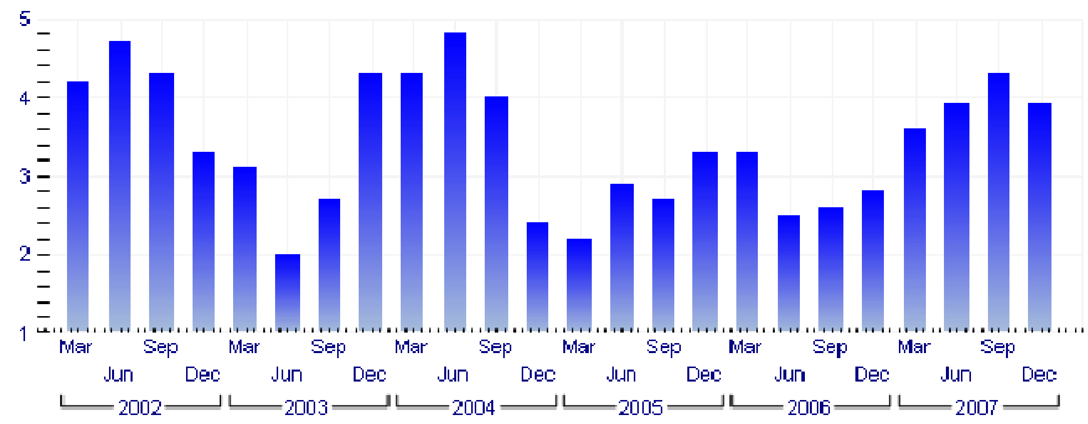
Week 7

1. Where in the business cycle do you think Australia currently sits? Justify your assessment?

Business cycle is a periodically repeated sequence of fluctuations in the aggregate economy of an area, or the nation as a whole, varying in duration, and measured by changes in the gross national product (GNP) (McLver & Hettihewa 2004). Business cycle is consisting of upturn, expansion, peaking out and slowdown (Sloman & Norris 2008). In the business cycle, Australia currently sits in the peaking out phase, during this phase, growth slows down or event ceases (Sloman & Norris 2008). This can be measured by real gross domestic product, inflation, income for householders and the unemployment rate.

Gross domestic product is the money value of all final goods and services produced within a country in a given period of time (Sloman & Norris 2008). As Table 1 shows, average GDP in 2007 was 3.9 percent, which was 1.2 percent higher than year 2006. This suggests that Australia was experiencing a GDP expansion, and moving to a GDP peaking out. The main reasons of increasing in GDP were the increasing demand for iron ore, coal, uranium and agriculture products such as wheat, cotton and wool in China and India, which lead to huge volumes of trade (Shameen, 2008). Therefore, this could suggest that Australian's economy is experiencing a peaking out.

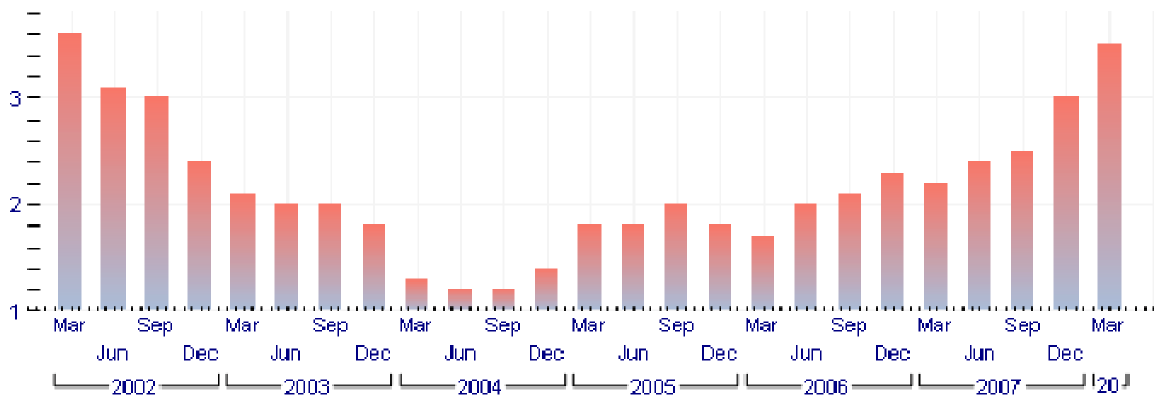
Table 1 – Australian GDP



Source: Trading Economics 2008

Inflation is the annual percentage increase in the price level (Sloman & Norris 2008). As Table 2 shows, there was a steady growth of inflation rates from 2004 to Mar 2008, and reached to 3.5 % in Mar 2008. The Trading Economics (2008) predicted the Australian inflation rate will continue to grow in 2008 to 2009, and the interest rate will also continue to grow from 7.25 % in 2008 8.34% in 2009. This can impose costs on individuals and the economy, and reduce level of consumption. Therefore, Australian's economy would slowdown in 2008 – 2009, and will experience a peak out.

Table 2 – Australian Inflation Rate



Source: Trading Economics 2008

2. Over the last decade Australia has experienced a long period of economic growth. What have been the implications of this growth for the tourism and hospitality industries in 2007 and early 2008?

Economic growth is an increase in the nation's capacity to produce goods and services. It is illustrated by an economy’s expansion in production over time, and measured by change in real Gross Domestic Product (Sloman & Norris 2008).

Fest economic growth reduces the unemployment rate, as the growth of the economy yields more goods and services for consumers and creates more choice (Dowrick 1999), more employers are needed to provide effective services and high quality products to consumers. This creates more job opportunities in the society, and enables people to find satisfying and well-paid jobs, as more positions are available. Therefore, the growth of the economy reduces unemployment rate, and provide constant income to workers, which will encourage them to spend more on various goods and services and encouraging them to travel domestically. Furthermore, the low unemployment rate in the society will enable tourism and hospitality industries to employ right employees for the right position, as low unemployment rate increase labour supply in the labour market, thus, more people are available to work.

Rapid growth of economy also increased levels of consumption, as when economic growth outstrips population growth, it will lead to higher real income per head (Sloman & Norris 2008). For example, in 1960-61, the household final consumption expenditure per capita was $10,400, but in 2005-06, it rose to $26,100, which increases 152 per cent. Rises in real income changes consumption patterns in the society can leads to higher levels of consumer spending on discretionary goods and services. In addition, increases levels of consumption increases government tax revenue by consumers from various goods and services purchased, and increased in people’s income will contribute to tax revenue, as they need to pay more taxes. This enables government to allocate more funds to improve and rebuild tourism infrastructures, such as transportation, natural parks and other public services. Thus, this will also encourage people to travel as destinations are highly developed and supported by governments.

Week 8

1. Can you explain why cyclical unemployed people become long term unemployed when the economy recovers?

Cyclical unemployment is the 'increase in unemployment above the natural rate during and in the aftermath of recessions', which is related to the business cycle (Taylar & Moosa 2000, p. 167). Cyclical unemployment exists due to inadequate effective aggregate demand. When business cycle is at slowdown phase, there is little or no growth or even a decline in output (Sloman & Norris 2008), which will increase slack in the economy, thereby the number of jobs will decrease as a decrease in aggregate demand. This will significant decrease for low skilled workers, as there are large amount of low skill workers, as when demand for goods and services slow down, businesses don't need many low skilled workers to produce large amount of products, therefore, low skilled jobs are the first to be cut back. However, when business cycle is at the expansion phases, there is rapid economic growth and the total economic output is being maximised. This will increase aggregate demand and create product shortage, because at the expansion phase, economy growth will be strong and will increase level of consumptions. Also, at the expansion phase, new technologies will arise and businesses tend to use new technologies such as new improved machineries to improve production. However, low skill workers who unemployed were previously, will still be unemployed, as they don't have enough skills to use new technologies. Therefore, cyclical unemployed people will become long term unemployed when the economy recovers.

2. Explain carefully all the ways inflation can affect the Australian tourism and hospitality industries?

The rate of inflation is the annual percentage increase in the price level' (Sloman & Norris 2008, p. 219), and it is the rate at which prices are increasing and is measured by the changes in the consumer price index (CPI) (Sloman & Norris 2008) .Inflation refers as a situation where the demand for goods and services exceeds their supply in the economy. A low and stable rate of inflection is desirable both for the health of the economy and for individual welfare, but high inflation can impose costs on individuals and businesses as it reduces the purchasing power of income and wealth (Australian Bureau of Statistics 2008).

Inflation can create significant impacts to the Australian tourism and hospitality industries. First, inflation erodes the value of money, increase in inflation will raise the price of goods and services provided by tourism and hospitality sectors and future prices are less predictable. Therefore, when prices rise, consumers con not buy as much as they could, and their purchasing power will decrease, especially for people whose incomes don't keep pace with the rising level of prices. As a result this discourages people from consuming tourism and hospitality products and services.

Inflation causes lose of international competitiveness for the tourism and hospitality sectors. When Australia experiences high inflation, Australia will becomes less attractive for international visitors, as prices for tourism and hospitality products and services are relatively higher than other countries that experience lower inflation. Therefore, international arrivals will decrease because tourists are price sensitive. In addition, high inflation in Australia will also decrease domestic travel, because Australians will have less discretionary spending, and as Australia become a high cost destination compared with other countries that have lower inflation, domestic travellers will travel overseas where they can get value for their dollar. As a result, both international and domestic traveller numbers will fall, hence tourism and hospitality industries will experience lower demand of goods and services.

Inflation also makes tourism and hospitality industries difficult to plan in the future. High inflation would makes tourism and hospitality industries difficult to decide how much to produce, as businesses cannot predict the demand for their product at the higher prices they will have to charge in order to cover their costs. Furthermore, in order to anticipate future inflation, additional financial information such as future inflation predictions and other financial reports need to studied to fully adjust prices and labour costs to reduce the effects of inflation on forecasted profits. Therefore, inflation increases costs by making the Australian less valuable thus reducing buying power of tourists, reducing the amount of savings after living costs that could be spent of tourism and hospitality services.

Week 9

1. Using Table A, determine which country has the absolute advantage in the production of wool and which country has the absolute advantage in the production of computers.

A) Production before specialization

	Wool	Computers

	(units)	(units)
Australia	20	10
US	8	8
Overall production	28	18

Absolute advantage is the ability of a country to produce a particular good with a smaller total input of economic resources e.g. labour, capital, land etc. per unit of output than other economic actors (Sloman & Norris 2008). As table A shows, in the pre-trade exchange ratio, Australia can produce 2 units of wool for 1 unit of computer; American can produce 1 unit of wool for 1 unit of computer. Hence, Australia has absolute advantage in wool and US in computer.

B) Opportunity Cost

Production	*Opportunity Cost*	
	Australia	*US*
1 unit of wool	**0.5** *Units of computer*	**1** *Units of computer*
1 unit of computer	**2** *Units of wool*	**1** *Units of wool*

C) Production after specialisation

	Wool (units)	*Computers (units)*
Australia	**40**	**0**
US	**0**	**16**
Overall production	**40**	**16**

3. Over the past few years Australian has experienced a surge in demand for its mineral resources. What impacts has this had on the Australian economy and the Australian tourism and hospitality industries in particular? Explain your answer.

Australia Bureau of Statistics (2008) reports that total mineral exploration expenditures were $1028.3 million in 2004-05. This is a 28% increase on 2003-04 and 49% on the low point of 2001-02. Geoscience Australian (2008) also shows that the increases for the Australian mining industry from 2001-2003 related to increase sales and service income, industry value added, operating profit before tax, net worth and net capital expenditure. However, the surge in demand for Australian mineral resource will increase Australian's currency rates, increasing the demand for the Australian dollar. An appreciation of Australian dollars will encourage Australian residents to travel to overseas countries, as Australian travellers are able to benefit from the exchange rate in foreign countries. Also, this will reduce international travellers from countries that have high exchange rate to Australian dollar, as an appreciation of Australian dollar will making Australian more expensive for international travellers, and they need to pay more to travel to Australia. Therefore, this would results in decrease international visitors come to Australia and an increasing number of domestic travellers to go aboard.

In addition, a surge in demand in Australian mineral resources will have increased production and profit for the mineral resources sector. In terms of the multiplier effect in economics, an initial spending rise can lead to even greater increase in national income and consumption greater than the initial amount spent (Sloman & Norris 2008). Therefore, profit generated by mineral resources sector will contribute other sectors of the economy, and will directly increase GDP. This is because increase economy activities in the society will lead to higher individual and businesses income, and increase level of consumptions. As people have higher income, this will also lead to stimulating domestic tourism activities, and increase level of consumption for goods and services provided by tourism and hospitality industries.

Furthermore, an appreciation of Australian dollar will lead to lower import prices, and increase competitiveness for businesses in the world wide. When Australian dollar is strong, it's cheaper to import goods and this would have benefit for business to who borrow offshore, for example, a tourism organisation can increase investment of new technology from overseas countries. Therefore, an appreciation of Australian dollar would benefit tourism and hospitality industries to reduce the costs of imported goods. However, as the surge in demand in Australian mineral resources lead to increase GDP and economy growth, which will reduce unemployment rate, and makes tourism and hospitality industries harder to access labour market, as tourism and hospitality industries are seen as low paid industries, people may choose to work for mineral industries, and this can make tourism and hospitality industries harder to attract workers.

Week 10

1. Explain the ways in which the Federal, State and Local governments can affect the Australian tourism and hospitality industries? Use examples in your answer.

Federal government can have various effects to the Australian tourism and hospitality industries, by change different policies, such as fiscal policy, monetary policy and demand-side policies, and change regulations through tourism and hospitality departments (Sloman & Norris 2008).

Fiscal Policy is the federal government policy which influences the economy through the budget by changes in tax, welfare payments and government spending (Swift 2003). The main objectives of fiscal policy are achieving Smooth fluctuations in Aggregate Expenditure and influence the long-run growth in real GDP (Sloman & Norris 2008). For example, when an economy is moving into recession, Federal government would provide an economic stimulus by increasing expenditures or reducing taxes through change the fiscal policy. This would maintains the level of household income, and maintain the level of consumption, therefore, people can continue purchasing goods and services from tourism and hospitality industries.

Monetary policy is handled by Australian's central bank i.e. Reserve Bank Australia (RBA), and concerned with the management of the money supply, interest rates and financial conditions (Moyniham & Titley 1993). The objectives are monetary policy are achieving high employment, sound economic growth and low inflation which can be done through the purchase or sale of government securities and controlling the money supply(Sloman & Norris 2008). For example, during periods of recession, RBA would lower interest rates leaving more cash to stimulate the economy. This would decrease the cost of borrowing, interest payment and loans by businesses, and encourage people to spend rather than save because of low interest rates. Therefore, tourism and hospitality industries can continue develop by using debt finance at low interest, and benefit from the cash flow which is being injected into the economy.

In addition, federal government can change government revenues such as goods and services tax (GST), or change government expenditure on public services to affect the Australian tourism and hospitality industries. For example, if federal government increase GST, it will also increase the prices of goods and services, therefore, fewer consumers will purchase goods and services provided by tourism industries. In addition, if federal government increase investment on public and tourism services, such as increase number of national parks and tourism infrastructures will attract more international visitors to Australian, and stimulate domestic travel. Therefore, tourism and hospitality industries can benefit from more goods and services purchased by visitors and increase revenue.

State governments can also affect the Australian tourism and hospitality industries, by changing state revenues through payroll tax, stamp duty and miscellaneous taxes, or change state expenditures on transport and communications, recreation and culture (Sloman & Norris 2008). For example, if state government increases payroll tax, this will decreases level of consumptions, as people will have less income. Therefore, people may only buy what they need, and decrease leisure activities, the number of people purchasing goods and services from tourism and hospitality would decrease. In addition, if state government invest more money on public transport and increase recreation places, such as public parks, this would increase number of domestic tourists and increase level of consumptions.

Local government can affect the Australian tourism and hospitality industries as well, which can be done through changing local government expenditures on local roads, recreation and culture, community amenities and town planning. For example, local government can host various local events to attract tourists to a particular destination, which can increase number of tourists to the destination, and increase sales, job opportunities for the local tourism and hospitalities businesses.

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