



For Supervisor's use only

2

90238



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA



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

Level 2 Economics, 2004

90238 Demonstrate an awareness of government policies related to 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 2–10 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
Identify government policies relating to the given issues.	<input type="checkbox"/>	Explain how the policies achieve their objective in relation to the given issues.	Evaluate the effectiveness of the policies in achieving their objectives.
Describe how the policies achieve objectives related to the given issues.	<input type="checkbox"/>	Explain the linkages between the policies and their effects on other economic issues.	Evaluate the differing impacts of the policies on other economic issues.
Identify effects of policies on other economic 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

- (a) Identify the main objective of government trade policy.

- (b) In recent years, the New Zealand Government has pursued a policy of tariff reductions on a range of imported goods. Explain how the removal of tariffs can improve New Zealand's trading position with the rest of the world.

- (c) The removal of tariffs has impacted on other economic issues like economic growth, inflation and inequality. In the spaces provided below, identify and give a reason for the effects of the removal of tariffs on these other issues. Employment has been done for you as an example.

Economic Issue	Identify ONE effect of tariff removal on each issue	Reason for this effect
Employment	Employment has fallen in industries that were protected by tariffs.	Some firms in these industries are unable to compete with the cheaper imports and close down, resulting in the loss of jobs.
(i) Economic Growth		
(ii) Inflation		
(iii) Inequality		

- (d) Refer to your answers for (b) and (c) on page 2, and any other arguments for or against the policy, to evaluate the differing impacts caused by the removal of tariffs. Do this by identifying the positive effects and negative effects on the New Zealand economy, and then draw a conclusion about whether the overall impact has been more positive or more negative.

Positive effects: _____

Negative effects: _____

Conclusion: _____

- (e) (i) Identify ONE method, other than tariffs or quotas, used to protect New Zealand firms against overseas producers.

- (ii) Describe how this method protects New Zealand firms.

- (f) New Zealand firms are protected by tariffs, quotas, and other methods. Explain the effect this protection has on the Foreign Exchange Market and the exchange rate.

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QUESTION TWO

In February, the Government announced that the minimum adult wage would increase from \$8.50 an hour to \$9.00 an hour, and the minimum youth wage would increase from \$6.80 to \$7.20, to keep it at 80 per cent of the adult minimum wage.

- (a) (i) Identify ONE impact of the change in the minimum wage on low income households.

- (ii) Identify ONE impact of the change in the minimum wage on employers.

- (iii) Explain how increasing the minimum wage will impact on the inequality of income distribution in New Zealand.

- (b) (i) Identify ONE requirement of the Human Rights Act that reduces inequality in New Zealand.

- (ii) Explain how the requirement you have identified in (b)(i) reduces inequality.

QUESTION THREEAssessor's
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- (a) What is meant by the term **fiscal policy**?

- (b) Identify ONE example of an expansionary fiscal policy.

- (c) (i) Describe ONE objective the government might aim to achieve through the use of expansionary fiscal policy.

- (ii) Explain how the policy could achieve this objective.

The Fiscal Responsibility Act 1994 requires the Government to follow several principles of responsible fiscal management.

- (d) Explain the principles contained in the Fiscal Responsibility Act that relate to the:

- (i) Operating Balance.

- (ii) Net Public Debt.

Government Operating Balance and Net Public Debt <i>(percentage of nominal GDP)</i>		
June years	Operating Balance	Net Public Debt
1993	-1.1	49.0
1994	0.9	43.1
1995	3.1	37.0
1996	3.6	31.0
1997	2.0	26.4
1998	2.6	24.4
1999	0.3	25.4
2000	-0.4	25.3
2001	-0.1	25.2
2002	0.7	24.1

(www.rbnz.govt.nz)

- (e) Refer to the data in the table above to evaluate how effective the Fiscal Responsibility Act has been in achieving its objectives relating to the Operating Balance, and to Net Public Debt.

Achievement of the objective relating to the Operating Balance:

Achievement of the objective relating to Net Public Debt:

Conclusion about the effectiveness of the Fiscal Responsibility Act:

QUESTION FOUR

(a) What is meant by **monetary policy**?

(b) Identify the primary objective of monetary policy in New Zealand.

(c) Explain how the Official Cash Rate (OCR) is used to conduct contractionary monetary policy.

Year	CPI % change	Policy Targets Agreement
1995	2.9	0 – 2 %
1996	2.6	0 – 3 %
1997	0.8	0 – 3 %
1998	0.4	0 – 3 %
1999	0.5	0 – 3 %
2000	4.0	0 – 3 %
2001	1.8	0 – 3 %
2002	2.7	1 – 3 %
2003	1.6	1 – 3 %

(www.stats.govt.nz)

(d) Refer to the data in the table above to evaluate how effective monetary policy has been in achieving its primary objective.

- (e) Explain why an increase in the OCR might cause the exchange rate to appreciate.

- (f) (i) Identify THREE negative effects of higher interest rates, or a higher exchange rate, on households or firms.

(1)

(2)

(3)

- (ii) Identify THREE negative effects of higher inflation on households or firms.

(1)

(2)

(3)

- (iii) Draw a conclusion about whether the benefits gained from lower inflation outweigh the costs associated with increasing the OCR.

[illegible]

[illegible]