Assessment Item 3 - Case Analysis

Unit Code: CME101
Unit Title: Principles of Economics
Assessment Title: Is Australia Moving into Recession?
Type of Assessment: Case Study
Week & Day Due: Midnight (Darwin time/CST), Friday, Week 10
Length/Size/Amount: 1000 – 1250 words
Value: 10%

Task

1. Read the opinion based article on pages two to three (2-3).
2. The article presents the opinion of the author relative to the latest GDP figures and the state of the economy. With this in mind, answer the following questions using appropriate supporting arguments and research.

Note: this assessment item covers concepts learned in chapters 9 and 10.

Questions

1. In your opinion is Australia moving into recession?
2. List and analyse the potential risks facing the Australian economy.
3. If the economy does move into recession what are the likely impacts on unemployment?
4. How might a recession impact the circular flow of income?

Note: You should justify your answers with appropriate academic sources and referencing.
Economists are talking about recession again - this time it's not unwarranted

Opinion
By Greg Jericho

Posted 3 Jun 2015, 6:07am


Sourced on: 4th September 2015

As Australia transitions away from the mining boom, it needs the rest of its economy to pick up the slack. That hasn't happened so far, which is why we're seeing some gloomy predictions, writes Greg Jericho.

Today the latest GDP figures will be released. The expectation is for them to be less than stellar, but at least positive. However, due to some poor recent economic data, the word "recession" has begun to get thrown around.

After such a long time without a recession, no treasurer would wish to be the one to preside over such an event. For Joe Hockey, the path away from recession lies with his hope that the budget measures for small businesses will enliven investment in the non-mining sector. And given the current poor state of investment in that sector, his measures will need to work.

Economists love to call recessions. The standard joke about economists and recessions is the one made by Paul Samuelson that some economists have predicted nine out of the last five recessions. And there is certainly a great allure to being the one who predicts the bad times to come.

Australia has not had a recession since June 1991, which was the last time there were two consecutive quarters of negative GDP growth in seasonally adjusted terms.

Photo: No treasurer would wish to be the one to preside over a recession. (AAP: Sam Mooy)
Of course, such a definition is utterly stupid, and really should be thrown out as soon as possible. Any definition where an economy could shrink by 0.5 per cent in one quarter, rise by 0.1 per cent in the next, and then shrink by 0.6 per cent the quarter after and not be in a recession is complete lunacy.

There is for example no particular reason why we shouldn't apply the definition to GDP per capita instead of total GDP. But even that has flaws.

During the GFC, Australia's GDP per capita fell 0.2 per cent in the June 2008 quarter, then rose by 0.1 per cent in the September 2008 quarter, before falling by 1.3 per cent in the December quarter.

But apparently we weren't in a recession.

In the 12 months from June 2008 to June 2009, the unemployment rate rose by 1.6 percentage points. But no, we weren't in a recession.

Our economic debate would be much improved were we to acknowledge that far from going through the GFC without a scratch, we received a rather big scar.

But this is all history; what of the future? Last week when the latest capital expenditure data was released, it was accompanied with talk of recession.

The scary thing is the talk is not unwarranted.

Capital expenditure looks at the amount invested by companies on buildings and structures (roads, mines etc) and on machinery, plants and equipment. More investment invariably leads to more jobs, more economic activity elsewhere and generally more tax.

But the current capital expenditure picture is not good. That in itself is not a concern, for the picture hasn't been good for a while now.