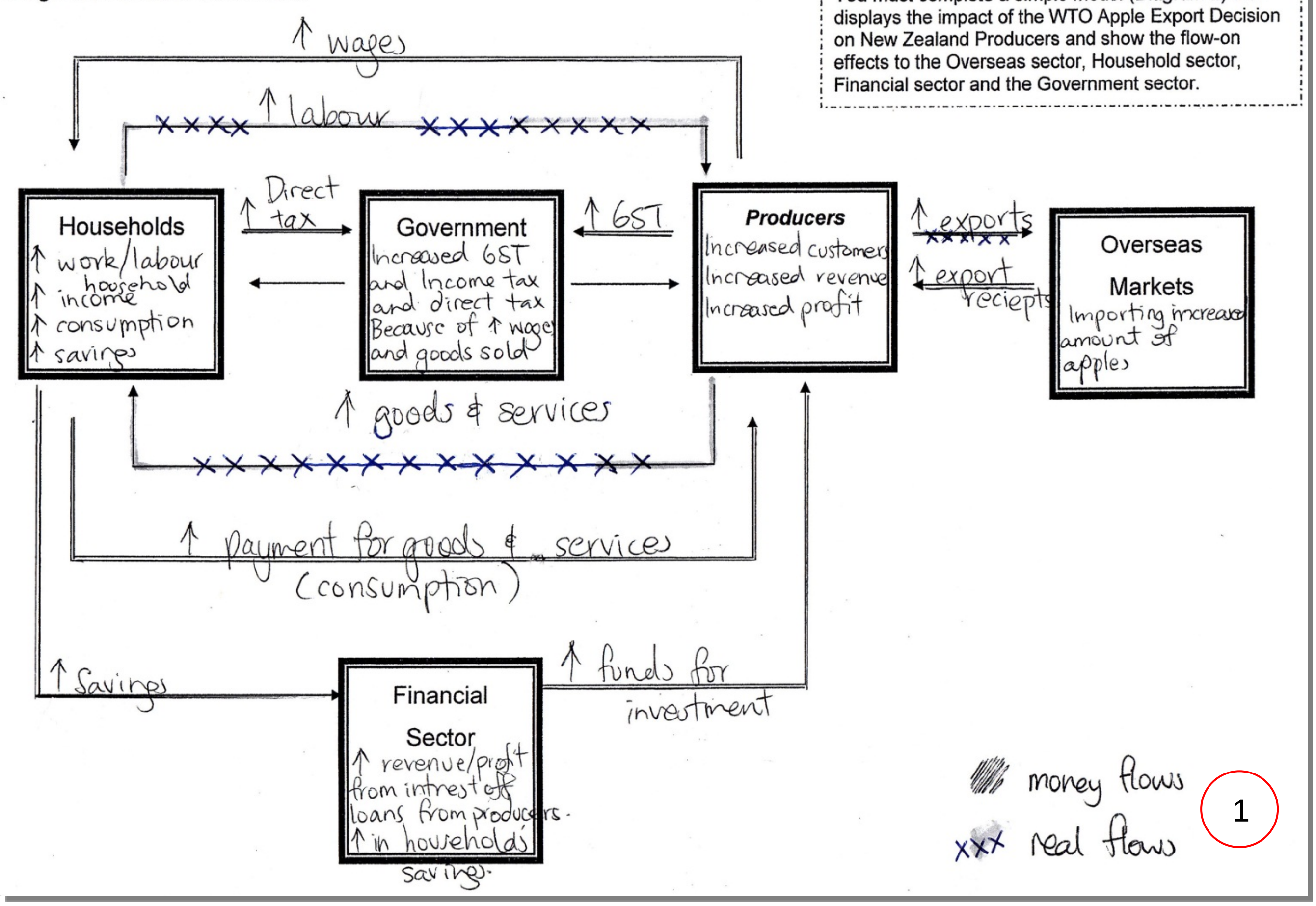
Student 1 – Low Excellence

Part 3: Complete the following diagram
You must complete a simple model (Diagram 2) that displays the impact of the WTO Apple Export Decision on New Zealand Producers and show the flow-on effects to the Overseas sector, Household sector, Financial sector and the Government sector.

Diagram 2: Circular flow model



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The lifting of the ban to keep NZ apple producers from exporting apples to Australia will increase the number of apples exported, and therefore increase the amount of export receipts they receive. An increase in export receipts means a rise in revenue, an increase in money flow from Australia to NZ and therefore increased profit for NZ apple producers. 2
Because of the increase in demand for apples (because Australia are now willing and able to purchase NZ apples) the apple producers may have to employ more workers to help pick, and pack an increased number of apples. Therefore they will have an increased number of staff to pay which will increase their costs of production but will be made up for by the increase of apples being sold. Therefore overall, apple producers have an increase in revenue and therefore profit.

Because Australia has allowed NZ to export apples into their country, the households will have an increased household income as more jobs become available as apple growers will need more workers because of the increase in demand for apples and household's savings increase, so the money flow from households to the financial sector increases and households receive interest in return. They also consume more so the real flow of goods and services from producers to households increases. 3

There will also be an increase in direct taxes as money flow from households to government increases from more PAYE, and an increase in indirect taxes (GST) from the producer sector to government because of maybe an increase in non-export quality apples being purchased in NZ. This will mean that the government will be able to provide more transfer payments, subsidies, and real flows of public goods and services, e.g. parks, road maintenance and healthcare increases.

The impact of the WTO apple export decision is much wider than only on apple growers because of the WTO apple export decision there will be an increase in savings therefore the financial sector will have more money to loan out to the producer sector so they will then increase their revenue and profit because of the increase in interest on the loans they provide producers with.

Australia has now allowed NZ to export apples (a real flow) into the country, there will be an increase in NZ apples in Australia so this will mean Australian apple produces and growers will have a decrease in profit as there is now more competition as they have to compete with the NZ apple imports. Therefore the economic impact of the WTO decision is going to negatively affect Australian apple producers and growers, and importers of NZ apples have to send money over to NZ as import payments. 4

Example: The impact results in different flow-on effects to other firms who have an interdependent relationship with NZ apple producers, some are affected positively and others could be affected negatively. NZ apple producers (APs) supply restaurants with apples, because APs are exporting more apples to Australia (increasing the real flow between the producers and overseas sectors) there are fewer apples available for other customers, and the restaurants may have to purchase apples at a higher price or buy less quantity. This will result in a decrease in revenue and profit because they may have to change their menu as there would be fewer local apples available, which could increase their costs of production. 5

Pak 'n' Save may also receive less apples and pay a higher price; an increase in price may result in reduced revenue and profit as they will be selling less apples because the customers quantity demanded decreases as price increases.

Transporters of apples from the APs orchards to their customers will have an increase in the number (possibly) of apples to transport as exports have increased. Therefore, the transport businesses will get an increase in payments for their services and therefore more revenue and likely more profit, and may have to employ more staff, which is good for households who get the jobs and receive more income.