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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2014 Economics

2.00 pm Wednesday 26 November 2014

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.

Resource Booklet 93402R is included in your pack.

Show ALL working.

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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This paper 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: ALLOCATIVE EFFICIENCY IN THE AUCKLAND HOUSING MARKET

Some people describe the rise of residential house prices in Auckland as a bubble and are concerned about the impact of this on housing affordability.

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

Discuss and evaluate the role of price signals and the need for government intervention in achieving allocative efficiency in the Auckland housing market. Use appropriate economic models to support your answer.

In your answer:

- use the market model and elasticity concepts to analyse reasons for the rise in residential house prices in Auckland
- explain how the rise in residential house prices is likely to affect consumer and producer surplus, allocative efficiency, and the allocation of resources in the market for houses in Auckland
- evaluate whether the free market, or government intervention, is likely to be more successful in achieving allocative efficiency in the Auckland housing market.

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

PLANNING

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QUESTION TWO: THE LIVING WAGE

In recent times, rising productivity has created the potential to raise living standards, and yet there have been calls for a 'living wage' to be introduced because the minimum wage is considered inadequate.

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

Discuss the case for introducing a living wage, and evaluate the advantages and disadvantages of regulating the labour market in this way, as opposed to other policies to improve outcomes for workers. Use appropriate economic models to support your answer.

In your answer:

- explain why the returns to labour have fallen relative to the returns to capital, including changes in productivity, international trade, and labour market deregulation
- explain the case for and against the introduction of the 'living wage'
- evaluate whether or not the introduction of a living wage is likely to be effective in increasing equity
- describe and evaluate policies, other than the living wage, that could also improve outcomes for workers and their families.

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

PLANNING

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QUESTION THREE: MONETARY POLICY OBJECTIVES

Monetary policy in New Zealand has the sole economic objective of achieving price stability.

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

Discuss the importance of price stability for the New Zealand economy, the impact that monetary policy can have on other macroeconomic objectives, and evaluate the advantages and disadvantages of using monetary policy to achieve macroeconomic objectives in addition to price stability. Use appropriate economic models to support your answer.

In your answer:

- explain the economic benefits of price stability
- explain the effect that changes to monetary policy can have in terms of achieving other macroeconomic objectives
- explain how monetary policy could be used to achieve macroeconomic objectives other than price stability
- evaluate the advantages and disadvantages of using monetary policy to achieve other macroeconomic objectives, in addition to price stability.

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

PLANNING

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Extra space if required.
Write the question number(s) if applicable.

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