying new equipment, or even moving to bigger premises. Money spent in this way is known as **investment**. Financial institutions collect the savings of thousands of depositors, and then have large sums available for businesses to invest in growth.

FIGURE 4 Financial institutions are able to direct savings into investment in the growth of businesses.

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These financial institutions make up what we sometimes call the *financial sector* of the economy. They perform an important role in our market system because they enable accumulated savings to be directed towards business growth. As businesses grow, they are able to employ more people, who in turn have more money to spend on goods and services.

Banks and other financial institutions also play an important role in providing credit for households. When consumers make large purchases, such as a house or a car, it is usually easier to borrow the money to pay for these than to save up for years to pay cash for them. When purchasing a house or land, most people take out a **mortgage loan**. This enables them to borrow to pay for the property, and pay back the loan over a relatively long period of time. The housing market depends on the amount of money available for mortgage loans. If more people are able to buy houses, more new houses are built, creating more jobs in the construction industry.

We can see how the financial sector plays its role in the market system by adding financial intermediaries to our basic circular flow diagram. As we can see, banks and other financial intermediaries receive savings from households. They use this money to lend to businesses for investment, and they lend back to households in the form of credit.

FIGURE 5 The circular flow of money between households, businesses and financial intermediaries in our market system

Permission clearance pending

23.2.3 The government sector

Another element involved in the market system is the government. In Australia this refers to the federal government based in Canberra, state and territory governments based in capital cities, and local councils. As well as spending money on consumption and investing in savings, households and businesses pay money to government in the form of taxes and rates, and receive particular types of goods and services back from government. A detailed examination of the role of government can be found in subtopic 23.5. Government plays an important role in the market system for a number of reasons:

FIGURE 6 When a government pays businesses to construct roads it helps those businesses to grow and employ more people.

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1. The level of taxation taken by government can affect the amount of money consumers have available to spend on goods and services. High levels of taxation can mean that consumers spend less, businesses cannot grow as quickly, and cannot employ as many people.

2. Money collected in taxes can be spent on providing welfare payments. These payments, in the form of pensions and unemployment benefits, allow many people to purchase more as consumers, providing more income to businesses, and creating more jobs as businesses grow.
3. Government also provides services such as schools and hospitals and these are paid for from taxes collected from both households and businesses.
4. When government spends money on building roads, schools and hospitals, it is providing money to the businesses that do the actual building, helping those businesses to grow and employ more people.

The involvement of government in our market system can be illustrated by adding government to our circular flow diagram. We can see that both households and businesses pay taxes to government. Some of this comes back to households in the form of welfare payments such as pensions, or as services such as education and health care. Some of it is spent on buying goods and services from businesses, or paying businesses to build roads, schools or hospitals.

FIGURE 7 The circular flow of money between households, businesses, financial intermediaries and government in our market system

Permission clearance pending

23.2.4 The overseas sector

Australia is an open economy, in that we trade goods and services with other countries. Australian businesses **export** goods and services to both consumers and producers in other countries. Australian consumers buy many products that have been manufactured in other parts of the world and **imported** into this country.

International trade can affect our market system in a number of ways:

1. Australia has a relatively small population, so if overseas consumers are willing to buy the goods and services we produce, this can help our local businesses to grow and employ more people.

FIGURE 8 Australia imports many goods from overseas and exports to many other countries.

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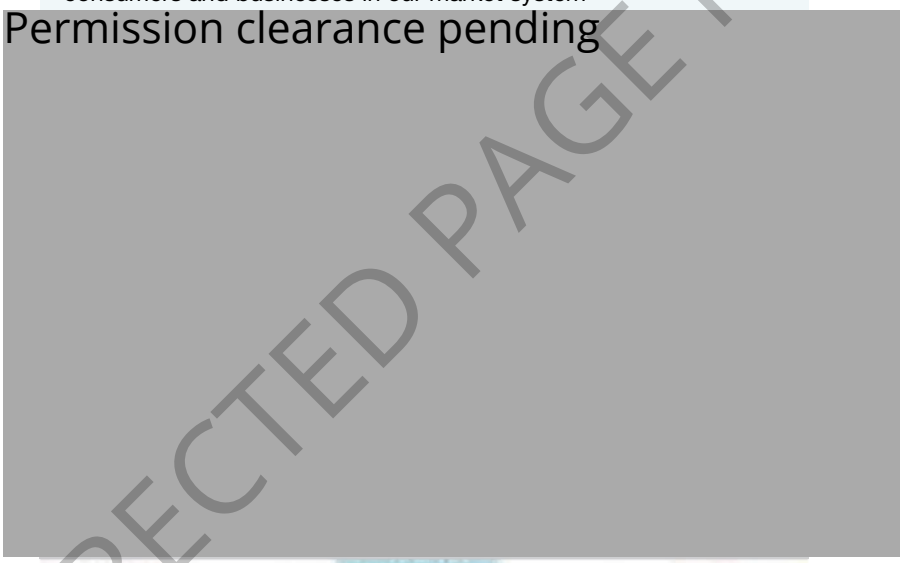
2. There are some products that we are unable to produce with the same efficiency as can be achieved in other countries. A lot of the highly sophisticated machinery used in factories is imported, helping the factory to produce goods more cheaply.
3. Imported goods are sometimes cheaper than locally produced goods, which can make it difficult for local producers to competewith the imported products. This can lead to local producers goingout of business. The motorvehicle manufacturing industry is an example of an industry that has losed its Australian operations due to lower priced imported products. While local jobs are lost, consumers benefit from cheaper priced cars.

We can see the effects of overseas trade on the flow of money by adding overseas consumers and producers to our circular flow diagram. We can see that households spend money buying imports from overseas businesses, while businesses can earn money from exporting goods and services to overseas consumers. Exports are good for the Australian economy because they bring money into our market system, while imports take money out of the country and pay it to overseas businesses.

FIGURE 9 The circular flow of money between households, businesses, financial intermediaries, government and overseas consumers and businesses in our market system



We can see that there are five main sectors involved in our market system: the household sector, business sector, financial sector, government sector and overseas sector. The circular flow diagram allows us to see the financial relationships between each of these sectors.

23.2 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.2 Exercise 1: Check your understanding

1. **ES1** Define the following and provide an example of each:
   (a) market
   (b) labour
   (c) household sector
   (d) business sector
   (e) financial sector
   (f) government sector
   (g) overseas sector.

2. **ES2** Why is it possible for a person to be both a producer and a consumer?
3. **ES2** How do financial institutions help markets to operate?
4. **ES1** What is the difference between imports and exports?

23.2 Exercise 2: Apply your understanding

1. **ES2** Explain one way in which a government can influence markets.
2. **ES3** Examine the **FIGURE 9** circular flow diagram and predict the impact that each of the following might have on the level of goods and services sold by Australian businesses.
   (a) Households decide to save a larger proportion of their income.
   (b) Financial institutions make it easier for consumers to acquire credit cards.
   (c) Governments decide to increase the level of taxation for households.
   (d) Governments increase the level of welfare payments.
   (e) There is a large increase in the availability of cheaper imported goods.

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23.3 Different types of markets

23.3.1 Retail, labour, financial and stock markets

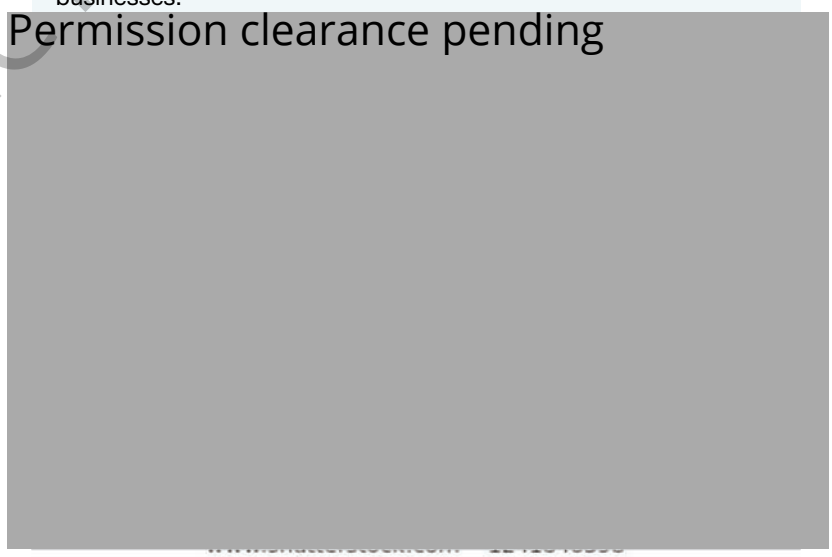
As we have seen, a market exists in any situation where buyers and sellers come together to exchange goods and services for money. A market can exist in a single physical location, it can be spread across a number of locations, or can have no physical trading location to at all, such as online retailing. It is the act of buying and selling, not the actual location, that creates the market. We will now look at a number of different markets that exist within the Australian economy: retail markets, labour markets, financial markets and stock markets.

23.3.2 Retail markets

We are all very familiar with retail markets. These are the markets that allow us to buy most of our goods and services. They include:

- shopping areas in the central business districts (CBDs) of our large capital cities
- huge suburban shopping malls such as Chadstone in Melbourne, Westfield Parramatta in western Sydney and Chermside in northern Brisbane
- local shopping centres with a supermarket and a number of specialty stores
- shopping strips located along major roads and near public transport hubs
- the groups of shops gathered in the main streets of country towns and regional centres
- online shopping websites.

FIGURE 1 Large shopping malls provide a wide range of retail businesses.



Online shopping has become so popular that in 2016 it accounted for 7% of all household spending. It was valued at $20.8 billion – a 14.2% increase on the previous year.

FIGURE 2 Online shopping continues to grow each year

Permission clearance pending

23.3.3 Labour markets

At any given time, there are people looking for a job. Some of them are unemployed and want to find work; while some of them already have a job but want to work for a new company or do different work. At the same time, many businesses are looking to employ people to work for them. Prospective employees are hoping to *sell* their labour to employers. Those employers wish to *buy* the skills and effort of suitable employees. This combination of buyers and sellers of labour constitutes the labour market.

Like many other markets, the labour market does not operate in a particular physical location. The labour market relies on a variety of means of communication between the sellers of labour (potential employees) and the buyers of labour (employers). These allow employers to advertise vacancies in their businesses, and potential employees to find out about job opportunities. The operation of the labour market can involve the following:

- The simple placement of a sign in a shop or café window indicating that the owner has a job vacancy
- Newspaper advertisements for job vacancies. This method has declined significantly in recent years, with relatively few vacancies advertised this way today.
- Online 'jobs boards' such as Seek, Indeed and Australian JobSearch. These are the fastest growing source of job advertisements, updated every day. Employers pay a fee to advertise their vacancies, and jobseekers can apply online for the vacancies advertised.
- Any person receiving **unemployment benefits** from the government is usually required to take an active role in looking for work. The government pays independent agencies to assist unemployed people to find work. Many of these are run by community organisations and a list of these, including Matchworks and the Salvation Army, can be found on the Australian JobSearch website.

on Resources

Weblink Australian JobSearch

The price the employer pays as a buyer of labour is known as a wage or salary. Wages and salaries are quite highly regulated in Australia. There is a **minimum wage** that must be paid to all employees over the age of 21 years. It is adjusted every year to account for rises in the **cost of living**. At 30 June 2019 this was set at $18.93 per hour, or $719.20 (before tax) for a standard working week. This figure is expected to be revised.

FIGURE 3 Online job boards such as SEEK are the fastest growing source of job advertisements.

Permission clearance pending

23.3.4 Financial markets

Just as there are a number of markets for goods and services throughout the economy, there is also an important market for money. While households earn money in the form of wages and salaries, they will often choose to borrow money to buy larger items such as cars or houses. Businesses make money from selling goods and services to consumers, and generally try to make a **profit** by doing so. Sometimes part of that profit will be invested in expanding the business, but if the profits are not large enough to do this, the business may also want to borrow money to help it grow.

The functions of money

Money performs four very important functions in our market system:

1. *Medium of exchange* — Money allows us to exchange goods and services using a common means of exchange we all accept. Employees exchange their labour for money, and all businesses accept money in exchange for the goods and services they supply.
2. *Measure of value* — We use money to put a price on the goods and services we exchange. The price is a measure of what we believe the goods or services to be worth, when compared with other goods and services.
3. *Store of value* — We are able to save our money to spend at a later date.
4. *Standard of deferred payments* — Using money allows us to purchase goods and services on credit, with both buyer and seller knowing how much has to be paid at a later date.

FIGURE 4 Money performs important functions in our economy.

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The working of financial markets

Just as all goods and services have a price, so too does money. The price of having access to money that actually belongs to someone else is known as **interest**. When you deposit your money in a bank account, the bank will pay you interest on your savings. This is usually based on a percentage figure. If you deposit $100 in your account, and the bank is paying 3 per cent per annum (per year), the bank will pay you three dollars in interest after a year. Interest is often calculated monthly or even daily, so that if you withdraw your money before the year is up, you will be paid a lesser amount to cover the time the bank had the use of your money. Banks then lend out the money that they have deposited with them to other consumers or to businesses. They will usually charge a higher rate of interest to borrowers than they pay to their depositors. This is how they make a profit.

If you have money to deposit, it is often worth shopping around to get the best rate of interest. Sometimes it is possible to earn a higher rate of interest if you agree to leave the money in the bank for a fixed period of time. This is known as a *term deposit*, because the money is deposited for a fixed *term*, or period of time. If you borrow money, you want to pay the lowest possible rate of interest, so it is worthwhile to shop around a number of lenders to get the best deal.

FIGURE 5 A bank account allows us to earn interest, while the bank can lend the money deposited to other individuals and businesses.

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Financial markets operate like any other market, with sellers wanting to charge the highest price they can for their goods and services, and buyers wanting to pay the lowest price they can. If you are selling the use of your money (i.e. you are a depositor), you want to get the best price (interest earnings) you can for allowing someone else to use that money. If you are buying the use of someone else's money (i.e. you are a borrower), you want to pay the lowest price (interest payments) you can.

23.3.5 Stock market

Share market basics

Like other markets, the stock market (also called the share market) is simply a relationship between buyers and sellers. In this case it is shares in companies that are bought and sold. A share is a unit of ownership in a company. Large companies divide their ownership into millions of shares, which can be bought and sold through the stock market, known in Australia as the Australian Securities Exchange (ASX). The ASX was formed in 1987 by amalgamating the six capital-city stock exchanges. Today the ASX is based in Sydney, but also has offices in Melbourne and Perth.

on Resources

Video eLesson Share market basics (eles-0256)

There are over 2000 companies listed on the ASX. These include large retailers such as Woolworths and Wesfarmers (owners of Coles); the four big banks — ANZ, CBA, NAB and Westpac; and large mining companies such as BHP Group Limited and Rio Tinto. The value of shares can go up and down, depending on the demand for those shares. When a company reports that it has had a successful year, many people

may want to buy shares in that company. If there are more people wanting to buy than to sell, the price tends to rise. If the company appears to not be performing well, there may be more shareholders wanting to sell their shares than there are buyers, so the price is likely to go down.

As the price of a company's shares goes up or down, so too does the value of a shareholder's investment. The value of most shares tends to rise over time, even though the prices can fluctuate daily. People who hold shares for long periods (generally more than 10 years) benefit from **capital growth**. Owning shares means you can also benefit when the company makes a profit, as profits can be distributed to shareholders as **dividends** or in extra shares.

The buying and selling of shares is usually handled by stockbrokers. These are licensed agents who have access to the ASX, and who conduct share transactions on behalf of the general public in exchange for a small fee. Most stockbrokers will recommend that their clients buy shares in a variety of different companies. If you only buy shares in one company and that company experiences problems, the value of your shares can drop and you lose money. Buying shares in a number of different companies reduces your risk, as you have a better chance of having some shares that will perform well. You have probably heard the saying 'don't put all your eggs in one basket', which means you should spread your risks among a number of ventures.

However, as with retail, it is possible for individuals to buy shares in companies themselves, online, by creating their own account, usually through their bank. Commsec and ANZ Etrade are examples of online trading platforms that allow consumers to buy shares if they have an account with that bank and have a minimum amount of money available — usually $600.

FIGURE 6 Buying shares listed on the ASX enables you to become a shareholder in a variety of different businesses.

Permission clearance pending

FIGURE 7 Stockbrokers buy and sell shares on behalf of their clients.

Permission clearance pending

on Resources

Weblinks Fair Work
ASX

23.3 ACTIVITIES

1. Watch the **Share market basics** eLesson and then answer the following questions:
   (a) What are you buying when you buy shares?
   (b) What would be the situation if you owned 100 per cent of the shares in a company?
   (c) What is the role of a stockbroker?
   (d) When is the stock market report published?
   (e) Copy the following table into your workbook and explain the meaning of each term as found in the stock market report.

Stock	
Close	
Move	
Turnover (100s)	
Quotation	Buy
	Sell
52-week	High
	Low

Analysing and interpreting

2. Examine the stock market report in a daily newspaper or use the **ASX** weblink, and answer the following:
   (a) Identify two companies that experienced an increase in share price in the previous day's trading.
   (b) By how much did each increase in price?
   (c) How many shares were bought and sold for each company?
   (d) What is the highest and lowest price each company's shares reached during the last year?
   (e) Is the current price closer to the highest or lowest experienced during the past year?
   (f) From what you can see of the shares in these two companies, do you think they would be good value to buy right now? Explain your answer.

Analysing and interpreting

23.3 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.3 Exercise 1: Check your understanding

1. **ES2** Describe three examples of retail markets.
2. **ES1** What is the ASX?
3. **ES1** Define each of the following in your own words:
   (a) unemployment benefits
   (b) interest
   (c) award
   (d) capital growth
   (e) enterprise bargaining
   (f) dividend.

4. **ES1** What is being bought and sold on the labour market?
5. **ES1** What is being bought and sold on financial markets?

23.3 Exercise 2: Apply your understanding

1. **ES2** Explain each of the four functions of money.
2. **ES4** Use online resources to investigate a 'job board' website and search for each of the following jobs in your local area: nurse, bricklayer, hairdresser, taxi driver.
   (a) How many vacancies were available for each type of job?
   (b) What sort of information is provided about each job?
   (c) Explain the process for applying for one of these jobs online.
3. **ES4** Use online resources (such as the **Fair Work** weblink in the Resources tab) to answer the following questions.
   (a) What is the current rate of the minimum wage for workers over the age of 21?
   (b) By how much has the minimum wage increased from the previous year?

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.4 Key economic questions for business

23.4.1 Market forces

A key factor in any market is the price charged for the goods and services sold in that market. Sellers will generally decide how much they wish to charge for the goods or services they are supplying, but they cannot do this in isolation. They must take into account the price that consumers are willing to pay. If there are a large number of sellers in any market, prices will tend to be lower because these sellers have to compete with each other to attract customers. When prices are influenced by the interaction between buyers and sellers, they are said to be influenced by *market forces*. These market forces can also affect what goods and services producers choose to supply and the methods they choose to produce them. Market forces can also determine who the ultimate buyers of these goods and services will be.

23.4.2 Influencing prices

The prices paid for goods and services can be influenced by both sellers and buyers. Sellers can adopt a number of strategies to determine prices, including:

- applying a retail price recommended by the manufacturer of the goods being sold. Although it is illegal for a manufacturer to enforce such a price, it can provide a useful guide for the seller.
- following the prices set by other sellers in the same market. This may involve matching those prices, or setting a slightly lower price to attempt to attract more customers.
- adding a **percentage mark-up** to the cost of the goods to the business. The seller may calculate a sale price by adding a fixed percentage to the price that they paid for the goods.

The selling price needs to be enough to help cover all the business expenses, and also provide a profit.

Whatever method a seller uses, it is a general rule in all markets that sellers will attempt to charge as high a price as possible, while buyers will look for the lowest price they can find. A seller who attempts to charge too high a price will find that buyers will not buy from their business. The seller must cover the business's expenses and make a reasonable profit, but cannot afford to charge too high a price if competitors are selling the same product at a lower price. A buyer who expects to

FIGURE 1 Sellers must set a price that will not turn customers away.

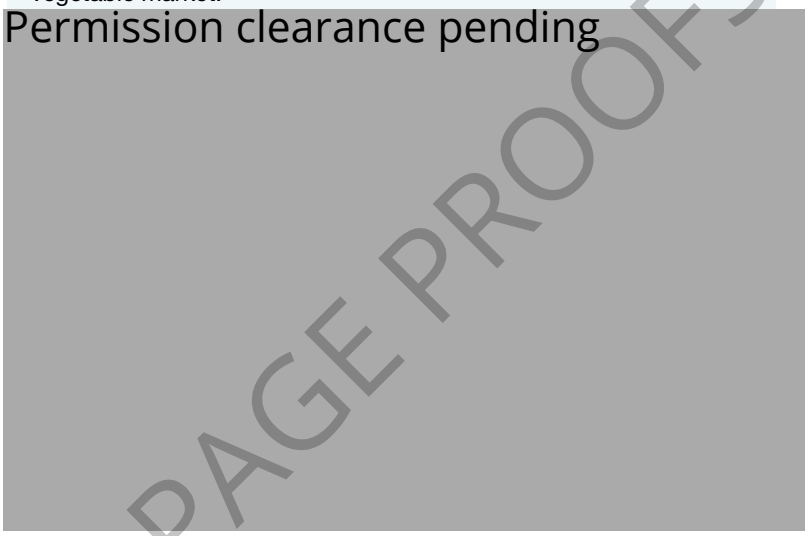
Permission clearance pending

pay too low a price may find that there are no sellers willing to sell at that rate, so has to be realistic about what constitutes a fair price.

A good example of the way in which markets operate can be found at large fruit and vegetable markets such as Paddy's Markets in Sydney, or the Queen Victoria Market in Melbourne. In these marketplaces, there are large numbers of different fruit and vegetable stalls, all competing with each other. Sellers can see what their competitors are charging for their stock, while buyers can move easily around the different stalls to compare the quality and prices of produce on sale.

We can see how the interaction between buyers and sellers can influence prices by taking an example from one of these markets. Imagine each fruit and vegetable stall sells apples, and most sellers agree that if they could charge $10 per kilogram (kg), they would happily supply 100 kg of apples for sale each day. If they could only charge $5 per kg, they would only be prepared to provide 50 kg a day. If they could only charge $2 per kg, they would only supply 20 kg for sale, and concentrate instead on selling other fruit and vegetables that would make a bigger profit.

FIGURE 2 Buyers can easily compare prices at a fruit and vegetable market.



Buyers have a different point of view. They want to purchase at the cheapest price possible. If apples cost $10 per kg, only a small number of people would buy them, and then only in small quantities — a total of 20 kg on any given day. If the price dropped to $8 per kg, buyers might be prepared to purchase a total of 30 kg a day. If the price fell to $6, they might buy 40 kg, at $4 they would buy 60 kg, and at $2 they would buy 80 kg.

How will the interaction of the different preferences of buyers and sellers help produce a price and a quantity for sale that is acceptable to both groups? We can start to answer this by putting the above data into tables.

TABLE 1 Sellers' preferences

Price per kg	Quantity supplied
$2	20 kg
$5	50 kg
$10	100 kg

TABLE 2 Buyers' preferences

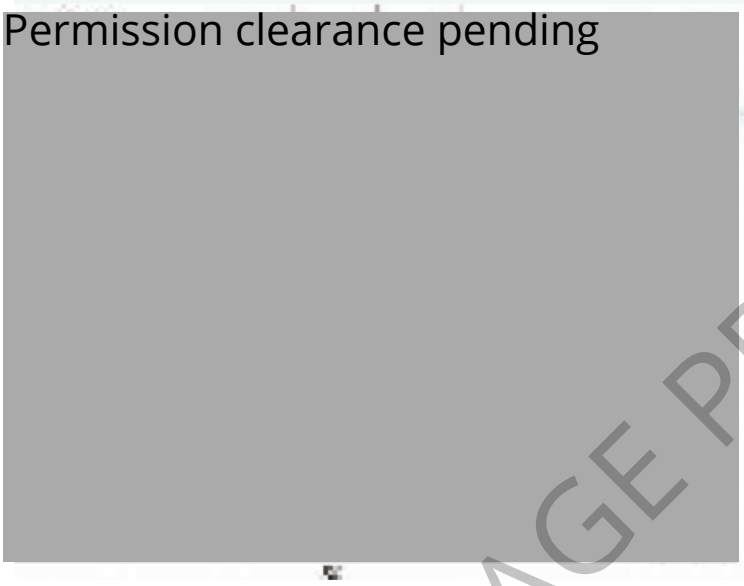
Price per kg	Quantity purchased
$10	20 kg
$8	30 kg
$6	40 kg
$4	60 kg
$2	80 kg

We can now enter the data from these tables into a graph. If we place the different prices along the vertical axis, and the different quantities along the horizontal axis, we can plot the preferences of both buyers and sellers on the graph (see **FIGURE 3**). The sellers' preferences are shown by the blue line, while the buyers' preferences are shown by the red line. The point at which the two lines intersect will give us the price and quantity at which the preferences of both buyers and sellers are matched.

The market for apples will settle at a point where 50 kg of apples will be sold each day at a price of $5 per kg. Sellers know that if they have 50 kg of apples in stock on any given day, they will be able to sell them all at this price. If one seller decides to sell below this price, he or she will be likely to sell out his or

her stock more quickly, but will make a smaller profit. If he or she wants to cover costs and make a profit, it is unlikely that the lower price will be maintained for long. A seller attempting to sell above the price of $5 per kg will be likely to sell less and so will be forced to bring the price down.

FIGURE 3 Supply and demand for apples



The interaction between the different quantities sellers are willing to supply and buyers are likely to demand at various prices can have an impact on a range of markets for many different goods and services.

23.4.3 The key economic questions

The aim of any economy is to provide goods and services to consumers in as efficient a manner as possible. We would expect consumers to buy goods and services that will satisfy their needs and wants, and that producers will want to make a profit by selling them those goods and services. In order for both consumers and producers to be satisfied, the economy has to answer three basic questions:

1. What to produce? — What goods and services should be produced, and in what quantities?
2. How to produce? — What methods should be used to provide those goods and services?
3. For whom to produce? — To whom should those goods and services be distributed?

Because the Australian economy operates largely as a market system, we would expect the interaction between buyers and sellers in a variety of different markets to answer these questions.

What to produce?

How does our market system help producers to decide exactly what goods and services to supply, and in what quantities to supply them? Up to a point, the market system operates largely by trial and error. A producer may make certain goods or services available to consumers and hope that these will satisfy the needs and wants of those consumers. If the goods or services fail to sell, the producer will probably go out of business. In Australia more than 60 per cent of small businesses close within their first three years, while one in three fail in their first year. This means that a lot of potential producers are entering the marketplace, but not selling the goods or services necessary to satisfy the needs and wants of consumers.

The market largely determines which businesses are likely to be successful. Some factors that can influence markets include:

- *Established habits and experience* — Producers know from people's existing behaviour that there will always be a demand for certain types of goods or services. Families need to buy food on a regular basis, so a supermarket in a new suburb may well be successful. In any new shopping centre,

businesses such as cafés and hairdressers will probably meet a demand from consumers if there are no similar businesses nearby. If a second or third café or hairdressing salon is established in the same shopping centre, the success of these businesses will depend on whether the level of demand from consumers is sufficient for all of them to survive. If not, then one or more will close. The operation of the market for those goods and services will determine how many similar businesses can survive in the same marketplace.

- *Changing tastes and preferences* — An example of this is the market for Australian-made cars. For many years, family sedans and wagons such as the Holden Commodore and Ford Falcon were Australia's best-selling cars. Car manufacturing was so successful that other manufacturers such as Toyota also set up factories in Australia. Over time, consumers' preferences have changed, and smaller imported cars and larger SUVs have become more popular. This led to a decline in car manufacturing in Australia. As a result, Holden, Toyota and Ford all ceased motor vehicle production in Australia in 2017.

FIGURE 4 Changes in the market saw the closure of Toyota, Ford and Holden car manufacturing plants.

Permission clearance pending

- *Marketing and advertising* — Any business introducing a new product or service into the market needs to ensure that consumers are aware of its availability. For many years, businesses have used television, newspaper and radio advertising to persuade consumers to buy their goods and services. In addition, online advertising has increased dramatically, and today an online presence is essential for almost all businesses.
- *Technological change* — As a society we have become very enthusiastic about new technology. Whenever a new model iPhone is released, consumers queue up outside their nearest Apple store to be one of the first to buy it. Consumers monitor new developments in technology, and many will quickly replace outdated products with newer models. Producers can be quite confident that improvements in technology will quickly attract buyers to new goods and services.

How to produce?

Producing goods and services generally involves a combination of labour, equipment and raw materials. These are known as **inputs**, and any production process will involve different types and combinations of these three inputs. A factory producing frozen vegetables will be set up with different types of equipment, such as freezers to keep the vegetables cold, machines to chop them, and machines to pack and seal them in plastic packaging. The same factory will employ workers to control those machines, and perhaps carry out some other tasks, such managing the whole process. The raw materials are the vegetables that are processed.

FIGURE 5 Improvements in technology soon attract consumers.

Permission clearance pending

At different times, the managers of the factory will have to make decisions about the best methods to produce their final product, and the operation of the market can influence these decisions. Competition from rival frozen food companies will mean that the business will wish to keep its costs as low as possible. If efficient new equipment becomes available, it may be worth changing the methods of production to take advantage of this new machinery.

FIGURE 6 The use of robotics has changed the way manufacturers produce goods.

Permission clearance pending

Automated production lines and robotics-based equipment are technologies that have improved factory production. In most cases, automation enables a factory to employ fewer workers, saving wage costs and allowing the prices of products to be kept at a level where they can compete in the marketplace. When one business in a particular market is able to cut costs by changing its methods of production, other businesses in the same market will usually make changes also, to remain competitive.

For whom to produce?

A business owner will make some decisions about who he or she intends to supply with goods and services. The market can also influence who receives these goods and services because purchasing will be affected by the level of prices when compared with the income of consumers. As seen in our circular flow diagram in subtopic 23.2, household income can consist of wages and some government welfare payments. Households can also gain access to credit to purchase some goods and services. Taxes and desired levels of savings result in a reduced amount available for spending.

FIGURE 7 Luxury motor vehicles cost much more to produce, but the manufacturers are not attempting to sell to the mass market.

Permission clearance pending

The amount actually available for households to spend is known as **disposable income** (income less tax). All consumers make decisions about what to buy by comparing their disposable income with the prices they will have to pay for the goods and services they want. The prices of different products can influence who buys them. Luxury motor vehicles cost much more to produce, but the manufacturers are not attempting to sell to the mass market. Their product is aimed at those with a high enough level of disposable income to be able to afford such a vehicle. On the other hand, fast-food restaurants such as McDonald's and KFC provide relatively cheap meals designed to appeal to large numbers of consumers. Other, more exclusive restaurants, charging $100 or $200 per meal, are providing a service for a completely different market.

23.4 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.4 Exercise 1: Check your understanding

1. **ES1** Define each of the following in your own words:
   (a) percentage mark-up
   (b) disposable income.
2. **ES2** Outline two methods a business might use to determine the prices for the goods or services it sells.
3. **ES1** What are the three different types of inputs that go into any production process?
4. **ES2** Explain two factors that could influence which goods and services businesses decide to produce.
5. **ES1** How do businesses aim to keep their production costs as low as possible?

23.4 Exercise 2: Apply your understanding

1. **ES2** Explain how markets can influence to whom different goods and services are distributed.
2. **ES5** In a fruit and vegetable market, bananas are subject to the following buyer and seller preferences.
   - Sellers agree that if they could charge $14 per kg, they would happily supply 140 kg of bananas for sale each day. If they could only charge $7 per kg, they would only provide 70 kg a day. If they can only charge $3 per kg, they would only supply 30 kg for sale.
   - If bananas cost $14 per kg, buyers would demand a total of 30 kg in any given day. If the price dropped to $10 per kg, buyers might be prepared to buy 40 kg a day. If the price fell to $8, buyers might purchase 60 kg, at $6 they would buy 80 kg, and at $4 they would buy 100 kg.

   Based on this information, complete the following tasks.
   (a) Draw up a table showing the different quantities of bananas that sellers would be prepared to supply at each price level.
   (b) Draw up a table showing the quantities of bananas that consumers would demand at each price level.
   (c) Use the data from these tables to construct a graph that shows both sellers' supply preferences, and consumers' demand preferences.
   (d) State the price per kilogram at which buyers and sellers preferences would be matched. What quantity would be sold at that price?

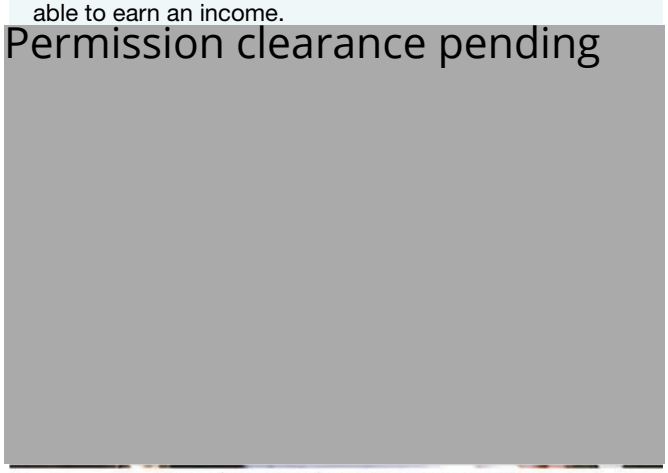
Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.5 Government involvement in the market

23.5.1 Welfare

The government provides financial and other support to disadvantaged members of the community. The aged pension supports those who are beyond retirement age and no longer working. Unemployment benefits are designed to support those who cannot find work. The National Disability Insurance Scheme (NDIS) provides people with a permanent and significant disability with money to access support and services.

FIGURE 1 Welfare payments help those who are not able to earn an income.



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Not only are welfare payments designed to provide fairness and support to those who need help, but the payments can also have a positive economic effect on markets. Those receiving welfare are likely to spend most of their money and so their spending adds to the circular flow of income throughout the economy. Businesses gain revenue from selling additional goods and services. This, in turn, allows them to employ more people, who also spend their money buying goods and services.

23.5.2 Provision of infrastructure

Government has a major responsibility for providing the **infrastructure** for the country. This includes roads, railways and ports, and has traditionally included other means of communication, as well as energy supplies. Roads and railways are essential if goods are to be transported from place of manufacture to the shops where they are sold. Ports are not only required to allow for the import and export of goods in and out of Australia, but also for the transport of goods within Australia. Tasmania relies on shipping across Bass Strait to bring goods from mainland Australia, and to transport goods produced within the state to consumers in other states.

The government provides a postal service that supports correspondence between businesses, as well as the delivery of goods through a parcel delivery service. The telephone service was originally provided by government before Telstra was **privatised** and other providers were permitted to enter the market for telephone services. Even today, the national broadband network is an important infrastructure project being funded by government. Markets cannot operate without efficient systems of communication between consumers and businesses.

FIGURE 2 Government provides infrastructure to enable markets to function more efficiently.

Permission clearance pending

Traditionally, energy supplies such as electricity and gas also have been provided by government. These are not only essential for the domestic uses we are all accustomed to, but also for the functioning of businesses. In some states of Australia, electricity and gas supplies have been privatised and are now run by businesses rather than by government. Even where this has occurred, the original infrastructure was usually built by government before being sold to the business sector.

DISCUSS

Privatisation of essential industries, such as electricity and gas supplies, can lead to increased prices as the companies that provide these services seek to make larger profits. Do you think these essentials should be sold for profit? **[Ethical Capability]**

23.5.3 Economic management

Government has a responsibility to ensure that Australia experiences a sustainable level of economic growth from year to year. Growth is important because, as the population increases, it is necessary to ensure there are sufficient goods and services for all consumers to buy. There also needs to be an increase in the number of jobs available to provide employment for a growing population.

Governments can encourage economic growth by spending money, which increases funds into the circular flow. This can provide more for consumers to spend, encouraging business to increase the supply of goods and services, and thus provide more job opportunities. However, if too much money is injected into the economy there may not be enough goods and services readily available to meet the increased demand. This is likely to force prices up, leading to **inflation**.

When excess inflation occurs, governments will usually cut back on spending, which removes money from the economy, which hopefully slows down the rise in prices. Governments use their annual **budgets** to influence the flow of money in the economy. They will aim to encourage growth, while trying to avoid the risk of too much inflation. Governments can use statistics gathered by the **Australian Bureau of Statistics** to assist them in their decision making. These statistics can include figures relating to the levels of employment in the economy, as well as those tracking price rises.

FIGURE 3 Governments will use a variety of statistics to assist with decision making.

Permission clearance pending

on Resources

Weblink Australian Bureau of Statistics

23.5.4 Wages and employee relations

As we have discussed, there is a market for labour in which workers offer their skills and experience for sale to businesses and businesses buy that labour by paying wages and salaries. In order to ensure that the labour market functions fairly, it is regulated by laws passed by governments. The major law dealing with wages and working conditions in Australia is the *Fair Work Act*, a federal government law.

State governments provide regulations to ensure safe workplaces through Occupational Health and Safety laws. Both federal and state governments have also sought to prevent discrimination in the workplace by passing laws supporting equal employment opportunity. These make it illegal to discriminate against someone in any workplace on the basis of gender, race, age or ethnicity. Victoria also has laws to deal with bullying in the workplace.

FIGURE 4 Occupational Health and Safety laws are designed to prevent injuries at work.

Permission clearance pending

on Resources

Weblink Fair Work

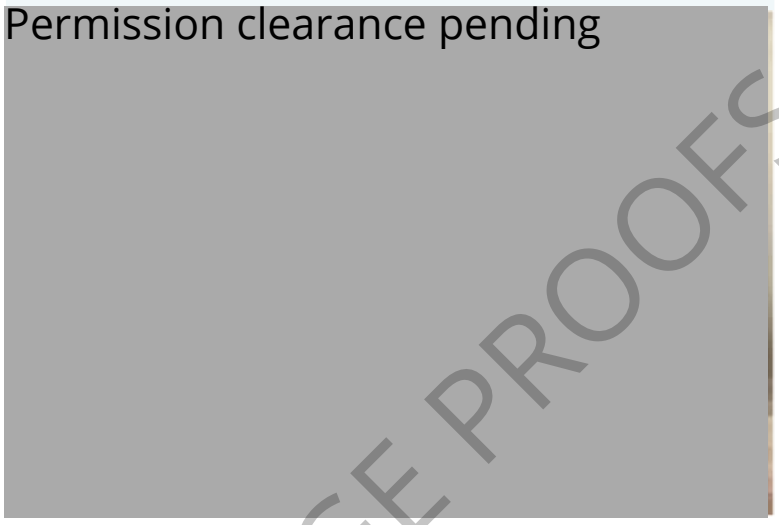
23.5.5 Provision of goods and services

Governments can also become involved in the marketplace as actual suppliers of goods and services. For example, every state and territory government provides an education system. In addition, state governments provide hospitals and other health services. Although other organisations also provide many

of these services, such as private schools and private hospitals, most people consider it a responsibility of government to ensure that everyone has access to education and health services. Ambulance services and firefighting and emergency services are similarly considered to be the responsibility of state governments.

Public transport systems also are mostly provided by state governments, and those public transport systems that are provided by non-government businesses usually receive large amounts of money from government to assist in their running. Public transport does not make a profit, so no business would want to run it without such funding. Further, without this government assistance, for public transport to be profitable fares would have to be so expensive that many people could not afford to use it. Public transport is recognised as an essential service, so governments either provide it themselves or pay businesses to provide it at a reasonable price.

FIGURE 5 It is a responsibility of governments to provide hospitals and health services.

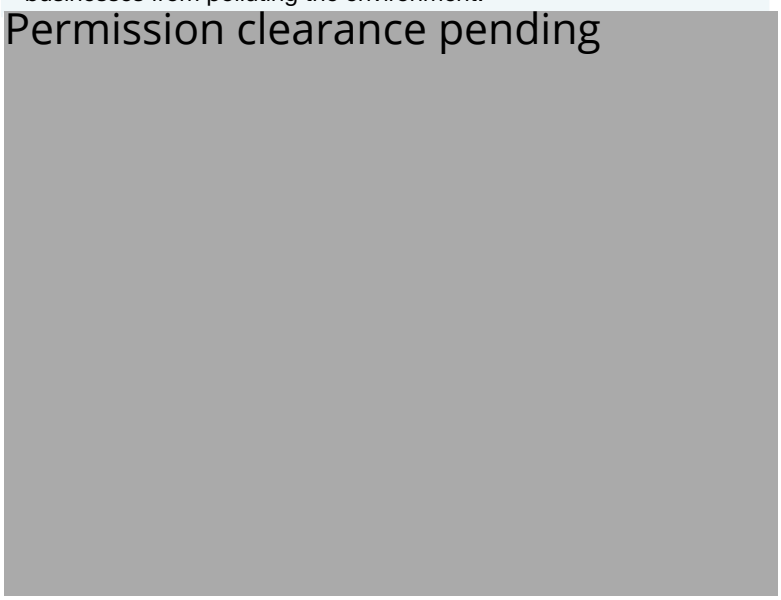


23.5.6 Planning and the environment

State governments and local councils have powers to control the type of buildings and other developments that are built within their borders. Governments establish building standards to ensure that all buildings are structurally sound, and not likely to fall down or cause a hazard in any other way. Anyone wishing to build a house or other structure on vacant land must gain a building approval. This is to ensure that the building conforms with certain standards. Councils and the state government can also determine whether or not a particular type of building is appropriate in a particular area. For example, it would usually be considered inappropriate to build a large factory in the middle of a residential area.

Since the early 1970s, state governments have also introduced laws to protect the environment. These place restrictions on both businesses and individuals in relation to what they can release into the atmosphere and waterways. These laws can affect markets because they can increase costs for some businesses. Businesses that may once have simply released waste material into a creek, river or drain now have to dispose of it in an environmentally responsible manner. Smoke and fumes have to be properly filtered before being released into the atmosphere. Motor vehicles have emission controls to limit the levels of harmful chemicals in exhaust fumes.

FIGURE 6 Governments have introduced laws to prevent businesses from polluting the environment.



Environmental laws have also created new business opportunities, with waste management and recycling businesses providing services for a variety of different customers. As with most government involvement in the economy, while some businesses may appear to be disadvantaged, opportunities are often created for new and different businesses to grow.

23.5.7 International trade policies

Governments have the power to regulate what comes into and goes out of the country. Customs and quarantine laws can have an influence on the markets for a number of products. Until 2011, Australia banned apples from New Zealand because of fears the apples may spread a disease known as fire blight. Such a regulation would obviously have an impact on the market for apples throughout Australia.

Traditionally governments have also attempted to protect goods produced by local industries by imposing special taxes on similar goods imported from other countries. These taxes are known as **tariffs**. The clothing and textile industries were once protected in this way. In the early 1980s, there was a 28 per cent tariff on all imported clothing. This made these imported goods more expensive than locally produced clothing, thus encouraging consumers to buy the Australian-manufactured product. Over the next thirty years this tariff was reduced, making imported clothing much cheaper than the local product.

As a result of reduced tariffs, many local clothing manufacturers have been unable to compete with cheaper imported clothing and consequently have had to close. A similar program of tariff reduction occurred in the motor vehicle industry. While this has been a negative for the Australian clothing and motor vehicle industries, the positive impact for Australian consumers is clothing and motor vehicles being much cheaper. Since the 1980s, Australian governments have also negotiated trade agreements with other countries. We agree to reduce tariffs on imports from those countries, and in return they agree to reduce tariffs on goods they import from us. Although this can make it difficult for some local manufacturers who have to compete against cheaper imported products, it can be good for our export industries and for consumers paying lower prices.

FIGURE 7 A reduction in tariffs has increased the quantity of imported clothing sold in Australia.

Permission clearance pending

23.5.8 Immigration policies

As well as controlling the goods that come into and go out of Australia, governments can regulate the movement of people. This particularly applies to immigration into the country. Immigration allows the population to rise faster than would occur through natural increases in the birth rate. Rapid population increases can provide more consumers for businesses to supply with goods and services. Further, new arrivals add to the workforce, providing businesses with new employees who may have new skills to help the business grow.

Governments can also affect the market for particular goods and services through decisions made about who is encouraged to migrate here. If particular skills are required in certain industries and not enough people in Australia have the required qualifications, governments can allow employers to bring in migrants with the necessary skills. This can affect the labour market in that industry. Australia has also become a major provider of tertiary education for our region. Encouraging international students to come here provides additional income for our universities, as these students pay fees to study here.

FIGURE 8 Australia has become a major provider of tertiary education for fee-paying students from Asian countries.

on Resources

Weblink Australian Bureau of Statistics

23.5 ACTIVITY

Use the **Australian Bureau of Statistics** weblink in the Resources tab to complete the following tasks.

1. Find out the current estimated population of Australia.
2. Explain how this estimate is calculated.
3. Select two headlines or media releases, and for each one, describe:
   (a) three significant facts or figures included in the report
   (b) the trends or changes that have occurred in recent years in the facts or figures reported.

Investigating and evaluating

23.5 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.5 Exercise 1: Check your understanding

1. **ES1** Define each of the following in your own words:
   (a) infrastructure
   (b) inflation
   (c) government budget.
2. **ES1** Why does government usually have to provide funding for public transport to operate?
3. **ES1** How can government welfare payments have an impact on the market for goods and services?
4. **ES2** Explain what happens when a service provided by government is privatised.

23.5 Exercise 2: Apply your understanding

1. **ES2** How can a government budget influence economic growth?
2. **ES2** Why might it be important for government to be involved in the regulation of wages and working conditions for employees?
3. **ES2** What effect might environmental laws have on the costs experienced by businesses in managing waste from their production processes?

4. **ES2** Explain two ways in which government immigration policies can have an influence on markets.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.6 SkillBuilder: Contesting and debating ideas

online only

What is contesting and debating?

When studying business issues, it is important to be able to contest and debate different ideas related to each issue. Contesting means coming up with opposing ideas on an issue. Debating is the process of communicating about these opposing ideas with others.

Go to your learnON title to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill, with an example (Show me)
- an activity to allow you to practise the skill (Let me do it)
- questions to consolidate your understanding of the skill.

Permission clearance pending

23.7 Legal protection of consumer rights

23.7.1 Law and justice

Governments at all levels involve themselves in the market in a variety of ways. Politicians, commentators and the media often refer to the issue of 'economic management' as a responsibility of government. People expect the government to take action to encourage growth in the economy and to avoid high unemployment. Government activity within a market economy goes well beyond these aims. The successful operation of markets often depends on the level of government involvement.

FIGURE 1 Australian Consumer Law protects consumers from unscrupulous businesses that could try to cheat them.

Permission clearance pending

Government provides a legal framework that allows buying and selling in the marketplace to occur within a set of rules that should be fair to all participants. Australian Consumer Law protects consumers from unscrupulous businesses that could try to cheat them. Laws relating to the enforcement of legal contracts ensure that all buyers and sellers will be able to enforce their

rights before the courts. The criminal law aims to provide protection from threats and intimidation in any business dealings. Our court system gives everyone the right to take legal action to enforce their rights.

on Resources

Video eLesson Consumer rights — services (eles-2529)

23.7.2 Fair transactions

As a consumer, you can often be at a disadvantage when it comes to buying goods and services. Even though you may have a good idea of what you wish to buy, you will often rely on the advice of a salesperson to help you with your purchase. You want to be assured that this person will be showing appropriate respect for your interests, not trying to 'con' you. The Australian Consumer Law aims to make sure that every **transaction** between buyers and sellers is fair to both parties.

23.7.3 Honesty is the best policy

Animal testing: Are consumers being misled?

The Australian Consumer Law makes it clear that sellers are expected to advertise and promote their products honestly. It is illegal to do anything that might mislead the customer, or trick them into buying something they might not have bought if they had known all the facts. The following are some examples of behaviour that is illegal under this law.

FIGURE 2 Any discounts, special offers or specials offered by sellers must be genuine.

Permission clearance pending

1. *Misleading or deceptive conduct* — Advertisements must not use words that make claims about a product that are not true. This includes claims about low prices, or goods being 'on special'.
2. *Unconscionable conduct* — This is any business conduct that is unfair or unreasonable.
3. Offering gifts and prizes in connection with the supply of goods and services and then not providing them.
4. *Conduct that may mislead the public* — For example, using a brand name similar to a well-known brand, or using an Australian-made logo when the product was made overseas.
5. *Bait advertising* — This refers to a business attempting to attract customers by advertising some products at lower prices, but stocking very few of those products. When the advertised products quickly run out, customers are then directed to higher-priced items.
6. *Referral selling* — This occurs when a business offers a customer a special deal or special price if the customer refers other potential customers to the seller and those customers make a purchase.

on Resources

Video eLesson Animal testing: Are consumers being misled? (eles-2433)

23.7.4 Treating consumers fairly

Consumers wish to satisfy their needs and wants, and when they go looking for goods and services they are usually eager to make a purchase. This means that an unscrupulous seller could take advantage of them. Consumer law makes it compulsory for sellers to provide all available information to consumers, and to ensure that buyers and sellers have equal rights in any purchase. Some of these rights are:

1. Any contract or agreement that a consumer enters into must be fair and balanced. It must be written in clear language that is easy to understand. It should not contain any provisions that allow the seller to change the conditions of the agreement without informing the buyer. For example, it would be illegal for a mobile phone contract to allow the service provider to make changes to their prices and charges without notifying the customer. However, the consumer is responsible for reading the contract carefully to make sure they understand it.
2. A consumer has the right to ask for a receipt for any transaction, no matter how small the amount involved. For all transactions over $75, a receipt is compulsory.
3. Anyone attempting to sell goods or services door-to-door or over the phone can only do so between 9 am and 6 pm on weekdays, and from 9 am to 5 pm on Saturdays. These types of sales are not permitted on Sundays or public holidays. This rule does not apply when consumers have agreed in advance to an appointment time for the seller to visit their home. A salesperson must leave immediately if requested and must not contact the consumer again for at least thirty days (with that same product). If a consumer agrees to purchase goods or services from a door-to-door salesperson, or over the phone, the Australian Consumer Law allows for a ten-day 'cooling off period'. This means that the consumer has the right to cancel the agreement within ten days, without having to pay anything.
4. **Lay-by** agreements must be in writing and must be expressed in plain language that is clear and easy to understand. The agreement must include all terms and conditions.
5. Businesses that display 'No refunds' signs are breaking the law. If a product is faulty or is unfit for its usual purpose a refund must be offered to the buyer. However, a business may refuse to provide a refund if consumers simply change their minds and there is nothing wrong with the product.

FIGURE 3 A door-to-door salesperson must leave immediately if requested.

Permission clearance pending

23.7.5 Guarantees for consumers

You may have heard of manufacturers or sellers offering guarantees or warranties. These are promises that if anything goes wrong with the product, it will be replaced or repaired free of charge. Even if a manufacturer or seller does not provide such a written warranty, the Australian Consumer Law makes it compulsory for all suppliers and manufacturers to automatically provide a basic set of guarantees on all products they sell to consumers. A business cannot remove consumer rights under these guarantees, but they can improve these basic rights if they wish to do so. The Australian Consumer Law provides the following guaranteed rights:

FIGURE 4 Goods must be of acceptable quality; if a consumer purchased a pair of shoes and one of the heels broke after only a couple of wears, the shoes would not be considered of acceptable quality.

Permission clearance pending

- The consumer will gain clear legal ownership to goods; that is, the seller actually owns the goods being sold and can legally transfer ownership to the buyer.
- Goods must match any sample, demonstration model or description provided to the buyer.
- Goods must be of acceptable quality; that is, they must be safe, long-lasting, free from defects, acceptable in appearance and finish, and do all the things that the goods are normally used for. For example, if a consumer purchased a pair of jeans and found some of the stitching was coming apart after a week, the jeans would not be considered of acceptable quality.
- Products must be fit for a particular purpose. Fitness of purpose means the product will perform as the instructions or advertisements imply. A bottle of shampoo that failed to properly wash hair would be a breach of this condition.
- Repairs and spare parts must be available for a reasonable time after manufacture and sale.
- Any necessary servicing must be carried out with reasonable care and skill and must be completed within a reasonable time.

23.7.6 When the law is broken

Although the Australian Consumer Law is a law of the Commonwealth parliament, enforcement of the laws protecting consumers is usually carried out by the relevant state or territory Office of Fair Trading or Consumer Affairs Office. When a consumer has a complaint against a seller, these offices will usually recommend that the consumer attempt to sort out the problem directly with the seller. If direct contact with the business does not produce a result, the Fair Trading or Consumer Affairs Office may contact the business on the consumer's behalf and attempt to resolve the matter.

If the business fails to resolve the problem, Fair Trading or Consumer Affairs Offices can take legal action on behalf of the consumer. If the legal action is successful, the seller may be required to compensate the consumer or to replace or repair any faulty goods. The business can also be fined for failing to comply with the Australian Consumer Law.

FIGURE 5 The following steps may help a consumer resolve an issue when they feel a business has breached consumer laws.

Permission clearance pending

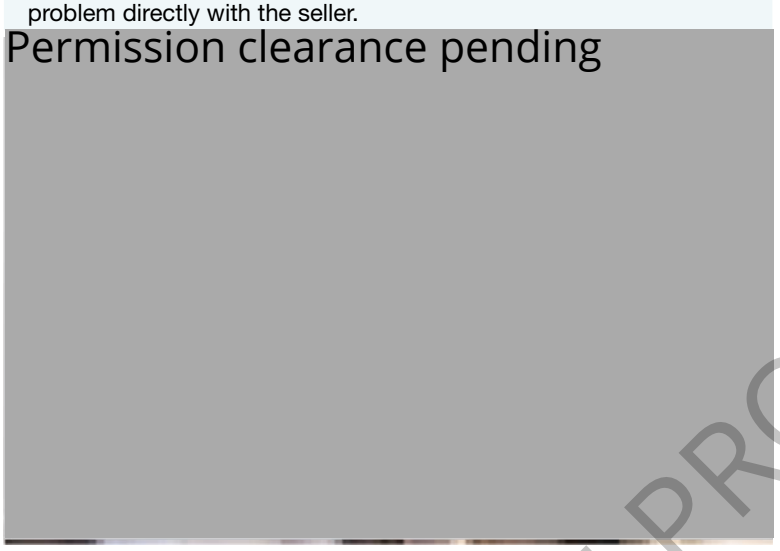
23.7.7 Responsibilities as well as rights!

What is an ethical consumer or producer?

While the Australian Consumer Law contains a strong emphasis on protecting the rights of consumers and enforcing the responsibilities of sellers, consumers also have responsibilities in the marketplace. Some of these responsibilities are:

- Whenever you buy goods or services, you are entering into a legally binding contract. You might believe that a contract is a written document that you sign, but this is not always the case. If you are buying a house or a car, there are particular types of written documents that are required by law, but any agreement between a buyer and a seller is a legally binding contract, even if you don't sign anything. As a buyer you have a responsibility to pay the required amount for the goods or services you purchase. This is particularly relevant if you purchase goods or services on credit, with an

FIGURE 6 Fair Trading and Consumer Protection offices will usually recommend that the consumer attempt to sort out a problem directly with the seller.



expectation that you will pay by instalments, such as the purchase of a mobile phone with an accompanying payment plan.

- Consumers who borrow money or who use a credit card to make purchases have a responsibility to make repayments. Failure to do so can leave the consumer with a poor credit rating. This remains active for five years, and if you need to apply for a loan during that time, you may have that loan refused.
- A consumer cannot return goods and claim a refund if the goods have been used other than for the purposes for which they were intended. If you damage a product by using it inappropriately, or even injure yourself while doing so, you have very little chance of being compensated. Consumers have a responsibility to use goods in the way the manufacturer intended.

FIGURE 7 Consumers who borrow money must repay it in full. Failure to do so can leave the consumer with a poor credit rating.

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on Resources

Video eLesson What is an ethical consumer or producer? (eles-0255)

23.7 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.7 Exercise 1: Check your understanding

1. **ES1** What is the purpose of Australian Consumer Law?
2. **ES2** Provide a brief description of each of the following:
   (a) misleading conduct
   (b) bait advertising
   (c) referral selling.
3. **ES1** Outline one responsibility that consumers have in relation to goods or services they purchase.
4. **ES2** Explain the rules that apply to phone sales and door-to-door selling.
5. **ES1** In what circumstances is a seller allowed to refuse a refund?

23.7 Exercise 2: Apply your understanding

1. **ES2** Explain two guaranteed rights that consumers have in relation to goods they purchase.
2. **ES2** What powers does a Consumer Protection or Fair Trading authority have to enforce Australian Consumer Law?
3. **ES5** In each of the following examples, explain why there has been a breach of the *Competition and Consumer Act*.
   (a) An electrical goods business advertises a particular brand of television and states that it is at a cheaper price than that offered by a competitor. This statement is false.
   (b) A clothing store advertises t-shirts and claims that they are made in Australia when in fact they are made in Hong Kong.
   (c) A take-away food outlet advertises that a special deal is only for one week when in fact it plans to extend it for two months.
   (d) A garden maintenance business offers some its customers a 10 per cent discount if they provide the names and addresses of five potential customers for the business.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.8 Business competition protects consumers

23.8.1 The benefits of competition

One of the best protections consumers can have is a market with a large number of sellers, all competing with each other to attract customers. Competition can help keep prices lower, and if one business treats consumers badly, there are plenty of alternatives available. As the name suggests, the *Competition and Consumer Act* is concerned with encouraging fair competition between businesses in all markets. The Act makes it illegal to engage in business practices that interfere with competition, or that give some businesses an unfair advantage over others. The Australian Competition and Consumer Commission (ACCC) has the power to enforce the law to encourage greater competition in the marketplace.

23.8.2 Banned anti-competitive practices

The *Competition and Consumer Act* lists a number of business practices that are prohibited or that are regulated by the ACCC. These practices are outlined in the subsections below.

Price fixing

It is illegal for two businesses in competition with each other to agree to set identical prices for their products. Businesses will probably have similar prices for similar products because of market forces, but they cannot actively work together to raise or lower prices by an exact amount. This has been an issue over the years with petrol pricing. Many service stations lower their prices in the middle of the week, and then raise them at the weekend. There have been accusations that service stations that are close to each other have agreed to raise or lower their prices by the same amount at the same time. If it could be proved that they had done so, they would be deemed to be acting illegally, because this action would prevent consumers from taking advantage of genuine competition.

FIGURE 1 Any agreement by service stations to raise or lower prices at the same time and at the same rate would be an example of price fixing.

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DISCUSS

As opposed to being involved in price fixing, large supermarket chains have been involved in a price war with items such as milk and roast chickens being sold at reduced prices. The squeeze on the profit margins of these items comes back to the farmers, who are paid less for supplying the goods to the supermarkets. Is this practice by the supermarkets ethical, or should they be paying more for these supplies? **[Ethical Capability]**

Misuse of market power

Not all businesses are the same size, and there is a risk that larger businesses may use their power unfairly to drive smaller competitors out of business. The Act bans any action aimed at damaging or getting rid of a competitor or preventing another business from entering the market. Some years ago, retailer Woolworths was fined $7 million for attempting to prevent some restaurants and bars from selling packaged liquor in competition with its own liquor outlets. When these other businesses applied for liquor licences, Woolworths lodged objections with the government licensing authority. They then proposed to withdraw the objections if the other businesses agreed not to sell take-away alcohol products to their customers. A court found that Woolworths was in breach of the law.

FIGURE 2 Woolworths was fined for attempting to misuse its market power to restrict the operations of competing liquor outlets.

Permission clearance pending

Predatory pricing

Predatory pricing occurs when a business deliberately sets its prices at such a low level that its competitors cannot match them. In such cases, the business actually decides that it is prepared to lose money for a while until it has forced its competitors out of the market. This leaves the business with less competition so that it can then disregard market forces, raise prices and exploit consumers. A recent example is from in 2011 where both major supermarket chains (Coles and Woolworths) decided to sell milk at $1 per litre. This was aimed at encouraging consumers to shop at their outlets rather than at another supermarket or with their competitors Aldi and IGA.

The Coles and Woolworths could afford to make a loss on milk sales because they were making a good profit on other products. Other supermarkets and smaller shops, such as milk bars and convenience stores, may not be able to lower prices as much and so could lose many customers. If the other businesses selling milk were forced out of the market, the supermarket could then raise its prices and there would be no competition to prevent it from doing so.

FIGURE 3 It would be illegal for a supermarket to use predatory pricing to try to put other milk retailers out of business.

Permission clearance pending

Exclusive dealing

Exclusive dealing involves one business trading with another while imposing restrictions on that other business's freedom to deal with its competitors. An example is when a hair products supplier will only sell to a hairdresser on the condition that the hairdresser does not purchase hair products from any other supplier. This can be legal in some circumstances if it is not seen to lessen competition in the market for the products in question. For example, McDonald's sells Coca-Cola products but not Pepsi, and they are permitted to do so. This is because KFC sells Pepsi and not Coke, so the overall market for soft drinks is still competitive. Businesses that wish to enter such an arrangement must notify the ACCC of the proposed agreement. The ACCC will then examine the details before either approving or disallowing the arrangement.

FIGURE 4 McDonald's is permitted to have an exclusive deal with Coca-Cola, and KFC can have an exclusive deal with Pepsi, because the market for soft drinks is still competitive.

Permission clearance pending

Resale price maintenance

Suppliers cannot set the prices at which retailers will sell the products. Suppliers can recommend a retail price for the sale of their goods, but it is illegal to attempt to force a retailer to sell at that price. Retailers

must be free to compete on price with other retailers selling the same products. It is also illegal for suppliers to set a minimum price that retailers must not sell below, or to force a retailer not to discount goods. On the other hand, it is quite legal for a supplier to set a maximum price for its products. This is to prevent any retailer that has no competitors in a particular location from unfairly overcharging customers.

FIGURE 5 Retailers must be free to compete on price with other retailers selling the same products.

Permission clearance pending

Mergers and take-overs

When two or more businesses decide to join together, this is known as a *merger*. When one business decides to buy out a competitor, this is known as a *take-over* or an *acquisition*. Sometimes a merger or take-over in a particular market may lead to reduced competition in that market. The Act prohibits mergers and take-overs between one or more businesses if they result in the competition being substantially reduced. Businesses proposing a merger or acquisition can ask the ACCC for permission. The ACCC may permit a merger or acquisition if it will not substantially limit competition. If businesses proceed without seeking permission, the ACCC can investigate and has the power to take action against them if it finds that the merger or acquisition has substantially limited competition.

Mergers and acquisitions occur regularly in the banking industry. In 2008, Bendigo Bank and Adelaide Bank merged; the Commonwealth Bank took over Bankwest; and Westpac acquired St George Bank. However, the big four banks, ANZ, NAB, Westpac and the Commonwealth Bank are specifically banned from merging with each other as this would reduce competition too much.

FIGURE 6 Australia's four big banks are prohibited from merging because this would severely reduce competition in the banking industry.

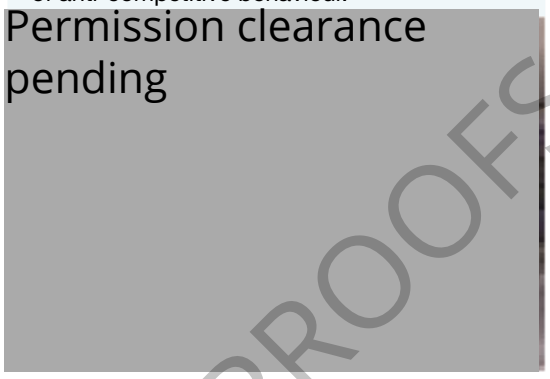
Permission clearance pending

23.8.3 The role of the Australian Competition and Consumer Commission (ACCC)

The ACCC has wide powers to investigate possible breaches of the *Competition and Consumer Act*, and can take legal action against any person or organisation suspected of such a breach. It will sometimes be granted a court order to seize confidential documents from businesses suspected of anti-competitive behaviour.

Only a court can determine whether a breach of the Act has occurred and make orders against offenders. The ACCC's role is to bring matters before the courts to have criminal penalties imposed and to gain compensation for anyone who may have been harmed by the breach. Courts can impose penalties of up to $10 million for companies and $500 000 for individuals found guilty of anti-competitive behaviour.

FIGURE 7 ACCC officials may seize documents from businesses suspected of anti-competitive behaviour.



The ACCC has the power to authorise behaviour which might appear to be anti-competitive if it considers that behaviour to be in the public interest. It can also actively monitor prices and approve price rises in markets where competition is limited. As described above, businesses wishing to engage in mergers or take-overs can seek advice from the ACCC as to whether the proposed action is likely to breach the Act, and then proceed according to that advice. The ACCC aims to encourage compliance with the Act rather than simply to punish wrongdoers.

on Resources

Weblink ACCC

23.8 ACTIVITY

The ACCC website contains details of recent cases dealt with by the ACCC. Use the **ACCC** weblink in the Resources tab to visit the site, select and read one story, and then answer the following:

1. What was the issue in question?
2. How did the matter come to the attention of the ACCC?
3. What decisions, actions or recommendations did the ACC make in relation to the issue?

Investigating and evaluating

23.8 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.8 Exercise 1: Check your understanding

1. **ES1** Provide a brief description of each of the following:
   (a) price fixing
   (b) predatory pricing
   (c) exclusive dealing
   (d) resale price maintenance.
2. **ES2** Why is competition between businesses beneficial for consumers?
3. **ES2** Explain the circumstances under which a merger or acquisition would be acceptable to the ACCC.

23.8 Exercise 2: Apply your understanding

1. **ES1** Outline the actions that can be taken by the ACCC when dealing with a breach of the *Competition and Consumer Act*.

2. **ES5** How would you expect the ACCC to deal with each of the following situations?
   (a) The only two garden maintenance businesses in a country town decide to merge and form one business.
   (b) The owners of five petrol retailers along a major stretch of road met each week to determine how much they would all charge on each day of the week.
   (c) The manufacturer of a range of electrical goods provides all retail outlets selling its products with a list of recommended retail prices for each of its products, and then refuses to supply the products unless the retailers stick to those prices.
   (d) A branch of a major supermarket chain, located in the same shopping centre as an independent supermarket, consistently prices all its products five per cent below those of the independent supermarket. When the independent business lowers its prices to try to match its competitor, the major supermarket lowers its prices even further.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.9 Keeping consumers safe

23.9.1 When purchases go wrong

Every now and again we hear stories in the news of a particular model of car being 'recalled' to have some fault fixed. Other stories come to light of people suffering from food poisoning after visiting a certain restaurant or café. We hope that every purchase we make will be safe, but this is not always the case. Just as it is important to protect consumers from dishonest behaviour, it is even more important to ensure that the products we buy will not harm us.

23.9.2 Who keeps us safe?

A number of different bodies are responsible for ensuring that the goods and services we buy are not going to cause us harm. These bodies include government regulators, as well as other groups, such as Choice. The roles of these different entities are discussed briefly below.

Government regulators

Governments at federal, state, territory and local level have established a number of bodies to ensure product safety.

- The ACCC — the Australian Competition and Consumer Commission includes issues of product safety among its various roles.
- State and territory Consumer Affairs and Fair Trading authorities have a major role within their respective states.
- Customs and quarantine bodies are able to monitor goods coming in from overseas, and can identify any products that may be dangerous.
- Specific industry regulators are organisations that have particular powers in relation to certain types of products. For example, the Therapeutic Goods Administration has a role in regulating medicines, as well as devices such as wheelchairs.
- Local government health authorities carry out inspections on food premises such as restaurants, cafés and school canteens to make sure cleanliness and hygiene regulations are followed.

FIGURE 1 Customs officers check containers of goods from overseas to prevent dangerous goods from entering the Australian market.

Permission clearance pending

Other groups

Responsibility for product safety is spread quite broadly across the community, with a number of organisations involved.

- Businesses — manufacturers and sellers take responsibility to ensure their products are safe. A business selling a product that causes harm to one or more consumers can be sued by those affected. It makes sense to avoid legal action by closely controlling the production process to keep products safe.
- Technical bodies — worldwide organisations such as the International Organisation for Standardisation (ISO) set acceptable standards for all types of products. Any product that conforms to those standards is entitled to display an ISO number, so consumers know it conforms to the highest quality.
- Consumers — buyers and their representatives also have a responsibility for safety. Choice, formerly the Australian Consumers' Association, publishes a magazine and a website called *Choice*, which examines and tests all types of products. Individual consumers also have a responsibility to maintain items to keep them safe, such as checking electrical cords and enabling safety features on motor vehicles.

FIGURE 2 Consumers can be assured that any product carrying ISO certification will be safe and will conform to the highest standards of quality.

on Resources

Weblink ISO standards

23.9.3 What do the government regulators do?

Federal, state and territory bodies have wide-ranging powers and responsibilities to ensure product safety. They carry out a variety of different activities in exercising these responsibilities.

General market monitoring

Government regulatory bodies examine all areas of all markets to detect possibly unsafe products. They monitor the media for any death or injury reports that may suggest a particular product could be dangerous. They examine and arrange testing of new types of products coming onto the market. They also respond to consumer complaints and monitor information on new products from around the world.

Encouraging safe practices

Regulatory bodies encourage safe practices through various measures:

1. *Negotiating product removal*. This involves gaining agreement from suppliers to remove dangerous goods from sale in their stores or outlets, including online outlets.
2. *Removing unsafe goods*. This can often involve a product recall. Anyone who may have bought a product that is found to be dangerous is expected to return it to the place of purchase. If the fault can be repaired, it will be returned to the manufacturer to be fixed. If the product cannot be made safe, the

purchaser will be entitled to a refund. Product recalls must be widely publicised through the media. In newspapers, recall notices appear with a special striped border. When suppliers have records of who their purchasers are, they also will contact them directly to arrange a recall. This often happens when identified faults need to be repaired in motor vehicles. A current example is the ongoing government recall on Takata airbags, which were installed in a variety of makes and models of cars. These airbags are potentially fatal if they activate at the wrong time.

on Resources

Weblink ACCC Product Safety Australia

3. *Promotion of safety management*. Government regulators encourage manufacturers and other suppliers to comply with sets of standards. These can include **mandatory standards** or **voluntary standards**. Mandatory standards are compulsory and must be observed by suppliers. For example, there are very strict standards for electrical goods, and consumers must be supplied with instructions and warnings about their appropriate use and any possible hazards. All packaged food must list ingredients and nutritional information on packaging, and clothing items must have washing and care instructions provided. Voluntary standards are those that have been agreed to by groups of suppliers or other organisations. They are not compulsory, but any supplier that complies with them can use this fact when promoting its products. Voluntary standards do not usually relate to issues of safety, they are more likely to deal with issues of quality.

FIGURE 3 Manufacturers that discover a fault in any of their products are expected to recall these products for repair, replacement or refund.

Permission clearance pending

FIGURE 4 All packaged food must provide nutritional information on the packaging.

Permission clearance pending

4. *Publicity and education*. Government regulators aim to make sure that all necessary information relating to product safety in general, and particular hazards when they occur, is circulated as widely as possible throughout the community. They often issue statements to the media about particular safety issues. These are sometimes reported in the media. The ACCC administers a product safety website, which provides regular updates on safety hazards. State and territory Consumer Affairs and Fair Trading authorities regularly conduct education and publicity programs to inform the public on broad product safety issues.

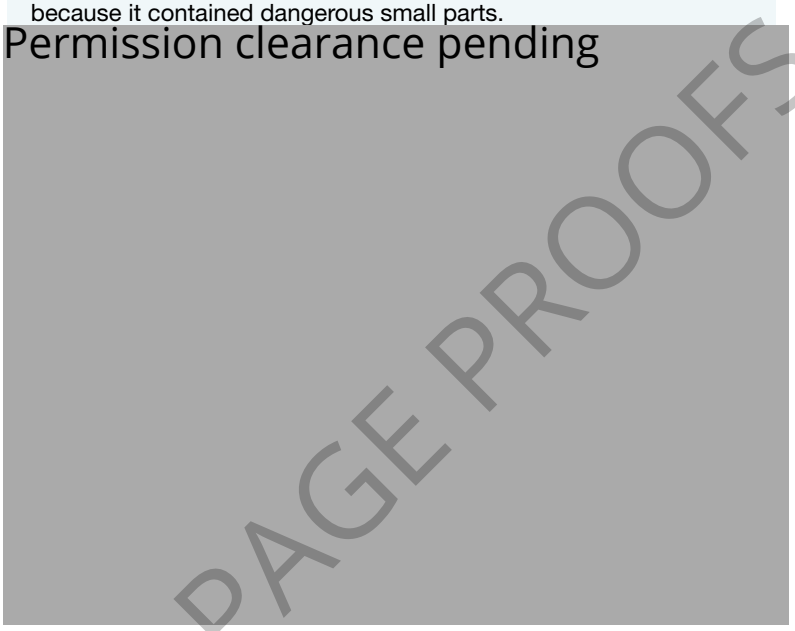
Solving safety problems and enforcing standards

Government regulators usually try to support businesses to do the right thing, rather than simply punishing them for doing the wrong thing. Where possible, they will work with industry, support technical investigation and concentrate on educating suppliers and consumers about product safety. New regulations can be created where necessary, and warning notices will be issued when dangerous products are identified.

Sometimes a product is clearly so risky that it has to be banned. This has happened on numerous occasions with toys sold to young children. If a toy contains small parts that could come loose and be swallowed by a small child, the toy may be banned from sale. Many other toys carry clear indications of the age group for which they are designed, and possible risks to younger children.

If a manufacturer or other supplier fails to comply with safety standards or bans, government regulators can take legal action. Fines of more than $1 million can be applied to any business failing to meet mandatory standards, or continuing to sell a product after it has been banned. A court can also order businesses to provide compensation to any customers harmed by products the business has sold. A business that becomes aware of any harm caused by a product or service that it has sold must inform the appropriate government regulator within two days. Failure to do so can also result in a fine.

FIGURE 5 This toy wooden alphabet train was removed from sale because it contained dangerous small parts.



DISCUSS

1. Do you think the potential fines and bans for failing to meet safety standards are appropriate?
2. Should government regulators be doing more or less to enforce these standards? **[Ethical Capability]**

on Resources

Weblinks ISO standards
ACCC Product Safety Recalls

23.9 ACTIVITIES

1. Use the **ISO standards** weblink in the Resources tab to visit the International Organisation for Standardisation (ISO) website. Watch the video provided and answer the following questions.
   (a) What are ISO standards?
   (b) Outline two benefits of these standards. **Investigating and evaluating**

2. Use the **ACCC Product Safety Recalls** weblink in the Resources tab to visit this section of the ACCC website and select three 'Recall categories'. From each of these three categories, select one product that has been recalled and answer the following:
   (a) What was the name of the product?
   (b) What was the defect in the product?
   (c) Why was that defect dangerous?
   (d) What advice is given to consumers?

Investigating and evaluating

23.9 EXERCISES

Economics and business skills key: ES1 Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

23.9 Exercise 1: Check your understanding

1. **ES2** Describe the role of each of the following in ensuring product safety:
   (a) industry regulators
   (b) customs and quarantine
   (c) local government authorities.
2. **ES1** What action can government regulators take if a person is injured after a supplier fails to remove a banned product from sale?

23.9 Exercise 2: Apply your understanding

1. **ES1** What responsibilities do consumers have in relation to product safety?
2. **ES2** Explain the difference between mandatory standards and voluntary standards.
3. **ES1** Give details of two of the methods used by government regulators to encourage safe practices.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

23.10 SkillBuilder: Questioning and research

online only

What is questioning and research?

Using questioning and research involves identifying and understanding the task you are undertaking and developing a series of specific questions to help guide your research.

Go to your learnON title to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill, with an example (Show me)
- an activity to allow you to practise the skill (Let me do it)
- questions to consolidate your understanding of the skill.

23.11 Review

online only

23.11.1 Key knowledge summary

Use this dot-point summary to review the content covered in this topic.

23.11.2 Reflection

Reflect on your learning using the activities and resources provided.

on Resources

Interactivity Market system and consumer protection crossword (int-xxxx)

Digital documents Worksheet 23.x Reflection (doc-xxxxx)

KEY TERMS

Australian Bureau of Statistics a government-owned agency that gathers and publishes a range of statistics to assist government, business and the community with decision making

budgets estimates of all government income to be raised by taxes and other charges, and the planned spending of that income, within any given year

capital growth an increase in the value of shares or property over time

cost of living the level of prices paid by consumers for goods and services

disposable income the amount of money that households have available for spending and saving after income taxes have been accounted for

dividends company profits paid to shareholders, either in cash or as more shares

export goods and services sold by local businesses to overseas consumers

financial institution any organisation that takes deposits from those with surplus funds, and makes those funds available to borrowers

household sector a term used by economists to refer to the total of all consumers in the economy

imported goods and services purchased by local consumers from overseas businesses

inflation a general rise in prices across all sectors of the economy

infrastructure the total of all the means of transport and communication within an economy, including the roads, railways, ports, airports, power lines, pipes and wires that enable people, goods, services, water, energy and information to move about efficiently

inputs those things that contribute to the production process

interest a charge made for the use of money that has been deposited or borrowed

investment the direction of money into the purchase of equipment or premises for the establishment of a new business, or the expansion of an existing business

labour the human skills and effort required to produce goods and services

minimum wage the legally binding minimum that must be paid to any employee over the age of 21 years

mortgage loan a loan advanced to allow a person to buy a house or other property, with the property itself as security for the loan. This means the bank or other lender can take possession of the property if the borrower fails to make the regular payments.

percentage mark-up a fixed percentage increase to the price paid by a business for goods, to determine the selling price of those goods

privatised to sell a government-owned provider of goods or services to private investors

profit what remains after all business expenses have been deducted from the money that has been collected from selling goods or services

tariffs a tax on goods imported into the country from overseas

unemployment benefits welfare payments by government to people who are unemployed and looking for work. Such payments in Australia are generally known as the Newstart Allowance.