No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose of gaining credits towards an NCEA qualification.

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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.

Merit

TOTAL 15

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QUESTION ONE: CIRCULAR FLOW DIAGRAM

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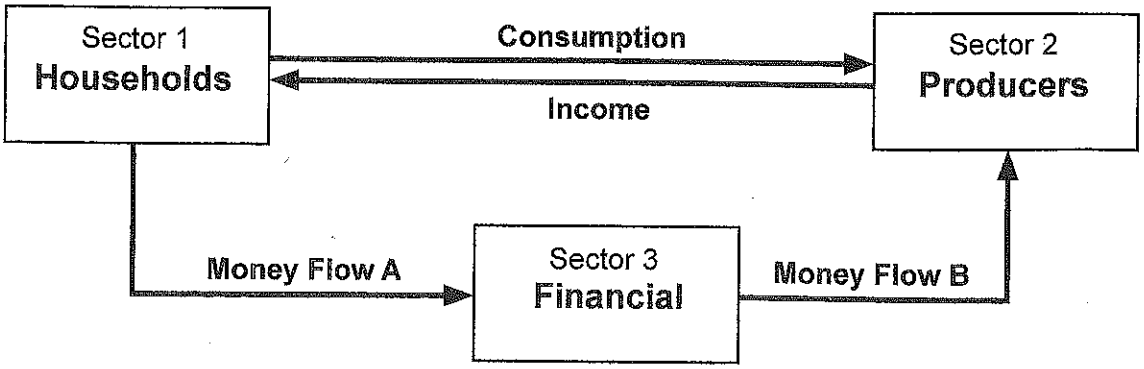
Model One: Three-sector circular flow model



(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 from households being put into banks in the financial sector. Money flow B is loans for investment from banks in the financial sector to producers. Because the percentage of income that needs to be contributed to kiwisaver rose from 2% to 3% means more of the households income is not spent and is saved, this has increased money flow A. As consumption has decreased economic growth would slightly decrease due to this. ~~With less consumption from households producers.~~ An increase in money flow B means that firms are more likely to invest in capital goods and therefore will have long term economic growth. An increase in money flow A means that there is more money

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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 impact of reducing income tax rates would mean that households now have more money to spend on goods and services, this would cause an increase in demand + supply which would therefore cause economic growth. On the other hand reducing tax would mean that the government would recieve less tax money. The impact of increasing government spending on education, health and infrastructure means that the standard of living in New Zealand would increase. Having an education and good health means that people have the knowledge and skillsets for important jobs in the economy and having good health would mean less time off work. All of this would lead to an increase in economic

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growth. The impact of reducing income tax may have a smaller impact on economic growth than increased government spending because decreasing income tax only effects the working population, we also dont know if those people will spend the extra money or will save it which would not cause economic growth. The increase in Govt spending will carry on into the future as an education and good health is essential and will benefit the economy for longer with the increase in economic growth. And the Govt spending tends to all ages education = children + teens + adults, health = everyone, infrastructure = everyone. All together increases the standard of living. (Net social welfare)

M6

QUESTION TWO: PRODUCTION POSSIBILITY FRONTIER

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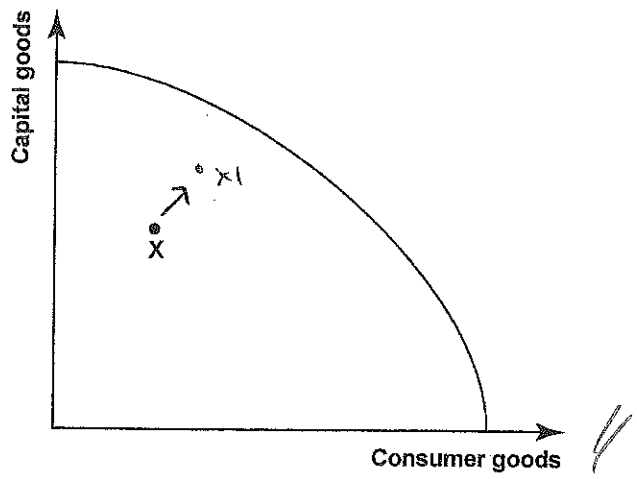
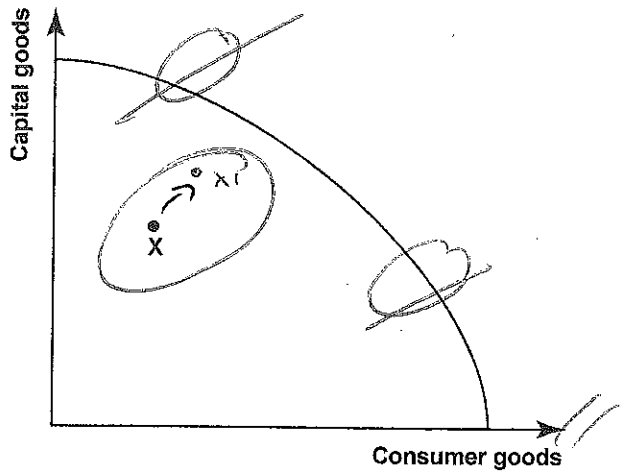
New Zealand has several occupations and regions in which demand for workers is higher than supply available, even though there is considerable unemployment of suitable workers in the economy. There are two distinct solutions:

- 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**.

~~Providing job search and relocation assistance to suitable unemployed workers in New Zealand~~ Real GDP* is the total value of all goods and services produced in an economy in one year, adjusted for inflation. Productive capacity is the maximum output of an economy or

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the amount of goods and services possibly produced in a country using all resources and technology. Providing job search and relocation assistance to suitable unemployed workers in New Zealand would hopefully mean those unemployed would be able to find jobs / fill the jobs needed. This would decrease unemployment, + increase real GDP for that business as more should be produced due to having more workers. As seen on graph one the x has moved closer to the curve showing that nearly all resources are being used. Increasing immigration into the NZ economy with the Govt providing incentives for foreign workers would mean that NZ would have more labour workers in the country to come into those jobs that need filling. These foreign workers also bring different skills and with more workers in jobs will increase the productive capacity of that company. We can see that on graph two the x is closer to using up all the resources which shows us that economic growth has increased in both circumstances //

M5

QUESTION THREE: GOVERNMENT POLICIES AND THEIR IMPACT ON GROWTH

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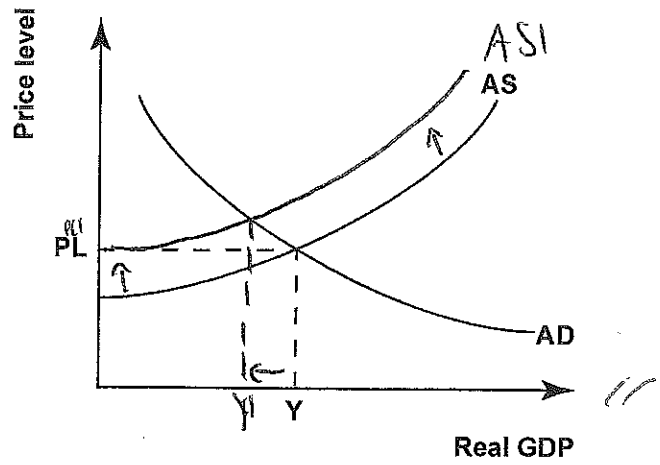
The Resource Management Act has several objectives, including:

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.

The future impact on economic growth if the resource management act is not enforced and present-day production permanently damages a natural resource would cause a decrease in Aggregate supply. If there is no resources left, how can a good or service be made. From the shift left of the AS curve from AS to AS', Real GDP has decreased from Y to Y1. This shows that economic growth would decrease due to no resources / damage to a natural resource. The cost of production would increase for firms trying

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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

(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.

time money time

By enforcing the 1949 Forestry Act has meant swamp kauri can contribute more to Northland. The creation of jobs would benefit Northland workers With these jobs making bowls, vases etc it may take longer to produce an amount of these goods due to the 1949 forestry act with the Government rigourously enforcing it. The benefit of making these items / popular products would mean the demand for them would be high and the workers/ firms would make a good profit by selling the items. The benefit of the Government would ~~mean that~~ be that the money made on those wooden goods would stay in this country and the Govt can earn tax through the GST put on the items. The creation of more jobs means that unemployment decreases

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and more people will pay income tax. The cost for the government is that they have to spend a lot of time and money enforcing the 1949 forestry act.

A4

Merit exemplar for 91224 2016			Total score	15
Q	**Grade score**	**Annotation**		
1	M6	Part A. Both flows identified. Explanation of how savings decreases growth, using consumption from circular flow diagram. Explanation of how investment increases growth using capital goods. Both explanations combined create a Merit standard detailed explanation using circular flow model. Part B. Weak explanation of how income taxes impact on growth. Detailed explanation of how social welfare increases through jobs / skills / health. Understanding that income taxes may impact savings rather than consumption; that the social welfare impacts are long term. Overall, there is enough evidence in part B for a Merit explanation. Overall, Merit evidence in part A and some Merit evidence in Part B.		
2	M5	Graph 1 is correctly labelled. Graph 2 is incorrect. Candidate has correctly defined Real GDP and productive capacity, demonstrating greater understanding in subsequent explanations. Graph 1 has detailed explanation containing real GDP, reference to graph and lower unemployment increasing production. There are some minor errors. For Graph 2, there is a correct explanation; however, it is incorrectly presented on the graph. Overall, a detailed explanation with minor errors for Graph 1.		
3	A4	Part A. Graph is correctly drawn and labelled. A strong explanation, with reference to graph and decrease in growth. Explanation of why AS curve is affected. Part B. There is an explanation of a cost and a benefit to government; neither are at the depth required for Merit. Workers do not earn profits; correct statement about creation of jobs. Overall, there are three explanations and some correct statements. Insufficient evidence of two detailed explanations.		