

## **Week 7**

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

During expansion phases of the business cycle there is a rapid economic growth: the economy is booming (Norris & Sloman, 2008). In Australia the last recession occurred in 1991-92 (Ibid, 2008). In recent years, China and India's insatiable demand for iron ore, coal, uranium and other commodities, including wheat, cotton and wool, leading to unprecedented volumes of trade (Shameen, 2008). Plugged into it Asian neighborhood, the Australian economy continues to grow at 3.9 per cent-one per cent higher than the OECO average (Ibid, 2008). It is clearly that the country's economy experiences a boom.

However, the risk of a hard landing for the economy in 2009 is on the rise. Australia is forecasted to experiences a 'peaking out'. During the Peaking out phases of the business cycle, growth slow down or even ceases (Norris & Sloman, 2008). The Economist Intelligence Unit has downgraded its forecast for real economic growth in Australia to 2.9% (from 3.1% previously) in 2008 and to 2.5% (2.7% previously) in 2009 (Rich, 2008). Despite healthy employment and wage increases, and repeated tax cuts, high interest rates will cool consumption growth in 2008-09 (Shameen, 2008). Furthermore, there will be a slowdown in investment growth from the rate recorded in 2007 as tighter credit conditions dampen appetite in some sectors (Rich, 2008). So while Australian economic growth is strong for now, there is a growing risk of a hard landing in 2009.

**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?**

The Australian economy has grown robustly over the past six years. The household final consumption expenditure per capita rose from \$10,400 in 1960–61 to \$26,100 in 2005–06 (Australian Bureau of Statistics, 2007). Rising real income has the potential to alter consumption patterns by boosting real spending on discretionary goods and services (wants) more strongly than on basic goods and services (needs) (Norris & Sloman, 2008). The higher disposable income will encourage Australian to travel more.

What is more, the biggest single explanator for economic growth in Australia is the rapid rise in population. The preliminary estimated resident population (ERP) of Australia at 30 September 2007 was 21,097,100 persons. This was an increase of 318,500 persons (1.5%) since 30 September 2006 (Australian Bureau of Statistics, 2008). A fast growing population will, leading to a rapidly labour force which will benefit tourism and hospitality industries by expanding employment and its associated output (Dowrich, 1999).

On the other hand, the rapid growth of economy may cause some negative effect for Australia tourism and hospitality industries as well. For example, the higher rates of interest will lead to a fall in consumer spending, and the high inflation will increase uncertainty of business investment decision.

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**Week 8**

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

During the upturn phase, a stagnant economy begins to recover and growth in actual output resumes (Norris & Sloman, 2008). A rapid rise in aggregate demand will

create shortages (Ibid, 2008). This will tend to stimulate firms to increase output, such as labour, thereby reducing slack in the economy. In this circumstance, some groups of people which have higher standard of wage rate, work environment may tend to be cyclical unemployed people. In the long run, however, the actual growth rate will be limited to the potential growth rate. As full employment is approached and more and more firms reach full capacity, a ceiling to output is reached (Taylor & Moosa, 2000). Therefore, this group of cyclical unemployed people will become long term unemployed.

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

‘Inflation is upward movement in the general level of prices’ (Junor, 1999, 27).

The first, and most obvious, inflation concerns imports and exports (Norris & Sloman, 2008). As inbound and outbound tourism is also a kind of import and export.

Therefore, With the Australian inflation rise, making Australia less affordable for price-sensitive overseas tourists and making foreign destinations more attractive to locals looking for a bargain vacation. The demand of Australian domestic tourism market will decrease significantly.

On the other hand, Inflation tends to cause uncertainty in the business community (Norris & Sloman, 2008). The high inflation would increase uncertainty regarding the profitability and appropriate financing of investment (Junor, 1999). It is difficult for tourism and hospitality firms to predict their costs and revenues. In addition to, Extra resources such as Accountants and other financial experts are likely to be used to

cope with the effects of inflation. All of these factors will increase economic costs and investment risks of Australian tourism and hospitality companies.

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

In Pre-trade exchange ratios, Australia can produce 2 units of wool for 1 unit of computer; US can produce 1 unit of wool for 1 unit of computer. Hence, Australia has absolute advantage in wool and US in computer.

**2. Fill out Tables B and C (using information from Table A).**

### B) Opportunity Cost

Production	Opportunity Cost	
	Australia	US
1 unit of wool	<b>0.5</b>	<b>1</b>

	Units of computer	Units of computer
1 unit of computer	<b>2</b>	<b>1</b>
	Units of wool	Units of wool

**C) Production after specialization**

	Wool (units)	Computers (units)
Australia	<b>40</b>	<b>0</b>
US	<b>0</b>	<b>16</b>
Overall production	<b>40</b>	<b>16</b>

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**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.**

In recent years, as the chief supplier of mineral resource to Asia, the Australian economy continues to growth. GDP, after growing 4.3% last year, is expected to expand by a healthy 3.5% this year (Shameen, 2008). Provided economic growth outstrips population growth, it will lead to higher real income per head. This may lead to higher level of consumption of tourism goods and services.

In addition, the surge in demand for Australian mineral resource will increase Australian's currency rates. With the Australian's currency rises, making Australian more expensive for overseas tourist but making foreign destinations more attractive to locals looking for a bargain vacation. The demand of Australian domestic tourism market will decrease significantly.

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Finally, the boom of mineral industries has also made it difficult for tourism to access labour. An increasing number of people are employed in the mineral industries. As the Australian economy continues to strengthen, and unemployment falls to its lowest in decades. The lowest unemployment increase pressure in the tourism and hospitality labour market. As a low paid industry it has been increasingly hard to attract workers into the sector.

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**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.**

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