

**ECOM4000**  
**Economics**  
**Trimester 2, 2014**  
**Individual Assignment**

## ECOM4000 Individual Assignment

### Individual Assignment

Short Answer Questions– based on Economic Theory

*This assignment counts for 20% of your total marks*

**Due Friday Week 11, 3<sup>rd</sup> October 2014 by 5pm AEST (Australian Eastern Standard Time) on the portal under “Assignments”**

#### Instructions

- Do this assignment individually.
- You may need to do research of your own as well as reading the articles provided. Marks are awarded for this.
- Address each question directly. You do not need to present answers in essay or report form.
- Make sure you explain your diagrams and answer all parts of each question. You do not need to write a huge amount for each question. The word limit is around 800-1500 words
- Reference your answers if you are using information from another source using in-text referencing and include a reference list at the end of the assignment. You do not need to reference lectures and tutorials.
- 5 marks are awarded for correct use of in text referencing and a reference list at the end of the assignment.
- Please consult “Student Learning Resources” uploaded on Moodle with the assignment for assistance with referencing and plagiarism.
- **The assignment will go through Turnitin and any plagiarism will be traced. As a result you can get 0 for your assignment.**
- Penalties for plagiarism are serious. Please see p.4 of Student Misconduct Policy for a definition of plagiarism and the consequences:  
<http://kbs.edu.au/CurrentStudents/SchoolPolicies/InformationforallStudents/StudentMisconductPolicy/tabid/445/Default.aspx>
- Doing this assignment will be good preparation for the exam.
- **\*\*Please submit your assignment on the portal as a word document (NOT A PDF) and insert any pictures/ diagrams that you draw as pictures into the word document. You can insert pictures by:**
  - **Drawing them in programs like “paint” and pasting it into the document**
  - **Drawing them by hand and scanning them in and then pasting them as a picture into the word document**
  - **DO NOT simply copy pictures of graphs from the internet. You have to draw them yourself**

## ECOM4000 Individual Assignment

### Part 1: Firm Perspective [25 marks]

Read the below two sources below and then answer the questions below.

#### Source 1:

### Competitive dynamics in the banking sector

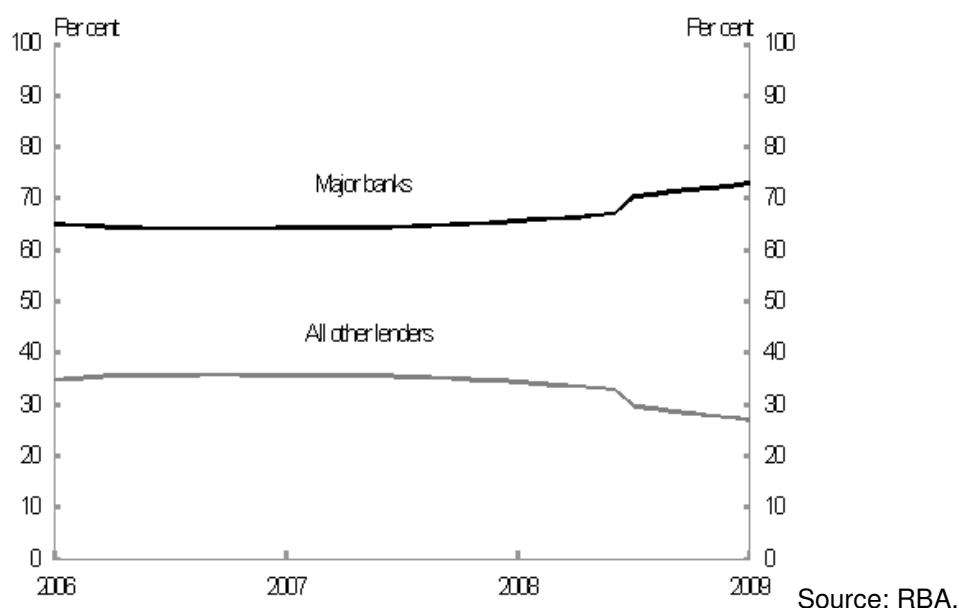
The Treasury presentation earlier in the week to the Senate inquiry on competition in the banking sector drew attention to a number of significant developments which have, collectively, altered the competitive dynamics of the retail banking sector in recent years.

... there has been further consolidation in the Australian banking sector since the global financial crisis.

A consequence of these factors is that the four major banks have expanded their collective market share across a range of loan and deposit products.

This is illustrated in the home loan market (Chart 5). The share of total housing loan credit for the five largest banks — the four major banks (Commonwealth Bank, NAB, ANZ and Westpac) plus St George — has increased from around 60 per cent before the onset of the GFC in mid-2007 to around 73 per cent.

Chart 5: Major banks (Wespac, Commonwealth Bank, NAB, ANZ) gain market share



Source: <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2011/Economic-Roundup-Issue-1/Report/The-Australian-banking-system-challenges-in-the-post-global-financial-crisis-environment>

## ECOM4000 Individual Assignment

### Source 2:

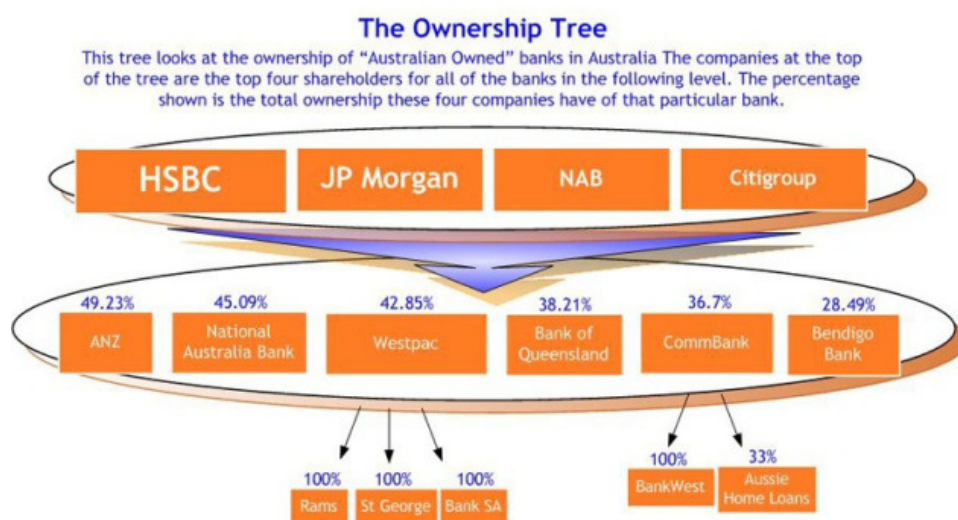
## Collusion for Illusion (Opinion Piece)

July 1, 2013 | [General Maddox](#)



*Australia's Big 4 promote competitiveness amongst themselves when they are all owned by the same financial (mostly foreign) interests*

So what do Australia's "Big 4" have in common besides siphoning all our money into their coffers? NAB, ANZ, Westpac & Commonwealth Bank are publicly listed companies. So that means they have shareholders right? Well did you know that the top 4 shareholders in each of the "Big 4" are in fact the same?



...They would have you believe that they're all competing with each other and in that spirit of competitiveness give you the power to choose a product best suited for you over the others. This power never existed. Well, that's not totally accurate. You were given the illusion of power. ...The big banks are in fact colluding in order to retain the power you thought you had...

Source: <http://realnewsaustralia.com/2013/07/01/collusion-for-illusion/>

ECOM4000 Economics, Individual Assignment, T2 2014

## ECOM4000 Individual Assignment

1. Read the above articles and answer the following questions:
  - a) In your opinion, what type of market structure do Australian Banks operate in? Justify your answer with reference to research and theory. (5 marks)
  - b) Critically compare a collusive oligopoly market structure with perfect competition in terms of price, output, allocative efficiency and consumer and producer surplus. Support your analysis with economic theory and graphs. (10 marks)
  - c) Are there any situations where a market structure with less competition has some benefits? Why or why not? Briefly explain your answer with reference to at least two sources. (4 marks)

You may want to consider the following source:

<http://economicstudents.com/2013/07/why-did-our-banks-survive-the-gfc/>

2. In a perfectly competitive market for apples explain would happen in the short-run to the market and to individual producers if the price for pears went up. Demonstrate your answer using a diagram. With reference to the same diagram show what would happen to the market and individual producers in the long-run. (6 marks)

## Part 2: Macroeconomic Perspective [40 marks]

Consider the sources below and answer the following questions:

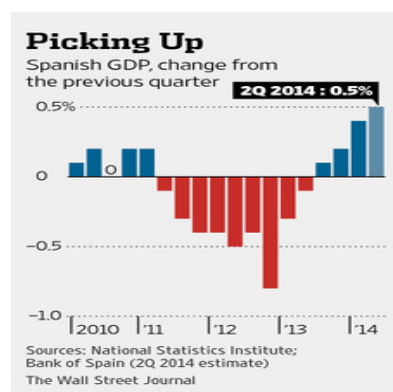
### Source 1:

#### **Spanish Growth Quickens, Says Central Bank Bank of Spain Raises Its Economic Forecasts for This Year and Next**

*By David Román Updated July 23, 2014 8:06 a.m. ET*

MADRID—Spain's economy grew at its fastest pace in six years during the second quarter, in contrast to the rest of the euro zone where growth appears to have stalled.

The Bank of Spain said Wednesday that Spanish gross domestic product likely expanded 0.5% in the second quarter, compared with the first, up from 0.4% growth recorded in the first quarter. The growth figure is the first official estimate for the three months from April to June.



ECOM4000 Economics, Individual Assignment, T2 2014

## ECOM4000 Individual Assignment

Spain doesn't release annualized growth estimates. According to The Wall Street Journal's calculations, the euro zone's fourth-largest economy grew at an annualized pace of 2% in the second quarter.

Economists say this level of growth is likely to make Spain the best or one of the best economic performers in the euro zone in the quarter, largely due to a series of effective economic reforms and because of a rebound effect after a long economic slump.

...But observers also caution that Spanish growth may be peaking, as the export-led recovery is in danger of petering out in the absence of a clear improvement in the global economy.

Jennifer McKeown, an economist at Capital Economics, said that a higher contribution to Spanish growth from domestic consumption in recent quarters, after years in which companies and households have focused on paying back debt, may not be enough to sustain current expansion rates.

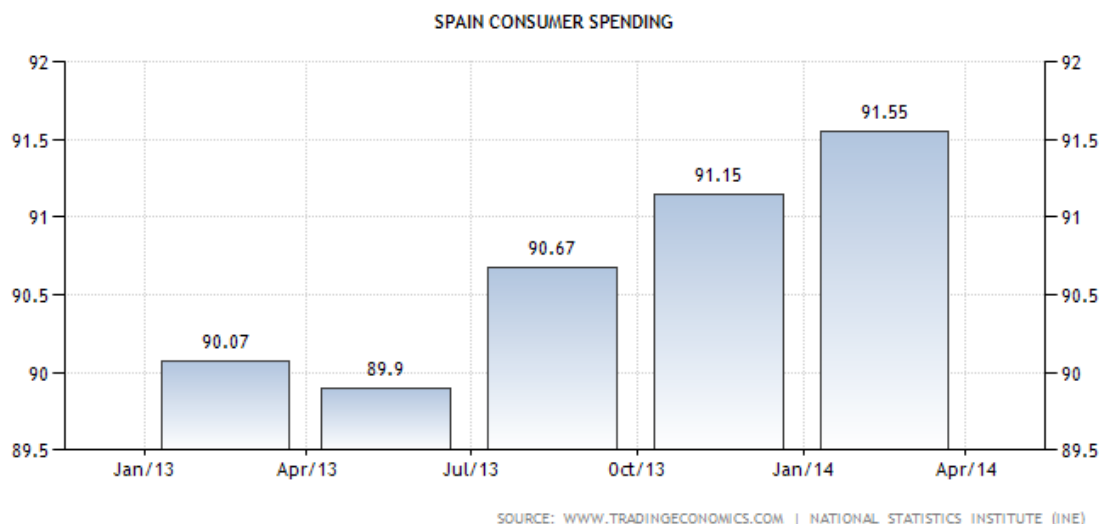
"Given sky-high unemployment **with an unemployment rate of 24.47%**, the risk of deflation and the fact that public and private-sector deleveraging has further to run, a recovery led by domestic spending seems unsustainable," Ms McKeown said. "While Spain is set to be one of the euro-zone's best performers this year, with GDP rising by 1% or a bit more, the recovery could yet prove to be short-lived."

The Bank of Spain said a gradual recovery in domestic consumption led to a faster-than-anticipated economic rebound. It added that it now anticipates that Spain's economy will grow 1.3% in 2014 and 2% in 2015, slightly above earlier projections of 1.2% and 1.7%, respectively.

Spain exited a two-year recession in the second half of last year, and has since been one of the strongest-performing euro-zone economies, buoyed in particular by soaring exports.

Source: <http://online.wsj.com/articles/spanish-economy-picked-up-pace-in-second-quarter-1406107241>

### Source 2: Trading Economics Graphs



# ECOM4000 Individual Assignment



Source: <http://www.tradingeconomics.com/spain/indicators>

## ECOM4000 Individual Assignment

1. Use the above sources and some limited research to answer the following questions.
  - a) Based on the article and graphs above what phase of the business cycle do you believe Spain was in during **2013**? Explain why with reference to theory and represent this phase of the business cycle using an aggregate demand and supply model. (5 marks)
  - b) Based on the article and graphs above what phase of the business cycle do you think Spain has entered in **2014**? Why? Use your aggregate demand and supply model from part a) to demonstrate what happened to the economy in 2014. (8 marks)
  - c) Given Spain's most recent unemployment rate, if 17,353,000 people were currently employed how many people would be unemployed? (6 marks)
  - d) Formulate some brief macroeconomic predictions/forecasts for the Spanish economy for 2015 based on theory, the above article and some of your own limited research. (5 marks)
2. The International Monetary Fund's World Economic Outlook database provides the data in the table for India in 2004, 2005, and 2006.

	2004	2005	2006
Real GDP growth rate	8.1	8.3	7.3
Inflation rate	4.2	4.7	4.6

- a) What changes in long-run and short-run aggregate supply and aggregate demand are consistent with these numbers? Demonstrate your answer with a diagram. (7 marks)
- b) List two factors that might have produced the changes in aggregate supply and aggregate demand that you have described in your answer to (a). (4 marks)
- c) If in 2006 India had an inflationary gap what fiscal policy might be undertaken by the Indian government to address this? Why? (5 marks)

Do not forget to include a reference list for any sources apart from lectures or tutorials. You also need to include in text references. A referencing guide is available on the portal under assessments. Both of these will count for **[5 marks]**

**Total 70 marks**