

The Role of Government in Australia

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Multiple Choice

- | | | |
|--------|---------|---------|
| 1. (A) | 6. (D) | 11. (C) |
| 2. (C) | 7. (D) | 12. (A) |
| 3. (D) | 8. (A) | 13. (B) |
| 4. (C) | 9. (B) | 14. (A) |
| 5. (B) | 10. (B) | 15. (C) |

Short Answers

Question 1

- (a). Looking at graph on the left the booms and busts fluctuate significantly less than in the graph to the right, and they also conform closer to the long run growth line. The effect of macroeconomic policy is to moderate the fluctuations in the economy and smooth transition between phases of boom and bust.
- (b). Fiscal Policy operates through several dimensions to moderate an economic downturn. Foremost, the progressive taxation system that is built into fiscal policy acts to lower an individual's tax burden as their income falls during a downturn. This results in higher disposable income for individuals and leads to greater consumption in the economy. Welfare payments also trigger automatically during a downturn as more people become unemployed. This too, acts to boost disposable household income.

Fiscal Policy can also provide important injections into the economy in the form of direct government expenditure. Government spending often occurs during a downturn to make up for the shortfall in private sector spending, This can help reduce the severity of a downturn, as the government is actively stimulating demand in the economy.

- (c). The government may decide to decrease consumption in the economy through contractionary monetary and fiscal policy, thereby reducing the overall burden on environmental resources. This policy is criticized however as being unspecific and a 'blunt' tool in regards to specifically effecting environmental degradation and may also have adverse effects on economic growth. For this reason, the government rarely uses contractionary macroeconomic policy to address environmental degradation.

Taxation of those goods and services that cause environmental degradation is a more effective strategy. Some goods and services cause more environmental degradation than others. For example riding a bike causes no pollution compared to driving a car. Therefore taxes can be levied on goods and services that cause more environmental degradation in the attempt to provide a disincentive to consume specific goods and services. Taxation may also provide revenue for the government to deal with environmental degradation directly.

Question 2

- (a). Workable competition arises because the notion of perfect competition is purely hypothetical. Workable competition instead refers to a situation where markets are contestable, which means that there is a maximum level of competition within an industry that is compatible with the particular market structure and specific conditions of the industry.
- (b). An initiative to promote workable competition was the establishment of the Australian Competition and Consumer Commission (ACCC) under the Trade Practices Act 1974 ('TPA'). Within markets, the ACCC is obligated to ensure producers are conforming to legal practices that are consistent with the competitive spirit of the TPA. The ACCC is also in charge of investigating and prosecuting firms that have engaged in anti-competitive behaviour such as cartels, collusion, price discrimination and creating artificial barriers to entry into the industry.
- (c). Efficiency has many measures throughout an economy, however the general notion means that waste is being minimised through the economy. Greater competition place greater pressure on firms within an industry to minimise their costs and overcome unproductive, wasteful production processes. The threat of prices being undercut by other competitors, as well as the threat of other competitors producing better quality and more innovative products, will force firms to adopt best industry practices. This will result in less wasteful use of resources, leading to better and more efficient outcomes overall in the economy.
- (d). Privatisation is the process of selling a government organisation outright to the private sector, where their overriding objective is profit maximisation for the long-term sustainability of the business.

Corporatisation is a process of making a government entity operate as if it were a private organisation. The organisation is still owned by the government, but adopts a management and profit-making structure similar to a private business. This ensures that they concentrate on profit-maximisation and efficiency.

Privatisation may be preferred over corporatisation if the business entity is likely to be more efficient and productive if they did not possess any artificial government advantage. This is particularly where the business entity does not also play a vital social role, and can be safely sold to the private sector without negatively affecting social welfare. Businesses such as Telstra, Qantas and the Commonwealth Bank have been successfully privatised as these industries were likely to perform better if they were subject to market forces. Corporatisation on the other hand, may be preferred where the business entity also performs a vital social function, and it would be in the best interests of the community for the government to retain ownership. Australia Post is a good example of a successfully corporatised government business enterprise.

Question 3

- (a). Direct taxes are those that are paid by the person on whom they are levied.
Indirect taxes are not paid by the person on whom they are levied and instead are passed onto others through increased prices of goods and services.
- (b). Regressive tax means the average tax rate decreases as income increases, i.e. those on higher incomes pay proportionately less tax. Taxes that are uniformly distributed through an economy such as a GST are regressive as they impose the same tax burden on low and high-income earners, but have the *effect* of taxing lower-income earners a greater proportion of their incomes.

A proportional tax means people pay tax relative to the level of income they receive. An example is the government charging everyone 20% of their income as tax, even though the rate of tax is constant it still means someone on \$30,000 pays \$6000 tax (20% of their income) similar to someone on \$70,000 paying \$14,000 tax (20% of their income).

- (c). GST is a regressive tax as those on lower incomes pay a higher proportion of tax relative to their income. The GST at present is 10% and such an increase to 15% would increase the proportionate burden of tax on lower income earners relative to higher income earners. This will worsen income inequality in the economy.
- (d). The Commonwealth and State governments have an interdependent relationship in managing Australia's economy. The Commonwealth is mainly responsible for conducting macroeconomic policy through its Federal Budget and the RBA conducting monetary policy, both of which affect Australia as a whole. State governments can play a complimentary support role in fiscal policy management, and are responsible for certain areas of management such as public transport and hospitals. Income taxation, excise tax and GST are levied via the Commonwealth government, whilst the state is responsible for certain land taxes such as stamp duty. State governments overall are more administrative in nature, whereas the Commonwealth government is mainly responsible for conducting and funding large macroeconomic policy initiatives.

Skills Revision (1)

Top Left

Tax Free Threshold: \$7000

Marginal rate of tax: 10% for \$7100 to \$15,000 and 15% for \$15,000 to \$25,000

Total tax paid:

= 0% of (0-7000) + 10% of (15000-7100) + 15% of (25,000 – 15,000)

= 0 + 0.10(7900) + 0.15(10000)

= 0 + 790 + 1500

= \$2290

Average Rate of Tax = Tax / Income

= 2290 / 25,000 x 100

= 9.16 %

Top Right

Marginal Rate of tax: 10% for \$7100 to \$15000, 15% for \$15000 to \$30,000 and 20% for \$31000 to \$120,000

Total tax: \$19,717.50

Average rate of Tax: 16.43%

Bottom Left

Tax Free Threshold: \$15,000

Marginal Rate of Tax: 20% for \$15,001 to \$25,000

Total Tax Paid: \$1999.80

Average Rate of Tax: 7.9%

Bottom Right

Marginal Rate of tax: 20% for \$15,001 to \$30000, 40% for \$31,000 to \$70,000 and 50% for \$71,000 and over

Total Tax Paid: \$44,299.72 (\$44,300)

Average Tax Rate: 36.9% (37%)

Skills Revision (2)

From top to bottom:

- a. Progressive
- b. Regressive
- c. Regressive
- d. Progressive
- e. Progressive
- f. Proportional
- g. Proportional

Skills Revision (3)

	Boom	Recession
Fiscal Policy Stance	Contractionary	Expansionary
Change to tax	Tax increase	Tax cut
Change to revenue	Increase revenue	Decrease revenue
Effect on circular flow	Increasing circular flow	Decreasing circular flow
Monetary policy stance	Contractionary	Expansionary
Change to cash rate / interest rates	Increases	Decreases
Cost of borrowing	Increases	Decreases
Impact on consumption	Increasing consumption	Decreasing consumption
Impact on investment	Increasing investment	Decreasing investment