





NEW ZEALAND QUALIFICATIONS AUTHORITY MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD KIA NOHO TAKATŪ KI TŌ ĀMUA AO! Tick this box if you have NOT written in this booklet



Level 2 Economics 2021

91224 Analyse economic growth using economic concepts and models

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.

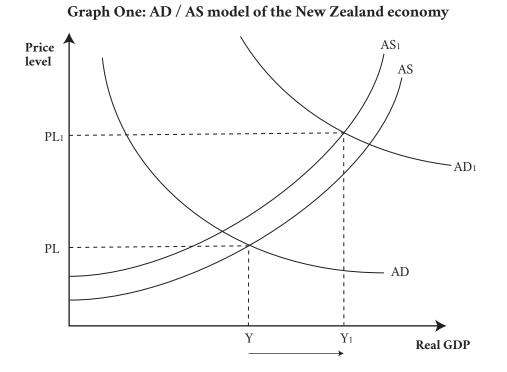
Do not write in any cross-hatched area (<//>
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). This area may be cut off when the booklet is marked.

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

QUESTION ONE: Aggregate demand and aggregate supply

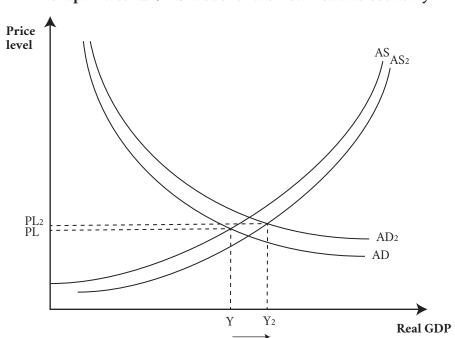
On 1 April 2021, the minimum wage in New Zealand increased from \$18.90 to \$20, increasing workers' weekly pay by \$44 before tax. There are about 175 500 full-time workers on the minimum wage in New Zealand.

Source: https://www.interest.co.nz/news/108444/minimum-wage-increase-58-20-hour-april-labours-pre-covid-commitment



(a) Provide an explanation for each shift (aggregate demand curve and aggregate supply curve) as shown in Graph One, due to the increase in the minimum wage in New Zealand.

A New Zealand salmon farming company would like to expand its operation. The initial investment would be about \$35 million. This is expected to increase sustainable salmon production by 8 000 tons. It would provide valuable export receipts and is expected to create hundreds of new permanent jobs in the region, as well as flow-on jobs in other areas.



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

(b) Provide an explanation for each shift (aggregate demand curve and aggregate supply curve), as shown in Graph Two, resulting from the salmon farming company expanding their operation.

(c) Explain why growth in the New Zealand economy may be greater due to an increase in the minimum wage compared to the expanding salmon farming operation.

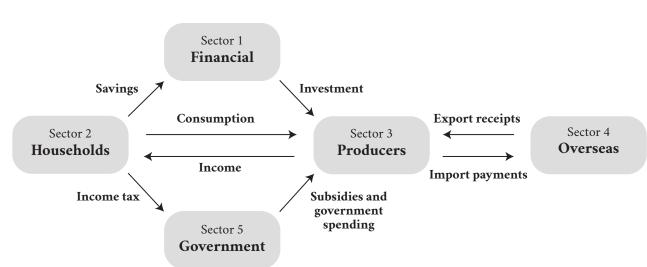
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5

QUESTION TWO: Impacts of economic growth

Computer game creators Grinding Gear Games and RocketWerkz are examples of new technology-based export companies in New Zealand. Their products include globally popular games *Path of Exile* and *Icarus*. Many people believe creative industries are the future of New Zealand. The gaming industry employs nearly 1 000 skilled workers with higher-than-average incomes. The industry generated over \$300 million in export receipts in 2020, projected to increase to \$1 billion by 2030. Output and revenue can be increased with minimal negative impacts on the environment.

Source (adapted): https://www.nzherald.co.nz/business/west-aucklands-grinding-gear-games-clocks-huge-profit-amid-pandemic/4SI3QYMRMQDKHFOPCID



Model One: Circular flow model

(a) Explain how a successful computer gaming industry in New Zealand impacts on growth, using income and one of the injections in the circular flow diagram.

The New Zealand dairy industry earns over \$10 billion in export receipts each year. Over 40 000 workers rely on the industry for their income and career path. There are concerns that the industry's impact on the environment is unsustainable, especially regarding waterways and climate change. Increased future revenue will depend on both foreign demand and adding value to existing products; the ability to increase dairy cattle numbers is limited.

- (b) Compare and contrast investing in the dairy industry with investing in the computer gaming industry as a way of creating sustainable, environmentally friendly future growth for New Zealand. Include a detailed explanation of:
 - one advantage and one disadvantage of investing in the dairy industry
 - one advantage and one disadvantage of investing in the computer gaming industry.

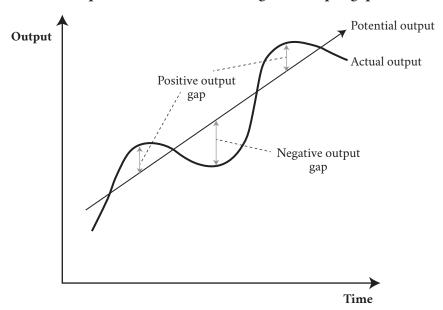
Note that investment can be from either the financial, private, or government sector. Refer to the resource material on pages 6 and 7 in your answer.

QUESTION THREE: GDP and positive and negative output gaps

(a) State the difference between real and nominal GDP. Why is real GDP a better measurement of growth than nominal GDP?



- Definitions
 A positive output gap is when actual output due to high demand is greater than full capacity (or potential) output.
- A **negative output gap** is when actual output due to low demand is less than full capacity (or potential) output.



Graph Three: Positive and negative output gaps

- (b) Use Graph Three and the definitions, on page 8, to compare and contrast positive and negative output gaps by explaining:
 - their impact on government operating balance (revenue and expenditure)
 - their impact on workers (give one positive and one negative impact).

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