University of NSW
Faculty of Commerce & Economics
School of Economics
GENC2001: Introduction to the Australian Economy
Second Session, 2007

COURSE OBJECTIVES

By the end of the course, students are expected to have a broad overview and understanding of the Australian economy. The course will look at some of the key developments in the Australian economy in the recent past, its strengths and weaknesses, and some of the main policy debates. The aim is to help students better understand current and future economic problems and policy debates.

LECTURES AND TIMETABLE

Lecturer-in-charge: Nigel Stapledon
Contact: nigel.stapledon@unsw.edu.au
John Goodsell Room 202: ext 53379

Lecture details:
Wednesday 9:00-10:00 at Mech Eng 304

Tutorial times:
Wednesday 12:00-1:00 at Civ Eng 102
Wednesday 1:00-2:00 at Civ Eng 102
Wednesday 2:00-3:00 at Civ Eng 102
Tutorials will start in 2nd week of session.
Consultation time: Monday 3-6pm
I strongly encourage all enquiries re subject to be made at lectures or tutorials or during consultation time.
ATTENDANCE AT LECTURES AND TUTORIALS

Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment. Research (for all subjects, not this particular subject) indicates that results are highly correlated with attendance.

Students will be asked to initial their attendance at the tutorials each week.

ASSESSMENT

Workload expectation

It is expected that you will spend at least five hours per week studying this course. This time should be made up of reading, research, working on assignments/tutorial papers, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

Assessment:

- Tutorial Presentation (10%) and Participation (5%) - 15%. Each student will be required to give one presentation at tutorials during the session. Notes for presentation to be submitted at tutorial for marking.
- Essay - 25% See below
- Comprehensive Final Exam - 60%. In normal exam period.

To pass this subject overall, a pass in the final exam is required.

SUPPLEMENTARY EXAMS

Entry to a supplementary examination for the final examination will be considered only in the case of students who maintain an acceptable grade during the session, and then present a fully documented case of consideration. Failure to pass the final examination is not grounds for being granted a supplementary.

ESSAY

Essay topics on page 4 below
Length: 1200-1500 words
Date due: (email) midnight Tuesday 2 October 2007
Two marks will be deducted for each day late. No extensions.
Email essay in Microsoft word (not PDF) to course website on WebCT-Vista. All essays will checked for plagiarism on Turnitin software. A hard copy is to be given to tutor or lecturer on 3 October 2007.
The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see:  [http://www.lc.unsw.edu.au/plagiarism/index.html](http://www.lc.unsw.edu.au/plagiarism/index.html)

Plagiarism is the presentation of the thoughts or work of another as one’s own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person’s assignment without appropriate acknowledgement;
- paraphrasing another person’s work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does not amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:  [www.lc.unsw.edu.au/plagiarism](http://www.lc.unsw.edu.au/plagiarism)

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.
Essay topics

1. Noel Pearson has argued for some [what I would view as] “radical micro-economic reform” in government policy re indigenous economic development. Ken Henry has supported him and Mal Brough has adopted his proposal. The “left” [for want of a better word] oppose this economic approach.

Discuss the arguments and counter-arguments.

Refer to material in Topic 4 as starting point. Expectation is you will find additional material.

2. As part of its “de-regulation” of labour markets, the L-NP Government abolished the powers of the IRC to set minimum wages and replaced it with the Australian Fair Pay Commission. In July 2007 the Fair Pay Commission announced increases in minimum wages significantly lower than the general rate of increase in wages being achieved in the workforce and only about in line with inflation [no increase in real minimum wage]. Discuss the key arguments that the Commission weighed up in coming to its decision. What have the critics and supporters said about the decision?

A starting point would be to read the Executive Summary of the AFPC’s decision which can be found at its website fairpay.gov.au. Refer to materials in Topic 3. Expectation is you will find additional material.

Essay marking - essays will be evaluated in terms of:
- Evidence of research effort – quantity and quality of references (should also be presented adequately in list of references).
- Presentation of arguments
- Presentation in readable form

Course material

Course notes and materials will be given out for each topic. Some references are with Tutorial and Lecture Program below but this will be added to in handouts on specific topics. The notes have been written on the premise that students attend the lectures and tutorials.

There is no single textbook which covers all the subject matter of this course. The course lecture notes materials will contain some readings. The following will probably be the most useful for students wishing to do some background reading.

Some other useful net links for researching the Australian economy are:

- OECD *Economic Survey of Australia*, OECD, refer [www.oecd.org](http://www.oecd.org) for that and lots of other material on Australia.

Some Bank websites with good breadth of commentary are:

- ANZ Economics website [www.anz.com](http://www.anz.com/) → corporate → Economics@anz
- Commonwealth Bank Research website [difficult to find but the following should get you there](https://www.research.comsec.com.au/CommResearch_Documents.aspx?MenuId=8&CategoryId=7&TypeId=255)

For quality newspaper commentaries see


For Ross Gittins and Alan Wood articles for past 2-3 months free: earlier articles cost

- Alan Mitchell, Australian Financial Review unfortunately no free access – photo-copy of hard-copy is the option.
Introduction and Overview [25 July]

Tutorial Week 2 [1 August]

1. What are the major changes in the Australian economy between 1901 and today? For example, how have industry sector shares of GDP changed over the past 100 years? How is this linked to productivity growth?

2. Tutorial topics will be allocated this week.

Topic 1: A brief historical perspective on the Australian economy [1 August]
A brief historical perspective on the Australian economy

Tutorial questions on Topic 1 [8 August]

1. Australia is a relatively rich country in terms of GDP per capita. Is that because of Australia’s abundance of natural resources or the “institutions” inherited from the British?
   Refer to extract from Bernstein, W.J. ‘The Birth of Plenty’ (attached to course notes)

2. What are the key economic issues facing Australia? [Open discussion]

Topic 2: Comparing Australia with other countries – a closer look. [8 August]
GDP per capita as measure of standard of living – what are its deficiencies? Comparison with other countries; Is $US GDP per capita adequate? – PPP adjustment and the UN Human Development Index (HDI)
Other indicators of national performance – unemployment, inflation

UN Human Development Index 2005 (attached to course notes)

Tutorial questions on Topic 2 [15 August ]

2. Is $US GDP per capita an adequate measure for comparing countries? How does PPP adjustment change the relative measures of GDP per capita between Australia vs. US, Japan and China?

3. Is the UN Human Development Index (HDI) a better measure for comparing standards of living between countries? How does it change Australia’s relative standing vs. US, Japan and China? What are its deficiencies? What additional elements you add to the HDI when comparing Australia with say Japan?
**Topic 3: Government intervention in the economy** [15 August]


*Tutorial questions on Topic 3* [22 August]

1. Education and labour market deregulation. A big shake-up in wages for teachers is being put forward by the Federal Minister for Education and Training (Julie Bishop) which is strongly opposed by the union. What are the arguments for and against the proposed changes? Presuming it flows through to public schools in one form or another will it lead to better quality teachers and/or solve the looming shortage of teachers?

2. Obesity. The rise in obesity threatens to cause a decline in age expectancy. What are the economic factors behind the rise in obesity? Is there a case for government intervention? - discuss the arguments for and against government intervention.

**Topic 4 Unemployment and Indigenous Economic development** [22 August]


*Tutorial questions on Topic 4* [29 August]

1 Discuss Ross Gittin’s argument that 4.5% (or thereabouts) unemployment is not an adequate measure of unemployment in Australia. Ross Gittins, SMH, February 14, 2007 “Credit where its due on unemployment.”

2. What do we mean by high effective tax rates? Is it the cause of the long term rise in unemployment in Australia? I.e. other causes? How did the 2005 and 2006 Budgets affect effective tax rates facing the unemployed, and otherwise address the issue of long-term unemployment? What if the unemployed have pre-school children – how does that affect the equation?

3. Australia’s indigenous population is over-represented in unemployment and low on most social indicators. In what areas has government policy contributed to this position? What are the changes in policy advocated by Noel Pearson and others to change the course of history?

**Topic 5 Australia and the World - Part 1** [29 August]

Comparative advantage; what and whom we trade with; Trade openness; Free trade vs. protection; Benefits of Australia’s shift to freer trade

*Tutorial questions on Topic 5* [5 September]
1 Was Australia right to unilaterally reduce protection (of its manufacturing sector) and shift to free(r) trade in the 1980s? Does the decision by Ford to close its engine plant in Geelong mean that policy was wrong? [Discuss in terms of the main arguments for/against free trade vs. protection.]

2 Given the comparative advantages of the US and Australia, which sectors were the potential winners and losers from a complete free trade agreement with the US? What were the compromises to special interests in the actual agreement? Similar issues with proposed free trade agreement with China?

Topic 6 Australia and the World – Part 2 [5 September]

Australia’s current account deficit; Floating vs. fixed exchange rates; why Australia floated; lessons for others? Measures of the exchange rate (TWI and real effective rate); long term trends; Determinants of the $A


Tutorial questions on Topic 6 [12 September]

1. The newspaper headlines talk as if the CAD is source of failure? Why should we worry about the CAD? Why should we not worry about the CAD?

2. The Australian dollar in early 2007 is trading at comparatively high levels. Discuss the reasons for this in terms of the main factors which determine the long and short term value of the $A?

Topic 7 Immigration and Aging of the Population [12 September]

A brief history of immigration: The costs and benefits to the economy. Is aging of the population a problem? Retirement income policy in Australia: will retirement income be adequate – is it the answer to aging?


Tutorial questions on Topic 7 [19 September]

1. From Australia’s perspective, what are the key economic arguments for and against immigration? Should we be lifting/maintaining/reducing the size of the intake?

2. In recent years, Government policy has favoured skilled migration. What are the arguments for/against focussing on skilled migration? How have universities benefited?
Topic 8 Equity and Housing Markets [19 September]
Housing and equities are the principal assets of most Australians. Long term perspective on performance; Short term drivers; A close look at the most recent cycles.

Tutorial questions on Topic 8 [3 October]
1 What are some of the domestic and international factors which influence the Australian equity market in the short run? Examples to date in 2007?

2. The Australian equity market performed relatively poorly in the 1990s and very strongly in the 2000s, vis-à-vis the US market. What factors explain the relative performance of the Australian sharemarket? Are there reasons to be more cautious going forward?

Topic 9 Inflation and Monetary (interest rate) policy [3 October]
Why is inflation bad? What have been the benefits of the RBA targeting and achieving low inflation?; What factors drive inflation; What factors influence monetary policy?

Stevens, G (2006) ‘The conduct of monetary policy’ see RBA website
Reserve Bank of Australia August 2007 Statement on Monetary Policy (SOMP), [to be released]

Tutorial questions on Topic 9 [10 October]
1 Why is inflation bad? Discuss in the context of Australia’s performance in the 1970s and 1980s. The Reserve Bank adopted an inflation target of 2-3% in the early 1990s and inflation has averaged about 2% since then. What have been the benefits of low inflation for Australia?

2. What factors influence monetary policy – or why did the RBA lift interest rates three times in 2006? What are the principal concerns of the Reserve Bank in 2007 (as in its August 2007 SoMP) in its stance on monetary policy?

Reserve Bank’s Statement on Monetary Policy (SoMP) will be released in early August

Topic 10 Fiscal policy and the 2007 Budget [10 October]
Where does the money come from/go; What is fiscal policy; Is fiscal policy expansionary? Any implications for interest rates? What is the medium term strategy? What are the benefits and costs? Twin deficits theory – a boost to the CAD?

The 2007/08 Commonwealth Budget will be released on 8 May, 2007 – hence the timing of this lecture.

Tutorial questions on Topic 10 [17 October]
1 How is the state of the economy in 2007 reflected in the Government’s fiscal (underlying cash) position, i.e. impact on specific revenues and outlays in recent years? Contrast this with the fiscal position in 1992/93. Could we argue that there has been structural or cyclical improvement in the fiscal position since 1992/93?
2. There was much debate about whether the May 2006 Budget was expansionary or not, and whether it contributed to the Reserve Bank lifting interest rates in 2006. Is fiscal policy in the May 2007 Budget expansionary? What implications (if any) for economic activity, interest rates and the $A in 2007 (and 2008)?

**Topic 11  China Boom and the Australian Economy in the 2000s [17 October]**

*Tutorial questions on Topic 11 [24 October]*

1. Discuss the impact which the China boom is having on the Australian economy in the 2000s. Who are the winners and losers?

2. Japan had a similar impact (to China today) on the Australian economy in the 1960s and 1970s and Japan remains Australia’s largest export market. Despite its importance as an export market, Japan’s prolonged recession in the 1990s appears to have little impact on Australia in the 1990s. Why? Would we be so lucky if China had a prolonged recession?

**Topic 12 Why the US Still Matters and Forecasting the Australian Economy [24 October ]**

*Tutorial questions on Topic 12 [31 October]*

1. What economic indicators give the best guide to the future direction of the Australian economy?

2. The US is not Australia’s largest trading partner but the US is still the major influence on Australia’s economy and financial markets? Discuss.

Final Lecture: Review for Exam [31 October]