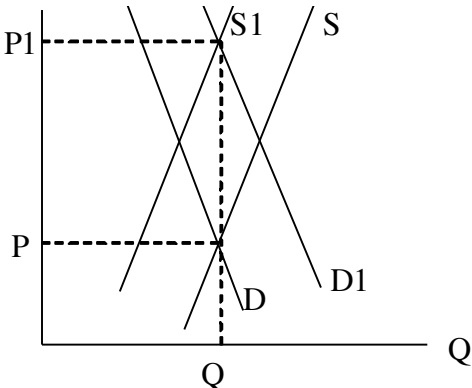
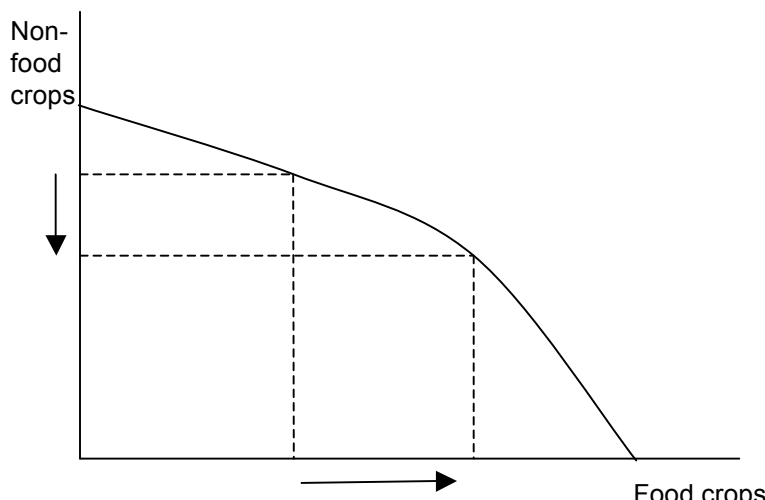


Assessment Schedule – 2011**Scholarship Economics (93402)****Evidence Statement**

Question	Evidence
<p>ONE (a) (i)</p>	 <p>Graph to show highly inelastic demand and supply, with an increase in demand, decrease in supply, and a significant increase in price.</p> <p>Growth in demand: from increases in world population; increases in incomes in emerging markets; moving up the food chain; speculation by market traders; governments attempting to rebuild depleted stocks.</p> <p>Decrease in supply because of: weather and climate problems resulting in poor harvests; competing uses of resources for biofuels; hoarding by governments further reduces supplies to world markets.</p> <p>Highly inelastic PED and PES result in volatility, i.e. a change in demand and or supply will lead to proportionately greater changes in price.</p> <p>Allocative efficiency occurs at market equilibrium where CS and PS is maximised.</p>
(ii)	<p>New Zealand consumers negatively affected because increase in price decreases consumers' purchasing power and / or CS, with worse impact on the poor because proportion of incomes spent on food greatest.</p> <p>New Zealand farmers will benefit from higher returns resulting from higher prices on world commodity markets.</p> <p>New Zealand food processors could be negatively affected because of the increase in their cost of production and / or positively affected because higher prices would increase their revenue.</p>
<p>(b) (i)</p>	 <p>PPC shows increase in the output of food crops relative to non-food crops. Shape of PPC could be drawn as above, suggesting relatively constant costs.</p> <p>The new position on PPC is allocatively efficient as it is both productively efficient as well as where all</p>

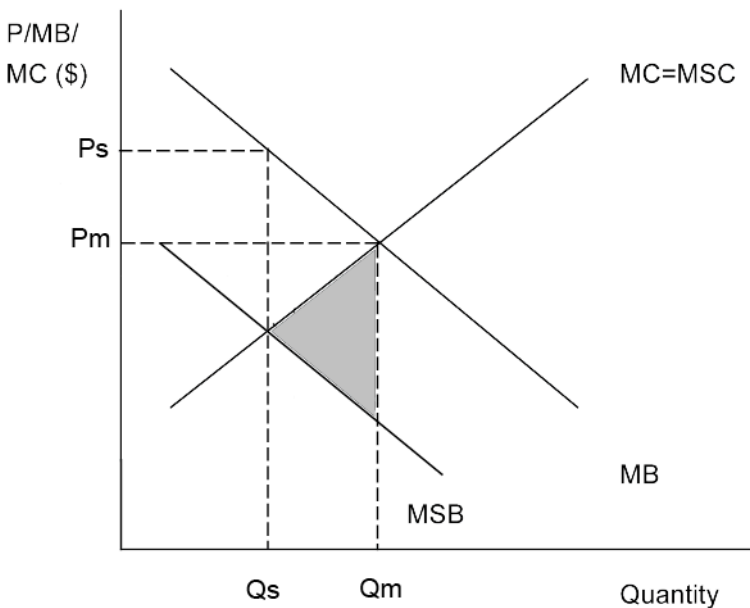
	markets are in equilibrium. (Pareto efficiency).
Question	Evidence
(ii)	<p>Discusses the law of diminishing returns in relation to the world food price crisis, and explains that this occurs only in the short run. The fixed input could be the natural resources, capital or technology, thus marginal costs will increase.</p> <p>Significant improvements in agricultural technology have improved agricultural productivity but now the issue of sustainability (particularly those mentioned in Resource H) are causing some commentators alarm.</p> <p>(Reference could be made to past theorists, such as Malthus who was prominent on this topic).</p>
(c)	<p>This is an open-ended question allowing for discussion of the relative effectiveness of market allocation and government intervention to achieve allocative efficiency in the world food market.</p> <ul style="list-style-type: none"> • price and efficient market can be efficient way to allocate scarce resources • discussion of the significance of the free market and clear price signals in achieving allocative efficiency • price signals (for instance a significant increase in world food price) will act as the motivator for increasing supply • Law of supply, increase in food price to bring an increase in QS to the market • discussion of elasticities and time required for market to adjust to shocks (eg weather related) • human population is increasingly urban, more agric commercial, more productive, more intensive, more efficient, though significant challenges from environment, climate change, LDMR and to ration consumption • only at market equilibrium that CS and PS is maximised, and the greatest level of social welfare is achieved • importance of food security and discussion of the consequences of getting it wrong (riots) • analysis of government intervention (including subsidies, export bans) • importance of government providing infrastructure for the supply chain and encouragement for R&D and sufficient investment in agriculture <p>Evaluation could be demonstrated with comments like the ones below.</p> <p>Arguments for more intervention could include:</p> <ul style="list-style-type: none"> • export bans, state hoarding could increase price which actually increases price and should therefore encourage further QS • R&D can be considered a public good, and public provision appropriate. This would increase pace of development, and overcome constraints to increase PES and increase QS more quickly <p>Arguments against more intervention could include:</p> <ul style="list-style-type: none"> • export bans have been counter-productive; US subsidies for ethanol producers have been one of the factors causing the food price crisis • excluding food from GST is problematic although an argument could be made that this would be helpful to those on lower incomes because they are harder hit by the food price rises.

Judgement Statement

Performance descriptor 1	8 Marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis of the allocation of resources in the world market for food by applying microeconomic theory, which is complete, demonstrates depth in critical thought, and is economically literate</p> <p>AND</p> <p>develops a <i>sophisticated</i> argument on the effectiveness, or otherwise, of the free market in achieving allocative efficiency in the world food market</p> <p>AND</p> <p><i>excellent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p>AND</p> <p><i>excellent</i> application of economic theory relevant to the evaluation.</p>
	7 Marks	<p>The essay fulfils most of the requirements of Descriptor 1 above but: contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p>OR</p> <p>deals inadequately with an essential point</p> <p>OR</p> <p>lacks sufficient abstraction or synthesis of source material</p> <p>OR</p> <p>has some minor failure in the critical evaluation</p> <p>OR</p> <p>may lack some fluency and / or coherence.</p>
Performance descriptor 2	6 Marks	<p>The student will produce and effectively communicate a sophisticated economic analysis of the allocation of resources in the world market for food by applying microeconomic theory.</p> <p>AND</p> <p>develops a <i>well developed</i> argument on the effectiveness, or otherwise, of the free market in achieving allocative efficiency in the world food market</p> <p>AND</p> <p><i>competent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p>AND</p> <p><i>competent</i> application of economic theory relevant to the evaluation.</p>
	5 Marks	<p>The essay fulfils most of the requirements of Descriptor 2 as above but: has some unsupported generalisations</p> <p>OR</p> <p>some major point is neglected or part of the question is not answered fully</p> <p>OR</p> <p>has some inadequacy in the critical evaluation</p> <p>OR</p> <p>ideas may not be communicated effectively.</p>

Performance descriptor 3	4 Marks	<p>The student will produce a comprehensive analysis of the allocation of resources in the world market for food by applying microeconomic theory</p> <p><i>AND</i></p> <p>develops a <i>clear but undeveloped</i> argument on the effectiveness, or otherwise, of the free market in achieving allocative efficiency in the world food market</p> <p><i>AND</i></p> <p>some level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><i>AND</i></p> <p>some application of economic theory relevant to the evaluation.</p>
	3 Marks	<p>The answers fulfil most of the requirements of Descriptor 3 above but: is incomplete</p> <p><i>OR</i></p> <p>fails to present a cogent argument or make critical analysis</p> <p><i>OR</i></p> <p>does not communicate ideas adequately.</p>
	2 Marks	The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 Mark	The answers contain a minimal amount of relevant evidence.
	0 Marks	Blank booklet or irrelevant answers.

Question Two focuses on comparing the effectiveness of government policies aimed at reducing consumption in the tobacco and alcohol markets.

Question	Evidence
TWO (a) (i)	<p>Tobacco is a demerit good because society deems smoking to be bad for consumers and therefore discourages its consumption. Consumers do not realise the true harm to themselves (or to others) that result from consumption of the demerit goods. These goods may have negative externalities, such as passive smoking, in the case of tobacco smoking. In the free market these goods are underpriced and over-consumed.</p>
(ii)	<p>Market for Tobacco</p>  <p>As a result of the negative externalities of consumption, MSB is lower than individual MB so society would prefer less to be consumed (Q_s) at a higher price (P_s). This is an example of market failure as the market will operate at P_m, Q_m rather than at the socially desirable equilibrium, so tobacco is under-priced and over-consumed.</p>
(b)	<p>Tobacco has become increasingly price elastic where in the past demand was inelastic. In the past, a price increase of 10% led to a 5% fall in sales so $E_d = 0.5$. The most recent price increase of 10% led to a 14% fall in sales so E_d is 1.4. Loose tobacco remains inelastic as a 25% price increase led to an 18% fall in sales so $E_d = 0.72$.</p> <p>Reasons for the more elastic demand could include increasing social pressure to give up smoking so less people see it as a reputed necessity, more substitutes in the form of subsidised 'quit smoking' programmes and alternative recreational drugs and the increased price of cigarettes making up an increasing proportion of income thereby encouraging more people to give up.</p>

Question	Evidence
(c)	<p>This is an open-ended question allowing for discussion of the relative effectiveness of strategies used to reduce consumption of alcohol and tobacco in New Zealand and recommendations as to future policy direction in the market for alcohol. Discussion may include:</p> <ul style="list-style-type: none"> • contrasting the falling demand for tobacco with the relatively unchanged demand for alcohol and level of binge drinking • relative impact of negative advertising campaigns and comparison of their effectiveness • the impact of falling prices of alcohol due to price competition / loss-leader behaviour in the liquor industry compared to rising prices of tobacco products because of taxes • the impact of increased excise duties on demand for alcohol and tobacco, noting the impact on goods with inelastic demand. If this was sufficiently large it will push into the top half of the demand curve where PED is elastic and the imposition of excise duties removes DWL • the impact of the liberalisation / deregulation of the alcohol market resulting in lower prices and increased competition and availability • comparison of the different restrictions placed on product advertising and the impact on demand • comparison of changes in social acceptance in the alcohol and tobacco markets. <p>Evaluation could be demonstrated with comments such as:</p> <ul style="list-style-type: none"> • need for more tobacco style strategies to reduce acceptance and availability of alcohol • possible additional strategies to reduce alcohol consumption • could argue for increase in the drinking age as the spill-over costs are greatest for this group • policies that penalise all drinkers are inequitable for those not drinking to excess.

Judgement Statement

Performance descriptor 1	8 Marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis of the reasons for the differences in effectiveness of policy measures to decrease the consumption of alcohol and tobacco by applying microeconomic theory, which is complete, demonstrates depth in critical thought, and is economically literate</p> <p>AND</p> <p>develops a <i>sophisticated</i> argument as to the reasons for the differences in the relative effectiveness of strategies used to reduce consumption of alcohol and tobacco in New Zealand</p> <p>AND</p> <p><i>excellent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p>AND</p> <p><i>excellent</i> application of economic theory relevant to evaluating future policy direction in the market for alcohol</p>
	7 Marks	<p>The essay fulfils most of the requirements of Descriptor 1 above but: contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p>OR</p> <p>deals inadequately with an essential point</p> <p>OR</p> <p>lacks sufficient abstraction or synthesis of source material</p> <p>OR</p> <p>has some minor failure in the critical evaluation</p> <p>OR</p> <p>may lack some fluency and / or coherence.</p>
Performance descriptor 2	6 Marks	<p>The student will produce and effectively communicate a sophisticated economic analysis of the reasons for the differences in effectiveness of policy measures to decrease the consumption of alcohol and tobacco by applying microeconomic theory.</p> <p>AND</p> <p>develops a <i>well developed</i> argument as to the reasons for the differences in the relative effectiveness of strategies used to reduce consumption of alcohol and tobacco in New Zealand</p> <p>AND</p> <p><i>competent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p>AND</p> <p><i>competent</i> application of economic theory relevant to evaluating future policy direction in the market for alcohol.</p>
	5 Marks	<p>The essay fulfils most of the requirements of Descriptor 2 as above but: has some unsupported generalisations</p> <p>OR</p> <p>some major point is neglected or part of the question is not answered fully</p> <p>OR</p> <p>has some inadequacy in the critical evaluation</p> <p>OR</p> <p>ideas may not be communicated effectively.</p>

Performance descriptor 3	4 Marks	<p>The student will produce a comprehensive analysis of the reasons for the differences in effectiveness of policy measures to decrease the consumption of alcohol and tobacco by applying microeconomic theory</p> <p><i>AND</i></p> <p>develops a <i>clear but undeveloped</i> argument as to the reasons for the differences in the relative effectiveness of strategies used to reduce consumption of alcohol and tobacco in New Zealand</p> <p><i>AND</i></p> <p>some level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><i>AND</i></p> <p>some application of economic theory relevant to evaluating future policy direction in the market for alcohol</p>
	3 Marks	<p>The answers fulfil most of the requirements of Descriptor 3 above but: is incomplete</p> <p><i>OR</i></p> <p>fails to present a cogent argument or make critical analysis</p> <p><i>OR</i></p> <p>does not communicate ideas adequately.</p>
	2 Marks	The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 Mark	The answers contain a minimal amount of relevant evidence.
	0 Marks	Blank booklet or irrelevant answers.

Question Three focuses on evaluating the appropriate monetary policy stance for 2012.

Question	Evidence
THREE (a) (i)	<p>New Zealand is in the recovery or upturn phase of the business cycle. Data shows that the economy is growing, though slowly, as it recovers from the 2010 recession.</p>
(ii)	<p>Graph to show a recessionary gap. AS curve correctly drawn.</p> <p>While the New Zealand economy is growing it still has relatively high unemployment of resources so is not operating close to full capacity (Y_f) and has a recessionary gap or negative output gap.</p>
(iii)	<p>Graph to show increase in AD and fall in AS.</p> <p>Rising commodity prices will result in higher export receipts which should more than offset any increase in import payments and as a result AD will increase.</p> <p>Rising fuel costs will increase costs of production, as will higher costs of imported raw materials and as a result AS will decrease.</p> <p>As a consequence of the changes in AD and AS the price level will rise while, and to represent recent changes in the New Zealand economy, Real GDP should be shown to increase by a small amount.</p>
(b) (i)	<p>Increase in OCR will raise retail interest rates in New Zealand.</p> <p>Consumer expenditure will fall due to higher borrowing costs deterring borrowing and increased interest payments for existing borrowers. Consumer confidence may also be reduced as a result.</p> <p>Investment will fall due to higher borrowing costs deterring borrowing and increased interest payments for existing borrowers.</p> <p>Net exports will fall. Higher interest rates will attract foreign savers resulting in an appreciation of the New Zealand dollar due to increased demand for the New Zealand dollar. An appreciation will reduce export income and competitiveness and make imports more competitive in New Zealand.</p>
(b) (ii)	<p>Time lags may result from households with fixed interest loans who will not initially be affected by interest rate changes / the time it takes for interest rate changes to impact on business plans which may already be made / businesses having forward foreign exchange contracts (hedging) so that they are not initially affected by exchange rate changes that flow from OCR changes.</p>
(c)	<p>This is an open-ended question allowing for discussion of the current position of the New Zealand economy in terms of inflationary and disinflationary factors and evaluation of appropriate monetary policy stance. Discussion should include:</p> <ul style="list-style-type: none"> • relevance of inflation target (PTA) • impact of rising commodity and fuel prices • impact of rising Terms of Trade • impact of falling unemployment • relevance of the output gap to monetary policy • impact of slow domestic demand growth in New Zealand • impact of Christchurch earthquake (could show this as a shift to the left of LRAS) and subsequent rebuilding • impact of overseas economic growth, ie strong Aus and China / weak USA and EU • relevance of deleveraging and rebalancing of the economy to effectiveness of monetary policy. <p>Evaluation could be demonstrated with:</p> <ul style="list-style-type: none"> • weighing up of the inflationary and disinflationary factors influencing the New Zealand economy • recommendation of an appropriate monetary policy stance with justification • discussion of the expected impact of the recommended monetary policy stance on the New Zealand economy.

Judgement Statement

Performance descriptor 1	8 Marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis of appropriate monetary policy settings in the contemporary New Zealand context by applying macroeconomic theory, which is complete, demonstrates depth in critical thought, and is economically literate</p> <p><i>AND</i></p> <p>develops a <i>sophisticated</i> discussion of the current position of the New Zealand economy in terms of inflationary and disinflationary factors</p> <p><i>AND</i></p> <p><i>excellent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><i>AND</i></p> <p><i>excellent</i> application of economic theory relevant to discussion of the current position of the New Zealand economy in terms of inflationary and disinflationary factors</p> <p><i>AND</i></p> <p>provides a <i>sound</i> evaluation of an appropriate monetary policy stance well supported by evidence.</p>
	7 Marks	<p>The essay fulfils most of the requirements of Descriptor 1 above but: contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p><i>OR</i></p> <p>deals inadequately with an essential point</p> <p><i>OR</i></p> <p>lacks sufficient abstraction or synthesis of source material</p> <p><i>OR</i></p> <p>has some minor failure in the critical evaluation</p> <p><i>OR</i></p> <p>may lack some fluency and / or coherence.</p>
Performance descriptor 2	6 Marks	<p>The student will produce and effectively communicate a sophisticated economic analysis of appropriate monetary policy settings in the contemporary New Zealand context by applying macroeconomic theory.</p> <p><i>AND</i></p> <p>develops a <i>well developed</i> discussion of the current position of the New Zealand economy in terms of inflationary and disinflationary factors</p> <p><i>AND</i></p> <p><i>competent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><i>AND</i></p> <p><i>competent</i> application of economic theory relevant to the current position of the New Zealand economy in terms of inflationary and disinflationary factors</p> <p><i>AND</i></p> <p>provides a <i>competent</i> evaluation of an appropriate monetary policy stance well supported by evidence.</p>

	5 Marks	<p>The essay fulfils most of the requirements of Descriptor 2 as above but: has some unsupported generalisations <i>OR</i> some major point is neglected or part of the question is not answered fully <i>OR</i> has some inadequacy in the critical evaluation <i>OR</i> ideas may not be communicated effectively.</p>
Performance descriptor 3	4 Marks	<p>The student will produce a comprehensive analysis of appropriate monetary policy settings in the contemporary New Zealand context by applying macroeconomic theory, <i>AND</i> develops a <i>clear but undeveloped</i> discussion of the current position of the New Zealand economy in terms of inflationary and disinflationary factors <i>AND</i> <i>some</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material <i>AND</i> <i>some</i> application of economic theory relevant to the current position of the New Zealand economy in terms of inflationary and disinflationary factors <i>AND</i> provides a <i>some</i> evaluation of an appropriate monetary policy stance supported by <i>some</i> evidence.</p>
	3 Marks	<p>The answers fulfil most of the requirements of Descriptor 3 above but: is incomplete <i>OR</i> fails to present a cogent argument or make critical analysis <i>OR</i> does not communicate ideas adequately.</p>
	2 Marks	<p>The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.</p>
	1 Mark	<p>The answers contain a minimal amount of relevant evidence.</p>
	0 Marks	<p>Blank booklet or irrelevant answers.</p>