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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 2016 Economics

9.30 a.m. Tuesday 15 November 2016

Time allowed: Three hours

Total marks: 24

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Pull out Resource Booklet 93402R from the centre of this booklet.

You must answer ALL 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 2–28 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.

Question	Mark
ONE	
TWO	
THREE	
TOTAL	/24

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QUESTION ONE: REGULATING TRANSPOWER

Use information from **Resources A to E**, and your knowledge of microeconomic theory, to answer this question.

Since 2011, the Commerce Commission has been actively involved in regulating prices for Transpower, the state-owned enterprise that owns the national network of power transmission lines and cables.

Discuss why the Commerce Commission would have chosen to regulate prices for Transpower, and evaluate the extent to which the pricing regulations would improve allocative efficiency in the electricity market. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer, you should:

- explain why Transpower is an example of a natural monopoly
- illustrate and explain the shape of Transpower's revenue and cost curves, and why operating at profit-maximising output is not allocatively efficient
- analyse the possible pricing options that the Commerce Commission could use in regulating prices for Transpower to improve allocative efficiency
- evaluate the extent to which the factors considered by the Commerce Commission in regulating prices for Transpower allow allocative efficiency to be achieved in this market.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

QUESTION TWO: THE ECONOMICS OF CLIMATE CHANGE

Use information from **Resources F to K**, and your knowledge of microeconomic theory, to answer this question.

Many studies published in respected scientific journals show that 97 per cent or more of climate scientists agree that climate-warming trends over the past century are very likely due to human activities. In addition, most of the leading scientific organisations worldwide have issued public statements endorsing this position.

Source (adapted): <http://climate.nasa.gov/scientific-consensus/>

Human production and consumption have resulted in climate change and associated negative externalities. Analyse how these externalities have arisen, and why the response to climate change has been slow. Evaluate key economic policy options that could be used to slow down climate change. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer you should:

- explain how human production and consumption result in climate change and its associated negative externalities and why market failure is occurring
- explain why the environment could be considered to be a public good and why this may have led to delayed responses by individuals and governments to the threat of climate change
- analyse and evaluate key economic policy options that governments could use to slow down climate change.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

QUESTION THREE: WHAT TO DO WITH A SURPLUS?

Use information from **Resources L to Q**, and your knowledge of macroeconomic theory, to answer this question.

In 2015, the Government achieved the first operating balance surplus since 2008. There is uncertainty, however, as to whether surpluses can be maintained in the future. The Government has identified reducing income taxes and reducing public (government) debt as priorities for the use of the surplus. Others would prefer to see the surplus used to increase government spending on infrastructure and other forms of national investment to support economic growth, or for payments into the New Zealand Superannuation Fund to be restarted.

Analyse the short- and long-term impact on the New Zealand economy of EACH of the four options suggested for using the surplus. Evaluate which option is likely to have the greatest economic benefit to the economy in the long term. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer, you should:

- explain the significance of achieving an operating balance surplus in the government budget and the impact the business cycle has on the government's ability to achieve this goal in the future
- analyse how each of the options for using the surplus will affect the economy in terms of economic growth and employment, in the short term and in the long term
- provide a justified recommendation as to which option is likely to have the greatest economic benefit to the economy in the long term.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

Extra space if required.

Write the question number(s) if applicable.

**ASSESSOR'S
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