

MACROECONOMICS AT WORK EXERCISE

THE SIGNIFICANCE OF EXPORTS IN FUTURE ECONOMIC GROWTH

REFERENCES: ‘Exports pick up the baton’ (by Robert Skeffington), *Business Review Weekly*, December 11-17, 2003, p. 18.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 5, 6, 9.

OVERVIEW

The article (written at the end of 2003 and looking ahead to the calendar year 2004) is about some general indicators of macroeconomic activity as predicted by a number of business economists. (It includes a summary of their predictions with respect to the indicators). The major theme picked up on in the text is that 2004 will be a year of high growth and that it this will be the result particularly of a growth in *exports*. In other words, what happens to exports will be the most significant element in determining the overall growth of GDP in the coming year.

This proposition needs to be understood (and the economists’ predictions assessed) within the conceptual framework of the level of GDP, and hence employment, in the Australian (and indeed *any*) economy depending on a number of elements of aggregate demand. These are generally summarised in the formula $C + I + G + X$: Consumption plus Investment plus Government Expenditure plus Net Exports. [The last element, net exports (X), is often written as $(X - M)$ to emphasise that it is a *net* figure – that is, expenditure by overseas countries on domestic production (thereby creating income and employment in Australia) i.e. *exports*, is *offset* by expenditure by Australians on goods and services produced overseas i.e. on *imports*. Exports, however, are a major element.]

QUESTIONS

1. Explain the metaphor used in the heading to the article of exports ‘picking up the baton’ and ‘housing giving way to exports’.
2. What are the reasons behind the predicted increase in exports during 2004?
3. Explain and critically analyse the statement of one of the business economists quoted in the article: ‘The interest rate rises will shift the composition of growth away from those sectors most exposed to household demand to those sectors [including exports] that are most leveraged to the global upswing...’
4. Analyse the predictions in regard to GDP.

5. In the predictions summarised in the left-hand side of the table, why do you think there is no set of predictions regarding government expenditure (G)? Is this surprising?
6. In relation to the major proposition of the article ('exports pick up the baton' etc.) analyse and comment on the set of predictions for growth in exports (as summarised in column 5).