

New South Wales Commerce and Mathematics

Module 12 Economics of everyday finance



Financial Literacy
Curriculum Resource
2008 Revised Edition

Contents

Contents	2
Introduction	3
Module 12: Economics of everyday finance	4
Background scenario	4
Teacher notes	4
Key terms and definitions	4
Task 1: How economics affects my financial decisions	7
Teacher notes, Scenario, Student activities & Learn about, learn to	7
Task 2: Economic sectors and impacts	9
Student activities & Learn about, learn to	9
Stimulus material	10
H.12.1 Economics does not just affect business, it affects households too	10
H.12.2 Matching economic terms and definitions	12
H.12.3 The financial literacy decision-making test	13
H.12.4 The five sectors of the Australian economy	14
H.12.5 Impacts of change on economic sectors	16
H.12.6 Home and away impacts	17

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Introduction

The Commonwealth Bank has been supporting education for more than 70 years, since the introduction of school banking in 1931. In 2003, we strengthened our commitment to education through the establishment of the Commonwealth Bank Foundation.

The Foundation seeks to encourage developments in education, particularly the financial literacy skills of young Australians, and aims to create awareness, skill and understanding of the benefits of a more financially literate community.

By helping our young people understand money management, we will empower them to take effective decisions to achieve their financial goals.

With this in mind, we are pleased to announce the availability of a national financial literacy curriculum resource which has been developed to support the teaching of financial literacy in the classroom.

Developed by a National Steering Committee comprising representatives across a broad range of state and territory education departments, sectors and professional teachers' associations, the curriculum materials have been designed to support the teaching of financial literacy in Years 7 to 10.

This practical and relevant curriculum resource has been designed to be easily incorporated into a number of subject areas and has been mapped to the curriculum in each state and territory.

There are twelve modules covering:

- Earning an income
- Spending and saving
- Consumer decisions
- Consumer protection
- Buying a car
- Financial services
- Managing finances
- Consumer awareness
- Personal investment
- Planning and running a business
- Impact of technology
- Economics of everyday finance

The resource materials can be easily downloaded via the Commonwealth Bank Foundation's website www.commbank.com.au/foundation

We hope you find this resource a valuable tool to use in your classroom.

The Commonwealth Bank Foundation Team



Module 12: Economics of everyday finance

Background scenario

The case studies are developed around two families: the Drivers and their relatives the Fullbricks; as well as their friends and workmates. The Drivers, Ilse and Laurie, have two teenagers: Elizabeth, aged 15, and Nathan, aged 17. Both work part-time. Ilse has ongoing medical problems and Laurie works for a small trucking company. Grandmother Josefina lives with the family. The second family is the Fullbrick family, to whom they are related through Uncle Frank, Ilse's wealthy brother. Frank Fullbrick runs a construction company, and his partner Sella is a marketing manager. Mark is their teenage son.

Teacher notes

This topic will examine the following:

- the effect of economic variables on personal financial decisions;
- the sectors of the Australian economy and how they respond to change; and
- the effect of economic changes on local, national and international markets.

Stimulus material provided:

- H.12.1 Economics does not just affect business, it affects households too.
- H.12.2 Matching economic terms and definitions.
- H.12.3 The financial literacy decision-making test.
- H.12.4 The five sectors of the Australian economy.
- H.12.5 Impacts of change on economic sectors.
- H.12.6 Home and away impacts.

There are also general teacher notes available at the beginning of the units.

Key terms and definitions

Aggregate demand	The combined level of spending by all sectors of the economy: consumption spending (by households); investment spending (by producers); government spending; and export income (from the overseas sector).
Aggregate supply	The combined total of all goods and services produced in the economy over a given time period.
Capital	Those goods used to make other goods and services.
Consumer	A person who purchases goods and services to satisfy a range of needs and wants.
Consumption spending	Spending by households on goods and services to satisfy needs and wants.
Demand	The amount of a good or a service that a consumer is willing and able to purchase at a given price over time.

Earned income	The monetary reward paid to those who make a contribution to the production of goods and services by providing a producer with land, labour, capital or enterprise.
Economic growth	An increase in the production of goods and services for the whole economy.
Economic problem	There are limited economic resources to satisfy unlimited wants.
Economy	A system to manage community needs and wants with limited resources.
Entrepreneur	The business decision maker who carries the risk of profit or loss.
Enterprise	The human ability to combine land, labour and capital to produce goods and services.
Exchange rate	The rate at which one nation's currency may be exchanged for another.
Export (income)	Money earned after selling a good, service or capital asset to an overseas country.
Financial sector	That part of an economic system made up of banks, building societies, credit unions and the stock exchange.
Good	Any tangible item purchased to satisfy a need or a want.
Government spending	Transfers and spending by federal, state/territory and local governments on goods and services.
Gross domestic product (GDP)	The market value of all goods and services produced in an economic system in any given year.
Household sector	That part of an economic system made up of individuals who purchase goods and services.
Import (spending)	Money spent on a good, service or capital asset purchased from an overseas country.
Interest	Income received from capital.
Interest rates	The cost of borrowing and the return on savings.
Investment	The purchase of additional capital goods by producers.
Labour	The human physical and intellectual effort used in the production of goods and services.
Land	All elements of the natural environment used in the production of goods and services.
Market	Any situation in which the consumers of a good or a service are brought into contact with its producers for the purposes of buying and selling respectively.
Need	Any good or service considered vital to human life.
Overseas sector	That part of an economic system responsible for exchanging goods, services and capital assets with overseas countries.
Producer	A person who combines the four factors of production to produce a good or a service.
Producer sector	The part of an economic system made up of all business firms responsible for the production of goods and services.
Profit	Income received from enterprise.

Public sector	The part of an economic system made up of the economic activities of the government and of government-owned enterprises, including taxation and government spending.
Rent	Income received from land.
Savings	That part of a consumer's or a producer's income not spent on goods and services.
Service	Any task performed by one person or group for another in exchange for payment.
Supply	The amount of a good or a service that a producer is willing and able to produce at a given price over time.
Taxation	A compulsory levy imposed by the government on the earned incomes of consumers and producers.
Wages	Income received from labour.
Want	Any good or service considered desirable.

Task 1: How economics affects my financial decisions

Teacher notes

This activity introduces key economic issues affecting households and business sectors in the community. The focus is not on the mechanisms behind the issues, but their impacts. Another aim is to build an understanding of key economic concepts and terms: the metalanguage of economics.

Task 1B is a true/false test about the effects of changes in economic variables on personal financial decision-making. The number of “correct” answers is not important, but the discussion of why some students answered true or false will result in a lot of learning taking place.

Scenario

The Drivers and Fullbricks have been hearing more and more predictions on radio and television about increases in interest rates and the value of the Australian dollar. They can not see what these matters have to do with them and wonder why people spend so much time talking about them and reporting on them in the daily news. They want to know more about economics but can't see the connection with their everyday lives.

It is nearly Christmas. The Driver and Fullbrick families and their friends the Tabers, are having a great barbecue around the Driver's new pool, admiring the kids bombing each other. Backyard Tasha is playing with Tony's dog, Hex, in her own pool.

Tony is discussing his plans for business expansion overseas. His partner, Ruby, an events co-ordinator and brother Frank, the owner of a construction firm, have recently accompanied him on a trip to China to investigate business opportunities. The Tabers have five children. Paul Taber works as a chef, and Jane minds a few extra children each week at home.

Student activities

Task 1A. Major economic issues affecting households

- As a class, discuss what you already know about these economic terms:
 - economic growth;
 - growth in demand;
 - interest rates;
 - supply and demand;
 - trade;
 - imports;
 - exports;
 - privatisation;
 - globalisation;
 - exchange rate;
 - inflation;
 - unemployment.

Your teacher will help you with terms you are unfamiliar with. Include any other economic terms you know about.

- Select students to read out the script on *H. 12.1 Economics does not just affect business, it affects households too.*

Learn about, *Learn to*

Commerce

Option 9 Our economy Economic change

- economic links between Australian consumers, employers, business and governments
- effect of rising and falling interest rates on consumer and personal financial decisions
- *analyse the effect of rising and falling interest rates on:*
 - *the repayment of debt*
 - *the choice of fixed or variable rates*
 - *the choice of personal investment strategy*

There are eleven characters involved in the script:

- Laurie
- Ilse
- Nathan
- Elizabeth
- Josefina
- Frank
- Sella
- Tony
- Ruby
- Paul
- Jane

During the reading and on completion, write the terms in (1) above, in the margins of the script where you believe they are relevant to the discussion between the participants.

3. Using the discussion in *H.12.1 Economics does not just affect business, it affects households too*, complete the table on *H.12.2 Matching economic terms and definitions*.

Task 1B. The financial literacy decision-making test

1. Refer to *H.12.3 The financial literacy decision-making test*. Decide whether you think each of these statements is true or false. There are not necessarily right or wrong answers for these, but you should be able to justify your decision.
2. As a class, discuss the reasons for your choices.

Task 2: Economic sectors and impacts

Student activities	Learn about, <i>Learn to</i>
<p>Task 2A. Introducing the economic sectors</p> <ol style="list-style-type: none"> 1. Cut out each statement from the first page of <i>H. 12.4 The five sectors of the Australian economy</i> and arrange them with their corresponding sector on the second page of the handout. 2. After you have done this, discuss as a class the answers you have given. Your teacher will guide you where you are unsure. After the discussion, attach/paste the statements into the correct sectors. <p>Task 2B. Impact of change on economic sectors</p> <ol style="list-style-type: none"> 1. In pairs, complete the exercise on <i>H. 12.5 Impacts of change on economic sectors</i>. 2. When complete, meet with another pair and compare your answers. Then come together as a class to discuss people's responses. <p>Task 2C. Economic impacts: home and away</p> <ol style="list-style-type: none"> 1. Economic changes affect people in different ways and at different levels. In pairs, work through the situations outlined in <i>H. 12.6 Home and away impacts</i> and explain how each situation might affect your family, your country and the world. 	<p>Commerce Option 9 Our Economy Economic change</p> <ul style="list-style-type: none"> • economic links between Australian consumers, employers, business and governments • <i>identify the linkages involved in the production of goods and services</i> • <i>describe the links between the Australian economy and the world economy</i> • effect of rising and falling interest rates on consumer and personal financial decisions • <i>analyse the effect of rising and falling interest rates on - the repayment of debt</i> <p>Price changes</p> <ul style="list-style-type: none"> • effects of changes in the value of the Australian dollar on consumers and businesses • <i>identify the effect of rising and falling exchange rates on consumers and businesses</i>

H.12.1 Economics does not just affect business, it affects households too

- Laurie: Tony, have a drink, that one looks empty. Paul, have one too.
- Tony: That was nice after my week.
- Laurie: Why, what have you been up to?
- Tony: 24 hours after coming back from that international automotive trade exhibition in China, I had to hire two new staff, sort out an unfair dismissal claim, buy new equipment as two machines had broken down, then I had to fly to Adelaide to negotiate a takeover. On top of all that, the cat didn't come home last night so I was sent out to look for it at 3am.
- Laurie: Did you find it?
- Tony: Yes, it was in my son's car.
- Laurie: What was the trade fair like?
- Tony: It was fantastic! The Chinese are mad about our accessories. Their fairs and conferences are great too - and they are making a lot of money out of it. Do you know they are building 200 new conference centres right now?
- Paul: I'm on the slow boat to China. I won't get there for another 20 years. We're going camping instead. How did you find it Frank?
- Frank: I've got some consultancy work out of it from some large Aussie firms. That economy is growing so fast, they need all hands on board. It's great for Australian firms keen to earn export income. The feds like it too - all that extra tax revenue coming in through our incomes and investments.
- Ilse: Well I hope they spend it on the highway, it's a nightmare! Every time we go on a holiday we get stuck in a four hour traffic jam somewhere along the way. What must tourists think?
- Tony: What can you do? Highways are a problem, trains are a problem and here we are in the middle of summer and we keep having blackouts because we can't produce enough electricity for our air conditioners.
- Paul: You ought to have seen the mess in the restaurant after the last blackout we had. Melted ice cream everywhere, stinking meat and putrid vegies. I say we fix the power first.
- Ilse: Yes, who would want to come on a trip with all this to contend with?
- Elizabeth: Mrs Neilsen, my Economics teacher said tourism earns 10 per cent of our export income. We'd be in real trouble if they heard about this. What sort of tourists would visit a country with water, electricity, and transport problems? On top of that the \$Aussie is rising all the time. Soon they won't be able to afford to come here. She says that if we have any more bad publicity, demand will fall, and unemployment in tourism will skyrocket. What will all the waiters, rangers, bus drivers and shop assistants do if no one comes any more?
- Laurie: I'm sure they'll be fine Elizabeth. Hey Tony? Ooh, where did that shirt come from? Did you get it for a good price? It looks good.
- Tony: It's not as good as an Aussie shirt. I guess the price is cheap because the Chinese are drowning in excess clothing. You know what it's like mate: supply and demand.
- Jane: Well I don't mind the cheaper gear. With so many growing children, quality is not as important as the right size.
- Sella: Frank, come and talk to me. What did you get me in China?
- Frank: Nothing really, sorry. With free trade today, there's no need. You can get anything you want from China here. You know you've been "naughty" with the credit card recently.
- Sella: But, interest rates are so low at the moment!

- Ilse: I must admit, I love shopping too. Look at these sandals. They only cost me \$40. No one was buying them, so the retailer just dropped them from \$150. Thank goodness for supply and demand.
- Jane: I've got some beauties from the op shop down the road. What do you think of these?
- Elizabeth: I love the sparkles Jane. Do you know Mum that we hardly make any shoes now in Australia?
- Ilse: Why not?
- Elizabeth: Well shoe manufacturing is labour intensive and labour here is about \$100 per day compared to \$2 in other countries nearby. That's why most of our clothes and shoes are made overseas.
- Ilse: Aren't we exploiting cheap labour?
- Elizabeth: Well, we are giving people in those countries jobs, and then their standard of living can improve. Through such work their economies grow and then they can buy more from us.
- Frank: Like car parts and accessories. That's why we are focusing on China now. Before you know it, average incomes will reach \$8,000. With a population of 1.2 billion, it's the land of opportunity.
- Elizabeth: Once incomes are over \$8,000 per head they start demanding all sorts of things like biscuits.
- Nathan: Hey Elizabeth: dog biscuits and accessories? Ha ha!
- Elizabeth: Watch out Nathan! I'm even thinking of exporting too. Do you know that in Beijing alone there are at least 3 million pets, 100 million in China, and owners prefer foreign branded dog food and accessories? And I would use Sella to help me market the products. Do you know that most of the owners are single women in their thirties and that they spoil their pets rotten? I'll be rolling in it before you can say "Donald Trump"!
- Tony: Not a bad idea Elizabeth, you should fly with us on our next trip in March. You're right. China is booming. The average income is only \$US 1,117 per head, however it is much more on the coast and in the major cities and that's where the market is. China has an "open door" policy now that it is in the World Trade Organisation, and is welcoming foreign investment, so it's a good time to be moving into the market. It's also selling off and privatising most of the old state-run factories, which is creating some new opportunities for us.
- Elizabeth: What about all the people who used to work in them?
- Frank: Well a lot are unemployed, but many have found new jobs in construction and new services. The car parts and accessories and construction industries are all booming. In fact, demand is so great that they need to watch out for inflation. Prices for construction products are rising very fast.
- Laurie: Well globalisation sure seems to be working for you.
- Ruby enters the room with a tea tray.*
- Ruby: Try this new pearl green tea, everybody. It's divine. It's been great for my skin.
- Ilse: I'm not thirsty. I'm having these delicious lychees.
- Josefina: When I was young, everything was made locally and we didn't have all this fancy stuff from overseas. Ruby, could you please get me a serviette dear?
- Ilse: When I was young, it took us a lot longer to save for a car than it does now. Ever since they cut the duties on imports the prices have fallen. I can't believe how cheap the new little cars are today. Who will bother keeping the old ones?
- Paul: Well, I found a great van for \$10,000 and it has kept us going for the last five years.
- Nathan: It also suits people like me who can only afford \$1,000 for a car. I'm off. I've got a blocked fuel line to fix.
- Ilse: (Whispers) Please feed Tasha first, Nathan. She's just pinched a sausage off Ruby's plate and she's eyeing off Josefina's chicken nuggets.

H.12.2 Matching economic terms and definitions

Economic terms:

- economic growth - growth in demand - interest rate - supply and demand
- trade - imports - exports - privatisation - globalisation - exchange rate
- inflation - unemployment

Economic terms	Description
	When incomes start rising in the community and living standards often start to improve.
	The process in which markets for labour, capital (money), enterprise and businesses become increasingly integrated and are linked on a global scale.
	The price or cost of borrowing money.
	Where governments sell off government owned businesses such as Telstra, to investors.
	Prices are determined by the interaction of these two things, e.g. if many want to buy real estate, the price will rise, which may encourage those happy to sell, to increase the amount of properties on the market.
	The value of one currency in terms of another. An increase in its value is called appreciation and a decrease is called depreciation.
	Where people lose their jobs, generally when there is a slow down in economic activity or growth.
	When people are willing to buy, or start buying, goods and services.
	Where prices rise quickly over a period of time.
	Goods and services we buy from overseas.
	Where goods and services are imported and exported between countries.
	Goods and services we sell overseas.

H.12.3 The financial literacy decision-making test

Mark the following statements True or False.

No.	Statement	True/False
1	When buying an imported plasma screen television, an exchange rate of 55 cents is better than 75 cents US for each \$A.	
2	When buying a new home that is less expensive than the one you have, it is better to buy when the market for homes is depressed rather than overstimulated.	
3	When buying a second hand car, it is better to have a bank loan than a loan from a finance company when interest rates are high.	
4	When signing a set period contract for a mobile phone, it is better to have a six month contract than a 24 month contract when new competitors are entering the industry.	
5	If the exchange rate is expected to fall from 78 cents to 70 cents against the \$US dollar, it is better to buy imported clothes now rather than later.	
6	If the government is looking at a large budget deficit and needs to raise more revenue from taxes, then it is better to buy an Australian car now, than later.	
7	If you have limited savings and a steady income, but need to buy a lot of furniture for a new apartment, then it is better to have a debit card than a credit card.	
8	When you have savings and no debt, then the more the interest rate increases the better.	
9	If the world price of oil is predicted to continue to increase faster than wages growth, then it is better to buy a small car than a large one.	
10	If the Australian and state governments indicate that they want a more user-pays approach to education, then it is better to do a TAFE course now than later.	

H.12.4 The five sectors of the Australian economy

- ✂ The owners of all economic resources: land, labour, capital and enterprise
- ✂ Includes building societies, credit unions, insurance companies and the stock exchange
- ✂ Makes available a range of foreign made goods and services to Australian producers and consumers
- ✂ Provides the economy with roads, national defence and law and order
- ✂ Includes all organisations controlled by local, state/territory and federal governments
- ✂ Those people who purchase goods and services to satisfy their household needs and wants
- ✂ Coordinates the activities of approximately 60 separate banks
- ✂ Makes the savings of consumers and producers available to investors
- ✂ Manufacture and make available to consumers a wide variety of goods and services
- ✂ The employers of land, labour, capital and enterprise
- ✂ Sell the factors of production (land, labour, capital and enterprise) to producers
- ✂ Coordinates the flow of money into, and out of, the Australian economy
- ✂ The most important source of earned income for consumers
- ✂ Makes available a range of Australian goods and services for sale to foreign producers and consumers
- ✂ May act to redistribute income from higher to lower income earners

Handout continued over page

The public sector: economic activities of government

The overseas sector: exchange of goods, services and capital assets with other countries

The financial sector: financial institutions, banks, credit unions etc

The producer sector: business firms producing goods and services

The household sector: individual consumer

H.12.5 Impacts of change on economic sectors

Complete the table below by identifying possible impacts on each sector from the scenarios listed.

1. Due to a long drought, the price of fruit, vegetables and meat rises dramatically in Australia.
2. The US economy slows down causing the \$AUD to rise 30 per cent against the \$US over the next two years.
3. Spending and household debt levels rise dramatically in the New Year, so the Reserve Bank increases interest rates from five per cent to six per cent for the next year.
4. Stocks build up as people reduce spending, and five major companies retrench thousands.
5. The government sells another airport to investors.
6. Australia's overseas income from exports falls dramatically and imports remain the same.

Scenario	Households	Firms	Government
1	<ul style="list-style-type: none"> • higher living costs • less savings • lower consumption of these goods • change to more cereals and other foods 	<ul style="list-style-type: none"> • increased costs to firms using these products, e.g. pre-packaged food outlets, takeaway shops • increased prices or smaller sized products 	<ul style="list-style-type: none"> • pressure to subsidise drought affected industries or producers
2			
3			
4			
5			
6			

H.12.6 Home and away impacts

1. World oil prices double in a month.

Local	National	Global
<ul style="list-style-type: none"> • A sharp rise in the price of petrol • • 	<ul style="list-style-type: none"> • Australian government get extra tax revenue • • 	<ul style="list-style-type: none"> • The cost of producing goods in oil importing countries rises • •

2. Both the USA and European economies experience high rates of economic growth.

Local	National	Global

3. War breaks out between China and Taiwan

Local	National	Global

4. Vast oil resources are discovered in Australian territory doubling our oil reserves.

Local	National	Global

5. The Australian government adopts a zero immigration policy

Local	National	Global