

The Australian National University

Faculty of Economics and Commerce

2009

The Australian Economy ECHI 1006 Economic Development and Economic Equity in Australia

First Semester

Course outline

Brief outline of course: Most of this course deals in an elementary way with why the Australian economy has developed to the extent and level that it has by the beginning of the twenty-first century. In particular, the discussion in lectures will consider a range of factors that appear likely to have influenced the size of the measure of the level of development of the Australian economy. The course also will touch on some of the matters raised by the issue of economic equity. To provide a satisfactory discussion of these broad topics it will be necessary, on occasions, to go back in economic history to determine how the Australian community arrived at the situation it found itself at the beginning of the twenty-first century.

The topics covered in this course: (1) the recent economic performance of the Australian economy in international perspective; (2) fundamental factors that appear to have influenced Australia's level of economic development at the beginning of the twenty first century; (3) some of the factors that have influenced the rate of growth of the Australian economy in recent decades. This discussion leads on to (4) how the free market works and certain weaknesses in its operation and their implications for economic policy; (5) federal-state financial relations; (6) tariff policy in Australia and its assessment; (7) the quality of labour: education and health; and (8) immigration. The course also considers matters of economic equity by considering (9) income distribution and social welfare: its relevance and measurement; (10) measuring poverty and (11) the poverty trap and the negative-income taxation system.

Teaching staff: Lecturer: Dr Alan Martina, Office: HW Arndt Building room 2011.
Telephone number: (612)53671. Email: alan.martina@anu.edu.au and Tutor:
Christian Andersen.

Teaching hours There are two one-hour lectures and one tutorial throughout the course. Lectures are at 5 p.m. on Mondays and Thursdays in the Manning Clark Centre (MCC), Lecture Theatre 6.

There is one tutorial a week. Times and places still to be announced

Students need to enrol in one of these tutorials after the first lecture or soon thereafter.

The lecture notes for this course can be retrieved from the website:

<http://teaching.fec.anu.edu.au/ECHI1006/>

The cost of these lecture notes, along with other materials is discussed below under the topic: *There is no prescribed text.* There will be more on this below.

All lectures will be recorded onto the WebCTsystem. .

Method of assessment.

There are five elements in the method of assessment.

- (i) At every tutorial each student will be tested on the material that it to be covered in that or was covered in the previous tutorial. The marks assigned to each student for these tests will count towards his/her final mark.
- (ii) At each tutorial five students will provide a presentation on some relevant topic. (More on this soon.) Each student will be marked on their presentations.
- (iii) There will be a mid-term examination, given in the week beginning Monday 6th April.
- (iv) There is a final examination given in early June.
- (v) Students have the option of submitting a 1500 to 2000 word essay on an assigned topic.

The weighting for each component of this testing is set out below. As will be seen later, for those students who do submit an essay the system of weighting will differ from that for those students who do not submit.

Organization of the tutorials and marks allocated to tutorial work:

At each tutorial five students will be required to present answers to questions set for discussion in the tutorial concerned. Each student will be assigned one of the five questions posed for the tutorial. The questions set for discussion for each tutorial are set out at the end of this Course Outline.

A range of tutorial questions will be assigned to each student in the first tutorial - which is in the week beginning Monday 2nd March.

Each selected student is given about five (5) minutes to provide her/his presentation. Each student has to give at least two presentations – answer at least two questions - at two different tutorial sessions during the course.

Each presentation will be given a mark out of five (5). The total marks given to a student for her/his presentation will be assigned a weight of 10 percent in the final mark.

The five separate presentations will take up about thirty minutes of tutorial time. There follows a discussion for twenty (20) minutes (or ten (10) minutes if there is a test) of any outstanding questions and issues relating to the questions posed for the tutorial and recent material covered in lectures. In the first ten (10) minutes of the tutorial, one of the five questions to be discussed in the tutorial is randomly selected as a test question to be answered by all students in the class. This written answer must not be longer than one A4 page in length. That part of the answer that is over this length is not marked. This answer is marked and returned at the next tutorial. This test is marked out of two (2). The marks for the best eight marks for these tests are selected and combined to give the final aggregate mark for these tests. This aggregate mark is assigned a weight of 10 percent in the final mark.

Examinations:

There is a mid-term examination in the **week beginning Monday 6th April**. The student will be required to answer three short questions, out of a choice of six questions. This

examination will be marked out of thirty (30) and will count ten (10) percent of the final mark for those who submit an essay, and twenty (20) percent who do not submit an essay.

The final examination, given some time in June, will count forty percent of the final mark those who do submit an essay, and sixty percent who do not submit an essay.

Weighting for each form of assessment that contributes to the final mark:

	With an essay	Without an essay
	<u>Percentage</u>	<u>Percentage</u>
Tutorial presentations	10	10
Tutorial tests	10	10
Essay	30	
Mid-term test	10	20
Final examination	40	60

Results awarded are:

High Distinction	80% and over
Distinction	70% to 79%
Credit	60 to 69%
Pass	50 to 59%
Fail	Under 50%.

Prescribed Text:

There is **no** prescribed text for this course. There is, however, a 'reading brick' in which are found the reading materials used in lectures. Also, as noted earlier the lecture notes are to be found on the web site for this course.

It is essential that each student attending this course has a copy of the reading brick. The combined cost of these materials will be \$35.

This brick can be collected from the Administrators office in the School of Economics. Payment for the brick is made at the cashier's office. A receipt of payment from the cashier's office must be presented when purchasing the brick.

Essays

The assigned essay must not be longer than 1500 to 2000 words. The essay will count 30 percent of the final mark.

This essay must be submitted by 5 p.m. on Monday 5th May, 2006.

Any essay submitted late will have marks subtracted from the initial mark (out of 20) assigned. One mark will be subtracted for each working day that the essay is submitted late.

Essay presentation

In the academic training of a university student, a vital skill that needs to be developed is the writing of essays. Good writing skills are highly valued in the workforce.

It is recommended that all students, before beginning their essay, take the time to do the interactive online training tutorial on how to do basic research in the university library. The relevant website is: <http://inflite.anu.edu.au>.

The Academic Skills and Learning Centre organise essay-writing courses in Semester 1. Students have to enrol at the Centre if they wish to attend this course. Students are strongly encouraged to take advantage of this valuable service – especially those for whom English is not their first language.

Essay Topics and References

Select one of the following two topics to write an essay on.
The suggest readings are not meant to be complete.

How might an emissions trading system be developed and used in Australia to control the emission of greenhouses gasses? How effective do you think such a system might be?

Readings:

<http://www.greenhouse.gov.au/emissionstrading/papers/>

Some more advanced material is to be found in:

McKibbin, W. J. and P.J. Wilcoxon (2002), 'The Role of Economics in Climate Change,' *Journal of Economic Perspectives*, 16, 107 -129. See in particular pp. 116 – 122.

This article is to be found at:

<http://www.ingentaconnect.com/content/aea/jep/2002/00000016/00000002/art00006>

Making use of search engines on the university library website: The previous set of references does not claim to be complete. Besides making use of <http://inflite.anu.edu.au>, as suggested above, student should attempt to make use of the search engines on the library's website. Students not familiar with how to use this search tool should seek the assistance of the library staff on this matter.

Tutorial topics and associated materials

Tutorial 1.

Week beginning Monday 2nd March

Each student is assigned the tutorial questions that s/he is required to answer in the tutorials given throughout the rest of the course.

Tutorial 2

Week beginning Monday 9th March (Canberra Day)

Australia's Relative economic performance. Why is this so?

1. Sketch out how you would measure the level of Gross National Income (or Gross National Product) for Australia
2. What is the most satisfactory way, and why, of making international comparisons of Gross National Incomes for various countries?
3. What evidence is there that most countries of the world have had difficulty in the last four decades or so in becoming rich countries (as defined in lectures)?
4. For a particular country, how might the level of rule of law and security of property rights be measured?
5. How are the rule of law and adequate property rights to be created in any particular country? What form should they take?

Readings:

The attached sections from:

Kaufmann, D., Kraay, A. and Zoido-Labaton, P., Governance Matters II: updated indicators of 2000/01 (World Bank, 2005).

Lecture notes and references for (i) Recent Economic Performance of the Australian Economy in International Perspective, and (ii) Fundamental Factors Influencing Australia's Level of Economic Development.

Tutorial 3

Week beginning Monday 16th March

More on institutions, capital accumulation and multi-factor productivity

1. Have the institutions of the rule of law and the security of property rights been of importance in allowing Australia to become a relatively rich country at the beginning of the twenty-first century? Explain your answer.
2. Explain why the absence of pervasive endemic diseases in Australian society may be another important factor explaining why Australia has become a relatively rich country at the beginning of the twenty-first century.
3. What evidence is there to indicate that the level of capital per unit of labour time and the level of manufacturing output per unit of labour time are related?
4. In terms of Australia's longer-term economic history, what is special about the economic performance of the Australian economy in the 1990s?
5. What factors possibly explain the growth in multi-factor productivity in the 1990s?

Readings: Lecture notes and references for (i) Fundamental Factors Influencing Australia's Level of Economic Development and (ii) After Institutions are in Place Some Other Factors Influencing the Level of Development in Australia.

Tutorial 4

Week beginning Monday 23rd March

Economic aspects of the Constitution of the Commonwealth of Australian

Attached is a copy of section 51 of the Constitution of the Commonwealth of Australian (as of 1st December 1974). This section of the Constitution lays out the main powers of the Commonwealth (Federal) Parliament. Assuming that these powers are exercised, which of these powers imply:

- | | |
|------------------|---|
| The provision of | (1) public goods, |
| and/or | (2) goods produced under conditions of increasing returns to scale, |
| and/or | (3) goods that attempt to mitigate certain types of uncertainty |
| and/or | (4) goods that create or reduce local externalities |
| and/or | (5) imply that income distributional objectives could be met. |

Briefly explain each one of your answers.

In the case of questions (1) and (4), apply the Prisoners' Dilemma game to explain why the Federal Parliament needs to have the powers to legislate to ensure that relevant public goods are provided.

Readings: Relevant lecture notes and readings on how free markets work and their weaknesses.

Tutorial 5

Week beginning Monday 30th March

Markets and the environment in Australia

1. What is meant by the term environmental externalities? Provide examples, and why this is so, of these externalities within the Murray-Darling river system? What are the social costs to Australia associated with these externalities?
2. What is meant by the term a common good? Provide examples, and why this is so, of a common good in the oceans over which Australian has jurisdiction?
3. Within the context of the previous question, what costs do the presence of these goods place upon the Australian community? How might these social costs be reduced?
4. In what way, and why has the issue of moral hazard arisen the in the case of private medical insurance in Australia?
5. Has the issue of adverse selection been found in the provision of private insurance in Australia in the last decade or so? Explain your answer.

Readings:

1. References for general issues on how markets work.
2. Attachments from the *Sydney Morning Herald* 1995, March 18, *Sydney Morning Herald*, July 9, 1994, *Sydney Morning Herald*, 2002.

Tutorial 6

Week beginning Monday 27th April (Anzac Day)

Federal-State Financial Relations

1. What is meant by horizontal and vertical equity in Federal-State financial relations?
2. What functions do the Commonwealth Grants Commission and the Australian Loans Council (ALC) perform?
3. Explain the changes made to the regulation of state-owned infrastructure in 1990s. (See Lewis *et al* (1998) in the references.)
4. Sketch out how Federal-State financial relations have evolved in Australia.
5. What are the main weaknesses associated with Federal-State financial relations?

Readings: Lecture note and references for Federal-State financial relations

Tutorial 7

Week beginning Monday 4th May

History of Tariff Policy

1. What are the main benefits to be derived from international trade?
2. Is international trade a necessary and sufficient condition for stimulating economic growth in Australia?
3. What have been the major changes in tariff policy in Australia from 1901 to the present?
4. What is meant by the term 'effective tariff rate'?
5. What are the benefits and disadvantages of foreign direct investment in Australia?

Readings: Lecture notes and references for tariff policy and assessment of tariff policy in Australia.

Tutorial 8

Week beginning Monday 11th May

Assessing International Trade Policy

1. What are the social costs associated with having a high level of effective tariff protection?
2. In the past, has the use of tariffs always been the best policy tool to apply in the attempt to achieve the various policy objectives set for tariff policy in Australia?
3. Of what importance is education and training for the implementation of trade/industrial policy in Australia?
4. What economic and social issues are raised by, and why do you think they should be taken into account when attempting to reform trade/industrial policy in Australia?
5. Australia has a comparatively low ratio of exports to GDP compared to a number of other OECD countries. Does this imply that Australia gains relatively less from international trade compared to these other countries?

Readings: Lecture notes and references for tariff policy and assessment of tariff policy in Australia.

Tutorial 9

Week beginning Monday 18th May

Health Care

1. The fact that Australian society enjoys a comparatively high level of life expectancy at birth, does this contribute to the level of development of the Australian community?
2. What is meant by the terms curative and preventive health care respectively? Which of these types of health care was responsible for most of the rise in life expectancy at birth from 1900 up to the present? Explain your answer.
3. Which single cause of death in the 1980s and 90s resulted in the greatest economic cost to the Australian community? Why was this so?
4. Which socio-economic group in Australia experiences the lowest level of life expectancy at birth? Why is this so?
5. Do you think that the Australian government (Federal and State) expends too much on curative, and too little on preventative health care? Explain your answer.

Reading: Lecture notes and references for health care in Australia.

Tutorial 10

Week beginning Monday 25th May

Immigration

1. In what ways did contact between Australia and present-day Indonesia contribute to the fall in the size of the Indigenous (aboriginal) population in Australia between 1788 and 1850 and beyond?
2. In what ways did immigration into Australia from 1788 on contribute to the fall in the size of the Indigenous (aboriginal) population in Australia between 1788 and 1850 and beyond?
3. Why is it difficult to provide satisfactory empirical evidence to indicate that net immigration increases the wage differential between unskilled and more highly skilled labour?
4. Is it sensible to control the flow of immigrants into Australia as a way of controlling the level of pollution in Australia?
5. In what ways does immigration contribute to the economic development of the Australian economy?

Reading: Lecture notes and references for immigration.

Tutorial 11

Week beginning Monday 1st June

Income Distribution, Poverty measurement and a Negative Income tax System

1. How might you measure the level of social welfare per capita in Australia and why? Did the level of social welfare rise in Australia in all years between 1980 and 2000? Explain.
2. How are the following concepts measured in Australia: (a) poverty line and the (b) head-count measure of poverty? What criticisms can be made of these measures?
3. How would you rank poverty levels in Australia when there is no agreement over where the poverty line should be drawn? Did the level of poverty rise in Australian in the 1980s? Explain your answer.
4. Which income group in the Australian community face the highest marginal income tax rates and why?
5. What is the difference between the negative income taxation system and a guaranteed minimum income tax system? What are the advantages and disadvantages of employing either of these systems?

Reading: Lecture notes and references for poverty and negative income taxation systems.