

Alyssa Migliaro

Professor Strother

Macroeconomics

November 15, 2016

Policy Analysis of Australia

Introduction

This paper analyzes the policies of Australia through study of the country's overall GDP by examining its components and composition, the country's global integration by examining its debt, investments, and net exports, and its macroeconomic policy by examining fiscal and monetary policy.

Part One: GDP

Gross Domestic Product measures the value of a country's finished goods and services, representing the total dollar value of what is produced within a country's borders. Australia's GDP is \$1.2 trillion. The biggest component of Australia's GDP is household consumption, seen in Figure 1, and the majority of Australia's GDP composition is in services, as seen in Figure 2. This shows that Australia's GDP is largely supported by the purchases of services by consumers.

Figure 1. GDP Components in Australia

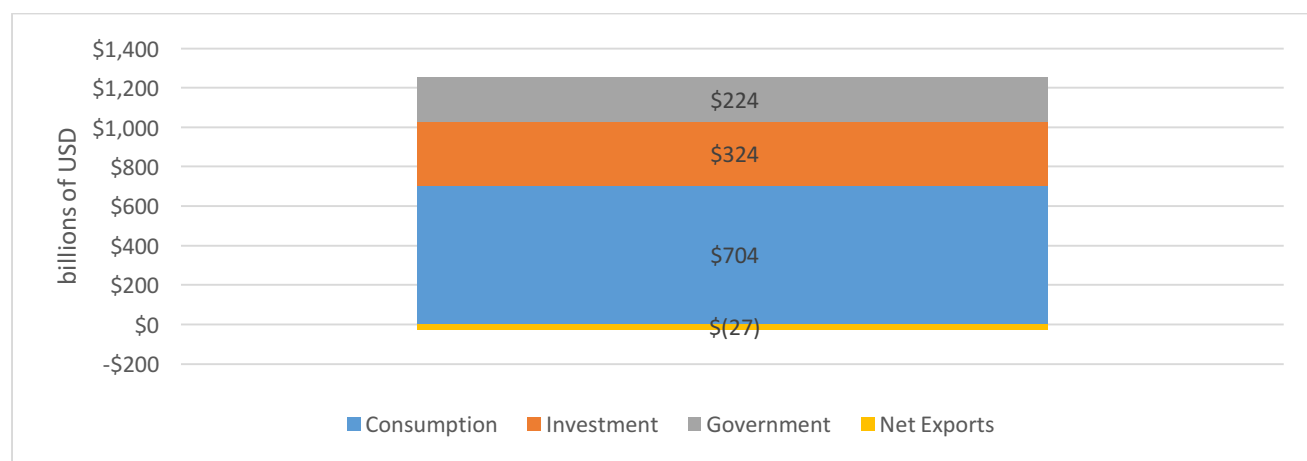
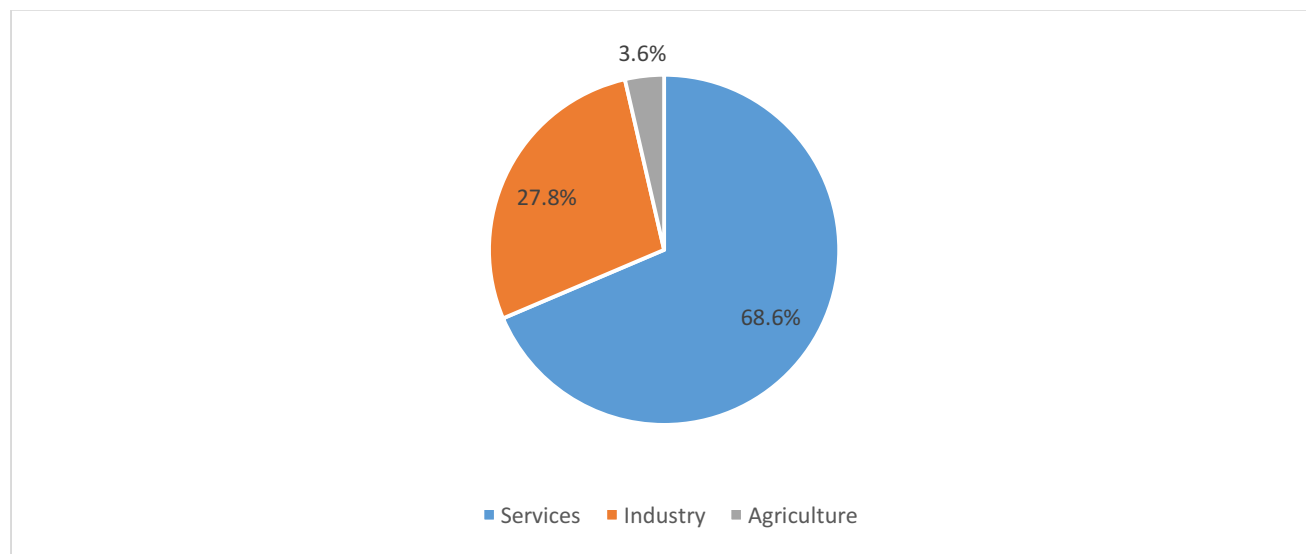


Figure 2. GDP Composition in Australia**Part Two: Global Integration**

As seen in Table 1, Australia puts a lot of money into investment at home, but almost equally as much money into investment abroad. Additionally, Australia both imports and exports about a quarter of its GDP, implying that it has a large global presence in trading with other countries, and because its imports exceed its exports, it is clear that Australia depends largely on this trade with other countries. However, the fact that Australia's debt exceeds its GDP could mean that Australia needs to focus more on investments at home and less on global integration.

Table 1. Global Integration Data in Australia (in USD)

	AUSTRALIA		USA	
	2014	2015	2014	2015
Official Exchange Rate	1 USD = 1.1 AUD	1 USD = 1.3 AUD	1 USD = 1 USD	1 USD = 1 USD
External Debt	\$1,552 B	\$1,524 B	\$16,490 B	\$17,260 B
Stock of Direct Foreign Investment				
At Home	\$599.5 B	\$582.6 B	\$2,901 B	\$3,280 B
Abroad	\$483.1 B	\$437.8 B	\$4,921 B	\$5,269 B
Value of Exports	\$240.7 B	\$188.3 B	\$1,633 B	\$1,510 B
Value of Imports	\$240.3 B	\$207.7 B	\$2,386 B	\$2,273 B

Part Three: Policy Analysis

Australia's macroeconomic policies can be described as expansionary. The interest rates are somewhat high, indicating that Australia may be trying to discourage spending on investments, but the inflation is very low, allowing people to have more purchasing power. This makes it somewhat evident that Australia is taking an expansionary approach at macroeconomic policy.

Table 2. Macroeconomic Policy in Australia

	AUSTRALIA	USA	WORLD
MACROECONOMIC INDICATORS			
GDP growth	2.4%	2.6%	3.1%
Unemployment	6.1%	5.3%	8.3%
Inflation	1.5%	1.6%	3.8%
FISCAL POLICY			
GDP: gov't consumption (% of GDP)	18.3%	17.7%	16.2%
Labor force in gov't (if available)	N/A	N/A	N/A
Taxes and other revenues (% of GDP)	34%	18.1%	27.5%
Budget surplus (% of GDP)	-1.7%	-2.4%	-3.0%
Public debt (% of GDP)	44.2%	73.6%	58.7%
Policy strategy	expansionary	expansionary	expansionary
MONETARY POLICY			
Central bank discount rate	3.0%	0.5%	0.5%
Policy Strategy	expansionary	expansionary	expansionary
Prime lending rate	5.6%	3.3%	3.3%

Conclusion

Australia has a small economic growth potential as characterized by its external debt, which exceeds its official exchange rate GDP. Australia is making less money than it owes, and this could mean it needs to focus more on investments in order to raise its economic growth, creating a larger GDP that can be used to help with external debts. The majority of Australia's GDP is found in household consumption which will make it hard to expand without focusing more on investments.