



What is the Economy?



Education



Economy

Income Supply Inflation
Taxation Banks Investment Demand
Consumers Prices
Saving Wages Business Expenditure
Government Reserve Bank Production
Resources Interest rates



What is the economy?

An economy is the system for deciding how scarce resources are used so that goods and services can be produced and consumed.



Resources are things like land, people (who can work or innovate through their ideas) and raw materials. They are seen as scarce because we have unlimited wants but there are not enough resources to produce the goods and services to satisfy these wants.

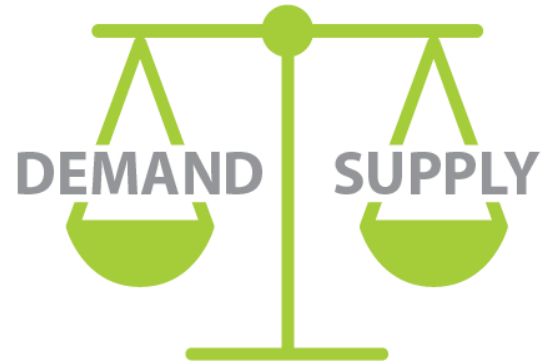


What is the economy?

An economy exists in a geographical area (e.g. a local area, country or the world).

The Australian economy is market-based.

Decisions to produce or consume goods and services reflect demand (what people want to buy) and supply (how much businesses can provide) in the market.

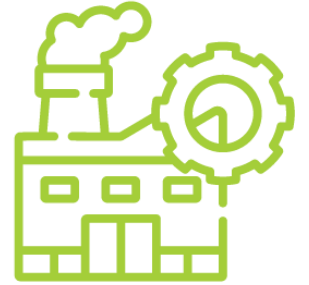




What is the economy?

Economic questions could include:

- What resources does Australia have?
- How many goods and services are being produced?
- To what extent are people borrowing or saving money?
- How might a rise in prices affect people's decisions around spending?
- Should the Government raise or lower taxes?





What is the economy?

The economy is important to all of us.

What's happening in the economy can affect us and the decisions we make. Our decisions can also influence how the economy is performing.

Every time you choose to buy something (or not to), you are affecting the economy.





Sectors of the economy

Here are the key sectors that make up the Australian economy.



Household sector



Firms sector



Financial sector



Government sector



Overseas sector



Household sector

This sector is made up of individuals in the economy.

- They provide their time and skills or '**labour**' to firms in exchange for **income (wages)**.
- They are **consumers** who buy goods and services from Firms.
- They may borrow from, or save money with, the Financial sector.
- They pay **taxes** to the Government.





Firms sector

This sector is made up of all businesses in the economy.

- They produce **output** (goods and services), which they sell to consumers and receive **revenue**.
- They may borrow money from, or save money with, the Financial sector.
- They pay **taxes** to the Government.





Financial sector

This sector is made up of banks and other financial institutions in the economy.

- They receive **savings** from Households and Firms.
- They help Households and Firms **invest** by lending them money.





Government sector

This sector is made up of all bodies in national, state and local governments.

- They receive **taxation** revenue from Households and Firms.
- They **spend** this money on public goods and services, such as roads, parks, schools and hospitals.





Overseas sector

This sector relates to Australia's trade with other nations.

Australia **exports** (sells) goods and services, produced by businesses in Australia, to other countries.

Australia **imports** (buys) goods and services, produced by businesses in other countries.






Activity: Sectors in the Economy

Cut out the sectors in **Activity: Sectors in the Economy**.

Consider how they might relate to one another.

(You could arrange the sectors on a sheet of paper and draw arrows to show the connections between them.)



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Activity

Sectors in the Economy



 Cut out the sectors and consider how they might relate to one another. You could arrange the sectors on a sheet of paper and draw arrows to show the connectors between them.

Household sector

This sector is made up of individuals in the economy.

- They provide their time and skills or **labour** (a resource) to Firms in exchange for **income (wages)**.
- They may borrow from, or save money with, the Financial sector.
- They are **consumers**, who purchase goods and services from Firms.
- They pay **taxes** to the Government.

Firms sector

This sector is made up of all businesses in the economy.

- They produce **output** (goods and services), which they sell to consumers for a **price**. So they receive **revenue** from the Household sector.
- They may borrow money from, or save money with, the Financial sector.
- They pay **taxes** to the Government.

Financial sector

This sector is made up of banks and other financial institutions in the economy.

- They receive **savings** from Households and Firms.
- They help Households and Firms **invest** by lending them money.

Government sector

This sector is made up of all bodies in national, state and local governments.

- They receive **taxation** revenue from Households and Firms in the form of income tax and company tax.
- They **spend** this money on public goods and services, such as roads, parks, schools and hospitals.

Overseas sector

This sector relates to Australia's trade with other nations.

- Australia **exports** (sells) goods and services, produced by businesses in Australia, to other countries.
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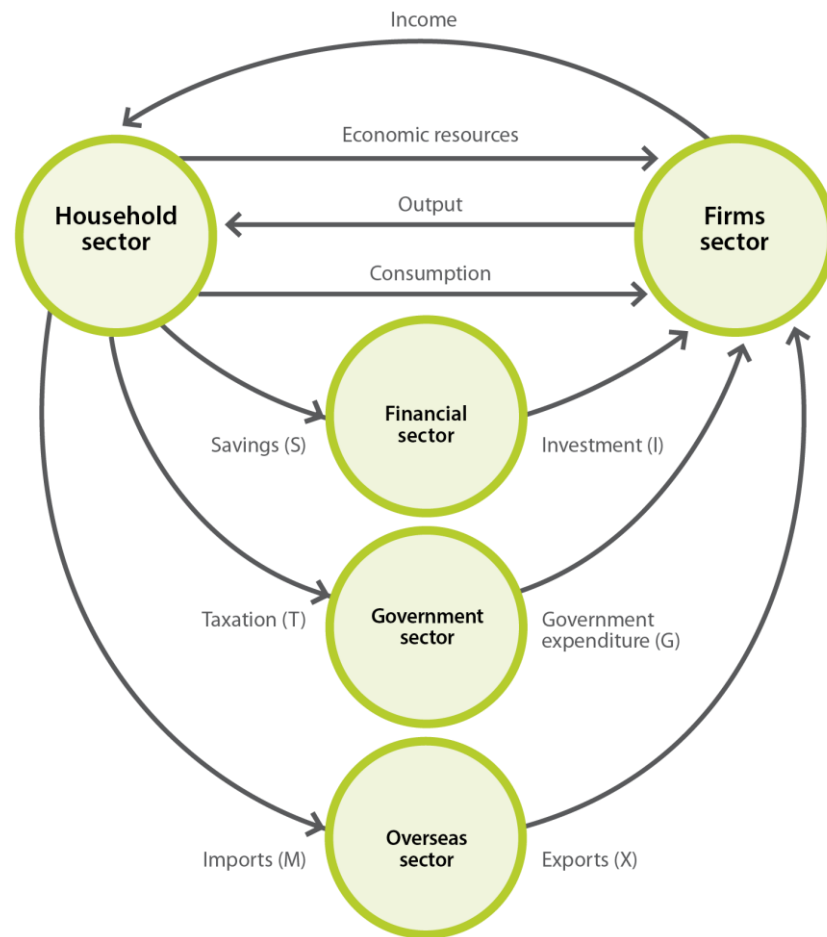
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Sectors in the Economy



The Circular Flow Model

This is one way to show the flow of money and goods and services around different sectors of the economy.





Injections and leakages

In the circular flow model, money flows in and out of the economy.

Think of a bath tub with the tap on but the plug out. Water is being added by the tap but also leaking out.

It's important to get the balance right so the water doesn't overflow or drain out completely.





Injections and leakages

Think of all the exchanges taking place within the economy.

Some are putting money *into* the economy. These are **injections**.

Some of these are taking money *out* of the economy – the money is not being utilised elsewhere in the economy. These are **leakages**.

As with filling or emptying a bath, it's important that an economy doesn't grow or shrink too much or too quickly.



Activity: Injections and Leakages

Read the examples in **Activity: Injections and Leakages**.

Decide if they are injections or leakages in Australia's economy.

Discuss why this is, and where the examples might fit within the circular flow model.

Can you think of other examples of injections and leakages?



Activity Injections and Leakages



A transaction is an exchange of money. Think of all the transactions taking place within the economy.

Some transactions put money into the economy – that is, the money is being utilised elsewhere in the economy. These are **injections**.

Some transactions take money out of the economy. That is, the money is not being utilised elsewhere in the economy. These are **leakages**.

For example, let's say that an individual decides to reduce their spending now to increase the amount of savings they have in the bank. As they reduce spending and move more of their income into savings, this represents money leaving the economy to sit in a bank account. Therefore, this represents a **leakage**.



Read the following examples and decide if they are leakages or injections in Australia's economy. Discuss why this is, and where the examples might fit within the circular flow model. Can you think of other examples of injections and leakages?

Example	Injection or leakage?	What part of the circular flow model is this?
An individual decides to reduce their spending and save more of their income.	Leakage	Savings
The state government has received tax revenue but has not yet decided what to spend the money on.		
A business decides to borrow money from a bank to invest in new equipment that will increase its output.		
An Australian mining company sells iron ore to a steel manufacturer in China.		
An Australian electrical retailer decides to buy products from an overseas business.		
The local government decides to spend money to build a skate park.		
Foreign students come to Australia to attend university, paying the university for their education.		



Injections and leakages

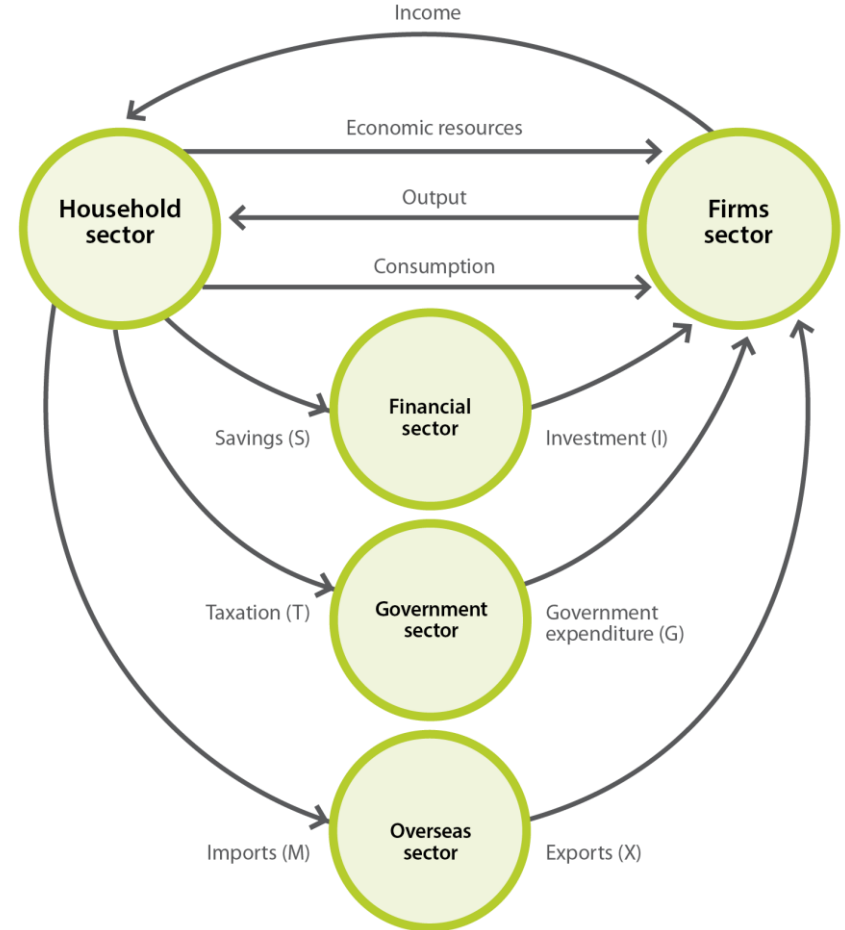
This shows the leakages and injections of money within the circular flow model.

Injections:

- Investment
- Government expenditure
- Exports

Leakages:

- Savings
- Taxation
- Imports

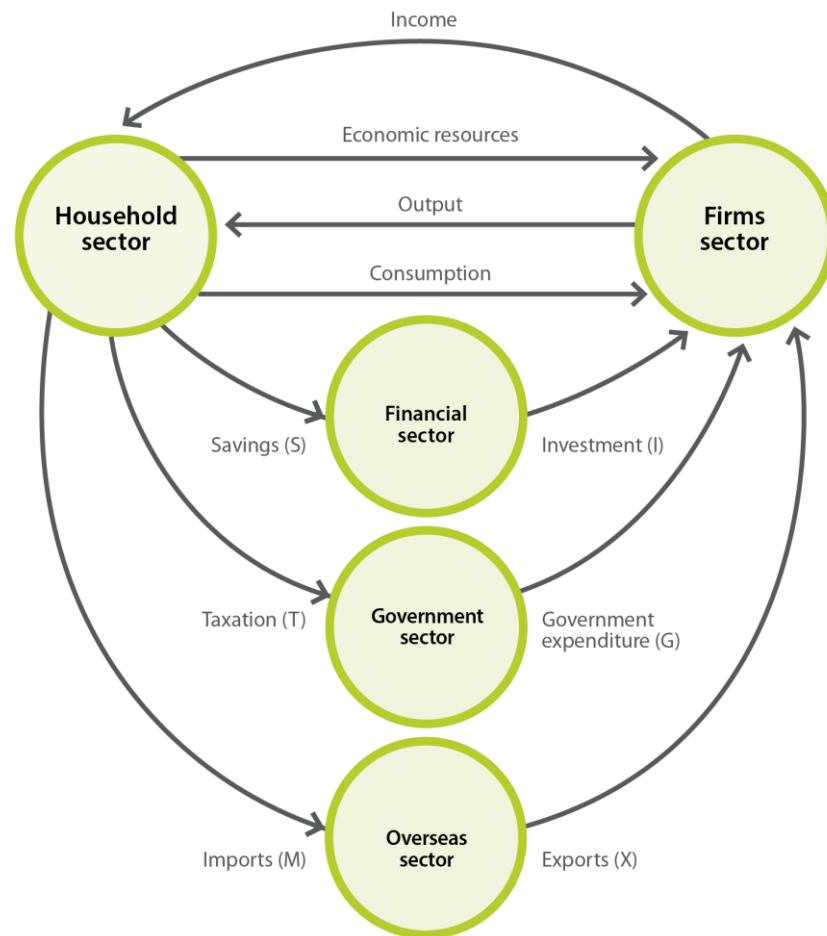


Economic growth

When injections ($I+G+X$) are greater than leakages ($S+T+M$), this will lead to economic growth.

Economic growth refers to an increase in the size of a country's output over a period of time.

The size of an economy is typically measured by the total production of goods and services in the economy, which is called gross domestic product (GDP).





Interdependence between sectors of the economy

The different sectors within the economy are linked together. This interdependence means that a change in one sector can affect the rest.

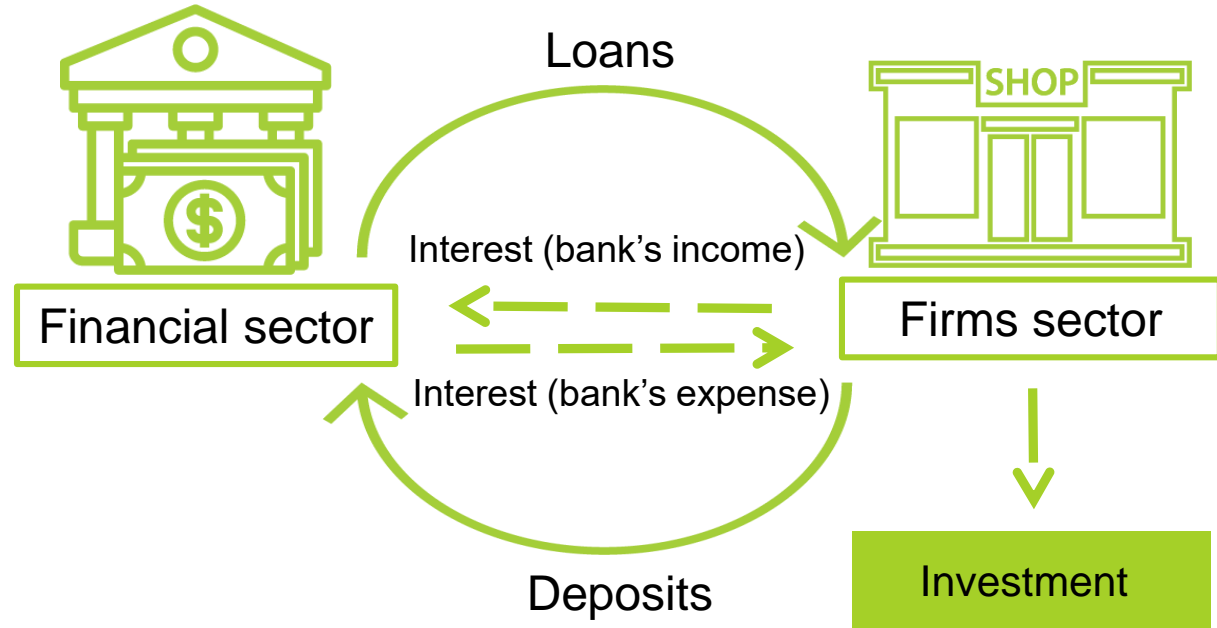
Discussion – How might the economy be affected if...

- the Government decided to raise taxes?
- Households decided to save more and spend less?
- Firms decided to increase their prices?
- the Financial sector made it cheaper to borrow money?
- Overseas goods and services became more expensive to import?



Example


The Financial sector plays an important role in facilitating business investment. Firms rely on banks lending them money so they can invest in things like new equipment, higher wages or additional staff, to increase production.






Activity: Complete the Circular Flow Model

Use the labels to fill in the circular flow model in **Activity: Complete the Circular Flow Model**.



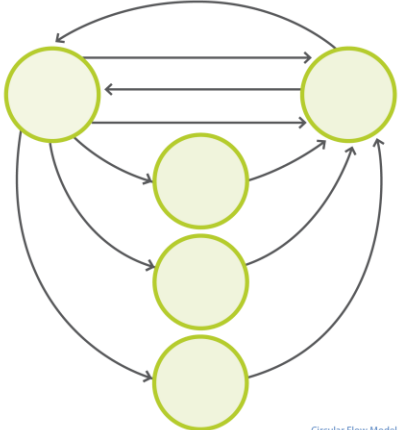
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Activity
Complete the Circular Flow Model



Use the labels to fill in the circular flow model.

- Consumption
- Economic resources
- Exports (X)
- Financial sector
- Firms sector
- Government expenditure (G)
- Government sector
- Household sector
- Imports (M)
- Income
- Investment (I)
- Output
- Overseas sector
- Savings (S)
- Taxation (T)



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Circular Flow Model