MACROECONOMICS AT WORK EXERCISE

THE DECISION TO INVEST

REFERENCE: 'Firms tipped to scale back investments' (by Louise Brannelly)**,** *The Courier-Mail,* 28 November 2003, p. 35.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 6, 7.

OVERVIEW

The subject of this (slightly confused and confusing) article is investment expenditure – i.e. the expenditure by businesses on new capital equipment (goods which can be used to produce other goods). Investment by businesses (I) constitutes approximately 20 per cent of GDP (see pp. 125-7). The Australian Bureau of Statistics (ABS) collects data from firms about investment plans. Their recently published estimates for the 2003-04 financial year (which prompted the article) indicate that, over the period, investment will grow by a smaller amount than generally expected, given the circumstances and given that firm investment plans announced during the first *quarter* of the financial year (i.e. the quarter ending September 2003) had been high and indeed higher than expected. (Unfortunately no exact data is given.) The investment outlook for subsequent quarters, and for the 2003-04 year as a whole, is, however, described as 'significantly softer [than expected]'.

QUESTIONS

1. Have you any comment to make about the heading to the article?

2. Why might a level of investment expenditure higher than indicated by ABS data have been expected?

3. In the light of favourable expectations how can the less favourable ABS prediction be explained?

4. In what ways (if any) can predicted investment decisions be related to Reserve Bank interest rate policy?

5. Explain why two firms (BHP Billiton and Boral) are mentioned specifically in the article.

6. What does the graph add to the article?