SUPERVISOR'S USE ONLY

2

91223

912230

Draw a cross through the box (☒) if you have NOT written in this booklet

NZQA

Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Economics 2024

91223 Analyse international trade using economic concepts and models

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse international trade using economic concepts and models.	Analyse international trade in depth using economic concepts and models.	Analyse international trade 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 2–12 in the correct order and that none of these pages is blank.

Do not write in the margins (). This area will be cut off when the booklet is marked.

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

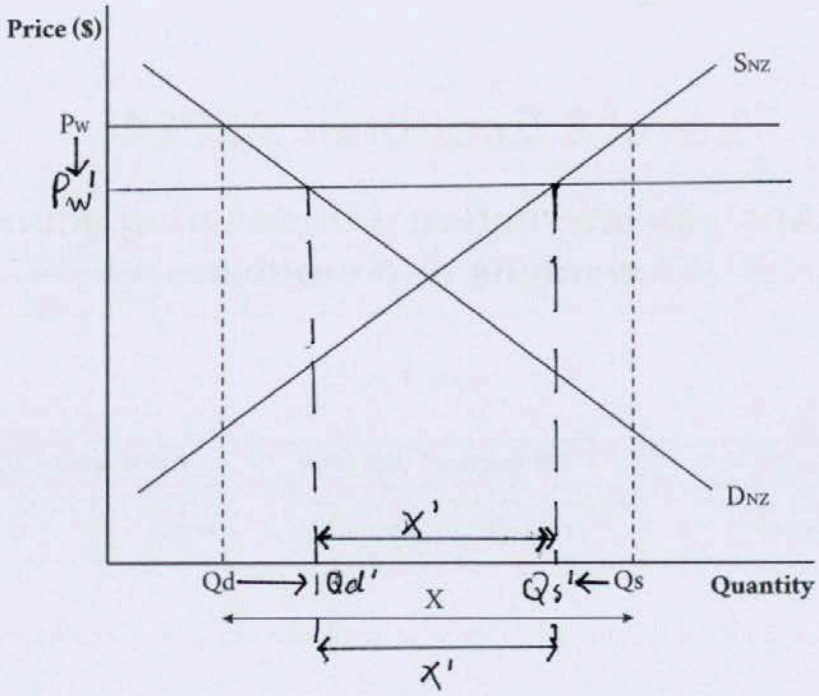
Excellence

TOTAL 23

QUESTION ONE: Price taker model

(a) On Graph One below, show the impact of the lower world price of lamb on exports. Label the new level of exports as X_1.

Graph One: The market for lamb



(b) Referring to Graph One, explain how the lower world price of lamb affects the quantity of exports from New Zealand.

New Zealand is a price taker of lamb so we take whatever the world price of lamb as our demand and supply of lamb is too insignificant to impact the world market and hence world price. As world price decreases from Pw to Pw', due to increased overseas supply and decreased overseas demand, the quantity of lamb demended by New Zealand consumers increases from Qd to Qd' as it is now more affordable to purchase lamb as it is less expensive. As world price decreases from Pw to Pw', quantity supplied ~~by the~~ of lamb by New Zealand producers/farmers decreases from Qs to Qs' as it is now less profitable to produce lamb. ~~The~~ As quantity demanded increases and quantity supplied decreases, the shortage produced decreases from Qs-Qd to Qs'-Qd'. As this surplus is exported overseas, export quantity decreases ~~by the~~ for lamb. from X to X' as shown on the graph for lamb.

Export quantity in New Zealand therefor decreases.

00647

(c) Referring to Graph One, explain how the lower world price of lamb affects the amount of export receipts.

A lower world price of lamb ~~causes~~ from Pw to Pw' becomes the ~~New~~ New Zealand price as we are price takers. As Quantity supplied decreases from Qs to Qs' and Quantity demanded ~~decreases~~ increases from QD to QD', surplus decreases and export levels/quantity decrease from X to X'. As price recieved by ~~producers~~ exporters (world price) of lamb decreases and export quantity decreases, export receipts for lamb decrease from X x Pw to X' x Pw'. Export receipts in New Zealand therefore decrease

(d) Compare and contrast the impact of the lower world price on New Zealand producers and New Zealand consumers of lamb. Refer to Graph One in your answer.

New Zealand is a price taker, so as the world price of lamb decreases from Pw to Pw', the price of lamb in New Zealand decreases from Pw to Pw'. As the price of lamb decreases from Pw to Pw', the quantity of lamb supplied by New Zealand producers decreases from Qs to Qs' as it is now less profitable to produce lamb ~~and~~ at this price level. New Zealand producers of lamb are negatively impacted as their export receipts decrease from X x Pw to X' x Pw' and total revenue decreases from Qs x Pw to Qs' x Pw'. Total revenue and profits decrease ~~&~~ as price recieved and quantity sold has decreased, while costs of production have not changed. Producers of lamb may shift resources from lamb production to the production of a related good such as pork which is now ~~a~~ relatively more profitable. As profits and revenue decrease, Business confidence decreases so lamb producers are less likely to invest in capital goods to increase production in the future. ~~Firm~~ Firms may have to lay off workers or give less hours to workers as they no longer need to produce as much or cannot afford the wages. Producers may have to retrain workers in the production of related goods such as pork which is expensive. Overall New Zealand producers are worse off by the decrease in world price of lamb.

The answer space continues on the next page ➤

As the price of lamb decreases from Pw to Pw', the quantity of lamb demanded increases from QD to QD' by New Zealand ~~pa~~ consumers, ~~consumers are better off~~. This is because lamb is now more affordable to purchase with their limited disposable income. Consumers of lamb are better off as they get more lamb at a lower price. They may purchase less of a substitute good such as pork which is now relatively more expensive. If the price of lamb ~~decreases by more~~ decreases by more than the ~~de~~ quantity demanded of lamb increases, ~~consumers~~ spending will decrease (QD x Pw to QD' x Pw'), on lamb. This means consumers will have more disposable income to spend on other goods, or save for retirement, increasing standard of living.

Overall, decrease in world price of lamb negatively impacts producers of lamb in New Zealand as profits decrease but positively impacts ~~producers~~ consumers of lamb in New Zealand as they recieve more for a lower price.

This page has been deliberately left blank.
The assessment continues on the following page.

QUESTION TWO: The two-country model

[redacted]

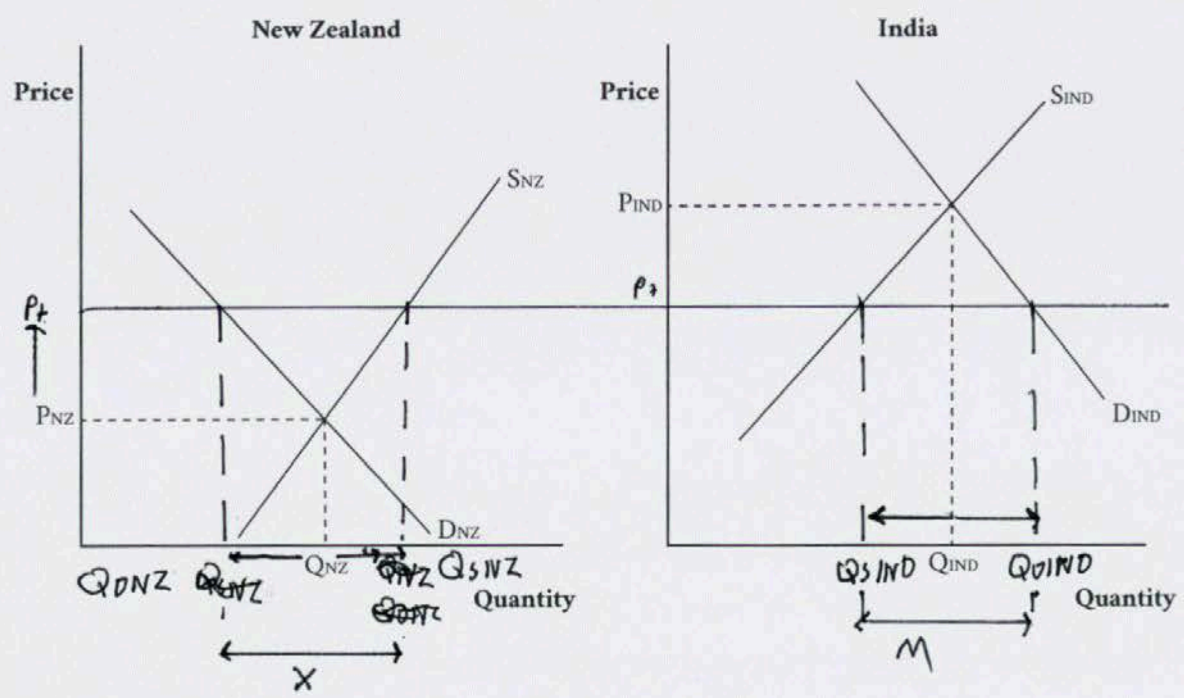
(a) Explain one possible reason why New Zealand's two-way trade with India is much less than with China.

New Zealand has a freetrade agreement with china which allows the countries to trade without barriers such as tariffs making trade more beneficial for both countries. New Zealand does not have a free trade ~~ag~~ agreement with India so they may place tariffs or embargos on our exports, making trade with them less profitable ~~and it~~ and beneficial so our two-way trade is much less.

[redacted]

Graph Two below shows the market for wood products in New Zealand and India.

Graph Two: The market for wood products



(b) On Graph Two, label the:

- trade price (Pt)
- amounts of exports and imports in each country (X and M).

(c) Referring to Graph Two, explain the impact of exporting wood products on:

(i) Revenue gained by New Zealand wood producers.

Exporting wood to India, increases the ~~trade~~ price of wood in New Zealand to increase from P_{NZ} to P_t. As trade price increases, quantity of wood supplied by New Zealand producers increase from Q_{NZ} to Q_{SNZ} as it is more profitable.

Revenue gained by New Zealand wood producers increases from ~~QNZ to~~ $Q_{NZ} \times P_{NZ}$ to $Q_{SNZ} \times P_t$ as both quantity supplied and price received increases.

(ii) The current account balance.

As the price in New Zealand for wood increases from P_{NZ} to P_t by exporting wood to India, the quantity of wood demanded by New Zealand consumers decreases from Q_{NZ} to Q_{DNZ} while quantity supplied by New Zealand increases from Q_{NZ} to Q_{SNZ}. A surplus of wood ($Q_{SNZ} - Q_{DNZ}$) is produced which is exported (X) to india at trade price. Export receipts increase ~~as~~ as we receive $X \times P_t$ for exports of wood ~~to~~ to india. Increased export receipts has a positive impact on the current account balance on the balance for goods, decreasing the deficit or increasing a surplus.

(d) Explain how the export of wood products to India may impact resource allocation between the New Zealand wood industry and other agricultural export industries.

As the export of wood ~~p~~ products to India has increased the price received by ~~N~~New Zealand wood suppliers from P_{NZ} to P_t is ~~A~~ now more profitable to produce wood and quantity supplied increases from Q_S to Q_{SNZ}. To produce more wood which is now relatively more profitable to produce than other agricultural export industries, resources may be reallocated from the production of other agricultural products to the production of wood. Workers may be shifted a trained to work on wood production. Land may be reallocated to wood production and ~~A producing~~ agricultural producers may invest in capital goods to produce more wood which they can export at the trade price.

~~Exports of wood~~ Export receipts: $X \times P_{trade}$.

QUESTION THREE: Free trade agreements and the exchange rate

(a) Identify one country that New Zealand has a free trade agreement with.

Australia

(b) Explain how a tariff on New Zealand dairy exports protects India's dairy producers.

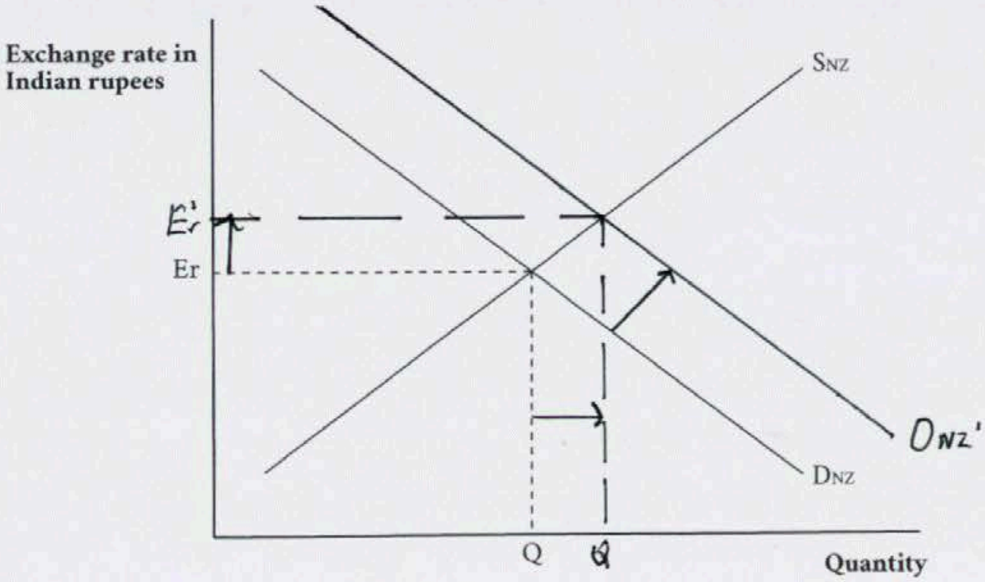
A tariff is a cost payed by exporters to the foreign ~~Countr~~ country's Government in order to export there. Tariffs on New Zealands dairy products makes our products less price competitive than local producers as our costs of production increase. This allows Indian dairy producers to be protected from our cheaper dairy products as they can sell more price competitively in India.

One option is for New Zealand to pursue an 'Early Harvest' deal with India. This means that the two countries can agree on some areas of trade, and leave the more difficult issues, such as dairy products, for later.

If this deal occurs, it could lead to a significant increase in exports for New Zealand.

(c) On Graph Three below, show the impact on the exchange rate of a large increase in exports to India.

Graph Three: The New Zealand exchange rate



(d) Explain the impact on the exchange rate of a large increase in New Zealand's exports to India. Refer to Graph Three in your answer.

A large increase in New Zealands ~~A~~ exports to india. causes ~~are~~ the demand for the New Zealand dollar to increase from DNZ to DNZ' as India ~~to~~ ~~exchange~~ purchase more exports. our exporters exchange more ~~Rupp~~ rupees for more NZ dollars as they receive more ~~a~~ Indian Currency. As the demand for the New Zealand Dollar ~~decrease~~ increases from DNZ to DNZ', the value of the New Zealand Dollar compared to Indian ~~Ruppe~~ Rupees on the FOREX market increases from Er to Er', appreciating ~~our currency in terms of Ruppees~~ the New Zealand dollar. The exchange rate of the New Zealand dollar in Rupees increases.

The change in exchange rate will impact businesses that interact with the Indian market.

Business A imports specialty Indian foods to sell in New Zealand.

Business B offers guided package tours of India to New Zealand tourists. The package includes accommodation, food, and tourist activities.

(e) Compare and contrast the impact of the exchange rate change you identified on Graph Three on Business A and Business B.

Business A will be possitively impacted by the ~~y~~ increase in the exchange rate of the New Zealand Dollar in Rupees as importing the same value of specialty Indian foods in Rupees now costs less New Zealand Dollars, Costs of production for Business A decrease increasing profitability. ~~They may dec~~ At each price level they are now willing and able to sell more specialty Indian foods, As revenue and ~~prof~~ profits increase, business confidence increases as they may invest in capital goods to ~~A~~ increase future production. They can afford to lower the price of food to increase demand and possibly further increase revenue and profits. As they produce more, they may hire more workers, have longer hours and offer high wages to skilled workers who are needed to expand the business. General wages may also increase.

Business B will also be positively impacted by the Appreciation of the New Zealand Dollar in Ruppees. This is because for the same price

The answer space continues on the next page ➤

received in New Dollars for the package, the business's ~~operators~~ costs of production decrease as accomadation, food and activities in India now cost less NZ Dollars for the same amount of Indian currency. Profits will increase and the Business may lower prizes to increase demand but still receive higher profits. The business may ~~[illegible]~~ hire more workers at higher wages and increase bussiness size. ~~[illegible]~~ They may hire workers in India who are now cheaper to pay wages to at lower ~~a~~ exchange rate of ~~[illegible]~~ rupees.

Overall both businesses benefit from the ~~de~~ increase in the exchange rate of the New Zealand dollar in Rupees.

Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

Extra space if required.
Write the question number(s) if applicable.

QUESTION NUMBER

91223

Acknowledgements
Material from the following sources has been adapted for use in this assessment:

Question One

Beef + Lamb New Zealand. (2023, December). *Australian market situation.* https://beeflambnz.com/sites/default/files/2023-12/P23020%20Australia%20Market%20Situation%20FINAL_design.pdf

Question Two

Coughlan, T. (2023, December 11). *Christopher Luxon bullish on India trade deal, despite India's misgivings.* NZ Herald. https://www.nzherald.co.nz/nz/politics/christopher-luxon-bullish-on-india-trade-deal-despite-indias-misgivings/Z7OVS3B6IVFIBA4322IQFVUQ4E/

Rennie, R. (2023, September 22). *Rule change on logs could kickstart India trade.* Farmers Weekly. https://www.farmersweekly.co.nz/markets/rule-change-on-logs-could-kickstart-india-trade/

Question Three

McConnell, G. (2023, April 18). *Unrealistic or a missed chance? National criticises stalled India trade deal.* Stuff. https://www.stuff.co.nz/national/politics/131799298/unrealistic-or-a-missed-chance-national-criticises-stalled-india-trade-deal

Subject: Economics

Standard: 91223

Total score: 23

Q	Grade score	Marker commentary
One	E8	Part (a) The graph is fully complete and correctly labelled. Part (b) The candidate explained why the quantity of exports will decrease by referring to New Zealand production and consumption, with correct reference to Graph One. Part (c) They explained that export receipts will decrease due to a lower price and quantity for exports, with correct reference to Graph One. Part (d) The candidate gave a comprehensive explanation that the New Zealand producers of lamb are disadvantaged by the decrease in world price and that New Zealand consumers of lamb are advantaged by it, with refernce to Graph One throughout.
Two	E7	Part (a) The candidate identified one reason why New Zealand's two-way trade with India is relatively low compared to with China, but did not explain it. Part (b) Both graphs were completed correctly. Part (c) They gave a comprehensive explanation that revenue will increase, with correct reference to the Graph Two, and that the current account will improve by referencing export receipts of (Pt × X). Part (d) The candidate compared resource allocation between industries. They explained that the wood industry requires more resources (land, labour) to increase output for export, which they acquire from other agricultural export industries who can't compete in resource markets (output falls).
Three	E8	Part (a) The candidate identified that Australia has a free trade agreement with New Zealand. Part (b) They explained that the cost of New Zealand dairy products to Indian consumers will increase, which will make consuming Indian dairy products more affordable. Part (c) They correctly showed an increase in demand for NZ$ and the appreciation of the exchange rate. Part (d) They explained in detail that the NZ$ will appreciate due to the exchange of currencies, with reference to the model. Part (e) The candidate explained comprehensively that Business A will be positively affected as it is less expensive to import, and Business B will be positively affected as it will have more purchasing power