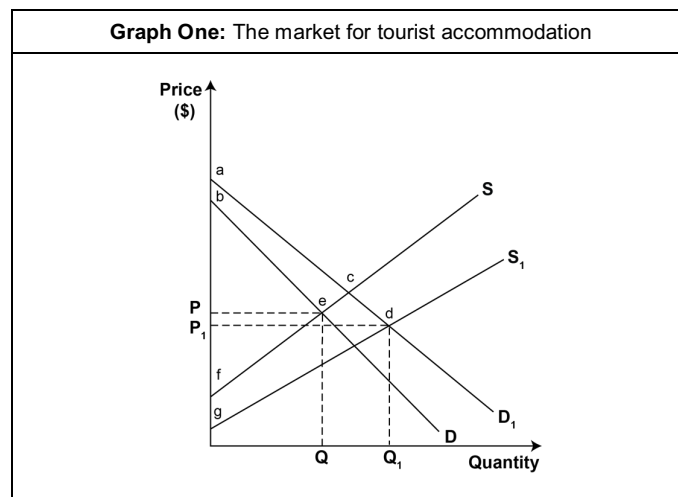


Assessment Schedule – 2018

Scholarship Economics (93402)

Question One – Key Points

- The internet and social media have created opportunities for a greater variety of tourist accommodation to become available at each price. Also, the cost to establish connections with customers has come down (e.g. lower agency commission) and therefore more suppliers are able to offer accommodation. This has resulted in an increase in the supply of tourist accommodation (from S to S_1 on Graph One). This additional accommodation takes the form of bed and breakfast, and boutique accommodation, rather than the large multi-room hotel style.
- The demand for tourist accommodation has also risen (from D to D_1 on Graph One). Young people increasingly see travel as an integral part of their lifestyle options. Additionally, people are able to purchase these services online more cheaply and more efficiently, and this has simplified the purchase process, thereby increasing demand. Positive feedback and social media posts have also had a positive marketing effect on consumers in general and this has also increased demand.
- Therefore the market equilibrium quantity has increased (from Q to Q_1 on Graph One). The impact on price is less certain, particularly because of the seasonal nature of the tourism market (as a result P_1 may be shown above or below P).



- With the reduction in barriers to entry and exit, it is now possible for providers to enter and leave the marketplace based around such things as seasonality and upcoming events. This has resulted in the supply of tourist accommodation becoming more price elastic than previously, as part-time accommodation suppliers can enter the market as and when they see fit.
- The presence of websites such as Trivago and Expedia have made it easier for consumers to make price comparisons between accommodation providers, and as a result, consumers have been able to exercise greater price discrimination. The price elasticity of demand has also become more elastic as a result.
- The increase in the supply of tourist accommodation is a result of a number of factors. Lower costs of production (lower capital and marketing costs) have enabled smaller entities to establish themselves in the market. There has also been a change in the type of accommodation offered. Tourists are seeking more “experiential” accommodation. This has increased the diversity of accommodation. The market has changed from one dominated by larger homogeneous providers to one where smaller differentiated providers are gaining in popularity. The reduction in barriers to entry, and the changes in what consumers are demanding, has seen the market shift from one with oligopoly features to one with monopolistic competition features. Candidates could note that as the market structure changes towards monopolistic competition, increased competition improves allocative efficiency; however, as a form of imperfect competition there remains a loss of allocative efficiency.
- Allocative efficiency occurs in the tourist accommodation industry when market equilibrium is achieved. In the original market situation, the combined total of Consumer Surplus (beP on Graph One) and Producer Surplus (feP on Graph One) is a maximum, and any other price/ quantity situation would result in a lower combined total. When demand and supply increase as a result of the influence of the internet and social media, then a new, higher level of combined CS and PS is achieved. This is because the increase in demand means that marginal utility has risen for each level of quantity, and the increase in supply means that marginal cost has fallen at each level of quantity. The CS has risen from beP to adP₁, and PS has increased from feP to gdP₁. The market remains allocatively efficient, but the total level of welfare has increased.

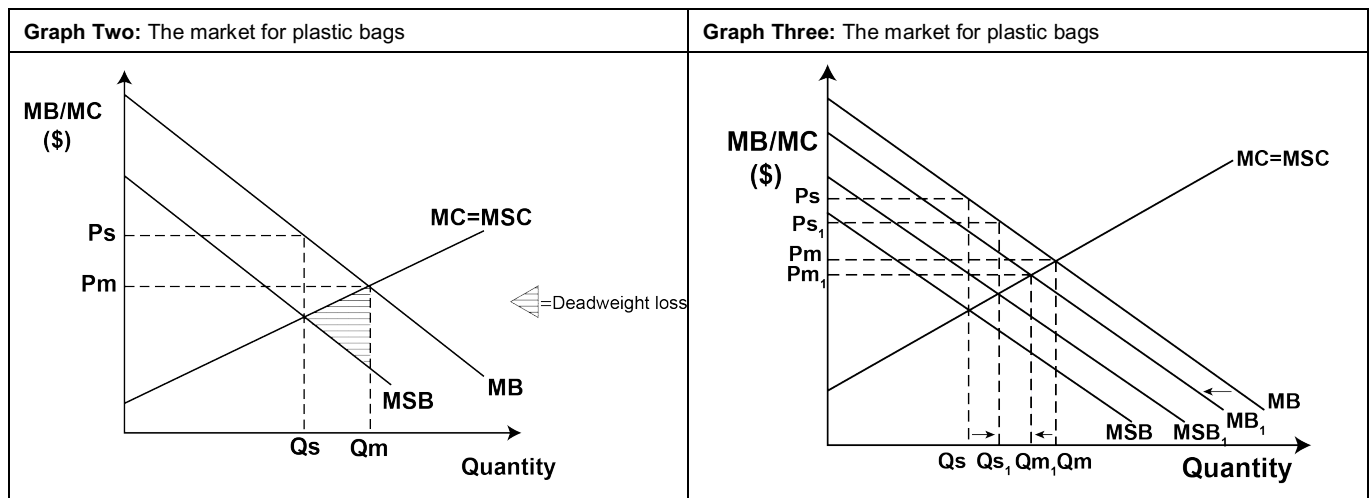
- This means that to maintain market equilibrium and allocative efficiency in the economy, resources will be drawn into the tourism accommodation industry and away from other uses, as tourist accommodation provides greater satisfaction for society than previously.

Question One – Allocation of Scores

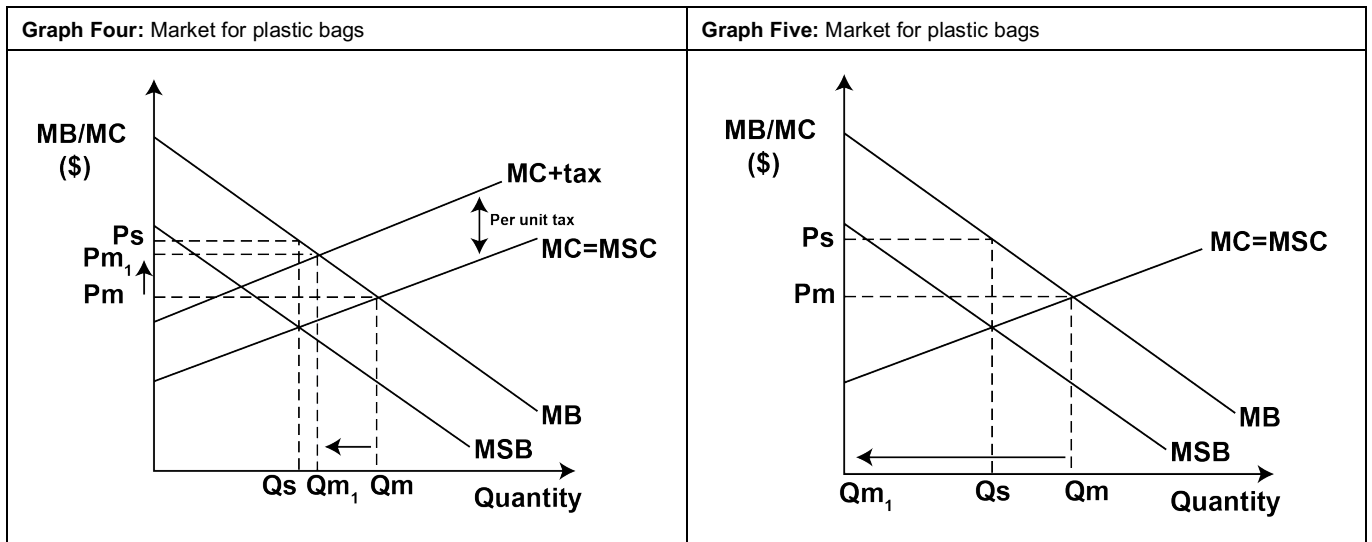
Outstanding Scholarship	8	<p>The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of the impact of the internet and social media on allocative efficiency in the tourist accommodation market. This is complete and demonstrates <i>perception and insight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

Question Two – Key Points

- Single-use plastic bags create negative externalities of consumption, which are negative spillover effects on third parties from the consumption or use of the product. In this case, the negative side effects include damage to the environment, the costs of disposing of or recycling plastic bags, and potential health costs as microplastics enter the food chain.
- As a result of the negative externalities of consumption, the social marginal benefit (SMB) of consumption is less than the private marginal benefit (MB), as SMB includes the spillover social costs of consumption. This means that whereas the private market equilibrium is at P_m , Q_m on Graph Two, the socially desirable equilibrium is at P_s , Q_s – a higher price and a lower quantity. The socially desirable equilibrium is allocatively efficient, as all costs and benefits to society are accounted for. The private market equilibrium creates a deadweight loss, as plastic bags are overconsumed and underpriced. Note that the MC curve is very flat due to the low cost of production of plastic bags. As deadweight loss is occurring in this market, there appears to be a case for government intervention.



- Consumer sovereignty is the power of consumer preferences to determine what is produced, and is a required condition for a free market. Government interference will detract from consumer sovereignty, especially a complete ban, which would remove the possibility of consumer choice influencing production of plastic bags. However, as there are significant negative externalities of consumption creating market failure, there appears to be a case for the government to override consumer sovereignty.
- One government policy option would be further education of the public about reusing and recycling plastic bags. This could reduce overall demand for plastic bags, decreasing MB from MB to MB_1 on Graph Three, and could also reduce the scale of the negative externalities, shifting marginal social benefit from MSB to MSB_1 while reducing the gap between MB and MSB. Consequently, the area of deadweight loss will be less, improving allocative efficiency as the equilibrium quantity has decreased. However, as there is already considerable consumer awareness of the negative impact of plastic bags, it seems unlikely that further education would significantly impact the market. Similarly, education programmes generally take a long time to have an impact on consumer demand, so will not affect the market in the short term.
- A levy or tax on plastic bags would have the effect of increasing marginal cost. Given that plastic bags only cost around 3.5 cents to buy, most stores currently do not charge for them. However, a tax of 10 or 20 cents per bag would force stores to pass on this cost. As noted in Resource I, a tax in the UK had a significant effect on plastic bag usage, suggesting that demand is elastic, probably because there are many substitutes. The tax would have the effect of increasing the market price from P_m to P_{m1} on Graph Four, and as a result, decreasing the market quantity consumed from Q_m to Q_{m1} . Consequently, the market price and quantity will move towards the socially desirable quantity and price, reducing the deadweight loss and improving allocative efficiency. The extent to which this occurs will depend on the price elasticity of demand.



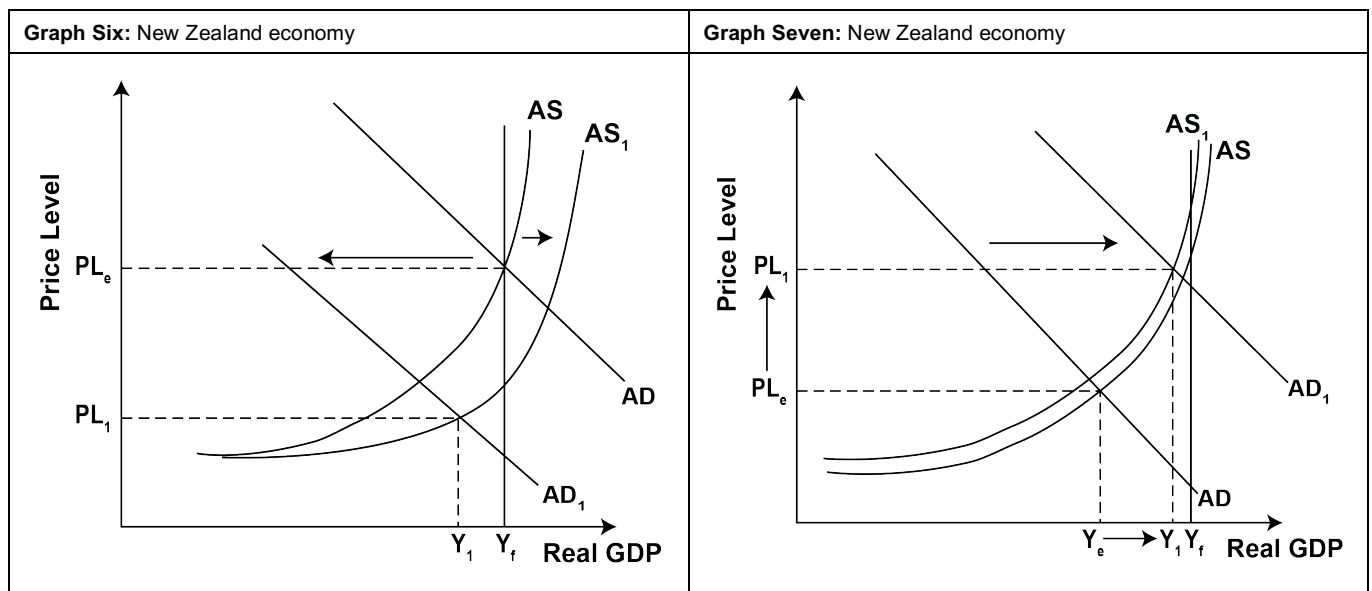
- A complete ban on single-use plastic bags would completely remove them from the market, as the quantity supplied would be zero, and there would be no price (assuming there is no black market – the candidate could, however, discuss the effect of a black market). Market quantity will decrease from Q_m to Q_{m_1} on Graph Five, i.e. zero. This may not be allocatively efficient if it reduces the quantity significantly below the socially desirable quantity – in fact, a new deadweight loss could occur. Whether this occurs will depend on the extent of the negative externalities and, as a result, how close to zero the allocatively efficient quantity will actually be.
- The candidate should produce a justified recommendation as to which policy would produce the most allocatively efficient outcome. For example, a tax or levy on plastic bags could be recommended on the basis that, assuming elastic demand, it would significantly reduce quantity demanded and internalise the externalities of consumption, while still allowing a degree of consumer choice. In contrast, further education is unlikely to have much effect, particularly in the short run, while a complete ban may create a new deadweight loss, as the quantity supplied may be less than the socially desirable quantity.

Question Two – Allocation of Scores

Outstanding Scholarship	8	<p>The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of the externalities associated with the consumption of single-use plastic bags, why market failure is occurring in this market, and evaluation of which form of government intervention would be most likely to achieve allocative efficiency. 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 government policies to achieve allocative efficiency in the market for single-use plastic bags</p> <p>AND</p> <p>is <i>convincing</i> and economically literate.</p>
	7	<p>The essay fulfils most of the requirements for scoring 8 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	<p>The candidate produces and effectively communicates a sophisticated economic analysis of the externalities associated with the consumption of single-use plastic bags, why market failure is occurring in this market, and evaluation of which form of government intervention would be most likely to achieve allocative efficiency. 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	<p>The essay fulfils most of the requirements for scoring 6 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>
No Scholarship	4	<p>The candidate produces a comprehensive analysis of the externalities associated with the consumption of single-use plastic bags, evaluation of why market failure is occurring in this market, and which form of government intervention would be most likely to achieve allocative efficiency</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	<p>The answer fulfils most of the requirements for scoring 4 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	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1	The answer contains a minimal amount of relevant evidence.
	0	No response; no relevant evidence.

Question Three – Key Points

- The Reserve Bank Act requires that price stability be defined in a specific and public contract, negotiated between the government and the Reserve Bank. This is called the Policy Targets Agreement (PTA). The current PTA defines price stability as annual increases in the Consumers Price Index (CPI) of between 1 and 3 per cent on average over the medium term, with a focus on keeping future average inflation near the 2 per cent target midpoint.
- The Official Cash Rate (OCR) is an interest rate set by the Reserve Bank. It influences all other interest rates and is, in effect, the wholesale price of borrowing or lending money in New Zealand. It allows the Reserve Bank to meet its primary goal of ensuring price stability for New Zealand. When the RBNZ is concerned about rising inflation, it may raise the OCR so that saving is encouraged, and borrowing for consumption and investment is discouraged. As a result, AD decreases on Graph Six, as C and I are components of AD. Also, a higher interest rate will result in the NZ\$ exchange rate appreciating. This has the effect of decreasing net exports, which further reduces AD. As AD falls, the price level will decrease and demand pull inflation is reduced. Also, the appreciation results in cheaper imported materials, reducing firms' costs of production, and increasing AS – this is also disinflationary. These actions will result in lower inflationary pressures, reducing the rate of inflation to within the 1–3% target range. However, this contractionary policy will reduce economic growth and reduce employment levels as a result of the fall in aggregate demand.



- To maximise employment, the Reserve Bank could implement a more expansionary monetary policy to stimulate output, economic growth, and therefore employment. This would involve reducing the Official Cash Rate and therefore interest rates. This would discourage saving, and encourage borrowing for consumption and investment, boosting AD on Graph Seven. Lower interest rates would also result in a depreciation of the New Zealand dollar, resulting in exports being more price competitive and imports less price competitive, so that net exports would increase, further adding to AD. Firms are encouraged to increase output and employment because investment returns increase. The lower New Zealand dollar would make imported raw materials more expensive, causing AS to shift to the left. Real GDP increases from Y_e to Y_1 . As production is increasing, the demand for labour will increase (derived demand), so employment will increase. However, this could lead to inflationary pressures, particularly where the economy is operating close to or beyond capacity (e.g. an inflationary gap).
- When contractionary monetary policy is used to reduce inflation into the 1–3% range, the suppression of output and growth will discourage investment, and therefore employment is likely to fall in the short term. Stability of prices will, however, lead to higher business confidence and increased investment, and therefore is likely to lead to greater employment in the long run.
- There is a possibility that having a dual focus will result in higher rates of inflation. This is because there is a potential for conflict between the objective of low inflation and high employment (as expressed by Phillips). Policies that reduce inflation tend to suppress economic growth and employment in the short term.
- There is also the possibility that price stability raises business confidence, and consequently raises output and employment. This suggests that solely targeting inflation will ultimately raise employment anyway.
- Having a dual mandate does not necessarily mean that price stability will be lost. It may mean that a longer term view is considered, so that many changes to the OCR (particularly increases) are carefully considered, and that their human impacts are fully valued.

Question Three – Allocation of Scores

Outstanding Scholarship	8	<p>The candidate produces and effectively communicates an outstanding and sophisticated economic analysis of how monetary policy is currently used to influence the rate of inflation, and evaluates the impact that a change requiring due consideration of maximising employment alongside price stability would have on the New Zealand economy. 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 change requiring due consideration of maximising employment alongside price stability would have on the New Zealand economy</p> <p>AND</p> <p>is <i>convincing</i> and economically literate.</p>
	7	<p>The essay fulfils most of the requirements for scoring 8 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	<p>The candidate produces and effectively communicates a sophisticated economic analysis of how monetary policy is currently used to influence the rate of inflation, and evaluates the impact that a change requiring due consideration of maximising employment alongside price stability would have on 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>
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No Scholarship	4	<p>The candidate produces a comprehensive analysis of how monetary policy is currently used to influence the rate of inflation, and evaluates the impact that a change requiring due consideration of maximising employment alongside price stability would have on 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>
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	2	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1	The answer contains a minimal amount of relevant evidence.
	0	No response; no relevant evidence.

Cut Scores

Scholarship	Outstanding Scholarship
13 – 18	19 – 24