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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.

Achievement

TOTAL 12

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QUESTION ONE: NEW ZEALAND DAIRY EXPORTS

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) Meat

(2) timber

Around 95% of New Zealand's dairy production is exported.

Source (adapted): http://www.dcanz.com/about-nz-dairy-industry/dairying-today

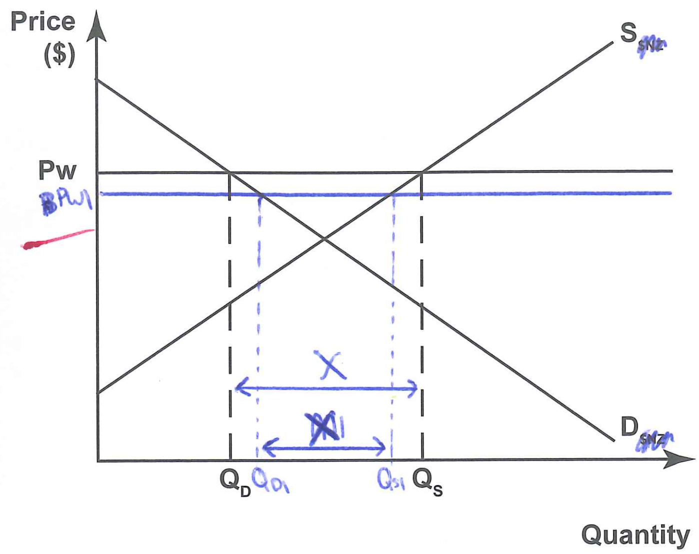
Falling oil prices, geopolitical uncertainty in Russia and Ukraine, and subdued demand from China are all contributing to weak worldwide demand for dairy products.

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.

Graph One: Market for New Zealand dairy products



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The dairy industry will be worse off as decreasing world demand causes the world price to drop and this leads to decreased export receipts shown from X to X1 due to a decrease in world demand and a decrease in the world price

This will worsen NZ's current account as it decreases exports and the current account is exports - imports. this means New Zealand will be spending more than its earning which is bad as it leads to decreased employment and income in new Zealand and it will have a large effect on exports as dairy is New Zealand's number one export and they export 95% which is huge for new zealand

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

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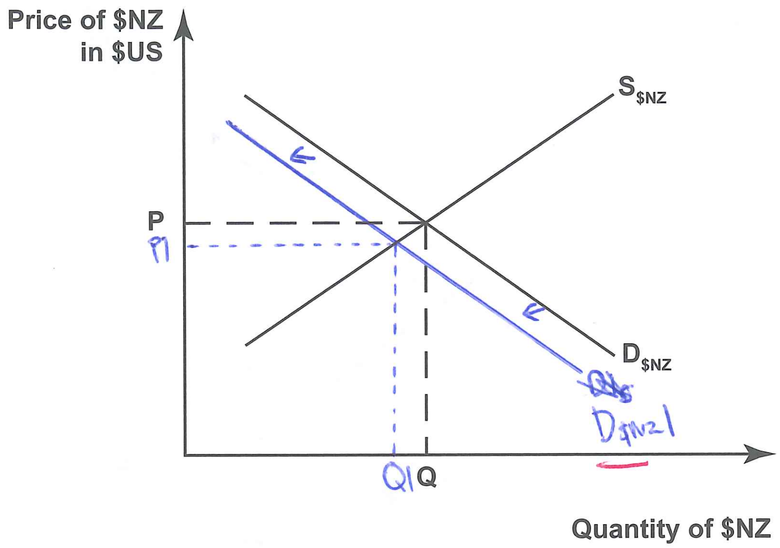
QUESTION TWO: THE EXCHANGE RATE

(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



With decreasing demand for New Zealends dairy exports this will decrease the demand for the NZ$ shown in the shift to the left of demand curve from D$NZ to D$NZ1. This decrease in demand is caused by less countries purchasing dairy from NZ so there is decreased demand this causes a depreciation of the NZ$ shown in graph two from P to P1.

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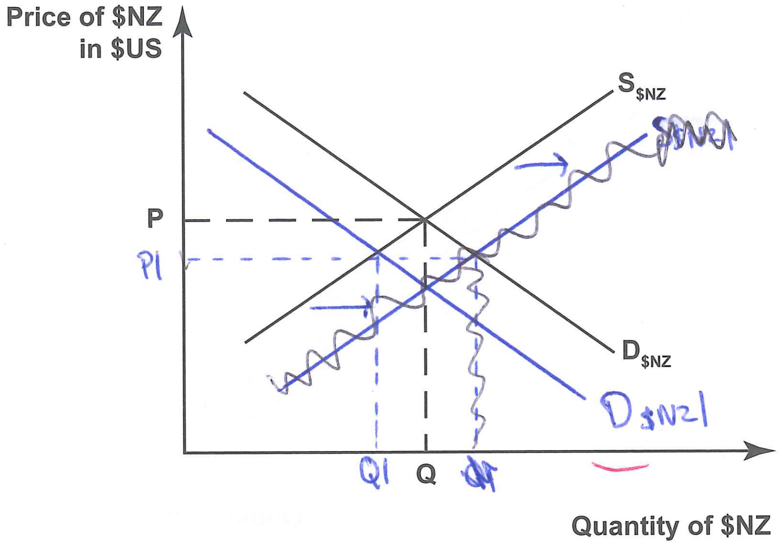
(b) Compare and contrast the impact of decreasing demand for New Zealand dairy exports with the impact of a decreasing world price of oil on the exchange rate for the New Zealand dollar. In your answer:

- 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.

Graph Three: Market for the New Zealand dollar



with ~~an~~ a decrease in world oil price this causes NZ to demand more oil from overseas as Petrolium is NZ's number one import so if oil is cheaper we will demand more oil and less NZ$ this decrease in demand for NZ$ is shown in the shift to the left of the demand curve from D$NZ ~~Q~~ to D$NZ1 this causes a depreciation of the NZ$ shown from P to P1 in graph three.

A decrease in demand for NZ dairy exports will have a greater effect on the NZ$ as dairy is NZ's number one export and is a huge part of trade for NZ so a significant drop in demand will directly cause a depreciation of the NZ$

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but a decreasing world oil price will still have a large impact on the NZ$ as its our ~~main~~ number one import so will cause a large difference as it will decrease to cost of production for a lot of firms and consumers will be more able to afford it but I believe a decrease in demand will have a greater affect on the NZ$ as it will depreicte more then with decreased world oil price.

A4

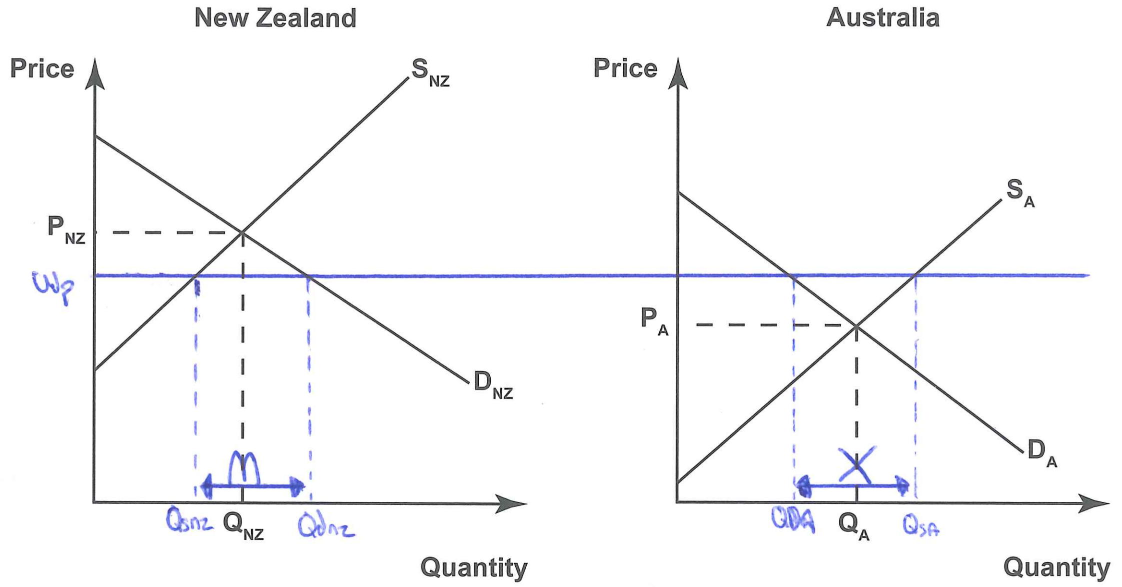
QUESTION THREE: THE TRADE IN TOMATOES

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



trade occurs between Australia an New Zealand for ~~that~~ tomatoes because Australias equilibrium price for tomatoes is much cheaper than New Zealands so a price is set between the two countries at Wp and Australia exports tomatoes X ~~to~~ to New Zealand who import them M.

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(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.

NZ tomato grower will be worse off as they have to supply tomatoes at a lower price which means they recieve less profit and this causes them to supply less from Qnz to Qsnz

NZ tomato consumers will be better off as they got tomatoes at a lower price at Wp so they demand more from Qnz to Qdnz and the gap between Qsnz and Qdnz is imported from australian

New Zealand fruit and vegetable retailers will be better off as they will be selling more tomatoes at a lower price so their profits will increase.

So apart from NZ tomato producers everyone is better off.

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

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<table>
<tr><th colspan="2">Achievement exemplar for 91223 2015</th><th>Total score</th><th>12</th></tr>
<tr><th>Q</th><th>Grade score</th><th colspan="2">Annotation</th></tr>
<tr><td>1</td><td>A4</td><td colspan="2">This candidate has received an A4 grade because they have:
correctly identified two of NZ’s top exports by value
shown a decrease in world price on Graph One
explained how the dairy industry is worse off (e.g. A fall in world demand will result in a lower price and less income for dairy farmers.)
explained the impact on the Current Account (e.g. A fall in world price will result in a lower exports/Balance on Goods and, therefore the Current Account deficit will increase or the Current Account will be worse off.)
Making a detailed explanation of how the dairy industry is worse off from a lower world demand for dairy products OR a detailed explanation on the impact of falling dairy prices on NZ’s Current Account deficit, combined with integrating changes made from Graph One, would have resulted in M6.</td></tr>
<tr><td>2</td><td>A4</td><td colspan="2">This candidate has received an A4 grade because they have:
correctly shown a decrease in the demand for the New Zealand dollar in Graph Two
stated New Zealand dollar depreciates/price falls
explained that lower demand for New Zealand dairy exports will result in lower demand for $NZ
correctly shown a decrease in the demand for the New Zealand dollar in Graph Three.
Making a detailed explanation of the impact on the value of the NZ dollar of decreasing demand for New Zealand dairy exports, including reference to Graph Two, would have resulted in an M6 grade. Note: A detailed explanation must include the idea that less currency is now converted/exchanged because of the lower demand for exports.</td></tr>
<tr><td>3</td><td>A4</td><td colspan="2">This candidate has received an A4 grade because they have:
correctly showed a new trade price between P_{NZ} and P_A.
explained how New Zealand tomato growers are worse off (e.g. as a result of the lower price, New Zealand tomato growers receive less income, and are worse off.)
explained how New Zealand tomato consumers are better off (e.g. as a result of the lower price, New Zealand tomato consumers can purchase cheaper tomatoes and are better off.)
explained how New Zealand fruit and vegetable retailers are better off (e.g. as a result of the lower price, New Zealand retailers are selling more tomatoes and are better off.)
Giving a detailed explanation of how New Zealand tomato growers are worse off OR New Zealand tomato consumers OR NZ fruit and vegetable retailers would have been better off, integrating the changes shown in Graph Four, would have resulted in M6.</td></tr>
</table>