Unit 1 Participation and influences in the marketplace

The Australian marketplace

The Australian marketplace is made up of many different markets that we can participate in as buyers and sellers. We participate as buyers when we buy goods such as food and clothes, and pay for services such as swimming lessons or taking the train.

We can also participate as sellers when we create or sell goods or services. For instance, have you ever been paid for work like washing a car, mowing the lawn or babysitting? If you have, this would make you a seller, because you are selling your skills as a worker.

Together, consumers and producers interact to influence how goods and services are created and sold in Australia.

12A

What is the relationship between producers and consumers in the Australian market?

1. Name three goods or services that you would purchase on a weekly basis.
2. How do you think businesses might decide on a price to sell their products?

12B

What influences work in the marketplace?

1. How do you think new technologies are changing the way people work?
2. What kind of jobs do you think will be important in the future?

Source 1: The Fremantle Market in Western Australia has been operating since 1897. It is an example of a public market where producers of food and other goods can sell their products to buyers for the right price.
12.1 Markets

When we need or want something, we generally go and buy it. This is what makes us consumers (buyers). In order for this to be possible, producers (sellers) have to make and sell these things, which they are happy to do for a profit. A market is where buyers and sellers interact with one another to exchange things of value. Usually, consumers will pay money to producers in return for goods (physical things like food or clothes) and services (activities or skills provided by people such as construction work or healthcare).

You may have seen a market with rows of stalls selling fruit, vegetables and other goods directly to consumers. In economic terms, markets do not necessarily have a physical location like the fruit and vegetable market. The housing market, for example, doesn’t physically exist; buyers can view houses listed for sale on the internet or in the newspaper and contact the seller with an offer to buy the house. An economic market exists for anything that can be bought and sold.

The labour market

The labour market is where workers sell their skills, knowledge and effort to employers. In return for their labour, the employer will pay the workers a wage. This is how most people in our society earn an income. In Australia, wages for most professions are higher than in other parts of the world. This is a large reason why so many people consider Australia to be the ‘lucky country’.

Because work is such an important part of people’s lives, there are laws that aim to stop the unfair treatment of workers by their employers. There are also laws that require employers to maintain safe working environments for their employees. One of the government’s goals is to improve the lives of ordinary Australians by creating jobs that will provide them with an adequate income.

The housing market

The housing market is where houses are bought and sold. Houses satisfy the basic need for shelter, and so most Australians desire the security of owning their own home. For those who can afford it, it is possible to own multiple houses which can also be a way of making more money. This is because houses can be bought and then leased out to a tenant in exchange for rent. In this way, the owner of the property, also known as the landlord, can earn a profit. Unfortunately, however, as more people decide to invest in houses, the prices increase, making it much more difficult for everyday people to afford their own homes.

For most people today, the only way to buy a house is by taking out huge loans from the bank and slowly repaying the loan over a 30-year period. The bank makes a profit by charging people interest on money that it lends them. In instances where the collection of rent as profit can help pay the interest off more quickly.

The stock market

The stock market or sharemarket is where shares in Australian companies are bought and sold. These shares represent part ownership of a company. Owning shares in a company entitles the shareholder to a portion of the company’s profits. In Australia, the shares of large public companies are listed on the Australian Securities Exchange (ASX).

Foreign Exchange

The foreign exchange market is the largest market in the world, where different currencies from around the world are bought and sold. Some people and businesses will trade currencies so that they can make purchases or other payments in other nations using the local currency. Foreign exchange traders will try to make money by anticipating changes in the value of certain currencies. For example, they might buy currency when it is not worth much, and sell it again when it increases in value.

Check your learning 12.1

Remember and understand

1. What is a market?
2. What is exchanged on the labour market?
3. What is a landlord and how do they earn income from houses?

Apply and analyse

4. Why do you think the government focuses on creating jobs for Australians?
5. How do you think not having a job would affect the way a person lives?
6. Use the Internet to conduct the following research about a house in your area:
   a. Visit realestate.com.au via the link in your book and find a house that is for sale in your area;
   b. Visit the Commonwealth Bank’s home loan calculator online via the link in your book and calculate how much interest you would have to pay on a 30-year loan to purchase that house.
12.2 Supply and demand

Buyers and sellers in the marketplace are heavily influenced by price. Prices can be influenced by many factors, such as the availability of product, the popularity of a product or the state of the economy. These are examples of market forces or changes in supply and demand, which will affect how much people are willing to pay for or sell their goods and services.

Demand

Demand refers to the amount of a good or service that consumers will buy at a particular price. Consumers want to pay as little as possible for a good or service. This is known as the law of demand, where a larger quantity is demanded when prices drop.

Supply

While consumers are more willing to buy goods and services if they are cheaper, suppliers are more willing to produce goods and services if they can sell them for a higher price. This is because selling them for a higher price will bring the business greater profits. The law of supply states that the higher the price of a product, the higher the quantity that suppliers will want to produce and sell.

For example, farmers can choose to grow many different fruits and vegetables. They will choose to grow those fruits and vegetables that they believe will sell for a high enough price to earn a profit. There is no point in growing strawberries if no one will buy them at a price that covers the farmers’ costs and earns a profit.

The way price can affect the supply and demand of goods and services is known as price mechanism.

Imagine the price of ice creams at the school canteen went down to 50 cents, students would be flocking to the canteen trying to buy the cheap ice creams before they run out. Now if the price of those same ice creams went up to $5, very few would be sold.

<table>
<thead>
<tr>
<th>Price of an ice cream ($)</th>
<th>Number of ice creams sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.50</td>
<td>170</td>
</tr>
<tr>
<td>1</td>
<td>150</td>
</tr>
<tr>
<td>1.50</td>
<td>110</td>
</tr>
<tr>
<td>2</td>
<td>90</td>
</tr>
<tr>
<td>2.50</td>
<td>70</td>
</tr>
<tr>
<td>3</td>
<td>50</td>
</tr>
<tr>
<td>3.50</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Source 2 This table shows how many ice creams would be purchased for a given selling price.

Source 3 By graphing the values from Source 2, we can see how the demand for ice cream decreases as the price of ice cream increases.

Source 4 This table of values demonstrates how many tonnes of strawberries farmers are willing to produce if they can sell them at each given price.

<table>
<thead>
<tr>
<th>Price per kg ($)</th>
<th>Quantity (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>250</td>
</tr>
<tr>
<td>6</td>
<td>500</td>
</tr>
<tr>
<td>7</td>
<td>750</td>
</tr>
<tr>
<td>8</td>
<td>1000</td>
</tr>
<tr>
<td>9</td>
<td>1250</td>
</tr>
<tr>
<td>10</td>
<td>1500</td>
</tr>
<tr>
<td>11</td>
<td>1750</td>
</tr>
<tr>
<td>12</td>
<td>2000</td>
</tr>
<tr>
<td>13</td>
<td>2850</td>
</tr>
<tr>
<td>14</td>
<td>2500</td>
</tr>
</tbody>
</table>

Price mechanism can also affect the ways consumers and producers respond to and influence each other in the market. For example, in some industries, consumers can negotiate the price with producers in order to create profit in their favour.

Consider the following scenario:

A chef is at a food market to buy 1 tonne of strawberries. The chef notices that there are two strawberry farmers selling their fruit. The first strawberry farmer’s fruit looks very ripe and ready to eat, but has priced their strawberries at $7 per kilogram. The second strawberry farmer, however, has priced their fruit at $5 per kilogram but they are not as ripe as the first. Which strawberry farmer should the chef buy from and why?

Check your learning 12.2

Remember and understand

1. What is meant by the ‘law of demand’?
2. Why do consumers like to buy things when they are on sale?
3. What is meant by the ‘law of supply’?
4. Why are producers more willing to produce something that sells at a higher price?

Apply and analyse

5. What do you think would happen if the strawberry farmer set a price that consumers were not willing to pay?
6. What would happen if the strawberry farmer set a price that was too low?
7. Consider the following scenario: A chef is at a food market to buy 1 tonne of strawberries. The chef notices that there are two strawberry farmers selling their fruit. The first strawberry farmer’s fruit looks very ripe and ready to eat, but has priced their strawberries at $7 per kilogram. The second strawberry farmer, however, has priced their fruit at $5 per kilogram but they are not as ripe as the first. Which strawberry farmer should the chef buy from and why?
12.3 Allocation of resources

Resource allocation refers to how we divide resources and how these resources are then distributed to consumers. In economics, resources, also referred to as factors of production, are all the things we need to create the finished product. They include:
- land (natural resources that a business uses, such as geographical locations, minerals we can mine, forests or animal populations such as fish)
- labour (employees that a business needs to produce, develop and sell our goods or services)
- capital (money, machinery and buildings businesses use to produce goods and services)
- enterprise (a business’ ability to combine land, labour and capital to make a profit)

The price of resources can influence what a business is able to produce, how they are able to produce it and how much they can sell it for. If the price of resources go up, so too will the price of the final product. This can impact who has access to goods or services. For example, if a small car costs more than $130 000 because factors of production were so expensive, not as many people would be able to own a car.

What to produce?
The goal of businesses is to make a profit. They aim to do this by producing goods and services to sell to buyers. They can decide what to produce based on the availability of resources to both them and their potential consumers. Some businesses might seek to make a profit by distributing a resource to consumers that is in high demand, but low supply. This is sometimes referred to as finding a ‘gap in the market’.

How to produce?
When producing goods or services, businesses will try to keep their costs as low as possible so that they will make more profit. This means they will need to manage their resources carefully. For example, consumer demand might be high for a pill that cures all food allergies. If the resources involved in making the pill are expensive, the business would have to sell the pills at a price no one could afford.

It is therefore important for businesses to keep their costs low so that they can sell their goods and services at prices people are willing to pay for.

Businesses might reduce their costs by:
- increasing production so that more goods or services are produced and sold using the same resources, which is often known as using an ‘economy of scale’
- using cheaper materials, although this might affect the quality of the product
- paying lower wages to employees or producing goods overseas where the labour market is cheaper
- using machinery to replace human jobs.

Different businesses will save money in different ways. Some will decide to use quality materials and Australian workers, and will sell their products at higher prices.

Who to produce for?
An important part of resource allocation for businesses is knowing who they want to sell to. Since price is such an important part of whether or not people can access goods or services, businesses must consider who their buyers are. For example, larger retailers such as Kmart mass-produce their goods cheaply so that as many people as possible have access to and can afford to buy their products. On the other hand, a single piece of clothing from an exclusive designer brand would cost a lot of money to make, and would cost a lot of money to buy.

Government intervention
While some economists believe that the market forces of supply and demand can allocate resources efficiently, the government often has to intervene in the market to act in the best interest of society as a whole. The government will intervene in a market to reduce or prevent the over-production of harmful goods such as alcohol, tobacco and drugs. The government will also intervene in a market to provide goods or services that would otherwise be under-produced. Public health, education, roads and defence are all examples of goods and services that the government provides with the taxes that it collects from the public.

Source 1 Labour is an important resource for businesses producing goods and services. If a business spends a lot of money on resources such as labour, this can affect the price of the end product.

Source 2 Royal Perth Hospital is a public hospital. It provides a service which is paid for by the government with money that it collects primarily from tax payers.

Check your learning 12.3

Remember and understand
1. What is resource allocation?
2. What are the factors of production?
3. Give two suggestions for how a business might reduce its production costs?

Apply and analyse
4. Why might government need to intervene in allocating resources? Use an example to illustrate your answer.

Evaluate and create
5. In groups, use the idea of a ‘gap in the market’ to identify a market that you think would benefit from a new business or supply of goods or services. Develop your idea and present a summary to the class of what you would produce, how you would produce it and who you would produce it for.
12A rich task

Chocoholics

Chocolate is very unhealthy and highly addictive, but that’s why many people can’t get enough of it. The damage that sugary products like chocolate do to our health is causing many people to look at ways of kicking the bad habit.

Even though we know how unhealthy chocolate can be, there is still a high demand for chocolate and chocolate-flavoured products in Australia. In fact, the confectionary industry receives over $7 billion from selling chocolate and other sugary products to Australian consumers each year.

The government taxes other unhealthy products, including alcohol and cigarettes, and some people suggest that the government should tax chocolate and sugary products as well. They say that higher prices on these products will stop people from buying as many of them. With such a great love of chocolate, do you think a tax on chocolate would impact how much chocolate Australians would buy?

The relationship between the supply of and demand for chocolate products can be investigated in many ways, making it easier for manufacturers to determine how much chocolate they should produce, and how much they can charge. We can also assess how a tax on chocolate would impact the demand for chocolate by constructing a demand graph.

Apply the skill

1. Using steps 1 and 2, fill out a table showing how many of your favourite chocolate bars you think you would buy in an average week at the following prices.

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>Quantity (number of chocolate bars per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.50</td>
<td>10</td>
</tr>
<tr>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>

2. Using the table that you have just filled out, follow steps 3 to 7 to draw a demand graph (like the one in Source 2).

3. Looking at your graph, do you believe a tax would be effective in making people eat less sugar?

4. What do you think would happen if a tax was not applied to chocolate?

Source 4 How do you think higher prices will affect the demand for chocolate cake?

Extend your understanding

1. Use the internet to research and make a list of sugar’s effects on health.
2. Make a pros and cons list of cutting sugar out of your diet.
3. Looking at the results of your pros and cons list, should you cut out sugar from your diet?
4. When people become addicted to sugary products such as chocolate, nutritionists often suggest that they replace these with natural sugar. Using the Internet, research foods that contain natural sugar that can be used as an alternative.
12.4 Influences on the way people work

The world around us is changing. Technological advances have created new ways of doing things that most people could not even imagine in the past. This has changed the way that goods and services are produced, as well as affecting the labour market.

Artificial intelligence

Artificial intelligence (AI) is more than just an imaginative creation of science fiction movies. AI gives machines and robots the ability to think and act more like humans. Robots with AI have been quite common in factories and warehouses for many years, and are now even demonstrating the ability to do highly professional tasks such as analysing data, generating reports and even diagnosing patients. While robots have the potential to improve our living standards and create new industries, a study by the McKinsey Global Institute predicted that, by 2025, robots could jeopardise between 40 million and 75 million jobs worldwide.

Outsourcing

For many decades, Australian businesses have moved their operations to nations where labour is cheaper to help them compete with the cheaper products of international competitors. In the past, outsourcing labour overseas has mainly been to take advantage of the lower wages paid to unskilled workers in poorer nations. In recent years, however, advances in communication technology has allowed for the outsourcing of more technical jobs such as those in information technology. With more people from poorer nations gaining access to education and the internet every day, many predict the outsourcing of many more jobs in the future.

The future of work

While the future may seem bleak for some Australian workers, it is important to remember that there are both winners and losers to these predicted changes. Those who invest time and effort in gaining qualifications and skills will be far more likely to fill the jobs that are created by these changes. Those that don’t will face greater difficulties in finding work.

Check your learning 12.4

Remember and understand

1. What is artificial intelligence?
2. Look at Source 1. Write a list of the advantages and disadvantages for a business using robots.
3. Look at Source 2. What kinds of jobs do you think would be under threat from technology such as the IBM Watson computer?
4. Look at Source 3. What kinds of jobs do you think would be under threat from technology such as self-driving cars?
5. What kinds of jobs do you think might be created as a result of the technologies shown in Sources 1–3?

Apply and analyse

6. Design a robot that could help you with your everyday life. Be sure to draw and label the robot, as well as to explain the list of features that it comes with.

Evaluate and create

7. Consider the idea that technology will improve our working lives in the future. Do you agree or disagree? Create an audio visual presentation that argues against this idea.
12.5 Australian workers

Workers in Australia’s labour market have far better working conditions than in most other nations around the world. This is largely because Australia’s healthy economy produces enough jobs to employ most people. It’s also due to the laws and agreements that protect the rights of workers, which in many cases came about after campaigns by workers’ unions.

Unemployment

One of the main goals of the Australian government is to create enough jobs for its citizens. It does this by managing the economy in such a way that businesses have the potential to grow. This might include giving money or tax breaks to businesses that hire more workers to help produce and sell more products. The goal of the government is to create jobs for around 95% of people who are able and willing to work. This is known as full employment.

Workers’ unions

Workers and their employers have had many disputes over the years. This is because a business is mainly concerned with making as much profit as possible, which often means paying its workers as little as possible. Workers’ unions are groups of workers who join together to protect their rights and working conditions. This can involve actions such as meeting with employers to negotiate better terms of employment or even holding strikes or protests when negotiation fails.

Government laws

Over the years, government laws affecting Australian workplaces have seen many changes. While the government has adopted a more relaxed stance on how much workers get paid, they have set laws to prevent the mistreatment of workers. These laws relate to things such as:

- Occupational health and safety: Businesses are required by law to ensure that their workplace is safe at all times.
- The minimum wage: Although the government doesn’t set the exact amount that workers are required to be paid for their work, it does set out a minimum wage that employers cannot pay below.
- Discrimination: The government has strict laws to ensure people are treated equally. This means that it is illegal for a business to mistreat someone because of their race, beliefs, gender or other personal circumstances that do not affect the way in which they go about their job.

Check your learning 12.5

1. What does the government aim to achieve in terms of employment?
2. What is the role of workers’ unions?
3. Describe three areas of law that affect Australian workplaces.
4. Look at Source 1. What is a strike and how can it help workers improve their working conditions?
5. Look at Source 2. Why do you think it is important for businesses to provide safety equipment on work sites?
6. Explore the school and take note of any potential safety hazards that could harm teachers or students. Consider how these can be made safe for everyone on school grounds and report back to your teacher with your findings.
12.6 Workers of the world

The nature of work varies greatly from country to country. Earlier in this chapter we looked briefly at how businesses often outsource parts of their operations to poorer nations. This is done to take advantage of cheap labour and fewer regulations protecting the rights of workers. In doing so, a business can reduce its costs of production and make a greater profit. The practice does, however, raise concerns about the ethics of exploiting poor workers in this way.

Sweatshops

A sweatshop is a factory that pays its workers very low wages to work in poor conditions. They are common in poorer nations where the laws that protect workers are not enforced. Workers are regularly beaten, abused and forced to work incredibly long hours in unsafe environments. Many well recognised businesses use sweatshops to produce products such as clothing, cotton, bricks, cocoa and coffee.

Child labour

There are an estimated 168 million children around the world between the ages of five and 14 who are forced to work. They are often abused and paid next to nothing for the work that they do. Child labour is most commonly used in sweatshops and on plantations, often producing goods for famous brands that sell their products in wealthy nations such as Australia.

Solutions

The people who work in sweatshops spend the majority of their pay on food for their families to survive. The child labourers who miss out on an education have no real chance of breaking out of poverty on their own. A study showed that doubling the salary of sweatshop workers would only increase the consumer cost of an item by 1.8%, while consumers would be willing to pay 15% more to know a product did not come from a sweatshop.

As consumers, we can do a great deal to help protect workers from unethical businesses. By being ethical consumers who research products before we buy them and choose ethical products over unethical products, we can put pressure on businesses to do the right thing. We can also use our freedom of speech and our ability to raise awareness and campaigns for the rights of these people.

Check your learning 12.6

Remember and understand
1. What is a sweatshop?
2. What does it mean to be an ethical consumer?

Apply and analyse
3. Look at Source 1.
   a. Would you buy products from a business that you knew was exploiting workers in unsafe factories?
   b. How could you find out more about the products you are purchasing?
4. Look at Source 2. Why do you think children like Enrique will find it very difficult to get out of poverty without someone’s help?

Evaluate and create
5. Using the internet, try to find out whether your favourite brands use sweatshops to produce their products. If so, try to find out what the pay and working conditions are like in those sweatshops.
Minimum wages around the globe

The minimum wage sets the legal standard for how much people must be paid. Employers cannot pay their workers less than this amount. In this way, the minimum wage prevents workers from being taken advantage of and falling into poverty even when they are working hard. Yet some economists argue that the minimum wage in Australia is too high and could be costing Australians jobs in the long run. They believe that businesses that cannot afford to pay the minimum wage will either close down or move their operation overseas, meaning less jobs for those who need them.

Working Australians enjoy high living standards compared to many people around the world. Part of this is because minimum wage laws ensure that we all get a fair share of the profits if we work for an employer. However, because businesses can now outsource work to other countries, some economists argue that a lower minimum wage is needed to keep businesses and the jobs that go with them in Australia. Supporters of a higher minimum wage argue that lowering the minimum wage does nothing but cause competition between workers around the world to see who will settle for the lowest wages. Would Australians be willing to work for less than a dollar an hour, as is the case in many other nations? They argue that business owners already make substantially more than the workers who perform the actual tasks of the business, and should be required to pay workers their fair share.

Working Australians enjoy high living standards compared to many people around the world. Part of this is because minimum wage laws ensure that we all get a fair share of the profits if we work for an employer. However, because businesses can now outsource work to other countries, some economists argue that a lower minimum wage is needed to keep businesses and the jobs that go with them in Australia. Supporters of a higher minimum wage argue that lowering the minimum wage does nothing but cause competition between workers around the world to see who will settle for the lowest wages. Would Australians be willing to work for less than a dollar an hour, as is the case in many other nations? They argue that business owners already make substantially more than the workers who perform the actual tasks of the business, and should be required to pay workers their fair share.

Source 1: Protesters hold signs at a rally in support of a minimum wage increase in New York, USA, on 15 April 2015. Fast-food workers held rallies in 236 American cities in their fight for higher pay and union rights.