

Tim Dixon & John O'Mahony

Australia in the Global Economy

Year 12 Economics

2022 EDITION

Table of contents

TOPIC 1	THE GLOBAL ECONOMY	
Chapter 1	Introduction to the Global Economy	
	1.1 The global economy	4
	1.2 Globalisation	5
	1.3 The international and regional business cycles	17
Chapter 2	Trade in the Global Economy	
	2.1 Advantages and disadvantages of free trade	23
	2.2 Reasons for protection	25
	2.3 Methods of protection	28
	2.4 Trade agreements	32
	2.5 International organisations	39
	2.6 Government economic forums	44
Chapter 3	Globalisation and Economic Development	
	3.1 Introduction	48
	3.2 Differences in income and economic growth	49
	3.3 Differences in economic development	51
	3.4 Categories of development in the global economy	54
	3.5 Causes of inequality in the global economy	56
	3.6 The impact of globalisation	64
	COVID-19: The economic dimensions of a global pandemic	75
	Case Study: Brazil	77
	Case Study: Indonesia	91
TOPIC 2	AUSTRALIA'S PLACE IN THE GLOBAL ECONOMY	
Chapter 4	Australia's Trade and Financial Flows	
	4.1 Understanding Australia's place in the global economy	108
	4.2 Trends in Australia's trade patterns	108
	4.3 Trends in Australia's financial flows	113
	4.4 The balance of payments	114
	4.5 Trends in Australia's balance of payments	120
	4.6 The consequences of a high CAD	128
Chapter 5	Exchange Rates	
	5.1 Introduction	133
	5.2 Australia's floating exchange rate system	134
	5.3 Reserve Bank intervention in the foreign exchange market	140
	5.4 Fixed exchange rate systems	142
	5.5 Exchange rates and the balance of payments	143
Chapter 6	Protection in Australia	
	6.1 Introduction	148
	6.2 Government initiatives to reduce protection	149
	6.3 Australia's free trade agreements	151
	6.4 Implications of a reduction in protection levels for the Australian economy	153
	6.5 The impact of international protection levels on Australia	157
	6.6 The future of Australian industry in the global economy	160

TOPIC 3

ECONOMIC ISSUES

Chapter 7

Economic Growth

7.1	Introduction	166
7.2	Economic growth and aggregate demand and supply	167
7.3	The components of aggregate demand	168
7.4	Changing levels of growth: the multiplier process	171
7.5	The role of aggregate supply	174
7.6	The effects of economic growth	175
7.7	Recent economic growth trends	177
7.8	Policies to sustain economic growth	181

	COVID-19: The impacts on the Australian economy	185
--	--	-----

Chapter 8

Unemployment

8.1	Introduction	187
8.2	Measuring the level of unemployment	187
8.3	Recent unemployment trends	189
8.4	The main types of unemployment	191
8.5	The non-accelerating inflation rate of unemployment	194
8.6	The causes of unemployment	195
8.7	The impacts of unemployment	199
8.8	Policies to reduce unemployment	202

Chapter 9

Inflation

9.1	Introduction	208
9.2	Measuring the rate of inflation	208
9.3	Recent trends in inflation	210
9.4	The main causes of inflation	211
9.5	The effects of inflation	214
9.6	Policies to sustain low inflation	216

Chapter 10

External Stability

10.1	Introduction	220
10.2	Australia's current account deficit	221
10.3	Australia's foreign liabilities	225
10.4	Australia's exchange rate	228
10.5	Policies to achieve external stability	231

Chapter 11

Distribution of Income and Wealth

11.1	Introduction	235
11.2	Measuring the distribution of income and wealth	236
11.3	Sources of income and wealth	240
11.4	Trends in the distribution of income and wealth	242
11.5	The costs and benefits of inequality	250
11.6	Government policies and inequality	255

Chapter 12

Environmental Sustainability

12.1	Introduction	261
12.2	Ecologically sustainable development	262
12.3	Market failure: private benefits and social costs	263
12.4	Public and private goods	266
12.5	Major environmental issues	266
12.6	Government policies and environmental sustainability	272

TOPIC 4 ECONOMIC POLICIES AND MANAGEMENT

Chapter 13	The Objectives of Economic Policy	
	13.1 Introduction	278
	13.2 The objectives of economic management	278
	13.3 The goals of government policy in 2021	281
	13.4 Conflicts in government policy objectives	284
	13.5 The economic policy mix	285
Chapter 14	Fiscal Policy	
	14.1 The meaning of fiscal policy	289
	14.2 Budget outcomes	290
	14.3 Changes in budget outcomes	292
	14.4 Methods of financing a deficit	295
	14.5 The current stance of fiscal policy	298
	14.6 The impact of recent fiscal policy	303
Chapter 15	Monetary Policy	
	15.1 Introduction	312
	15.2 The objectives of monetary policy	313
	15.3 The implementation of monetary policy	315
	15.4 The impact of changes in interest rates	320
	15.5 The stance of monetary policy in Australia	323
Chapter 16	Microeconomic and Environmental Policies	
	16.1 Microeconomic policies and aggregate supply	328
	16.2 Microeconomic policies and individual industries	331
	16.3 Environmental management policies	338
Chapter 17	Labour Market Policies	
	17.1 Introduction	347
	17.2 The role of national and state industrial systems	348
	17.3 Australia's wage determination system	349
	17.4 Dispute resolution	355
	17.5 Decentralisation of the labour market	357
	17.6 Education, training and employment programs	359
	17.7 Evaluating labour market outcomes in Australia	363
Chapter 18	Effectiveness and Limitations of Economic Policy	
	18.1 An overview of the effectiveness of economic management	367
	18.2 Limitations of economic policy	372
	18.3 Evaluating the effectiveness of specific policies	377
APPENDICES		
Appendix A	Key Economic Skills	
	A.1 Introduction	386
	A.2 Drawing and interpreting economics diagrams	388
	A.3 Equations and calculations in economics	393
	A.4 Interpreting economic data and information	395
Appendix B	Advanced Economic Analysis	
	B.1 Comparative advantage and gains from trade	398
	B.2 Income-expenditure diagram	402
	B.3 Long-run Phillips curve	404
	B.4 Limitations of macroeconomic policy	406
Glossary		409
Index		422