

# **National Certificate of Educational Achievement**

## **2011 Assessment Report**

### **Economics Level 3**

- 90629 Understand marginal analysis and the behaviour of firms**
- 90630 Describe an economic problem, allocative efficiency, and market responses to change**
- 90631 Describe market failure and government interventions to correct for market failure**
- 90632 Describe aggregate economic activity**

## COMMENTARY

Candidates are expected to link their responses to the resource material or graph work, where appropriate, and those who do so are more likely to Achieve with Merit or Excellence.

It is important that candidates take care to ensure that graphs are completed accurately by labelling them appropriately and clearly showing changes they have made to graphs.

Candidates need to attempt all parts of each question. Longer answer questions provide evidence at all levels of the standard. Candidates who do not attempt the longer-answer questions are disadvantaged in providing sufficient evidence to meet the standard.

## STANDARD REPORTS

### 90629 Understand marginal analysis and the behaviour of firms

#### ACHIEVEMENT

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- precisely described features of market structures
- read and interpreted questions correctly
- correctly used the law of diminishing marginal utility and the optimal purchase rule
- correctly calculated marginal/total utility values
- correctly calculated marginal/average/variable/total cost values
- accurately and precisely shaded the area of profit made by a perfect competitor
- accurately and precisely drew the curves for the perfect competitor and the monopolist
- correctly identified the profit maximising level of output for a perfect competitor and a monopolist
- recognised the difference in average revenue (AR) and marginal revenue (MR) curves between the perfect competitor and the monopolist.

#### NOT ACHIEVED

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- used inappropriate terminology when describing features of market structures
- did not derive a demand schedule from marginal utility data or a supply curve from costs of production data
- did not follow elementary Economics conventions when drawing diagrams
- demonstrated poor graphing techniques
- demonstrated a lack of understanding of key concepts and laws
- did not answer questions from all sections of the paper and/or all parts of the question
- did not identify the requirements of a question.

## ACHIEVEMENT WITH MERIT

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- correctly used the optimal purchase rule by applying the idea that price must be *less than or equal* to marginal utility (MU) rather than just price must be *equal* to MU
- clearly understood that differences in MU per \$ spent was the key idea in explaining why consumers buy more of one product than another product
- accurately derived a demand schedule from marginal utility data and a supply curve from costs of production data
- followed elementary conventions when drawing diagrams
- clearly explained the difference between accounting costs and economic costs *and* used the information above in explaining the difference
- successfully explained profit-maximising quantity ( $Q_e$ ) using marginal analysis with the correct terms such as ‘marginal losses’ or ‘marginal profits’ for output either side of  $Q_e$
- made all appropriate changes to graphs to show transformation from the short run to the long run
- consistently used the appropriate terminology when explaining events
- understood that the monopolist cannot control both price and quantity and that if they set output at the profit maximising level ( $Q_e$ ), consumers will determine the profit maximising price ( $P_e$ ).

## ACHIEVEMENT WITH EXCELLENCE

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- provided answers in context
- showed care and precision in graphs and calculations
- used marginal analysis (with reference to their changed diagrams) to fully explain why a monopolist or a perfect competitor would change output or price when either market conditions change or the time frame changes
- planned and executed complete and accurate analysis of situations
- provided an accurate flow-on evaluation.

### **90630 Describe an economic problem, allocative efficiency, and market responses to change**

#### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- labelled changes on the production possibility frontier (PPF) accurately
- described the reason for the concave shape of the PPF
- shifted the supply curve appropriately to show subsidy change
- described or defined key terms such as producer surplus and real wages
- described how market forces lead to changes in equilibrium price and quantity
- labelled key points on graphs, such as the actual employment level

- illustrated (on S and D graphs) and described how changes in the world market affect the NZ market
- illustrated deadweight loss graphically and explained why it occurs.

## **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- demonstrated poor graphing skills, such as omitted labelling that did not show the necessary changes
- were imprecise when showing a shift in the supply curve
- did not describe market forces
- did not show the graphical relationship between the world market and the New Zealand market.

## **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- explained the consequences of a subsidy change
- explained changes in the labour market and understood the concept of derived demand
- differentiated between the supply and demand for labour
- explained the concept of price elasticity of supply (PES) and understood reasons for changes in PES
- explained why New Zealand is a price taker in world markets
- described in specific detail the flow-on effects of an increase in price of a particular product
- explained the concepts of producer surplus, consumer surplus, and deadweight loss.

## **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- explained fully the flow-on effects and consequences of removing a subsidy, by fully explaining the effect on supply, thus equilibrium price and quantity
- explained fully the implications for various labour markets, including reference to the concept of derived demand or fully explaining the derived demand idea and explaining how involuntary unemployment results
- explained fully, with specific references, how higher world dairy prices would affect dairy farmers and other New Zealand producers
- explained fully the concept of price elasticity of supply in context, by referring to the significance of short-run and long-run time periods and variable and fixed resources, and specifically stating that PES will increase or become elastic or more elastic.

## **90631 Describe market failure and government interventions to correct for market failure**

### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- identified correctly the social and private equilibrium price and quantity on graphs
- described an appropriate government intervention to correct market failure
- defined demerit goods, or identified the term with an appropriate example of the market failure.

### **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- confused a change in supply/demand with a change in quantity supplied/demanded when describing effects
- provided rote-learned answers rather than applying their knowledge to the scenario
- did not identify appropriate policies to correct market failure
- did not understand the difference between a demerit good and a negative externality of consumption
- did not understand the difference between consumption and production externalities
- did not attempt the extended responses relating to efficiency and equity.

### **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- explained using appropriate terminology the decision making of private firms and why they do not produce at social equilibrium
- explained the non-effectiveness of alternative policies when examining equity and efficiency or explained the effectiveness of a chosen policy on equity and efficiency, but not both
- explained, by explicitly referring to the graph, the effect of a tax on price and consumption
- defined a demerit good and gave an appropriate example.

### **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- answered the evaluation questions by thoroughly analysing the various options on all the groups affected
- demonstrated a breadth of understanding by answering questions on equity and efficiency

- demonstrated a depth of understanding by explaining the non-effectiveness of alternative policies when examining equity and efficiency and explained the effectiveness of a chosen policy on equity and efficiency.

## **90632 Describe aggregate economic activity**

### **ACHIEVEMENT**

**Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:**

- identified the recessionary phase on a business cycle diagram
- identified components of aggregate demand
- drew and labelled an aggregate supply (AS) curve that was flat at lower levels of output and steep at higher levels of output
- drew an AS shift and could identify the flow-on effects for inflation, national income, and unemployment
- identified the target inflation rate of RBNZ (as 1–3% pa change in CPI on average over the medium term)
- described how a higher official cash rate (and thus increased market interest rate) would impact on the components of aggregate demand
- identified the impact of an increasing operating balance deficit on aggregate demand
- recognised that a recession would worsen the operating balance and that an expansionary fiscal policy could be used to stimulate the economy.

### **NOT ACHIEVED**

**Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:**

- did not recognise that a recession requires a negative rate of economic growth
- did not reference the idea that the impact of inflation is removed from real gross domestic product (GDP)
- drew incorrectly shaped AS curves
- incorrectly used aggregate demand (AD) and its components, or single-market supply factors, as reasons for an increase in AS
- did not identify functions of the RBNZ and details about the effects of monetary policy on AD or AS
- confused the operating balance with the balance of payments and failed to differentiate between monetary policy and fiscal policy.

### **ACHIEVEMENT WITH MERIT**

**In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:**

- clearly explained why low interest rates will stimulate components of AD
- linked an increase in the OCR with an increase in market interest rates and then explained in detail the flow-on effects of this on components of AD, and as well

recognised the overall impact on the macro-economy (i.e. reduced inflation, real output, and employment)

- explained how an increased operating balance would affect AD
- gave a detailed explanation of the effect of a recession on the operating balance and/or how fiscal policy could stimulate growth in the economy
- understood the constraint imposed on the government by the Public Finance Amendment Act so could explain how future government spending would be affected if debt was to be kept at prudent levels.

## **ACHIEVEMENT WITH EXCELLENCE**

**In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:**

- recognised that raising the OCR resulted in both AD decreasing and AS increasing so the RBNZ intervention would reduce inflation pressure, but its impact on real output and employment depended on the relative size of each curve shift
- recognised that financing the operating deficit by borrowing overseas had different effects on the two major accounts of the Balance of Payments. In particular, they appreciated that loans and loan repayments impact on the Financial account whereas interest charges impact on the Balance on Income in the Current account.