



For Supervisor's use only

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90237



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA



National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

Level 2 Economics, 2004

90237 Examine economic issues

Credits: Six
9.30 am Monday 22 November 2004

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 answer ALL the questions in this booklet.

If you need more space for any answer, use the pages provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–13 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.

Achievement Criteria		For Assessor's use only	
Achievement		Achievement with Merit	Achievement with Excellence
Use economic models to illustrate aspects of the given issues.	<input type="checkbox"/>	Use economic models to explain changes relating to the given issues.	<input type="checkbox"/>
Identify and describe economic effects of the given issues.	<input type="checkbox"/>	Explain the economic effects of the given issues.	<input type="checkbox"/>
Overall Level of Performance (all criteria within a column are met)			<input type="checkbox"/>

You are advised to spend 60 minutes answering the questions in this booklet.

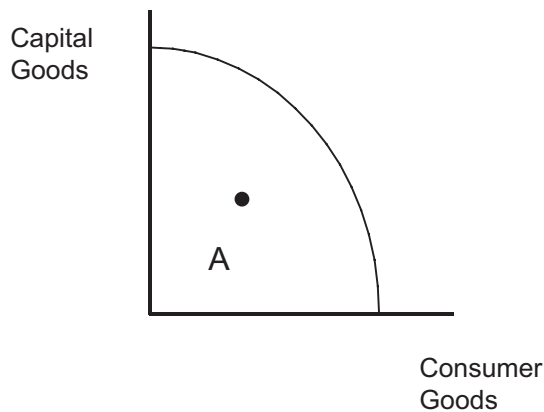
QUESTION ONE

PART A

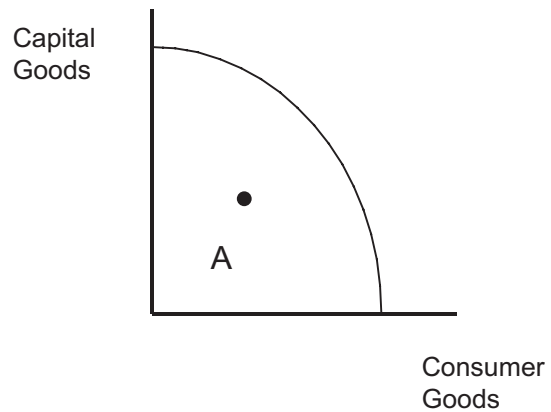
- (a) Describe the difference between a consumer good and a capital good.

- (b) If the economy is currently producing at Point A, use the diagrams below to illustrate the effect of:

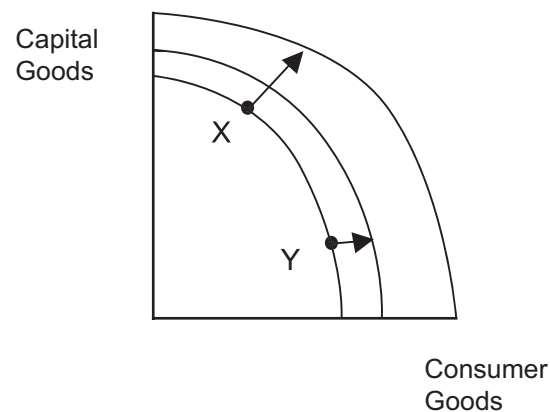
- (i) an increase in production.



- (ii) an increase in productive capacity.



- (c) Refer to the diagram below to explain how future growth comes at the cost of present consumption.



(d) Complete the table below by explaining how economic growth can have both positive and negative effects on the environment, the distribution of income, and regional growth.

[illegible]

QUESTION TWO**PART A**

(a) The equation of exchange, $MV = PQ$, shows there is a link between the money supply and the rate of inflation.

(i) Describe what is meant by the two variables V and Q.

V: _____

Q: _____

(ii) Describe the relationship suggested by the equation of exchange between the money supply and the rate of inflation.

(iii) Refer to the variables in the equation of exchange to explain one way inflation might occur, even if the money supply was held constant.

(b) Use appropriate lines, labels and arrows on the diagrams below to show the impact on the price level of:

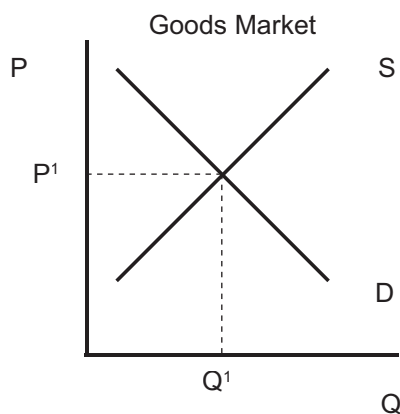
(i) an increase in inflationary expectations

(ii) an increase in the price of electricity

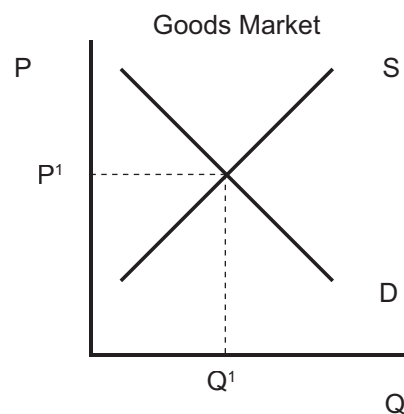
AND identify whether each change causes cost-push or demand-pull inflation.

(i) an increase in inflationary expectations

(ii) an increase in the price of electricity



Cost-push / Demand-pull (circle one)



Cost-push / Demand-pull (circle one)

- (c) Refer to diagram (b) (i) on page 4 to explain how inflationary expectations cause inflation.

- (d) Explain ONE limitation of using a supply and demand model to illustrate demand-pull or cost-push inflation.

PART B

- (e) Explain how an increase in the rate of inflation in New Zealand could have a negative effect on:

- (i) net exports: _____

- (ii) income distribution: _____

QUESTION THREE

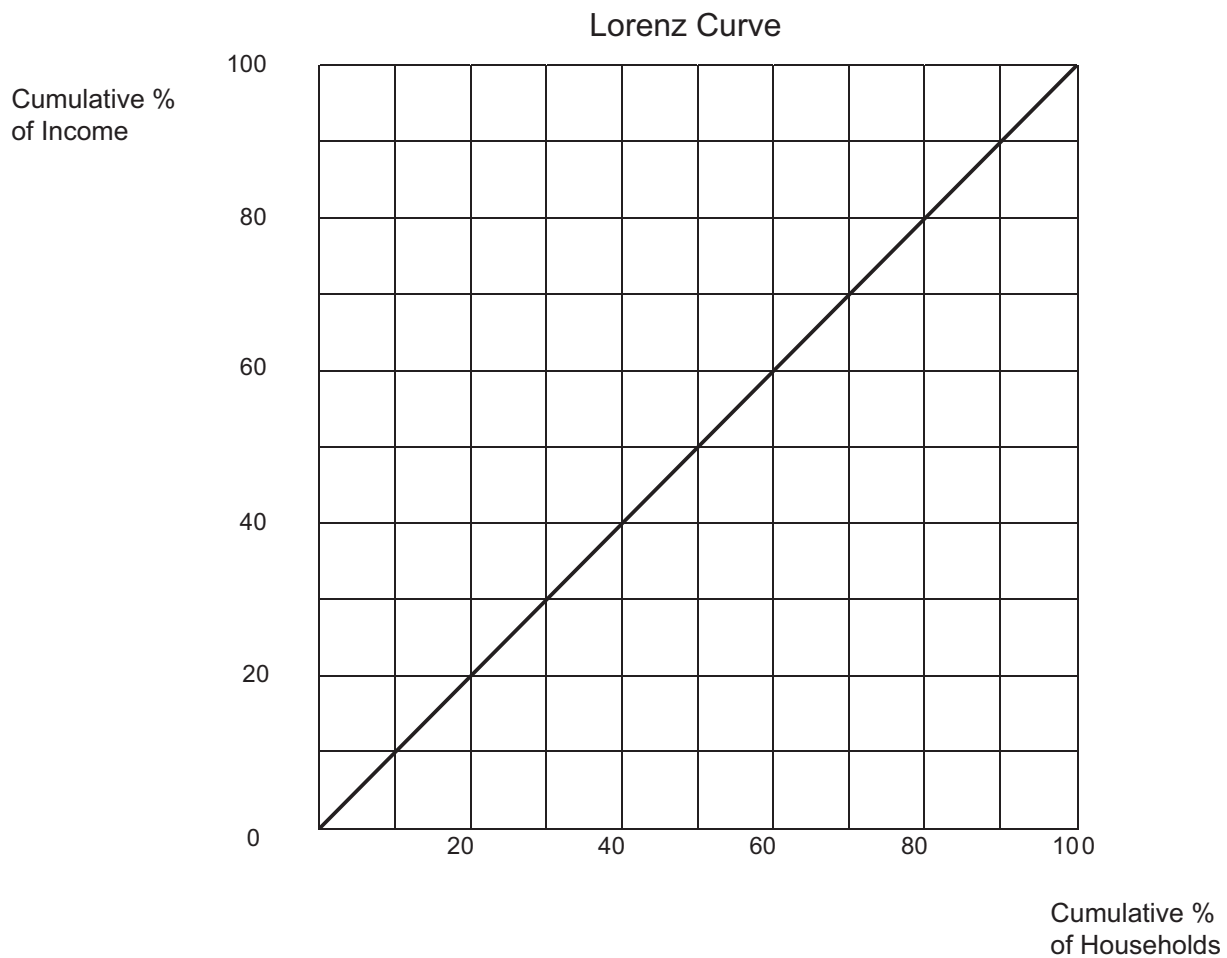
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PART A

- (a) Use the data from the table below to complete a Lorenz curve on the grid provided. Clearly label the curve L1.

Note: quintile = 20%

Cumulative Quintile Shares of Income	
Quintile	Cumulative % of Income
Lowest 20%	5
Second 20%	15
Third 20%	30
Fourth 20%	55
Top 20%	100



- (b) Describe how a Lorenz curve is used to illustrate the inequality of income distribution.

- (c) Explain how a reduction in the top tax rate from 39% to 33%, combined with a decrease in social welfare benefits, would affect income distribution.

- (d) On the Lorenz curve diagram on page 6, show the effect of the changes described in (c). Clearly label your new curve L2.

- (e) (i) Identify ONE limitation of using a Lorenz curve to illustrate the inequality of income distribution.

- (ii) Draw a conclusion about whether the Lorenz curve is a worthwhile model to use when analysing the inequality of income distribution.

PART BAssessor's
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(f) Unequal endowment is one of the factors that contributes to inequality.

(i) Describe what is meant by unequal endowment.

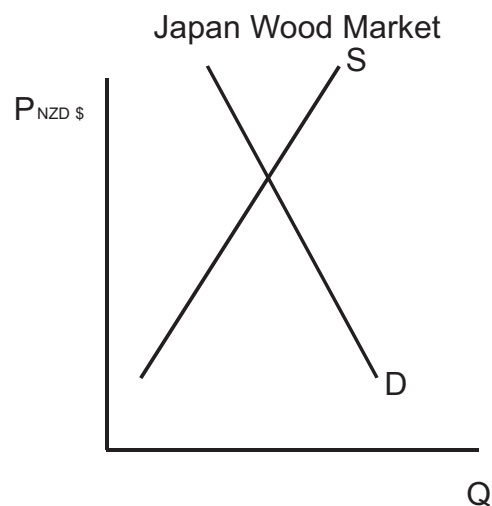
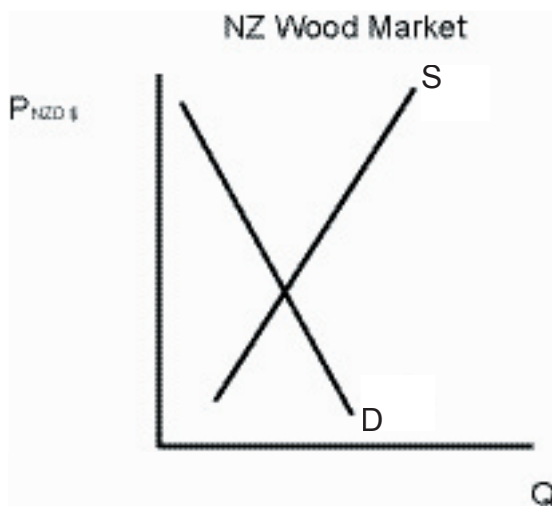
(ii) Explain how unequal endowment contributes to inequality.

(g) Explain how profits act as a financial incentive to reallocate capital from industries experiencing falling demand, to industries experiencing increasing demand.

QUESTION FOUR**PART A**

- (a) Describe why New Zealand is very competitive in the production of primary products like meat, wool and dairy products for the world market.

- (b) A two-country model illustrating trade in wood between New Zealand and Japan is shown below.
- Show the price at which trade would occur. Label this P^{T1} .
 - Draw a horizontal line at P^{T1} . Identify the quantity exported from New Zealand, and the quantity imported by Japan.



- (c) The prices on each model are measured in the same currency, New Zealand Dollars. Why is it necessary, when using this model, to use the same currency on both diagrams?

- (d) The two-country model is useful for illustrating the effects of changes in supply and demand, in both the exporting country and the importing country.

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- (i) Identify THREE items the model is useful for illustrating changes to:

(1) _____

(2) _____

(3) _____

- (ii) Identify ONE factor that is not shown by the model.

- (iii) Evaluate whether the model is appropriate for illustrating international trade.

PART BAssessor's
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In 2003 outdoor equipment and clothing manufacturer Macpac decided to lay off 150 staff, in response to declining profits as a result of the rising New Zealand dollar. Most of the company's exports go to Australia, Europe and Britain. From 2004, the company's backpacks will be made in the Philippines, and its clothing in China.

- (e) Explain how a higher exchange rate causes an exporter's profits to decline.

- (f) If more outdoor equipment and clothing manufacturer exporters like Macpac move their production overseas, explain how it could impact on economic growth and inequality in New Zealand.

- (i) Economic growth: _____

- (ii) Inequality: _____

[illegible]

[illegible]