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91224



912240



NEW ZEALAND QUALIFICATIONS AUTHORITY
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SUPERVISOR'S USE ONLY

Level 2 Economics, 2017

91224 Analyse economic growth using economic concepts and models

2.00 p.m. Monday 20 November 2017
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 2–12 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.

Achievement

TOTAL

10

ASSESSOR'S USE ONLY

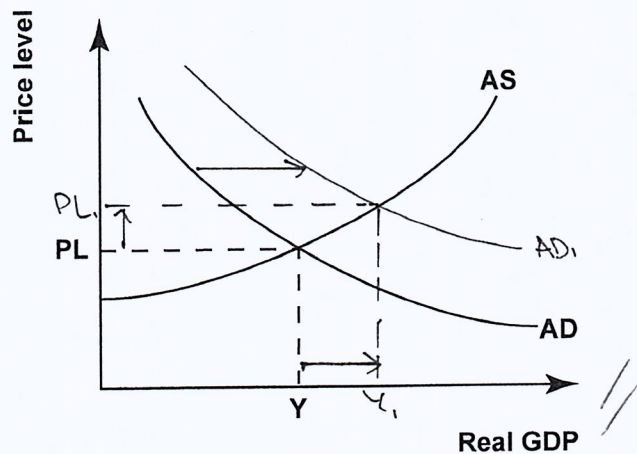
QUESTION ONE: ECONOMIC MODELS AND ECONOMIC GROWTH

ASSESSOR'S
USE ONLY

Annual average GDP growth is expected to rise to 2.9% by the middle of 2017, from 2.6% in June 2016, mainly from increasing domestic demand.

Source (adapted): <http://www.treasury.govt.nz/budget/forecasts/befu2016/006.htm>

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



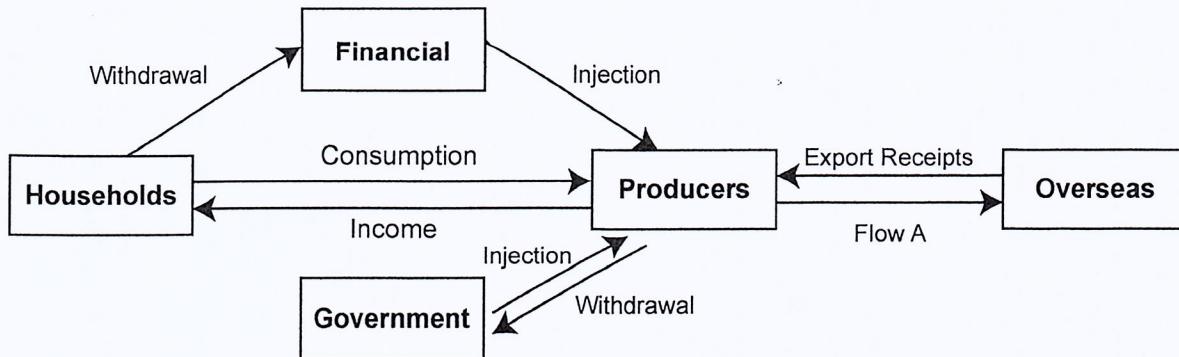
- (a) (i) On Graph One above, show the impact of increasing domestic demand on the AD/AS Model.
- (ii) Using Graph One, fully explain the impact on economic growth if domestic demand continues to remain strong in New Zealand.

Domestic demand remain strong will make aggregate demand (AD) increase to AD_1 (shift ~~to~~ right) and real output increase (from Y to Y_1) and price level increase from PL to PL_1 . This make an inflation.

Our major trading partners are expected to experience economic growth on average of 3.5% in 2017, resulting in sustained increases in New Zealand export receipts.

Source (adapted): <http://www.treasury.govt.nz/budget/forecasts/befu2016/006.htm>

Model One: Circular flow model



(b) On Model One above:

CIGX

(i) Identify and define money flow A.

Import payments, producer import buy a goods and services from overseas and sell to consumer. Buy a goods from overseas is import, and pay for the imports.

(ii) Identify ONE injection and ONE withdrawal, excluding export receipts and flow A.

Injection: the money go into money flow such as export receipt and investment //

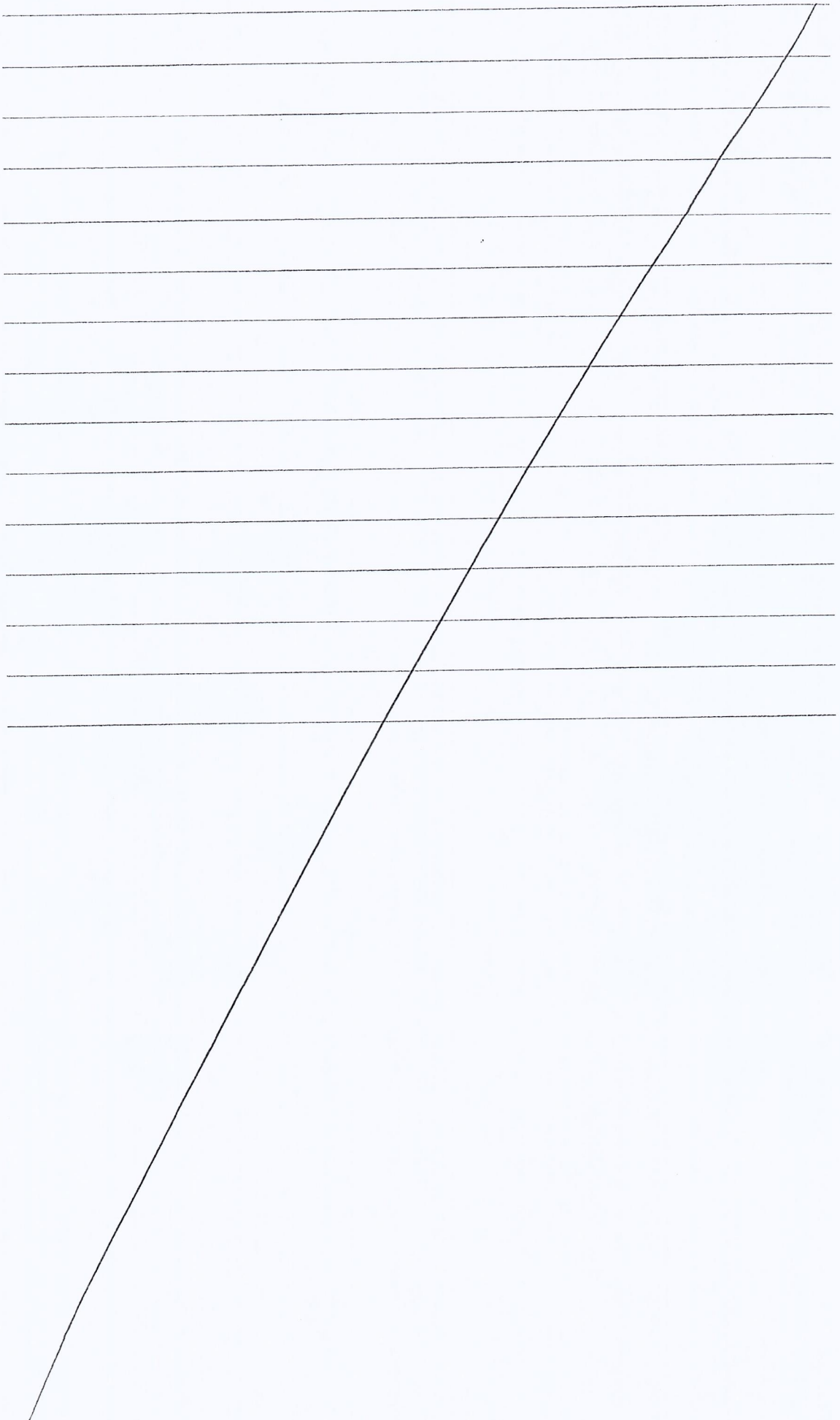
Withdrawal: the money flow goes out the circulation such as import payment and saving //

(iii) Discuss the impact of an increase in export receipts on economic growth. Fully explain:

- how the Producers and Households sectors in the Circular flow model are better off through the increase in export receipts
- why the increase in economic growth through export receipts may be less than expected because of withdrawals.

As export receipts increase, producer has more profit and will pay more wage to household as their work, this will impact the consumer spend on buying more goods. Overall increase circulation of money. As net export increase due to export receipt increase, aggregate demand will increase as net export is a component of aggregate demand. However as producer sell more goods and services, the GST tax will need to pay more; household can save more money into the bank, it also makes more withdrawal. //

More answer space is available on the next page.



A4

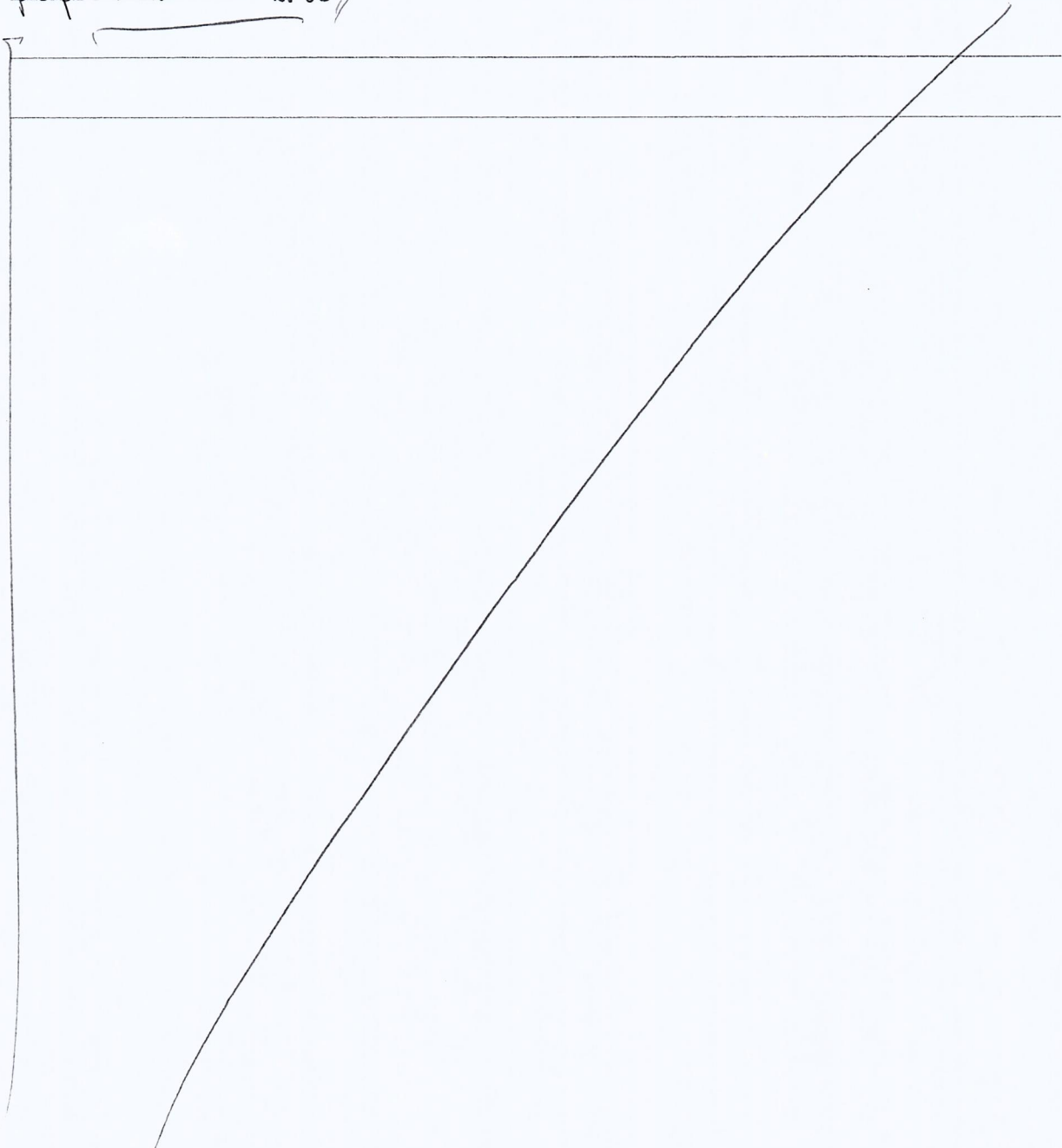
QUESTION TWO: GDP AND PRODUCTION POSSIBILITY FRONTIER

ASSESSOR'S
USE ONLY

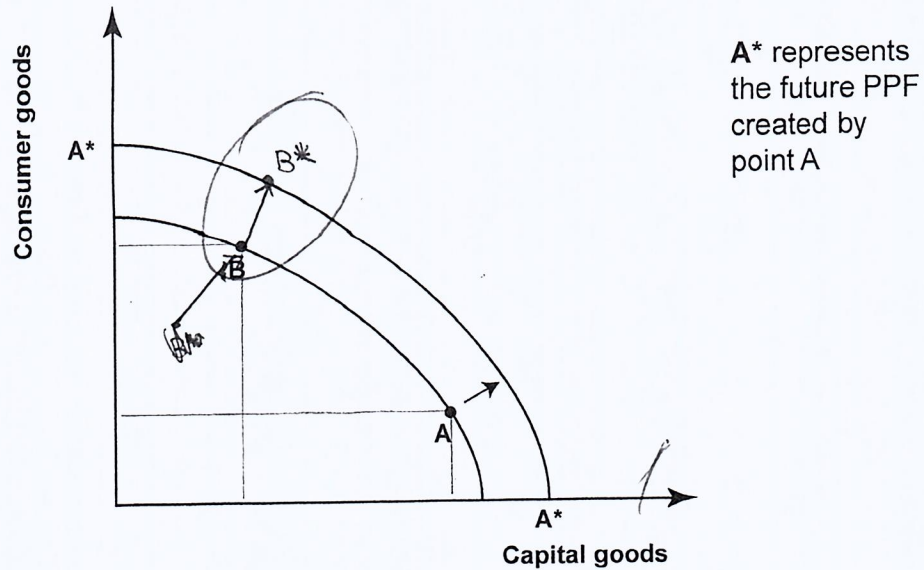
- (a) Fully explain a limitation of using Nominal GDP as a measurement of economic growth in the New Zealand economy compared to Real GDP per capita. In your answer, include a definition for nominal GDP and a definition for Real GDP per capita.

Note: Per capita is per head of population

Nominal GDP is a measure of current year prices times the quantity of output; real GDP per capita is total ~~the~~ Real GDP divide by all the people in New Zealand. Nominal GDP is not a good measure of economic growth as when the value of nominal GDP increase might due to increase in price of goods not output. Real GDP per capita might change due to birth or dead of people, but it can easily know the real output when we multiply real GDP per capita with the people of New Zealand.



Graph Two: Production Possibility Frontier

ASSESSOR'S
USE ONLY

- (b) (i) Fully explain the opportunity cost if New Zealand production shifts from A to B.

When A (capital goods > consumer goods) ~~move~~ shifts to B (consumer goods > capital goods) means the capital goods decrease (machine) but consumer goods (product) increase. //

- (ii) On Graph Two, draw a future Production Possibility Frontier (labelled B*) to show New Zealand operating at Point B.

- (iii) Using Graph Two, fully explain why the future Production Possibility Frontier (B*) you have drawn shows a level of potential capacity different from the future Production Possibility Frontier (A*) created by point A.

A* is the shown of future ^{PPC} PPF whereas B* is the shown of future PPF. A* shift the whole curve to the outwards whereas B* only shift a frontier. //

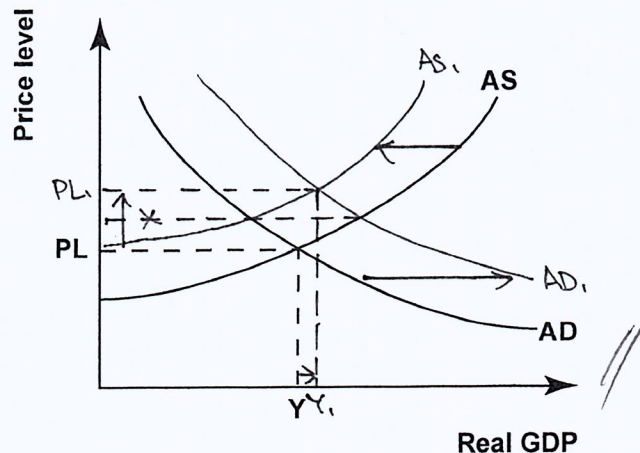
A3

QUESTION THREE: IMPACT OF GROWTH

ASSESSOR'S
USE ONLY

Both the government sector and the private sector will need to increase infrastructure investment (e.g. roads, power and broadband) in regional New Zealand. Delays will cause increased costs of production and will limit growth in the tourism market.

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



- (a) (i) On Graph Three above, show the impact of increased infrastructure on the Aggregate Demand AND Aggregate Supply curves
- (ii) Using Graph Three, explain the shifts in Aggregate Demand and Aggregate Supply and the impact on economic growth.

Increased infrastructure investment will make aggregate demand (AD) ~~and~~ shift outwards and aggregate supply (AS) shift inwards. This cause real output increase from Y to Y_1 and price level increase from PL to PL_1 due to AD shift right to AD_1 and AS shift left to AS_1 . Increased infrastructure will cause the government spending increase as the spending is like road and power etc. ~~Therefore~~ As government spending is one of component of AD. Building infrastructure will increase cost of production on government spending, as ~~more~~ cost of production increase, AS will decrease. And make an inflation.

Spending by passengers and crew of international cruise ships in New Zealand grew by 13% between 2015 and 2016, resulting in an increase in industry employment of 5% in regions where the ships visited. At present, 17 regions benefit from the cruise industry, which will attract more workers and capital investment in the future because growth is expected to be sustained.

Source (adapted): <http://cruisewhitepaper.org.nz/wp-content/uploads/2016/08/2015-2016-SUMMARY-Economic-Impact-Report-FINAL-2.pdf>

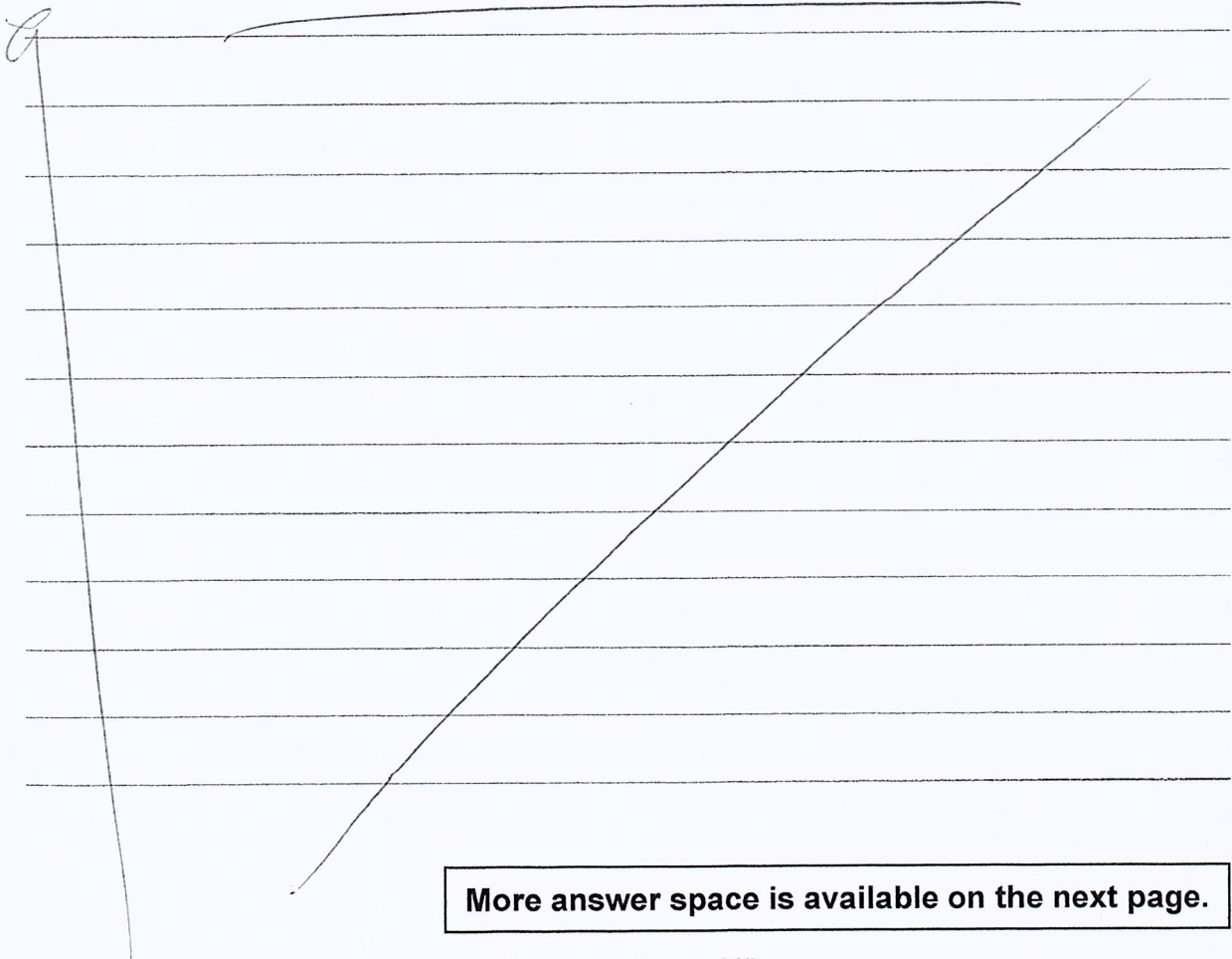
(b) Compare and contrast the impact of the economic growth resulting from expanding international cruise ship tourism on:

- workers in the regions that service the cruise ships
- AND
- producers in the regions that service the cruise ships.

In your answer, fully explain the benefits and costs to EACH group.

Worker in the region only gets their wage which will not decrease or increase very fast but they might lose their job. Overall if they don't lose their job they might get same wages every month.

Producer in the region needs to make right decision to keep business working, and might have deficit or profit on business. Overall they might have more wage, but it's also hard to make profit.



More answer space is available on the next page.

A3

Achievement exemplar 2017

Subject:		Economics	Standard:	91224	Total score:	10
Q	Grade score	Annotation				
1	A4	<p>Part A Explanation that Domestic Demand is the cause of the correct shift (referenced) of the aggregate demand curve. Reference to real output increasing in explanation.</p> <p>Part B Import payments identified and defined. Investment and saving identified correctly. Statement about producers and explanation about households. Withdrawals identified only.</p> <p>Overall – two explanations, with most concepts identified correctly.</p>				
2	A3	<p>Part A Partial definitions. Explanation of the difference between nominal and real GDP.</p> <p>Part B Graph incorrect. No further evidence of an explanation in answer.</p>				
3	A3	<p>Part A Government spending identified as an explanation of increase in aggregate demand, reference to graph correct. Statement about aggregate supply.</p> <p>Part B No evidence of an explanation.</p>				