

91224



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 2 Economics, 2016

91224 Analyse economic growth using economic concepts and models

2.00 p.m. Tuesday 15 November 2016
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.

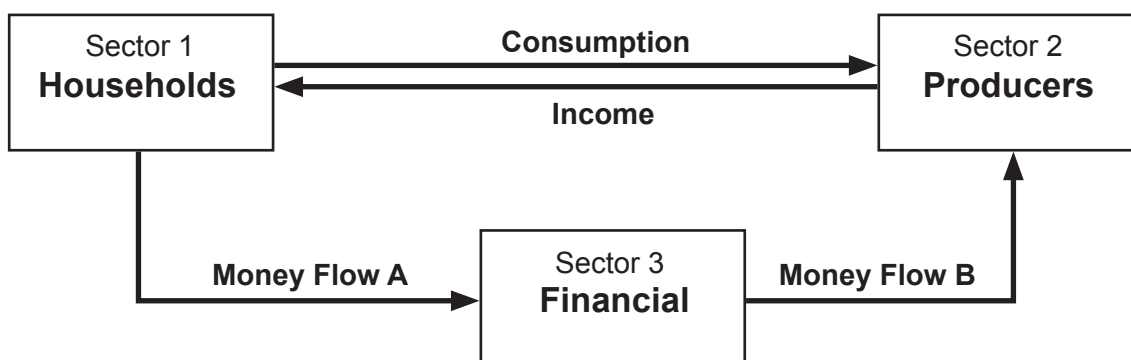
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

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QUESTION ONE: CIRCULAR FLOW DIAGRAM

Model One: Three-sector circular flow model



- (a) Since 2012, the percentage of income that must be contributed to KiwiSaver schemes has increased from 2% to 3%. This would have increased BOTH Money Flows A and B.

Use Model One to fully explain how the increased contributions to KiwiSaver schemes may affect economic growth.

In your answer:

- identify and define Money Flows A and B
- explain how an increase in Money Flow A affects economic growth
- explain how an increase in Money Flow B affects economic growth.

Improved economic conditions are expected to cause the Government's operating balance to be in surplus in 2015–2016. It is forecast that this surplus will grow to \$3.6 billion by 2018–2019.

Source (adapted): <http://www.treasury.govt.nz/budget/2015/fsr/05.htm>

Options for the Government on how to use the surplus include.

- reducing income tax rates
- an increase in government spending on education, health, and infrastructure.

(b) Compare and contrast the impact on economic growth of reducing income tax rates with an increase in government spending on education, health, and infrastructure.

In your answer, fully explain:

- the impact of reducing income tax rates on economic growth
- the impact of increasing government spending on economic growth
- why the impact of reducing income tax rates may have a smaller impact on economic growth than increased government spending.

More answer space is available on the next page.

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The examination continues on the following page.**

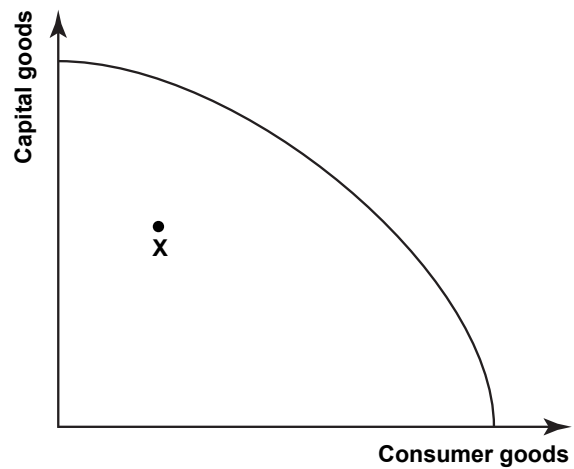
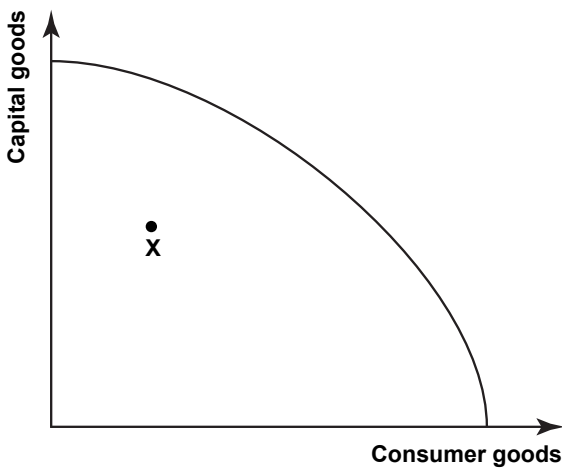
QUESTION TWO: PRODUCTION POSSIBILITY FRONTIER

New Zealand has several occupations and regions in which demand for workers is higher than supply available, even though there is considerable unemployment of suitable workers in the economy. There are two distinct solutions:

- the Government providing job search and relocation assistance to unemployed workers in New Zealand
- the Government providing incentives for foreign workers to immigrate to New Zealand.

Graph One: Production possibility frontier

Graph Two: Production possibility frontier



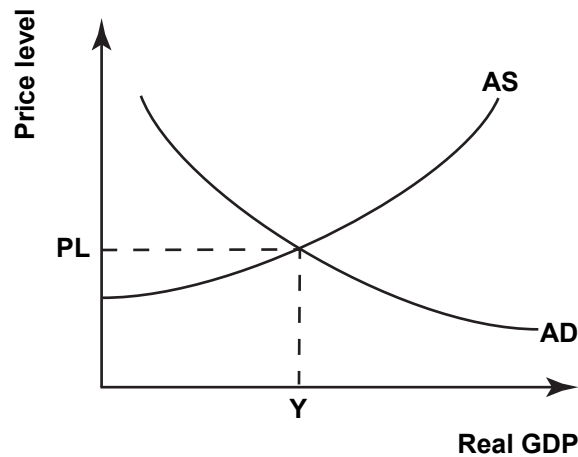
Note: Point X shows the current combination of capital goods and consumer goods produced in New Zealand.

- (a) (i) On Graph One above, show the impact of providing job search and relocation assistance to suitable unemployed workers in New Zealand.
- (ii) On Graph Two above, show the impact of increasing immigration into the New Zealand economy.
- (b) Use Graphs One and Two to compare and contrast the impact on economic growth of providing job search and relocation assistance to suitable unemployed workers in New Zealand with increasing immigration into the New Zealand economy. In your answer, refer to the concepts of real GDP and productive capacity.

QUESTION THREE: GOVERNMENT POLICIES AND THEIR IMPACT ON GROWTH

The Resource Management Act has several objectives, including:
Understanding that present resource use has an impact on the quality and quantity of resources available for future generations.

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



- (a) (i) On Graph Three above, show the future impact on the AD/AS model of present-day production permanently damaging or over-exploiting a natural resource.
- (ii) Use Graph Three to fully explain the future impact on economic growth if the Resource Management Act is not enforced and present-day production permanently damages or over-exploits a natural resource.

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