

# Issue Study

*MADIE*  
*(A+)*

**Subject:**

Economics

**Task No.**

7

**Final date for submission:**

Friday 4<sup>th</sup> July 2014

**Task:**

*Issue Study (approx. 1,500 words)*

*Choose one current Australian macroeconomic issue (E.g. the federal budget, potential interest rate increases/decreases, the currently decreasing value of the \$A). You are required to analyse and evaluate its effect on the Australian economy. In doing this, you should include the following:*

- Consider a variety of perspectives on the issue*
- Use correctly referenced current news articles*
- Use correctly labeled diagrams to assist in showing what has happened and its effect on the economy*
- Analyse and evaluate the effects of this issue on
  - *Individuals*
  - *Business*
  - *Government**

*Be sure to include references as footnotes.*



Knowledge and Understanding		Analysis and Evaluation		Communication	
<b>A</b>	<p>Comprehensive knowledge, in-depth understanding of complex economic concepts, principles, models, and skills.</p> <p>Empire-empiric and well-informed understanding of the role of economic systems in dealing with the economic problem of scarcity.</p>	<p>Astute and logical analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>Perceptive evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.</p> <p>Invasive analysis and evaluation of the impact of economic change locally, nationally, and globally.</p> <p>Inspirational and well-informed evaluation of the way in which economic decisions involve costs and benefits.</p>	<p>Sophisticated communication of economic principles and models, and complex concepts.</p> <p>Consistent, clear, and appropriate use of correct economic terminology.</p>		
<b>B</b>	<p>Some depth of knowledge and understanding, and focused application, of a variety of economic concepts, principles, models, and skills.</p> <p>Well-informed understanding of the role of economic systems in dealing with the economic problem of scarcity.</p>	<p>Well-considered analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>Well-considered evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.</p> <p>Well-informed analysis and evaluation of the impact of economic change locally, nationally, and globally.</p> <p>Well-informed evaluation of the way in which economic decisions involve costs and benefits.</p>	<p>Clear and accurate communication of economic principles and models, and a variety of concepts.</p> <p>Clear and appropriate use of economic terminology.</p>		
<b>C</b>	<p>Considered knowledge and understanding, and competent application, of economic concepts, principles, models, and skills.</p> <p>Informed understanding of the role of economic systems in dealing with the economic problem of scarcity.</p>	<p>Considered analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>Considered evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.</p> <p>Informed analysis and evaluation of the impact of economic change locally, nationally, and globally.</p> <p>Informed evaluation of the way in which economic decisions involve costs and benefits.</p>	<p>Competent communication of some economic principles, models, and concepts.</p> <p>Appropriate use of economic terminology.</p>		
<b>D</b>	<p>Superficial understanding and partial application of some basic economic concepts, principles, models, and skills.</p> <p>Some recognition of the role of economic systems in dealing with the economic problem of scarcity.</p>	<p>Basic consideration and description of one or more economic issues and/or events (past and current) using some skills of economic inquiry.</p> <p>Basic consideration and description of one or more of the effects of interdependence on individuals, business, and government locally, nationally, and globally.</p> <p>Recognition of aspects of the impact of economic change locally, nationally, and globally.</p> <p>Some awareness of the way in which economic decisions involve costs and benefits.</p>	<p>Communication of some basic economic principles, models, and concepts.</p> <p>Some appropriate use of some economic terminology, with inconsistencies.</p>		



## Assessment

Learning Requirements	Assessment Design Criteria
<ol style="list-style-type: none"> <li>know, understand, communicate, and apply economic concepts, principles, models, and skills</li> <li>evaluate the effects of interdependence on individuals, business, and governments locally, nationally, and globally</li> <li>evaluate and explain the way in which economic decisions involve costs and benefits</li> <li>critically analyse and evaluate economic issues and events (past and current) using economic models and the skills of economic inquiry</li> <li>critically analyse and evaluate the impact of economic change locally, nationally, and globally.</li> </ol>	<p><b>Knowledge and Understanding</b></p> <p>The specific features are as follows:</p> <p><b>KU1</b> Knowledge, understanding, and application of economic concepts, principles, models, and skills.</p> <p><b>KE2</b> Understanding of the role of economic systems in dealing with the economic problem of scarcity.</p> <p><b>Analysis and Evaluation</b></p> <p>The specific features are as follows:</p> <p><b>AE1</b> Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p><b>AE2</b> Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.</p> <p><b>AE3</b> Analysis and evaluation of the impact of economic change locally, nationally, and globally.</p> <p><b>AE4</b> Analysis and evaluation of the way in which economic decisions involve costs and benefits.</p> <p><b>Communication</b></p> <p>The specific features are as follows:</p> <p><b>C1</b> Communication of economic principles, models, and concepts.</p> <p><b>C2</b> Use of economic terminology.</p>

Assessment Criteria	Requirements	Grade
<p><b>Knowledge and Understanding</b></p> <p><b>KU1</b> Knowledge, understanding, and application of economic concepts, principles, models, and skills.</p>	<ul style="list-style-type: none"> <li>Ability to apply economic principles accurately to real life situations</li> <li>Accurate use of AD/AS diagrams</li> </ul>	A, B, C, D, E
<p><b>Knowledge and Understanding Overall Grade</b></p> <p><b>Analysis and Evaluation</b></p> <p><b>AE1</b> Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p><b>AE2</b> Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.</p>	<ul style="list-style-type: none"> <li>Analysis of issues through the use of a appropriate economic models</li> <li>Evaluation of the effects of the issue on the whole economy and members within it</li> </ul>	A, B, C, D, E
<p><b>Analysis and Evaluation Overall Grade</b></p>		
<p><b>Communication</b></p> <p><b>C2</b> Use of economic terminology.</p>	<ul style="list-style-type: none"> <li>Using terminology correctly</li> </ul>	A, B, C, D, E
<p><b>Analysis and Evaluation Overall Grade</b></p>		

A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	E+	E	E-
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**On Balance Grade**

Very Good Analysis of this Issue matter!

AD

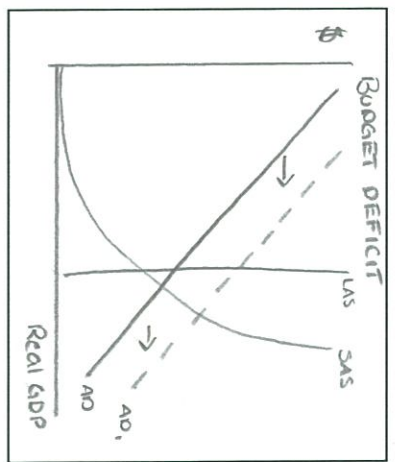
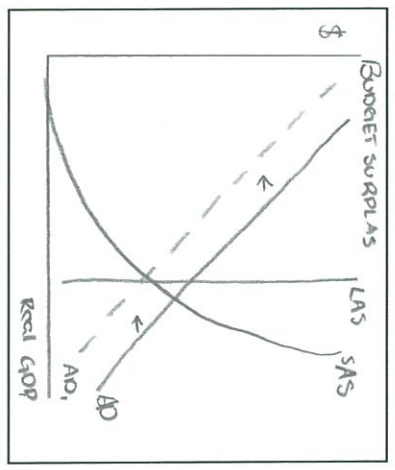
# ISSUE STUDY

## The Federal Budget

The federal budget is determined yearly for the government and estimates the way money will be spent on a variety of expenses through the next year.<sup>1</sup> The budgetary policy, or fiscal policy, shows the planned conduct of the government's operations and is used to influence future trends of the economy.<sup>2</sup> The budget includes estimates of both expenditures and revenues for the current financial year, the budget year and three forward financial years.<sup>3</sup> It also displays the priorities of the government, both socially and politically for the following years.<sup>4</sup> The budget is specifically designed to influence aggregate demand in order to have a beneficial effect on the economy and increase growth.<sup>5</sup>

level

There are three different outcomes that will occur in response to the budget; these are caused by the difference between the revenues the government receives and its outlays. Deficit budgets occur when the government outlays are higher than its revenues. Surplus budgets occur in the opposite situation, where the revenue value of the government is higher than its outlays. Balanced budgets occur when government revenue exactly equals government outlays. Both surplus and deficit budgets affect aggregate demand in an economy. Deficit budgets cause an increase in aggregate demand, as more money is spent in the economy; whereas surplus budgets cause a decrease in aggregate demand, as more money is withdrawn from the economy.



The Australian Federal Budget for 2014-2015 is a surplus budget, since the government is reducing its spending, or outlays. This has been done in order to reduce the size of the budget deficit inherited from the former government.<sup>5</sup> The underlying cash balance position for the 2014-2015 financial year is expected to be a deficit of \$29.8 billion or -1.8% GDP, from the \$49.9 billion deficit in the 2013-2014 financial year. The budget is then expected to be further reduced over the

<sup>1</sup> Investor Words, 2014, *Federal Budget*, [http://www.investorwords.com/6808/federal\\_budget.html](http://www.investorwords.com/6808/federal_budget.html), accessed 23 June 2014

<sup>2</sup> Investor Words, 2014, *Forecast*, <http://www.investorwords.com/2038/forecast.html>, accessed 23 June 2014

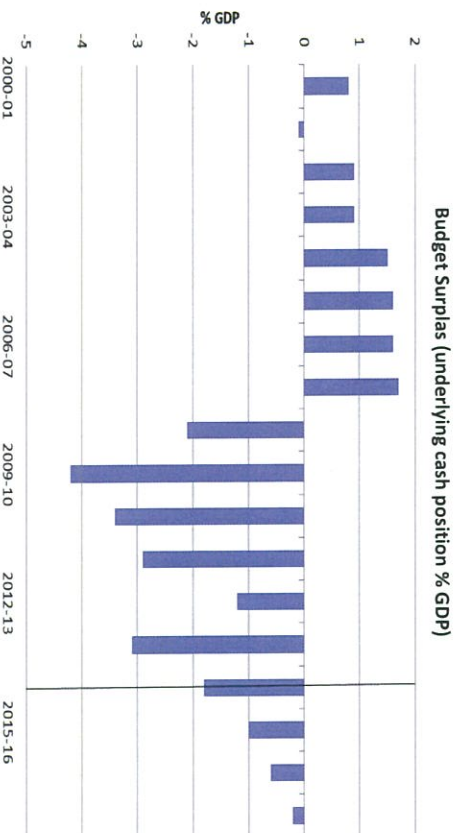
<sup>3</sup> Australia Government, 2014, *Frequently asked Questions*, <http://www.budget.gov.au/2014-15/content/faq.htm>, accessed 25 June 2014

<sup>4</sup> Wikipedia Foundation, 2014, *Australian Federal Budget*, [http://en.wikipedia.org/wiki/Australian\\_federal\\_budget](http://en.wikipedia.org/wiki/Australian_federal_budget), accessed 23 June

<sup>5</sup> Australia Government, 2014, *Frequently asked Questions*, <http://www.budget.gov.au/2014-15/content/faq.htm>, accessed 25 June 2014

<sup>6</sup> Australia Government, 2014, *Statement 3: Fiscal Strategy and Outlook*, [http://www.budget.gov.au/2014-15/content/bp1/html/bp1\\_bst3.htm](http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst3.htm), accessed 26 June 2014

years ahead, as shown by the chart below.<sup>7</sup>

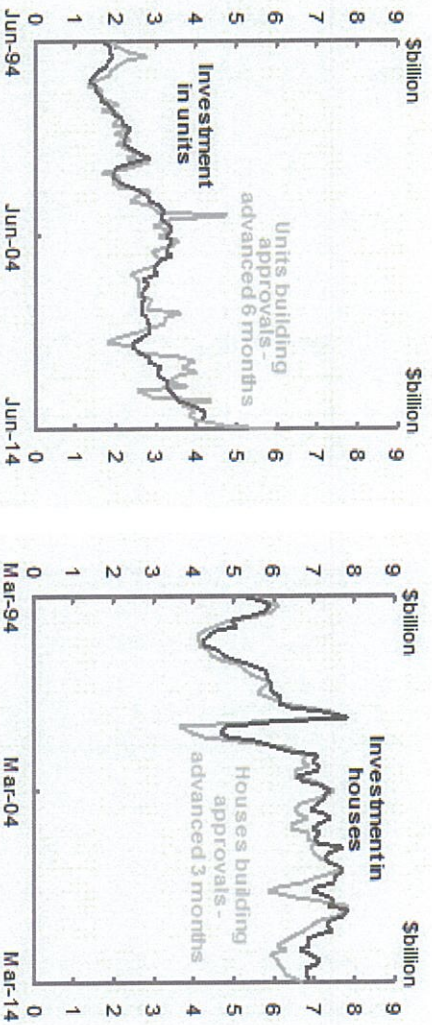


Budget Surplus (underlying cash position % GDP)

The improvement in the budget will be achieved by a range of decisions made by the government which will affect various parts of the economy in different ways. The main decrease in the budget deficit will be through a reduction in government outlays and increased government revenues. 77 percent of the improvement to the bottom line of the budget is made by the government's decision to reduce spending, redirecting spending from consumption to investments in order to drive economic growth. The reduction in the deficit will mean the government has more money to pay off the Net Foreign Debt (NFD), but also will mean that there is less money being spent in the economy.<sup>8</sup>

It is important to reduce the budget deficit in order to allow the economy to grow, since the economy has been growing below trend for four of the past five years and unemployment has been rising. Currently household consumption is improving and low interest rates are causing a rise in dwelling investments.

Leading Indicator of Dwelling Investment



Source: ABS cat. No. 8731.0 and unpublished ABS data

However, this alone is not enough to boost the economy and so the budget focuses on building future growth potential and job opportunities while attempting to not place additional near term pressure on the economy.<sup>9</sup> Because this budget is specifically designed to reduce the budget deficit in order to help build a more sustainable budget and help the growth of the economy as a whole, it targets individuals, businesses and the government in different ways. However, it has been designed in an attempt to affect each class equally.<sup>10</sup>

<sup>7</sup> Plain English Economics Pty Ltd, 2014, *Budget 2014/15: Fiscal Policy Response*, Plain English Economics Pty Ltd, New South Wales

<sup>8</sup> Australia Government, 2014, *Statement 3: Fiscal Strategy and Outlook*, [http://www.budget.gov.au/2014-15/content/bp1/html/bp1\\_bst3.htm](http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst3.htm), accessed 26 June 2014

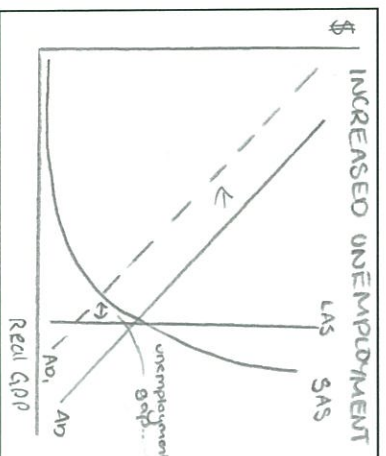
<sup>9</sup> Australia Government, 2014, *Tracking to Surplus*, [http://www.budget.gov.au/2014-15/content/overview/html/overview\\_key\\_initiatives.htm](http://www.budget.gov.au/2014-15/content/overview/html/overview_key_initiatives.htm), accessed 30 June 2014

<sup>10</sup> Australia Government, 2014, *A Shared Contribution*, [http://www.budget.gov.au/2014-15/content/overview/html/overview\\_key\\_initiatives.htm](http://www.budget.gov.au/2014-15/content/overview/html/overview_key_initiatives.htm), accessed 30 June 2014

Individual households in the economy will contribute to reducing the budget deficit in different ways. The government needs to increase their revenues and therefore there has been a slight increase in some taxes, for example all households on incomes over \$180,000 will have had a Temporary Budget Repair Levy introduced to them, for the three years from 2014-15. Also, there will be a tightening of eligibility for tax benefits, like the Family Tax Benefit Part B (FTB-B). This will also cause a slight reduction in government spending, in a way that the government hopes will not have a great effect. The tightening of this policy will mean that low income single parents will be given a new allowance of \$750 per year for each child aged 6 to 12.<sup>11</sup>

In order to make a slight reduction in spending, the indexation of many payments and programs will be paused temporarily.<sup>12</sup> These programs include eligibility thresholds for Family Tax Benefit and Newstart, thresholds for the Medicare Levy Surcharge, Private Health Insurance Rebate and most Medicare Benefits Schedule fees. Also, there has been a 10.5 billion dollar cut in health spending through the new budget – another way the government intends to save money. Because this will have a negative impact on the health industry, since the reduction of spending reduces growth, a fee has been placed on individuals each time they wish to see a doctor, have a blood test or an X-Ray. All this money will then be placed in a Medical Research fund, in order to keep a steady income of money into health, hopefully reducing the some of the major effect of the cuts on health and medical areas.<sup>13</sup> Another way of reducing government spending is the indexing of pensions to the CPI, rather than wages, this will also be put into place from September 2017.

The negative impact the surplus budget will have on demand will cause an increase in the unemployment rate.<sup>14</sup> In order to combat this effect, the government is attempting to encourage those unemployed back into the workforce by requiring people up to 30 years of age to be earning, learning or participating in work to be eligible to receive the Dole or Youth allowance. From 1 January 2015, these new jobseekers must participate in job search and government funded employment services activities for up to six months in order to receive the payment. Young people who do not have a full capacity to work, are in education, training or have a significant disability will all be exempt from these requirements, as will those with parenting responsibilities. Not only is this section of the budget aimed at lowering the unemployment rate, it will also mean the government spends less money as people find jobs and no longer need to be dependent on the government for an income. The age pension age will also be increased to 70 by 1 July 2035.<sup>15</sup> This will have similar affects as the above change. Also the gradual change will allow people who are more used to the idea to work longer rather than cause those at the age of retirement to continue work. However, the problem is that although there are more people seeking for jobs, and interested in working, there isn't going to be a major increase in job availability. This means that although people are encouraged to seek for work the unemployment rate will not decrease unless there is growth in the economy and more jobs are created, especially since people will be expected to work for longer. Because of this, the government have also introduced incentives to encourage older people back into the workforce.



<sup>11</sup> Australia Government, 2014, *Building Australia's Future*, [http://www.budget.gov.au/2014-15/content/overview/html/overview\\_key\\_initiatives.htm](http://www.budget.gov.au/2014-15/content/overview/html/overview_key_initiatives.htm), accessed 25 June 2014

<sup>12</sup> Investopedia, 2014, *Indexation*, <http://www.investopedia.com/terms/i/indexation.asp>, accessed 1 July 2014

<sup>13</sup> Dunlevy S., 2014, *Federal Budget 2014: Patients to pay \$7 to see a doctor, get a blood test or an X-ray*, <http://www.news.com.au/finance/economy/federal-budget-2014-patients-to-pay-7-to-see-a-doctor-get-a-blood-test-or-an-x-ray/story-fn84fgcn-1226916551471>, accessed 30 June 2014

<sup>14</sup> Gittins, R., 2014, *Yes, the budget will hit demand, but not too badly*, <http://www.smh.com.au/business/yes-the-budget-will-hit-demand-but-not-too-badly-20140516-38fev.html>, accessed 28 June 2014

<sup>15</sup> Australia Government, 2014, *All Australians Contributing*, [http://www.budget.gov.au/2014-15/content/overview/html/overview\\_key\\_initiatives.htm](http://www.budget.gov.au/2014-15/content/overview/html/overview_key_initiatives.htm), accessed 25 June 2014



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