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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

Level 2 Economics, 2013

91223 Analyse international trade using economic concepts and models

2.00 pm Monday 11 November 2013

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse international trade using economic concepts and models.	Analyse international trade in depth using economic concepts and models.	Analyse international trade 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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You are advised to spend one hour answering the questions in this booklet.

QUESTION ONE: THE MARKET FOR THE NEW ZEALAND DOLLAR

"The United States of America is negotiating to join the Trans Pacific Strategic Economic Partnership Agreement (TPP), which New Zealand is a part of. A successful conclusion to these negotiations will provide a **freer trade and investment relationship** between New Zealand and the United States ..."

Source (adapted): www.nzuscouncil.com/index.php/section/free_trade_agreement

"Direct investment in New Zealand by the USA increased from \$8 704 million to \$11 216 million between 2006 and 2011".

Source: Statistics New Zealand.

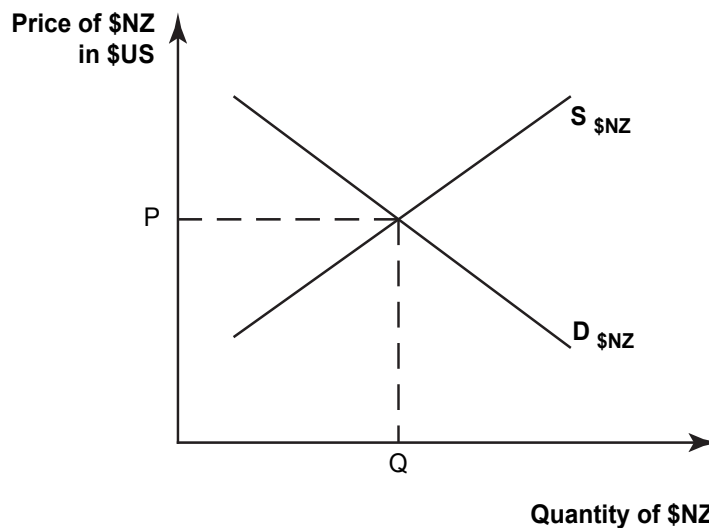
Complete (a) and (b) to comprehensively analyse the effects of increased foreign investment and free trade agreements on the value of the New Zealand Dollar.

- (a) Explain in detail the impact on the value for the New Zealand Dollar, of increased investment in New Zealand by the USA.

In your answer:

- on Graph One below, show how increased investment in New Zealand by the USA would affect the market of the New Zealand Dollar
- explain in detail the changes you have made on Graph One.

Graph One: Market for the New Zealand Dollar

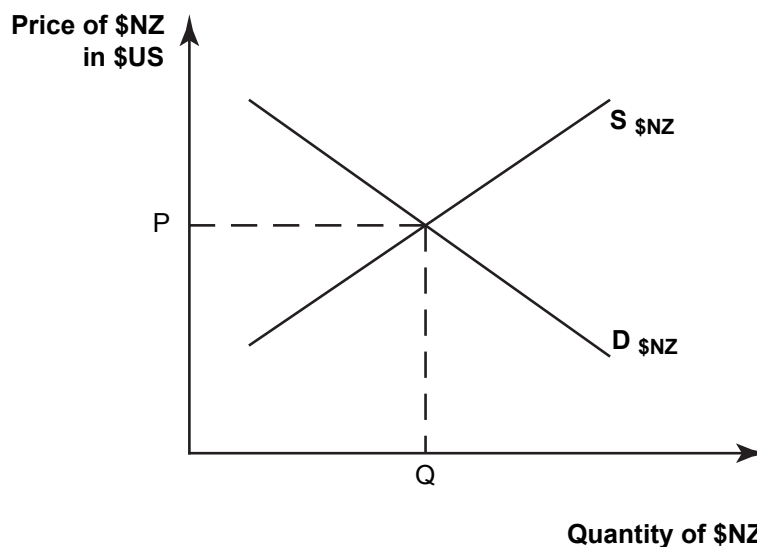


- (b) Compare and contrast the impact on the New Zealand Dollar of increased investment in New Zealand by the USA, with the impact of increased trade between New Zealand and the USA.

In your answer:

- explain in detail how increased New Zealand exports to the USA would affect the value of the New Zealand dollar
- explain in detail how increased New Zealand imports from the USA would affect the value of the New Zealand dollar
- on Graph Two below, show the effects of increased exports and imports
- explain in detail why an increase in investment in New Zealand by the USA may have a greater effect on the value of the New Zealand Dollar than increased trade with the USA. Refer to Graphs One and Two in your explanation.

Graph Two: Market for the New Zealand Dollar



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The examination continues on the following page.**

QUESTION TWO: NEW ZEALAND COAL EXPORTS

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"Weaker global demand is being reflected in prices for New Zealand exports, including coal, with state-owned miner Solid Energy shutting mines and eliminating jobs".

Source: www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10836370

"Coal is one of New Zealand's main primary exports to India".

Source: www.nzte.govt.nz/explore-export-markets/South-and-Southeast-Asia/Doing-business-in-India/Documents/India%20Country%20Brief%20-%20June%202011.pdf

"Coal supplied around 5% of New Zealand's consumer energy demands in 2010. The biggest domestic users were the Glenbrook steel mill and the Huntly power station".

Source: www.cleancoal.org.nz/production.htm

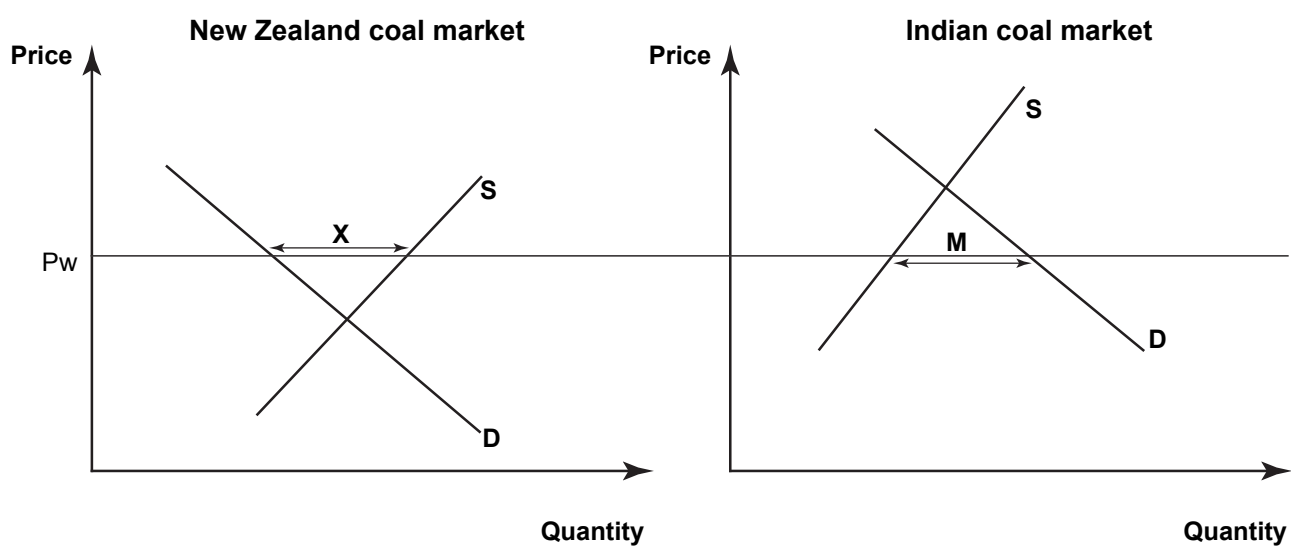
Compare and contrast the impact that a decline in the Indian demand for coal could have on the following groups:

- New Zealand coal exporters, such as Solid Energy
- New Zealanders employed in the coal industry
- New Zealand consumers of coal such as the Glenbrook steel mill and the Huntly power station
- the New Zealand Government.

In your answer:

- on Graph Three below, show the new demand curve for coal in India and the new level of imports. Use the labels D_1 and M_1
- on Graph Three below, show the new level of New Zealand coal exports and the new world price that would result from a decline in the Indian demand for coal. Use the labels X_1 and P_{w1}
- explain in detail how each group will be worse off or better off from a decline in the Indian demand for coal. Refer to Graph Three in your explanation.

Graph Three: Two-country model



QUESTION THREE: NEW ZEALAND FURNITURE IMPORTS

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"New Zealand has had a policy of widespread tariff reductions over the past two decades. Tariffs on furniture imports have declined to 5%".

Source (adapted): NZIER "Tariffs in New Zealand" working paper.

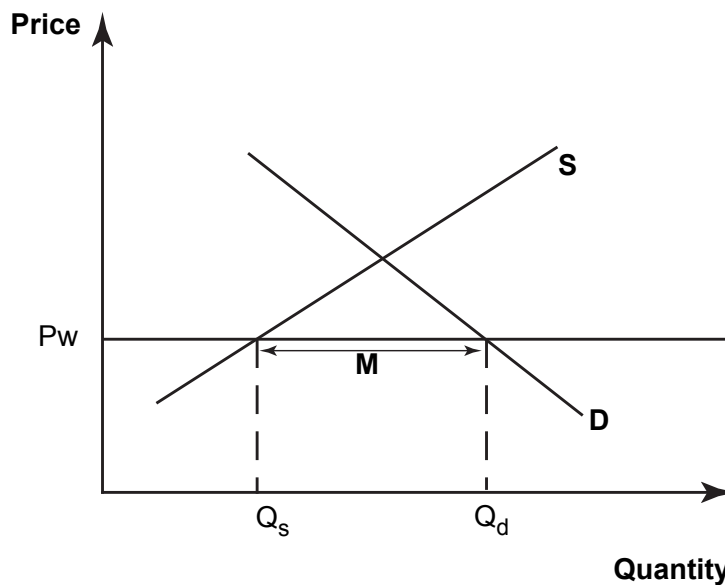
Complete (a) and (b) to comprehensively analyse the effects of tariff reductions and increasing incomes on New Zealand furniture imports.

- (a) Explain in detail how a reduction in New Zealand tariffs on imported furniture could affect the quantity of furniture imported.

In your answer:

- on Graph Four below, show the effect of tariff reductions on the quantity of furniture imported. Label the new level of imports M_1
- explain in detail the changes you have made on Graph Four.

**Graph Four: New Zealand market for furniture
with New Zealand as a price taker**



“The median weekly income for all people in New Zealand increased from \$536 to \$560 between June 2008 and June 2012.”

Source (adapted): Statistics New Zealand.

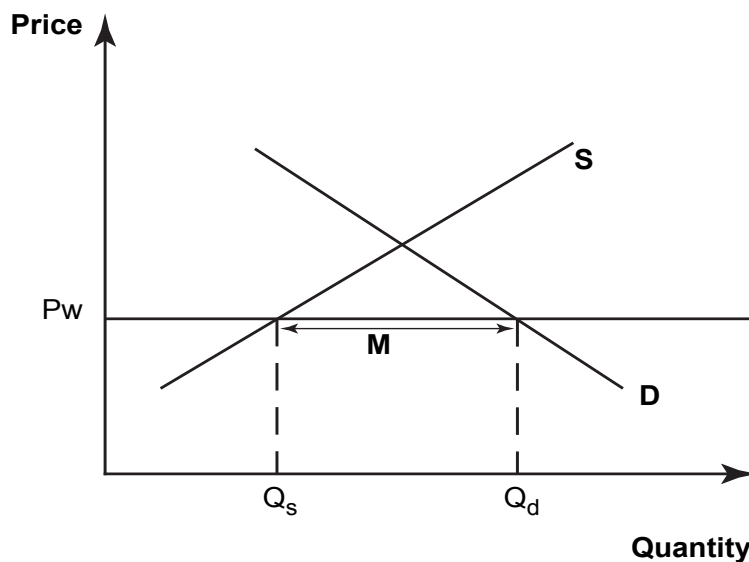
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- (b) Compare and contrast the impact on New Zealand furniture imports of a reduction in tariffs on imported furniture, with the impact of an increase in income levels of New Zealand consumers.

In your answer:

- on Graph Five, show how an increase in income levels for New Zealand consumers would affect the quantity of furniture imported. Label the new level of imports **M₂**
- explain in detail how an increase in income levels for New Zealand consumers would affect the quantity of New Zealand furniture imports
- explain in detail whether a reduction in tariffs on imported furniture, or an increase in income levels of New Zealand consumers, would have a greater impact on the quantity of New Zealand furniture imports. Refer to Graphs Four and Five in your explanation.

**Graph Five: New Zealand market for furniture
with New Zealand as a price taker**



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Write the question number(s) if applicable.

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