

MULTIPLE CHOICE

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

SHORT ANSWER QUESTIONS

Question 1

- (a) In a centralised wage determination system, the government or an industrial tribunal determines wages and working conditions for employees, whereas a decentralised system enables employees and employers to determine wages and working conditions at the firm level.
- (b) An answer to this question could include any two of the following methods.
- The government may increase wages at the same rate as its trading partners to maintain Australia's international competitiveness.
 - The government may increase wages line with productivity increases to maintain the real cost of labour.
 - The capacity-to-pay method is based on increasing wages only when increased profits mean firms can afford the increase.
- (c) A centralised wage determination system can minimise inflation by moderating wages to avoid inflationary pressure. A centralised policy keeps the price of labour from rising too rapidly, improving unemployed peoples' prospects of finding employment. A centralised system may also create a fairer distribution of income, as wage increases do not depend on individual employees' bargaining power.
- (d) A centralised wage determination system is inflexible, as it cannot accommodate individual workers' or employers' preferences. In addition, it provides little incentive to increase productivity as all workers benefit from wage increases. A centralised system also distorts the allocation of resources because it maintains employment in inefficient firms and industries where wages are not allowed to fall.

Question 2

- (a) Enterprise bargaining refers to negotiations between employers and employees on wages and working conditions at the level of the firm.
- (b) An answer to this question may include one of the following:
- Certified Agreements
 - Australian Workplace Agreements
- (c) Unions are generally the main negotiators in collective bargaining agreements, even though usually only about half of a workplace has a union membership. The role of unions has been reduced in recent reforms which limit the taking of industrial action to periods of negotiation only, following specific regulations.
- (d) The Australian Industrial Relations Commission (AIRC) no longer determined award wages in Australia. Following the WorkChoices reforms in 2006, wage increases are determined by the Australian Fair Pay Commission. The AIRC is now responsible for registering a national system of awards and undertaking a process of consolidation of awards across industries to reduce the total number of awards.
- (e) Enterprise bargaining ties wage increases to productivity improvements, creating an incentive for workers to increase their productivity. Its positive impact on productivity can be seen in the fact that annual labour productivity growth averaged 3 per cent per year during the growth cycle of the 1990s compared to 2 per cent in the 1980s.

Question 3

- (a) An answer to this question may include any two of the following:
- Skills for the Future subsidises the cost of adult education, with priority of payments given to the unemployed, reducing structural unemployment.
 - Welfare to Work aims to shift single parents and disabled welfare recipients into work by tightening welfare eligibility requirements.
 - Work for the Dole requires long-term unemployed young people to work on community projects to develop work skills and work ethic.
 - The establishment of Australian Technical Colleges aims to equip young people with technical skills to combat trade skill shortages.
 - The Job Network is a system of private sector organisations that aim to find work for the unemployed.
- (b) Labour market reform has accompanied a significant decline in unemployed in the past decade to below 5 per cent in 2007. The move to productivity-based wage increases has kept inflationary pressures under control. As a result, the economy has experienced sustained economic growth which has increased the demand for labour, reducing cyclical unemployment. Increased flexibility in determining wages in the labour market, coupled with increased productivity has increased the affordability of labour to firms, making labour a more attractive input to production. This lowers the level of “classical” or voluntary unemployment which arises from high wage levels. However, labour market deregulation has failed to address structural unemployment, which largely accounts for remaining unemployment in Australia.
- (c) The decentralisation of wage determination has worsened inequality as high-skill workers have greater bargaining power than low-skill employees, enabling them to achieve greater wage increases. Low income workers traditionally overcame this weak bargaining position through union representation in dealing with business and government. The ban on compulsory union membership and the decreasing formal role of unions under labour market reform have undermined union strength, worsening income inequality.