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NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD  
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

## Scholarship 2015 Economics

9.30 a.m. Thursday 26 November 2015

### RESOURCE BOOKLET

Refer to this booklet to answer the questions for Scholarship Economics.

Check that this booklet has pages 2–11 in the correct order and that none of these pages is blank.

**YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.**

*For copyright reasons, these resources cannot be reproduced here.*

Use **RESOURCES A to G** to answer **QUESTION ONE**.

## RESOURCE A

### Perfect competition

Most markets for agricultural commodities fit this model ...

Source (adapted): [http://www.udel.edu/johnmack/ncs/market\\_models.html](http://www.udel.edu/johnmack/ncs/market_models.html)

## RESOURCE B

### Increasing milk production

Farmers can increase milk production by increasing production per hectare or increasing the number of hectares in dairy use, or both.

...

In some parts of New Zealand, environmental stresses appear to be reaching a point where further intensification or extension will not be physically possible.

Source (adapted): <http://researchcommons.waikato.ac.nz/bitstream/handle/10289/1311/&jsessionid=DD6289FB4A256200B672EFE939472112?sequence=1>

## RESOURCE C

### Pasture-based investment

In a pasture-based dairy business, over 95% of operating costs are directly related to hectares and cows farmed, and proportionately increase with farm size ...

Source (adapted): <http://www.farmersweekly.co.za/article.aspx?id=47429&h=Dairy-farming--economies-of-scale>

**RESOURCE D****Piling up debt**

Analysis of dairy farm accounts shows a sizeable proportion of owner-operators need \$6 per kg of milk solids to cover their farm working expenses, interest, and rent costs, before personal drawings and mortgage repayments.

...

Each one-percentage-point increase in the official cash rate will add \$50 000 a year to interest costs for the heavily indebted dairy farms.

Source (adapted): <http://agrihq.co.nz/article/no-bonanza-to-debt-laden-farmers>

**RESOURCE E****Trends in the world market**

The world market for dairy commodities has become extremely volatile and intensely competitive.

...

Fonterra has cut its farm gate milk price forecast for the 2014–15 season to \$4.40 per kg of milk solids, down from a previous forecast of \$5.30 per kg, and are forecasting a price of around \$4.00 per kg for the 2015–2016 season.

Source (adapted): *Sunday Star Times*, 28 September 2014, p. D24.

## RESOURCE F

### Doubling down on debt

The Reserve Bank of New Zealand has highlighted a worsening of the indebtedness of some of New Zealand's biggest dairy farms, pointing out that more than a third of the debt was held by dairy farms that were unprofitable at current dairy milk payout levels.

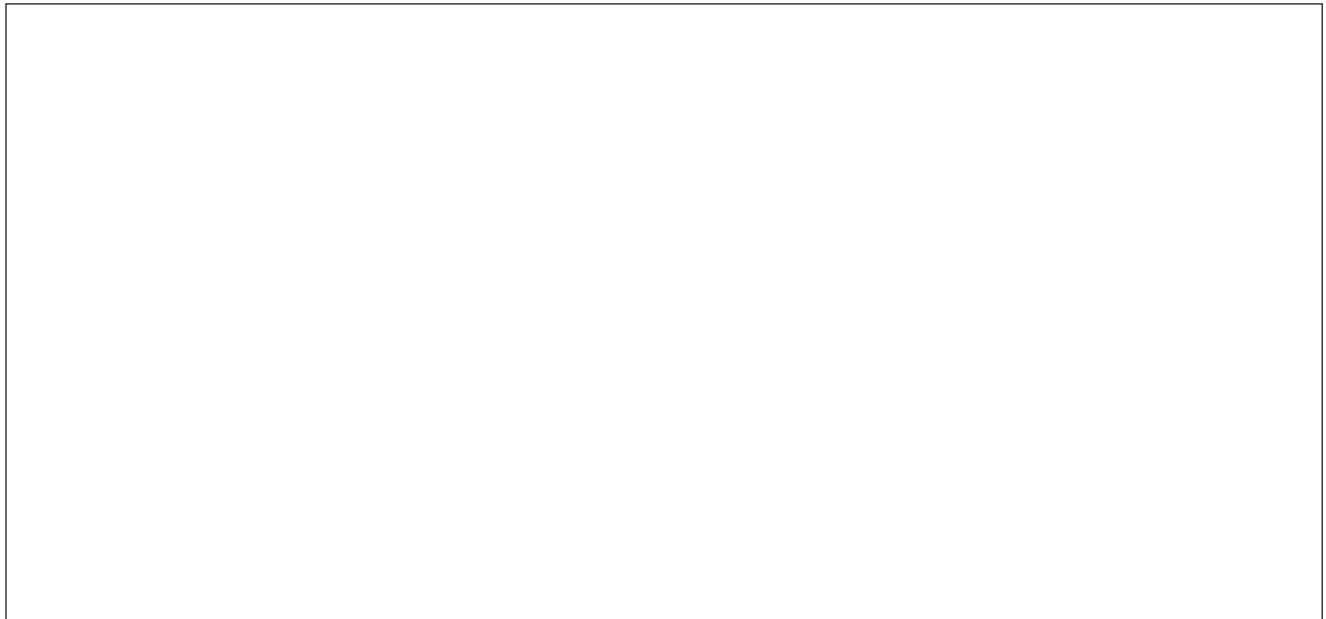
...

The Reserve Bank said almost half of this debt was held by the most indebted 10% of farmers, many of whom had invested heavily in buying out neighbours and converting sheep and beef farms to dairy farms.

Source (adapted): <http://www.interest.co.nz/rural-news/61914/rbnz-warns-dairy-debt-now-more-dangerous-2008-says-64-debt-farms-would-be-losing-mo>

## RESOURCE G

### Dairy farm owner-operators' debt-to-asset distribution



Source (adapted): <http://agrihq.co.nz/article/no-bonanza-to-debt-laden-farmers>

Use **RESOURCES H to K** to answer **QUESTION TWO**.

## RESOURCE H

### Empty calories

A series of studies have suggested why sugar-sweetened beverages in particular may have an unusual tendency for inducing obesity and diabetes, and why limiting their intake may be highly beneficial to the overall population.

...

Conversely, reducing soft drink consumption has been shown to reduce obesity and related diseases.

Source (adapted): <http://epianalysis.wordpress.com/2011/08/03/sodatax/>

## RESOURCE I

### Sugar tax

According to an article in the *New Zealand Medical Journal*, high sugar intakes are linked to obesity, type 2 diabetes, and cardiovascular disease.

...

A 20% tax on sugar-sweetened drinks could generate up to \$30 million revenue per year, even allowing for reductions in consumption due to the tax.

Sources (adapted): <http://www.otago.ac.nz/wellington/otago066842.pdf>

[http://www.columbia.edu/~ycw2102/SSB%20tax%20brief%20Wang%202010%2006%2021%20\\_Final\\_.PDF](http://www.columbia.edu/~ycw2102/SSB%20tax%20brief%20Wang%202010%2006%2021%20_Final_.PDF)

[http://www.nzherald.co.nz/lifestyle/news/article.cfm?c\\_id=6&objectid=10853536](http://www.nzherald.co.nz/lifestyle/news/article.cfm?c_id=6&objectid=10853536)

**RESOURCE J****Trimming the fat**

Interventions such as a “fat tax” on unhealthy products and compulsory nutrition ratings on food labels are popular with New Zealanders, a Herald-DigiPoll survey shows.

...

He said that investment in healthy eating and exercise initiatives were a more evidence-based and sophisticated way of reducing obesity.

Source (adapted): [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11298134](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11298134)

**RESOURCE K****Strategies to reduce consumption of sugary drinks**

Strategies that could reduce sales of sugary drinks are similar to those that have been successful for tobacco.

...

legislating graphic warning labels on products.

Source (adapted): <http://www.fizz.org.nz>

Use **RESOURCES L to S** to answer **QUESTION THREE**.

## RESOURCE L

### Output gap

Definition of an output gap:

...

A negative output gap occurs when actual output is less than full-capacity output (recessionary gap).

Source (adapted): <http://www.investopedia.com/terms/o/outputgap.asp>

## RESOURCE M

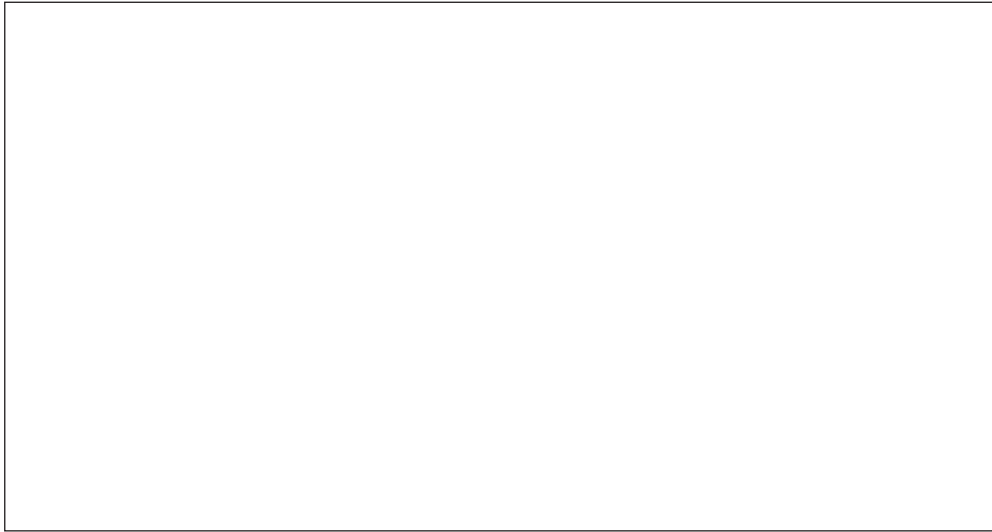
### Positive output gap

... if the output gap is positive through time, so that actual output is greater than potential output ...

Source: [http://rbnz.govt.nz/research\\_and\\_publications/research\\_programme/additional\\_research/rp44.pdf](http://rbnz.govt.nz/research_and_publications/research_programme/additional_research/rp44.pdf)

The Reserve Bank governor said New Zealand had a positive output gap ...

Source: [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11396747](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11396747)

**RESOURCE N****Growth in actual and potential output****Stylised view of the output gap and inflation pressures**

... potential output is unobservable and has to be estimated from the other economic information that we have available.

...

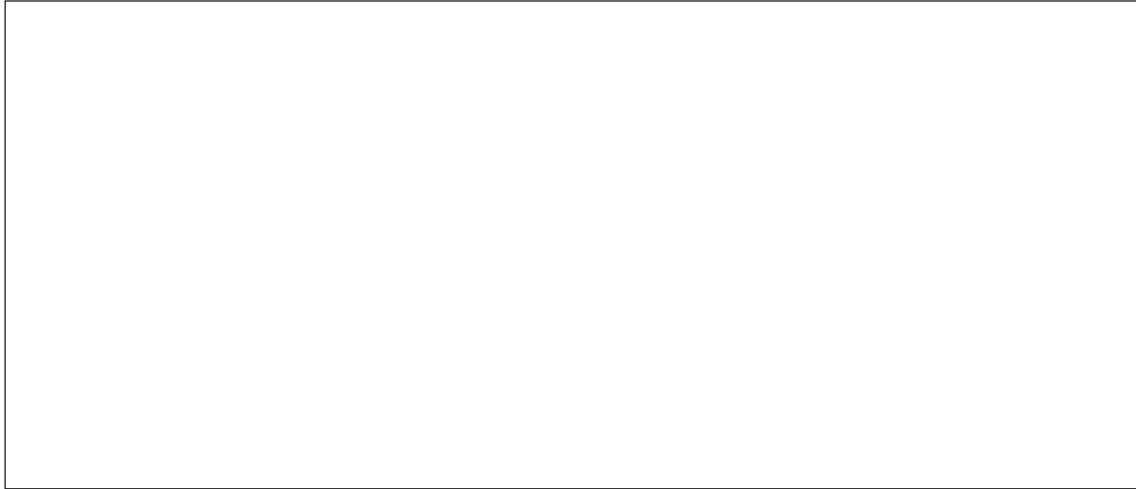
In this environment, it is important that inflation expectations remain contained.

Source (adapted): Extracts from 'Realising our potential: Potential output and the monetary policy framework', Dr John McDermott, Assistant Governor, Reserve Bank, July 2014  
[http://www.rbnz.govt.nz/research\\_and\\_publications/speeches/2014/5782763.html](http://www.rbnz.govt.nz/research_and_publications/speeches/2014/5782763.html)



## RESOURCE O

### Upward trend



Source: [http://www.stats.govt.nz/browse\\_for\\_stats/population/Migration/IntTravelAndMigration\\_HOTPFeb15.aspx](http://www.stats.govt.nz/browse_for_stats/population/Migration/IntTravelAndMigration_HOTPFeb15.aspx)

## RESOURCE P

### New record for net migration

New Zealand's annual net migration has grown to another record as fewer locals departed for Australia, while student numbers continued to bolster the influx of new arrivals.

...

The implications of migration for the economy and inflation are ambiguous (unclear) – migration adds to the supply of available labour as well as to the demand for goods and services, and the relationship between net migration and the housing market is not straightforward.

Source (adapted): [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11363533](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11363533)  
<http://home.nzcity.co.nz/news/article.aspx?id=202641&fm=newsmain%2Cnrhl>

**RESOURCE Q****Economic benefits of immigration**

“The economic effects of immigration depend not on population growth or density but on the characteristics of the immigrants themselves.

...

Immigrants are more economically active than the native population; are paid less than natives with similar skills; are more energetic than natives; and more willing to take undesirable jobs, such as those with unsocial hours.”

Source (adapted): an extract from “Migration ins and outs”, John Kay, *Financial Times*  
<http://www.johnkay.com/2002/05/21/migration-ins-and-outs>

**RESOURCE R****Cycle and effect**

Migration tends to be pro-cyclical – that is, people choose to come to New Zealand, or to remain here, when economic conditions are favourable.

...

If supply effects dominate, there will be smaller effects on output and downward pressure on inflation.

Source (adapted): “Migration and macroeconomic performance in New Zealand: Theory and evidence”, Julie Fry, Treasury, <http://www.treasury.govt.nz/publications/research-policy/wp/2014/14-10>

**RESOURCE S****Economic high-water mark**

Dry weather and low milk prices will weigh on GDP in the near term.

...

The following years will see the level of quake-related building activity peak and then run down while net migration inflows should slow at some point when the Australian jobs market improves.

Source (adapted): *Westpac Economic Review*, February 2015.