**91224**

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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.**

Merit

TOTAL 16

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## QUESTION ONE: ECONOMIC MODELS AND ECONOMIC GROWTH

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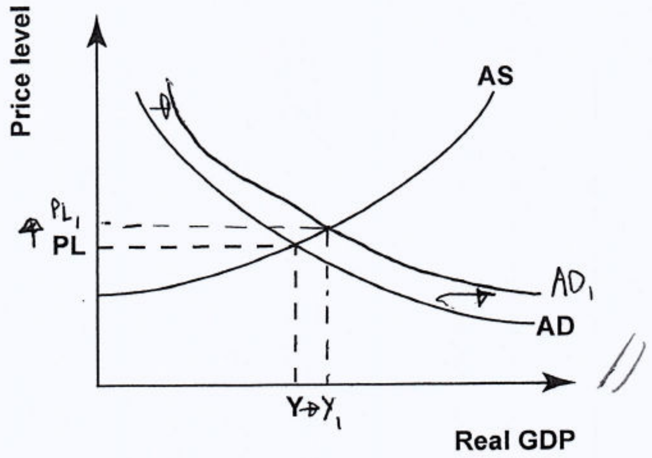
Annual average GDP growth is expected to rise to 2.9% by the middle of 2017, from 2.6% in June 2016, mainly from increasing domestic demand.

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.

or strength

The impact on Economic Growth in New Zealand as a result of continued increase in Domestic Demand is positive for Real GDP. With continued demand locally, less emphasis on exports is required which reduces reliance. The output in New Zealand is set to rise from Y to $Y_1$ which will keep many of New Zealands industries strong. Inflation of the dollar is also expected from PL to $PL_1$ and thus the New Zealand Economy will result in a time of growth as a result of strong domestic (local) demand for our own goods and services. Consumption spending increases, GDP increases therefore Aggregate demand increases.

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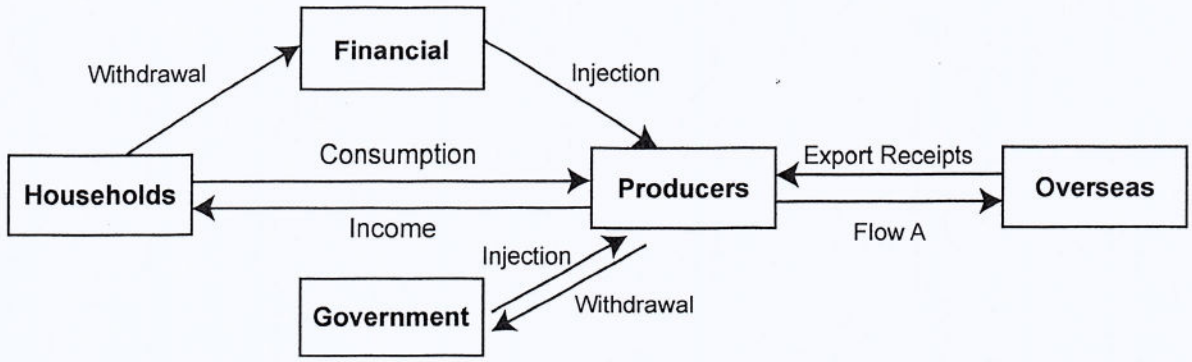
Our major trading partners are expected to experience economic growth on average of 3.5% in 2017, resulting in sustained increases in New Zealand export receipts.

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.

Import Payments - Money Flow out of New Zealand in exchange for foriegn Goods & services, a withdrawal.

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

Injection: ~~[illegible]~~ Financial to Producers - loans for Capital goods

Withdrawal: Households to financial - 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.

Export reciepts are an injection into the New Zealand economy. Producers will recieve these increased injections as a restult of increased growth in our trading partners. These injections positively impact our producers & households as producers now have more profits to spend which can be spent on more employees/expansion. This expansion will

**More answer space is available on the next page.**

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generate more income via wages/salaries/commisions for the household sector in the circular flow and thus is beneficial to both producers and households.

This increase in growth via export reciepts may be exagerated however as higher profits for companies and firms via export reciepts will mean greater tax is owed to the central Government. This will result in greater withdrawals out of the flow between households and firms and thus the impact of job creation may be over exagerated. Other withdrawals like savings (via households) and interest on loans (via firms) will also have a similar, misleading image.

Net exports have increase, thus GDP has experienced growth.

M5

## 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 GDP can be a misleading term, defined as Ouput from an economy in a year IN CURRENT DOLLAR VALUES. The current dollar part is the bit which gets Nominal GDP in trouble. Real GDP per capita is Nominal GDP (so output) altered so that changes in inflation are calculated. Per capita means the real GDP figures is the divided by the population to find an average output per person. //

Nominal GDP is limited in terms of its ~~ability~~ to measure growth as an increase in Nominal GDP may not signify growth in the economy, but rather high inflationary or price changes. Real GDP per capita is a better measurement of growth as it shows altered money values for comparision between years (to show growth, or negative growth) but also shows this in terms of population changes, so that if birth rates or migration has increased, the measure can still be used against every person to see if actual growth has occurred. //

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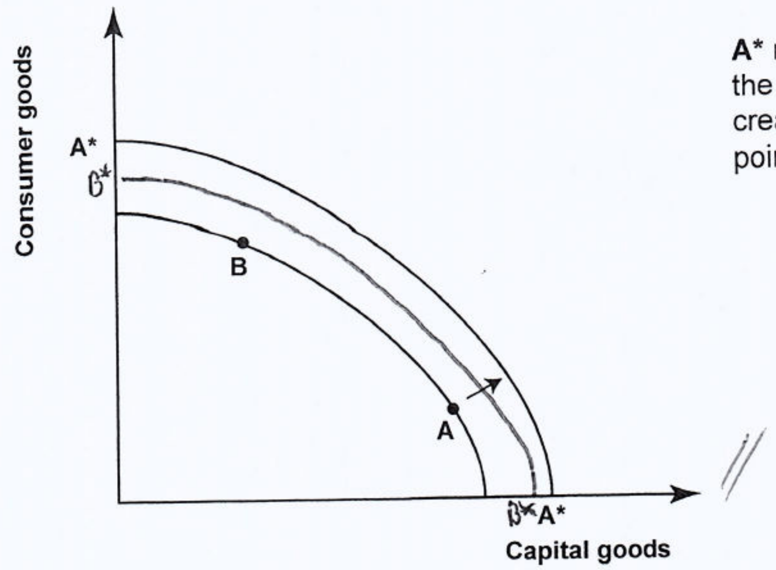
**Graph Two: Production Possibility Frontier**




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

At point A, New Zealand is producing capital goods, a ~~sh~~ change to production point B will prioritise consumer goods. This will not allow for future production to increase as shown by A*, and instead will ~~thrift~~ limit NZ production to the current point on the PPF. //

(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.

At point A, New Zealand will be producing more capital goods than consumer goods, this will result in a greater future production possibility as those capital goods produced will be then put back into the New Zealand production force. Thus the reason A* is extended from the current ~~frontier where~~ A lies. //

However, at point B, far more consumer goods are produced compared to capital

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goods. (Note: Capital goods are still being produced but on a much smaller scale). This production is good for profits but not benefical for future production growth to occur. This is why future production at point B* is smaller than what could be expected if New Zealand remained at point A with A*.

There is still some production growth however, as not all of the production has gone into consumer goods but some remains in capital.

For a point where profits and growth can be maximised New Zealand should look to produce at a point in the centre of the frontier where capital & consumer goods are at a similar level so that profits are not jepordised and nor is future growth.

M6

## QUESTION THREE: IMPACT OF GROWTH

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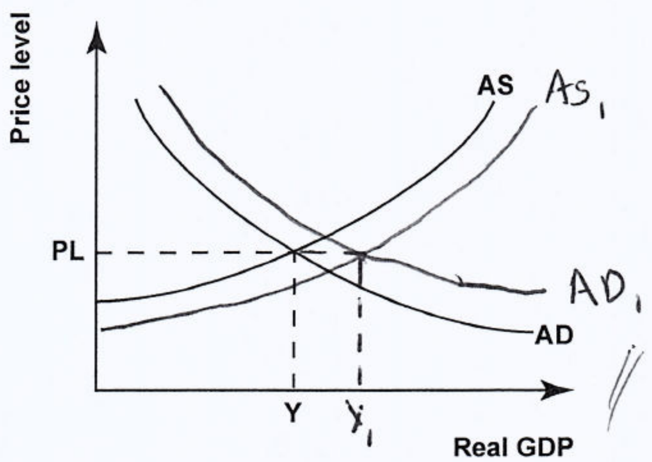
Both the government sector and the private sector will need to increase infrastructure investment (e.g. roads, power and broadband) in regional New Zealand. Delays will cause increased costs of production and will limit growth in the tourism market.

**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.

The increase in infrastructure has a positive impact on both aggreagate demand and aggregate supply. Aggregate Supply will increase AS to $AS_1$ as productions costs fell thanks to faster shipping, internet and power to more locations. //

Aggregate demand in the short term will increase from AD to $AD_1$ as resources will be needed for the construction of new roads, telephone poles etc. These two shifts of AS & AD will cause an increase in Real GDP/output from Y to $Y_1$ while the price level stays close to equal at PL. Thus creating positive growth in NZ.

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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.

Workers which live in regions positively impacted ~~Both~~ by tourism growth from cruise ships can expect better living conditions in ~~them~~ their regions as employment rates are set to increase, like they did in 2016 by 5%. This increase will benefit most workers, especially those out of work BUT will NOT provide positive impacts for workers of other industries //

Producers located in tourism hotspots who are not in ~~the~~ tourist industry or an industry like retail will not benefit from this growth. New Zealands clean image is often the reason for cruise ship arrivals and so industries that may ruin this may be subjected to harsher regulation and a tighter grip of the RMA (Resource

**More answer space is available on the next page.**

Management ACT). These costs may result in firms closing their doors or down scaling, thus not only impacting profits, but their ~~[illegible]~~ workers lives too, who are reliant on this income.

But not all industry will suffer loss., those in retail, tourism, or tourism based activities will thrive off of this growth and may be able to expand operations and ~~[illegible]~~ hire more staff as a result of greater tourist numbers, and therefore greater profits.

The 17 regions effected by this cruise ship growth should expect mostly positive flow on effects as a result of the growth.

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M5

**Merit exemplar 2017**

<table>
<tr><td colspan="2">Subject:</td><td>Economics</td><td>Standard: 91224</td><td>Total score: 16</td></tr>
<tr><td>Q</td><td>Grade score</td><td colspan="3">Annotation</td></tr>
<tr><td>1</td><td>M5</td><td colspan="3">Part A. Consumer spending component of domestic demand used in explanation of correct shift of aggregate demand. Graph is fully referenced in answer. Increase in growth is fully referenced in answer.<br><br>Part B detailed explanation of how households and producers are better off due to increased export receipts. Link between the increased export receipts and the corresponding withdrawal is weak, insufficient for a clear compare and contrast.</td></tr>
<tr><td>2</td><td>M6</td><td colspan="3">Part A Detailed explanation of the difference between nominal and real GDP in terms of the impact inflation has on nominal measurement and an explanation of the ability to compare different years using real GDP.<br><br>Part B Correct graph referenced in detailed explanation answer. Detailed explanation of relationship between capital goods and A*.<br><br>Overall M6, Insufficient detail to meet criteria of compare and contrast between frontiers A* and B*</td></tr>
<tr><td>3</td><td>M5</td><td colspan="3">Part A Explanation of the shift of aggregate supply, statement of the shift of aggregate demand . Reference to appropriate graph.<br><br>Part B Explanations are not consistent with the resource material or the detailed explanation of benefits to workers. There is a detailed explanation of benefits to workers, meeting Merit criteria.</td></tr>
</table>