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91223



# Level 2 Economics, 2019

# 91223 Analyse international trade using economic concepts and models

2.00 p.m. Friday 22 November 2019 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse international trade using economic concepts and models.	Analyse international trade in depth using economic concepts and models.	Analyse international trade 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 2–11 in the correct order and that none of these pages is blank.

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

TOTAL

### QUESTION ONE: CURRENCY CHANGES AND NZ PRICE-TAKER MODEL

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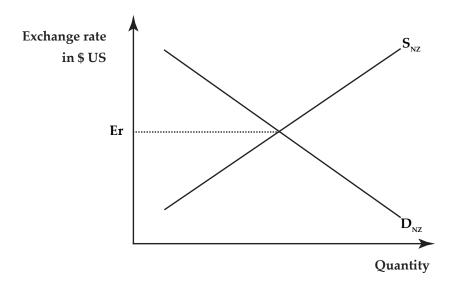
The New Zealand currency depreciated from \$US0.71 to \$US0.66 between 2017 and 2019. Major reasons for changes in the value of the New Zealand currency, relative to other currencies, can be from changes to:

1. New Zealand exports

(ii)

- 2. immigration into New Zealand
- 3. tourism into New Zealand.
- (a) (i) On Graph One, below, fully label a depreciation of New Zealand's currency.

# Graph One: New Zealand exchange rate



fully explain why New Zealand's exchange rate depreciated against the US dollar between 2017 and 2019.			

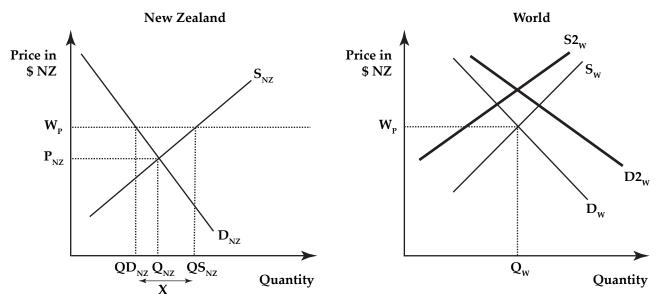
Referring to Graph One, and TWO of the stated reasons from the resource material,

(b) Compare and contrast how a depreciation of the New Zealand currency affects the New Zealand export market for aluminium made in the South Island at Rio Tinto's Tiwai Point Aluminium Smelter, if New Zealand is a price taker.

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On Graph Two, below, illustrate and label the impact of a depreciation in New (i) Zealand's exchange rate on the New Zealand market for aluminium. (Note: the new world supply curve (S2w) and new world demand curve (D2w) have been completed for you. These shifts are not to be explained).

# Graph Two: Price-taker model aluminium



(ii)

Fully explain the impact of a depreciation in New Zealand's exchange rate on quantity of exports and total export receipts.					

Question One continues on page 4 >

New Zealand consumers (e.g. manufacturers of aluminium ladders)
the producer of aluminium in New Zealand (i.e. Rio Tinto's Tiwai Point Aluminium Smelter).

### QUESTION TWO: INTERNAL TAXES AND PRICE-TAKER TRADE MODEL

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Both central and local government have considered putting a sales tax in the form of a daily 'bed tax' on all foreign tourists visiting New Zealand. It has been suggested all foreign tourists pay an additional tax for each night they stay in New Zealand. The tax will be collected from any business that provides accommodation, including hotels, motels and Airbnb.

Accommodation providers do not support the suggestions because they say their industry is a global price taker. That means they will not be able to pass on the tax, and the costs of collecting it, to the tourists.

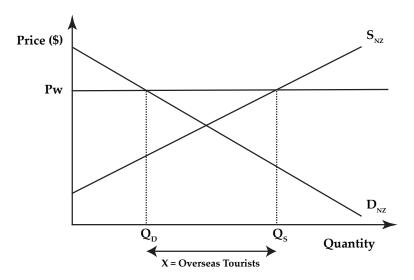
Define 'price taker'. Fully explain why New Zealand could be viewed as a price taker in the global accommodation market for tourists.					

Question Two continues on page 6 ➤

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(b) (i) On Graph Three, below, illustrate and fully label the impact on the New Zealand accommodation market when a daily 'bed tax' is imposed on New Zealand accommodation producers.

Graph Three: New Zealand accommodation market for tourists



- (ii) Referring to Graph Three, compare and contrast the impact of imposing a daily 'bed tax' on groups in the New Zealand economy by fully explaining:
  - the impact on New Zealand producers of tourist accommodation

•	the impact	on workers	in the	accommodation	industry.
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#### QUESTION THREE: IMPACT OF GOVERNMENT INVESTMENT ON TRADE

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The Ministry of Primary Industries wants to invest in developing 'super-premium hops' and an industry for craft beer in an attempt to repeat New Zealand's export success with the wine and kiwifruit industries. The programme is forecasting revenues from craft beer to grow to \$98.5m a year by 2027, a rise of \$82m compared with present revenues. Source (adapted): https://www.theguardian.com/world/2018/oct/11/new-zealand-craft-beer-funding-hops.

**Note**: Hops are an essential input in beer making because of the unique flavour they add. The world market for craft beer is expected to grow significantly by 2027.

Compare and contrast the impact of the government investing in hop research by fully explaining how it affects various groups in the New Zealand economy. In your answer include:

- the impact on future export receipts and the current account from craft beer
- the impact on the producers and workers in the New Zealand craft beer industry

•	the impact on future government revenue.

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