

Micro and Macro-Economic Analysis of Recovering Economy under COVID-19 in Australia

Jinghan Xu

Asia Australia Business College, Liaoning University, Shenyang, China
Xjh210318@163.com

Abstract: It is not easy to develop economy in the face of the global epidemic, embodying in the low consuming impulse resulted by the sudden break down of the economy of Australia, but Australia government has taken a series of measures in line with its economic characteristics to ensure the normal operation of the economy and the daily life of its people.

Keywords: Micro economic, macro economic, epidemic, Australia

1. Introduction

The lockdown in Australia has led the economy recede, in an effort to restore this situation, many Australian states have introduced a variety of measures. The government of Queensland has promised to recover the economic condition since being elected successfully, but until recently did it propose detailed strategy for that promise based on various needs, personal economic conditions, cares and worries. This article will analyze the macro and micro economic influences after the measures are implemented and propose my personal insight and recommendations after glancing all relevant materials.

2. The current state of the Australian economy

People who run business in Australia are eager, happy but a little concerned about whether the reopen method set by government can recover economy business condition to what it was before. There are several comments delivered by business owners. Dave Makin, who is the boss of a café claimed that he was really pleasant for the reopen during such a special period because he has a big family to take care of and the revenue from the café is the only income for his family. Tiffany Zerafa, who runs 'Sticky Fingers Children's Boutique', said she had been waiting for the opportunity to reopen her store for such a long time, only if people are allowed to hang out can her clothes own the potential to be sold out, because trying on clothes in the store is much better than just browsing them on websites and imagining how good children would look in them. Her store is shown in Figure 1. Paul Guerra, who is an officer in Victoria government, presented that 'ring of steel' that separated Victoria and Melbourne will be torn down and people just cannot wait to see each other. The Victorian Tourism Industry Council conveyed that the news will make it prosperous again in tourism industry since tourism industry is one of the pillar industries in the Australian economy.



Figure 1: Children clothes grocery store

Therefore, the government improves the economic situation mainly by investing. It is known that the method of calculating GDP is to add up consumption, investment, government spending and net exports. Therefore, increase the amount of investments can definitely increase GDP, and improve the economy of Australia eventually.

For job seekers, the government works through investing major projects to offer more job opportunities such as building hospitals and schools. However, it may take four-year time to offset the unemployment condition caused by COVID-19, so the results will not be particularly obvious in a short time.

For skill seekers, the government invests in cultivating skills that may be needed in workplace for young Queenslanders, and the age limit is expanded to 25 to release the condition of aging period and provide a welfare to its citizens.

For health workers and those care for health, because of the excellent performance during COVID-19, more medical workers and medical equipment are added, and the construction of hospitals is on the agenda in case of the next serious epidemic situation.

For businessmen, interest-free loan, payroll tax and land tax relief are supplied by government to support those small and medium enterprises with great growth potential. It is also a proper period to recover for enterprises.

For those who depend on travel industry, the government investments will focus on recovering this Queensland to attract more tourists this summer to improve economy.

For those living there, money is spent on decreasing the damage of natural disasters.

For people who care for environment, the government investments would aid renewable energy projects to improve economy in the long run. Some traditional old energy sources will gradually be replaced by modern new sources such as solar energy, wind energy and ocean energy. The current energy composition of Australia is shown in Figure 2.

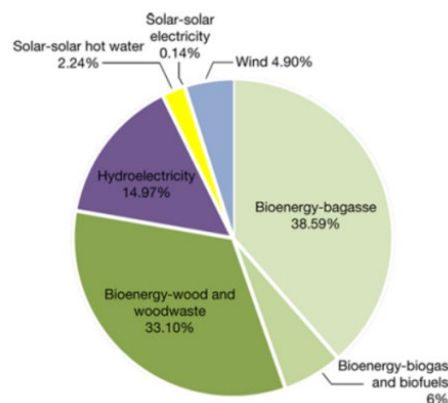


Figure 2: Australian energy composition

For those who worry about crime, 'The Palaszczuk Government said its investment in police is the biggest of its kind in three decades' [1]. The safety of Queensland would be promised.

For those who worry about national debt, the government investments must be a large expenditure, but it is much lower than neighbor countries, citizens can thus trade foreign exchanges with strong confidence.

3. Analysis

3.1. Micro-economic theory

The first economic principle is 'opportunity costs'. The Australian business has been at a standstill for several months from the middle of March 2020, because COVID-19 broke out in both Victoria and Melbourne, and in order to had a good control over it, government gave an order that except for essential public places, other places must be closed and people should not go out unless necessary to prevent people from being infected. 'The vast majority of retail stores - with the exception of supermarkets - will

be closed down in Melbourne for the duration of lockdown.’ [2]. This reflects that the opportunity cost of this behavior is that economy develops well. Obviously, it was a wise decision of the government to guarantee the health of people in exchange of economy development.

The second economic principle is ‘market demand and supply’. Because of the long period of staying indoors, the demand of consuming will rise significantly. Demand curve will shift to right, which will cause the equilibrium price increase, and suppliers will supply more because a rise in price. However, such situation will not last long, because after the consuming impulse, demand will decrease and this will force the equilibrium price drop back again. The relationship between market supply and demand is shown in Figure 3.

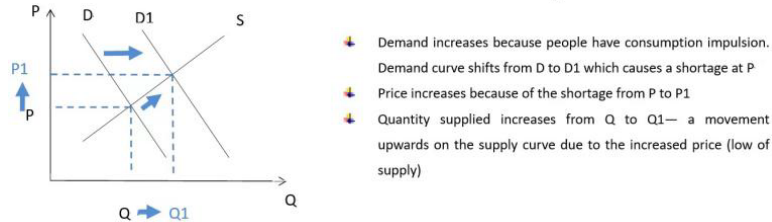


Figure 3: Market demand and supply relationship

The third economic principle is ‘market failure’. Though pubs, shops and tourism industry are reopened, the number of people that a pub can host is strictly limited, and this is exactly a kind of government intervention. Government has to pay for the revenue that it would have received if there is no such a strict limitation [3]. The seats outside the café are also not available if it rains, which will deteriorate the business conditions of it. If a market depends on government to maintain a balance, then it can be called as market failure, as the Figure 4 shows.



Figure 4: Market failure

3.2. Macro-economic theory

Firstly, according to survey, the jobless rate in Sunshine State is 7.7% [4], higher than the national average figure of 7%. Sunshine State is a place famous for travelling, so among the four types of unemployment, it can be classified as seasonal unemployment because ‘Nicknamed the Sunshine State for its tropical and sub-tropical climates, Great Barrier Reef and numerous beaches, tourism is also important to the state’s economy’. During summer time, the number of tourists is higher than that in other seasons, so consumption increases, then GDP also increases because $GDP=C+I+G+(X-M)$, so unemployment in summer is lower than in other seasons. However, during the COVIC-19 period, tourists are fewer for unavoidable reasons, unemployment is relatively high.

Secondly, all investments invested by the government have a positive impact on GDP since GDP equals to consumption plus investment plus government plus exports minus imports.

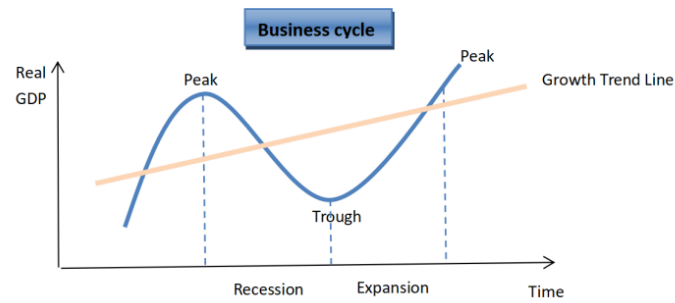


Figure 5: Queensland business cycle

Thirdly, based on the Queensland business cycle shown in Figure 5, Queensland is at its trough point of its business cycle now, and what the government doing is to make it gradually expand until reaching a new peak, and the total growth trend of it is rising.

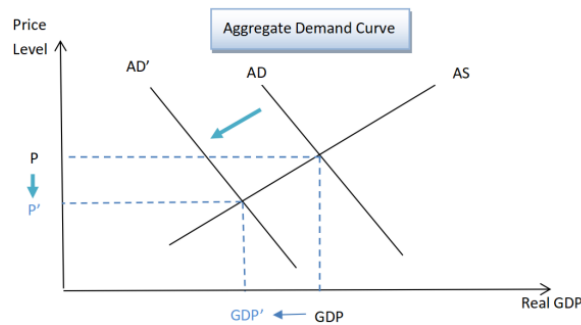


Figure 6: Aggregate Demand Curve

Fourth, according to the article, the unemployment is high in Queensland, so it can be judged that the income of people is less, the MPS is high and thus the MPC is low. Therefore, the total demand curve in Figure 6 is analyzed as follows:

- ① Aggregate demand for goods or services will decline, causing the left shift of the demand curve.
- ② Then the price level is lower and real GDP is smaller than before.

4. Conclusions

The reopen has positive effect in the whole economy by combining both micro and macro means of economic control, the government also puts forward more perfect suggestions such as controlling density instead of number to attain a win-win situation. Nevertheless, if more information such as how the national debt influences the behavior of people can be provided, like crowding-out issues and market dynamic after reopening, the analysis will perhaps be more detailed.

References

- [1] Kinsella & Dunstan, Victoria's coronavirus restrictions set Melbourne's pubs, restaurants and shops on a 30-hour race to reopen[N]. ABC NEWS, 2020-10-26.
- [2] Maiden, Coronavirus Victoria: All retail in Melbourne to shut down for six weeks[N]. new.com.au, 2020-10-28.
- [3] Leske S, Kõlves K, Crompton D, et al. Real-time suicide mortality data from police reports in Queensland, Australia, during the COVID-19 pandemic: an interrupted time-series analysis[J]. The Lancet Psychiatry, 2021, 8(1): 58-63.
- [4] The Australian, Qld budget 2020: Major jobs promise for state's economic recovery[N]. The Australian, 2020-4-22.