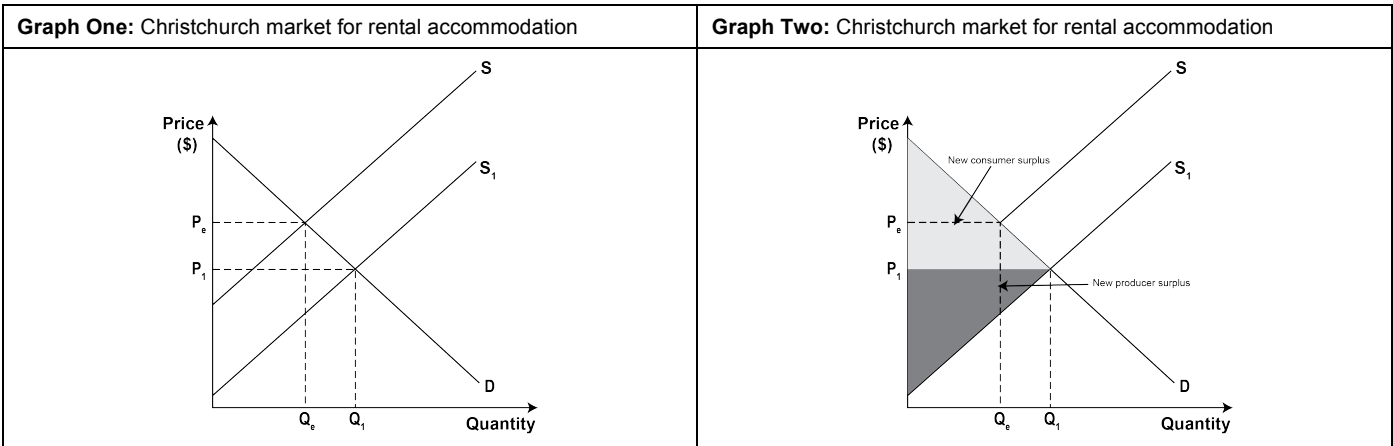


Assessment Schedule – 2017

Scholarship Economics (93402)

Question One – Key points

- Christchurch has experienced an increase in the supply of rental accommodation “as earthquake-damaged houses are repaired, new houses are built, and more as-is, where-is properties are listed as rentals.” This has led to an over-supply / surplus of rental accommodation. In response, landlords are reducing the rent on their properties in order to clear the surplus, which will increase the quantity demanded and reduce the quantity supplied. This will continue until a new equilibrium is reached at a lower price / rent of P_1 . (See Graph One)
- Producer surplus is the difference between the price that a producer receives for each unit and its marginal cost (the supply curve). Consumer surplus is the difference between the price paid for a product and the consumer’s marginal utility (represented by the demand curve). In the Christchurch market, as a result of the increase in supply, consumer surplus will increase as rents fall and quantity consumed increases. The change in overall producer surplus will depend on the price elasticity of demand. Assuming price elasticity of demand is inelastic for rental homes due to the necessity status of shelter, the decrease in price will be proportionately greater than the increase in quantity so producer surplus will fall. The market remains allocatively efficient because the market is operating at equilibrium, whereas consumer and producer surplus are being collectively maximised. (See Graph Two)



Question One – Key points (cont'd)

- In the Queenstown market, demand for rental accommodation is increasing from D_1 to D_2 , driven by a rapidly growing population and by tourism numbers. At the same time, supply is decreasing from S_1 to S_2 as some landlords are switching from the long-term rental accommodation market to short-term tourist accommodation, attracted by high overnight prices. As a result, at the original price P_1 , the area has an accommodation shortage, which encourages landlords to increase rents as potential tenants bid up prices. As rents increase, the quantity demanded will fall and the quantity supplied will increase, until equilibrium is reached at a higher price level of P_2 . (See Graph Three)
- In the Queenstown market, as a result of the increase in demand, decrease in supply and increasing rents, producer surplus will increase because of the higher rent price (from area e, f to area c, d, e), and consumer surplus will decrease (from area a, c, g to area a, b). The market remains allocatively efficient because the market is operating at equilibrium; as a result, consumer and producer surplus are being collectively maximised. (See Graph Four)
- The effect of rent controls in each market would be different. A rent control is a maximum price on rental accommodation. Assuming that this is set below the current market equilibrium, a rent control would cause a shortage because landlords would be discouraged from supplying rental accommodation at that price (especially when alternatives such as Airbnb exist) so quantity supplied would fall. At the same time, the quantity demanded would increase because of the lower price, resulting in a shortage. As a result, consumer surplus will increase as the rent price falls by a proportionately greater degree than the decrease in quantity supplied due to inelasticity of supply. Producer surplus would decrease as the rent price falls and a lower quantity of rental accommodation is supplied. Because the market is not in equilibrium, consumer and producer surplus could not be maximised and so a deadweight loss would arise and the market would no longer be allocatively efficient. (See Graph Five)

Graph Three: Queenstown market for rental accommodation	Graph Four: Queenstown market for rental accommodation	Graph Five: Queenstown market for rental accommodation
		<ul style="list-style-type: none"> • Consumer surplus = a, b • Producer surplus = c • Deadweight loss = d, e

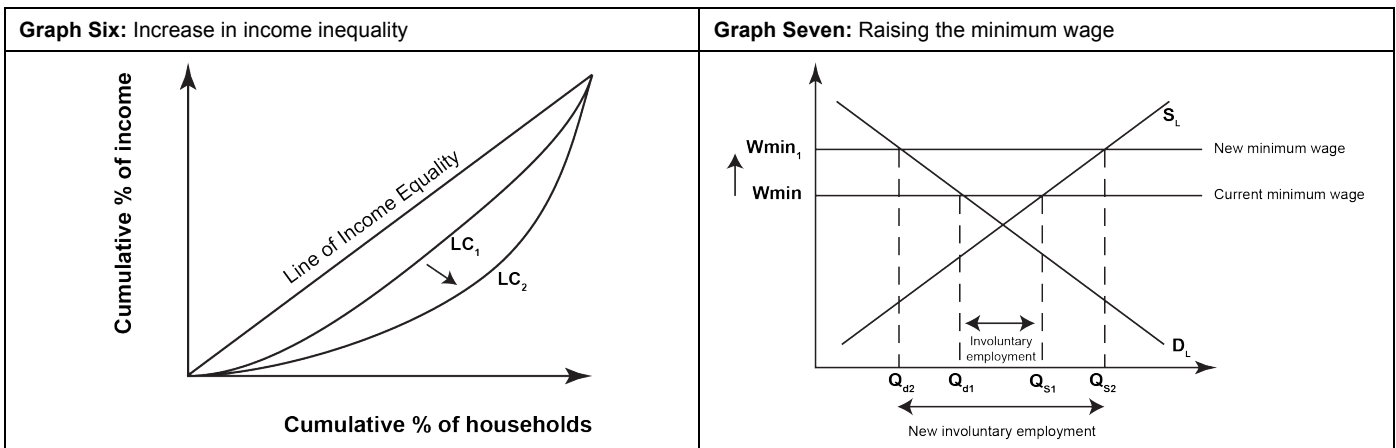
- This would certainly be the case in Queenstown, assuming a continued increase in demand, with shortages getting worse. In addition, the rent controls would discourage investors from creating new rental accommodation, ensuring that resources would not be allocated to this market efficiently.
- In Christchurch, this may not have the same impact because the rental price may fall below the maximum price set as supply continues to increase. In this case, the market would continue to operate at equilibrium and, therefore, be allocatively efficient. It would not make sense to place a rent control in Christchurch given the trend of increasing supply and falling rents.

Question One – Mark Allocation

Outstanding Scholarship	8 marks	The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of the differing changes in the rental accommodation markets in Christchurch and Queenstown, the impact of these changes on allocative efficiency in each market, and the likely impact of rent controls on allocative efficiency. This is complete and demonstrates <i>perception and insight</i> <i>AND</i> demonstrates <i>sophisticated abstraction and integration</i> of the resource material <i>AND</i> demonstrates <i>independent reflection and extrapolation</i> relevant to the evaluation of the likely impact of rent controls on allocative efficiency <i>AND</i> is <i>convincing</i> and economically literate.
	7 marks	The essay fulfils most of the requirements above but contains minor factual inaccuracies (when this affects a statement or opinion) <i>OR</i> deals inadequately with an essential point <i>OR</i> lacks sufficient abstraction or integration of the resource material <i>OR</i> has some minor failure in the evaluation <i>OR</i> may lack some fluency and / or coherence.
Scholarship	6 marks	The candidate produces and effectively communicates a sophisticated economic analysis of the differing changes in the rental accommodation markets in Christchurch and Queenstown, the impact of these changes on allocative efficiency in each market, and the likely impact of rent controls on allocative efficiency. This demonstrates a high level of <i>analysis and critical thinking</i> <i>AND</i> incorporates a <i>competent level of integration and synthesis</i> of the resource material <i>AND</i> the discussion and evaluation are <i>clear, logically developed, and precise</i> .
	5 marks	The essay fulfils most of the requirements above but has some unsupported generalisations <i>OR</i> some major point in the discussion is neglected or incomplete <i>OR</i> has some inadequacy in the evaluation <i>OR</i> ideas may not be communicated effectively.
	4 marks	The candidate produces a comprehensive analysis of the differing changes in the rental accommodation markets in Christchurch and Queenstown, the impact of these changes on allocative efficiency in each market, and the likely impact of rent controls on allocative efficiency <i>AND</i> produces a <i>clear but undeveloped discussion and evaluation</i> <i>AND</i> demonstrates <i>some level of integration and synthesis</i> of the resource material <i>AND</i> demonstrates <i>some application</i> of economic theory relevant to the discussion.
	3 marks	The answer fulfils most of the requirements above but is incomplete <i>OR</i> fails to present a cogent argument or make critical analysis <i>OR</i> does not communicate ideas adequately.
	2 marks	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answer contains a minimal amount of relevant evidence.
	0 marks	No response; no relevant evidence.

Question Two – Key Points

- Income inequality and wealth inequality have increased during the past 35 years – Lorenz Curve should be used to illustrate. This can be seen in the fact that the 80th percentile of income earners now earn 2.9 times the income of the 20th percentile, up from 2.4, and also increasing is the Gini co-efficient, a measure of income inequality. Similarly, the proportion of wealth owned by the top 10% has increased. (See Graph Six)
- Equity is a measure of the fairness of incomes. High levels of inequality of income and wealth can be considered to be unfair because this results in unequal opportunities for households with different income levels and affects the economic future, particularly of the children in low-income households.
- Inequality may reduce efficiency, since if low-income households have fewer educational and health care opportunities, then children in these households are likely to be less productive and could actually be a drain on the economy if they require financial support.
- Market failure occurs if the market outcome is inequitable or allocatively inefficient. If the level of inequality is considered to be unfair, then there is a case for government intervention. Also, there is evidence from Resource F and Resource I that high levels of inequality negatively affect economic growth and productivity, which means that the economy cannot be allocatively efficient, and so a case for government intervention exists.
- Policies – candidate does not need to cover all possible policies but should highlight and analyse what they see as “key” policies, i.e. most likely to be effective. At least two policies should be covered.
- Raising all benefits to the same level as Superannuation would mean that low-income families, including those on the unemployment benefit and DPB, would have a higher income. This would reduce income inequality and could be seen as improving equity by allowing families to be able to better afford health care, housing, and education. In the long run, this could improve efficiency because children in these households could be more productive. An alternative answer might argue that efficiency is reduced if the higher benefits result in less incentive for people to gain employment or train.
- Raising the minimum wage would mean that low-skilled workers earning the minimum wage would get an income boost, which would reduce inequality and, therefore, improve equity. This could add an incentive for others to gain work, which would raise efficiency. Higher minimum wages have also been linked to improved productivity and lower worker turnover, which increases productivity. Also, if the higher income results in better access to health care, housing, and education, then this could improve productivity in the long run. However, this may also lead to an increase in involuntary unemployment (this could be supported by a suitable labour market graph). (See Graph Seven)



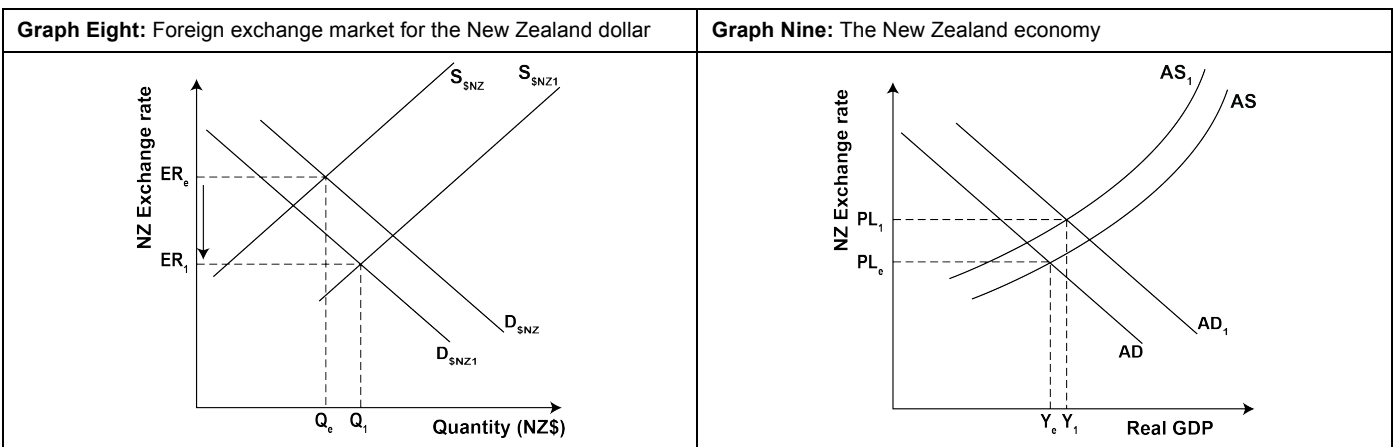
- A capital gains tax is a tax on profits from sales of assets such as housing. Since 60% of wealth is held by the top 10% of households, this tax would affect these households primarily, so income inequality would be reduced, improving equity. It may also deter speculative investment and encourage productive investment, which would improve productivity and efficiency.
- Boosting funding for health care and education in low-income areas would not directly affect inequality but, in the long term, would improve opportunities for low-income families. This could lead to improved productivity and incomes, which will, in turn, reduce inequality and improve allocative efficiency.
- Policies to reduce income and wealth inequality may not result in an equity / efficiency trade-off. If the policy reduces inequality, thereby improving equity, and at the same time increases efficiency by addressing issues such as access to education and health care for low income families, then the trade-off need not apply. Alternatively, if the policy acts as a disincentive for people to work, e.g. increases in benefits, then the trade-off will apply. Candidates should apply analysis to the policies on which they have chosen to focus.

Question Two – Mark Allocation

Outstanding Scholarship	8 marks	The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of the impact of changes in income and wealth inequality in New Zealand on equity and efficiency, and of policies to reduce income and wealth inequality. This is complete and demonstrates <i>perception and insight</i> AND demonstrates <i>sophisticated abstraction and integration</i> of the resource material AND demonstrates <i>independent reflection and extrapolation</i> relevant to the evaluation of government policies to reduce income and wealth inequality and the applicability of the equity / efficiency trade-off AND is <i>convincing</i> and economically literate.
	7 marks	The essay fulfils most of the requirements above but contains minor factual inaccuracies (when this affects a statement or opinion) OR deals inadequately with an essential point OR lacks sufficient abstraction or integration of the resource material OR has some minor failure in the evaluation OR may lack some fluency and / or coherence.
Scholarship	6 marks	The candidate produces and effectively communicates a sophisticated economic analysis of the impact of changes in income and wealth inequality in New Zealand on equity and efficiency and of policies to reduce income and wealth inequality. This demonstrates a high level of <i>analysis and critical thinking</i> AND incorporates a <i>competent level of integration and synthesis</i> of the resource material AND the discussion and evaluation are <i>clear, logically developed, and precise</i> .
	5 marks	The essay fulfils most of the requirements above but has some unsupported generalisations OR some major point in the discussion is neglected or incomplete OR has some inadequacy in the evaluation OR ideas may not be communicated effectively.
	4 marks	The candidate produces a comprehensive analysis of the impact of changes in income and wealth inequality in New Zealand on equity and efficiency and of policies to reduce income and wealth inequality AND produces a <i>clear but undeveloped</i> discussion and evaluation AND demonstrates <i>some level of integration and synthesis</i> of the resource material AND demonstrates <i>some application</i> of economic theory relevant to the discussion.
	3 marks	The answer fulfils most of the requirements above but is incomplete OR fails to present a cogent argument or make critical analysis OR does not communicate ideas adequately.
	2 marks	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answer contains a minimal amount of relevant evidence.
	0 marks	No response; no relevant evidence.

Question Three – Key points

- The Current Account is made up of four parts: Balance of Goods, Balance of Services, Balance of Current Transfers, Balance of Income.
- The Balance of Goods is the value of exported goods less the value of imported goods. Balance of Goods is affected by the exchange rate, the strength of the world economy (and, therefore, by demand for New Zealand goods), free trade agreements, and the exchange rate, as well as by the terms of trade, i.e. the price of exports and the price of imports.
- The Balance of Services is the value of exported services less the value of imported services. This is particularly affected by the level of tourism to New Zealand, as tourists pay for tourism services, which are part of exported services. The exchange rate is also important because it affects the attractiveness of New Zealand as a destination.
- The Balance of Current Transfers records transactions for which there is no payment, such as foreign aid.
- The Balance of Income is the difference in income outflows and inflows, such as interest and dividends. This will be affected by the level of interest rates in New Zealand, interest rate differentials with other countries, and the level of profits being earned by New Zealand businesses that have overseas shareholders. Relatively low interest rates in New Zealand and lower levels of profit have reduced the income outflow from New Zealand.
- A depreciation is a fall in the value of the New Zealand dollar. A fall in overseas investment due to lower economic growth prospects could result in a depreciation – this would result in a fall in demand for the New Zealand dollar, as the flow of investment funds into New Zealand fell, and an increase in supply as foreign investors shifted their funds to more attractive countries such as Australia. Also, increasing migration out of New Zealand and into Australia would result in an increase in supply of the New Zealand dollar. Continued low interest rates would also make New Zealand a less attractive place to invest, resulting in lower demand for the New Zealand dollar. Candidate should illustrate these changes as below. (See Graph Eight)
- A depreciation would have a positive effect on the Current Account Balance. Exported goods would become more competitive overseas, so export receipts would increase. Imported goods would become less competitive as they become more expensive in New Zealand. So the Balance of Goods should improve. Candidate may also refer to the J-curve effect.
- The Balance of Services should also improve as New Zealand services, including tourism to New Zealand become cheaper in overseas dollar terms, increasing demand and export returns.
- The effect on the New Zealand economy would be that a depreciation would boost economic growth and employment while increasing inflationary pressures. Aggregate demand would increase, as net exports would increase. This is also likely to include a multiplied effect as export firms sought to expand in response to growing demand and improved competitiveness, which would also boost AD as investment increased. Aggregate supply would decrease because of increased costs for imported materials. The combined effect would be that Real GDP would increase from Y_e to Y_1 (the shift in AD would be expected to be larger than the shift in AS since the export sector is a significant part of the New Zealand economy) and price level would increase from PL_e to PL_1 . (See Graph Nine)
- The effect on price stability would depend on the current level of inflation. If inflation were low and remained in the target band of 1–3%, then price stability would remain. If the depreciation moved inflation beyond 3%, then there would be a risk to price stability.



Question Three – Mark Allocation

Outstanding Scholarship	8 marks	<p>The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of the factors that affect the Current Account Balance and the impact that a depreciation of the New Zealand dollar would have on the Current Account and the New Zealand economy.</p> <p>This is complete and demonstrates <i>perception and insight</i></p> <p>AND</p> <p>demonstrates <i>sophisticated abstraction and integration</i> of the resource material</p> <p>AND</p> <p>demonstrates <i>independent reflection and extrapolation</i> relevant to the evaluation of the impact that a depreciation of the New Zealand dollar would have on the Current Account and the New Zealand economy</p> <p>AND</p> <p>is <i>convincing</i> and economically literate.</p>
	7 marks	<p>The essay fulfils most of the requirements above but contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p>OR</p> <p>deals inadequately with an essential point</p> <p>OR</p> <p>lacks sufficient abstraction or integration of the resource material</p> <p>OR</p> <p>has some minor failure in the evaluation</p> <p>OR</p> <p>may lack some fluency and / or coherence.</p>
Scholarship	6 marks	<p>The candidate produces and effectively communicates a sophisticated economic analysis of the factors that affect the Current Account Balance and the impact that a depreciation of the New Zealand dollar would have on the Current Account and the New Zealand economy. This demonstrates a high level of <i>analysis and critical thinking</i></p> <p>AND</p> <p>incorporates a <i>competent level of integration and synthesis</i> of the resource material</p> <p>AND</p> <p>the discussion and evaluation are <i>clear, logically developed, and precise</i>.</p>
	5 marks	<p>The essay fulfils most of the requirements above but has some unsupported generalisations</p> <p>OR</p> <p>some major point in the discussion is neglected or incomplete</p> <p>OR</p> <p>has some inadequacy in the evaluation</p> <p>OR</p> <p>ideas may not be communicated effectively.</p>
	4 marks	<p>The candidate produces a comprehensive analysis of the factors that affect the Current Account Balance and the impact that a depreciation of the New Zealand dollar would have on the Current Account and the New Zealand economy</p> <p>AND</p> <p>produces a <i>clear but undeveloped</i> discussion and evaluation</p> <p>AND</p> <p>demonstrates <i>some level of integration and synthesis</i> of the resource material</p> <p>AND</p> <p>demonstrates <i>some application</i> of economic theory relevant to the discussion.</p>
	3 marks	<p>The answer fulfils most of the requirements above but is incomplete</p> <p>OR</p> <p>fails to present a cogent argument or make critical analysis</p> <p>OR</p> <p>does not communicate ideas adequately.</p>
	2 marks	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answer contains a minimal amount of relevant evidence.
	0 marks	No response; no relevant evidence.