



## Boom boom?

Maybe not just yet. Mining giant BHP announced in June 2018 that it would commence construction of a new \$4 billion iron ore mine at South Flank (a thousand kilometres from Perth and 88 km south east of Tom Price in the Hamersley Range).



(Source: Australian Financial Review)

In its construction phase, BHP claims that 2,500 jobs will be created, with a further 600 jobs when in operation. The mine will generate many opportunities for Western Australian businesses in BHP's supply chain. The ore is the high grade favoured by Chinese millers because it requires less processing to convert to steel.

News articles referring to this announcement include:

- [ABC News](#)
- [Perth Now](#)
- [The West Australian](#)
- [Australian Financial Review](#)

One article, quoting a BHP executive, said that a large proportion of the construction budget would be spent in Australia and in WA. There are hundreds of small businesses already in the Pilbara that supply goods and services to BHP. The South Flank mine will replace the BHP mine at Yandi, which is nearing the end of its economic life. It is expected that other companies, including Fortescue and Rio Tinto, will announce new mining construction projects in the near future.





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Year 11/12

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## Finding out: Year 11

- Use a model to show how this project will contribute to Australia's economic growth.
- Would you expect the income from this activity to be evenly distributed amongst Australians? Justify your answer.





## Finding out: Year 12

- Using the Keynesian aggregate expenditure model, explain why the final economic effect of the new project would be expected to be a multiple of the \$4 billion mentioned in the articles.
- If foreign-owned businesses made up a large part of the supply chain for this project, how would this affect the answer you gave to the previous question?
- How, if at all, are the exchange rate and the overseas demand for iron ore linked? Use a model to explain.





## Teacher notes

### Purpose

This 'bite' aims to show students a real life example of Economics in action through the context of mine expansion projects in the Pilbara.

### Prior knowledge

Students need to have been exposed to the following syllabus content before undertaking this 'bite':

- The components of aggregate expenditure
- The impact of changes in each of the components of aggregate expenditure i.e. the multiplier process using the AE model
- Demonstrate the impact of changes in AE on the equilibrium level of income/output using the AE model

