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91224



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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Economics 2025

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 2–12 in the correct order and that none of these pages is blank.

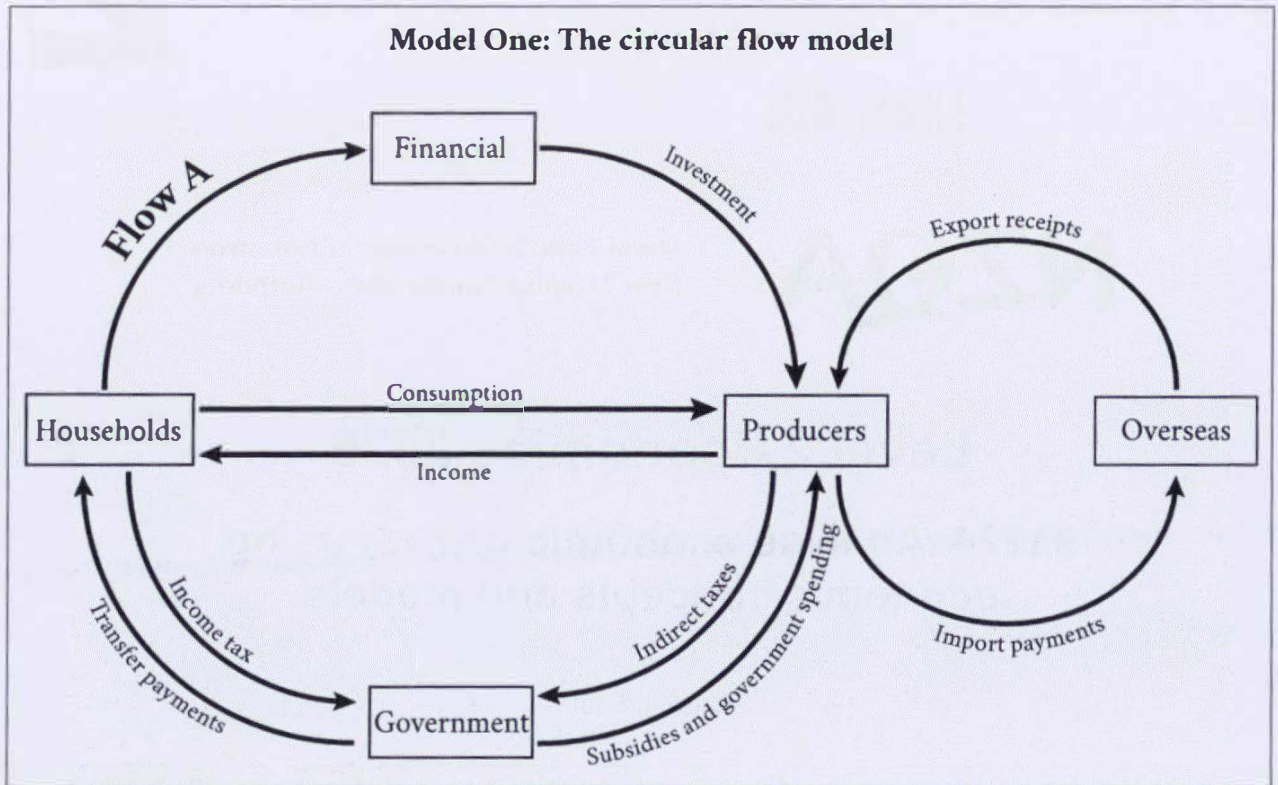
Do not write in the margins (//////). This area will be cut off when the booklet is marked.

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

Merit

TOTAL 15

QUESTION ONE: The circular flow model and impacts on economic growth



(a) Use Model One to answer the following questions.

(i) Identify money **Flow A** on the model.

Savings

(ii) Explain one reason why money Flow A might decrease in value.

Savings may decrease in value if households decide to spend more of their income on goods and services instead of saving it.

(iii) Identify one injection into the circular flow model.

Export receipts

(iv) Explain one reason why this injection might increase in value.

Export receipts may increase in value if the NZ dollar depreciates. This means overseas buyers will be able to purchase more goods for less money. NZ goods will become more price competitive and overseas buyers will purchase more. NZ will export more goods and our export receipts will increase in value.

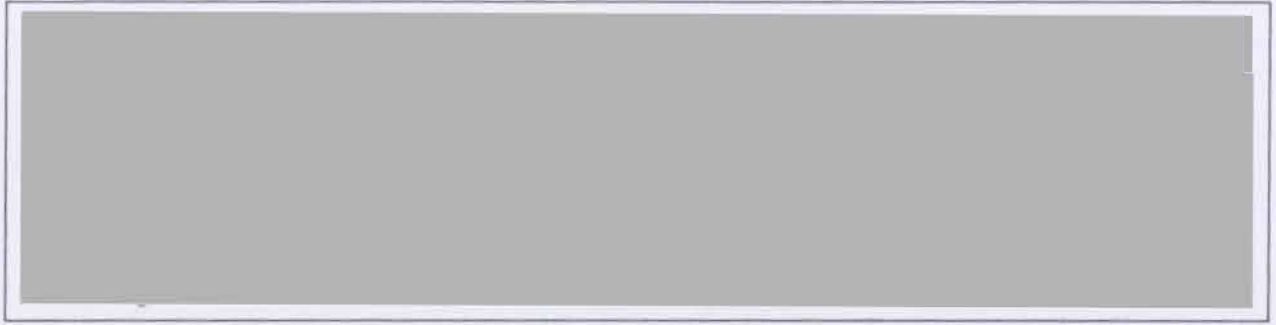
- (b) Explain why economic growth would increase if the Northland trial is successful. Refer to at least two of the flows from Model One in your answer.

Economic growth would increase if the northland trial is successful because unemployment rates would fall. Having a Northland peanut farm would create permanent jobs for the Northland region. Less households would become unemployed and they will start receiving more income. The government would benefit as they will receive more income tax and will have to pay less transfer payments (eg. unemployment benefit). The government will then have more money for subsidies and government spending which they can offer to producers so they can expand their businesses. Overall, economic growth is achieved.

- (c) Discuss the impact of a successful trial on the government's operating balance (revenue - expenditure).

If the trial is successful it will positively impact the government's operating balance. More income tax from less unemployment means they receive more revenue. Less transfer payments are made as less people are unemployed so government expenditure decreases. More revenue - less expenditure means an overall bigger government operating balance.

QUESTION TWO: Aggregate demand and aggregate supply

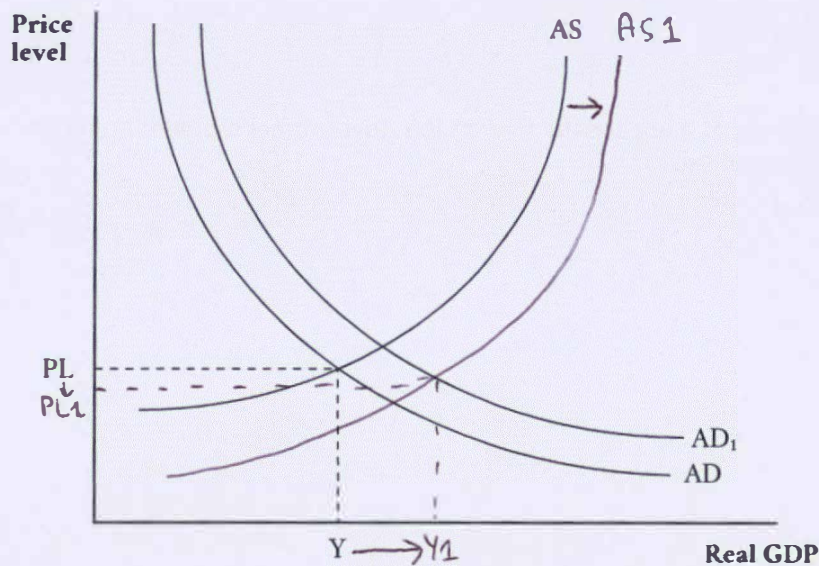


- (a) Use the formula for aggregate demand to explain why the purchase of the battery powered aircraft will decrease short-term aggregate demand.

$AD = C + I + G + (x - m)$ as Air New Zealand purchases more planes from the united states our imports increase (m), as m is apart of the AD equation, AD decreases short term.

Graph One shows the longer term increase in aggregate demand that results from the increase in consumption spending due to operating the new aircraft.

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



- (b) On Graph One, show the long-term impact of operating the new aircraft on the aggregate supply curve and economic growth.

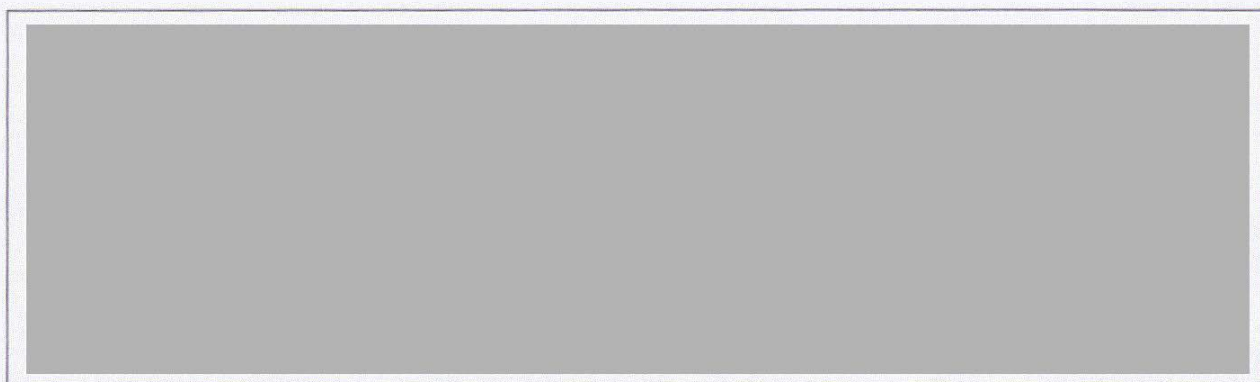
(c) Referring to Graph One, explain how operating the new aircraft changes the following.

(i) Aggregate supply

Aggregate supply will increase. The new aircrafts have a lower cost of production so producers will increase the level of supply. AS shifts to the right AS1.

(ii) Economic growth

Aggregate demand and aggregate supply both increased. That caused producers to slightly lower the price level from P_1 to P_{11} . Real output increased from Y to Y_1 showing economic growth.



(d) Compare and contrast the impact of the government making it compulsory to use SAF for domestic flights on economic growth and on the environment.

If the government made it compulsory to use SAF on domestic flights it would positively impact the environment. Reducing greenhouse gases would reduce the negative effects they have on the environment. Compulsory use of SAF would also benefit economic growth in some ways. It would create hundreds of jobs for NZ households and reduce levels of unemployment. Households would earn higher incomes and be able to afford more goods and services increasing their standard of living. The government would receive more income tax and pay less transfer payments.

Answer space continues over ►

However ~~making~~ making SAF compulsory would greatly increase the cost of production for Air New Zealand. They would have to decrease supply and increase the price level to maintain profit. Increasing the price level by a lot would make it hard for locals to afford plane tickets and may decrease their standard of living as they are unable to go on holidays or visit family members.

Overall I think that it is not worth it to make SAF compulsory as it will create more negative effects than positive.

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QUESTION THREE: Measures of economic growth

Gross domestic product (GDP) is the total value of goods and services produced in New Zealand in a year.

Some households buy fruit and vegetables from shops, while others grow their own from seeds they have bought.

(a) How will GDP be affected in the short-term and long-term if more people choose to buy seeds to grow their own fruit and vegetables?

(i) Short-term

GDP will increase in the short term as more people are purchasing seeds.

(ii) Long-term

In the long term GDP will decrease as now the seeds have grown and are producing fruit and vegetables. People don't need to buy them anymore as they grow their own.

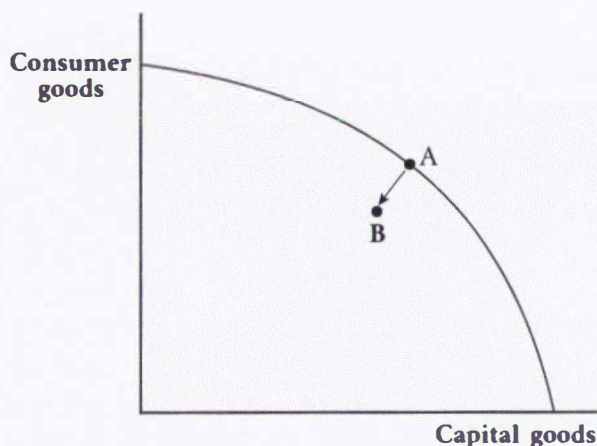
Net social welfare is a broad measure of economic growth that uses a combination of economic indicators and quality of life indicators.

(b) Explain one situation when GDP could increase but net social welfare decreases.

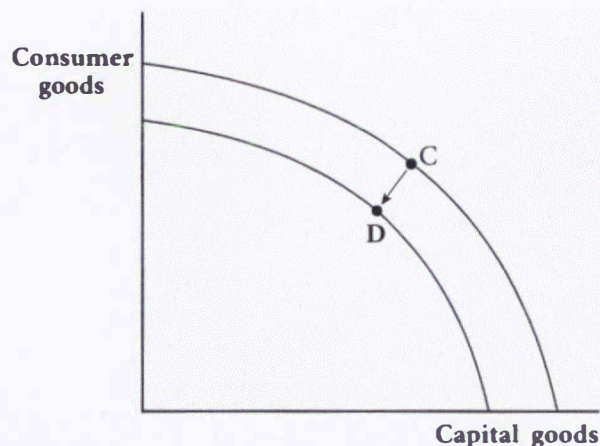
GDP could increase and net social welfare could decrease if the required school leaving age decreased. More people could leave school earlier to join the workforce so we would be able to increase GDP but ~~the~~ our population will become less skilled as people are leaving school at a younger age.

Graph Two and Graph Three show two situations in which economic growth has decreased.

Graph Two: A decrease from A to B



Graph Three: A decrease from C to D



- (c) Compare and contrast the causes and effects of the decreases in economic growth shown in Graph Two and Graph Three.

In your answer, explain:

- what could cause the changes shown on the graphs
- which change would be worse for long-term economic growth in New Zealand.

In graph 2, a possible cause ~~could~~ could be the unemployment rate increase. Point A shows our economy operating at full potential but it shifts to point B, where our economy is no longer operating at full potential. This may be because people quit their jobs or got laid off.

In graph 3, a possibility of the curve moving inwards could be capital goods breaking. If the machines/technology stops working and we don't have the resources to fix them our potential production curve will shift inwards and our economy won't be capable of producing as many goods.

I think in the long term the changes in graph 3 will be worse for economic growth in NZ. When people become unemployed it is possible for them

Answer space continues over ►

to get another job quickly and our economy could go back to operating at full potential, however it is a lot harder to ~~to~~ get all new machinery when ours wears out/breaks. Which means it is harder for our economy to increase our ~~our~~ production possibility curve again.

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

QUESTION
NUMBER

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Acknowledgements

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

Question One (b)

SCARLATTI. (2024). *Evaluating the financial feasibility of a Northland peanut industry*. <https://www.northlandnz.com/assets/Files-for-Download/Corporate-Library-Documents/Evaluating-the-financial-feasibility-of-a-Northland-peanut-industry-FINAL.pdf>

NorthlandInc. (n.d.). *Peanut trials*. <https://www.northlandnz.com/northland-inc/what-we-do/regional-infrastructure-and-investment/primary-sector-projects/peanut-trials/>

Question Two (a)

RNZ. (2023). *Air New Zealand purchases its first battery-powered electric aircraft*. <https://www.rnz.co.nz/news/business/504050/air-new-zealand-purchases-its-first-battery-powered-electric-aircraft>

Question Two (d)

Bradley, G. (2024). *Aviation fuel from waste wood viable in Aotearoa, says Air New Zealand, Lanzjet*. New Zealand Herald. www.nzherald.co.nz/business/future-fuel/VPMCRUAEIJAPJOJZORTU2ZHLYY/

Merit

Subject: Economics

Standard: 91224

Total score: 15

| Q | Grade score | Marker commentary |
|-------|-------------|--|
| One | M5 | <p>The candidate gave a clear explanation of what can lead to changes in withdrawals and injections in the circular flow model. They then used the to explain how a successful trial would increase employment and therefore the income flow.</p> <p>The effect of the successful trial on the Government's operating balance explained, including increases in income tax, as well as a reduction in transfer payments. To move to an Excellence grade, the circular flow model would have been used in more detail, including a reference to reduced leakages from the model (reduced import payments) and increased collection of indirect taxes (GST) from higher consumption spending.</p> |
| Two | M5 | <p>The candidate used the correct formula to explain why importing the aircraft would cause a short-term decrease in AD. The effect on growth was explained with clear reference to the model.</p> <p>The impact of a decision to make the use of sustainable aviation fuel (SAF) compulsory was explained in terms of both economic growth and the environment. Both positive and negative impacts on economic growth were covered, however the explanation of the effect on the environment was limited to repeating the information in the resource material.</p> <p>To be awarded an Excellence grade, the candidate could have explained the judgement made about which effect would be greater, for example based on the relative size of the aviation and SAF industries.</p> |
| Three | M5 | <p>The candidate gave a detailed explanation of how GDP can be affected by market and non-market activities. An understanding of why GDP increases was evident, but a higher Merit grade required a specific reason for why net social welfare would decrease.</p> <p>The different causes of a decrease in economic growth were compared; however specific reference was made to only one of the economic models. An excellence grade required both economic models to be integrated into the explanation.</p> |