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91223



Level 2 Economics, 2016

91223 Analyse international trade using economic concepts and models

2.00 p.m. Tuesday 15 November 2016 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: PRICE TAKER MODEL

(ii)

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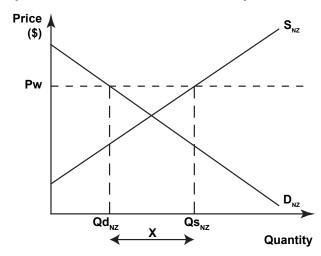
Powdered milk, a product of the dairy industry, is a significant New Zealand export. Dairy farms rely heavily on irrigation, such as the Central Plains Irrigation Scheme.

The aim of irrigation is to supply enough water for pastoral growth at times of the year when rainfall is unreliable or inadequate. Irrigated land in Canterbury shows a gain of 5000 kg of output per hectare per year, compared to unirrigated land.

Source (adapted): http://www.rockpoint.co.nz/pdfs/Irrigation-in-New-Zealand-2012-Rockpoint.pdf

(a) (i) On Graph One below, show the impact on export receipts from powdered milk, of increased irrigation on agricultural land.

Graph One: Market for New Zealand powdered milk



Use Graph One to fully explain the impact on export receipts from powdered milk, of increased irrigation on agricultural land.		

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A resolution by a World Trade Organisation conference to eliminate agricultural export subsidies is good news for New Zealand. New Zealand is a successful exporter of farm products to many countries that currently subsidise their local production. New Zealand stands to gain greatly if agricultural export subsidies are eventually eliminated and the supply in the rest of the world decreases.

Source (adapted): http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11564655

New Zealand has no export subsidies on powdered milk exports.

(ii)

(b) (i) On Graph Two below, show the impact on export receipts from powdered milk, of the elimination of agricultural export subsidies in our major export markets.

Price (\$)

Pw

Qd_{NZ} X Qs_{NZ}

Quantity

Graph Two: Market for New Zealand powdered milk

e elimination of	agricultural ex	xport subsid	iles in our ma	ajor export ma	arkets.

subsidies in our major export markets will have a greater impact on the export receipts from powdered milk, than increased irrigation of agricultural land.	
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QUESTION TWO: EXCHANGE RATE AND TWO-COUNTRY MODEL

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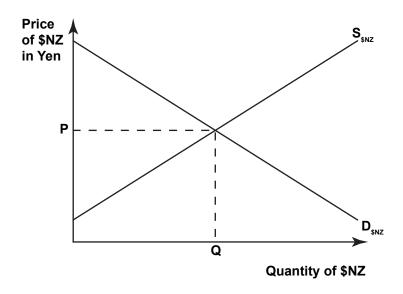
Between 21 March 2015 and 20 January 2016, the New Zealand dollar depreciated 17% against the Japanese yen.

Source: http://www.x-rates.com/graph/?from=NZD&to=JPY&amount=1

(ii)

(a) (i) Use Graph Three below to show a shift in the demand for the New Zealand dollar that will result in its depreciation against the Japanese yen.

Graph Three: Market for the New Zealand dollar



Fully explain ONE possible reason for the shift in demand for the New Zealand dollar, as shown in Graph Three.		

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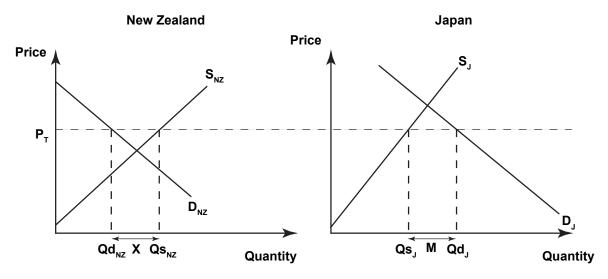
Japan is the largest market for aluminium produced in New Zealand. In 2014, Japan imported approximately half of the \$837 million total New Zealand aluminium exported.

Source: http://www.worldsrichestcountries.com/top-new-zealand-exports.html

(c)

- (b) On Graph Four below, P_{τ} is the price of aluminium before depreciation of the New Zealand dollar against the Japanese yen. Use Graph Four to show:
 - the change in demand in the Japanese market due to the depreciation of the NZ dollar against the Japanese yen
 - change in the quantity of aluminium exports between New Zealand and Japan.





)	Use Graph Four to fully explain the change in demand for aluminium in the Japanese market and the consequent changes in the value of aluminium exports between New Zealand and Japan.			

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QUESTION THREE: THE BASIS OF TRADE AND FREE TRADE AGREEMENTS (FTA) ASSESSOR'S USE ONLY (a) Identify TWO of New Zealand's imports from the top six by value. (1) (2) Use one of the imports from part (a) to fully explain an economic reason why New Zealand is (b) an importer of this good.

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The Trans-Pacific Partnership Agreement (TPP) will give our exporters much better access to a market of more than 800 million customers in 11 countries across Asia and the Pacific, including the United States and Japan. The TPP will eliminate tariffs on 93 per cent of New Zealand's exports to our new FTA partners. The overall benefit of the TPP to New Zealand is estimated to be at least \$2.7 billion a year by 2030. That's more jobs, higher incomes, and a better standard of living for New Zealanders.

Source (adapted): http://tpp.mfat.govt.nz/ Statement by the Prime Minister: beehive.govt.nz/release/pm-welcomes-tpp-nz's-biggest-trade-deal

- (c) Compare and contrast the impact of the Trans-Pacific Partnership Agreement on:
 - New Zealand export industries and New Zealand industries not directly involved in exporting

•	domestic workers in export industries and domestic workers in import industries.

More answer space is available on the next page.

	Extra space if required.	ASSESSOR'S USE ONLY
QUESTION NUMBER	Write the question number(s) if applicable.	