

National Certificate of Educational Achievement

2014 Assessment Report

Economics Level 3

- 91399 Demonstrate understanding of the efficiency of market equilibrium**
- 91400 Demonstrate understanding of the efficiency of different market structures using marginal analysis**
- 91403 Demonstrate understanding of macro-economic influences on the New Zealand economy**

COMMENTARY

Many candidates made use of additional paper but it should be noted that the space provided for each question is sufficient for detailed explanations and comparisons that meet the requirements for excellence.

High performing candidates specifically referred to changes they had made to graphs when giving detailed explanations. The ability to define and apply key economic terms (e.g. marginal analysis, market forces, allocative efficiency, the spending multiplier) is important, and correct economic terminology should be used when explaining these concepts.

The effect on allocative efficiency of two different policies or economic events can be analysed by comparing changes in the value of combined surpluses and the deadweight loss (if relevant).

Candidates who failed to complete all questions and/or cover all of the bullet points, generally struggled to gain a Merit or Excellence grade. Incomplete or inaccurate calculations and labelling/shading of graphs was also an issue for low scoring candidates.

STANDARD REPORTS

91399 Demonstrate understanding of the efficiency of market equilibrium

ACHIEVEMENT

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

- had good basic graphing skills and could illustrate areas representing consumer surplus, producer surplus, deadweight loss and any resulting changes to these areas brought about by a specific event/action (e.g. increase in world price)
- correctly identified and calculated the changes in consumer surplus, producer surplus and allocative efficiency
- described the changes in consumer surplus, producer surplus and allocative efficiency
- explained one reason for the change in the surpluses e.g. CS decreased as consumers had to pay more or that their quantity demanded dropped
- recognised that deadweight loss indicates a market is allocatively inefficient and the removal of it indicates allocative efficiency increases.

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 commonly:

- had inadequate graphing skills
- incorrectly identified the changes in consumer surplus and producer surplus
- incorrectly shaded the change in allocative efficiency
- failed to give a valid reason for changes in surpluses and allocative efficiency.

ACHIEVEMENT WITH MERIT

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

- gave detailed explanations for the changes in consumer surplus, producer surplus and allocative efficiency which referred to changes in price and quantity
- referred to specific labels and areas from the graphs in their explanations.

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:

- compared and contrasted the impact on various participants in the market (consumers, producers, government) and allocative efficiency, by explaining changes in surpluses, prices and quantities
- fully integrated changes they made to the graphs into their detailed explanations.

OTHER COMMENTS

Many candidates defined producer and consumer surplus when explaining changes. This is acceptable as long as a reason is given for the change (e.g. "consumer surplus has increased because the difference between what the consumer is willing to pay and what they actually pay is greater due to the decrease in the market equilibrium price").

91400 Demonstrate understanding of the efficiency of different market structures using marginal analysis

ACHIEVEMENT

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

- used terminology appropriately
- accurately applied graphing conventions
- used relevant characteristics of different market structures in explanations
- accurately identified and labelled required points and curves on a graph
- applied marginal analysis to determine profit maximisation point where $MC=MR$
- correctly identified profit situations on graphs
- identified the different impacts of changes in variable costs and changes in fixed costs.

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 commonly:

- omitted essential points or curves from the graphs
- did not label or shade graphs according to instructions
- shifted curves incorrectly
- drew curves without consideration to their relationship to other curves
- confused profit maximisation with allocative efficiency

- did not recognise AR is demand and MC is supply
- used incorrect terminology such as 'high barriers' rather than 'strong barriers' for monopolies
- demonstrated a lack of understanding of the key characteristics of perfect competition.

ACHIEVEMENT WITH MERIT

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

- gave detailed explanations for changes in price or output
- explained the impact on profit when increasing or decreasing output from the profit maximisation output
- applied different pricing methods for a natural monopoly and identified the consequences of these on allocative efficiency
- recognised how different market structures responded differently to situations and explained this in detail
- recognised that allocative efficiency avoids a deadweight loss, and maximises the total or sum of producer surplus plus consumer surplus.
- referred to specific points and movements on graphs appropriately when giving detailed explanations
- recognised the difference between a firm shutting down (possibly ceasing production temporarily) and a firm leaving the market.

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 commonly:

- gave detailed step-by-step explanations for all processes
- appropriately applied the relevant economic theory in detail to a given situation
- fully integrated stimulus or graph data into explanations.
- made accurate and detailed comparisons as required
- effectively applied marginal analysis in different situations
- extended a discussion to incorporate consequences and impacts of an action
- recognised the need for a monopoly to reduce price in order to sell another unit.

OTHER COMMENTS

An understanding of Marginal Analysis is essential for this standard. However, many candidates were unable to explain or apply this concept.

91403 Demonstrate understanding of macro-economic influences on the New Zealand economy

ACHIEVEMENT

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

- understood that an increase in the OCR caused an appreciation in the \$NZ, were able to give a reason why, and illustrated this accurately on the \$NZ Foreign Exchange Market model
- explained the impact of the appreciation of the \$NZ on NZ tourism firms and elements of the Current Account
- explained how increase government spending generates increased GDP via the spending multiplier
- explained that a decrease in interest rates caused savings to fall and consumption to increase
- explained how an increase in business confidence will increase business investment and illustrated this accurately using the AD/AS model
- explained the differing impact of influences such as wage growth and falling unemployment on macro-economic goals and illustrated this impact accurately using the AD/AS model.

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 commonly:

- incorrectly explained the flow on effects of an increase of the OCR
- shifted curves incorrectly on the \$NZ foreign exchange market model
- incorrectly explained that an appreciation of the \$NZ would be positive for NZ tourism firms and exports overall
- demonstrated little or no knowledge of the spending multiplier
- misunderstood the impact of changes in economic variables on the AD/AS model, leading to incorrect AD/AS shifts and incorrect explanations
- stated effects on macro-economic variables without providing adequate and/or accurate explanations
- attempted only parts of each question.

ACHIEVEMENT WITH MERIT

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

- incorporated the AS/AD model and \$NZ Foreign Exchange Market model specifically into their explanations
- explained in detail the impact of an increase in the OCR on the \$NZ foreign exchange market
- explained in detail the impact of an appreciation of the \$NZ on NZ tourism firms, and/or the Current Account balance and/or economic growth

- correctly calculated the spending multiplier, and used it to explain in detail how GDP increases beyond an initial injection
- recognised and explained in detail how decreased interest rates would result in an increase in borrowing for households and/or a decrease in savings causing consumption and economic growth to rise
- explained in detail how changing variables impact the macro-economic goals of economic growth and price stability, and correctly illustrated these changes on the AD/AS model
- provided several economic ideas linked together in a coherent, accurate manner to give their explanations detail and depth.

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 commonly:

- integrated economic models (e.g. the circular flow model and spending multiplier) to compare and contrast the impacts of one macro-economic influence on different macro-economic goals
- made justified conclusions on the comparative size of impact on different macro-economic goals
- used the AD/AS model to explain in depth the effect of both wage growth and falling unemployment on economic growth compared to price stability
- consistently provided detailed, accurate and logical explanations across all questions.