

22.14 Review

22.14.1 Key knowledge summary

22.2 Participants in the Australian economy

- The household sector makes decisions about which goods and services to purchase, and provides labour for businesses.
- The business sector is made up of a large number of producers, all seeking to provide goods and services to satisfy the needs and wants of households.
- Businesses make use of land, labour and capital to produce goods and services to sell to consumers.
- Financial intermediaries perform an important role because they enable accumulated savings to be directed towards business growth.
- Government plays an important role in the economy because households and businesses pay money to government in the form of taxes, and receive particular types of goods and services in return.

22.3 Objectives of the Australian economy

- The economic system aims to answer three key questions: what to produce, how to produce and for whom to produce.
- Whenever we make a choice between two or more alternatives, we may gain the benefits of the alternative we choose, but we lose any benefits that may have come from choosing the next best alternative. This is known as opportunity cost.

22.4 Indicators of economic performance

- Indicators such as economic growth, unemployment and inflation provide us with information about the performance of the Australian economy.
- The circular flow diagram represents the flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses.

22.5 Trade with other economies

- Australia is a trading nation — it exports goods and services to other countries, and Australian businesses and consumers import goods and services from overseas.
- The balance of trade is the difference between the value of a country's exports and its imports over a specific period.
- Australia's largest trading partner is China, with other Asian countries making up four of our five top trading partners.
- Trade and other connections between countries mean that events in one part of the world can affect economies in other countries.

22.6 Imports and the Australian economy

- Increased trade between nations has helped to fuel economic growth and assist poorer countries to achieve higher standards of living.
- Australia relies heavily on imported goods brought in from countries all around the world.
- Over 50 per cent of our imports in the 2017–18 financial year came from six of our ten largest trading partners, while our top 15 sources of imports accounted for almost 80 per cent of the total value of all imported goods.
- Australia imports goods and services because our local producers may not make a product as efficiently as it is made in another country, or a particular raw material may not be produced in sufficient quantities to satisfy demand.

22.7 Global events and the Australian economy

- International trade has contributed to economic growth and the generation of wealth in all nations that engage in the import and export of goods and services. There are also negative effects of increased global connectedness, such as the rapid international spread of infectious diseases and the rise of internet fraud and identity theft.

- As a result of global interconnectedness, both positive and negative economic events can spread quickly between trading partners.
- The growth in the Chinese economy has had a significant impact on the global economy, with countries such as Australia benefiting from increased trade with China.
- The mortgage finance collapse that started in the US in 2006–07 soon spread throughout the world, becoming known as the global financial crisis of 2008–09.
- Natural disasters can have serious impacts on countries' economies, with funds needing to be allocated to relief and rebuilding therefore being unavailable to be used in other ways. International trade may also be impacted by these events.

22.9 Globalisation and the international economy

- Globalisation provides the means for increased interaction between consumers, producers, workers and governments in one economy with their counterparts in other economies.
- Globalisation has also led to the growth of large transnational corporations, many of which have used their power to exploit workers in poorer countries.
- Australia has benefited from globalisation because of the overseas demand for our mineral resources and the access to cheaper imported products for consumers. On the downside, cheaper imports have led to the closure of many of our own manufacturing industries.
- Globalisation has created a great deal of environmental damage throughout the world, leading to the international community becoming more aware of the need for sustainability and environmental protection.

22.10 Global supply chains

- In globalised manufacturing industries, raw materials, components and machinery can come from a variety of sources from all over the world, making supply chain management a major task for transnational corporations.
- Mobile phone manufacturer Nokia is an example of a company that had to set up factories all over the world to satisfy demand for its products.
- Environmental sustainability and the ethical treatment of workers in poorer countries are issues that must be considered in the supply chain management of all transnational corporations.

22.11 Transnational corporations

- Transnational corporations are large business organisations that have their home base in one country and operate partially owned or wholly owned businesses in other countries.
- Many of the most globalised TNCs conduct more than 70 per cent of their business outside their home country.
- Some of the largest transnational corporations have annual revenue that is larger than the GDP of many countries. This can give them greater power and influence than these countries, and lead to exploitation of these countries and their people.
- Transnational corporations can bring many benefits to countries in which they operate, such as employment and new technology.
- Some TNCs have been found to be acting unethically by not paying enough tax in countries in which they operate, by paying low wages and by not providing safe and healthy working conditions.

22.14.2 Reflection

Complete the following to reflect on your learning.

22.14 ACTIVITIES

Revisit the inquiry question posed in the Overview:

Content to come

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner.
Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question outlining your views.

Resources

 **Interactivity** The Australian and global economies crossword (int-xxxx)

 **eWorkbooks** Reflection (doc-xxxx)
Crossword (doc-xxxx)

KEY TERMS

balance of trade the difference between the value of a country's exports and the value of its imports over a specific period of time

exports goods and services sold by local businesses to overseas consumers

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

gross domestic product (GDP) the total value of all goods and services produced in a country in a given period of time (usually a year)

imports goods and services purchased by local consumers from overseas businesses

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

investment the use of money to purchase 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

market any organised exchange of goods, services or resources between buyers and sellers

mortgage loan money advanced to a person for the purchase of a house or other property, where the property itself is used 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 repayments.

opportunity cost what you have to give up if you choose to do A rather than B; the value of the next best alternative that is given up whenever a choice is made

resources the land, labour, capital and enterprise used to produce goods and services that satisfy needs and wants. Production usually requires a combination of these resources.

recession a period of decline in economic growth when GDP decreases

superannuation funds organisations that receive a combination of employer and employee contributions so that money can be accumulated for the employees' retirement

transnational corporations (TNCs) large business organisations that have a home base in one country and operate partially or wholly owned businesses in other countries

transfer pricing when one subsidiary of a transnational corporation charges another subsidiary for providing goods or services, often resulting in profits being moved between different countries to avoid the payment of tax on those profits