

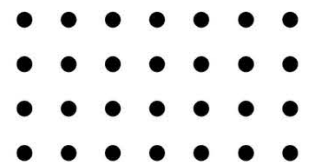
COMMERCE SENSE 2

THE ECONOMIC ENVIRONMENT



STUDENT EDITION

C&G WILLIAMS



Contents

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The Economic Problem of Scarcity

The impact of limited resources on consumer choice

Central to the study of economics is an attempt to understand how scarcity impacts the use, production, and distribution of resources. The concept of scarcity also has implications for opportunity cost and consumer choice.

Economies will use the price mechanism as a way to allocate resources. When the price mechanism fails, governments will implement policies to mitigate the effects of unemployment, inflation, business cycles, taxation, economic growth, and trade barriers.

To understand the impact of scarcity, let us understand some of the complex decisions that are needed in allocating scarce resources in the health sector.

1. Use the word list below to complete the cloze exercise to understand the concept of scarcity.

| | | | | |
|------------------|-------------------|----------------|------------------|-----------------|
| unlimited | allocating | limited | allocate | labour |
| time | greatest | urgent | fees | Supply |
| accessing | demand | needs | economics | patients |



Scarcity is one of the central concepts in _____. Land, _____, capital goods, raw materials, money, and _____ are resources that exist in _____ supply. Scarcity occurs when the _____ for resources is greater than the _____ of those resources. Because humans have _____ wants and _____, an economy will need to determine how to _____ the resources to satisfy the _____ number of wants and needs. For example, a surgeon has a limited number of hours per day that they can see _____. As a way of _____ their time, they may see the most _____ cases first or charge _____ that will automatically exclude some consumers from _____ the resource.

2. The table below shows the price and quantity available of some items. Using the examples, explain why scarcity affects price.

| Item | Quantity available | Price |
|------------------|--------------------|-------------|
| Lamborghini Sian | 63 | \$5 million |
| Kia Carnival | 25,000 | \$48,000 |

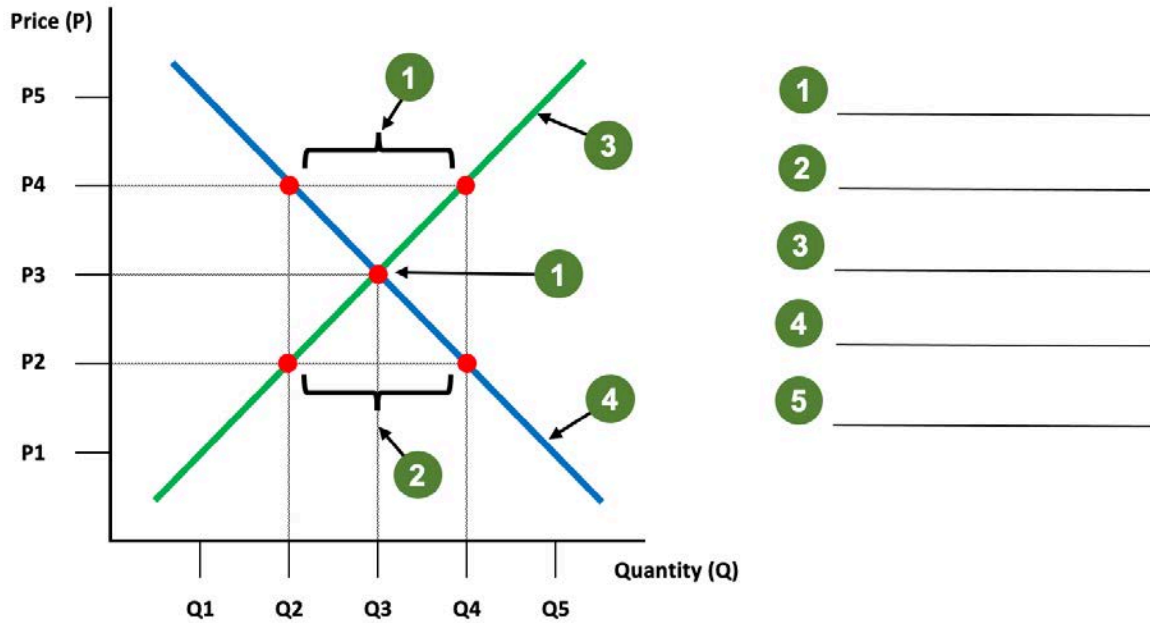


The price mechanism

Understanding market equilibrium

The graph below shows the points of market equilibrium and disequilibrium.

1. Identify the economic terms that describe the different points on the supply and demand graph below.



| | | | |
|--------------|-------------|--------------|---------|
| Demand Curve | Shortage | Supply Curve | Surplus |
| | Equilibrium | | |

2. What is the equilibrium price and quantity? _____
3. What happens to consumer demand as price shifts from P5 to P1? _____
4. What happens to the supply as price shifts from P1 to P5? _____
5. Explain why, at P4, a surplus occurs.
 Supply at P4 is _____. Demand at P4 is _____.

6. Explain why a shortage occurs at P2 on the graph.

7. Identify one point on the graph that represents a market disequilibrium. _____

The importance of economic growth in an economy

Understanding what makes a healthy economy

Economic growth is a fundamental measure of a nation's health, representing a steady increase in the production of goods and services over time. In Australia, this is primarily measured by Gross Domestic Product (GDP), which reflects the total value of everything our country produces. Sustained growth is vital because it typically leads to an improvement in living standards. Higher rates of GDP are a sign that economic activity is rising. This generally means that businesses need to increase production and the demand for labour increases ultimately lowering unemployment. As more people enter the workforce, consumers will have more confidence in the economy and spend more money on things such as cars, homes, or holidays. On a global scale, the interdependence of economies means that growth in one region often stimulates trade, creating new opportunities for Australian exports and international investment. By maintaining steady growth, governments can collect the necessary tax revenue to fund essential public services like schools, hospitals, and infrastructure.

1. Economics uses a lot of subject specific terminology. Unscramble these common economic concepts using the definition to help you.

| Scrambled Term | Definition | Term |
|-------------------------------|--|------|
| (a) onecmurs ccdeoinfen | This economic indicator measures the degree of optimism consumers have regarding the state of the economy. | |
| (b) icflas lycpio | The ways that governments manage revenue and expenditure through the use of budgetary policy. | |
| (c) pinoxneas | An upswing of the business cycle towards a peak which represents an increase in levels of production. | |
| (d) sorgs ediosctm ucpodrt | Known as GDP. The value of all goods and services produced in a country at a specific point in time. | |
| (e) nistrete tear | A term used to describe the cost of borrowing money. It is expressed as a percentage per annum. | |
| (f) iosscreen | A period in the economic cycle which is characterised by sustained periods of low or negative growth. | |
| (g) ombo | The period of economic expansion and the peak phase of the business cycle. | |
| (h) emoranty oplcyi | An economic policy set by the Reserve Bank of Australia which involves setting the cash rate. | |
| (i) cencomi torgwh | An increase in economic activity over time. | |
| (j) ghrout | A low turning point in an economic cycle. | |
| (k) pletumnmneoy reat | The proportion of workers in a labour force who do not currently have a job but are actively seeking employment. | |
| (l) mocineco clecy | The fluctuations in economic activity over time. | |
| (m) xtantoia | A mandated payment made to the government by individuals and firms. | |
| (n) rattncoiocn | The downward fluctuation of the business cycle towards a trough. | |

The economic objectives of governments

Maintaining a strong economy

Imagine the Australian economy is like a big, complex car. The government is not the car itself, but it takes the role the driver, the mechanic, and the GPS navigator to keep the car running smoothly, safely, and heading in the right direction.

Using this analogy, let us examine how the government can maintain the 'car':

THE DRIVER



Influencing spending and saving

What they do This is about how the government uses its own spending (like building roads, schools, hospitals, paying teachers) and taxation (how much money they collect from people and businesses).

Why? If the economy is slowing down, the government might "put its foot on the accelerator" by spending more or cutting taxes to encourage people and businesses to spend. If the economy is growing too fast, causing high prices, they might "gently apply the brakes" by spending less or raising taxes to slow things down.

Simply... They use the government's budget to speed up or slow down the economy when needed.

THE MECHANIC



Fixing market failures and providing public goods

Sometimes the market does not work perfectly on its own. The government steps in to fix these. They also provide things essential for society that private companies would not, like national defence and parks.

The government will intervene when the market fails to ensure everyone benefits from public goods and services; to protect the environment, and to provide services that make society function, even if they are not profitable. Without this intervention there would be no public parks, safe drinking water or the provision of public hospitals.

They fix problems the free market creates and make sure everyone has access to vital things like education and healthcare.

GPS NAVIGATOR



Setting the rules and establishing goals

The government sets laws, rules, and regulations that businesses and people must follow (e.g., minimum wage, safety standards). They also work towards big goals like economic growth, inflation and unemployment levels.

The government will establish policies that aim to create a fair playing field, protect consumers and workers, and guide the economy towards overall prosperity and stability. Without such policies and regulation, there is a risk of corruption and the growth of inequality, negatively impacting a country and its economy.

They set the rules of the road and the destination for the economy, making sure it is fair and aims for good outcomes for all Australians.

So, in short, the Australian Government plays a crucial role in managing the economy by using its budget (spending and taxes) to influence activity, stepping in where markets fail, and setting the rules and goals to achieve a strong, stable, and fair economy for everyone.

The reasons for government intervention

Market failure – providing public goods and services

While the price mechanism will generally respond to supply and demand pressures, we need the government to step in when markets fail or when they want to improve fairness, stability, and sustainability.

But why does the government *need* to intervene in the Australian economy? Why can't the economy just run itself? Two main reasons why the government plays such an important role in the Australian economy are to provide public goods and services and to promote fairness through income distribution.

Providing Public Goods and Services – things we all need, but no one wants to pay for

Imagine living in a town with no streetlights, no police, and no national defence. These are examples of public goods.

Public goods have two main features:

1. **Non-Excludable:** You can't really stop people from using them once they're provided.
 - *Example: If a streetlight is on, you can't stop someone walking past from benefiting from its light, even if they didn't pay for it.*
2. **Non-Rivalrous:** One person using the good doesn't stop someone else from using it at the same time.
 - *Example: Someone enjoying the light from a streetlight doesn't mean there's less light for everyone else.*

The Market Failure:

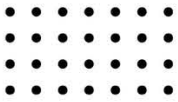
The problem is that because public goods are non-excludable, private businesses usually won't provide them because they can't make money from them. If the good is available for free, no one will voluntarily pay, and the business won't make a profit. This is a market failure – the market fails to provide something society needs.

Government Intervention:

This is where the government steps in. Since these goods are essential for safety, order, and a functioning society, the government uses taxes to pay for them, ensuring they are provided for everyone.

1. For each of the goods below, decide if it is a public good and explain why using the terms 'non-excludable' and 'non-rivalrous':

| | |
|--|--|
| <p>A specific brand of bottled water</p> <p><i>Public good? Yes / No</i></p> <p><i>Why?</i></p> | <p>A public fireworks display on Australia Day</p> <p><i>Public good? Yes / No</i></p> <p><i>Why?</i></p> |
| <p>A weather forecast by the Bureau of Meteorology</p> <p><i>Public good? Yes / No</i></p> <p><i>Why?</i></p> | <p>A subscription to a streaming service</p> <p><i>Public good? Yes / No</i></p> <p><i>Why?</i></p> |



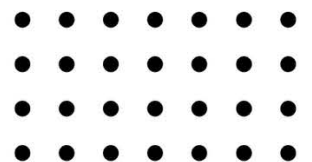
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TEACHER EDITION

C&G WILLIAMS



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Introduction

Read the summary below that introduces the key concepts that this unit will cover. Try your best to complete each sentence by adding the appropriate term from the word bank.

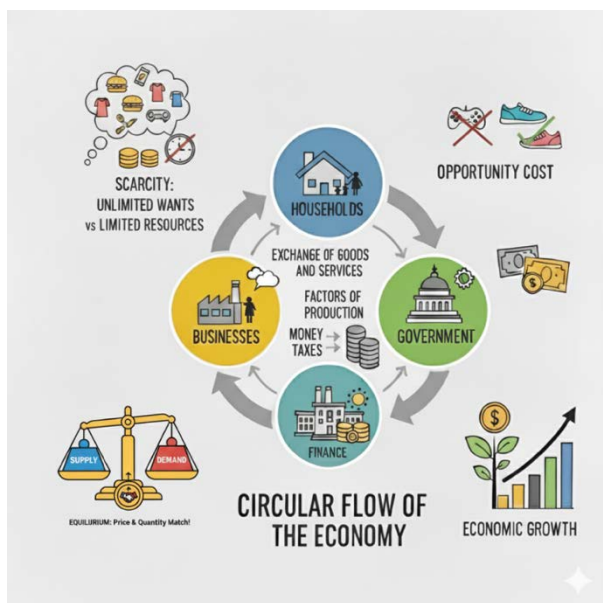
| | | | | |
|-------------------|------------------|--------------------|------------------|------------------|
| businesses | economics | loop | resources | spend |
| choices | global | mechanism | satisfy | supply |
| decrease | higher | opportunity | save | time |
| demand | income | price | scarce | unlimited |

Ever feel like there's never enough money or time to do everything you want? When we make **choices** with how we allocate our **time** and money we are making decisions that are the very core of **economics**. That's the perfect way to understand the economic environment. It is the big picture of how we, as a society, make decisions about money, **resources**, and everything else we need to live.

We live in a world where we have **unlimited** wants and needs, but very limited resources. Many people would love a mansion by the ocean, fancy cars, and luxury holidays but it is not possible for everyone to have these. The basic problem is that money, time, and natural resources are **scarce**. Because we are unable to **satisfy** all our wants and needs, we must make choices between which wants and needs to satisfy. Every time you make a choice, you give something up and this is known as **opportunity** cost. For example, you have \$200 that you can choose to **spend** on a concert ticket, or you can choose to **save**. If you buy the concert ticket, you lose the opportunity to save \$200 as well as the time you will spend at the concert. The price of concert tickets can also reflect the forces of **supply** and demand. The more popular an artist is, the **higher** the price is to attend their concert. Using the price **mechanism** is a way an economy can ration the limited supply of goods. Alternatively, have you ever noticed when a fad (trend) is dying out that prices of goods will **decrease**? When a good is popular, high **demand** keeps prices high. As interest (demand)

for those goods drops, stores need to lower the **price** significantly to attract buyers and get rid of their stock. This is the basic principle of supply and demand which you will learn more about.

How do these individual consumer choices connect with the bigger picture in a **global** economy? To understand this, you will explore the theoretical concept of the *circular flow of income*. This model is like a giant map which shows how money, goods, and services flow between households, **businesses**, and the government in a never-ending **loop** of economic activity.

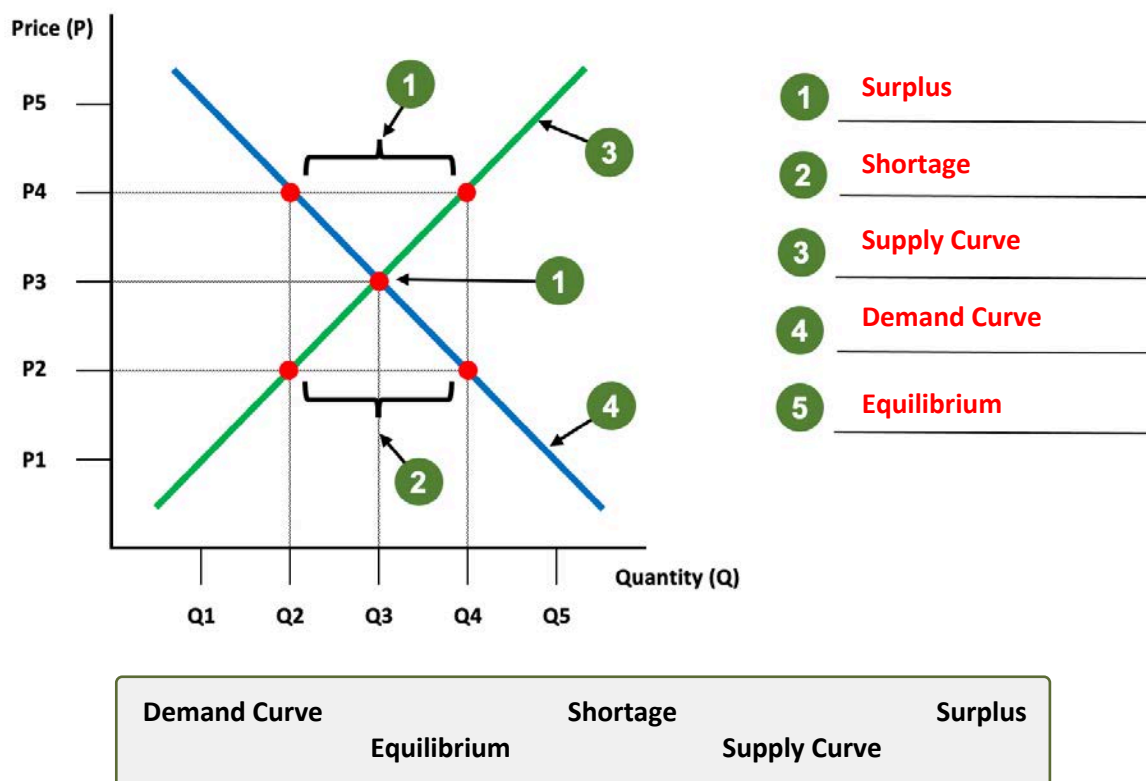


The price mechanism

Understanding market equilibrium

The graph below shows the points of market equilibrium and disequilibrium.

1. Identify the economic terms that describe the different points on the supply and demand graph below.



2. What is the equilibrium price and quantity? **P3 and Q3**
3. What happens to consumer demand as price shifts from P5 to P1? **Increases from Q1 to Q5**
4. What happens to the supply as price shifts from P1 to P5? **Increases from Q1 to Q5**
5. Explain why, at P4, a surplus occurs.

Supply at P4 is **Q4**. Demand at P4 is **Q2**.

A surplus occurs because, at this price, suppliers produce more than consumers demand.

6. Explain why a shortage occurs at P2 on the graph.

At P2, consumer demand is high (Q4) whereas suppliers are reluctant to produce at that price, so supply (Q2) is lower than the quantity demanded, leading to a shortage of goods.

7. Identify one point on the graph that represents a market disequilibrium. **Any point apart from P3/Q3**

The importance of economic growth in an economy

Understanding what makes a healthy economy

Economic growth is a fundamental measure of a nation's health, representing a steady increase in the production of goods and services over time. In Australia, this is primarily measured by Gross Domestic Product (GDP), which reflects the total value of everything our country produces. Sustained growth is vital because it typically leads to an improvement in living standards. Higher rates of GDP are a sign that economic activity is rising. This generally means that businesses need to increase production and the demand for labour increases ultimately lowering unemployment. As more people enter the workforce, consumers will have more confidence in the economy and spend more money on things such as cars, homes, or holidays. On a global scale, the interdependence of economies means that growth in one region often stimulates trade, creating new opportunities for Australian exports and international investment. By maintaining steady growth, governments can collect the necessary tax revenue to fund essential public services like schools, hospitals, and infrastructure.

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| (b) icflas lycpio | The ways that governments manage revenue and expenditure through the use of budgetary policy. | Fiscal policy |
| (c) pinoxneas | An upswing of the business cycle towards a peak which represents an increase in levels of production. | Expansion |
| (d) sorgs ediosctm ucpodrt | Known as GDP. The value of all goods and services produced in a country at a specific point in time. | Gross domestic product |
| (e) nistrete tear | A term used to describe the cost of borrowing money. It is expressed as a percentage per annum. | Interest rate |
| (f) iosscreen | A period in the economic cycle which is characterised by sustained periods of low or negative growth. | Recession |
| (g) ombo | The period of economic expansion and the peak phase of the business cycle. | Boom |
| (h) emoranty oplyci | An economic policy set by the Reserve Bank of Australia which involves setting the cash rate. | Monetary policy |
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| (j) ghrount | A low turning point in an economic cycle. | Trough |
| (k) pletumnmneoy reat | The proportion of workers in a labour force who do not currently have a job but are actively seeking employment. | Unemployment rate |
| (l) mocineco clecy | The fluctuations in economic activity over time. | Economic cycle |
| (m) xtantoia | A mandated payment made to the government by individuals and firms. | Taxation |
| (n) rattncoiocn | The downward fluctuation of the business cycle towards a trough. | Contraction |

The economic objectives of governments

Maintaining a strong economy

Imagine the Australian economy is like a big, complex car. The government is not the car itself, but it takes the role the driver, the mechanic, and the GPS navigator to keep the car running smoothly, safely, and heading in the right direction.

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The government will intervene when the market fails to ensure everyone benefits from public goods and services; to protect the environment, and to provide services that make society function, even if they are not profitable. Without this intervention there would be no public parks, safe drinking water or the provision of public hospitals.

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Imagine living in a town with no streetlights, no police, and no national defence. These are examples of public goods.

Public goods have two main features:

1. **Non-Excludable:** You can't really stop people from using them once they're provided.
 - *Example: If a streetlight is on, you can't stop someone walking past from benefiting from its light, even if they didn't pay for it.*
2. **Non-Rivalrous:** One person using the good doesn't stop someone else from using it at the same time.
 - *Example: Someone enjoying the light from a streetlight doesn't mean there's less light for everyone else.*

The Market Failure:

The problem is that because public goods are non-excludable, private businesses usually won't provide them because they can't make money from them. If the good is available for free, no one will voluntarily pay, and the business won't make a profit. This is a market failure – the market fails to provide something society needs.

Government Intervention:

This is where the government steps in. Since these goods are essential for safety, order, and a functioning society, the government uses taxes to pay for them, ensuring they are provided for everyone.

1. For each of the goods below, decide if it is a public good and explain why using the terms 'non-excludable' and 'non-rivalrous':

| | |
|--|--|
| <p>A specific brand of bottled water</p> <p>Public good? Yes / No</p> <p>Why? Rivalrous – only one person can drink from the bottle at a time</p> | <p>A public fireworks display on Australia Day</p> <p>Public good? Yes / No</p> <p>Why? Non-excludable and non-rivalrous</p> |
| <p>A weather forecast by the Bureau of Meteorology</p> <p>Public good? Yes / No</p> <p>Why? Non-excludable and non-rivalrous</p> | <p>A subscription to a streaming service</p> <p>Public good? Yes / No</p> <p>Why? Excludable – only available to the subscriber</p> |

| Content | Teaching, learning and assessment | Resources | | | | | | | | | | | | | | | | | | |
|--|---|---|------|-----------|--|---|--|---|---|---|---|--|-----|---|---|---|---|--|-----|---|
| | <p>Policies used to manage economic cycles</p> <ul style="list-style-type: none"> Provide students with a graph that shows different stages of the economic cycle. Students are to complete a graphic summary to show what happens to key economic indicators throughout the business cycle at peaks, recessions, troughs and recovery phases. Provide students with statements describing key policies used at different stages of the economic cycle. Students are to determine if the statement is true or false. | <p>Worksheet 3.1d</p> <table border="1" data-bbox="1805 231 2112 306"> <tr> <td style="background-color: red; color: white;">S</td> <td style="background-color: yellow;">C</td> <td style="background-color: lightgreen;">E</td> </tr> <tr> <td></td> <td>1-2</td> <td></td> </tr> </table> | S | C | E | | 1-2 | | | | | | | | | | | | | |
| S | C | E | | | | | | | | | | | | | | | | | | |
| | 1-2 | | | | | | | | | | | | | | | | | | | |
| <p>3.2 The reasons for government intervention in the Australian economy</p> | <p>How the Australian government intervenes in the economy</p> <ul style="list-style-type: none"> Students complete a cloze exercise to understand how the pursuit of profit and consumption can have negative impacts on society and the environment. Students will learn that market failures occur and governments need to step in to provide public goods, merit goods, manage negative externalities, and to maintain healthy competition. Students to complete a range of comprehension activities to consolidate their understanding of the text the cloze activity. <p>Managing market failure</p> <ul style="list-style-type: none"> As a class, discuss the social, environmental, and economic costs associated with businesses and introduced the concept of <i>negative externalities</i>. Provide students with an opportunity to engage their active listening and comprehension to understand why governments need to intervene in markets. To do this give students a table with questions and As a class, watch a 4-minute YouTube clip titled <i>Negative Externalities: The Hidden Social Costs</i>, a video by Sprouts, www.sproutsschools.com. Follow these four steps to understand why governments need to intervene in markets: <ul style="list-style-type: none"> Students to read all the questions in the table to familiarise themselves with what they are looking for. Watch the YouTube clip but DO NOT write anything down. https://tinyurl.com/Sprouts-explains-externalities Re-watch the clip a second time and write down keywords and concepts in the first column off the table. Watch the clip for a third time and complete the questions in the table. <p>Extra Activities</p> <table border="1" data-bbox="616 1321 1740 1495"> <thead> <tr> <th style="background-color: red; color: white;">Support</th> <th style="background-color: yellow;">Core</th> <th style="background-color: lightgreen;">Extension</th> </tr> </thead> <tbody> <tr> <td>Think of three ways that the government could compel businesses to better protect the environment.</td> <td>List ways that the government intervenes in the market to protect the environment, consumers, or workers.</td> <td>Based on current economic data, which economic policies would you advise the government use?</td> </tr> </tbody> </table> | Support | Core | Extension | Think of three ways that the government could compel businesses to better protect the environment. | List ways that the government intervenes in the market to protect the environment, consumers, or workers. | Based on current economic data, which economic policies would you advise the government use? | <p>Worksheet 3.2a</p> <table border="1" data-bbox="1805 491 2112 566"> <tr> <td style="background-color: red; color: white;">S</td> <td style="background-color: yellow;">C</td> <td style="background-color: lightgreen;">E</td> </tr> <tr> <td></td> <td>1-6</td> <td>7</td> </tr> </table> <p>Worksheet 3.2b</p> <table border="1" data-bbox="1805 778 2112 853"> <tr> <td style="background-color: red; color: white;">S</td> <td style="background-color: yellow;">C</td> <td style="background-color: lightgreen;">E</td> </tr> <tr> <td></td> <td>1-7</td> <td>8</td> </tr> </table> | S | C | E | | 1-6 | 7 | S | C | E | | 1-7 | 8 |
| Support | Core | Extension | | | | | | | | | | | | | | | | | | |
| Think of three ways that the government could compel businesses to better protect the environment. | List ways that the government intervenes in the market to protect the environment, consumers, or workers. | Based on current economic data, which economic policies would you advise the government use? | | | | | | | | | | | | | | | | | | |
| S | C | E | | | | | | | | | | | | | | | | | | |
| | 1-6 | 7 | | | | | | | | | | | | | | | | | | |
| S | C | E | | | | | | | | | | | | | | | | | | |
| | 1-7 | 8 | | | | | | | | | | | | | | | | | | |