

**Assessment Schedule – 2009****Scholarship Economics (93402)****Evidence Statement**

Q	Evidence	1–3 marks	4 marks	5–6 marks	7–8 marks
<b>ONE</b> (a) (i)	Evidence of oligopoly behaviour could be non-price competition (including product differentiation), strong barriers to entry, agreement between <i>Vodafone</i> and <i>Telecom</i> about the timing and extent of the changes to termination rates and mention of the duopoly pricing effect (which could suggest price-fixing).	Weak application of economic theory.	Some relevant application of economic theory	A reasonable application of economic theory.	Accurate application of economic theory.
(a) (ii)	A new entrant would have to charge its customers the high termination rates, and customers would be unable to benefit from on-net calling offers. The firm would be at a competitive disadvantage and with significant barriers to entry.  Customers are still being overcharged, meaning that consumers' surplus and output available would be lower than is allocatively efficient, which could be shown as an area of DWL.  Resources are being wasted as customers are encouraged to have more than one phone to benefit from the on-net calling offers.	Lacking economic literacy	Some evidence of economic literacy	Economically literate	Outstanding level of economic literacy
(a) (iii)	The firms in an oligopoly would over-price and under-supply compared to a perfectly competitive market.				
(b) (i)	Fully labelled S&D diagram (see <b>Diagram One</b> ) shows an increase in market supply leading to a decrease in price. Shading effectively shows an increase in CS and/or PS.	Diagrams attempted	Diagrams attempted with some accuracy and labelling	Economic diagrams mostly accurate and labelled	Accurate fully labelled diagrams
(b) (ii)	Answer should indicate that the increase in supply reduces price so that the total area of CS and PS has increased.	Weak responses to the scaffolding questions	Some reasonable responses to the scaffolding questions	Good-quality responses to most scaffolding questions	Comprehensive, high-quality responses to the scaffolding questions
(b) (iii)	Diagram of oligopolist at profit maximising level of output (see <b>Diagram Two</b> ) indicating output, price, cost and area of supernormal profit. Kinked demand curve not required.				
(b) (iv)	Diagram in (iii) above (see <b>Diagram Three</b> ) shows a decrease in AC and MC curve shifting to the right and an appropriate explanation given.				

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<b>ONE</b> (c) Essay	<p>This is an open-ended question.</p> <p>Arguments against need for Commerce Commission involvement can include:</p> <ul style="list-style-type: none"> <li>Private goods are excludable by price, depletable and rival and also have clear price signals. Market allocation will achieve allocative efficiency; CS and PS are maximized. It is not possible to make anyone better off without making someone else worse off. Economic theory suggests Commerce Commission would not be needed to achieve allocative efficiency in the market for a private good</li> <li>firms need to be able to differentiate themselves on order to provide for consumer choice</li> <li>oligopolistic supernormal profits enable R&amp;D and enterprise.</li> </ul> <p>Arguments supporting need for Commerce Commission involvement can include:</p> <ul style="list-style-type: none"> <li>to encourage increased competition and, therefore, innovation</li> <li>to ensure fair dealing, to prevent collusion and price-fixing in oligopoly markets; therefore, need to monitor some markets like telecommunications and need to regulate to bring down termination rates</li> <li>appropriate diagrams to demonstrate loss of allocative efficiency resulting from imperfect competition and explanations of how this can be corrected with regulations, price controls, etc.</li> </ul> <p>Evaluation could be demonstrated with comments such as:</p> <ul style="list-style-type: none"> <li>Perfect competition is required for the market (for private goods) to achieve allocative efficiency. This remains a theoretical ideal as real world markets generally include levels of imperfect competition, meaning that allocative efficiency will be achieved only with appropriate interventions from the Commerce Commission such as regulations, etc. Link to the case.</li> <li>It is likely that the level of action required from the Commerce Commission will depend on the stage of the business cycle; regulations may be required more when the level of economic activity is high.</li> </ul> <p>The theoretical basis of perfect competition comes from Adam Smith's discussions of the invisible hand. Deregulation or reducing the level of regulation is often cited as leading to increasing allocative efficiency.</p>	<p><i>For a limited attempt to consider how the market mechanism is able to allocate resources in the market for private goods and the relevance of the Commerce Commission in achieving allocative efficiency where imperfect competition exists</i></p> <p>Little evaluation given</p> <p>Some use of economic theory</p> <p>Little judgement evident</p>	<p><i>For a clear but undeveloped analysis of how the market mechanism is able to allocate resources in the market for private goods and the relevance of the Commerce Commission in achieving allocative efficiency where imperfect competition exists</i></p> <p>Some attempt at critical thinking and evaluation evident</p> <p>Some level of abstraction from the resource material and knowledge of the economic theory relevant to imperfect competition</p> <p>Some judgement evident</p>	<p><i>For an analysis of how the market mechanism is able to allocate resources in the market for private goods and the relevance of the Commerce Commission in achieving allocative efficiency where imperfect competition exists</i></p> <p>The essay demonstrates a reasonable level of critical thinking and evaluation</p> <p>Relevant use of resource material and application of economic theory relevant to imperfect competition</p> <p>Reasonable judgement given</p>	<p><i>A sophisticated analysis of how the market mechanism allocates resources in the market for private goods and of the relevance of the Commerce Commission in achieving allocative efficiency where imperfect competition exists</i></p> <p>The essay demonstrates depth of critical thought and sound evaluation</p> <p>Excellent level of abstraction from the resource material and application of economic theory relevant to imperfect competition</p> <p>Demonstrates sound judgement well supported by evidence</p>

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<b>TWO</b> (a) (i)	Social costs are defined as the sum of the private costs (the transaction costs between market participants, ie the buyer and the seller) and external costs (those costs imposed on other people, also known as externalities). Therefore, social costs represent the total costs of an activity to all people. The social costs of the misuse of alcohol include health care that is paid for by the taxpayer, damage to property, violence to others, motor vehicle accidents involving effects on other people, etc.	Weak application of economic theory	Some relevant application of economic theory	A reasonable application of economic theory	Accurate application of economic theory
(a) (ii)	Misuse of alcohol is classified as a demerit good because the results are thought to be detrimental to society and the individual consumer leading to socially undesirable outcomes; and, therefore, government seeks to discourage it.	Lacking economic literacy	Some evidence of economic literacy	Economically literate	Outstanding level of economic literacy
(b) (i)	Diagram to show (see <b>Diagram Four</b> ): private market equilibrium price and quantity at the intersection of MPCC and MB; MSC sloping upwards from MPCC and the social equilibrium price and quantity at the intersection of MSC and MB.	Diagrams attempted	Diagrams attempted with some accuracy and labelling	Economic diagrams mostly accurate and labelled	Accurate fully labelled diagrams
(b) (ii)	Explanation to include relevant section from Brian Easton's statement from Resource H. The first drink in a session will see MSCC = MPCC; whereas for subsequent drinks, the MSCC becomes increasingly greater than MPCC as negative externalities from alcohol abuse becomes evident.	Weak responses to the scaffolding questions	Some reasonable responses to the scaffolding questions	Good-quality responses to most scaffolding questions	Comprehensive and high-quality responses to the scaffolding questions
(b) (iii)	(See <b>Diagram Five</b> ).  The arrow indicates the externality at market equilibrium and the extent of the DWL. Candidates could also indicate an MSC curve to the left through the social equilibrium, labelled MSC + tax.				
(b) (iv)	Explains that a move from market equilibrium (with externality) to social equilibrium with price rising to $P_s$ and consumption restricted to $Q_s$ can be achieved with a tax on alcohol. The DWL diminishes as consumption is reduced towards more socially desirable levels.				

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<b>TWO</b> (c) Essay	<p>Price signals lead to allocatively efficient outcomes for private goods. However, the misuse of alcohol is considered a mixed good with unclear price signals. Government can increase the market price to approach socially desirable levels by charging a tax. This can be set at different levels for different categories of drink according to their demographic (age/sex) of likely drinkers (see Resource I).</p> <p>Arguments in support of the government relying on controlling the price through taxes include: taxes being effective, inexpensive to administer; the revenue raised can be used directly to pay some social costs, may help prevent loss leader type campaigns through the major supermarket chains.</p> <p>Arguments in support of the government using other policy measures may include: a tax on alcohol may be ineffective because inelastic demand means that the level of tax on alcohol needs to be set high for some drink categories (diagram appropriate here); tax on alcohol is thought of as inequitable to those who have to pay the tax yet do not misuse alcohol; social marketing type interventions, including community action such as sponsorship campaigns may be more appropriate; regulations, such as increasing the drinking age, can be more effective as they are targeted at age groups that present much of the misuse.</p> <p>Evaluation could be demonstrated with comments such as:</p> <ul style="list-style-type: none"> <li>Government may have a vested interest in continuing to use alcohol taxes, as they represent such a lucrative source of revenue. This may cloud a politician's judgement.</li> <li>Price is unlikely to be the only factor determining how alcohol is consumed, particularly the level of misuse. This is influenced by many other factors such as peer pressure, fashions, dependency, etc. These factors need to be taken into account when determining the mix of policy measures used to mitigate misuse of alcohol. The resources suggest loss leader campaigns have been abandoned, which could imply this is no longer an issue.</li> <li>In order to achieve a more socially acceptable level of alcohol consumption, the government is likely to choose a mix of policy measures that include taxes to increase the price, regulations to ban drinking in certain places by certain groups that represent a high level of risk of misuse, banning the sale of alcohol to certain groups, as well as social marketing campaigns to promote more socially responsible drinking.</li> </ul>	<p>For a limited attempt to consider the range of policy measures available to internalise the externalities resulting from the misuse of alcohol</p> <p>For a limited attempt to determine the most appropriate policy measure(s) to achieve a more socially desirable outcome in the market for alcohol</p> <p>Little evaluation given</p> <p>Some use of economic theory</p> <p>Little judgement evident</p>	<p>For a clear <i>but undeveloped</i> analysis of the range of policy measures available to internalise the externalities resulting from the misuse of alcohol.</p> <p>For a clear <i>but undeveloped</i> evaluation in determining the most appropriate policy measure(s) to achieve a more socially desirable outcome in the market for alcohol</p> <p>Some attempt at critical thinking and evaluation evident</p> <p>Some level of abstraction from resource material and knowledge of the economic theory</p> <p>Some judgement evident</p>	<p>For an analysis of the range of policy measures available to internalise the externalities resulting from the misuse of alcohol</p> <p>For an evaluation in determining the most appropriate policy measure(s) to achieve a more socially desirable outcome in the market for alcohol</p> <p>The essay demonstrates a reasonable level of critical thinking and evaluation</p> <p>Relevant use of resource material and application of economic theory</p> <p>Reasonable judgement given</p>	<p>A sophisticated analysis of the range of policy measures available to internalise the externalities resulting from the misuse of alcohol</p> <p>A sound evaluation with judgement in determining the most appropriate policy measure(s)</p> <p>The essay demonstrates depth of critical thought and sound evaluation</p> <p>Excellent level of abstraction from resource material and application of economic theory</p> <p>Demonstrates sound judgement well supported by evidence</p>

Q	Evidence	1–3 marks	4 marks	5–6 marks	7–8 marks
<b>THREE</b> (a) (i)	<p>Less consumption spending reduces business profits. Many of these businesses are overseas-owned, thus dividends to overseas shareholders will fall, reducing the outflow of investment income; there will be a decline in interest payments to foreign owned banks, therefore bank profits will decrease because there are fewer opportunities to lend on mortgages and from mortgage defaults.</p> <p>Trade balance will improve because a fall in house prices reduces households' wealth leading to less consumer confidence and consumption spending, which in turn leads to less imports of goods and services.</p>	<p>Weak application of economic theory</p> <p>Lacking economic literacy</p>	<p>Some relevant application of economic theory</p> <p>Some evidence of economic literacy</p>	<p>A reasonable application of economic theory</p> <p>Economically literate</p>	<p>Accurate application of economic theory</p> <p>Outstanding level of economic literacy</p>
(a) (ii)	(see <b>Diagram Six</b> )	Diagram attempted	Diagram attempted with some accuracy and labelling	Economic diagram mostly accurate and labelled	Accurate fully labelled diagram
(a) (iii)	Households and firms attempt to strengthen their balance sheets by paying off debt, called deleveraging. Households reduce consumption spending so they can use their savings to repay debt, such as mortgages; firms that experience falling revenues having to reduce their levels of indebtedness. In addition, the credit crunch has meant the flow of loans to firms has fallen. These and other factors have seen investment spending fall. With consumption and investment falling, aggregate demand shifts to the left, reducing equilibrium national income. This fall in real GDP represents recession.	Weak responses to the scaffolding questions	Some reasonable responses to the scaffolding questions	Good-quality responses to most scaffolding questions	Comprehensive, high-quality responses to the scaffolding questions
(b) (i)	In a synchronised recession, most of the economies are in recession at the same time. This means a fall in New Zealand's trading-partner growth, which makes the prospect of an export-led recovery unlikely.				
(b) (ii)	Such an increase in unemployment will reduce household incomes and reduce consumer sentiment for those fearful of losing their jobs. Consumption spending will fall, reducing aggregate demand.				
(b) (iii)	Deflation will result in a major decline of consumption spending as households delay their purchasing decisions, particularly for big-ticket items, as they wait for prices to fall in the future.				

Q	Evidence	1–3 marks	4 marks	5–6 marks	7–8 marks
<b>THREE</b> (c) Essay	<p>New Zealand had been in recession since 2008, with falling national income and inflation and rising unemployment. This was compounded by a severe global downturn, which ruled out an export-led recovery that was central to rebalancing the economy to encourage long-term prosperity.</p> <p>Appropriate macroeconomic policy measures have focused on expansionary fiscal and loose monetary policies.</p> <p>Good answers would include an AD/AS diagram to show the positive effect of these policies in reducing the recessionary gap.</p> <p>Policy-makers are faced with a dilemma. New Zealand has been warned by the IMF, the OECD and international ratings agencies about the risks facing the economy from increased debt. Yet others argue that action must be taken to avoid risks of depression.</p> <p>Arguments for a focus on fiscal stimulus include:</p> <ul style="list-style-type: none"> <li>decreasing T and increasing G will shift AD to the right and help close the recessionary gap</li> <li>increasing government spending and/or cutting taxes have a more immediate impact than loose monetary policy, which can take years to have desired impact</li> <li>can be more accurately targeted to assist vulnerable groups and over a targeted time period.</li> </ul> <p>Examples include bringing forward infrastructure projects, such as road building and broadband roll-out.</p> <p>Arguments against fiscal stimulus include:</p> <ul style="list-style-type: none"> <li>a blowout in the budget deficit would lead to increasing public debt</li> <li>levels of debt increase the danger of a credit ratings downgrade that would increase our sovereign risk, which would increase finance costs</li> <li>many other countries are also following a similar policy, which increases the potential of there being insufficient funding available at existing interest rates levels.</li> </ul> <p>Arguments for monetary stimulus include:</p> <ul style="list-style-type: none"> <li>lowering the OCR can stimulate consumption, investment and (X-M), thus shifting AD to the right and closing the recessionary gap</li> <li>it avoids the risk that may result from increasing government spending and/or cutting taxes and a rise in levels of debt.</li> </ul> <p>Arguments against monetary stimulus include:</p> <ul style="list-style-type: none"> <li>the OCR has already been cut from a high of 8.25% in July 2008</li> <li>there is not much headroom left, which means there is little scope for further easing.</li> </ul>	<p>For a limited attempt to analyse the policy measures available to achieve a recovery in the macroeconomy in the context of the pressures of a global recession</p> <p>For a limited attempt to apply given data related to the advisability of using available policy measures to achieve an economic recovery</p> <p>Little evaluation given</p> <p>Some use of economic theory</p> <p>Little judgement evident</p>	<p>For a clear <i>but undeveloped</i> analysis of the range of policy measures available to achieve a recovery in the macroeconomy in the context of the pressures of a global recession</p> <p>Some application of data related to the advisability of using available policy measures to achieve an economic recovery</p> <p>Some attempt at critical thinking and evaluation evident</p> <p>Some level of abstraction from the resource material and knowledge of the economic theory</p> <p>Some judgement evident</p>	<p>For an analysis of the range of policy measures available to achieve a recovery in the macroeconomy in the context of the pressures of a global recession</p> <p>Relevant application of data related to the advisability of using available policy measures to achieve an economic recovery</p> <p>The essay demonstrates a reasonable level of critical thinking and evaluation</p> <p>Relevant use of resource material and application of economic theory</p> <p>Reasonable judgement given</p>	<p>A sophisticated analysis of the range of policy measures available to achieve a recovery in the macroeconomy in the context of the pressures of a global recession</p> <p>Excellent application of data related to the advisability of using available policy measures to achieve an economic recovery</p> <p>The essay demonstrates depth of critical thought and sound evaluation</p> <p>Excellent level of abstraction from the resource material and application of economic theory</p> <p>Demonstrates sound judgement well</p>

	<p>Arguments for supply-side policies include:</p> <ul style="list-style-type: none"> <li>• policies to increase productivity shift the AS curve to the right, which encourages a more benign type of growth, and leads to an increase in LRAS</li> <li>• it would avoid forcing the economy to take on more debt.</li> </ul> <p>Arguments against supply-side policies include:</p> <ul style="list-style-type: none"> <li>• the credit crunch and financial crisis have meant that there would be problems funding the necessary investment spending to bring about significant increases in productivity</li> <li>• most businesses consider 2009 a poor business environment in which to invest.</li> </ul> <p>Evaluation could be demonstrated with comments such as the following: criticism of the data because it is out-of-date, or incomplete, thus making it difficult to make a more concrete judgement. Candidates might be able to suggest extra data that would give them a firmer basis for making reasoned conclusions.</p> <p>Judgement could be demonstrated with statements like:</p> <ul style="list-style-type: none"> <li>• the government may have to take the lesser of two evils, accept that the next move will involve a balance of risks and involve doing whatever is politically acceptable</li> <li>• the situation is fluid, and signs of green shoots may be premature</li> <li>• it is unlikely that the supply-side policies suggested by John Key will be effective as New Zealand's record on productivity is poor.</li> </ul>				supported by evidence
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**Awarding a mark of 8 or 7:**

A superior answer to the question. The answer meets the requirements of Performance Descriptor 1. It is a high-quality, outstanding Scholarship standard response.

**Awarding a mark of 6 or 5:**

The answer meets the requirements of Performance Descriptor 2. It is a good, competent Scholarship standard answer.

**Awarding a mark of 4:**

A sound answer that approaches the requirements of Performance Descriptor 3. It addresses the question with some success – an answer that meets minimum requirements of Scholarship standard.

**Awarding a mark of 3 or 1:**

An answer that falls below Scholarship standard, even though it contains something relevant in an attempt to answer the question. A weak answer that lacks real Scholarship substance.

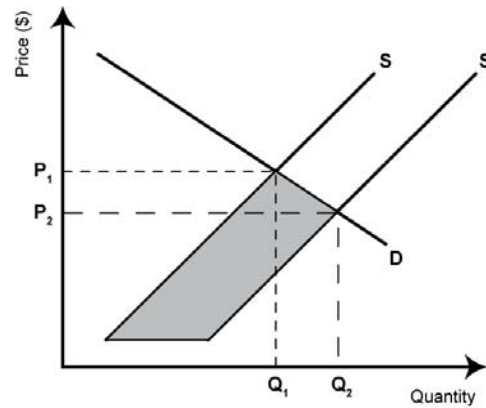
**Awarding a mark of 0:**

An answer that fails to address the question. The answer contains little or nothing worthwhile and is totally lacking in Scholarship substance (includes not attempted).

## Appendix for diagrams

### Diagram One

#### Increase in Market Supply and Increase in Allocative Efficiency



### Diagram Two

#### Mobile Phone Provider at Profit-maximising Output

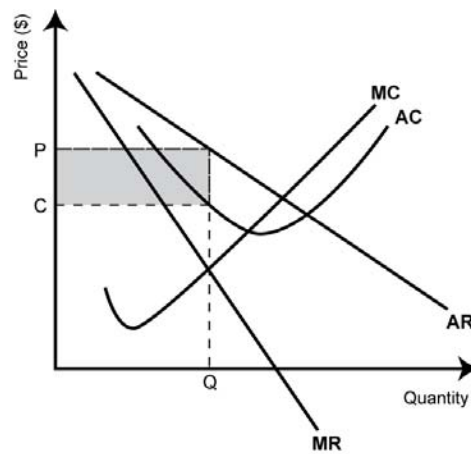




Diagram Three

Mobile Phone Provider after Termination Rates Reduced

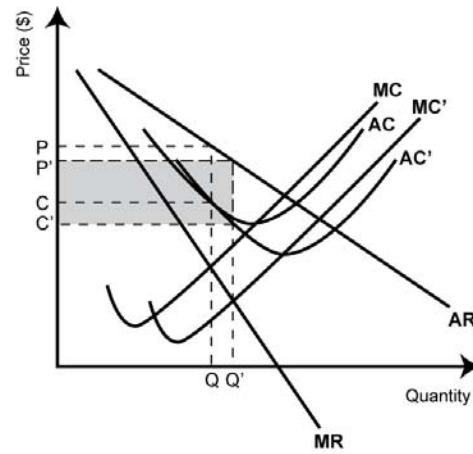


Diagram Four

The Individual Consumer of Alcohol

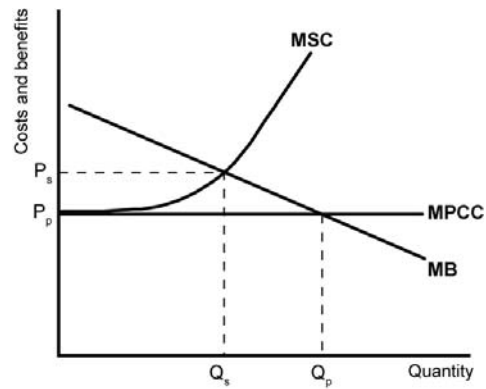


Diagram Five

### Negative Externalities of Consumption of Alcohol

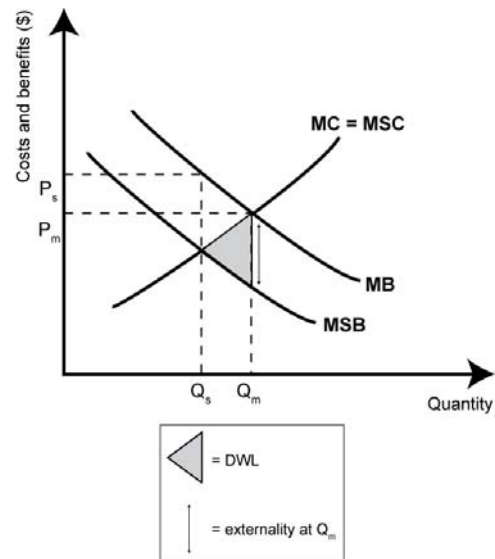


Diagram Six

### AD/AS Showing Effect of Deleveraging

