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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
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.

You should answer ALL the questions in this booklet.

Pull out Resource Booklet 93402R from the centre of 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 2–27 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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This examination consists of three structured essay questions. For each question, use appropriate economic models to illustrate key points, and integrate information from the resource material to support your argument/evaluation.

QUESTION ONE: THE UPS AND DOWNS OF NEW ZEALAND DAIRY FARMING

Before 2014, many dairy farmers had been earning supernormal profits, with some borrowing heavily in order to expand production. However, rapidly changing prices and costs are impacting on the profitability and future of dairy farms.

Use information from Resources A to G, and your knowledge of micro-economic theory, to answer this question.

Analyse the impact of changes in farm costs and dairy prices on the profitability and production levels of individual dairy farms in the short and long run. Evaluate how these impacts may differ depending on the level of debt of a farm in the short and long run. Use appropriate economic models to support your answer.

In your answer:

- explain why individual dairy farms are considered to be examples of perfect competitors
- discuss how increases in dairy farming production could lead to diminishing returns and rising marginal costs
- analyse and explain the impact of the changes in costs and dairy prices on an individual dairy farm's profitability and profit-maximizing production level in the short and long run
- analyse and evaluate how these changes could affect farms with differing levels of debt in the short and long run.

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

PLANNING

QUESTION TWO: EXTERNALITIES AND SUGAR-SWEETENED DRINKS

There has been increasing evidence published relating to the negative effects of sugar on the human body, and discussion of whether some form of government intervention is necessary to address these issues. Sugar-sweetened drinks are particularly noted for their part in raising the sugar intake in people's diets.

Use information from Resources H to K, and your knowledge of micro-economic theory, to answer this question.

Analyse the externalities associated with the consumption of sugar in sugar-sweetened drinks. Evaluate the case for government intervention in this market, and possible options for intervention as a means of addressing these externalities. Use appropriate economic models to support your answer.

In your answer:

- explain the externalities associated with excess dietary sugar consumption, and how market failure occurs in the market for sugar-sweetened drinks
- evaluate the case for government intervention in the market for sugar-sweetened drinks, including the place of consumer sovereignty
- explain and analyse different types of government intervention possible in the market for sugar-sweetened drinks to reduce sugar consumption
- evaluate the effectiveness of these government interventions in achieving efficiency in the market for sugar-sweetened drinks, and make a justified recommendation.

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

PLANNING

QUESTION THREE: MIGRATION AND THE NEW ZEALAND ECONOMY

Economists are unsure about the effect on the New Zealand economy of the record level of positive net migration. An important question is the likely impact that positive net migration might have on the economy's level of potential output, and therefore the extent of and the type of output gap. This will challenge policymakers in determining the most appropriate monetary policy settings in order to control inflation in the near future.

Use information from Resources L to S, and your knowledge of macro-economic theory, to answer this question.

Analyse and evaluate the impact that a high level of positive net migration might have on New Zealand's output gap and inflationary pressures, and how this might impact on the Reserve Bank's monetary policy decisions in 2016. Use appropriate economic models to support your answer.

In your answer:

- describe an economy's potential output, and outline why this is not easy to determine
- use the aggregate demand/aggregate supply model to illustrate the connection between output gaps and inflationary and recessionary gaps
- explain why New Zealand has experienced a record level of positive net migration, and discuss how this might affect the economy's potential output
- analyse why the effect of positive net migration on inflation is described as 'ambiguous' or uncertain
- evaluate how positive net migration and other current economic factors might influence the Reserve Bank's monetary policy settings for 2016 and beyond.

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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