
STRUCTURAL CHANGE AND MICROECONOMIC POLICIES



Multiple choice

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|------|-------|-------|-------|
| 1. C | 6. C | 11. C | 16. B |
| 2. B | 7. D | 12. D | 17. A |
| 3. A | 8. B | 13. A | 18. C |
| 4. B | 9. A | 14. D | 19. D |
| 5. C | 10. A | 15. B | 20. B |

Short answer questions

Question 1

- (a) **Structural change refers to the process by which the pattern of production in an economy is altered over time, and certain products, processes of production and even industries disappear, while others emerge.**
- (b) **Long term unemployment is likely targeted. Long term unemployment occurs when people have been out of work for more than 12 months. Often, the problem of long term unemployment is characterised by a decline in skills as they have been out of the work force for so long, and by depression due to an apparent inability to find work. Work For The Dole for example assists the long term unemployed by ensuring that their work ethic and on the job skills remain up to date, and Jobstart helps by providing the long term unemployed with essential items such as clothes for an interview, which because of their employment status, they might otherwise be unable to afford.**
- (c) **National Competition Policy was implemented by Commonwealth and state Governments from 1995. The NCP reforms involved establishing the Australian Competition and Consumer Commission as a powerful watchdog to prevent anti-competitive business conduct. Another feature of the NCP reforms was the requirement that state governments implement competition reforms in the electricity, gas, water and transport industries. Success of the NCP reforms have been mixed. In 1998, a National Electricity Grid was established, allowing electricity to be traded across borders. For consumers, the news has been positive with price cuts of up to 8% in some major cities. The NCP reforms, through the ACCC have also increased access for businesses to essential infrastructure, such as allowing access for companies like C7 access to Foxtel's cable networks. Overall, a 1999 Productivity Commission study estimated that the NCP reforms have boosted economic growth by 2.5% and have delivered substantial benefits in individual sectors.**

Question 2 (

- (a) **The Australian Competition and Consumer Commission acts as a watchdog to police anti-competitive business conduct in Australia. Backed by the legislation of the Trade Practices Act, the ACCC also polices the National Competition Code for almost all industries.**
- (b) **Allocative efficiency – referring to the way resources are allocated in the economy. Allocative efficiency ensures that resources are allocated to the production processes that will satisfy the wants of consumers best. For example, prior to the GST, the lack of taxes on services created an inefficient allocation of resources simply because other industries were more harshly taxed.**

Dynamic efficiency means that producers respond quickly to the changing patterns of demand in both the domestic and world economy. For example, a monopoly with supreme market power (ie Telecom prior to becoming Telstra) is unlikely to efficiently react to the changing needs of consumers as it seeks only to maximise its profits and faces no threat of competition.

- (c) **Macroeconomic policies, although excellent at influencing Australia's aggregate demand, have proved ineffectual in addressing Australia's structural problems such as our high level of structural unemployment and our CAD. Macro policies are unable to improve the efficiency of particular industries or address structural issues. Micro policy on the other hand is able to target specific industries or even firms and has the ability to implement structural change to overcome issues such as Australia's entrenched CAD and unemployment problem .**

Question 3

- (a) **Deregulation involves the simplification or removal of government legislation which restrict the operation of market forces, and it aims to improve the efficiency of industries. For example, the floating of the Australian dollar in 1983 and the removal of many of the regulations surrounding Australia's banks was part of the deregulation of the Australian financial industry that occurred in the mid-1980s.**
- (b) **Deregulation might occur to increase the number of firms involved, and thus the level of competition, in a particular industry. For example, the Australian telecommunications industry was heavily regulated prior to the 1990s with the Government owned Telecom acting as a regulated monopoly. Following deregulation, a number of firms such as Vodafone and Optus now compete in the industry with prices on domestic and international phone services far cheaper than they were under monopoly. Deregulation will also allow market forces to have greater control over the industry and will provide the government with a more efficient outcome, benefiting consumers and the economy as a whole. Market forces will ensure that resources are allocated to their maximum potential in an attempt to maximise profits and this will provide the goods that consumers want at minimum cost.**

- c) **Microeconomic policies aimed at improving Australia's external balance in recent years have focused on reducing industry protection and encouraging increased competition and market efficiency. One of Australia's greatest structural weaknesses in recent decades has been our narrow export base and the inefficient operation of many of our export industries. Over the past two decades, successive Australian governments have implemented reduction in industry protection levels which have now seen a reduction in most tariff levels to 5%, with the stated goal of tariff abolition by 2015. Reducing protection levels, although damaging to domestic firms and jobs in the short term, should in the long run create a more efficient outcome as only internationally competitive industries remain and resources are re-allocated to those industries. Additionally, National Competition reforms and deregulation assist by increasing the level of domestic competition for firms, forcing them to increase their efficiency, and assisting our export efforts which ultimately should improve our export position and thus the current account deficit which has become so entrenched.**