2025 NCEA Assessment Report

Subject: Economics

Level: 3

Achievement standard(s): 91399, 91400, 91403

General commentary

The assessment consisted of three questions per standard, and candidates were required to answer all three. Each question had a number of parts.

Candidates were required to make changes to graphs, calculate some values, and then provide written explanations, making specific graph references.

Candidates who achieved at a higher level used specific economic language. They fully integrated their answers by incorporating relevant definitions, giving multiple reasons and /or examples in explanations, and referring to the resource material and specific labels or 'anchor points' from the graphs. They read questions, instructions, and resource materials thoroughly and tended to plan the requirements of each part within a question. This meant that they wrote detailed, complete explanations that included relevant information without repeating themselves in multiple parts within the same question.

Candidates are advised to not write in the margins as their response may be cut off. When answering on extra pages, candidates must clearly write the question they're responding to.

Report on individual achievement standard(s)

Achievement standard 91399: Demonstrate understanding of the efficiency of market equilibrium

Assessment

Question One focused on indirect tax and the varying impacts elastic and inelastic demand would have on consumer surplus, producer surplus, tax revenue, and allocative efficiency.

Question Two focused on the imposition of a tariff on the market for textiles and clothing. Candidates were expected to explain the impact of the tariff on consumers, producers, government, and allocative efficiency. Candidates appeared more familiar with this question, and it allowed them to put into practice the content that they learned through the year. A significant number of candidates still did not refer to the graph or integrate the graph references into their answers.

Question Three focused on the impact of a subsidy on the market for medicines. It required candidates to explain how market forces would restore equilibrium. They were also expected to explain the impact on consumers, producers, government, and allocative efficiency.

All three questions required the use of an economic model. Candidates did this by adding lines, identifying or shading areas, and labelling the changes. Candidates were expected to incorporate specific graph references or values from tables and graphs and use appropriate economic terminology in their explanations.

Commentary

There were still a significant number of candidates using demand and quantity demanded interchangeably. This meant their definitions and application of the definitions were inaccurate. How market forces work to restore equilibrium has consistently been in the exam in some form. Candidates should be encouraged to ensure they are able to apply basic principles of affordability and profitability and laws of demand and supply in their explanations of how market forces restore equilibrium.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- identified that consumer surplus (CS) or producer surplus (PS) had increased or decreased, with one reason
- identified that there were changes but did not reference the graphs or tables
- included a definition in their response but did not apply it to the context
- included basic economic concepts but did not used them to support their explanation
- explained the concept of aggregate expenditure (AE) with a basic description of how it is lost.

Candidates who were awarded **Achievement with Merit** commonly:

- identified the increase or decrease in CS and PS and two of identified change in price or change in quantity, or applied the definition to the description
- interpreted and drew graphs accurately and used anchor points when referencing changes
- differentiated between demand and quantity demanded and supply and quantity supplied
- used basic economic concepts of affordability and profitability in their explanations.

Candidates who were awarded **Achievement with Excellence** commonly:

- applied knowledge of offset between price and quantity to the changes in CS, PS, and AE
- interpreted and drew graphs accurately and fully integrated the graph and / or table references
- accurately applied economic terminology to their detailed explanations.

Candidates who were awarded **Not Achieved** commonly:

- inaccurately calculated, or did not calculate, values from the graph
- did not correctly interpret or draw the graphs
- did not identify an increase or decrease in CS, PS, or AE
- did not include reasons for the changes in CS, PS, or AE
- did not use the mechanisms behind market forces to explain how equilibrium could be restored.

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

Assessment

Question One required candidates to explain, referring to its characteristics, the short run and long run output, price, and profit levels for a monopoly. It also required candidates to explain if a monopoly is allocatively efficient, using marginal analysis, and explain what happens to the output level as a result of an increase in demand.

Question Two focused on perfect competition and the impact of increased fixed and variable costs. Candidates were required to explain the difference between fixed costs (FC) and variable costs (VC),

and the impact on output levels when FC increased compared to when VC increased. It required candidates to compare and contrast the perfect competitor's short and long run output, price, and profit levels as a result of an increase in FC, referring to the characteristics of perfect competition and using marginal analysis.

Question Three required candidates to refer to the characteristics of a natural monopoly to explain why the Government might not encourage competition in this market. Candidates were expected to compare and contrast the price and profit positions of the regulated (marginal cost pricing) and unregulated (profit maximising) natural monopoly.

All three questions required the use of an economic model. Candidates were expected to add lines / curves, shade areas and label the changes. They were also expected to incorporate specific graph references, or 'anchor points', from graphs, and use appropriate economic terminology in their explanations.

Commentary

Candidates' explanations of marginal analysis have significantly improved in this year, as have references to characteristics of perfect competition and monopoly in determining pricing and output decisions. However, basic features of a natural monopoly and why it has a downward sloping average cost (AC) curve were not covered as well.

Short run and long run equilibrium for both market structures have been explained well although a moderate number of candidates have incorrectly referred to perfect competitors having low or weak barriers to exit instead of no barriers. Graphing work is also better, but more care could be taken to show the intersection point of marginal cost (MC) and AC curves at AC's minimum point. On that note, using a ruler is necessary for increased accuracy in graphing.

Overall, the proportion of candidates who wrote comprehensive and full answers to all questions has markedly increased, indicative of how well prepared these candidates were.

Grade awarding

Candidates who were awarded **Achievement** commonly:
- referred to at least one key aspect of the marginal analysis explanation, i.e. MR>MC, missing marginal profits, increase output to Q1: profit maximisation at MR = MC, or MR<MC, making marginal losses, decrease output to Q: profit maximisation at MR = MC
- made changes on graphs, including shading and labelling the changes made
- linked the characteristics of perfect competition and monopoly to the reason for their price, profit and output levels (rather than merely stating the characteristics at the start of their response)
- explained that the monopoly is not allocatively efficient due to it not operating at demand equals supply (D = S) or that a deadweight loss (DWL) exists, which means that the sum of CS and PS is not maximised
- recognised that a monopoly's short run price, output, and profit are the same as in the long run
- explained what fixed costs or variable costs are.

Candidates who were awarded **Achievement with Merit** commonly:
- made correct changes to graphs
- included more detail to their explanation by stating why or how, and referred to specific labels from the graphs and resource materials. e.g. Fixed costs are independent of output, so an increase in fixed costs does not affect marginal cost (the cost of producing one more unit). Therefore, only the per unit cost or the AC curve shifts up to AC_1. Because the MC curve has remained the same, the profit maximising output also remained unchanged at $Q_e = Q_{FC}$ (the farmer is still operating at MC = MR)
- used marginal analysis accurately in their explanations

- used examples to give detailed explanations that showed the meaning of fixed costs being independent of output and variable costs changing with output
- used correct economic terminology in their explanations.

Candidates who were awarded **Achievement with Excellence** commonly:

- compared and contrasted impact on price, profit, and output, e.g. the short run and long run price, output, and profit are the same for a monopoly, or the output decreases with increased variable costs while it remains the same with increased fixed costs
- gave multiple valid reasons for their answers when explaining changes in allocative efficiency, price, profit, and output
- used marginal analysis accurately in their explanations by using phrases like at the original output of Qe, $MR_1 > MC$, which means the firm is missing out on marginal profits, to profit maximise it will increase output to Q_1, (at the new profit maximising point of $MC = MR_1$)
- showed accuracy in all their graphing work and integrated relevant and accurate graph / resource material references, correct economic terminology, and key market characteristics throughout detailed explanations.

Candidates who were awarded **Not Achieved** commonly:

- made no reference to marginal analysis in their responses
- made inaccurate changes to graphs, e.g. error in labelling the profit maximising price and quantity for the natural monopoly, incorrect shading of DWL and supernormal profit, incorrect shift of the AC_1 curve, and the long run equilibrium for perfect competition $MR1 = AR1 = D1$, etc
- did not use the graphs or resource materials to draw information to help in their answers
- merely listed characteristics of perfect competition and monopoly without explaining how those characteristics impacted the firm's pricing and output decisions
- did not refer to $D = S$ or DWL when explaining allocatively efficiency.

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

Assessment

Question One required candidates to use the circular flow model to explain how a recession in China and Australia could affect New Zealand's economy and its macroeconomic goal of a balanced current account. Candidates were expected to refer to specific components of the current account. Using the AD/AS model, candidates were required to explain the impact of a recession in China and Australia on New Zealand's macroeconomic goal of full employment.

Question Two required candidates to use the formula and concepts of the multiplier to calculate and explain the final effect on real GDP and economic growth of two different scenarios, i.e. a $9.97b increase in health and education spending and a decrease in export receipts.

Question Three focused on expansionary monetary policy and how the impact on unemployment would differ if New Zealand had a large recessionary gap compared to a small recessionary gap. Candidates were required to explain the impact of an expansionary monetary policy on interest rates, and, using the AD/AS model, they were expected to explain its impact on households, businesses, and inflation while also considering a depreciating NZD.

All questions required the use of an economic model, through either graphing or explanation of the model, and were scaffolded by breaking the question into parts. Candidates were expected to use appropriate economic terminology and their knowledge of the contemporary New Zealand economy.

Commentary

Competency in the use of the circular flow model and the multiplier was not consistent across the cohort. Accuracy in the use of definitions of macro-economic concepts is an area that needs to keep improving. Commonly confused terms were increase / decrease, deflation / depreciation, exchange rate / interest rate, import / export, left / right, monetary / fiscal, exports / export receipts, and imports / import payments.

Candidates who achieved at higher levels used appropriate economic terminology and demonstrated knowledge of the contemporary New Zealand economy. They communicated clearly and coherently in a concise response containing relevant content, rather than reproducing everything they knew about a topic or repeating responses already covered in other parts within the same question. They used the resource material to their advantage and referred to it and to the economic models in their explanations.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- showed changes on graphs, including labelling the changes
- made accurate calculations of the multiplier and the final change in RGDP
- accurately defined and applied macroeconomic concepts, e.g. a recession in China and Australia would make exports fall in New Zealand, which in turn would worsen the current account
- applied the components of both AD and AS in their explanations, e.g. decreasing the OCR would increase consumption (C) and investment (I), increasing AD, and government spending on education and health would improve productivity in the long-run, increasing AS.

Candidates who were awarded **Achievement with Merit** commonly:

- referred to relevant information from the resource material
- defined and applied economic terminology in their explanations, including the role and detail of the PTA
- recognised that China and Australia were New Zealand's major trading partners
- explained why unemployment increased with the recession in our trading partners
- explained that a depreciation would make New Zealand exports more price competitive and imports more expensive
- defined, calculated, and applied the concept of multiplier but did not do the same in a negative context
- recognised that a loss of tourism numbers would affect other sectors of the economy and that the loss of income would flow through sectors
- recognised that the government spending on healthcare, education, and environmental protection would increase productivity and, in the long-run, increase tourist numbers again.

Candidates who were awarded **Achievement with Excellence** commonly:

- provided additional detail with clear and accurate reasons for their explanations, e.g. not only did they define the current account, but they also explained the impact of events on it, including the impact of a depreciation of the NZD
- integrated the resource material and economic models into their detailed explanations
- calculated and applied the multiplier in positive and negative scenarios
- explained the various impacts on components of AD and AS, such as the impact of changes in the OCR and the exchange rate
- recognised characteristics of the AS curve and identified areas of spare capacity
- wrote with fluency.

Candidates who were awarded **Not Achieved** commonly:

- did not define economic concepts, such as the current account
- shifted curves inaccurately
- confused increase and decrease or shifts to the right and left
- did not:
    - use the resource material
    - explain the effect of the depreciating NZD
    - calculate or apply the multiplier concept
    - identify that decreased tourism would affect others in the tourism industry
    - explain that government spending increased productivity in the long run
    - identify the relationship between the OCR and interest rates
    - state the PTA.