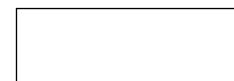


93402



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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2007 Economics

9.30 am Monday 26 November 2007

Time allowed: Three hours

Total marks: 48

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

You should answer ALL the questions in the spaces provided in this Answer Booklet.

Show ALL working.


If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–22 in the correct order.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

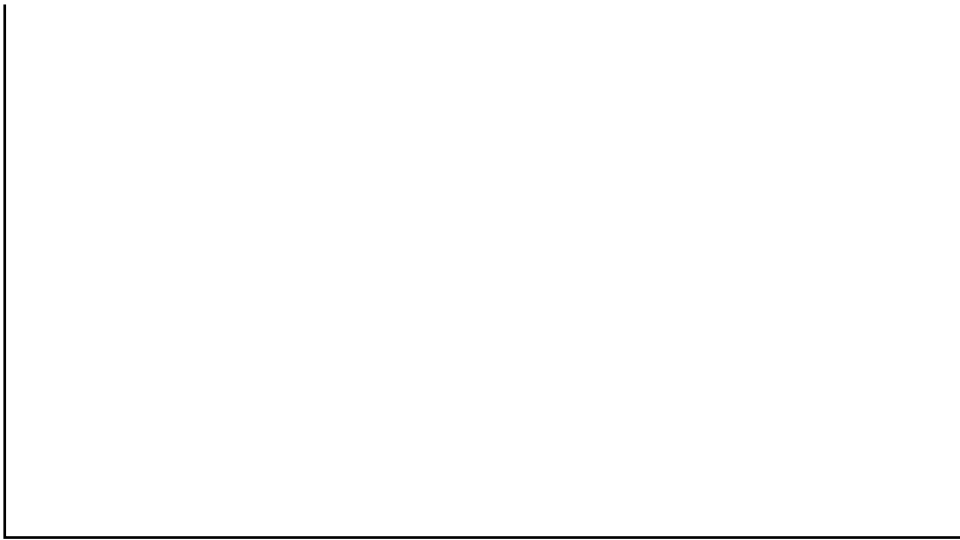
(a) Dairy prices have increased, whereas lamb prices have decreased (see Resources A and B).

(i) Using supply and demand analysis, illustrate and explain why the world price of milk powder has increased.

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- (ii) Illustrate and explain how this will result in a perfectly competitive dairy farmer earning supernormal profits in the short run.

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- (iii) Meanwhile, as a result of falling lamb prices, some sheep farmers will be earning subnormal profits in the short run. Define subnormal profits and explain clearly how the situation will change in the long run.

- (b) The size of dairy farms is increasing, leading to economies of scale (see Resource C).
- (i) Illustrate and explain how dairy farmers can gain economies of scale.



- (ii) Explain why globalisation makes it increasingly important for farmers to achieve economies of scale in the long run.

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[illegible]

- (c) Using the dairy and sheep industries as your context, evaluate the effectiveness of the price mechanism in reallocating resources in response to changes in the global market, so as to achieve allocative efficiency. You should use a range of **microeconomic models** in your answer (see Resource D).

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(a) Refer to Resource E.

- [illegible]

- [illegible]

[illegible]

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- [illegible]

- [illegible]

QUESTION THREEAssessor's
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- (a) As stated in resources I, J, and K, saving can mean different things to different people.
- (i) With the aid of a diagram, explain why saving is vital for the New Zealand economy.

(Space for diagram)

- (ii) Comment on this quote:
“It is unlikely to be of benefit to the New Zealand economy if **all** New Zealanders were to significantly increase their level of saving.”

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- (iii) Referring to Resource I, outline how the saving performance of the New Zealand household sector has impacted New Zealand's current account balance since 1990.

- [illegible]

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Keep Flap Folded In.