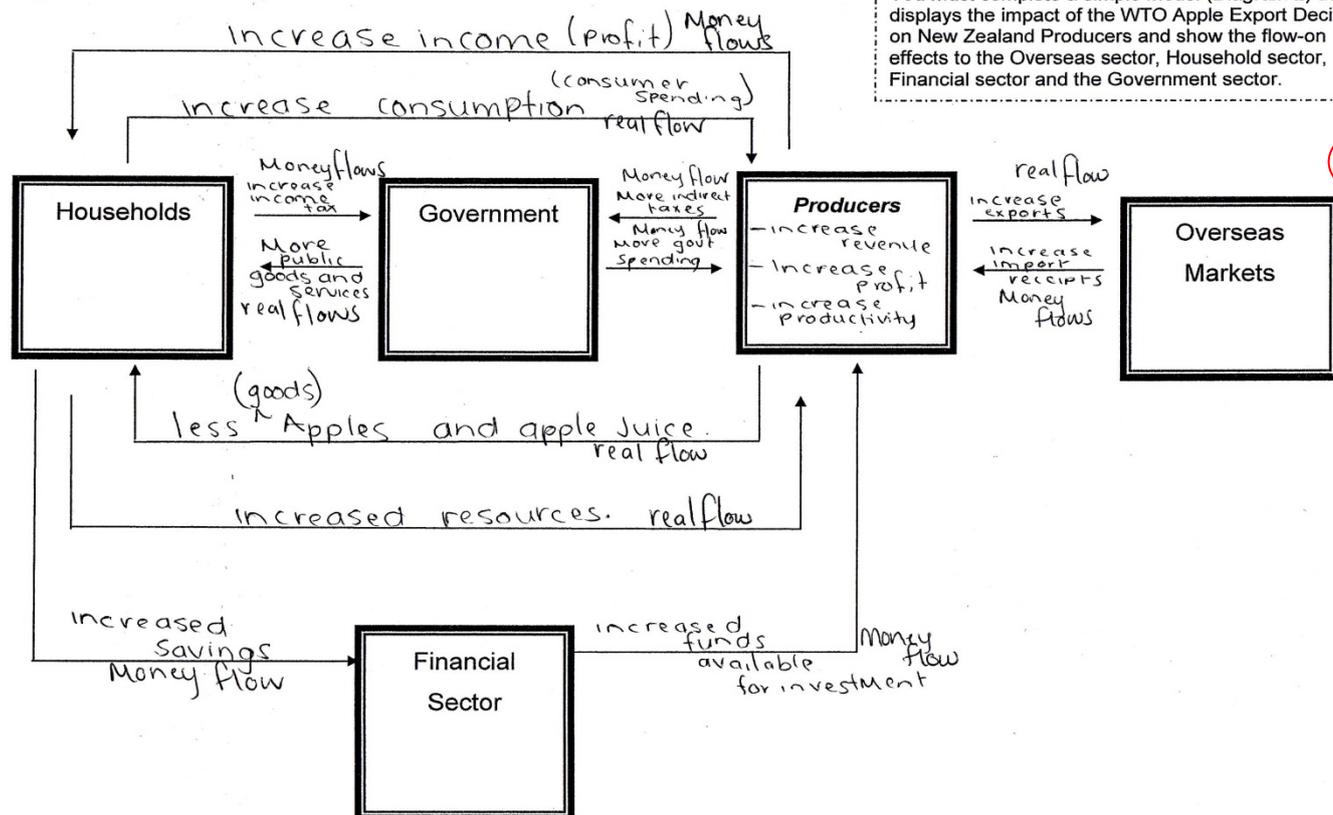


## Student 3 – Low Merit

Diagram 2: Circular flow model

**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.



10

The apple producers can now export their apples to Australia as the ban will be lifted. This means Australia will have more apples for sale but NZ will have fewer apples for sale. Apple producers will export apples and sell them at a higher cost in Australia. Apple producers will sell more so they will increase revenue and get a profit. Australian apple eaters will benefit from the new variety of apples that are new to the Australian market. Apple producers sell apples to supermarkets and because they now can export apples to Australia, NZ supermarkets will have fewer apples and sell them at a higher cost. The increased price means supermarkets will have less profit as customers QD decreases as prices of apples increase. Apple producers use transport to deliver to the buyers and there will be a decreased amount of apples to deliver in NZ because some are being exported. This may lead to less revenue and therefore less profit for the local transport company. Apple producers have to pay a higher price to export apples to Australia; this will lead to a decrease in revenue and a decrease in profit.

11

The factory that produces apple juice from the NZ apple producers have less apples, this will lead to less being processed into apple juice. The decreased amount of NZ apples means there is less apple juice to sell. This leads to less revenue and therefore less profit for the factory. Because NZ apple producers and the apple juice factory, supermarket and transport company are interdependent a drop in local production affects them all as supermarkets have less to sell and transport companies have less to transport.

The overseas sector imports and exports (real flow) goods. The apple exports to Australia will result in the exporters selling more exports and getting more export receipts (money flow). This means in the longer term there will be more exports and export receipts to the producer as Australians buy NZ apples. The result of this is the producer will generate more revenue and increase profit (money flows). The household sector receives income from the producers (money flow), this will result in an increase in consumer spending and the households will provide more resources (real flow) like labour to the producers. The financial sector receives savings from households and gives investment to producers (money flows). The apple exporting will result in an increase of income to the household, which will lead to more money being saved. This will result in an increase of funds that will be available for investment to the producers from the financial sector (money flow).

12

The government receives indirect and company tax from the producers (money flow). The result from exporting apples to Australia is that they will receive more indirect taxes from the producer sector and an increase from the household sector, as a result of the increased profit to the producers from exports. This means the government has more money to spend on public goods and services (real flows) like roads and parks, and so will increase their government spending (money flow).