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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.**

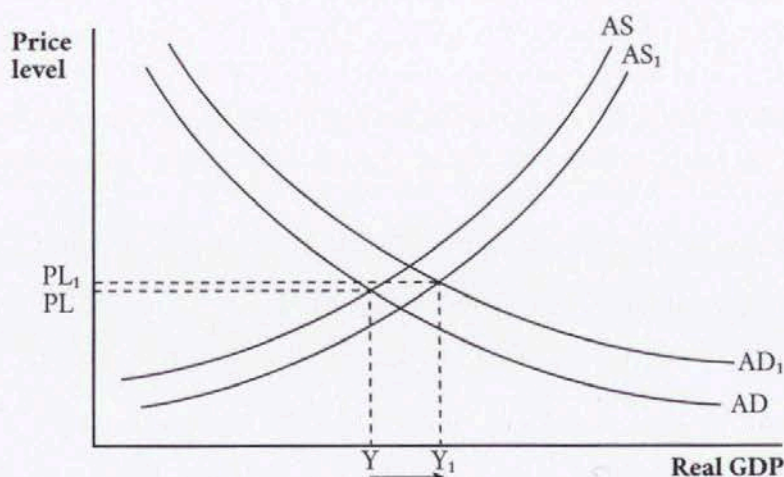
Merit

TOTAL 16

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# QUESTION ONE: Aggregate demand and aggregate supply

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.

The construction and operation of Te Kaha would increase aggregate supply from  $AS$  to  $AS_1$ , since there is more capacity for seating. Aggregate demand would also increase from  $AD$  to  $AD_1$  because the new stadium will attract national and international events that can be held all year. These increases would slightly increase the price level from  $PL$  to  $PL_1$  but real GDP would significantly increase from  $Y$  to  $Y_1$  because more goods and services that can be produced increases. An increase in real GDP indicates economic growth for NZ.



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

Using real GDP to measure economic growth only factors in the value of goods and services sold, it has no ~~for~~ clear indication on whether social factors such as health, education, standard of living has increased in an economy. This is where the HDI might be used better.

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

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

The opening of Te Pae ECC generated \$50m of direct economic value for Christchurch. So that value wouldn't directly affect other regional growth rates in NZ, but it could have indirect flow-on effects that affect the other regions. The money that is generated is most likely to increase Christchurch's overall economic growth compared to other regions as they would spend and invest more. Compared to Auckland, which couldn't open their NZICC, so their growth ~~isn't occurring~~ wouldn't occur.

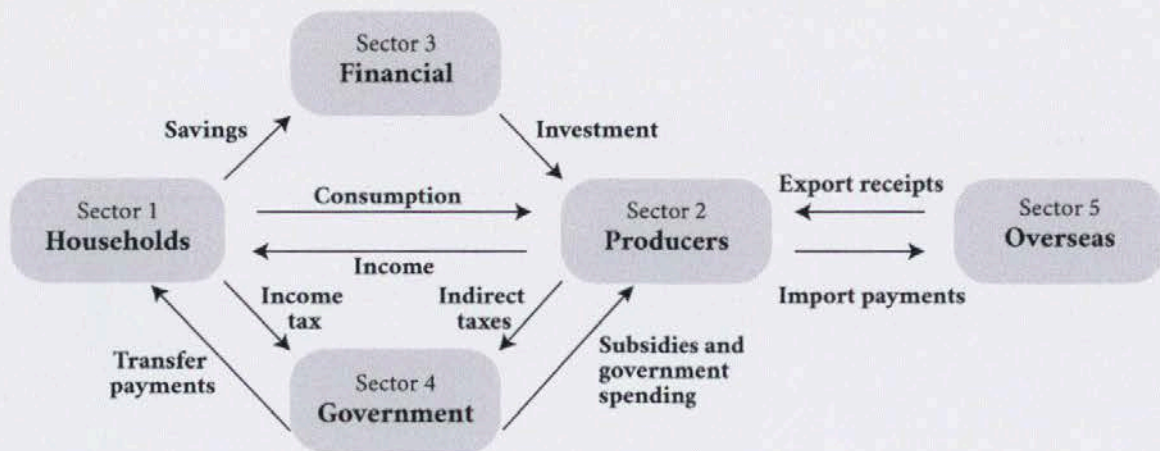
- (ii) The distribution of income in the Christchurch area.

The ~~overall~~ \$50million generated in the first year of opening Te Pae CCC would increase the <sup>(average)</sup> overall distribution of incomes in the Christchurch area. Not everyone will get an equal share of the money. Other regions such as Auckland won't see an increase in overall (average) distribution of income, since it's not affected by Christchurch's Te Pae CCC.

## 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: Indirect Taxes

Flow 3: Income



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

Indirect taxes paid by producers to the government would increase because the increase in tourists spending on local goods and services such as accommodation and attractions increases the revenue generated by producers. The increase in revenue means producers have to pay more indirect taxes (GST).

- (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 the money they spend is injected into the NZ economy from another country. This would have a greater impact on growth compared to a domestic tourist since the money is already flowing inside the NZ economy.

Question Two continues on the next page ➤

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

(i) Government revenue and expenditure.

Astrotourism would increase government revenue because as producers earn an increased revenue from overseas and consumption spending, more indirect tax (GST) will be paid to the government. Also the influx of workers would mean more people have to pay an income tax.

The government may or may not see ~~a~~ decrease in expenditure, since more jobs are created and less transfer payments are made to households requiring benefits. But there is pressure on housing availability which ~~would~~ could impact the government if households rely on them. The government might also decide to subsidise and spend on producers to provide higher quality of goods and service.

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

There is increased demand for hospitality ~~since~~ in Lake Tekapo since the influx of tourists and migrant workers put pressure on housing availability. This increased demand is ~~great~~ beneficial for businesses involved in the hospitality industry as there's more opportunities for jobs and security of jobs. Residents who are looking for housing and/or food might struggle ~~with the~~ if the supply isn't meet ~~with~~ the demand.



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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.

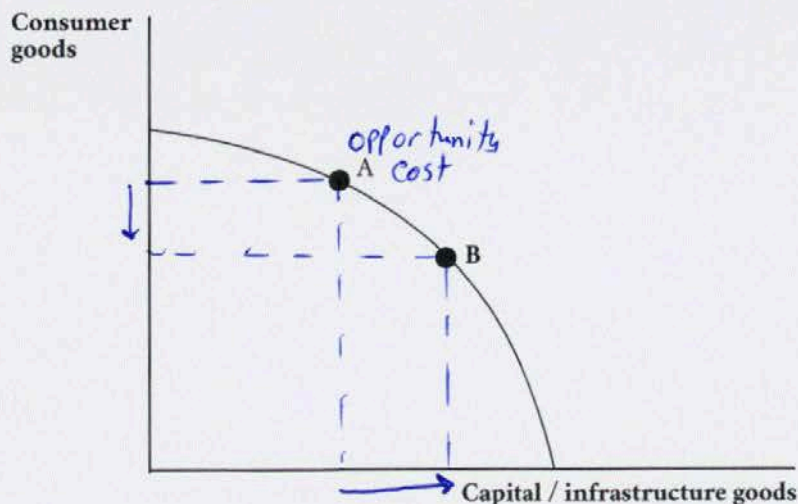
- (a) Explain why a weather event such as a cyclone leads to lower GDP. Include a definition of GDP in your answer.

GDP is gross domestic output which is the value of <sup>finished</sup> goods and services sold in an economy. A weather event leads to lower GDP since the ~~economy's~~ economy's capacity to produce the goods and services decreases, which happened since the cyclone caused damage to infrastructure such as roading, farming, etc.

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



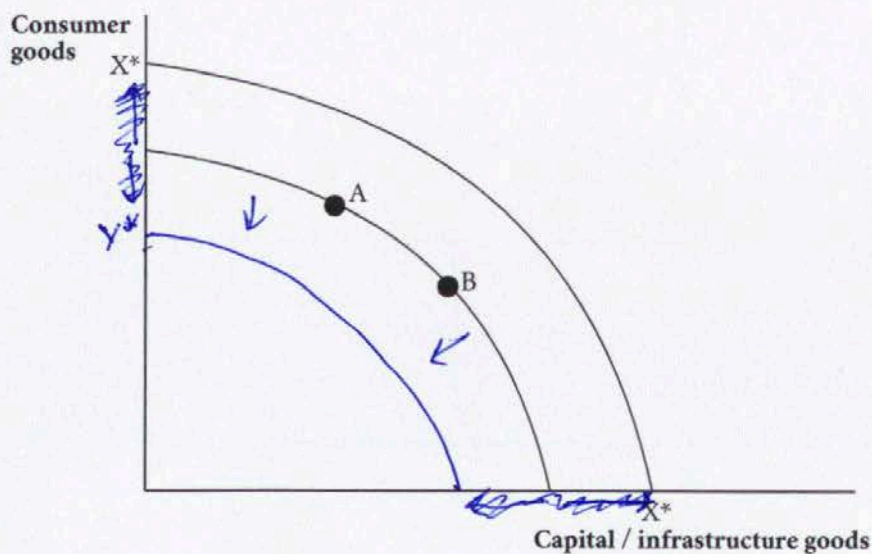


- (b) On Graph Two on page 10, label the opportunity cost of increasing taxes to fund infrastructure spending.
- (c) Referring to Graph Two, explain why there is an opportunity cost of increasing taxes to fund infrastructure spending.

when ~~Because~~ the government increases taxes, current consumption decreases from A to B. Less consumer goods will be consumed. ~~as~~ The PPF model shows the possibility of two goods being produced. When the point moves from A to B, capital/infrastructure goods increase, but the ~~alternative~~ <sup>next</sup> best alternative is left forgone (consumer goods).

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.

If ~~the~~ New Zealand operates at point A, there is more consumption of goods and services than investment, over time ~~the~~ <sup>more</sup> capital goods will wear off like roads, farming. Because of this, investment is decreased and the economy cannot produce as much of either consumer goods or capital, meaning the potential capacity would decrease as shown in the graph where the curve shifts to curve ~~Y~~  $Y^*$ . When at this curve, less consumer and capital goods could be produced at the frontier.

However if New Zealand operates at point B, where the economy abstains from consumer goods and produces capital goods ~~the economy is at~~ in future the potential capacity of the ~~economy's~~ economy's production would increase which is shown in the graph where the curve shifts to curve  $X^*$ . When at curve  $X^*$  the economy can produce more ~~goa~~ consumer goods and capital goods. Overall

**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:** 91224

**Total score:** 16

Q	Grade score	Marker commentary
One	A4	<p>The impact of the AS / AD shifts on economic growth was explained, however an explanation of the shift of the AD curve required a reference to one of the components of AD. The candidate gave a clear disadvantage to using real GDP to measure economic growth.</p> <p>To move to a Merit grade further explanation of why growth in Christchurch will be greater than Auckland and whether income distribution will become more or less equal in the Christchurch area would be needed.</p>
Two	M6	<p>The candidate gave a clear explanation of how export receipts impact the circular flow model. The impact of astrotourism on government revenue through indirect and income tax was explained, as well as an impact on businesses and households.</p> <p>To move to an Excellence grade, the candidate could have given a judgement on whether the change in expenditure will be greater or smaller than the change in revenue. In addition, the positive impact to households could be explained, so that the overall impact on households could be determined.</p>
Three	M6	<p>The candidate explained the impact of the cyclone on GDP. The opportunity cost of increasing taxes was explained, however it was not clearly labelled on the PPF model.</p> <p>The impact of the two choices regarding taxation were shown on the PPF model, and the candidate gave a detailed explanation of the changes this would bring to productive capacity, with clear references to the model.</p> <p>To move to an Excellence grade, the context of natural disasters and / or climate change could be integrated into the explanation.</p>