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Level 2 Economics, 2017

91223 Analyse international trade using economic concepts and models

2.00 p.m. Monday 20 November 2017
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 2–11 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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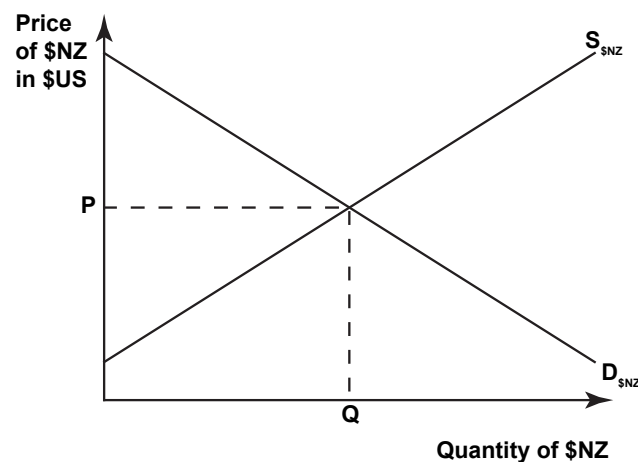
QUESTION ONE: EXCHANGE RATES AND THE PRICE TAKER MODELASSESSOR'S
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The United States interest rate is expected to rise to 1.50 per cent by the end of the December 2017 quarter. In the long term, the rate is projected to trend up to around 2.25% in 2020.

Source (adapted): <http://www.tradingeconomics.com/united-states/interest-rate/forecast>

- (a) (i) On Graph One below, show the shift in the demand for the New Zealand dollar that would result from the anticipated rise in interest rates in the United States, assuming interest rates in New Zealand remained constant.

Graph One: Market for the New Zealand dollar



- (ii) Fully explain the shift in demand for the New Zealand dollar that you have shown on Graph One.

New Zealand is a small producer in the international forestry industry, contributing only 1.1% of the world's total supply of industrial wood and 1.3% of the world's trade in forest products. As a result, New Zealand is a price taker.

However, forestry is a significant industry in New Zealand. It contributes:

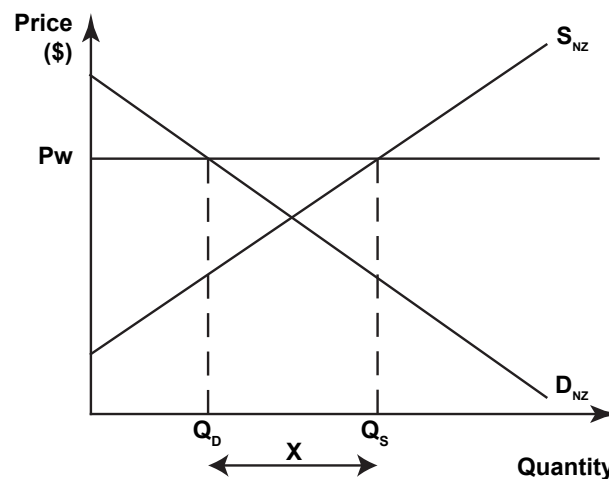
- an annual gross income of about \$5 billion
- 3% of New Zealand's GDP
- direct employment for about 20 000 people.

Wood products are New Zealand's third largest export earner, behind dairy and meat.

Source (adapted): <https://www.mpi.govt.nz/news-and-resources/open-data-and-forecasting/forestry/>

- (b) (i) On Graph Two below, show the impact on export receipts from logs and poles as a result of the changes to the \$NZ exchange rate shown in Graph One.

Graph Two: Market for New Zealand logs and poles



- (ii) Using Graph Two, compare and contrast the impact of the changes to the \$NZ exchange rate shown in Graph One on:
- exporters of logs and poles
 - employees in the forestry industry.

More answer space is available on the following page.

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The examination continues on the following page.**

New Zealand steel producers compete in the New Zealand steel market with imported steel from China.

- (b) (i) On Graph Three, show the impact of falling Chinese demand for steel. Label the new trade price (P_{T1}).
- (ii) Using Graph Three, compare and contrast the impact of falling demand for steel in China on the following groups:
- New Zealand steel consumers (e.g. the New Zealand construction industry)
 - New Zealand steel producers.

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A wide range of New Zealand agricultural industries have benefited from free trade agreements with other countries.

Laws and regulations that provide biosecurity for the agricultural industry may be viewed as an example of protectionism.

- (b) Using the resource material on page 8, fully explain ONE advantage of protectionism to the agricultural industry, in the form of biosecurity regulations.

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- (c) Fully explain whether protectionism or free trade provides greater benefits to agricultural industries.

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

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