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90759



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA



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

Level 2 Economics, 2005

90759 Use economic models to illustrate aspects of given issues

Credits: Four

9.30 am Thursday 17 November 2005

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 page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

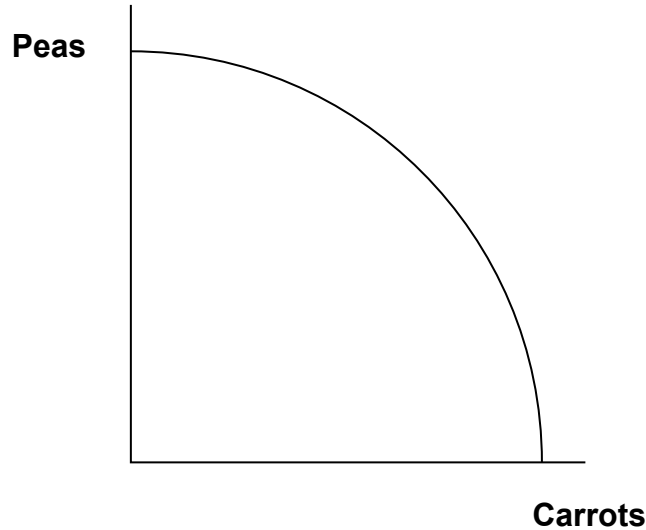
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

<i>For Assessor's use only</i>		Achievement Criteria	
Achievement	<input type="checkbox"/>	Achievement with Merit	Achievement with Excellence
Use economic models to illustrate aspects of given issues.	<input type="checkbox"/>	Use economic models to explain changes relating to given issues.	<input type="checkbox"/>
		Use and evaluate economic models in relation to given issues.	<input type="checkbox"/>
Overall Level of Performance		<input type="checkbox"/>	

You are advised to spend 40 minutes answering the questions in this booklet.

QUESTION ONE: EMPLOYMENT

- (a) (i) On the Production Possibility Frontier (Curve) below, identify a combination of peas and carrots that could be produced if some resources were unemployed. Label this point U.

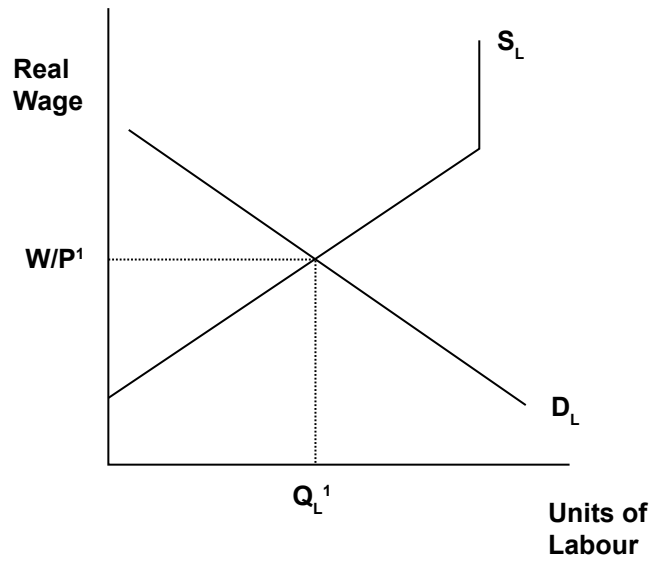


- (ii) On the same diagram identify a new combination of the two goods that could be produced if all resources were employed fully and efficiently. Label this new combination F.
- (iii) Identify TWO assumptions that are made when drawing a Production Possibility Frontier.
- (1) _____
- (2) _____
- (b) (i) Identify the term that means the demand for labour depends on the demand for final goods and services.

- (ii) Describe what "final" means in "final goods and services".

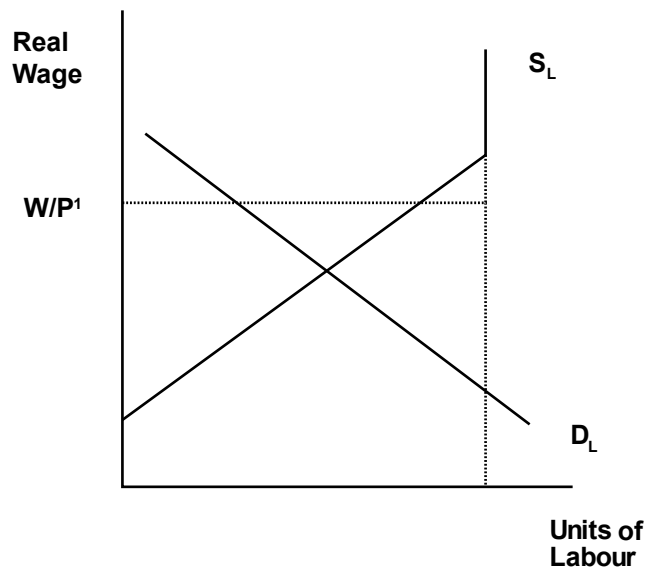
- (iii) On the labour market diagram below, illustrate the effect of an increase in the demand for final goods and services. Use appropriate lines, labels, and arrows.

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- (iv) Explain the changes you have shown in (b) (iii) above.

- (c) (i) On the diagram below, identify at W/P^1 the level of employment, involuntary unemployment, and voluntary unemployment.



- (ii) Explain why the supply curve for labour becomes vertical.

(iii) Explain why the supply curve for labour might not become vertical.

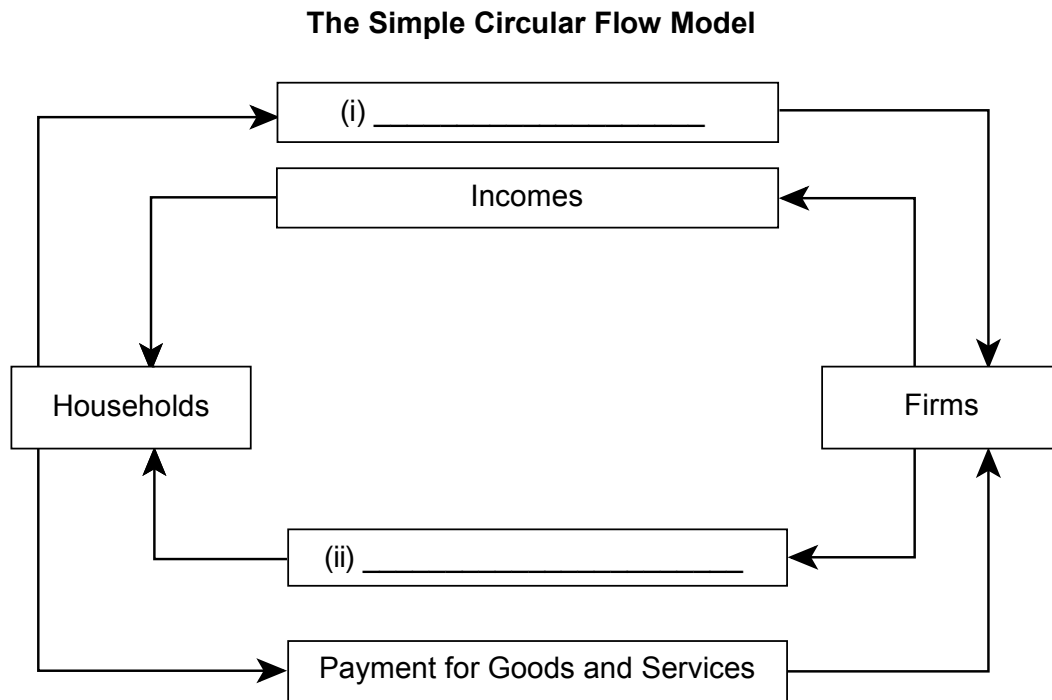
(iv) Identify ONE assumption that is made when using a supply and demand model to illustrate the labour market.

(v) Explain how the supply curve for waiters would be different from the supply curve for pilots.

(vi) Draw a conclusion about whether the supply and demand model is a useful tool for illustrating changes in the market for labour.

QUESTION TWO: GROWTH

- (a) Complete the diagram below by identifying flows (i) and (ii) between households and firms.



- (b) Explain why, in the Simple Circular Flow Model, economic activity can be measured either by the flow of payment for goods and services, or by the flow of incomes.

- (c) Place a tick beside the items below that would have to be included to calculate total spending in the economy.

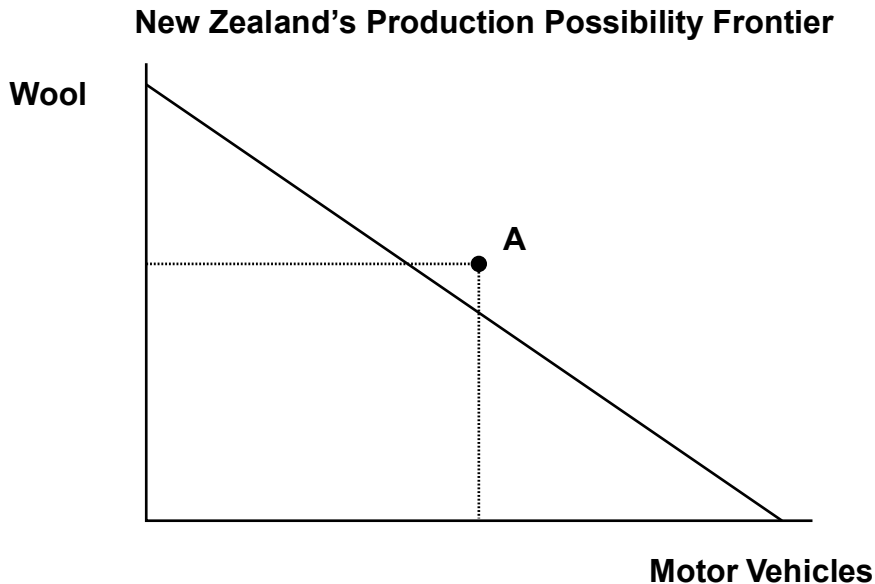
Item	Tick (✓)
Consumption	
Savings	
Government Spending	
Net Exports	
Interest Payments	
Investment	

- (d) Refer to the Simple Circular Flow model in (a) above to explain how an increase in government spending would lead to economic growth.

QUESTION THREE: TRADE

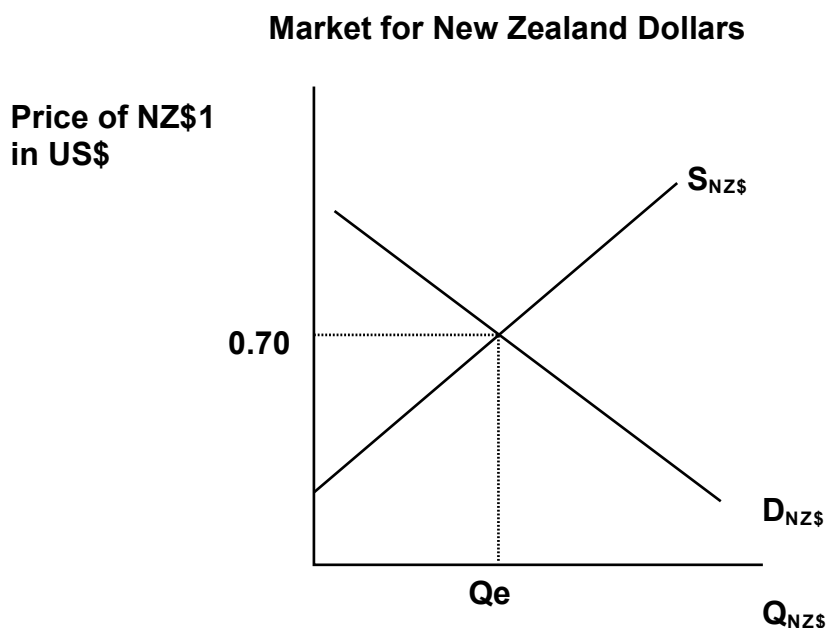
- (a) Assume New Zealand specialises in the production of wool. Wool is exported, and motor vehicles are imported.

On the straight-line Production Possibility Frontier below, identify the quantity of wool that would need to be exported, and the quantity of motor vehicles that would need to be imported, so New Zealanders could consume the combination of wool and motor vehicles shown by point A.



- (b) (i) Describe why it is necessary for New Zealand importers to buy foreign exchange.

- (ii) On the diagram below, show the effect of an increase in imports on the foreign exchange market. Use appropriate lines, labels, and arrows.



- (iii) If NZ\$1 is currently worth US\$0.70, identify a new exchange rate that would show the New Zealand dollar has depreciated.

A depreciation would have occurred if NZ\$1 = **US\$** _____

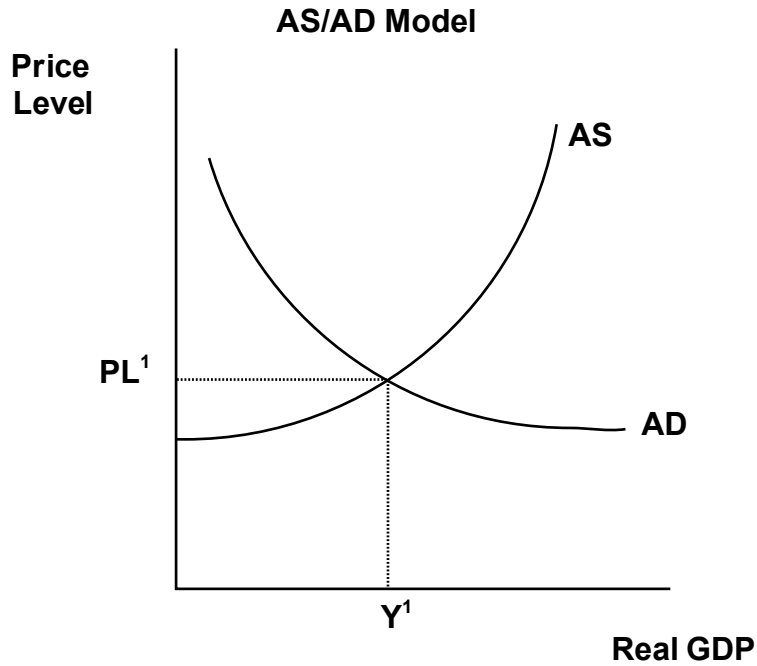
- (iv) Other than a change in imports, identify ONE possible cause of an appreciation in the exchange rate for New Zealand dollars, and ONE possible cause of a depreciation in the exchange rate for New Zealand dollars.

- (1) The New Zealand dollar would appreciate if:

- (2) The New Zealand dollar would depreciate if:

QUESTION FOUR: INFLATIONAssessor's
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- (a) On the diagram below, illustrate the effect of an increase in nominal wages on the price level. Use appropriate lines, labels, and arrows.



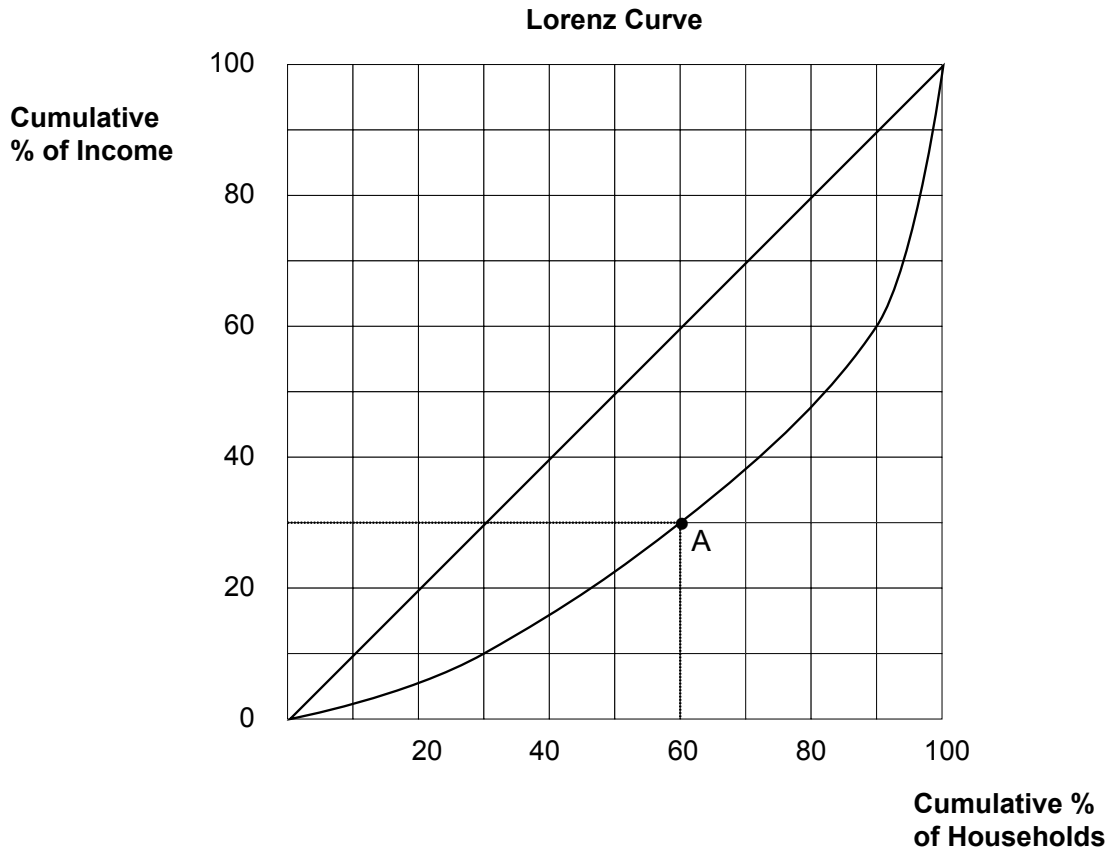
- (b) Place a tick beside the following events that would be likely to cause demand-pull inflation.

Event	Likely to cause demand-pull inflation (✓)
A decrease in direct taxes	
An increase in interest rates	
An increase in government spending	
A decrease in productivity	
An increase in inflationary expectations	

- (c) Explain how a rise in business confidence will impact on the rate of inflation.

QUESTION FIVE: INEQUALITY

Use the diagram below to answer the questions that follow.



(a) Describe what a Lorenz Curve shows.

(b) Using the diagram above, identify:

(i) The percentage of income earned by the lowest 30% of income earners.

(ii) The percentage of income earned by the highest 10% of income earners.

(iii) Explain what is shown by point A.

(c) Identify ONE of the assumptions made when constructing a Lorenz Curve.

(d) Explain how an increase in the **rate** of tax paid by high-income earners might be expected to affect the Lorenz Curve.

(e) Explain why the Lorenz Curve might **not** be affected by an increase in the **rate** of tax paid by high-income earners.

(f) Draw a conclusion about whether the Lorenz model is a useful tool for illustrating changes in the distribution of income.
