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NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Level 2 Economics, 2015

91223 Analyse international trade using economic concepts and models

2.00 p.m. Thursday 12 November 2015
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.

Merit

TOTAL 16

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QUESTION ONE: NEW ZEALAND DAIRY EXPORTS

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> At $15.5 billion, dairy exports make up almost a third of New Zealand's annual goods exports.
>
> Source (adapted): http://www.rbnz.govt.nz/research_and_publications/speeches/2014/5721595.html

(a) Identify TWO of the top five New Zealand goods exports, by value, other than dairy exports.

(1) Wine

(2) Wool

> Around 95% of New Zealand's dairy production is exported.
>
> Source (adapted): http://www.dcanz.com/about-nz-dairy-industry/dairying-today
>
> Falling oil prices, geopolitical uncertainty in Russia and Ukraine, and subdued demand from China are all contributing to weak worldwide demand for dairy products.
>
> Source (adapted): http://www.fonterra.com/nz/en/Hub+Sites/News+and+Media/Media+Releases (10 Dec 2014)

(b) Discuss the impact that a decrease in world demand for dairy products could have on the Current Account of the New Zealand Balance of Payments, when the New Zealand market is a price taker.

In your answer:

- fully label Graph One to show the impact of a lower world demand
- explain in detail whether the dairy industry will be worse off or better off from the lower world demand
- explain in detail how the impact on the dairy industry will affect New Zealand's Current Account deficit
- refer to Graph One and the resource material above.

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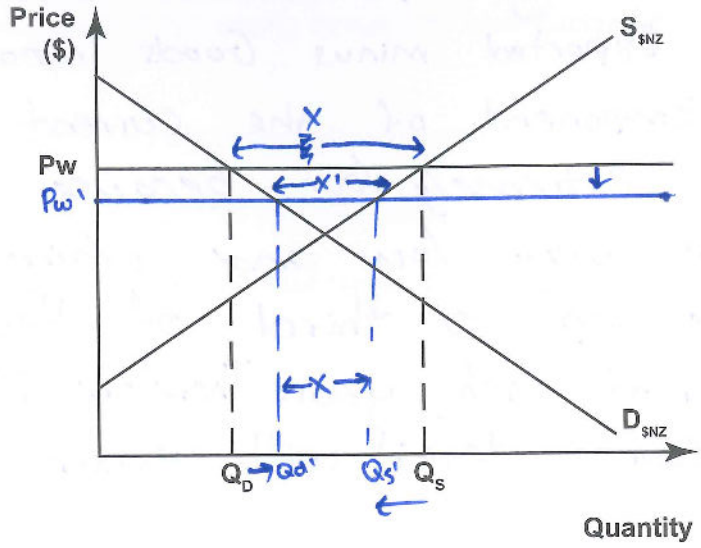
Graph One: Market for New Zealand dairy products



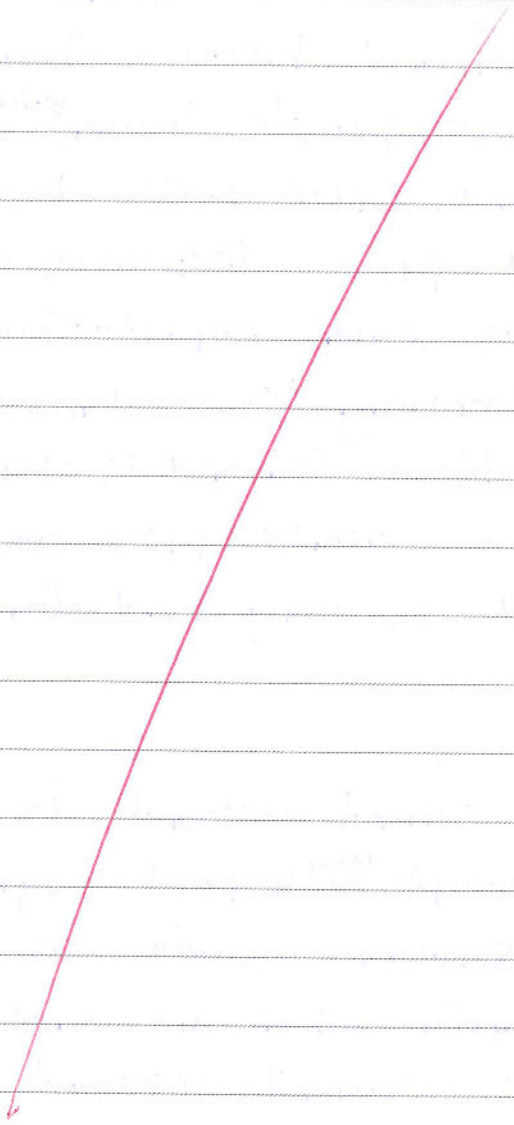
The dairy industry would be worse off from lower world demand because they will be making less profits, lower world demand means that the price will decrease shown as the world price decreases from Pw to Pw', this causes fewer exports overseas to meet their decreasing / low demand for dairy products. Since New Zealand is very export-dependent, a low world price and low export demand is very bad for the export industry.

X to X1

New Zealands current account is made up of, export receipts minus import payments of goods and services aswell as investment incomes and transfers which are irrelevant. New Zealand's current account deficit would worsen due to the decrease in

There is more space for your answer to Question One on the following page.

demand for dairy exports, this is because the "Goods Exported minus Goods imported" ~~will be~~ component of the current account will be extremely low because dairy exports are very low and dairy exports usually make up a third of New Zealand's goods exported each year. Therefore New Zealands current account deficit will worsen considerably.



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M5

QUESTION TWO: THE EXCHANGE RATE

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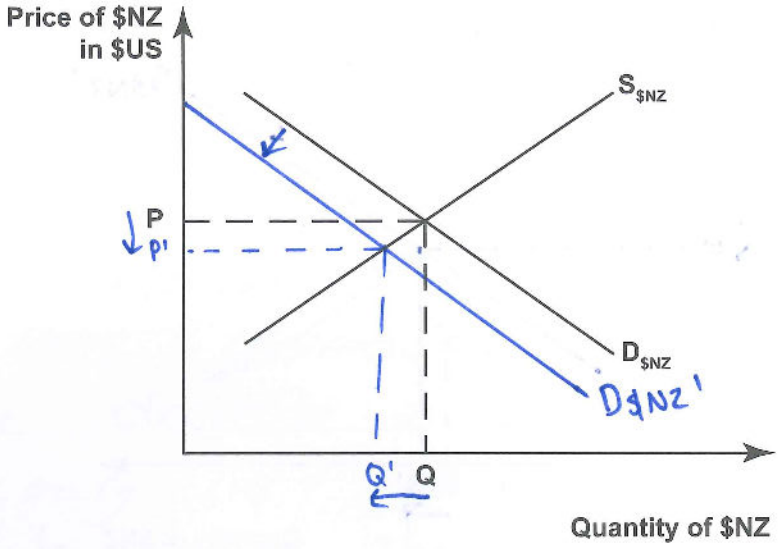
(a) Explain in detail the impact of decreasing demand for New Zealand dairy exports on the value of the New Zealand dollar.
In your answer:

- fully label on Graph Two the impact of decreasing demand for New Zealand dairy exports
- explain in detail the impact that you have shown on Graph Two.

Graph Two: Market for the New Zealand dollar



When foreign firms ~~buy~~ buy NZ dairy products, foreign countries have to pay the NZ firms in New Zealand dollars ($NZD), this means that they have to ~~swap~~ buy $NZD.

If foreign buyers decrease their demand for NZ dairy products ~~then~~ then they will demand less $NZD as shown on graph 2 as the demand for $NZD decreases from $D_{\$NZ}$ to $D_{\$NZ}'$. As a result, the quantity of $NZD decreases from Q to Q' but most-importantly, the $NZD depreciates from P to P'.

(b) Compare and contrast the impact of decreasing demand for New Zealand dairy exports with the impact of a decreasing world price of oil on the exchange rate for the New Zealand dollar. In your answer:

- fully label on Graph Three the impact of a decreasing world price of oil
- explain in detail the impact that you have shown on Graph Three
- explain in detail whether decreasing demand for New Zealand dairy exports or a decreasing world price of oil would have a greater impact on the exchange rate for the New Zealand dollar.

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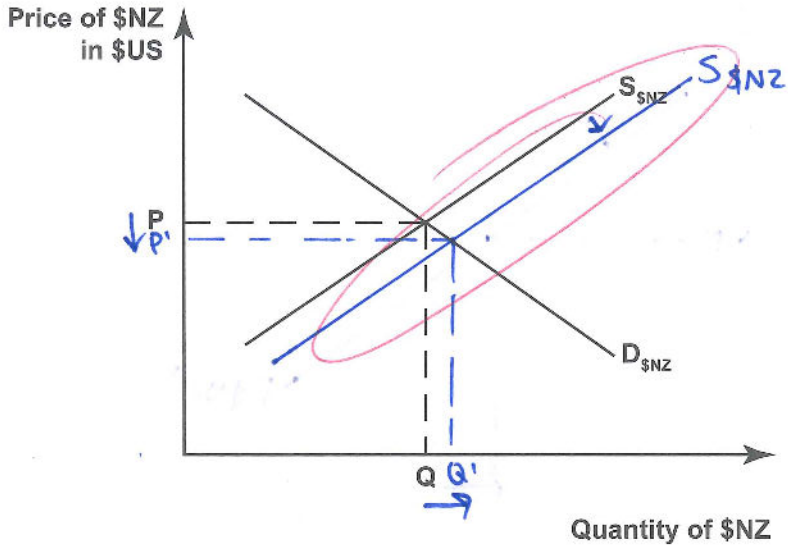
Graph Three: Market for the New Zealand dollar



A decreasing world price of oil means it is cheaper to purchase. Since NZ imports oil, the Standard ~~demand & supply states~~ ~~the~~ law of demand states that as price decreases, quantity demanded will increase (ceteris paribus). Therefore if the price is cheaper, NZ will import more oil, as a result, NZ firms must swap $NZD into ~~to~~ foreign currency in order to buy the oil. As a result, the supply of the $NZD will increase from $S_{\$NZ}$ to $S_{\$NZ'}$ on graph 3. As a result, the $NZD will depreciate from P to P'.

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Decreasing dairy exports will have a greater effect on the $NZD because ~~dairy ex~~ 95% of dairy is exported and that makes up 1/3 of NZ's exports per year. However it will only just have a greater effect than decreasing world price for oil because oil is NZ's biggest import.

This is represented by the two graphs. Both cases depreciate the $NZD but the decrease in demand for dairy exports only just ~~de~~ depreciates the dollar by more shown as ~~the~~ the shift from P to P' on graph 2 is bigger than the shift from P to P' on graph 3.

M6

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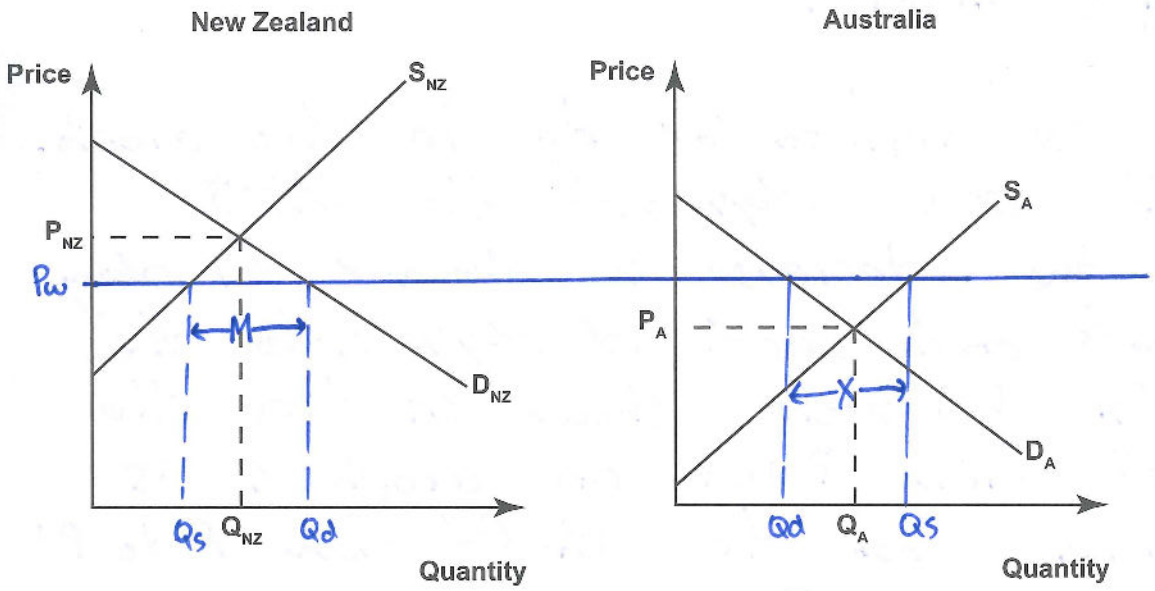
QUESTION THREE: THE TRADE IN TOMATOES

Tomatoes are a crop that can be grown in both New Zealand and Australia, and yet trade in tomatoes occurs between the two countries.

(a) Explain in detail why trade in tomatoes occurs between New Zealand and Australia.
In your answer:

- fully label Graph Four to show the impact of trade on the New Zealand and Australian markets for tomatoes
- explain in detail why the trade in tomatoes occurs by referring to Graph Four.

Graph Four: Two-country model



In New Zealand, prices are much higher for tomatoes than in Australia. At Pw, the demand for tomatoes in NZ is Qd and the quantity supplied is Qs, that shortage of $\overline{QsQd}$ is imported from Australia because of the cheaper import price compared to the domestic price. In Australia, at their prices, quantity supplied is much greater than the quantity demanded, therefore the gap $\overline{QdQs}$ represents their surplus in which they export at a higher price. So in both cases, no-one has surplus or shortage and they both win.

(b) Compare and contrast the impacts that the trade in tomatoes could have on the following groups:

- New Zealand tomato growers
- New Zealand tomato consumers
- New Zealand fruit and vegetable retailers.

In your answer:

- explain in detail how each group, listed above, will be worse off or better off as a result of trade
- refer to Graph Four.

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New Zealand tomatoe growers would be worse off because ~~&~~ consumers are not demanding enough at their prices, so when prices are low, tomatoes are imported because they're cheaper than the price that the tomatoe grower (domestic) wants. Before trade, the tamatoe growers were receiving ~~P~~ PNZ X QNZ amount of dollars, a decrease in price ~~and~~ (Pw) and quantity supplied (Qs) ~~so~~ means they will be worse off.

New Zealand tomatoe consumers will be better of because the price has decreased from PNZ to Pw, this means that they're paying less now for tomatoes so their disposable income increases ~~causing them~~ meaning they can spend more on luxury goods & services.

There is more space for your answer to Question Three on the following page.

New Zealand fruit & vegetable ~~consumers~~ retailers are buying tomatoes at a cheaper price and then selling them to NZ consumers. ~~of~~ The retailers are buying Australia's surplus & at a cheaper price to meet the NZ consumers demand. Since the retailers are buying Australia's surplus tomatoes at a cheaper price, theyre better off. //

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MS

Merit exemplar for 91223 2015		Total score	16

Q	Grade score	Annotation
1	M5	This candidate has received an M5 grade because they have: • given a detailed explanation (with minor errors) of how the dairy industry / farmer is worse off from a lower world demand for dairy products, including the idea that they are worse off because the lower world price (Pw to Pw') will result in dairy farmers receiving lower income/revenue/profits from dairy production. Including a reference to the decrease in Q_s and X from Graph One and combining the idea of lower prices as why dairy farmers are worse off would have resulted in M6. In addition, making a detailed explanation of the impact of falling dairy prices on NZ's Current Account deficit combined with integrating the source material into the detailed explanation would have resulted in E8.
2	M6	This candidate has received an M6 grade because they have: • given a valid detailed explanation of the impact of decreasing demand for New Zealand dairy exports, including reference to Graph Two including the idea that lower demand for New Zealand dairy exports will mean foreign firms will now want to convert less foreign currency into New Zealand dollars and, therefore, will demand fewer $NZ. The demand for the $NZ decreases, and as a result, the foreign exchange rate for the $NZ falls. The $NZ depreciates. • integrated Graph Two ($D_{\$NZ}$ *to* $D_{\$NZ"}$ *and P to* P_1) into their detailed explanations. Decreasing $S_{\$NZ}$ and/or $D_{\$NZ}$ in Graph Three and giving a detailed explanation on whether the decreasing demand for dairy exports or the decreasing world price of oil would have a greater impact on the exchange rate, integrating the changes shown on Graph Three, would have resulted in E8.
3	M5	This candidate has received an M5 grade because they have: • given a detailed explanation (with minor errors) on why trade occurs integrating changes shown in Graph Four, including the idea that the higher price of tomatoes (Pw) in Australia encourages them to increase their quantity supplied (Q_A to QS) and the excess supply in Australia (QD_A to QS_A) will be exported to New Zealand, and that the lower price of tomatoes (Pw) in New Zealand encourages them to increase their quantity demanded (Q_{nz} to Q_d) and the excess demand in New Zealand (QD_A to QS_A) will be imported to New Zealand. Giving a detailed explanation of how New Zealand tomato growers are worse off AND New Zealand tomato consumers AND NZ fruit and vegetable retailers would have been better off, integrating the changes shown in Graph Four would have resulted in E8.