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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.

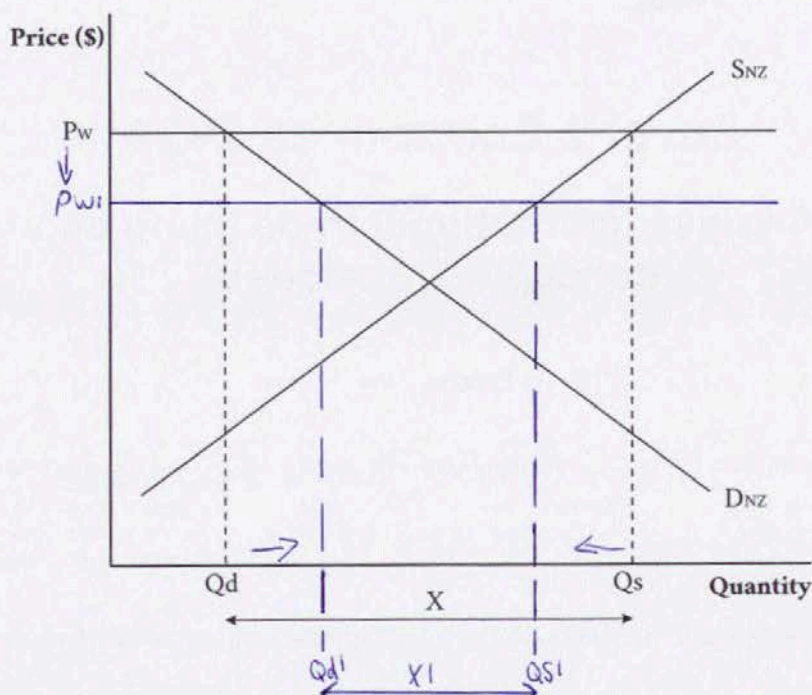
Merit

TOTAL 16

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.

as the world price decreases from P_w to P_{w1} it also decreases the quantity ~~the~~ supplied from Q_s to Q_{s1} . on the other hand quantity demanded increases from Q_d to Q_{d1} therefore shrinking exports from X to X_1 . as the price ~~increases~~ decreases more people will want to ~~buy~~ buy lamb hence why Q_d increases. as they sell more and more ~~they~~ they will start to have decreased supply hence the ~~the~~ decrease in quantity supplied. this is why our exports ~~&~~ would shrink.

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

as the world price is reduced from p_w to $p_{w'}$ it decreases the exports from X to X' therefore export receipts fall from $p_w \times X$ to $p_{w'} \times X'$

$$p_w \times X > p_{w'} \times X'$$

- (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.

NZ producers will be worse off ^{with the world price dropping} as they will have to sell these goods for cheaper meaning they won't make as much profit. Compared to the consumers who will be better off ^{with the price drop} as they will be able to buy the good at a cheaper price hence why the increase in quantity demanded.

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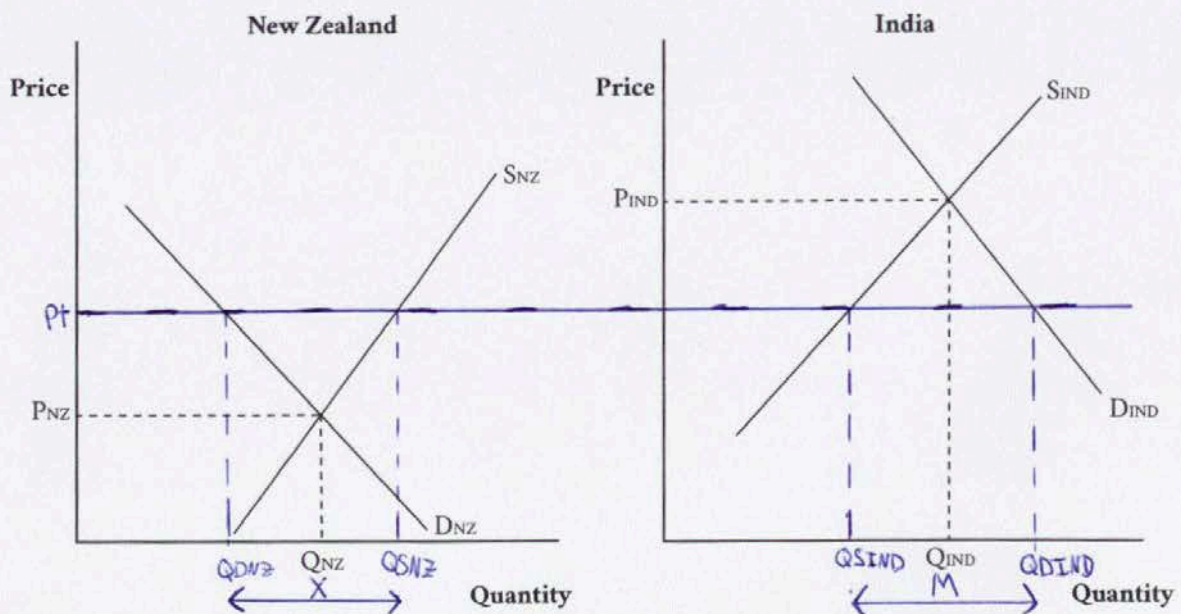
QUESTION TWO: The two-country model

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

maybe its because china has more ~~resources~~ resources compared to india. China may have certain things that NZ need at a cheaper price.

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.

as exporting wood to india ~~is now~~ is now allowed, it would mean that New Zealand wood producers would have increased revenue

(ii) The current account balance.

as we start to export wood to india it would increase our export receipts making our current account balance better off

(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 NZ starts exporting wood to india resources such as land, worker, and money may be given to the wood industry so they can increase their exports and export receipts. resources may also be allocated to the wood industry as its one of New Zealand's biggest exports

QUESTION THREE: Free trade agreements and the exchange rate

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

China

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

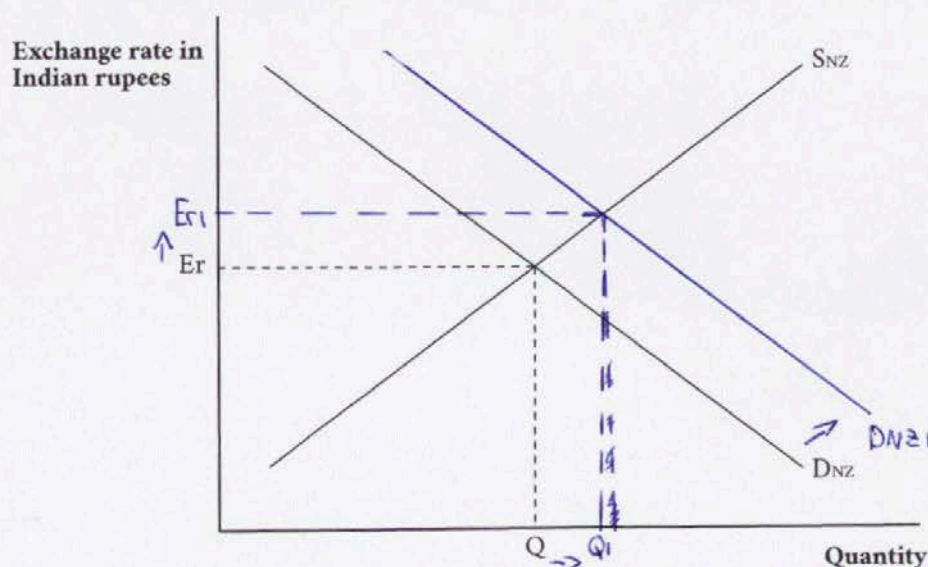
a tariff on New Zealand dairy exports would protect India's dairy producers as it would be cheaper to buy it locally than to import it from overseas, making it more affordable to buy it locally

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.

as exports to india increase the demand would increase from DN_2 to DN_2^1 therefore increasing the Quantity from Q to Q_1 , therefore the exchange rate appreciates from E to E_1 . this happens because as india want to import more they must exchange these indian rupees to NZD hence why the exchange rate increases when New Zealand exports increase.

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 better off, as with the ~~the exchange rate~~ the increased exchange rate the NZD has appreciated meaning that they will be able to buy more indian food for the same price. they will be able to save money and be able to make more profit. on the other hand ~~business~~ business B will be worse off as it would cost more money for indian tourist to come to NZ. this is because the indian rupee isn't worth as much anymore. meaning business B would have a decrease in customers and therefore a decrease in revenue and profit.

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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: 16

Q	Grade score	Marker commentary
One	M6	<p>Part (a) The graph is complete and correctly labelled.</p> <p>Part (b) The candidate explained why the quantity of exports will decrease, by referring to New Zealand production and consumption, and correctly referred to Graph One.</p> <p>Part (c) They explained that export receipts will decrease due to a lower price and quantity for exports and correctly referred to Graph One.</p> <p>Part (d) The candidate identified that New Zealand producers of lamb are worse off and New Zealand consumers of lamb are better off. The answer was not sufficiently detailed and did not refer to the model.</p>
Two	M5	<p>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.</p> <p>Part (b) Both graphs were completed correctly.</p> <p>Part (c) They explained that the revenue for New Zealand producers will increase, and the current account will improve. Lacking detail and reference to model.</p> <p>Part (d) The candidate explained that there will be a shift of resources from other industries to wood production because the wood industry will need to acquire resources (land, labour) from other industries.</p>
Three	M5	<p>Part (a) The candidate identified that China has a free trade agreement with New Zealand.</p> <p>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.</p> <p>Part (c) They correctly showed an increase in demand for NZ\$ and the appreciation of the exchange rate.</p> <p>Part (d) They explained in detail that the NZ\$ will appreciate due to the exchange of currencies, with reference to the model.</p> <p>Part (e) The candidate explained in detail that Business A will be positively affected, as it will be less expensive to import. However, they incorrectly explains that Business B would be negatively affected.</p>