

MACROECONOMICS AT WORK EXERCISE

INVESTMENT

REFERENCE: S. Murdoch, 'Equipment investment gives boost to economy', *The Courier-Mail*, 2 September 2005, p. 35.

CHAPTERS RELEVANT TO THIS EXERCISE: 6 and 7

CONTEXT

Investment expenditure (I) is one component of *aggregate* expenditure, which in turn determines the level of national production and income (or GDP). Because investment accounts for approximately one-fifth of aggregate expenditure, changes in investment expenditure will be an important determinant of the level of GDP at any time, and of fluctuations in GDP in relation to potential GDP, over the short term.

Investment expenditure consists largely of *fixed business investment*, which represents the creation of capital goods (such as machines or factories) that can be used to produce other goods or services. Other, less significant, categories are *inventory investment* (often referred to as investment in stocks of goods which provide a buffer between production and retail sale and which, depending on whether stocks are being built up or run down, may be positive or negative) and *residential investment*, the creation of new housing stock (see pp. 125-7 and 153-5).

This article is concerned with current trends in fixed business investment and the significance of those trends in the context of the economy in general.

QUESTIONS

1. What trend in business investment in Australia is reported in the article?
2. What is the main source of this investment?
3. Why is the increase in investment noted considered to be a 'bright spot'?

4. In what sense is this considered to provide 'a floor to the national economy'?
5. Discuss the fundamental determinants of the trend.
6. What is the significance of the observations, made in the concluding paragraphs of the article, relating to the manufacturing sector of the economy?