MACROECONOMICS AT WORK EXERCISE

INVENTORY INVESTMENT

REFERENCE: 'More room to move' (by Don Stammer), *Business Review Weekly (BRW),* 15–21 July 2004, p. 28.

CHAPTER RELEVANT TO THIS EXERCISE: 6

OVERVIEW

One of the components of aggregate investment (I) — itself a component of aggregate expenditure — is *inventory investment*. Inventory investment is the investment in *stocks* of goods, sometimes referred to as *working capital*. (Examples include goods on shelves or in warehouses that are waiting to be sold.) Inventory investment can be positive (if stocks are being built up) or negative (if stocks are being run down). Positive inventory investment can result in an increase in GDP in the same way as if the goods had been purchased by a consumer (and is therefore part of the aggregate C). Decisions by businesses about their level of stocks can therefore have a significant impact on the level of GDP in any given period.

QUESTIONS

1. What does the article imply about the long-term trend in the policy of Australian business towards the holding of inventories?

2. What is the explanation of this trend?

3. What are the implications of the trend for short-term fluctuations in aggregate investment expenditure and hence GDP?

4. What is implied in the heading to the article?

5. How is this trend related to the issue of industrial disputation?