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91223



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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
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SUPERVISOR'S USE ONLY

Level 2 Economics, 2016

91223 Analyse international trade using economic concepts and models

2.00 p.m. Tuesday 15 November 2016
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

10

ASSESSOR'S USE ONLY

QUESTION ONE: PRICE TAKER MODEL

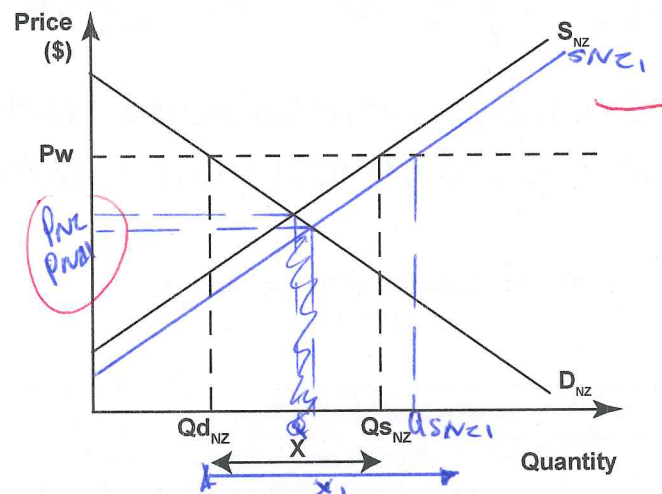
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Powdered milk, a product of the dairy industry, is a significant New Zealand export. Dairy farms rely heavily on irrigation, such as the Central Plains Irrigation Scheme. The aim of irrigation is to supply enough water for pastoral growth at times of the year when rainfall is unreliable or inadequate. Irrigated land in Canterbury shows a gain of 5000 kg of output per hectare per year, compared to unirrigated land.

Source (adapted): <http://www.rockpoint.co.nz/pdfs/Irrigation-in-New-Zealand-2012-Rockpoint.pdf>

- (a) (i) On Graph One below, show the impact on export receipts from powdered milk, of increased irrigation on agricultural land.

Graph One: Market for New Zealand powdered milk



- (ii) Use Graph One to fully explain the impact on export receipts from powdered milk, of increased irrigation on agricultural land.

If irrigation was to increase on agricultural land it would lead to an increase in production and supply of dairy products for exportation. The supply of New Zealand powdered milk increases from S_{NZ} to S_{NZ1} and the quantity supplied increases from $Q_{S_{NZ}}$ to $Q_{S_{NZ1}}$. This increase in supply leads to an increase in exports x to x_1 . The quantity demanded in New Zealand stays the same $Q_{D_{NZ}}$.

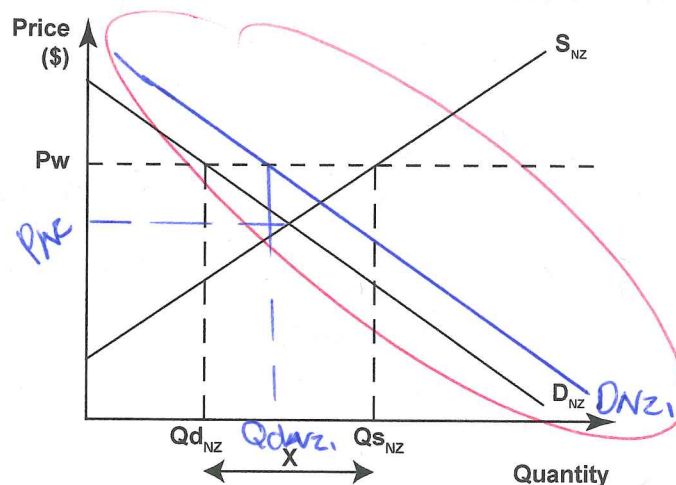
A resolution by a World Trade Organisation conference to eliminate agricultural export subsidies is good news for New Zealand. New Zealand is a successful exporter of farm products to many countries that currently subsidise their local production. New Zealand stands to gain greatly if agricultural export subsidies are eventually eliminated and the supply in the rest of the world decreases.

Source (adapted): http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11564655

New Zealand has no export subsidies on powdered milk exports.

- (b) (i) On Graph Two below, show the impact on export receipts from powdered milk, of the elimination of agricultural export subsidies in our major export markets.

Graph Two: Market for New Zealand powdered milk



- (ii) Use Graph Two to fully explain the impact on export receipts from powdered milk, of the elimination of agricultural export subsidies in our major export markets.

If the world was to eliminate subsidies on local production of powdered milk in our major export markets such as China New Zealand producers would benefit. This is because demand for New Zealand exported powdered milk would increase from $Q_{d_{NZ}}$ to $Q_{d_{NZ}_1}$. This would mean New Zealand producers are exporting more powdered milk at the higher world price P_W and are making a higher profit than they would if they sold the same amount in New Zealand at the lower New Zealand price P_{NZ} .

- (iii) Refer to Graphs One and Two to fully explain why the elimination of agricultural export subsidies in our major export markets will have a greater impact on the export receipts from powdered milk, than increased irrigation of agricultural land.

ASSESSOR'S
USE ONLY

The increase in irrigation will result in an increase in supply of powdered milk set for export. This will mean more goods are available for export, but if demand for them doesn't increase then there is really no impact. Whereas an increase in demand for powdered milk as a result of the elimination of agricultural subsidies. So producers sell their products at the high world price and make a bigger profit. This will then have a ~~big~~ bigger impact on export receipts than increased irrigation.

A3

QUESTION TWO: EXCHANGE RATE AND TWO-COUNTRY MODEL

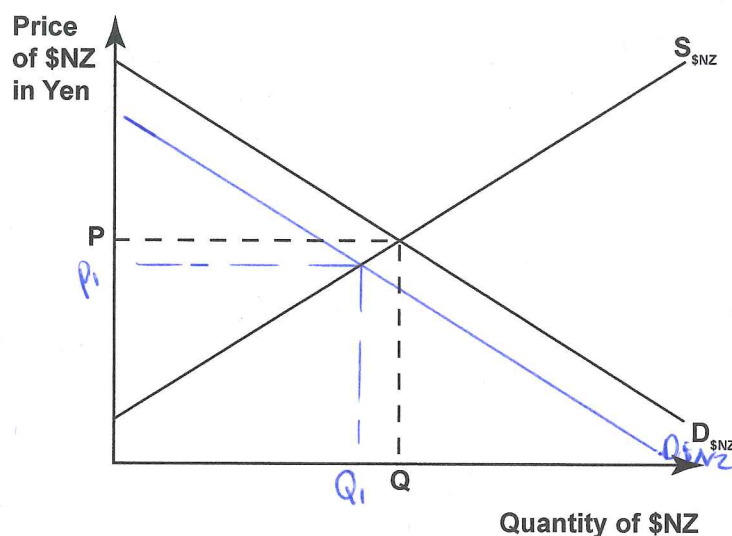
ASSESSOR'S
USE ONLY

Between 21 March 2015 and 20 January 2016, the New Zealand dollar depreciated 17% against the Japanese yen.

Source: <http://www.x-rates.com/graph/?from=NZD&to=JPY&amount=1>

- (a) (i) Use Graph Three below to show a shift in the demand for the New Zealand dollar that will result in its depreciation against the Japanese yen.

Graph Three: Market for the New Zealand dollar



- (ii) Fully explain ONE possible reason for the shift in demand for the New Zealand dollar, as shown in Graph Three.

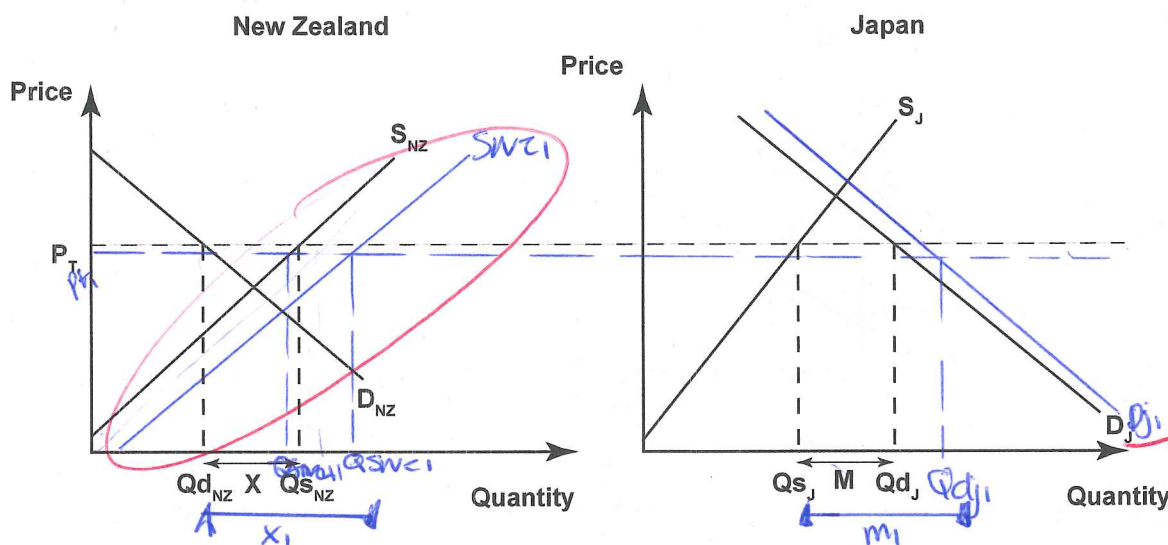
The shift downwards in the demand for the New Zealand dollar $D_{\$NZ}$ to $D'_{\$NZ}$ is a result of the New Zealand dollar depreciating 17% in the last 9 months from March 2015 to January 2016. This has resulted in the price of the New Zealand dollar in Japanese yen dropping from P to P_1 . This shift in demand could be as a result of low ~~inflation~~ inflation in New Zealand and low interest rates, which causes foreign investors to invest their money elsewhere causing the demand for the New Zealand dollar to decrease.

Japan is the largest market for aluminium produced in New Zealand. In 2014, Japan imported approximately half of the \$837 million total New Zealand aluminium exported.

Source: <http://www.worldsrichestcountries.com/top-new-zealand-exports.html>

- (b) On Graph Four below, P_T is the price of aluminium before depreciation of the New Zealand dollar against the Japanese yen. Use Graph Four to show:
- the change in demand in the Japanese market due to the depreciation of the NZ dollar against the Japanese yen
 - change in the quantity of aluminium exports between New Zealand and Japan.

Graph Four: Two-country model for aluminium



- (c) Use Graph Four to fully explain the change in demand for aluminium in the Japanese market, and the consequent changes in the value of aluminium exports between New Zealand and Japan.

As the New Zealand dollar depreciates against the value of the Japanese yen it enables the Japanese to demand more aluminium so Japanese demand increase from D_J to D_{J1} . This depreciation results in the price of aluminium dropping from P_T to P_{T+1} . So imports increase in Japan from m to m_1 , as they now demand more aluminium at the cheaper price. If New Zealand aluminium producers are to ~~the~~ meet the new demand in Japan they will have

to increase the supply of aluminum ~~for~~ for exportation
from S_{VZ} to S_{VZ1} and exports will increase
from x to x_1 .

A3

QUESTION THREE: THE BASIS OF TRADE AND FREE TRADE AGREEMENTS (FTA)

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(a) Identify TWO of New Zealand's imports from the top six by value.

- (1) ~~Dairy products~~ Vehicles //
- (2) Electronics. //

(b) Use one of the imports from part (a) to fully explain an economic reason why New Zealand is an importer of this good.

New Zealand's natural resources make it easy for New Zealand to produce dairy products and timber goods. But New Zealand's natural resources do not make it easy for them to produce Vehicles. If New Zealand was to set up factories to produce vehicles in the country rather than importing them, they would have to import all materials needed. This would be a huge cost of production, as it would cost them more to import the goods needed for production than it would to import the vehicles already made. It's economically more viable for New Zealand to import vehicles, rather than produce them nationally.

The Trans-Pacific Partnership Agreement (TPP) will give our exporters much better access to a market of more than 800 million customers in 11 countries across Asia and the Pacific, including the United States and Japan. The TPP will eliminate tariffs on 93 per cent of New Zealand's exports to our new FTA partners. The overall benefit of the TPP to New Zealand is estimated to be at least \$2.7 billion a year by 2030. That's more jobs, higher incomes, and a better standard of living for New Zealanders.

Source (adapted): <http://tpp.mfat.govt.nz/>

Statement by the Prime Minister: beehive.govt.nz/release/pm-welcomes-tpp-nz-s-biggest-trade-deal

- (c) Compare and contrast the impact of the Trans-Pacific Partnership Agreement on:
- New Zealand export industries and New Zealand industries not directly involved in exporting
 - domestic workers in export industries and domestic workers in import industries.

The establishment of the Trans-Pacific Partnership (TPP) ^{has a huge impact} on New Zealand export industries. The TPP removes 93 percent of tariffs on New Zealand exports. This means that New Zealand producers will be ~~not~~ receiving the full price paid by the overseas buyers. The demand for New Zealand exports may also increase, which will increase production ~~and~~ This may mean more jobs available which will have a positive impact on the unemployment rate. This will also mean that the government now has to pay out less in unemployment benefits, and the overall standard of living for those involved in the export industry has improved. Whereas, for New Zealand industries not directly involved in exporting it has less of an impact. The New Zealand government ~~may~~ will have more ~~more~~ money to spend as they have to pay less in unemployment

More answer space is available on the next page.

benefits and are receiving more money from in the form of income tax. This could improve brooding or other forms of infrastructure, which would benefit all industries, not just those involved in exporting. The TPP is an opportunity for those workers involved in the export industry to earn a higher income or get a better job. The TPP agreement enables them to improve their overall standard of living. For domestic workers working in the import industries, are not really affected by the agreement. Trade with the 11 nations involved may be easier, which may help to increase production and may have a small increase on their pay, but not as much as those working in the export industry.

A4

Achievement exemplar for 91223 2016			Total score	10
Q	Grade score	Annotation		
1	A3	<p>This candidate has received an A3 grade because they have:</p> <ul style="list-style-type: none"> correctly drawn and labelled on Graph One an increase in supply, $Q_{S_{NZ}}$ increasing and level of exports increasing (no change in P_w). explained that the increased irrigation will increase the supply of powdered milk, resulting in an increase in exports. <p>Fully explaining that the increased irrigation increases supply of powdered milk with a reason (e.g. increased productivity, lower costs of production), therefore increases/export receipts, referring to Graph One, would have resulted in M6.</p>		
2	A3	<p>This candidate has received an A3 grade because they have:</p> <ul style="list-style-type: none"> correctly drawn on Graph Three a decrease in demand for NZ dollars resulting in a depreciation against the Japanese yen. explained ONE possible reason why the demand for NZ dollars has decreased, in this case a decrease in interest rates in NZ. <p>Fully explaining that the demand for NZ dollars has decreased, with a reason given in context (e.g. decreased NZ interest rates with lead to a decrease in demand for NZ dollars by Japanese investors, resulting in the currency depreciating against the Japanese yen ¥) and integrating Graph Three into their explanation would have resulted in an M6 grade.</p>		
3	A4	<p>This candidate has received an A4 grade because they have:</p> <ul style="list-style-type: none"> explained that New Zealand lacks the natural resources/expertise/economies of scale to (competitively/efficiently) make these products compared to other countries explained an impact on domestic workers in export industries (e.g. higher exports will lead to higher incomes/more jobs). <p>Giving a detailed explanation for one group listed in part (c), e.g. that the greater access to 11 countries/800 million customers or less protectionist barriers such as tariffs, will lead to export industries selling more exports, or lower costs, and therefore higher revenue/profit levels OR fully explaining that with increased international trade/greater access to 11 countries/800 million customers/less protectionist barriers such as tariffs will lead to more exports and, therefore, more labour will be required (derived demand idea), leading to higher income levels/living standards and/or job opportunities for domestic workers in export industries, would have resulted in M5.</p>		