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91224



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

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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Economics 2024

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 2–16 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 22

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m + ech

$$C + I + G + (X - M)$$

3

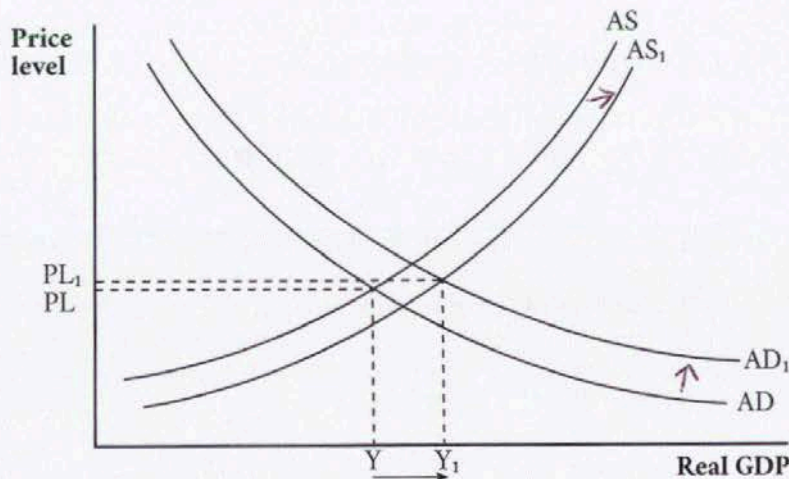
Scenario
COP
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QUESTION ONE: Aggregate demand and aggregate supply



Consumption
X ports - tourism
Investment? Cost?

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



- (a) Explain each shift (aggregate supply and aggregate demand curves) shown in Graph One, and the impact on economic growth, due to the construction and operation of Te Kaha.

As Te Kaha is built, and operated, a component affected is ^{an increase in} consumption spending which is a factor of Aggregate Demand ($C + I + G + (X - M)$). As sporting and music events can house 36 000 spectators, ^{and demand for} spending from ~~the~~ tickets will increase. The facilities also encourage export tourism,

^{\$683m} ^{of the stadium} via international events, another factor of AD. The govt spending on public facilities ^{increase} also boost this, causing aggregate demand to increase, shifting right from AD to AD₁. At the same time, Te Kaha will ^{increase} its outputs and productivity, components of Aggregate supply. As more events occur in a high quality stadium it increases the ability and efficiency of supply, causing aggregate supply to increase, shifting right from AS to AS₁. The effect of these shifts will cause RGD to increase from Y to Y₁, indicating an increase in economic growth.

- (b) Explain one disadvantage of using real GDP to measure economic growth.

Real GDP is the measure of all goods and services produced in an economy, adjusted for price change. A disadvantage is that RGDP only measures economic factors of growth, it has no way of measuring or comparing non-economic or social factors that indicate growth in the terms of Human Development or Life Quality.



- (c) Compare and contrast the impact of opening Te Pae Christchurch Convention Centre on:

visitation, tourism, Auckland → Christchurch

- (i) Different regional growth rates in New Zealand.

As Te Pae is opened in Christchurch, the infrastructure allows high levels of consumption as 130,000 people visit to partake in events, earning \$50 million for Christchurch. As well, tourism may increase due to national and international visitors. For Christchurch, this increases the earnings of workers and increases job opportunities due to the increased activity; ^{also} increasing output and economic growth. This contrasts to the growth rates in Auckland. As the Auckland Convention Centre remains unfinished, Auckland does not receive consumption spending from events and visitors, as well as Auckland workers will have a decreased opportunity for employment and income, lowering their production/RGDP. More costs also may be needed to repair the centre from fire damage, further limiting ^{economic} growth.

~~As a result~~ The disparity of economic growth can cause uneven growth rates, workers may relocate ~~to~~ away from Auckland to find employment and opportunity in Christchurch, creating further lack of growth and shortages.

- (ii) The distribution of income in the Christchurch area.

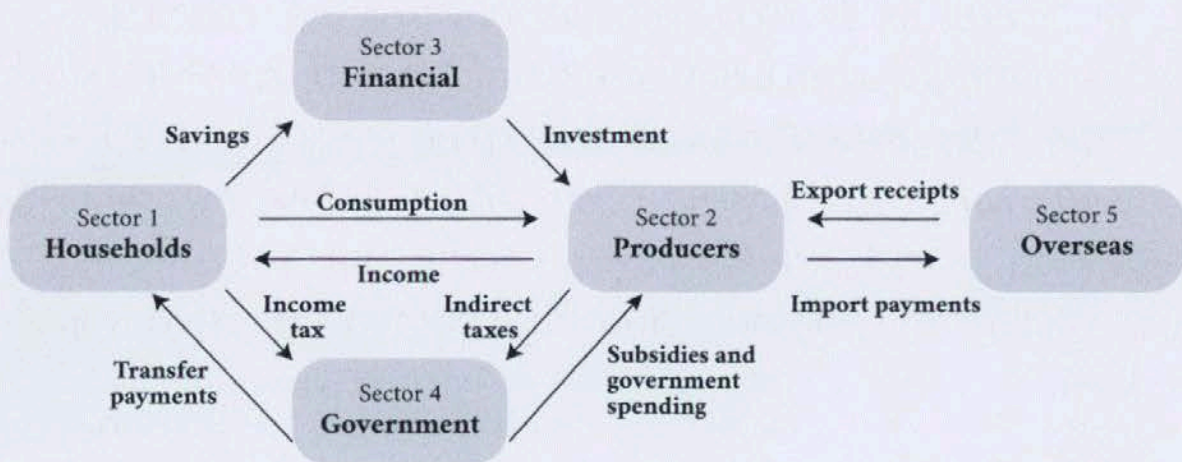
As Te Pae offers \$50 million of direct economic value, this will provide workers in specific areas (such as hospitality) with higher incomes as profits and employment opportunities increase. However, ~~the~~ for Christchurch workers in ~~the sectors~~ industries unrelated to the Convention Centre may not receive as much income as sectors, such as farming or agriculture will not be directly affected in the same way. This can cause an uneven distribution of income between industries. It also may cause different distribution based on skill levels if higher skilled workers are more required to run certain tasks. [⊗] This could cause movement of workers between sectors as they seek out better opportunities and income. This could require retraining and result in shortages as workers relocate.
in certain industries.

⊗ Putting low-skill workers at limited distribution of income

QUESTION TWO: Impacts of economic growth



Model One: Circular flow model



- ✓ (a) Referring to Model One, identify three flows that will increase due to an increase in astrotourism.

Flow 1: Export Receipts

Flow 2: Consumption

Flow 3: Indirect taxes

- ✓ (b) Choose one of the flows identified in (a) on page 6, and explain why it will increase.

Export receipts will increase with Astrotourism. Export receipts is a money flow from the overseas sector to producers, in exchange for exported goods and services. As astrotourism attracts international tourists, export receipts from tourists increase in the form of payment to businesses such as Dark Sky Reserve ^{for its services} as well as other NZ firms like accommodation.

As Astrotourism grows in popularity, more tourists will supply more ^{export receipts}.

- (c) Referring to Model One, explain why an overseas tourist visiting Lake Tekapo might increase growth more than a domestic tourist.

An overseas tourist may increase growth more because New Zealand's ^{international} tourism industry makes up one of the largest sectors of growth, and overseas markets, and therefore tourists, are much larger than that of NZ, therefore there's likely to be more overseas tourists. ⊗
As well as this, domestic tourists ^{may} limit growth due to their level of income and spending. Domestic households are more influenced by the level of NZ income they receive, and may allocate more disposable income towards savings or taxation, which are withdrawals, decreasing growth by decreasing economic activity. and restricting consumption - an injection that stimulates activity and growth.

- NZ tourism big sector
- Overseas market bigger
- Savings, income tax?

withdrawals + injections.
growth

Continued on extra pages →

⊗ And ^{more} income received from this

⊗ Which is a result of the current NZ economy and circular flow

Question Two continues on the next page ➤

more indirect as producers ↑
move income as HHS ↑ income
less transfer payments
more spending on govt facilities

inflation spending?

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(d) Compare and contrast the impact of astrotourism on:

1 (i) Government revenue and expenditure.

As astrotourism increases, this provides producers with more revenue to increase production and grow their business. As ^{Astrotourism} producers receive more revenue from export receipts and consumption, they will have to pay higher indirect taxes ^{such as GST} as they earn more, providing the government with more revenue. And as producers expand, they will require more labour, ^{and increase income} meaning more households will increase employment and their income, therefore increasing income tax to the government. The increases in tax may also apply to other sectors that indirectly grow due to increased growth/consumption. The government will also reduce transfer payments like welfare benefits as employment rises, decreasing expenditure. However there could be ^{some} increased expenditure if the government chooses to use spending to further invest in producers and public facilities, or possibly combat inflation as consumption could increase demand-pull inflation.

(ii) Lake Tekapo residents and businesses involved in the hospitality industry (food and accommodation) in Lake Tekapo.

↑ business income / revenue
↑ standard of living
↑ consumption
businesses: growth, econ. expansion, more supply
residents: congestion, competing for jobs

As astrotourism in Lake Tekapo increases, businesses such as those in food and accommodation will receive more consumption spending and export receipts as national and international tourists visiting will require their goods and services. This provides businesses with increased revenue and greater ability to grow and supply more. This means ~~for~~ local households and workers will receive more income as ^{the hospitality} ~~businesses~~ industry increases demand for labour, increasing employment and disposable income to spend on savings and consumption. For residents, standard of living will improve as workers and businesses make more money, and have access to an increased supply of goods and services. However, the influx of tourists and migrant workers will increase ^{and opportunity} competition for jobs and housing, taking resources from residents. And ^{and increasing stress,} increase congestion. This level of growth ^{and supply} can also increase inflation for residents, pushing up prices.

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QUESTION THREE: Production possibility frontier

In February 2023, Cyclone Gabrielle caused extensive damage to roading, water, and farming infrastructure. As climate change is linked to more common adverse weather events, the ability of New Zealand's infrastructure to cope with these weather events has been questioned. When roads, bridges, and other infrastructure are damaged, New Zealand's productive capacity decreases.

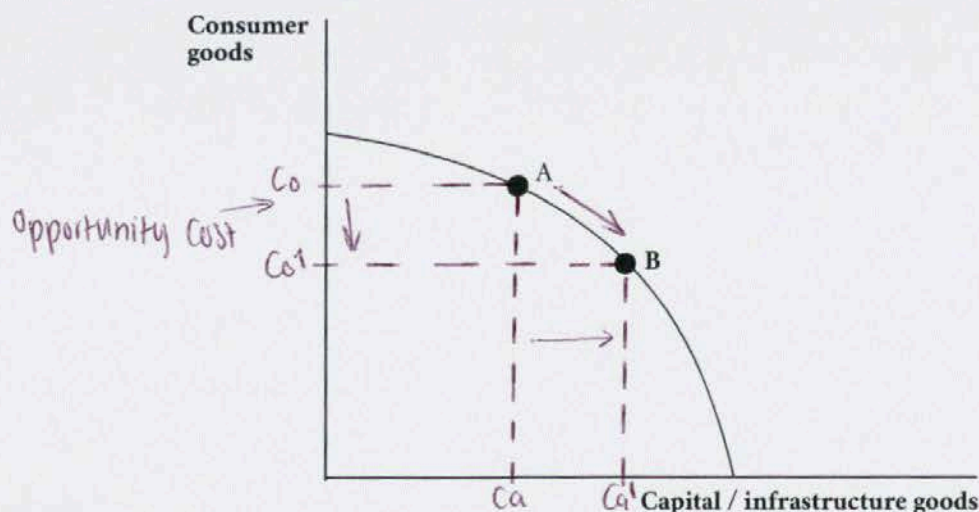
- ✓ (a) Explain why a weather event such as a cyclone leads to lower GDP. Include a definition of GDP in your answer.

Gross Domestic Product (GDP) is all goods and services produced in an economy over a period of time. As a weather event causes damage to infrastructure ^{and goods that can be sold (i.e. crops)}, the ability to manufacture goods and services decreases and goods and services produced falls, decreasing the money value and real output of the economy, reducing GDP.

One option is for the Government to increase taxes and use the funds to spend on infrastructure projects that will help make New Zealand's infrastructure more resilient to these weather events.

- ✓ On Graph Two below, point A represents the current combination of spending on consumer goods and capital/infrastructure goods. Point B represents the combination of spending if the Government increases taxes to fund spending on infrastructure.

Graph Two: Production possibility frontier



- (b) On Graph Two on page 10, label the opportunity cost of increasing taxes to fund infrastructure spending.

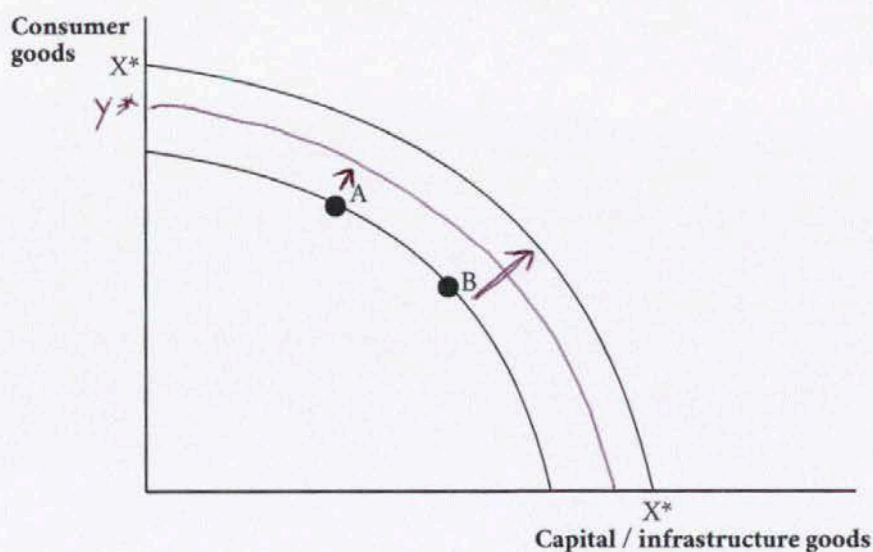
- ✓ (c) Referring to Graph Two, explain why there is an opportunity cost of increasing taxes to fund infrastructure spending.

As taxes increase to increase infrastructure spending, the opportunity cost is the production/investment in the consumer goods (from point C₀ to C₀1.) Because NZ is already producing at full productive capacity on the curve, in order to increase spending on capital goods, the fixed resources must be reallocated ~~to~~ away from consumer goods.

In order to spend on infrastructure the government creates an opportunity cost of spending on consumer goods and the level produced.

- ✓ Graph Three shows a future production possibility frontier (labelled X*) that occurs if the Government does increase taxes to pay for infrastructure spending (point B).

Graph Three: Production possibility frontier



- (d) On Graph Three above, draw a future production possibility frontier (Y*) that occurs if New Zealand operates at point A.

Question Three continues on the next page ➤

- (e) Referring to Graph Three, explain why the future production possibility frontier (Y^*) you have drawn shows a level of potential capacity different from the future production possibility frontier (X^*) created by point B.

At point A, if the government does not increase infrastructure spending, the future production possibility frontier (Y^*) is ~~shifted~~ shifted less than that of Point B's PPF (X^*). This indicates the productive capacity in the future is less at point A than Point B. Investment in consumer goods does not tend to create long-term growth as consumer goods cannot create other goods and services, and rather are consumed. Whereas capital goods/infrastructure are able to create an increased amount of both future consumer and capital goods, which allows productive capacity to increase as more resources are made to increase the ability to produce. Consumption goods do not increase productive capacity as much, although it may stimulate growth in a short-term by increasing consumption. \otimes

Therefore, the PPF at point A where there's less capital investment is a relatively smaller shift than the shift at point B when resources are allocated to capital goods. \otimes There ~~can~~ ^{can} be ~~some~~ ^{some} increase of productive capacity at Point A because there's some capital investment, but a decreased amount comparative to point B where productive capacity is maximised and the creation of stronger infrastructure will create future production and protection from damage.

\otimes By not strengthening infrastructure, production possibility may also be in danger of further weather damage in future

\otimes ' because future productive capacity is ~~less~~ lesser.

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

QUESTION
NUMBER

2

(c) Whereas overseas tourists provide the injection flow of only export receipts directly. Stimulating economic activity and therefore more economic growth.

Acknowledgements

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

Question One

Christchurch City Council. (n.d). *Project overview*. <https://ccc.govt.nz/the-council/future-projects/major-facilities/canterbury-arena/project-overview>

Te Pae Christchurch. (2023, July 3). *A world-class venue in the heart of the city*. The Post. <https://www.thepost.co.nz/business/350027462/world-class-venue-heart-city>

Question Two

Hearnshaw, J. (2022, October 7). *Astrotourism at a crossroads in dark skies over New Zealand*. The New Zealand Herald. <https://www.nzherald.co.nz/nz/john-hearnshaw-astrotourism-at-a-crossroads-in-dark-skies-over-new-zealand/DOM4V64QFISDDGYRBZZHIYA3E/>

Question Three

Wilson, N., Broadbent, A. & Kerr, J. (2023, August 14). *Cyclone Gabrielle by the numbers – A review at six months*. Public Health Communication Centre. <https://www.phcc.org.nz/briefing/cyclone-gabrielle-numbers-review-six-months>. CC-BY-4.0.

Subject: Economics

Standard: 91223

Total score: 22

Q	Grade score	Marker commentary
One	E7	<p>The candidate gave a detailed explanation of the impacts of shifts in AS / AD on economic growth. There was a detailed explanation of the effect on economic growth in Christchurch and other regions, as well as an explanation of why income distribution has become more unequal.</p> <p>To achieve and E8, another reason for a change in the income distribution could be given, for example increased profits to business owners in Christchurch.</p>
Two	E7	<p>The candidate gave a clear explanation of how export receipts impact the circular flow model. There is a detailed explanation of the impact of astrotourism on government revenue and expenditure, and the impact of different groups in the Lake Tekapo area.</p> <p>To achieve and E8, the candidate could have made a judgement whether the change in expenditure will be greater or smaller than the change in revenue.</p>
Three	E8	<p>The candidate explained the impact of the cyclone on GDP. The opportunity cost of increasing taxes is explained, with reference to the PPF model. The impact of the two choices regarding taxation are shown on the PPF model and there is a detailed explanation of the changes this would bring to productive capacity, with clear references to the model. Context to the question was given by relating the changes in the model to weather damage.</p>