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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 2017 Economics

9.30 a.m. Tuesday 21 November 2017

RESOURCE BOOKLET

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

Check that this booklet has pages 2–7 in the correct order and that none of these pages is blank.

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

Use **Resources A–D** to answer Question One.

RESOURCE A

Christchurch landlords lower rents due to ‘oversupply’ of properties

While tenants in some parts of New Zealand scramble for housing, Christchurch is a tenants’ market, a local property manager says.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

As of Thursday [9 February 2017], more than 1 800 properties were advertised on Trade Me as available to rent in Christchurch. At the start of March 2013, only 582 properties were available in the city.

Source (adapted): <http://www.stuff.co.nz/the-press/business/89187538/Christchurch-landlords-lower-rents-due-to-oversupply-of-properties>.

RESOURCE B

Humble Queenstown home for rent at nearly \$1 000 a week

A humble three-bedroom home listed for rent at \$950 a week has some people irate as the Queenstown property market climbs ever higher.

[REDACTED]

[REDACTED]

[REDACTED]

One property owner and landlord said she could put the home on Airbnb and make \$1 500 a night but chose not to because Airbnb was the “cause of the housing shortage”.

Source (adapted): <http://www.stuff.co.nz/business/industries/83422791/Humble-Queenstown-home-for-rent-at-nearly-1000-a-week>.

RESOURCE C**Rental housing market in Queenstown**

One of the highest-pressure areas of the Queenstown housing market is rented homes. Demand now far exceeds supply as tourism and population growth continues. Compounding the problem is renting via Airbnb and similar online booking sites. Homes that were previously long-term rentals are now being advertised as short-term visitor accommodation online, and that activity generates premium prices for owners and results in properties being removed from the long-term rental market.



Source (adapted): <http://www.colliers.co.nz/find%20research/specialty%20reports/2016%20queenstown%20market%20report/>.

RESOURCE D**Rent control: a definition**

Rent control is a price control that limits the amount that a property owner can charge for renting out a home, apartment, or other kind of real estate. Rent control acts as a price ceiling by preventing rents either from being charged above a certain level or from increasing at a rate higher than a predetermined percentage.

Source (adapted): www.investopedia.com/terms/r/rent-control.asp.

Use **Resources E–J** to answer Question Two.

RESOURCE E

Income inequality: Some say New Zealand is one of the worst in the world

Just how bad is our inequality problem?



Recent studies suggest that inequality isn't bad only for those at the bottom – it affects people all along the income scale.

Source (adapted): <http://www.stuff.co.nz/national/politics/68600911/income-inequality-how-nz-is-one-of-the-worst-in-the-world>.

RESOURCE F

Income inequality stunts New Zealand growth: OECD

The New Zealand economy would have been 10 per cent larger were it not for the steep rise in income inequality that occurred between the late 1980s and mid-1990s, OECD economists have found. "In particular, what matters most is the gap between low-income households and the rest of the population."

The impact on education and skills is especially damaging because of the impact on access to education, housing, and health care.

The economists also found that "redistributive policies achieving greater equality in disposable income have no adverse growth consequences." On the other hand, policies that help limit – or ideally reverse – the long-run rise in inequality would make societies not only less unfair, but also richer.

Source (adapted): http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11371860.

RESOURCE G

Equity-efficiency trade-off

Economists sometimes describe an "equity-efficiency trade-off" occurring when redistributive policies result in a reduction in economic efficiency.

Source: Geoff Evans, *Senior Economics Workbook – NCEA Level 3* (Auckland: Pearson, 2012), p. 269.

RESOURCE H

10% richest Kiwis own 60% of NZ's wealth

Wealth in New Zealand is the most unevenly distributed it has been in more than a decade.

"We've been working with these conditions for the last 30 years. Anything that we shift is going to be pretty big and long-term. These are intergenerational investments."

Source (adapted): <http://www.radionz.co.nz/news/national/307458/10-percent-richest-kiwis-own-60-percent-of-nz's-wealth>.

RESOURCE I

Should rising inequality be a concern?

According to the International Monetary Fund, high and sustained levels of inequality, especially inequality of opportunity, can entail large social costs. Entrenched inequality of outcomes can significantly undermine individuals' educational and occupational choices.

Increasing concentration of incomes amongst the highest-income earners could also reduce aggregate demand and undermine growth, because the wealthy spend a lower fraction of their incomes than middle- and lower-income groups.

Source (adapted): <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>.

RESOURCE J

Ideas to reduce inequality

A number of possible policies have been suggested to reduce inequality:

- raise welfare benefits to the same level as New Zealand Superannuation
- raise the minimum wage above \$17 per hour
- provide more affordable rental housing – more income-related rental properties
- institute a capital gains tax
- significantly boost funding for health care and education in low-income areas.

Source (adapted): <http://closetogether.org.nz/reduce-inequality-10-good-ideas/>.

Use **Resources K–O** to answer Question Three.

RESOURCE K



Source (adapted): <http://www.tradingeconomics.com/new-zealand/current-account>.

RESOURCE L

New Zealand current account helped by tourism, trade, foreign profits

Information from Statistics New Zealand shows that the reduced Current Account deficit can be attributed to a fall in income earned from foreign investment in New Zealand and an increase in the goods and services surplus.



“Generally, foreign-owned New Zealand companies earned lower profits this quarter,” international statistics manager Stuart Jones said. “This meant there was a decrease in investment income paid to foreign investors.”

Source (adapted): http://www.stats.govt.nz/browse_for_stats/economic_indicators/balance_of_payments/BalanceOfPayments_MRMar16qtr.aspx.

RESOURCE M

New Zealand terms of trade rise 5.7 per cent as dairy export prices recover

New Zealand’s terms of trade rose as the recovery in global dairy prices bolstered the value of exports even as the volume of international sales shrank.

Export volumes fell 5.8 per cent, reflecting declines in the dairy and meat sector; but a 14-per-cent gain in dairy prices helped limit the drop in the value of exports to just 0.6 per cent, at \$11.3 billion. Import volumes were up 1.2 per cent, and values rose a more modest 0.1 per cent to \$12.3 billion because of cheaper electrical and mechanical items, including consumer electronics.

Source (adapted): http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11809859.

RESOURCE N

Where to for the New Zealand dollar?

By 2018, as New Zealand's growth prospects fade under the weight of slower population growth, the wind down of the Canterbury rebuild, and high household debt levels, we expect the New Zealand dollar to fall further as investor interest and consumer demand fades, according to Westpac.

In relation to the Australian dollar exchange rate, by 2018 it's likely that the New Zealand economy will be battling growing headwinds while the Australian economy is starting to perform more strongly. Net migration flows are expected to be moving firmly in Australia's favour at this horizon. This is expected to push the NZD/AUD from its current range, down to the low 80s by the end of 2019.

Source (adapted): https://www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/Westpac-QEO-August-2016_Email.pdf.

RESOURCE O

New Zealand exchange rate forecasts

	2017 (Feb actual)	Dec 2017 (forecast)	Dec 2018 (forecast)
NZD / US dollar	0.73	0.64	0.65
NZD / Australian dollar	0.96	0.94	0.88

Source (adapted): <http://www.anz.co.nz/resources/7/d/7dcc0526-ea3c-4c8e-be32-2cd84d57d62c/ANZ-EO-20161215.pdf?MOD=AJPERES>.