**JC Economics Tuition – Q2**

**Question 2: Economic Challenges and Opportunities for Australia, Vietnam and Spain**

**Figure 2: Australia’s Inflation Rate**

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|  | **2016 Q2** | **2016 Q3** | **2016 Q4** | **2017 Q1** | **2017 Q2** | **2017 Q3** |
| **Inflation Rate (%)** | **1.0** | **1.3** | **1.5** | **2.1** | **1.9** | **1.8** |

**Source: Reserve Bank of Australia**

**Extract 6: Is Australia’s Employment Situation Improving?**

Australia’s unemployment rate has fallen to a four-year low, with the labour market recording 12 straight months of employment gains – its longest stretch since 1994.

Figures show the unemployment rate fell to 5.5% in September, its lowest rate since March 2013, as the government’s National Disability Insurance Scheme contributes to a surge in health jobs. Other big services sectors such as education, retail, accommodation/tourism and transport had added nearly 400,000 new jobs over the past year. This is a significant turnaround from a few years ago where the downturn in mining led to the loss of jobs in both the mining industry and industries that are involved in the processing of the mining output. The fall in Australia’s key exports led to the government pouring funds towards stimulating investment into the Australian economy.

HSBC chief economist Paul Bloxham said businesses were reporting a sharp jump in their concerns about being able to find “suitable labour”, which is a sign that the labour market is tightening and wages may finally start facing modest upward pressure over the next 12 months. “We expect to see at least another 250,000 jobs added over the coming year,” CBA senior economist Michael Workman said. “The unemployment rate, now at 5.5%, is forecast to move closer to the 5% level.” The employment minister, Michaelia Cash, welcomed the employment figures, saying they proved the Coalition’s policies were pro-growth.

However, critics are quick to point out that unemployment rate has remained fairly unchanged since the election of the current government at 5.5 per cent despite the creation of jobs as many Australians are without the requisite skills for the modern Australia economy. They are calling for the government to provide more resources to vocational skills training, school education and reducing university fees.

Adapted from The Guardian, 19 Oct 2017

**Extract 7: Vietnam benefits from US-China Trade War**

Foreign direct investment in Vietnam climbed 9.1% in 2018 to reach $19.1 billion, the government reports, marking a sixth straight annual record as capital keeps flowing into one of Southeast Asia's fastest-growing economies. Industries such as apparel have been moving production out of China and into Vietnam looking to escape the higher taxes by the U.S. on Chinese exports. A prolonged trade war is expected to accelerate this shift. In addition, apparel companies are shifting their production out of China to countries like Vietnam due to its rising labour costs, making Vietnam the world’s third largest apparel exporter. Apparel accounts for about 10% of Vietnam’s exports.

Vietnam is Asia's biggest beneficiary of the Sino-U.S. trade war, according to Mizuho Research Institute, which estimates the effect will be a 0.5 percentage point boost to its real gross domestic product. Vietnamese real GDP growth is estimated at 7.08%, according to government data.

The central government approved many investment projects last year, including the Hanoi "smart city" project, in which Japanese trading house Sumitomo Corp. takes part, as well as liquid crystal display and camera facility investment by South Korea's LG group in the North-Eastern city of Hai Phong. South Korea's Samsung Electronics accounts for roughly 25% of Vietnam's overall exports by value.

However, with the growth of the garment and electronics industry in Vietnam comes with it a cost to the environment. Research has shown that garment industry is the 2nd most pollutive industry globally, using up precious natural resources and creating a lot of waste products that dirty the land, water and air. Environmental groups are calling for the Vietnamese government to do more to mitigate the environmental effects of the foreign investment. The rapid growth of exports has also caused a widening income gap between those in export-related industries and those who primarily cater to the domestic market.

Adapted from Nikkei Asian Review, 10 Jan 2019

**Extract 8: Spain’s unemployment falls without an active government**

We are continually told that every country must have an activist government that intervenes with a range of policies to achieve its economic goals. No economy or society can be allowed to just bumble along by itself, the firm smack of political control is necessary for the world to continue to turn on its axis. This is not really what the empirical evidence tells us of course. Spain has not really had a government for the past 10 months and yet it is expected to be one of the fastest-growing Eurozone economies this year. Spain's central bank expects the country to expand by 3.2% this year, among the most robust growth rates in Europe, which has created more jobs. And as a result the unemployment rate has just fallen to 18.9%. While inflation is -0.2%, it is an improvement from -0.5% a year ago.

As more Spaniards have gone back to work, they have been spending more, boosting consumer spending and further accelerating economic growth. Spain has been expanding since the economy returned to growth in 2013 after a deep recession.

In addition, the growth may spark off higher migration to Spain in search for job opportunities. While generally welcoming to migrants, some are worried that these migrants may steal jobs from the locals due to their lower asking wage. However, some economists are more optimistic, citing empirical evidence that having an increased inflow of migrants can bring about faster growth.

However, analysts are cautious about the optimism as the better than expected performance is due to the global economic recovery which has led to more tourists in Spain and increasing demand for Spain’s exports. Robust growth may bring with it the harms of high inflation. Without a government, Spain is ill-equipped to deal with any potential recessions and political instability would affect its long-term growth prospects.

Adapted from Forbes.com, 27 Oct 2016

**Questions:**

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| **(a)** | With reference to Figure 2, describe what has happened to the rate of inflation and price level in Australia. | **[3]** |
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| **(b)** | Explain 2 possible reasons why governments aim to achieve the goals of low unemployment and price stability. | **[4]** |
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| **(c)** | **(i)** | With reference to Extract 6, explain the causes of unemployment in Australia.  | **[4]** |
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|  | **(ii)** | Discuss whether the implementation of policies with regard to training and education will be sufficient in further reducing the unemployment rate in Australia.  | **[8]** |
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| **(d)** | “Industries such as apparel are… looking to escape the higher taxes by the U.S. on Chinese exports” and “… shifting their production out of China to countries like Vietnam due to its rising labour costs” (Extract 7).Explain how the abovementioned events have impacted the living standards of the residents of Vietnam.  | **[7]** |
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| **(e)** | Extract 8 tells us that Spain’s economy grew without a government. Explain how Spain was able to do so and comment on whether there is a need for an activist government in order to ensure sustainable growth. | **[7]** |
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| **(f)** | With reference to the case material and/or your own knowledge, discuss the factors that a government should consider when deciding on the policies to achieve its economic goals. | **[12]** |
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|  | **[Total: 45 marks]** |

**~End of Paper~**