

Topic 5 – Revision Questions

- 1) What are the main sources of savings in the economy?
- 2) Determine why Businesses may borrow money?
- 3) Determine why Governments may borrow money?
- 4) What is the purpose of primary and secondary markets in the financial market?
- 5) What role does the FOREX play in the financial market?
- 6) Explain the possible motives of keeping liquid funds?
- 7) Analyse the key roles of the RBA – and outline what the four most important roles are?
- 8) Give one example of how financial innovations have improved efficiency and advancement of the financial system
- 9) In relation to assets, define the term liquidity and explain its relationship to interest rates
- 10) What does Broad money comprise of?
- 11) What does M3 comprise of?
- 12) Explain the implementation of “Loosening of monetary policy” and its overall effect on economic activity
- 13) Outline the factors that may influence the level of interest rates?
- 14) How do investment and debt influence the share market?

Extended Response:

- Intro – why financial stability and regulation is important in Australian financial markets – and the economy overall?
- Causes and effects, i.e. consequences of not maintaining financial regulation HIH insurance (http://www.aph.gov.au/library/intguide/econ/hih_insurance.htm) , GFC, Collapse of Onetel
- Three main financial regulators – RBA, ASIC, APRA
- RBA, ASIC, APRA (Roles and function)
- How they maintain financial stability
- Examples, media articles, case studies, statistics (found on Gov websites and newspapers)

ASIC's new powers to speed up prosecutions

THE Australian Securities and Investments Commission said it should be able to begin faster prosecutions in cases of manipulation and insider trading after its takeover of financial markets supervision.

ASIC took up the new role yesterday after the Senate voted in March to hand oversight of real-time trading on domestic-licensed markets to ASIC from ASX, the national stock exchange operator.

ASX yesterday renamed itself ASX Group and overhauled its structure to create four main operating units.

These are the main equities and futures trading business, the Australian Securities Exchange; the clearing business; and the market settlement unit, while the new ASX compliance unit replaces the previous market supervision business.

"Perhaps what people will see a bit more than before is that things are going quicker," said Belinda Gibson, ASIC's deputy chairman.

"We're not talking quantum leaps in terms of time to prosecution. But at the moment, the referral process takes about three months for something like insider trading, and it chugs on from there."

ASX's role has been to investigate suspected breaches of market integrity rules and refer the most serious to ASIC, while its own conduct has been overseen by the regulator. ASIC will now be responsible for both supervision and enforcement of the laws against misconduct on Australia's financial markets.

"One would think that if our own surveillance people see a potential breach of those criminal cases, it won't be a case of review, review, tip it over the fence and then we have another bite at the cherry," Ms Gibson said.

ASIC lost at least three court cases last year, including one against Jodee Rich over the collapse of telecommunications carrier One.Tel, of which he was managing director. It also lost a case against Andrew Forrest, the billionaire founder of Fortescue Metals Group, whom it accused of misleading investors over iron-ore project accords with China.

"A more effective and efficient regulator will engender confidence amongst market participants and can only help add to the attractiveness of Australia as a global investing destination," said Tim Schroeders, a fund manager at Pengana Capital.

AUSTRALIANS are increasingly confident about the economic outlook following the RBA's decision to halt its series of interest rate rises.

The latest Westpac-Melbourne Institute Index of Consumer Sentiment figures reveal a 5.4 per cent jump in the past month to levels last seen before the RBA started raising rates in October last year.

The biggest jump in sentiment was on the question of the economic outlook for the next 12 months, which rose 8.6 per cent to 127.1. A figure above 100 shows optimists outnumber pessimists.

Westpac's chief economist, Bill Evans said the figures, the first released during the election campaign, were stronger than expected.

"After tumbling by 15 per cent in the wake of three consecutive rate hikes in March, April and May, the index has now recovered by 17 per cent in the last two months," he said in a statement.

"It is now back to around the level it reached at the beginning of this year and the level we saw prior to the beginning of the rate hike cycle in September last year.

"There were many reasons to expect the index to rise in August although a 5.4 per cent increase following the 11.1 per cent increase last month is much larger than we expected.

"Clearly the most important factor was the decision by the Reserve Bank to keep its overnight cash rate steady in August. There had been intense media speculation about a rate hike and we certainly assessed that a likely high read for inflation in the June quarter would have resulted in a rate hike.

"The significance of the rate decision can be seen with the 10.2 per cent increase in the confidence of those folks who hold a mortgage ... However, confidence amongst people who rent was also up by 10.2 per cent so other factors were also at work." Last week's meeting of the RBA board opted to hold interest rates steady at 4.5 per cent for the third consecutive month, with economists now predicting there will be no further rises until the end of the year at the earliest.