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# 2

91224



912240



NEW ZEALAND QUALIFICATIONS AUTHORITY  
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## Level 2 Economics, 2016

### 91224 Analyse economic growth using economic concepts and models

2.00 p.m. Tuesday 15 November 2016  
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse economic growth using economic concepts and models.	Analyse economic growth in depth using economic concepts and models.	Analyse economic growth 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**

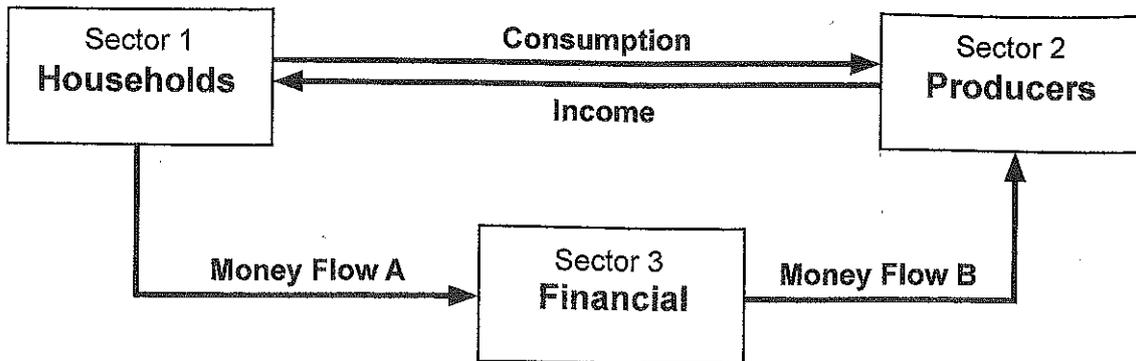
**8**

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## QUESTION ONE: CIRCULAR FLOW DIAGRAM

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Model One: Three-sector circular flow model



- (a) Since 2012, the percentage of income that must be contributed to KiwiSaver schemes has increased from 2% to 3%. This would have increased BOTH Money Flows A and B.

Use Model One to fully explain how the increased contributions to KiwiSaver schemes may affect economic growth.

In your answer:

- identify and define Money Flows A and B
- explain how an increase in Money Flow A affects economic growth
- explain how an increase in Money Flow B affects economic growth.

Money Flow A is savings and Money flow B is Investment.  
 An increase in savings means banks have more money to invest and Financial balance is affected positively. It also causes an increase in Investment, and the Velocity of circulation will increase, which has a good impact on economic growth //

Improved economic conditions are expected to cause the Government's operating balance to be in surplus in 2015–2016. It is forecast that this surplus will grow to \$3.6 billion by 2018–2019.

Source (adapted): <http://www.treasury.govt.nz/budget/2015/fsr/05.htm>

Options for the Government on how to use the surplus include.

- reducing income tax rates
- an increase in government spending on education, health, and infrastructure.

(b) Compare and contrast the impact on economic growth of reducing income tax rates with an increase in government spending on education, health, and infrastructure.

In your answer, fully explain:

- the impact of reducing income tax rates on economic growth
- the impact of increasing government spending on economic growth
- why the impact of reducing income tax rates may have a smaller impact on economic growth than increased government spending.

the reducing income tax rates means household can get more ~~from~~ incomes and government gets less from ~~text~~ tax. ~~house~~ household will spend more or save more and increase the economic growth.

The increasing government spending means a higher tax, so household get less incomes. Government increase spending will have a good impact on ~~ess~~ economic growth because the surplus ~~is~~ spending on welfare ~~and~~.

Increased government spending has a bigger impact on economic growth than reduced income tax rate because government spending impact wider than income tax rates. Government control ~~financial account and~~ exports, imports, firms and so on, but income tax rates only impact households.

## QUESTION TWO: PRODUCTION POSSIBILITY FRONTIER

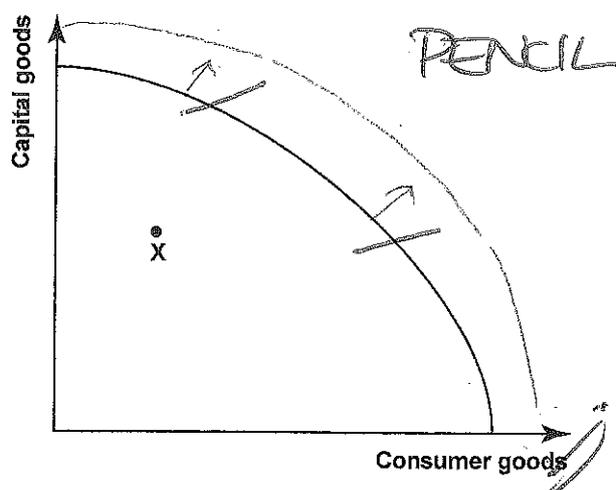
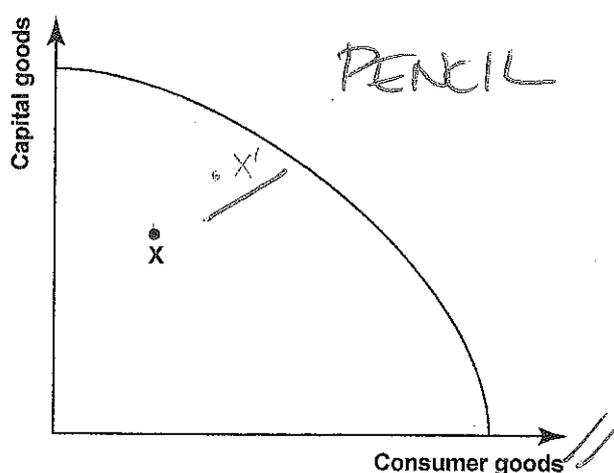
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New Zealand has several occupations and regions in which demand for workers is higher than supply available, even though there is considerable unemployment of suitable workers in the economy. There are two distinct solutions:

- the Government providing job search and relocation assistance to unemployed workers in New Zealand
- the Government providing incentives for foreign workers to immigrate to New Zealand.

Graph One: Production possibility frontier

Graph Two: Production possibility frontier



**Note:** Point X shows the current combination of capital goods and consumer goods produced in New Zealand.

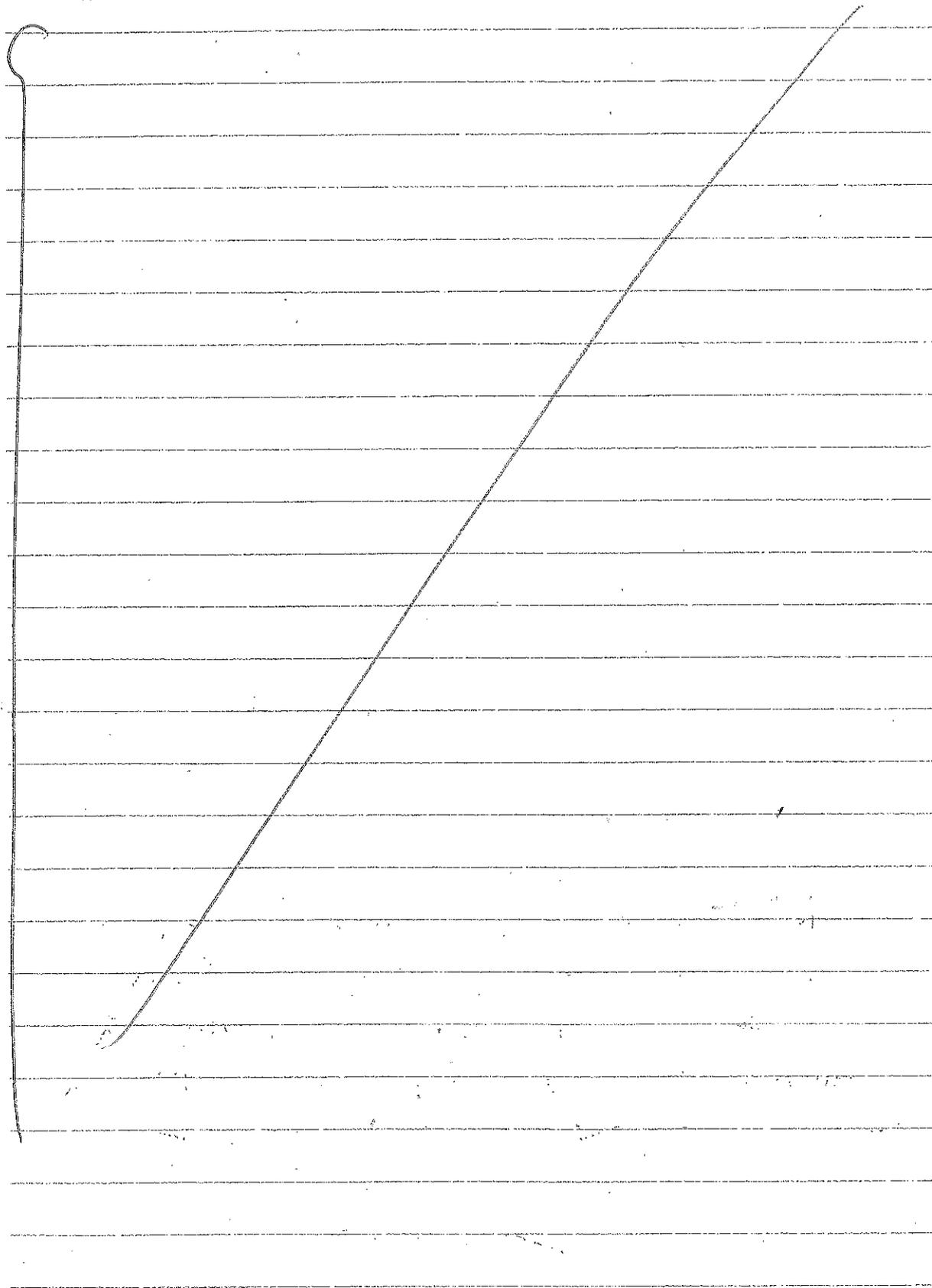
- (a) (i) On Graph One above, show the impact of providing job search and relocation assistance to suitable unemployed workers in New Zealand.
- (ii) On Graph Two above, show the impact of increasing immigration into the New Zealand economy.
- (b) Use Graphs One and Two to compare and contrast the impact on economic growth of providing job search and relocation assistance to suitable unemployed workers in New Zealand with increasing immigration into the New Zealand economy. In your answer, refer to the concepts of real GDP and productive capacity.

Provide job search and relocation assistance to suitable unemployed workers in New Zealand will have both the short term and long term effect. More workers means more demand for and more producer, so ~~so~~ X moves from X to X', real GDP will increase and productive capacity will increase.

The increase in immigration into the New Zealand will bring New Zealand more consumptions and more

technology, so the curve shift left. New Zealand economy grow in these <sup>two</sup> ~~to~~ positions. Real GDP will increase because of more demand, productive capacity will also increase  
bec //

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A3

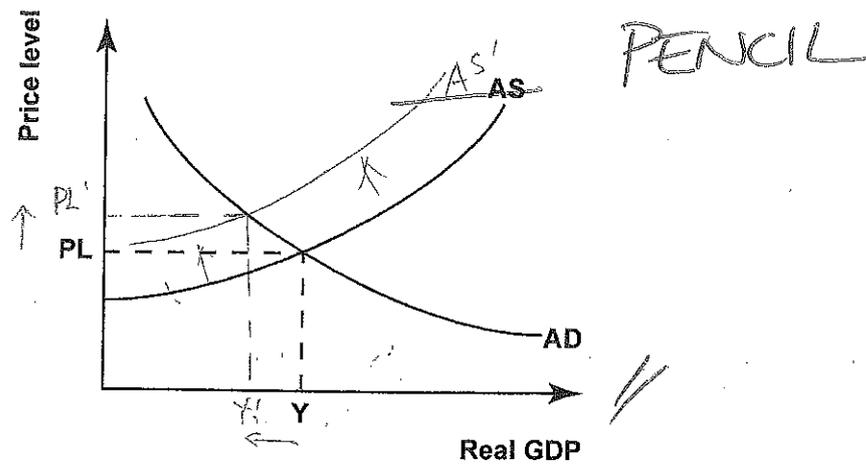
### QUESTION THREE: GOVERNMENT POLICIES AND THEIR IMPACT ON GROWTH

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The Resource Management Act has several objectives, including:

Understanding that present resource use has an impact on the quality and quantity of resources available for future generations.

Graph Three: AD/AS model of the New Zealand economy



- (a) (i) On Graph Three above, show the future impact on the AD/AS model of present-day production permanently damaging or over-exploiting a natural resource.
- (ii) Use Graph Three to fully explain the future impact on economic growth if the Resource Management Act is not enforced and present-day production permanently damages or over-exploits a natural resource.

If the Resources Management Act is not enforced and present-day production permanently damages or over-exploits a natural resources, the AS will decrease from AS to AS' because the reduce of natural resources, the goods which produced by natural resource ~~will~~ can not be produced any more the price level will increases from PL to PL' and Real GDP decreases from Y to Y'. It will also be a bad impact on economic growth in the future. It's not good for the future plan //

The 1949 Forestry Act bans the export of swamp kauri logs unless they are made into finished timber products. Exporters have been getting round this with illegally exported logs being processed at their export destination, depriving this country of jobs and the financial benefit of adding value. By [Government's] rigorously enforcing the Act and more closely observing the exporters, the swamp kauri could contribute far more to Northland. This would mean the creation of jobs in a genuine value-added processing industry, making bowls, vases, furniture, and other popular products.

Source (adapted): [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11483596](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11483596)

- (b) Compare and contrast the economic impact of enforcing the 1949 Forestry Act and its value-added policy on extracted kauri logs in the Northland community.

In your answer, fully explain:

- the costs and benefits for workers in Northland
- the costs and benefits for the Government.

The costs for workers in Northland increases because swamp kauri logs brings a lot of costs and increase the general price level. The benefits for workers are there will be more jobs and they can earn more money.

the benefits for Government is are they can get more money by value-added processing industry and more jobs are needed, more products can be produced will leads to economic growth.

Achievement exemplar for 91224 2016			Total score	08
Q	Grade score	Annotation		
1	N2	<p>Part A. Both flows are identified. There is no explanation of their impact on growth. Effect on growth as being “good” is vague.</p> <p>Part B. Weak explanation using partial economics terms causing an increase in growth for income taxes. Incorrect explanation about government spending, also repeat of “good” impact on growth.</p> <p>Overall, no strong evidence of an economic explanation, impact on growth uses “good”; a non-economic descriptive.</p>		
2	A3	<p>Both graphs are correct (in pencil). Explanation, with reference to graph 1, with errors. Explanation with errors for graph 2.</p> <p>Overall, two partial explanations with substantial errors, correct reference to graph 1.</p>		
3	A3	<p>Part A. Graph correctly labelled and drawn. (In pencil). An explanation using reference to graph of real GDP decreasing. No detailed explanation of why AS curve shifts, so not at Merit depth.</p> <p>Part B. Correct identification / statement of a cost to workers (inflation) and benefit to workers (more jobs / money). Neither are explanations. No further evidence from the answer concerning government.</p> <p>Overall, an explanation with SOME correct statements.</p>		