

Improving extending writing answers

Completing the TEE involves producing a number of extended writing responses. Students who find it difficult to compile clear, logical and reasoned answers can benefit from following a scaffold or framework.

Scaffolds

Two kinds of scaffolds may be relevant:

- 1) a scaffold to organise the economic content
- 2) a scaffold to organise the writing process

Content scaffolds

Most teachers encourage their students to remember lists of heading or sub-headings using techniques such as pneumonics (such as SECAM* for the channels of the monetary policy transmission mechanism) and rhythmic repetition (such as C+I+G+X-M for the components of aggregate demand).

Writing scaffold

Students can be encouraged to follow the following pattern when constructing a longer response.

Introduction

- Define economic terms
- Make a topical comment relating the question to contemporary economic developments or issues (indirectly flattering the examiner for setting such a smart question)

Main points

- Write a sequence of so-called SEE PARAGRAPHS backed up where relevant with a model or diagram as follows:
 - First short sentence: STATE the point (for example, the first cause of inflation is demand pull inflation)
 - Second short sentence: EXPLAIN the point (for example, demand pull inflation occurs when there is a rise in aggregate demand without a corresponding shift in aggregate supply).
 - Third short sentence: give an EXAMPLE (for example, a rise in aggregate demand pushed up inflation in WA last year partly because of capacity constraints in labour markets, housing markets and in the mineral and energy sector).
- Start each SEE paragraph with an opening phrase such as 'the first factor is...', 'the second factor is...' and 'the third factor is...' and so on.

Conclusion

A quick concluding comment referring back to the question (to prove that you have stayed on task and to show that you finished the answer under control rather than when time ran out).

Some sample essay wizards follow to show how this scaffolding can be put into practice.

*The five SECAM parts of the transmission mechanism following a cash rate change = savings and investment, exchange rate, cash flow, asset values, monetary climate

Title	Is Australia about to experience an economic slowdown?
Introduction	Opening statement: Australia has achieved over 15 years of uninterrupted and reasonably sustained economic growth. Is a slowdown or even economic recession on the cards? Topical comment: What shocks or economic imbalances could cause this to happen?
Main point 1	S Sustained growth needs a balanced increase in aggregate supply and aggregate demand. D Draw AD/AS diagram to show non-inflationary growth or PPC model E Without additional supply, extra demand causes inflation and growth slows. Without demand there is no incentive for firms to increase supply.
Main point 2	S Could the problem develop in the supply-side of the economy? The first areas of interest concern population levels and participation rates. E Highlighted in the 2002 Intergeneration Report, a slower growth in the population (due to lower birth rates) and a fall in the participation rate (retirement of baby-boomers, people living longer) would lead to a reduced contribution to growth from this source. E Previously growth was fuelled by higher participation rates (lower unemployment, more women in the workforce) and population growth.
Main point 3	S The second supply-side area of interest involves falling productivity. E The main sources of productivity growth are capital deepening and microeconomic reform. Capital deepening requires investment, which in turn requires satisfactory rates of return, and microeconomic reform relies on government policy and persistence and the electors' stomach for further change. E Unlikely to be a factor in any slowdown
Main point 4	S The third supply-side area of interest involves technology. E Embodied technology lowers production costs and creates new demand. There isn't any reason to believe technological progress will not continue (nano-technology, ICT) but will firms continue to invest in it if future economic conditions are less stable?
Main point 5	S A fourth area of interest involves education and skills development. E Mr Beazley has been trying to interest people in developing a 'knowledge nation' to little effect. Without microeconomic reform (centralisation and harmonisation) there is cause for concern here. Skills shortages are developing for example in mining and accounting.
Main point 6	S A final supply-side area of interest is Australia's infrastructure. E Without development of social overhead capital (for example roads, ports, broadband) growth will be constrained.
Main point 7	S Could the problem arise from the demand-side of the economy? E One possibility is that Australia's current imbalances in expenditure and production, and savings and investment, which lead to our increased foreign liabilities (both debt and equity), could cause flight from the \$A, inflation and higher interest rates.
Main point 8	S A second demand-side possibility could come from a slowdown in the global economy. E Whether caused by rising energy (oil) prices, instability in financial and capital markets caused by US twin-deficits (CAD and budget deficit), the breakdown of free trade as governments swing to protectionist policies or some catastrophic geopolitical event a slowdown in global economic activity would adversely impact on demand in Australia.
Conclusion	These events are either unlikely or can be managed, but none are impossible and they can all be mismanaged. The Government and Reserve Bank has had a dream run in recent years. It is not clear how effective their policies could be in a less favourable climate.

Title	What's happened to the economic cycle?
Introduction	<p>Opening statement: 15 years of uninterrupted growth suggest that something has happened to the economic cycle in Australia. Economic cycles happen when the economy grows above or below its trend path. Typically there are four stages to the cycle: booms, downturns, slumps and recoveries.</p> <p>Topical comment: It is difficult to see a clear cyclical pattern for the Australian economy in recent years.</p>
Main point 1	<p>S There are four factors that contribute to cycles. The first factor is shocks.</p> <p>E Shocks are autonomous or exogenous factors which affect one or more of the components of aggregate demand.</p> <p>E For example, the oil price rise, droughts or tourist downturns associated with the fear of disease or terrorism impact on AD.</p>
Main point 2	<p>S The second factor involves cumulative processes.</p> <p>E Once there has been a permanent change to one or more of the components of AD (an autonomous spending change) there are subsequent multiplier effects. One person's spending is another person's income, and extra income leads to more spending. The more that is passed on at each stage of the circular flow the bigger the multiplier effect. Multiplier process can generate further accelerated changes in the economy if new injections such as investment and exports rise as a result.</p> <p>E For example a rise in tourism has a big impact on the economy because of the high local content in the tourism industry.</p>
Main point 3	<p>S The third factor involves floors and ceilings.</p> <p>E Ceilings provide upper supply-limits to growth. These might be due to lack of skilled labour, lack of infrastructure or a shortage of capital equipment. Floors prevent economic activity falling below a given level. These exist because there will always be basic consumption spending, new inventions stimulating some investment and income generated by the welfare state.</p> <p>E The upper ceiling in Australia appeared to be about 5% growth, before the economy became overheated with inflation and increased trade deficits.</p>
Main point 4	<p>S The final factor involves automatic stabilisation.</p> <p>E Government spending and taxation provides automatic stabilisation. As the economy grows tax receipts, and hence leakages, rise. Also as the economy grows the need for welfare payments, and hence injections, falls. The budget moves into surplus which slows growth.</p> <p>E There may be other automatic stabilisation effects caused by exchange rate movements.</p>
Main point 5	<p>S Have these factors become less important?</p> <p>E The economy has certainly survived serious shocks such as the Asian Financial Crisis, terrorism, SARS and drought. Multiplier and accelerator processes still happen, and the automatic stabilisers continue to work.</p> <p>E</p>
Main point 6	<p>S It is possible that the height of the floors and ceilings have changed.</p> <p>E Microeconomic reform may have altered the height of the ceiling to growth in Australia. By increasing efficiency and capacity the speed limits to growth have been raised. Cheap finance and consumer confidence may have encouraged households to increase debt levels to maintain higher consumption levels.</p>
Main point 7	<p>S It is also possible that microeconomic reform has introduced sufficient flexibility and adaptability to the economy to allow a quicker and more effective reaction to shocks.</p>
Main point 8	<p>S Finally, it could be argued that medium term strategies followed by Australia's macro-managers (the Treasury and the Reserve Bank) have provided a degree of stability to the economy.</p>
Conclusion	<p>The factors that cause cyclical behaviour are still largely present. But so too are new factors which allow the economy to grow quicker for longer periods of time and to adjust quicker to external shocks.</p>

Title	What role does fiscal policy play in the Australian economy at present?
Introduction	<p>Opening statement: Fiscal policy is a discretionary government policy involving taxation, government spending and borrowing or debt retirement. Since 1996 the government has conducted fiscal policy within the framework of its medium term fiscal strategy</p> <p>Topical comment: Fiscal policy is delivered each year in the annual budget, this year's budget estimates there will be a \$10b surplus.</p>
Main point 1	<p>S There are three guidelines in the MTFS. The first is to keep taxation at or below the 1996 level of about 24% of GDP.</p> <p>E Excessive taxation is thought to be a disincentive for businesses and households and, through the government spending it funds, to lead to resource crowding out.</p>
Main point 2	<p>S The second part of the MTFS is structural neutrality.</p> <p>E Structural neutrality requires the budget be balanced in neutral economic circumstances, in surplus when the economy is growing strongly and possibly in deficit when there is a downturn.</p>
Main point 3	<p>S The third element of the MTFS is debt retirement.</p> <p>E Over the years public debt has increased to about \$96b (the so-called Labor's debt) but this has now been paid off as a result of a series of budget surpluses. Indeed the government now has 'negative debt' with the growth of the 'future fund'.</p>
Main point 4	<p>S Fiscal policy has built-in automatic stabilisers.</p> <p>E As the economy speeds up, tax receipts automatically increase without any change in policy (as people earn higher incomes, firms earn more profits, unemployment falls and consumption spending increases). At the same time the demands on the social security system fall.</p> <p>E These combine to produce a net leakage from the circular flow when growth is strong and to stabilise or restrain the level of growth.</p>
Main point 5	<p>S In current circumstances the government is keen to avoid budget deficits.</p> <p>E Deficits have to be financed, and the borrowing required can push up interest rates. This is known as financial crowding out.</p> <p>E Deficits can expand the economy and lead to a worsening of the current account deficit. This is the twin-deficits theory.</p> <p>E A series of deficits can create a debt trap. Deficits lead to debt, debt leads to borrowing, borrowing leads to interest payments, interest payments lead to deficits.</p>
Main point 6	<p>S Indeed the government is seeking to maintain budget surpluses for the foreseeable future.</p> <p>E The surplus can contribute to the future fund (now that debt is eliminated) which is to be used to fund pension liabilities and deal with issues connected with an ageing population.</p> <p>E Surpluses contribute to a 'war chest' which is available to maintain economic activity should there be a downturn in the future.</p> <p>E Surpluses are seen by international investors as a sign of sound economic management, help to keep up our credit rating, and encourage foreign investment inflows which provide support for the \$A.</p>
Main point 7	<p>S Within the framework described there is room for some discretionary demand management. However, this role of fiscal policy been used sparingly and only as a back up to monetary policy.</p>
Main point 8	<p>S A new strategy for fiscal policy is emerging. This sees fiscal policy as a contributor to microeconomic reform measures.</p> <p>E For example tax cuts can be seen as providing as an incentive for workers to increase productivity, GST provides a broadly based consumption tax which does not distort products markets as much as the sales tax it replaced, welfare to work reforms aim to increase labour participation rates and spending on infrastructure projects (such as ports and telecommunications) is seen as a way of increasing the capacity of the economy.</p>
Conclusion	<p>Fiscal policy is conducted within the framework of the medium term fiscal strategy and is used sparingly as a discretionary demand management policy. Increasingly changes to the tax system and government spending priorities are seen as a way of contributing to productivity and capacity growth in the economy.</p>

Title	Why has the degree and nature of government intervention in the Australian economy changed?
Introduction	Opening statement: The Liberal/National Government aims to keep Government spending below the 1996 level it inherited. Currently Government spending contributes about 24% of GDP. Topical comment: Microeconomic reform policies have challenged the status quo.
Main point 1	S The government wishes to reduce its intervention in the economy because it believes the economy performs better if it is not subjected to government failure. E Government failure describes the situation when resources are mis-allocated, prices distorted or incentives dampened because of government intervention in the economy.
Main point 2	S There are five reasons why government intervention leads to economic failure. The first involves lack of clarity over goals and objectives. E While private sector enterprises have little difficulty in defining clear goals (for example increasing shareholder value) public sector enterprise can be confused between broader and often conflicting commercial, social and political goals (for example to provide a social service). E Telstra is in constant dispute with its regulator regarding pricing and access to its network.
Main point 3	S The second source of government failure comes from taxation and subsidies. E Taxes and subsidies distort prices and deny the 'world of truth' provided by free markets (where equilibrium prices match consumers valuation of a product with the producers costs of providing it).
Main point 4	S The third source of government failure is moral hazard. E 'Moral hazard' occurs in situations where insurance or safeguards result in increased incidence of the hazard concerned. E Comprehensive welfare provision, for example, may increase the demands placed on the welfare state by people who don't take care to look after themselves. People who become welfare dependent contribute to moral hazard.
Main point 5	S The fourth source of government failure is the lack of market disciplines. E If business performs poorly in the private sector it eventually goes bankrupt. If workers perform poorly or they are overpaid they are eventually retrenched. In government business because of 'feather bedding' and the perception of a 'bottomless pot' of funds these disciplines are not present.
Main point 6	S The final source of government failure is submission to rent-seeking behaviour. E Interest groups may influence government decision making. E Farmers and steel workers are groups who have influenced US government policy and reduced the efficiency of their economy.
Main point 7	S The government does not wish to remove itself completely from economy intervention. There are several sources of market failure that need to be addressed. E Market failure arises when free markets do not work to maximum welfare. E Examples of sources of market failure include (i) public goods where the exclusion principle does not operate, (ii) situations where there are information gaps or the information is asymmetric (such as in medicine), (iii) where there are externalities which are not factored in by consumers or producers (such as pollution or research), (iv) where income distribution is unfair and distorts consumption, and (v) where monopoly elements distort supply and prices (such as with natural monopolies)
Main point 8	S The Government still wants to prevent and fix up market failure in its allocative (direct provision) role, its regulatory role and its redistributive role. However, it does not want to intervene too much so that the cost of the cure is government failure.
Conclusion	Finally Government's have become less confident of their ability to effectively influence the level of aggregate demand (their demand management role) through discretionary fiscal policy. The current government (as part of its medium term fiscal strategy) aims to keep its impact on the economy fairly neutral by keeping the budget surplus at 1% of GDP

Title	What does good monetary policy look like?
Introduction	<p>Opening statement: Monetary policy involves the discretionary use of cash rate changes to influence the level of aggregate demand. The policy is carried out by the Reserve Bank of Australia.</p> <p>Topical comment: Cash rates have been increased twice this year, by 25bp on each occasion. The markets have factored in a further rate rise before the end of the year.</p>
Main point 1	<p>S Good monetary policy would achieve the Reserve Bank's economic objectives.</p> <p>E The RBA has three main economic objectives; (i) achieve and maintain price stability (currently interpreted as achieving its inflation target of 2% to 3% inflation over the life of the economic cycle) , (ii) achieve full employment (currently interpreted as helping unemployment fall to its non-accelerating inflation rate of unemployment (NAIRU)) and (iii) increasing the welfare of Australian (currently interpreted as achieving as much growth for as long as possible without causing problems elsewhere in the economy).</p>
Main point 2	<p>S There are a number of problems in carrying out good monetary policy. Firstly, it has to prioritise its objectives.</p> <p>E The RBA chooses to 'fight inflation first', believing that in the longer term price stability is the best way to achieve growth and low unemployment.</p>
Main point 3	<p>S Secondly growth in Australia is not even.</p> <p>E Growth in WA and Queensland is high, but Victoria, NSW, Tasmania and South Australia are growing much more slowly. Raising interest rates across Australia may be appropriate to cool the high growth state economies, but inappropriate elsewhere.</p>
Main point 4	<p>S Thirdly, although flexible, monetary policy suffers from effect time lags. Therefore, good monetary policy has to be anticipate economic problems and be forward looking.</p> <p>E Cash rate changes impact on components of AD through the various channels of the transmission mechanism. While higher household debt level may have speeded up the transmission process, other impacts are still quite slow.</p>
Main point 5	<p>S Fourthly cash rate changes are not all passed on to the consumer.</p> <p>E With bank deregulation and competition banks may choose to absorb cash rate increases and accept a lower profit margin rather than pass on increased costs to their customers.</p>
Main point 6	<p>S There are some factors, however, making it easier to conduct monetary policy well.</p> <p>E First, the RBA is now independent of government, so it can take a medium to long term view without be caught up in politics.</p>
Main point 7	<p>S Second there are four factors are at work to reduce the effect lag of cash rate changes.</p> <p>E Previously cash rate changes took at a long time to effect the level of aggregate demand but (i) high levels of household debt, (ii) RBA transparency about its motives, (iii) more media coverage of changes impacting on monetary climate and (iv) the fact that 0.25% cash rates changes are bigger proportionately when there are low interest and inflation rates all combine to make monetary policy more effective.</p>
Conclusion	<p>Monetary Policy appears to have been well run in Australia in recent years. The RBA has not always followed the global interest rate trends (e.g. after 9/11 and in 2004). But with oil price induced inflationary pressures conditions are more testing now.</p>