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SUPERVISOR'S USE ONLY

Level 2 Economics, 2017

91224 Analyse economic growth using economic concepts and models

2.00 p.m. Monday 20 November 2017
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse economic growth using economic concepts and models.	Analyse economic growth in depth using economic concepts and models.	Analyse economic growth comprehensively using economic concepts and models.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

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QUESTION ONE: ECONOMIC MODELS AND ECONOMIC GROWTH

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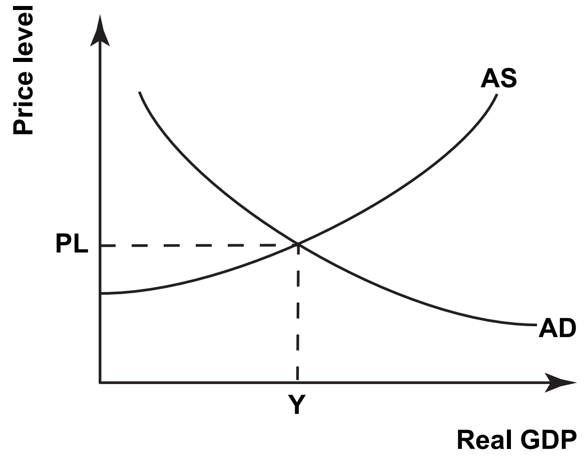
Annual average GDP growth is expected to rise to 2.9% by the middle of 2017, from 2.6% in June 2016, mainly from increasing domestic demand.

Source (adapted):http://www.treasury.govt.nz/budget/forecasts/befu2016/006.htm

Graph One: AD / AS model of the New Zealand economy



(a) (i) On Graph One above, show the impact of increasing domestic demand on the AD / AS Model.

(ii) Using Graph One, fully explain the impact on economic growth if domestic demand continues to remain strong in New Zealand.

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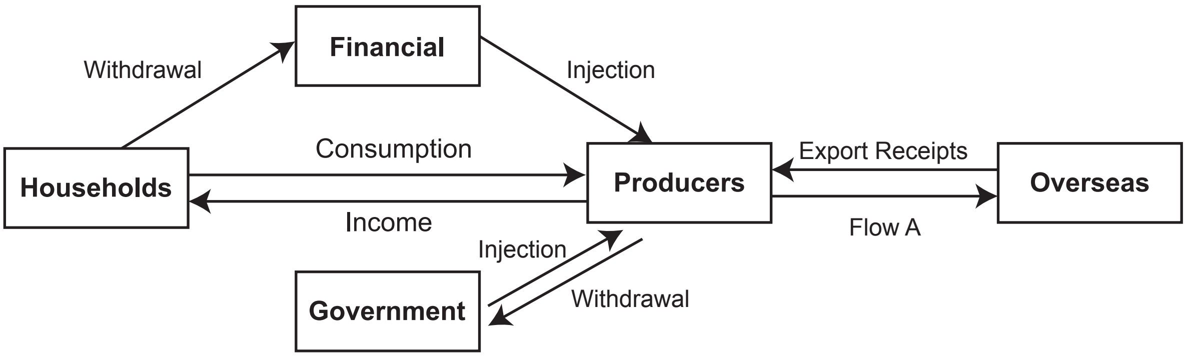
Our major trading partners are expected to experience economic growth on average of 3.5% in 2017, resulting in sustained increases in New Zealand export receipts.

Source (adapted): http://www.treasury.govt.nz/budget/forecasts/befu2016/006.htm

Model One: Circular flow model



(b) On Model One above:

(i) Identify and define money flow A.

(ii) Identify ONE injection and ONE withdrawal, excluding export receipts and flow A.

Injection:

Withdrawal:

(iii) Discuss the impact of an increase in export receipts on economic growth. Fully explain:

- how the Producers and Households sectors in the Circular flow model are better off through the increase in export receipts
- why the increase in economic growth through export receipts may be less than expected because of withdrawals.

More answer space is available on the next page.

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QUESTION TWO: GDP AND PRODUCTION POSSIBILITY FRONTIER

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(a) Fully explain a limitation of using Nominal GDP as a measurement of economic growth in the New Zealand economy compared to Real GDP per capita. In your answer, include a definition for nominal GDP and a definition for Real GDP per capita.
Note: Per capita is per head of population

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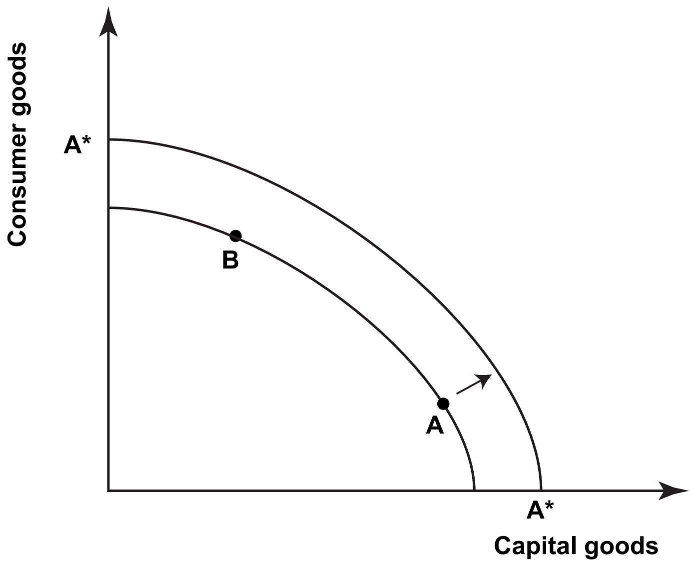
Graph Two: Production Possibility Frontier



A* represents the future PPF created by point A

(b) (i) Fully explain the opportunity cost if New Zealand production shifts from A to B.

(ii) On Graph Two, draw a future Production Possibility Frontier (labelled **B***) to show New Zealand operating at Point B.

(iii) Using Graph Two, fully explain why the future Production Possibility Frontier (B*) you have drawn shows a level of potential capacity different from the future Production Possibility Frontier (A*) created by point A.

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QUESTION THREE: IMPACT OF GROWTH

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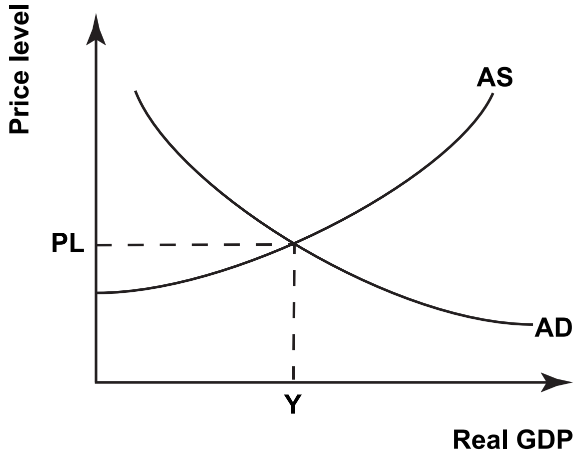
Both the government sector and the private sector will need to increase infrastructure investment (e.g. roads, power and broadband) in regional New Zealand. Delays will cause increased costs of production and will limit growth in the tourism market.

Graph Three: AD / AS model of the New Zealand economy



(a) (i) On Graph Three above, show the impact of increased infrastructure on the Aggregate Demand AND Aggregate Supply curves

(ii) Using Graph Three, explain the shifts in Aggregate Demand and Aggregate Supply and the impact on economic growth.

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Spending by passengers and crew of international cruise ships in New Zealand grew by 13% between 2015 and 2016, resulting in an increase in industry employment of 5% in regions where the ships visited. At present, 17 regions benefit from the cruise industry, which will attract more workers and capital investment in the future because growth is expected to be sustained.

Source (adapted): http://cruisenewzealand.org.nz/wp-content/uploads/2016/08/2015-2016-SUMMARY-Economic-Impact-Report-FINAL-2.pdf

(b) Compare and contrast the impact of the economic growth resulting from expanding international cruise ship tourism on:

- workers in the regions that service the cruise ships
  AND
- producers in the regions that service the cruise ships.

In your answer, fully explain the benefits and costs to EACH group.

More answer space is available on the next page.

ASSESSOR'S USE ONLY

Extra space if required.
Write the question number(s) if applicable.

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