

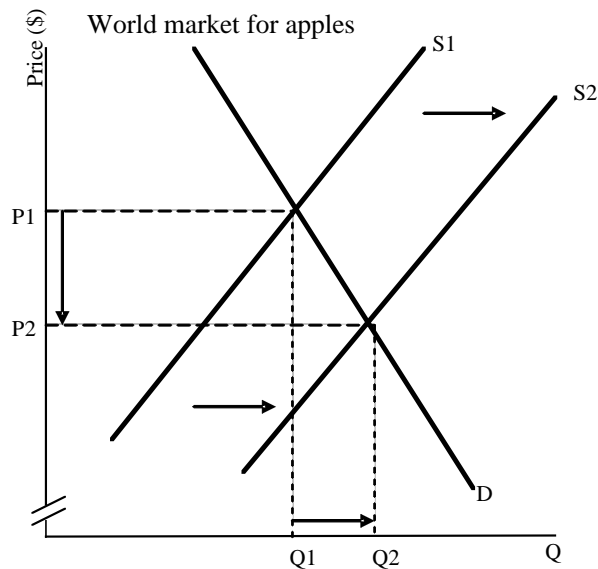
Assessment Schedule – 2006

Scholarship Economics (93402)

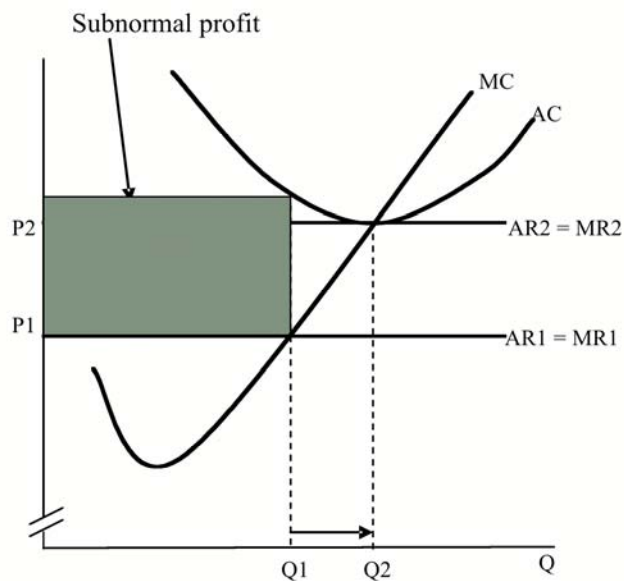
QUESTION ONE

(a)

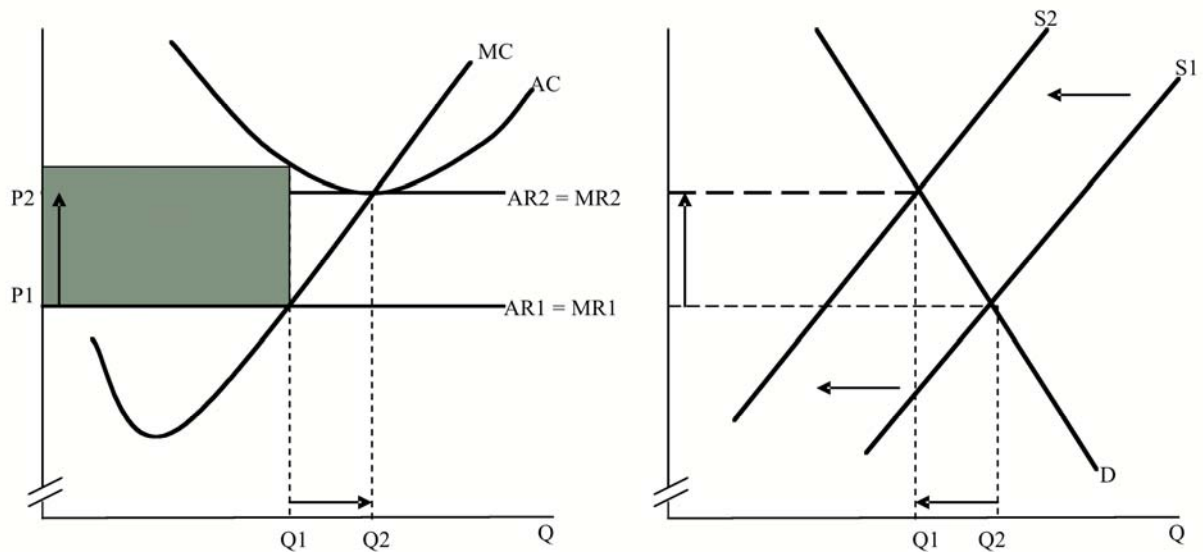
- (i) Fully labelled supply and demand diagram showing world market for apples with an increase in supply (from commodity exporters) with price falling (to \$14). Appropriate explanation of above.
- (ii)



- (ii) Fully labelled diagrams showing:
Short run situation showing a perfectly competitive individual apple grower earning subnormal profits at a market price of \$14 (derived from the market supply and demand diagram drawn alongside).



- Long run equilibrium position for the perfectly competitive individual apple grower earning normal profits resulting from the increase in market price. This increase in price is shown as resulting from the decrease in market supply as growers had exited the market.



- Appropriate explanations of the change from short to long run situation shown in the diagrams and how resources are then reallocated away from apple growing to more profitable industries.

(b)

- Apple growers classified as perfect competitors because there are many sellers, they are price takers and selling a homogeneous product.
- Apple exporters could be classified as perfect competitors after deregulation and varieties turn into commodities or as imperfect competitors (possibly monopsonistic buyers) if controlled variety introduced.
- Supermarket retail chains could be classified as monopsonistic buyers of the growers' output and also display oligopolistic behaviour in the retail market, with appropriate explanation given.

Total marks for (a) and (b) = 8

(c)

(i)

- Non-price competition is not possible if apple growers are classified as perfect competitors because there are many sellers, each with an insignificant share of the market and are thus price takers and they will attempt to produce at profit maximising, or loss minimising level of output. They cannot afford to increase their costs further by adopting non-price marketing strategies through advertising, etc.
- However, it is reasonable to reconsider the classification of growers as imperfect competitors if product differentiation is introduced with the new controlled variety, or if they grow organic produce / controls on which organisations can grow and export the new 'Jazz apple' variety suggest that some barriers to entry exist.

(iii)

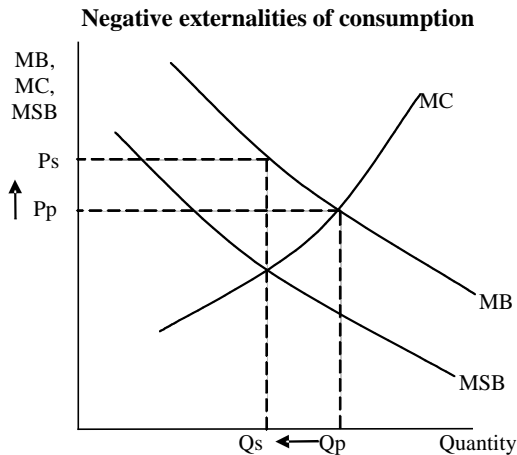
- The supermarket chains claim their purchasing power enables them to pass lower prices onto consumers. If prices actually fall then consumers gain from an increase in their CS.
- Supermarkets avoid price competition therefore customers do not benefit from the consolidation.
- Supermarket chains use their monopsony market power to pay low prices to growers.
- Therefore growers suffer from low prices which reduces their PS.
- The supermarket chains use their monopsony power to minimise their costs.
- In addition supermarkets' market power enables them to restrict new entrants thus maintaining their supernormal profits/ or rather than being the 'friend' of the consumer the supermarket chains abuse their market power to maximise their profits margins squeezing both suppliers and consumers, and should be investigated by the office of fair trading

Total marks for (c) = 8

QUESTION TWO

- (a)
- (i) Fully labelled diagram shows negative externalities of consumption resulting from private transport use in Auckland, with MSB below MB. Explanation of market equilibrium showing over consumption and under pricing in relation to social preferences.

(ii)



- (iii) Internalisation refers to efforts towards ensuring consumers and producers pay the full cost and received all of the benefits resulting from their consumption and production. Methods used to reduce demand for private transport, including road pricing schemes, and other strategies such as car-less days, car pooling, bus lanes, use of passenger transport, etc.
- (b)
- (iv) Supply side strategy identified and explained as not being able to reduce congestion as demand is outgrowing Auckland's capacity to provide additional roading supply. Demand side strategies explained. People in Auckland are not prepared to have the isthmus covered in roads, and the private and social costs are too high.
- (v) Affirmative: consumers react to increase price by reducing quantity of private transport demanded, encouraging carpooling and use of passenger transport, reducing congestion.
- Negative: Because the demand for private transport is price inelastic the decrease in quantity demanded may not be sufficient to reduce congestion / states or implies government intervention will be required.

Total marks for (a) and (b) = 8

(c)

- Market principles explained, social costs not reflected in the price of private transport, then road pricing will internalise social costs / Road pricing provides a way to internalise the negative externality of consumption of private transport
- Evaluative comment required: because PED is inelastic road pricing may not achieve social equilibrium / show diagram of user pays with a public good and the DWL resulting from this
- Allocative efficiency increased because $MSB = MSC$
- Road pricing is regressive thus reducing equity.
- Consumer sovereignty overridden, consumers have to pay 'again' to use a road system they have already paid for, thus reduces equity / The resulting improvements in public transport will increase equity; more people have access to passenger transport
- Reduced congestion allows for faster transport enabling consumers (commuters, shoppers, etc.) to cut costs (including opportunity costs)
- Reduced congestion allows for faster transport enabling firms to reduce costs increasing productivity, PS, etc.
- AS moves to the right increasing economic growth.

Total marks for (c) = 8

Generic mark guide for Question 2 (c)

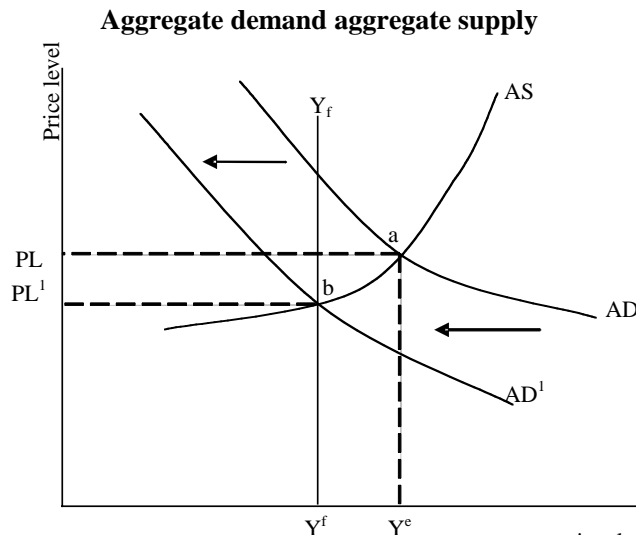
Performance Descriptor		Judgement statement	Total out of 8
Outstanding level of performance	PD 1 Produce and effectively communicate an outstanding and sophisticated economic analysis by applying economic theory to the given context, which is complete, demonstrates depth in critical thought, and is economically literate.	For a reasoned and well argued discussion about claims that road pricing reflects 'market principles', corrects existing market distortions, increases economic efficiency, increases equity and consumer benefits, and increases growth through increasing productivity. A comprehensive/thorough/accurate explanation and evaluation of the claims concerning road pricing with appropriate use of theory and reference to resource material	7 or 8
Scholarship level of performance	PD 2 Produce and effectively communicate a sophisticated economic analysis by applying economic theory to the given context.	For a clear <i>mostly thorough and accurate</i> discussion of most of the claims with reasonable evaluation and use of theory and reference to the resource material.	5 or 6
Fair level of performance	PD3 Produce a comprehensive analysis by applying economic theory to the given context.	For a <i>limited attempt</i> to discuss and evaluate the road pricing claims. Little use of economic theory and scant reference to the resource material. Some errors possible.	3 or 4
Limited level of performance	Below PD 3	For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. Evaluation very limited or absent. .	1 or 2
Nothing meaningful	Including not attempted		0

QUESTION THREE

(a)

(i)

- AD / AS diagram to show the New Zealand economy at equilibrium near to full employment with disinflationary policy shifting AD to the left to achieve price stability / Alternatively supply-side policies such strategies as that would increase productivity shifting the AS to the right to reduce inflationary pressures.



- An explanation of tight monetary policy or contractionary fiscal policy that shifts AD to the left to achieve price stability / supply side policy that shifts AS to the right to achieve price stability.

(ii)

- +1% to avoid the risk of deflation and the problems this would create / to accommodate the positive bias of CPI calculation; explained
- +3% to avoid problems of inflation being higher than New Zealand's trading partners, and the loss of international competitiveness this would create, and / or the other distortions that excessive inflation causes to price signals, savers, etc.; explained

(b)

(iii)

- Globalisation allows for free movement of resources, enabling NZ to add to its productive capacity reducing concerns of capacity constraints.
- Enables growth without a subsequent rise in price level / valid example given

(iv)

- Using OCR to reduce inflation will result in high interest rates, an appreciating NZD and problems with tradables sector, seen in the growth of current account deficit.
- Statement that the criticism is valid with reference to some evidence in the resource material, e.g. OCR increases in the same period as fall in net exports; export share of GDP growth decreases; tradables CPI inflation decreases, etc.

Total marks for (a) and (b) = 8

(c)

(v)

- Problems with the current level of inflation discussed
- Problems with current account deficit discussed
- Evaluation will involve weighing up which is worse.

(vi)

Advice on monetary policy stance with a reasoned and detailed argument given.
This is a particularly open ended question thus a wide range of responses are possible / acceptable.

Total marks for (c) = 8

Generic mark guide for Question Three (c)

Performance Descriptor		Judgement statement	Total out of 8
Outstanding level of performance	PD 1 Produce and effectively communicate an outstanding and sophisticated economic analysis by applying economic theory to the given context, which is complete, demonstrates depth in critical thought, and is economically literate.	For a reasoned and well argued discussion with accurate development of the problems with the current level of inflation and growing current account deficit provided with clear judgement and evaluation as to which is worse. Reasoned and detailed advice provided on appropriate monetary policy measures the RBNZ should use to address the economic imbalances in the NZ economy, i.e. to maintain price stability without increasing the current account deficit.	7 or 8
Scholarship level of performance	PD 2 Produce and effectively communicate a sophisticated economic analysis by applying economic theory to the given context.	For a clear <i>but undeveloped</i> discussion of the problems with the current level of inflation and growing current account deficit detailed and an evaluative statement on which is worse. Advice provided on relevant monetary policy measures that address economic imbalances in the NZ economy.	5 or 6
Fair level of performance	PD3 Produce a comprehensive analysis by applying economic theory to the given context.	For a <i>limited attempt</i> to consider the problems with inflation and with a growing current account deficit with some evaluative comment. Some correct, but non-developed advice provided on policy measures to address economic imbalances in the NZ economy.	3 or 4
Limited level of performance	Below PD 3	For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. Some advice provided on policy measures to address economic imbalances in the NZ economy.	1 or 2
Nothing meaningful	Including not attempted		0