Factors that lead to a poor financial position

Some people are in a poor financial position. This results in them being able to save little or no money and/or facing increasing debt. Three major reasons for being in a poor financial position are:

1. Low income

Some households have a much lower than average income. People on a low income are typically at risk as they cannot afford to pay for health insurance or save enough to create an adequate buffer. Often the people in their support network are in a similar financial position.

Low income may be the result of factors such as:

- being unemployed and relying on social welfare payments
- being underemployed
- work being irregular (for example, workers packing orders in warehouses only given work sometimes)
- having a job that only earns the minimum wage.

2. Making poor financial decisions

Some households do not have a person with the financial knowledge and skills to assist them to make smart financial decisions.

Poor financial decisions may be the result of factors such as:

- not preparing a budget
- not looking at the monthly account balance and the amount spent
- buying too much on credit which results in high repayments
- making only the minimum payments on credit card debt which results in paying even more interest on the unpaid balance
- using credit providers that charge very high interest rates (such as pay day lenders).

3. Life events

Some households have experienced a life event that has had a negative impact on their financial position. The most common events that create a financial shock include divorce, ill-health and disability. These events only happen to some people and the timing cannot be predicted.

Other events that affect society as a whole may lead many people into a poor financial position (for example, widespread unemployment during a recession, or an act of terrorism or a war).

Research shows that, unfortunately, most Australians are ill-prepared to deal with financial shocks.

Having a strong support network of people who are willing and able to provide financial assistance is a great advantage.

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Activity 8 Financial anxiety and stress

View the results in the table below to the **NAB Wellbeing-Survey** question - Have you ever experienced any life events which have negatively impacted on your finances?

Separation / divorce	16.1%
Personal physical health concerns	18.0%
Caretaking a family member with high-needs health concerns	8.3%
Mental health concerns	9.7%
Job loss (e.g. redundancy, sudden termination)	23.5%
Domestic violence	3.5%
Unexpected expenses not related to health (e.g. property damage)	15.5%
Financial abuse by a partner or family member	7.0%
Inability to secure employment	13.0%
Death of a family member	9.0%
Other	3.6%
None of the above	38.5%

Note: Multiple responses were allowed for this question so results do not sum to 100%.

Source: https://business.nab.com.au/wp-content/uploads/2020/04/Australian-Wellbeing-Survey-Q1-2020-Part-2.pdf

Use the data in the table above to identify:

- the percentage of people surveyed who had not experienced any life event which had negatively impacted on their finances
- the **three** life events with a negative impact on personal finances that occur most frequently.

Discuss with a partner, the percentage of which life events experienced by the Australians surveyed surprise you the most.

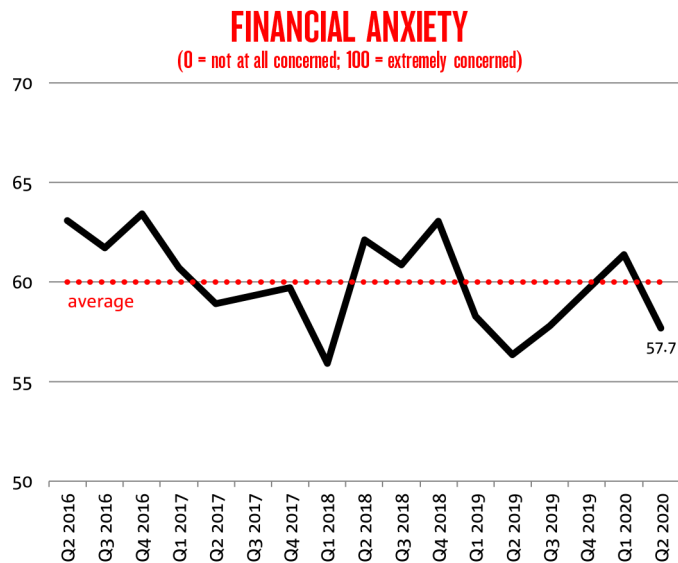Share and compare your 'surprises' with the class.

The **NAB Financial Anxiety Index** is a measure of Australian consumers' concerns about their future spending and savings plans arising from their current financial position. It is a 100 point scale (where zero is 'not concerned at all').

Use the graph on the next page to estimate the index average over the period from Q2 2016 to Q1 2020.

The 'Q' in Q1, Q2, Q3 and Q4 on the horizontal axis represents 'Quarter' (a quarter of the year) - a 3 month period. For example, Q1 is January, February and March.

FINANCIAL ANXIETY
(0 = not at all concerned; 100 = extremely concerned)

Source: https://business.nab.com.au/wp-content/uploads/2020/07/NAB-Australian-Wellbeing-Survey-Q2-2020-Part-2-Financial-Wellbeing.pdf
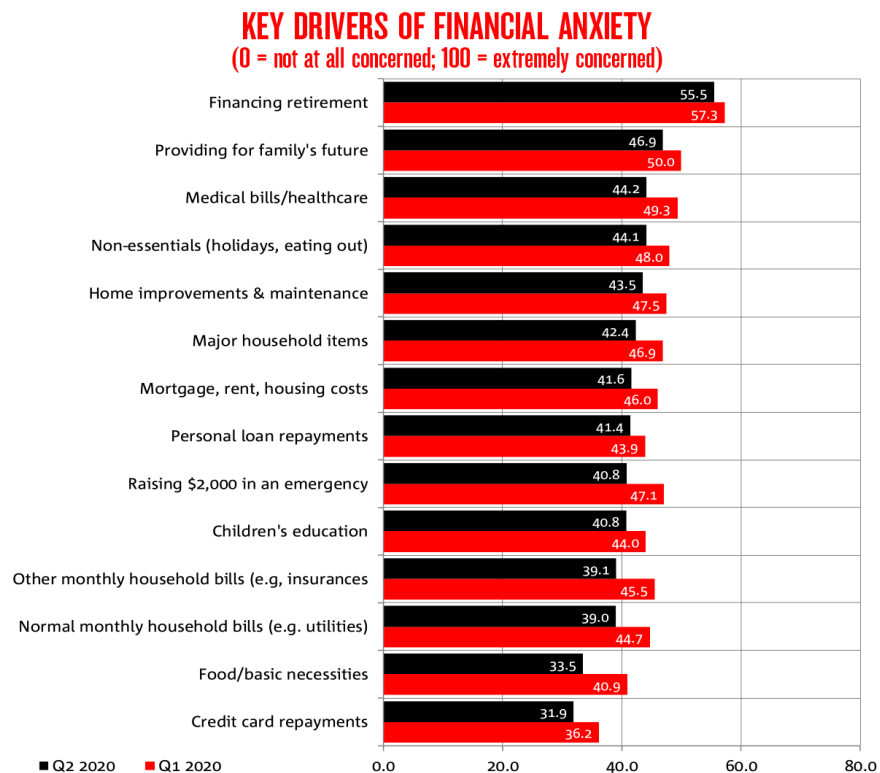
Australians responding to the **NAB Wellbeing Survey** identified a wide range of drivers (causes) of financial anxiety. Use the graph below to identify:

- **two** drivers that relate to the person's future life
- **two** drivers that relate to an emergency
- the **two** largest drivers in Q2 2020
- the driver that you think would be the most stressful for your household.

As often occurs in Economics and Business, this graph shows data for more than one time period to allow comparisons to be made. Use the key below the graph to choose the correct quarter.

KEY DRIVERS OF FINANCIAL ANXIETY
(0 = not at all concerned; 100 = extremely concerned)

Driver	Q2 2020	Q1 2020
Financing retirement	55.5	57.3
Providing for family's future	46.9	50.0
Medical bills/healthcare	44.2	49.3
Non-essentials (holidays, eating out)	44.1	48.0
Home improvements & maintenance	43.5	47.5
Major household items	42.4	46.9
Mortgage, rent, housing costs	41.6	46.0
Personal loan repayments	41.4	43.9
Raising $2,000 in an emergency	40.8	47.1
Children's education	40.8	44.0
Other monthly household bills (e.g. insurances)	39.1	45.5
Normal monthly household bills (e.g. utilities)	39.0	44.7
Food/basic necessities	33.5	40.9
Credit card repayments	31.9	36.2

■ Q2 2020   ■ Q1 2020

Source: https://business.nab.com.au/wp-content/uploads/2020/07/NAB-Australian-Wellbeing-Survey-Q2-2020-Part-2-Financial-Wellbeing.pdf

Predict whether each of the following statements about financial anxiety is True or False.

- Financial anxiety is lower for women than for men.
- Financial anxiety is higher for unemployed people than for employed people.
- Financial anxiety is lower for young people.
- Financial anxiety is greater among lower income earners.
- Financial anxiety is higher now than in Q1 2020.

Use the internet to find the most recent **NAB Australian Wellbeing Report** and use the data in the report to determine whether your True/False judgements were correct.

NAB releases their *Wellbeing Report* in the month after the end of each quarter.

Unemployment across countries

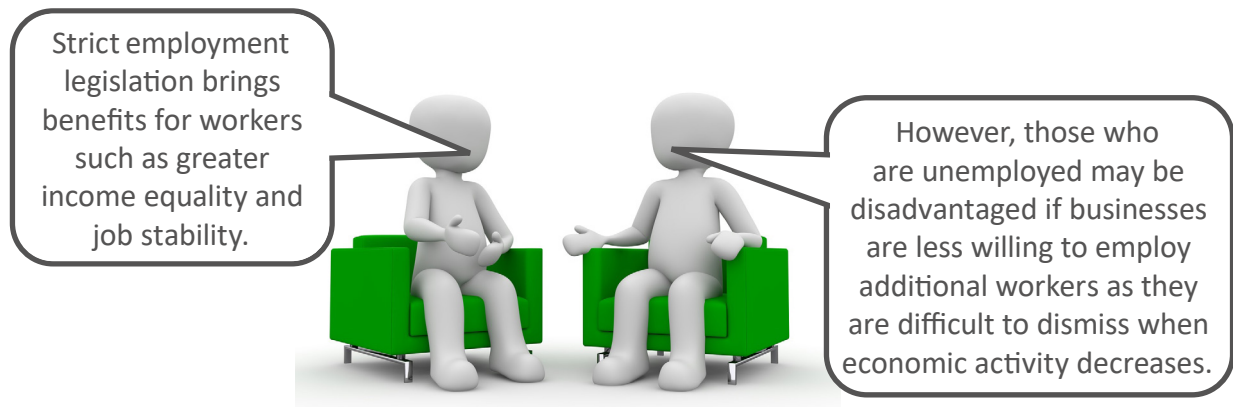Unemployment rates differ widely between countries. World Bank data for 187 countries based on on International Labour Organization estimates in 2019 show a world average unemployment rate of 5.4% with a range from 0.1% in Qatar to 28.2% in South Africa.

Differences in definitions and collection make cross-country comparisons of unemployment rates less reliable than comparisons of most other economic data.

Possible reasons for the difference in unemployment between countries include:

economic growth	• economic growth differs between countries • those countries with higher economic growth rates tend to generate more employment and have lower unemployment
access to quality education	• the quality of education systems and the availability of education to the population differs across countries • well-educated countries have workers who can adapt more easily to new production and management methods due to higher literacy and numeracy skills
technology	• uptake of new technologies has not been uniform across countries • the introduction of new technology tends to create unemployment in the short term • businesses that adopt new technologies become more efficient and tend to expand creating new jobs that require different knowledge and skills in the long term
workforce flexibility	• the flexibility of employment differs between countries • flexibility allows adjustment to changes in the demand and/or costs for different industries which may reduce potential unemployment (for example, the willingness of workers to move between regions as employment opportunities become available in other locations)
employment protection	• the strictness of employment protection legislation (such as the level of minimum wages and differing standards and penalties for unfair dismissal) differs between countries
unemployment benefits	• the availability of unemployment benefits, their structure and eligibility conditions differ between countries • greater availability at higher payment rates is a disincentive to work and may increase unemployment • stricter eligibility requirements may be an incentive to work and may decrease unemployment (for example, restricting the length of time that benefits are paid or requiring demonstration of active job searching)

Particular countries may experience periods of high unemployment due to interruptions in production caused by political events (such as civil war or disagreements with trading partners that reduce exports), adverse weather or climatic conditions that affect production in particular industries (such as severe storms or prolonged drought).

> Strict employment legislation brings benefits for workers such as greater income equality and job stability.

> However, those who are unemployed may be disadvantaged if businesses are less willing to employ additional workers as they are difficult to dismiss when economic activity decreases.

Activity 30   Unemployment differences between countries

On the IMF website used in Activity 27 and 29, select 'People' then select 'Unemployment'. Then choose a different **six** countries (again, of different size, with different standards of living from different parts of the world).

Write a paragraph describing how similar (or different) the unemployment rates are for the six countries that you chose.

Add Australia and the group of advanced economies to your graph, then use a 'five star' rating system (where 1 star is very poor and 5 stars is very good) to rate each of the seven countries for its current performance in terms of unemployment compared to the average rate for the advanced economies.

Use the 'All Data' Excel File button to view all the available unemployment data in a spreadsheet. Sort the data for the last completed year and identify:

- Australia's ranking
- the **five** countries where unemployment was lowest
- the **five** countries where unemployment was highest.

As a class, discuss what you notice about the top five countries and about the bottom five countries.

Reducing the negative impacts of economic activity

Economic activity not only results in the provision of goods and services, it can also cause negative impacts such as environmental damage, health issues, and traffic congestion. If the market was left to determine what is produced, and in what quantities, these negative impacts would occur as they have no direct cost to the businesses or consumers involved.

For this reason, the cost that is suffered by a third party (an individual, business, property owner, or resource that is indirectly affected) as a result of an economic transaction is described as a **negative externality**.

> A negative externality is also known as an external cost or a spill over effect.

Negative externalities can occur during production (for example, cutting down trees in the Amazon rainforest to clear land to graze cattle) or during consumption (for example, smokers affecting the health of the non-smokers near them). Continued economic growth has resulted in increased negative externalities.

Plastic pollution is a major threat to marine life. Scientists estimate that plastic particles can now be found in 90% of the world's seabirds.

Image by skeeze from Pixabay

Emissions from some factories, refineries and power plants have caused health issues for people living in surrounding areas and in other cases are contributing to global warming.

Image by Benita Welter from Pixabay

Governments have taken action to limit the negative impacts on society and the environment caused by the production and/or consumption of particular products.

To limit the negative impacts of economic activity the government can either:

introduce regulations to reduce production and/or consumption	provide incentives to reduce production and/or consumption	provide disincentives to reduce production and/or consumption
for example, limiting the emissions that cars are allowed to produce	for example, removing stamp duty on the purchase of an electric car	for example, an additional tax on electricity produced from fossil fuel

Case study – Electric vehicles

In recent years, the number of electric vehicles (EVs) sold in Australia has increased rapidly. However, they are still only an extremely small percentage of total new car sales (0.6% in 2019). At the other end of the scale, in Norway over 50% on new car sales are EVs. The Norwegian Parliament has a goal for all new cars sold to be zero emission vehicles (battery or hydrogen) by 2025. Starting from 1990, the government has used a wide range of incentives to encourage the purchase of EVs, including:

- removing the 25% VAT (the equivalent of the GST in Australia)
- removing the registration tax
- reducing the purchase tax (by basing the tax on emissions as well as the weight of the vehicle)
- reducing parking fees for EVs
- allowing EV drivers to use bus lanes.

In 2020, sixteen other countries had target years of 2030, 2035 or 2040 to achieve 100% of new car sales to be EVs (or 0% that use fossil fuels).

Electric cars accounted for 2.6% of global car sales (about 2.1 million cars) and about 1% of global car stock in 2019. Purchasing these EVs avoided the consumption of almost 0.6 million barrels of oil per day (that would have otherwise been used to produce the petrol to power the cars).

Image by (Joenomias) Menno de Jong from Pixabay

Activity 37 Transport and the planet

Watch Episode 2 of the ABC program '**A Plan for Planet A**' at: iview.abc.net.au/show/fight-for-planet-a-our-climate-challenge.

Write down:

- **three** things that you found the most interesting
- **two** things that you found most concerning
- **one** thing that you would do to reduce emissions from cars.

Take **one** of the roles from the list below that your teacher allocates to you. Consider what view your character would have on electric vehicles (in favour, against, not concerned) and the reason/s for this position.

Roles

- Farmer in a rural area
- Family with two young children living in the city
- University student
- Federal Treasurer
- Mechanic at a new car seller
- CEO of a very large business that develops, operates, and owns shopping centres across Australia
- Member of an environmental action group
- Person who likes 4WD weekend getaways in rugged terrain
- Worker at an oil refinery
- Commuter who lives in an outer suburb but works in the city
- Owner of a large construction business that builds apartment blocks
- Worker at a lithium mine
- Member of State Parliament
- The Mayor of an inner suburban local government area
- A factory worker on the minimum wage

Consider the impact (the advantages and disadvantages) of each of the following proposals about EVs from your character's viewpoint. Also consider how your character may wish to modify the proposals.

Proposals

- Increase the GST on the purchase of new petrol and diesel cars from 10% to 30%
- Ban the sale of new petrol and diesel cars from 2030 onwards
- Require all local governments to provide one free charging station for every 20 parking spaces in all public carparks with 20 bays or more
- Require all large suburban shopping centres to provide 10 charging stations for every 200 parking spaces
- Change planning regulations to require all apartment blocks built in a major city from 2025 onwards to include one charging station for each apartment
- Remove the duty (a state government tax based on the value of the vehicle) on the purchase of EVs
- Make parking free for EVs in all metered street parking bays and public carparks
- Decrease the vehicle licencing fee for EVs by 50%

As a class, consider each proposal, one at a time.

Each class member is an actor taking on the role of their character to present their opinion on each proposal. So that the class knows your role, you could start with: I am thinking of this proposal from the viewpoint of <your role>. I think <the proposed action> is <explain whether you are in favour of the proposal, against it, not concerned by it, your reason/s for this position and, where appropriate, how you would change the action>.

After all characters have presented their opinion about the first proposal conduct a class vote to determine whether it should be implemented.

Repeat the presentation and voting process for each of the other proposals.

Predict the year that all new cars sold in Australia will be EVs.

Share and compare your prediction with a partner.

As a class:

- make a timeline and each put a marker at the year that each person predicts will be when all new cars sold in Australia will be EVs
- identify and highlight the median year (the middle of the collection of predictions, for example the 13th prediction from the soonest year predicted if there are 25 class members as that item has 12 predicted years below it and 12 above it)
- discuss whether the 'take up' of electric vehicles in Australia is fast enough.