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Level 2 Economics, 2015

91224 Analyse economic growth using economic concepts and models

2.00 p.m. Thursday 12 November 2015
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 2–11 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.

Excellence

TOTAL

20

ASSESSOR'S USE ONLY

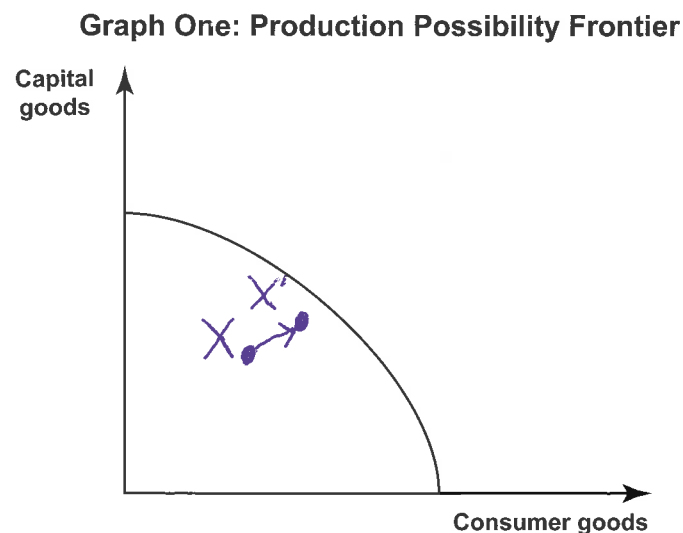
QUESTION ONE: PRODUCTION POSSIBILITY FRONTIER

The unemployment rate, as measured by the Household Labour Force Survey (HLFS), has been trending downwards from 7.3% to 5.4% over the period September 2012 to September 2014.

Sources (adapted): <http://www.parliament.nz/en-nz/parl-support/research-papers/00PLEcoRP2014011/unemployment-and-employment-statistics-the-household-labour>

http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/HouseholdLabourForceSurvey_HOTPSep14qtr.aspx

- (a) (i) Identify ONE point on Graph One below that represents unemployment. Label the point with an X.



- (ii) Explain in detail the impact of an increase in Real Gross Domestic Product (Real GDP). In your answer:

- on Graph One show the impact of an increase in Real GDP
- explain in detail how the increase in Real GDP will affect economic growth
- refer to Graph One.

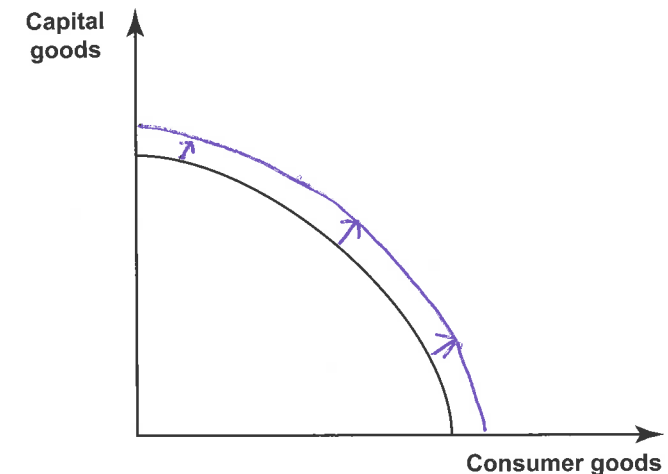
Real GDP or Real output is a tool used to measure economic growth. It measures the total resources produced by an economy over one year. An increase in Real GDP will increase the amount that the economy can produce resulting in an increase in Capital and Consumer goods, as seen in Graph One. On the Production Possibility Frontier the shift will be from X to X' as more goods are being produced as a result of a more efficient use of resources.

- (b) Compare and contrast the impact on economic growth of an increase in Real Gross Domestic Product (Real GDP) with an increase in Productive Capacity.

In your answer:

- on Graph Two show the impact of an increase in Productive Capacity
- explain in detail how the increase in Productive Capacity will affect economic growth
- explain in detail the different impact on economic growth that an increase in Real GDP has when compared with an increase in Productive Capacity
- refer to Graph One and Graph Two.

Graph Two: Production Possibility Frontier



An increase in Productive Capacity will ^{most likely} be caused by an increase in technology or ~~an increase in~~ net migration, in both cases this will increase the amount of goods and services that we can now produce resulting in an increase in economic growth, as the Production Possibility Curve shifts outwards as seen in Graph Two. An increase in Productive Capacity differs from an increase in Real GDP because an increase in Productive Capacity only increases the amount the economy can produce in the future whilst an increase in Real GDP only affects the current production in the economy. For example a ~~new~~ new technology will increase Productive Capacity but may not increase

There is more space for your answer to Question One on the following page.

Real GDP right away because for there to be an increase in Real GDP ~~there would need to be~~ the technology would need to be used. Another example is net migration as it increases the potential for the current output that can be produced as it increases the population but those moving to this country may not find jobs right away causing no effect on Real GDP. Whereas an increase in Real GDP due to something such as tax cuts will increase the total current production of goods and services, from X to X' as seen in Graph One, it won't increase the total possible production of the economy.

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E8

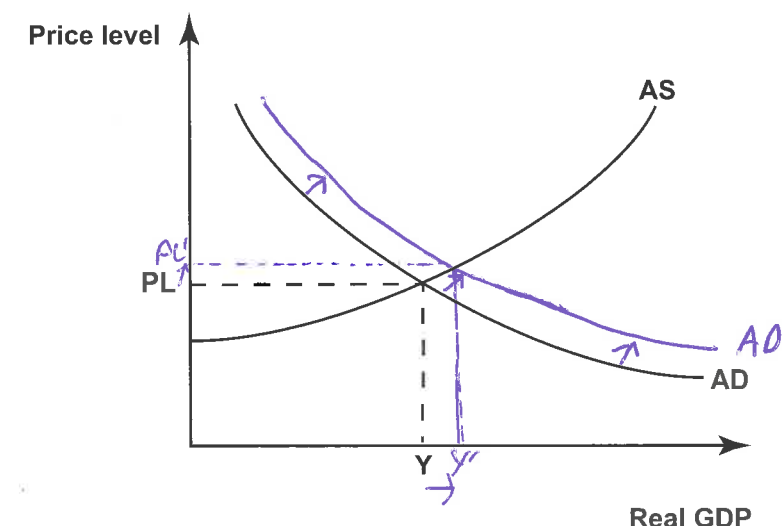
QUESTION TWO: THE IMPACT OF CLIMATE CHANGE ON ECONOMIC GROWTH

ASSESSOR'S
USE ONLY

One view of the impact of climate change on the economy is that it will provide business opportunities as households, business, and the Government increase spending on protection from its worst influences.

- (a) Explain in detail the impact of climate change on economic growth in New Zealand. In your answer:
- fully label on Graph Three the impact of the increase in spending on economic growth
 - explain in detail the impact that you have shown on Graph Three.

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



According to the resource at the top of the page, households, businesses and Government spending will increase. This is an increase in Consumption Spending (C), Investment Spending (I) and Government Spending (G). Because $AD = C + I + G + (X - M)$, an increase in C , I , and G will cause an increase in Aggregate demand (AD) from AD to AD' as seen on Graph Three. This causes economic growth as Real GDP increases shifting from Y to Y' .

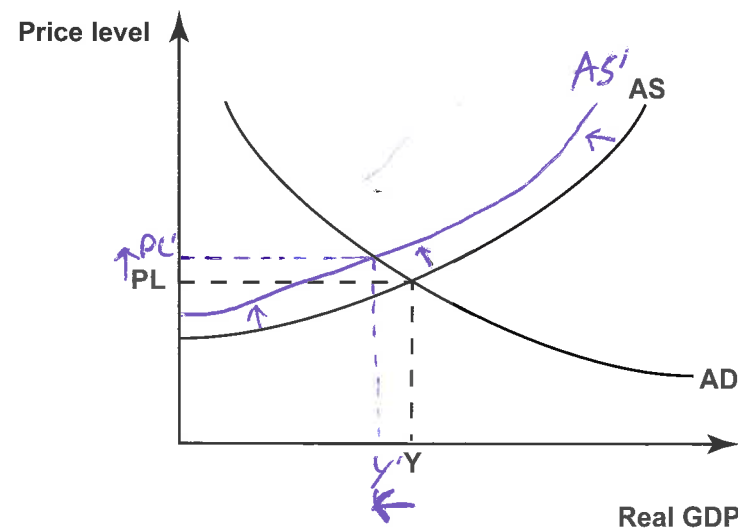
An alternative view of the impact of climate change on the economy is that it will increase costs of production because of higher costs of obtaining resources or changing production methods.

- (b) Discuss the effect of climate change on economic growth in New Zealand as the impacts of climate change intensify over the next 50 years.

In your answer:

- fully label Graph Four to show the impact of increasing costs of production
- explain in detail the impact that you have shown on Graph Four
- explain in detail whether increasing spending or increasing costs of production would have a greater impact on economic growth in New Zealand over the next 50 years.

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



The increase in costs of obtaining resources combined with the change in production methods to less ~~affordable~~ profitable ones will increase the costs of production for firms decreasing their profit margin. This decrease will cause the Aggregate Supply (AS) curve to shift left from AS to AS', as seen in Graph Four. This would cause a decrease in Real GDP from Y to Y' as less firms would be profitable resulting in fewer goods and services produced.

The increasing costs of production is more likely to have a greater impact on economic growth in New Zealand over the next 50 years. This is because every year the cost of obtaining resources would increase exponentially every year as they become harder and harder to find as total resources dwindle.

Also in the long term high government spending may not necessarily be a good thing as an accumulation of government debt may come back to hurt the NZ economy. Not to mention there are still a lot of people who are still sceptical of climate change so they probably won't spend a whole lot more money to help decrease the effects of climate change as well as some don't consider it important because it is unlikely it will have any significant impact on them within their lifetime.

QUESTION THREE: THE UNEVEN IMPACT OF ECONOMIC GROWTH

The proposed Ruataniwha Water Storage Scheme will create an 83-metre-high dam located on the upper Makaroro River in Central Hawke's Bay, where it will create a storage reservoir. The reservoir will supply water to irrigate approximately 25 000 hectares of land, primarily in the Ruataniwha Plains area of Central Hawke's Bay district. The scheme also includes a plan for a small (6.5 MW) renewable energy hydroelectric power station to be constructed adjacent to the dam (capable of supplying electricity equivalent to 2 200 average households).

Source (adapted): http://www.epa.govt.nz/Resource-management/Tukituki/lodgement-notification/about_tukituki_proposal/Pages/default.aspx

Objections to the scheme ranged from the earthquake risk, inadequate protection of ecosystems, and existing high levels of pollution, to reduced access to water.

Source (adapted): <http://www.epa.govt.nz/Resource-management/Tukituki/Submissions/Pages/Summary%20and%20Submissions.aspx>

Compare and contrast the impacts that the Ruataniwha Water Storage Scheme could have on the economic well-being of businesses and households.

In your answer, explain in detail:

- one example of a business that may be better off
- one example of a business that may be worse off
- one example of how households may be better off
- one example of how households may be worse off.

One example of a business that may be better off would be those who owned farmland in the approximately 25,000 hectares that would be irrigated as a result of this dam being put in place as it would ~~decrease~~ decrease their costs of production because they wouldn't have to pay for water to be put on their farm so their profit margin would increase. This would shift the Aggregate supply to the ~~right~~ right increasing growth.

An example of a business that may be worse off would be a farm not part of the 25,000 hectares to be irrigated but used the Makaroro river to help them ~~to help~~ on their farm due to the reduced access to water after the dam is built. This would increase their costs of

production as they may have to get extra tanks of water trucked in to help with their farm.

An example of how households may be better off would be a decrease in the cost they would pay for products such as Meat and dairy due to a decrease in the costs of production for the farms in the approximately 25,000 hectares of land that would be irrigated. Households would also benefit from the renewable energy plan put in place.

An example of how households may be worse off would be due to the high levels of pollution supposedly produced by the dam. High levels of pollution could decrease the quality of life due to a ^{possible} decrease in life expectancy. As net social welfare is another measurement of economic growth, economic growth could decrease as a result of this dam being built.

There is more space for your answer to Question Three on the following page.

EXEMPLAR Score 20

Question 1 – E8

Q 1(a)(i) – X placed inside of frontier – correct

Q 1(a)(ii) – arrows towards frontier – correct

Explanation – increase in output, increase in economic growth. Increase in capital and consumer goods due to more efficient use of resources AND explicit link to model ($X - X_1$) – (M6)

Q1(b) – graph shift correctly

Explanation – candidate mentions “increase in technology or net migration” ... specifically links to model “shifts outwards as seen on Graph Two” ... “only increases the amount the economy can produce in the future”. (M6)

Question 2 – E7

Q 2(a) – curve shifted correctly and labelled correctly

Explanation – candidate mentions increase in C, I and G will lead to increase in economic growth – AND link to model ($Y - Y_1$). (M6 evidence – 3 components)

Q 2(b) – curve shifted correctly

Explanation – candidate mentions decreasing profit margins, $Y - Y_1$ and decrease in Real GDP (NO mention of decrease in economic growth) – therefore only A evidence

However, candidate focused on increased costs of production having a greater impact, rather than increased spending as the impact over the next 50 years of increasing cost of production due to cost of obtaining the resource would exponentially increase every year. Also discussed how increased spending will only be short-lived and could be negative if Government spending resulted in increase of Government debt. = E7 (misses E8 as insufficient links to model in this part of the question).

Question 3 – M5

Business positive – farming ... irrigated land leads to decreased cost of production ... so profit margins would increase. = M evidence

Business negative – not accepting “not part of the 25000 hectares to be irrigated. They are unlikely to be worse off, just not better off.

Household positive – decreased cost of meat and dairy is accepted for A, BUT no implication for households of this.

Household negative – decreases health and well-being due to pollution accepted for A, BUT no implication of this.