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2

91224



912240



NEW ZEALAND QUALIFICATIONS AUTHORITY  
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## 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.**

Excellence

TOTAL

22

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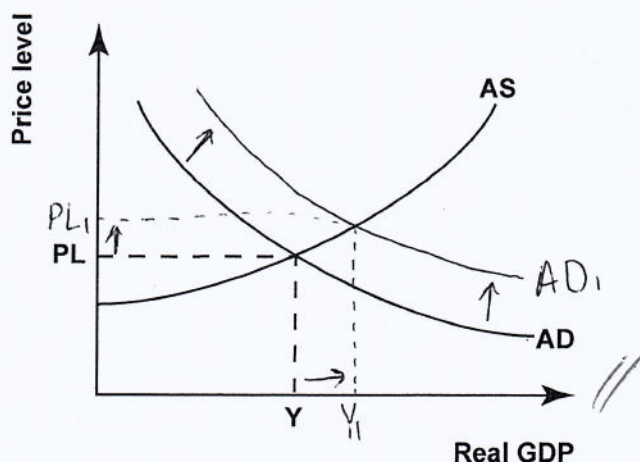
# QUESTION ONE: ECONOMIC MODELS AND ECONOMIC GROWTH

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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.

Increasing domestic demand means that consumption spending ( $C$ ) will increase as households demand more goods and services from producers. This will lead to increased incomes and employment and firms may decide to invest more ( $I$ ) as demand for their products are high. Increased consumption spending and investment will increase aggregate demand, which will shift from  $AD$  to  $AD_1$ . If domestic demand remains strong this will result in  $Y$  ~~shift~~ increasing to  $Y_1$ , increasing real GDP and economic growth. //

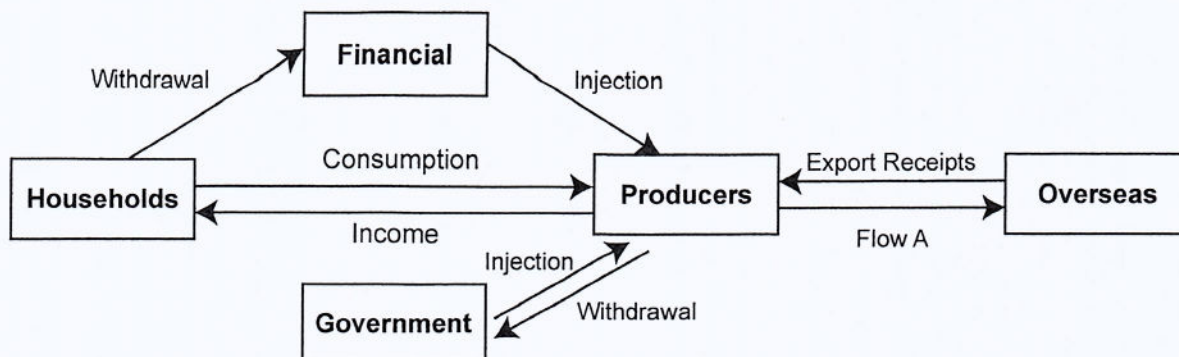


Our major trading partners are expected to experience economic growth on average of 3.5% in 2017, resulting in sustained increases in New Zealand export receipts.

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

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### Model One: Circular flow model



(b) On Model One above:

(i) Identify and define money flow A.

Import payments. Payments from NZ importers to overseas in return for imported goods and services.

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

Injection: ~~sa~~ investment

Withdrawal: savings

(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.

Producers will be better off as sales and profits for producers. Producers may increase ~~out~~ production and employ more workers to keep up with the increase in demand resulting from increased export receipts, since exports are a component of aggregate demand. The ~~incre~~ Households will be better off because

More answer space is available on the next page.

there will be more job opportunities and incomes may increase as a result of the increased production. Increased export receipts, production, employment and income will lead to <sup>economic</sup> growth. However the increase in growth may be less than expected as producers may have to import more raw materials in order to maintain increased production. ~~Direct~~ Companies will have to pay more indirect tax (such as GST) and higher incomes and employment will mean households pay more direct taxes (such as income tax) to the government. Households may also decide to <sup>save</sup> ~~use~~ their increase in income instead of spending it on consumption. Since import payments, taxes and savings are all withdrawals, overall the <sup>economic</sup> ~~expected~~ growth may be lower than expected.

E8



## QUESTION TWO: GDP AND PRODUCTION POSSIBILITY FRONTIER

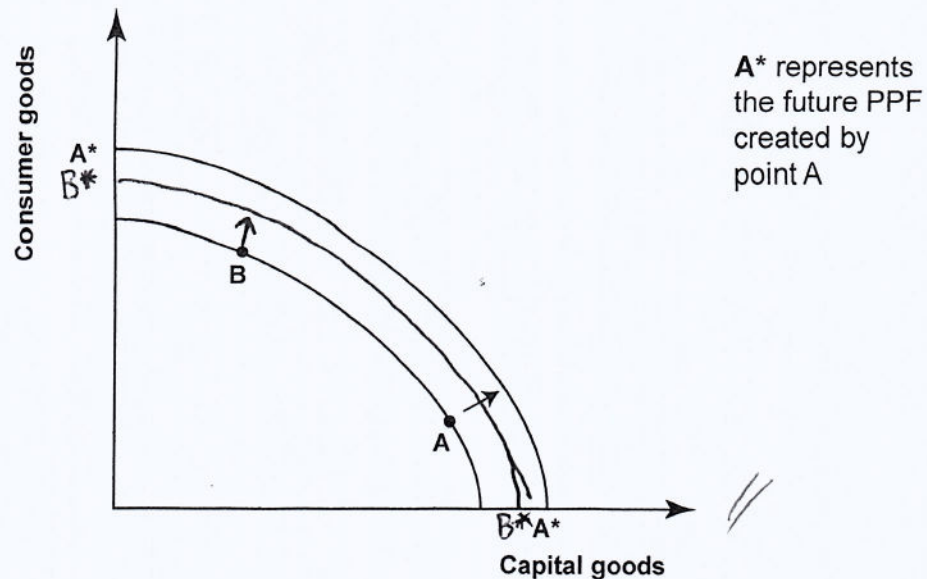
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- (a) Fully explain a limitation of using Nominal GDP as a measurement of economic growth in the New Zealand economy compared to Real GDP per capita. In your answer, include a definition for nominal GDP and a definition for Real GDP per capita.

Note: Per capita is per head of population

Nominal ~~Real~~ GDP is the value of all goods and services produced in an economy in current-year dollars. Real GDP is nominal GDP adjusted for inflation. One limitation in measuring economic growth using nominal GDP is that it doesn't show whether the ~~increase~~ change in GDP was due to inflation or an increase in real output. For example, nominal GDP could increase by 2%, but if inflation that year was 3% actual output (Real GDP) will have decreased by 1%.

Graph Two: Production Possibility Frontier

ASSESSOR'S  
USE ONLY

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

Less capital goods will be produced. The number of consumer goods produced will increase. This will lead to more economic growth now but less economic growth in the future, as NZ foregoes the production of capital goods, instead producing more consumer goods.

- (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.

The potential capacity of producing at Point B is smaller than the potential capacity of producing at point A. This is because by producing at point B, the NZ economy produces more consumer goods and fewer capital goods. This will lead to economic growth now, as the supply of consumption goods increases. This allows households to purchase more consumption goods which may increase



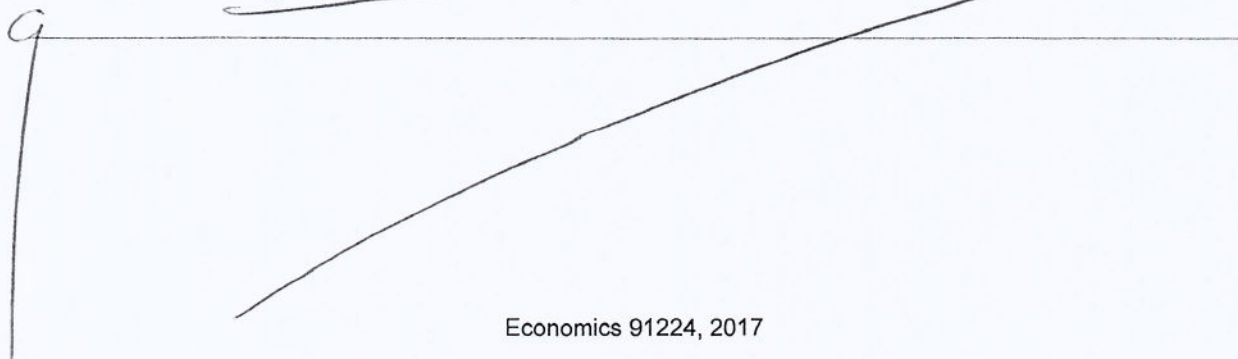
their standard of living as they have more access to consumption goods.<sup>such as food, entertainment, toys and furniture.</sup> However by producing

at point B, the economy must forego producing a number of capital goods.

Capital goods allow for future economic growth as they increase the <sup>future</sup> productive capacity of firms as they have access to more technology and machinery.

Although, producing at point A means that less consumption goods are produced now so current economic growth may be slower. This is because producing more consumption goods will increase consumption spending (C), which will increase real GDP and current growth.

However <sup>although current growth increases,</sup> producing at point B and producing less capital goods will limit future growth, shown by the small shift in the PPF curve outwards from B to B\*. Since at point B some capital goods are still being produced, productive capacity will still increase but the increase will be smaller than producing at point A, where more capital goods are produced.



E7

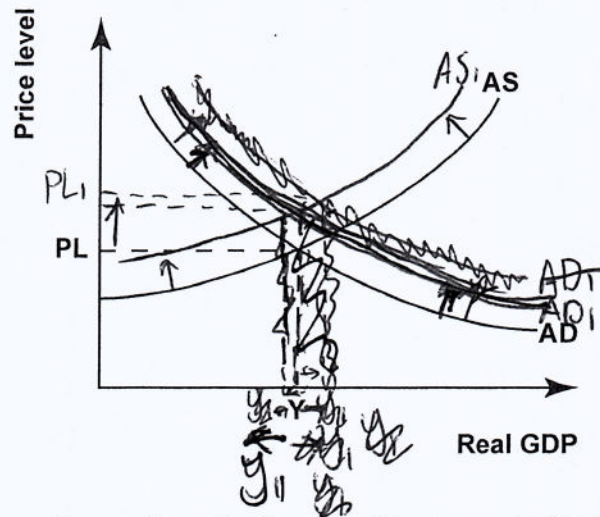


### QUESTION THREE: IMPACT OF GROWTH

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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.

Aggregate supply will decrease ~~from~~ due to increased costs of production resulting from delays, making production less profitable. AS will decrease to AS<sub>1</sub>. Aggregate demand will increase as a result of increased government spending as well as increased investment spending by firms on infrastructure. AD will shift right to AD<sub>1</sub>, however some of the increase in AD will be offset by decreased tourism, which will decrease export receipts. However more components of AD are affected by investment & government

however in the  
ure, growth  
occur due  
better  
infrastructure.

spending so there will still be a small increase. the decrease in  
IS and increase in AD will lead to little economic growth in  
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reason AS shift left more than AD shift right so overall growth will decrease slightly.



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.

A benefit to workers in the regions that service the cruise ships is that there is now more employment opportunities and incomes may increase due to the increase in export receipts in those regions due to more international visitors. One cost for workers in the region may be that due to increased tourism, the region becomes more crowded and polluted<sup>high increase</sup>. Workers may be required to work longer hours which could lead to higher stress and less recreation time. Producers in the region may benefit due to higher profits and spending in the region. Export receipts will increase due to increased tourism and producers may increase production, leading to further economic growth. Producers may be disadvantaged as they may

<sup>traffic congestion increase</sup>

More answer space is available on the next page.

struggle to find new skilled workers to employ to maintain production.

Producers ~~may~~<sup>will</sup> also have to ~~pay more tax and comply with go~~ comply with government regulations, and as production increases and tourism increases, it may become more expensive to cover these costs. //

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E7



**Excellence exemplar 2017**

<b>Subject:</b>		<b>Economics</b>	<b>Standard:</b>	<b>91224</b>	<b>Total score:</b>	<b>22</b>
<b>Q</b>	<b>Grade score</b>	<b>Annotation</b>				
1	E8	<p>Part A Detailed explanation using consumer spending and investments as components of Aggregate Demand to justify shift of curve. Graph and increase in real output is fully referenced in detailed explanation.</p> <p>Part B Detailed explanation of why Households and Producers are better off due to increased export receipts. Detailed explanation of how increased production causes an increase in a withdrawal (import payments) as additional raw material are required.</p> <p>Detailed explanation that increased income received by households may be saved (withdrawal), conclusion growth is lower than expected</p>				
2	E7	<p>Part A An explanation of the difference between nominal and real GDP.</p> <p>Part B Graph correct and referenced in detailed explanations. Economic understanding of what capital goods are and their link to potential capacity in the future. A detailed explanation that allows a compare and contrast between both potential future frontiers A* and B*. Detailed explanation of A* and B*.</p> <p>Overall Evidence of detailed compare and contrast.</p>				
3	E7	<p>Part A Explanation using economic terms to justify shift of aggregate demand, evidence of reference to graph. Partial explanation of shift in aggregate supply curve, reference to graph in answer.</p> <p>Part B Explanations about benefits to workers and producers correct , more detail is possible . Detailed explanations about costs to workers and producers that can be compared and contrasted.</p>				