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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

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.

Merit

TOTAL

16

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QUESTION ONE: EXCHANGE RATES AND THE PRICE TAKER MODEL

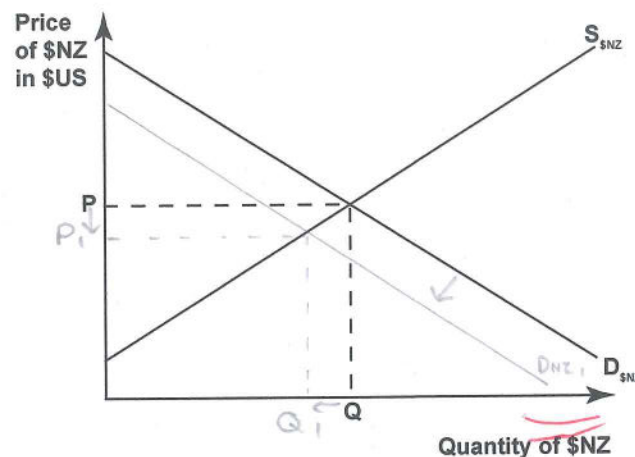
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The United States interest rate is expected to rise to 1.50 per cent by the end of the December 2017 quarter. In the long term, the rate is projected to trend up to around 2.25% in 2020.

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.

When the US interest rates are expected to increase, this causes a decrease in the demand for the NZ dollar, because investors in the US will no longer want to put their money in NZ banks, they will instead want to put it in their own as they will earn more interest, and therefore they will demand less \$NZ. DNZ shifts back to DNZ1, and therefore P decreases to P1, and the \$NZ depreciates.

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:

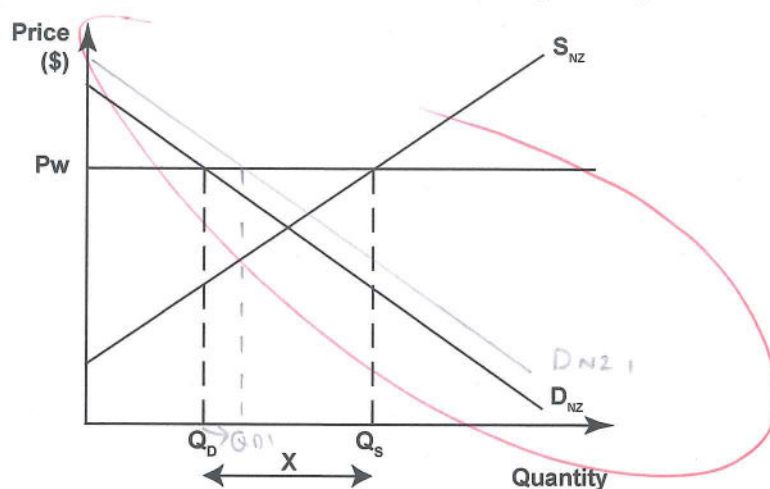
- an annual gross income of about \$5 billion
- 3% of New Zealand's GDP
- direct employment for about 20 000 people.

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.

When the \$NZ depreciates, as shown on graph one, this means that we become more attractive to overseas buyers, as it will be a lot cheaper for them to buy our logs and poles. This then increases the demand for logs and poles as overseas importers will be purchasing more. This means that

More answer space is available on the following page.

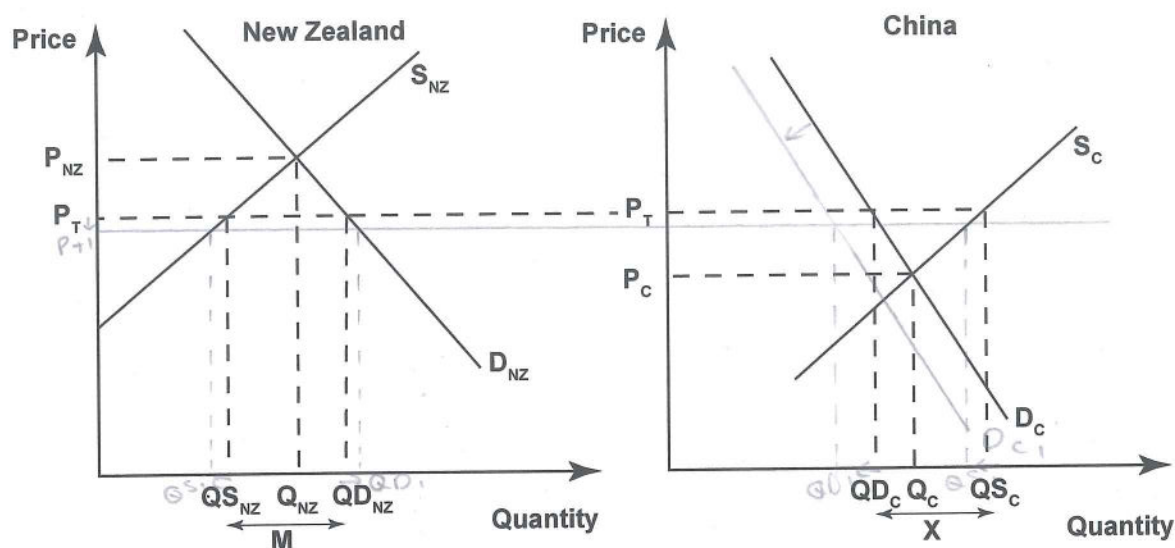
NZ exporters of logs and poles will be better off as they are exporting more to accommodate the increase in demand. This then increases their export receipts, which increases their revenue and profits. New Zealanders employed in the forestry industry will also be better off as they will earn more income due to their employers earning more ~~at~~ export receipts, and also, employment in the forestry industry will increase due to the increase in demand, so more people will be able to find jobs and will in turn, earn more income. //

QUESTION TWO: THE TWO-COUNTRY MODEL

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

Graph Three: Two-country model



- (a) Using Graph Three, fully explain why New Zealand imports steel and why China exports steel.

New Zealand imports steel because the demand for steel in NZ exceeds its supply, and so therefore we need to import steel so that we are able to meet the demand for it. Also, another reason why NZ imports steel is because in China, the price of steel is ~~cheaper~~ much lower, making it cheaper for our importers to buy. China exports steel because the supply of steel in their country ~~for~~ exceeds their demand, and so they need to reduce some of their supply. Also, since the price of steel in NZ is much higher than in China, China exports to us to get more money for their steel, and earn a higher revenue.

- (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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New Zealand steel consumers / the NZ construction industry will benefit from the falling Chinese demand for steel. This is because the world price has decreased from P_T to P_{T1} , making steel cheaper for the NZ construction industry to buy. This will then decrease their cost of production, and thus increasing their revenue and profits. New Zealand steel producers will be worse off as the world price has decreased so ~~they will not be as earning as much for their steel~~. they will become less competitive. Since they are now less competitive, they will have to decrease their prices to remain competitive in the market, thus decreasing their revenue and profits. Some small producers may not be able to ~~also~~ afford to decrease their prices, and so may be forced to leave the market.

A4

QUESTION THREE: EFFECTS AND JUSTIFICATION OF TRADE

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

- (a) Fully explain TWO advantages of free trade agreements to New Zealand agricultural producers and/or consumers.

A free trade agreement is an advantage to the NZ agricultural ~~prod~~ producers and consumers as it reduces the barriers of trade. NZ producers who export their goods will benefit because their goods will become cheaper and as a result more attractive to overseas importers. As a result they will export more, increasing their export receipts, and in turn, revenue and profits. Consumers will be better off as the price of goods in the agricultural industry will ~~be~~ decrease as they will become cheaper for us to import. This means that the goods will be cheaper for consumers to purchase so they will be able to buy more, or have more disposable income to spend on other things. //

Wairarapa pea farms shut for two years to eradicate pest threatening \$150m industry

All pea production in the Wairarapa will be halted from 1 August 2016, after pea weevils were found in seeds from eight farms. Peas are a \$150 million industry nationwide, and worth about \$15m to Wairarapa, where there are about 120 pea farms.

The potential loss was depressing, "all for no fault of the growers", a pea farmer said. The weevils are believed to have entered the country in a batch of imported seeds.

Suggestions have been made that standards of border security for imports must be improved.

Source (adapted): <http://www.stuff.co.nz/business/farming/82438607/Wairarapa-pea-farms-shut-for-two-years-to-eradicate-pest-threatening-150m-industry>

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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By introducing biosecurity regulations, this will benefit the NZ agricultural industry as the introduction of things like pea weevils into the country will be stopped. This will then mean that producers who are part of the agricultural industry will be able to produce more goods as there will not be pests or diseases (such as the pea weevil) halting or limiting their production. This then means that the producers will be able to export more goods/sell more in the domestic market, increasing export receipts and sales, and thus increasing revenue and profit.

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

a free trade agreement will have a greater benefit to agricultural industries in NZ as it positively benefits all firms involved in the agricultural sector, regardless of whether they have been affected by pests or diseases, whereas protectionism only benefits producers when their goods are threatened by diseases or pests such as the pea weevil. Therefore a free trade agreement provides greater benefits as it affects all producers at all times by reducing trade barriers.

Merit exemplar for 91223 2017		Total score	16
Q	Grade score	Annotation	
1	M5	<p>This candidate has received an M5 grade because they have:</p> <ul style="list-style-type: none"> provided a detailed explanation into the shift of the demand for the NZ\$. A rise in interest rates in the US would result in more funds going to US banks and less funds coming to NZ banks. As a result, the demand for \$NZ would fall and the \$NZ would depreciate. integrated Graph One into their detailed explanations. <p>For an E grade the candidate would have to increase the world price (P_w) in Graph Two and fully explain the effect of the depreciation from part (a) on P_w and the effects of this increase in P_w on exporters of logs and poles and employees in the forestry industry. They would also have to integrate Graph Two into their detailed explanations.</p>	
2	A4	<p>This candidate has received an A4 grade because they have:</p> <ul style="list-style-type: none"> provided an explanation as to why New Zealand imports steel and China exports steel. NZ imports steel from China because the NZ price without trade is higher than the Chinese price and NZ consumers can get cheaper steel from China than from NZ producers. China exports steel to NZ because NZ pays a higher price for steel than Chinese producers receive from Chinese consumers. provided an explanation of the effect of the decrease in falling Chinese demand on New Zealand steel consumers and producers. The fall in demand in China would result in a lower trade price of steel. Consumers of steel will increase their quantity demanded to as it is more affordable. The lower trade price means that NZ steel producers would need to also lower their price and reduce their output, and this makes NZ steel producers less profitable and worse off. <p>To get an M grade the candidate would have had to fully integrate Graph Three into one of their detailed explanations.</p>	
3	E7	<p>This candidate has received an E7 grade because they have:</p> <ul style="list-style-type: none"> provided detailed explanations on the advantages of free trade agreements to consumers and/or producers. Free trade allows consumers to purchase cheaper imports which leaves more disposable income left to purchase other goods/services. Also, free trade opens markets to producers to get access to more consumers and the demand for their output is increased. This leads to higher prices, sales and profitability provided a detailed explanation on the advantages of protectionism. By preventing foreign pests from entering the country, growers would maintain the output and quality of peas produced without having to pay the additional cost of pest control. This would maintain pea growers' profitability provided a detailed explanation on whether free trade or protectionism would provide greater benefits to agricultural industries. <p><i>Note: candidates could argue a preference either way with supporting evidence.</i></p>	