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SCHOLARSHIP EXEMPLAR

NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Scholarship 2016
Economics

9.30 a.m. Tuesday 15 November 2016
Time allowed: Three hours
Total marks: 24

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 Resource Booklet 93402R from the centre of this booklet.

You must answer ALL questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–28 in the correct order and that none of these pages is blank.

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

QUESTION ONE: REGULATING TRANSPOWER

Use information from **Resources A to E**, and your knowledge of microeconomic theory, to answer this question.

> Since 2011, the Commerce Commission has been actively involved in regulating prices for Transpower, the state-owned enterprise that owns the national network of power transmission lines and cables.

Discuss why the Commerce Commission would have chosen to regulate prices for Transpower, and evaluate the extent to which the pricing regulations would improve allocative efficiency in the electricity market. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer, you should:

- explain why Transpower is an example of a natural monopoly
- illustrate and explain the shape of Transpower's revenue and cost curves, and why operating at profit-maximising output is not allocatively efficient
- analyse the possible pricing options that the Commerce Commission could use in regulating prices for Transpower to improve allocative efficiency
- evaluate the extent to which the factors considered by the Commerce Commission in regulating prices for Transpower allow allocative efficiency to be achieved in this market.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

1 = Ability to supply market @ lower price than 2 or more
- High barr to entry + some costs (resource ↑)
- Generation of one product
- control over price / supply
-

2. Draw – Explain shapes
MC=MR not A.E.

3. Diff options – E v B

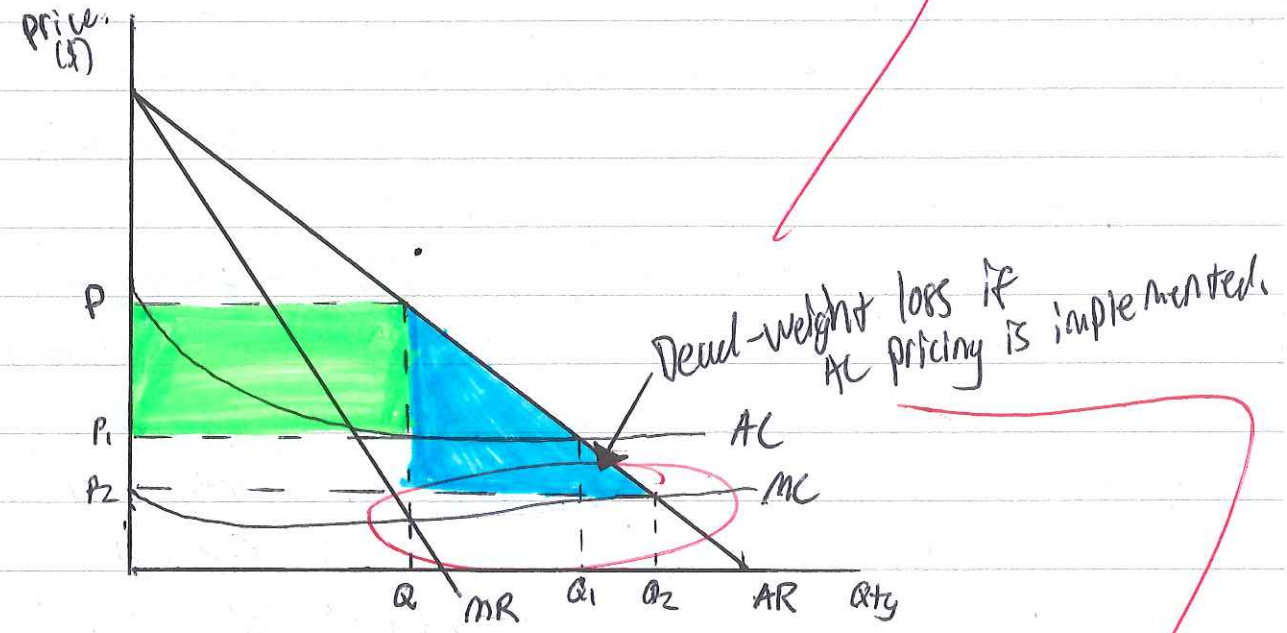
4.

ASSESSOR'S USE ONLY

Transpower New Zealand Limited (TPNZ) is an example of a natural monopoly as it exhibits many of the necessary characteristics of one. The definition of a natural monopoly is a firm that can supply the market at a lower price than 2 or more firms could. This is true of TPNZ due to its high market share and ability to allow consumers to have much choice as reinforced by resource A, "As the owner of the national grid. (TPO) enables competition in the wholesale electricity market:". A natural monopoly creates a singular product, and this is true of TPNZ - electric power. For a natural monopoly the AC (average cost) declines over all relevant output ranges due to factors such as a high set-up cost, and low marginal cost (MC). The high set-up cost is reflected by the "11803 kilometres of high voltage lines and 178 substations" that resource A mentions. The marginal cost, or cost of producing the next unit of output, would be low in this market and thus the natural monopoly model fits. The high set-up costs also act as strong barriers to entry, deterring firms from entering the market, and strong barriers to exit (sunk costs) deterring TPNZ from leaving the market.

Yet another characteristic of a natural monopoly is the control over price: This is evident as the government is intervening in order to stop TPNZ having control "Transpower has been regulated since April 2011" - Resource B.

The revenue and cost curves for a natural monopoly would best be expressed in the form of a diagram.



The MR curve represents Marginal revenue, and AR represents Average Revenue. As the output increases a theory such as diminishing marginal utility becomes apparent. This theory states that as we consume an extra unit of a good/service is consumed, the marginal, or additional, utility gained from consuming said good decreases. This is the reasoning behind the falling or negative relationship

for both the MR and AR curves. For a monopoly (and natural monopoly) the MR is steeper than the AR curve because 7 (1)

The AC curve starts high as there are high set-up costs, but then decreases over all relevant output. This is because the cost of those ~~AR~~ high setup costs is being spread over all units of output, and because marginal costs are low, the AC falls. The Marginal cost curve will increase over the output range due to the law of diminishing returns. This states that as successive units of variable inputs (such as labour) are added to a fixed factor such as land, then the marginal cost of producing the next unit of output would increase. Meaning, the price producers receive must exceed this MC. ~~The other for firms~~)

If firms operated at the profit-maximising output that it would not be allocatively efficient. This is ~~seen at any~~ because at the profit-maximising output, quantity is Q, and price is P. The market is too highly priced for all consumers to buy what

they desire and this is shown on my graph as deadweight loss - blue shading. It represents the loss in consumer surplus due to the high price and low quantity. Thus, as a deadweight loss is present, the market would be allocatively inefficient (if at the profit-maximising output).

The commerce commission faces 3 possible options with regards to regulations imposed upon TPNZ. The first is ~~monopolies~~ Average cost pricing (creaone E). This is when the firms have to sell the good for P_1 (on my graph) meaning Q_1 is the quantity produced. This is a decrease in price and an increase in quantity consumed ($P \rightarrow P_1$ and $Q \rightarrow Q_1$). This would result in an increase in consumer surplus which in turn reduces the deadweight loss to the smaller triangle (arrow pointing to it.) As it ~~reduces~~ makes the market more allocatively efficient it is a good policy. But, deadweight loss still occurs as consumer surplus is still not maximised, meaning there is still allocative efficiency. In addition to this the firms would be forced to make normal profit, which is a goal of the commerce commission "while maintaining businesses' ability to earn

excessive (supernormal profits) - Resource B, but means that the firm will have less profits ~~because~~ to invest in Research and Development, or to pay back to share-holders.

For the marginal-cost pricing (Resource E) where the lower price of P2 results in the increased quantity of Q2. At this output there is no dead weight loss as consumer surplus and producer surplus are fully maximised. This option is the best ~~for~~ from the perspective of trying to "fully correct the market". Unfortunately, it means a loss in firms profit level, thus Research and Development is highly unlikely, paying out to share-holders won't occur, and if the marginal-cost exceeds the average variable cost (not shown on my graph) the firm might have to be subsidised by the government which ~~is~~ also causes a whole plethora of problems such as opportunity cost of that subsidy.

The third option is actually to de-regulate the market, thus letting it clear ~~leave the~~ market alone on its own. whilst the commerce commission in resource B also says "when regulating prices... considers... suppliers have profit incentives to innovate and invest in their infrastructure" the two options

given in Resource E both limit the level of profits TPNZ would receive and thus harm the attempts at innovation and investment. ~~Leaving the market alone~~ ~~(which would mean de-regulated~~ De-regulation would allow for the profit-maximising output of Q to be produced, which generates ~~a~~ super-normal profits (shaded green). These super normal profits could be used ~~to invest~~ in research and development, or passed on to share-holders in the form of dividends or passed onto the consumer through lower prices. The ~~large~~ normal profits made by TPNZ have allowed "$2 billion in grid upgrade ~~prob~~ projects in recent years", ~~and recovering prices~~ those at the expense of "higher power bills for all consumers." If the natural monopoly was allowed to make super-normal profits, ~~then~~ Then it is likely that the consumer would not have seen an increase in power bill price for the research and development. The biggest downside to de-regulation is the increase in allocative inefficiency due to the deadweight loss that is created, however this could be outweighed by the benefits.

ASSESSOR'S USE ONLY

The factors considered by the Commerce Commission in regulating prices for TPNZ have made allocative efficiency achievable, but problematic. Resource B states "The Commerce Commission regulates the price and quality of goods and services to benefit consumers and build a more competitive and productive economy". The first of these ideas is ~~easy~~ easily obtained through AC and MC pricing. However, the second point of a more competitive and productive economy is difficult to achieve due to ideas of X-inefficiency, where the firm sees no reason to lower costs because they won't have higher profit margins, and these decreased profits resulting in less room for ~~fee~~ research and ~~development~~ development and share no longer payouts as mentioned ~~earlier~~ previously. 7

Resource D states that one of the "principal objectives of a state owned enterprise" is to "be "as profitable and efficient as comparable businesses that are not owned by the crown"". We know this is simply not possible as the crown would have to produce Quantity Q in order to maximise profits, and this doesn't change the allocatively inefficient situation as it is simply mimicking the Natural Monopoly. 7

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QUESTION TWO: THE ECONOMICS OF CLIMATE CHANGE

Use information from **Resources F to K**, and your knowledge of microeconomic theory, to answer this question.

> Many studies published in respected scientific journals show that 97 per cent or more of climate scientists agree that climate-warming trends over the past century are very likely due to human activities. In addition, most of the leading scientific organisations worldwide have issued public statements endorsing this position.
>
> Source (adapted): http://climate.nasa.gov/scientific-consensus/

Human production and consumption have resulted in climate change and associated negative externalities. Analyse how these externalities have arisen, and why the response to climate change has been slow. Evaluate key economic policy options that could be used to slow down climate change. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer you should:

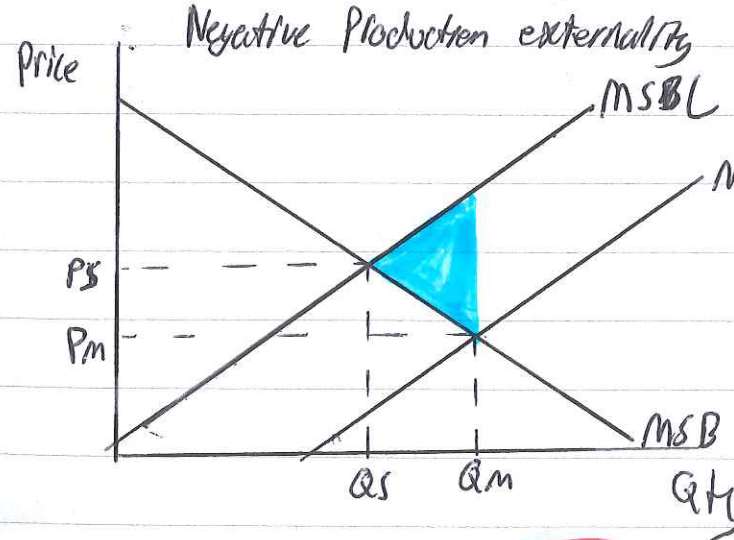
- explain how human production and consumption result in climate change and its associated negative externalities and why market failure is occurring
- explain why the environment could be considered to be a public good and why this may have led to delayed responses by individuals and governments to the threat of climate change
- analyse and evaluate key economic policy options that governments could use to slow down climate change.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

ASSESSOR'S USE ONLY

Human production and consumption result in climate change due to the activities we partake in, and the goods we buy that contribute to greenhouse gas emissions. The production ~~externality effect~~ of goods such as energy ~~creates~~ causes ~~glob~~ climate change due to the CO_2 (or equivalent gas) emissions. Resource B.C. dictates that 42% of New Zealand's 2012 greenhouse gas emissions were due to energy. Although this is both a production and consumption externality, it is more heavily a production externality and this I will analyse it as such. The production of energy results in the negative externality of this pollution (emissions). This is because there are negative spill over effects of the production of this good, that are not factored into the levels of price and quantity consumed. This can be shown graphically.



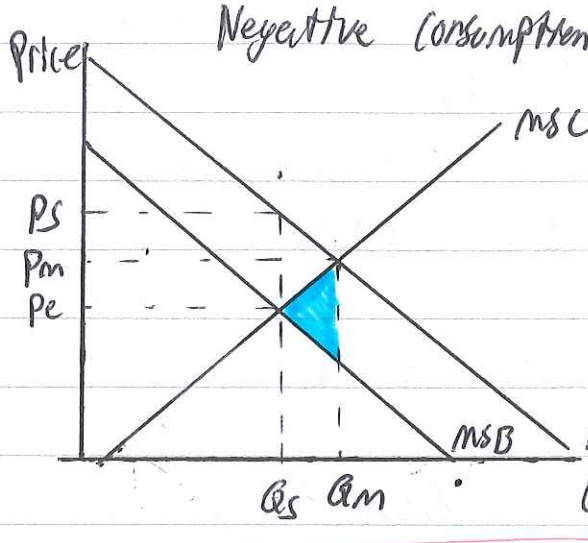
MSC = Marginal Social Cost
MPC = Marginal Private Cost
MSB = Marginal social benefit.

The negative externality is represented by the blue triangle, and is representative of a lack in social efficiency. This is because MSB does not equal MSC. As the graph shows, the good is currently being sold at a Qm (quantity) and for a Pm (price). The market does not take into account the negative externality and this is an example of market failure. The good is under-priced and over-consumed at QmPm. The socially preferred position, as it takes into account the emissions by reflecting a higher price to pay for the effects, is at QsPs. Here the quantity consumed is less - thus reducing the negative impact upon the environment, and the price is higher which would more accurately reflect the true cost to society. This could be achieved through a tax.

The consumption of goods is also contributing to climate change. Reference to the statutes that 2 of the 4 major emission sources are "road transport such as petrol and diesel cars and trucks" and "consumption of hydrofluoro-carbons, which are gases used in refrigeration and air conditioning". Again, these could be considered as either production or consumption as gases from cars could be used in the family sense, or workplace sense, same with the refrigeration gases, but again,

[The a possible solution 4/3]

for this purpose they shall be negative consumption externalities. Again it is the ~~other effects~~ spill-over effects of the consumption now, of ~~them~~ these goods, that shows the market to be socially inefficient as MSB does not equal MSC.



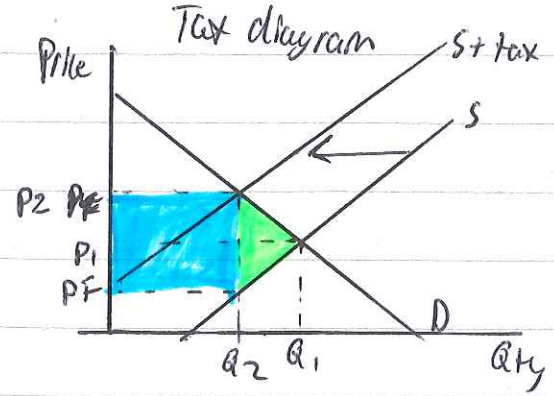
The negative consumption externality is shown by the blue shaded area. It demonstrates the emissions released during the consumption of goods/services such as transport. Currently, the market is not taking full consideration for the negative spill over effects, and is under priced at Pm and over-consumed at Qm. It does not would require ~~it~~ shifts the MPB curve to closer to the MSB curve. The issue is that price is not at the new equilibrium (Pe) it would be now at Ps, which is higher in order to reflect the cost to society

The environment is considered to be a public good because it is non-rivalrous, and can't ~~be~~ be excluded by price. Resource 11 supports this claim with stating that "the atmosphere surrounding Earth that enables life to exist is a "global commons" into which producers have been able to release pollution and wastes". This reinforces the idea of negative ~~consumption~~ consumption and production externalities occuring as the markets are not taking the true cost to society into account.

The delayed responses by individuals and governments to threats on climate change ~~could be~~ is caused by the fact that no one is taking responsibility. As resource 11 outlines be, there is the idea that clear property rights would incentivise the management of a resources This idea belongs to Ronald Coase and explains New Zealand's situation. We, as a country, are not taking responsibility because there are no clear property rights. If it became the responsibility of say the firms ~~government~~ then schemes and taxes could be set up in order to internalise the externality. Meaning if a firm emits huge levels of CO_2, then they would be susceptible

to the increased cost, as it would now be taking into account the 'social costs' mentioned in resource H). We may also have been slow to respond due to the fact that, although our per capita levels are high (14% - resource H), our total emissions are low. (76 million tonnes of CO_2 equivalent). This could mean governments haven't seen it as a major issue and thus haven't implemented services, policies - hence the delay.

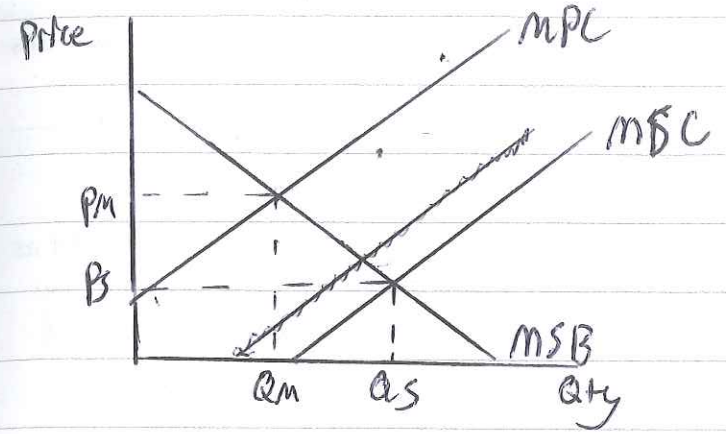
The government takes many decisions in regards to the slowing of climate change. The first would be a carbon tax. As resource J states, it ~~would~~ could be a fee on the "production, distribution or use of fossil fuels based on how much carbon their combustion emits". In the scenario of a negative production externality, a tax is a simple and effective economic intervention.

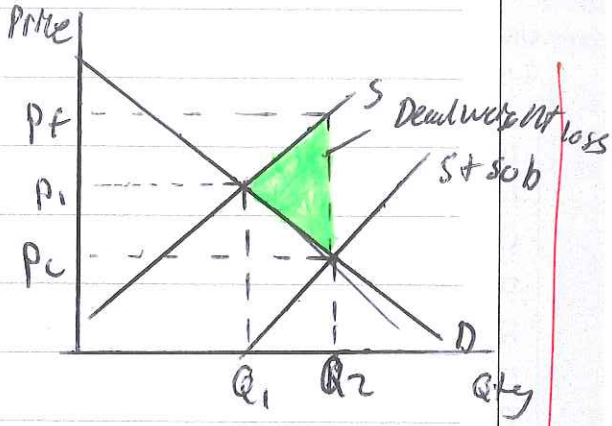


The diagram shows the tax decreasing supply from S → S + tax. This inwards shift ~~of~~ the supply curve demonstrates the higher costs the firm

now faces. The lower quantity consumed is beneficial for the environment as as less of the negative externality is being produced. In addition to this the tax generates revenue for the government (blue shaded area). This These funds could be hypothecated such that they are being used to tackle climate change even more. Unfortunately a a dead-weight loss occurs, and the market is allocatively inefficient, because consumer and producer surplus is not being maximised. However, the social inefficiency that was present prior to was more dangerous. The dead-weight loss is shaded green * [created by the tax]

The second option would be to opt for more environmentally friendly methods of production. Resource I discusses many different options. By switching to wind, solar, or hydrogen ~~electricity gas~~ we would be making our environment more sustainable. In addition to this, our economy would benefit in the long run as demand will be substitute and so too will supply - renewable sources. Subsidies upon these firms would see an increase in the positive externality which they emit.





These firms have positive flow on effects and thus. should be subsidised, to reduce. costs, so they can produce more. A subsidy would shift the MPC curve closer to the MSC curve and lower Social Inefficiency, but would create a deadweight loss as consumer surplus and producer surplus increases are not fully being offset by the subsidy, meaning there is allocative inefficiency.
A subsidy is necessary as the good is currently over priced and under consumed.

I believe the government should impose a hypothecated tax, where the revenue generated is used to subsidise renewable energy sources.

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QUESTION THREE: WHAT TO DO WITH A SURPLUS?

Use information from **Resources L to Q**, and your knowledge of macroeconomic theory, to answer this question.

In 2015, the Government achieved the first operating balance surplus since 2008. There is uncertainty, however, as to whether surpluses can be maintained in the future. The Government has identified reducing income taxes and reducing public (government) debt as priorities for the use of the surplus. Others would prefer to see the surplus used to increase government spending on infrastructure and other forms of national investment to support economic growth, or for payments into the New Zealand Superannuation Fund to be restarted.

Analyse the short- and long-term impact on the New Zealand economy of EACH of the four options suggested for using the surplus. Evaluate which option is likely to have the greatest economic benefit to the economy in the long term. Use appropriate economic models, and integrate relevant resource material to support your answer.

In your answer, you should:

- explain the significance of achieving an operating balance surplus in the government budget and the impact the business cycle has on the government's ability to achieve this goal in the future
- analyse how each of the options for using the surplus will affect the economy in terms of economic growth and employment, in the short term and in the long term
- provide a justified recommendation as to which option is likely to have the greatest economic benefit to the economy in the long term.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

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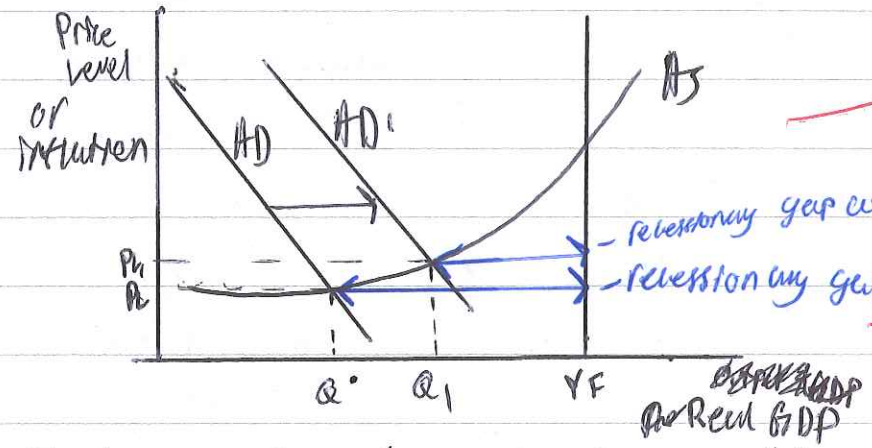
Achieving an operating balance surplus in the government budget is important as it means more funding can be allocated by the government, when and where it is most needed. ~~In addition to this, Resource 0 states~~ Depending on where New Zealand is on the business cycle there could be a differing likelihood of achieving an operating surplus. If the country is in a recession (3 periods of successive negative or decreased growth) then it is hard to see how the government will bring a surplus into play. If the economy is in a boom then it is likely that a surplus could be achieved. The differences are that in a boom there is far more activity involving incomes and purchasing of goods/services. The high levels of employment allow for these things to occur and the government benefits from this because they gain tax revenue from both incomes and GST. Comparatively, a recession would mean that there is less employment, and thus less government revenue from income tax and GST.

The first option is a reduced income tax. Resource N discusses the threat of tax cuts. It says that NZ has a debt of $60.6 billion and which, although is relatively low according to

resource 0, is not going to be fixed by any sense, ~~its~~ with the $0.5 billion that resource. M proposes to ~~throw~~ put the towards it. What this means is that ~~to~~ households will have more disposable income, which is shown by an outwards shift of demand ~~but is not~~



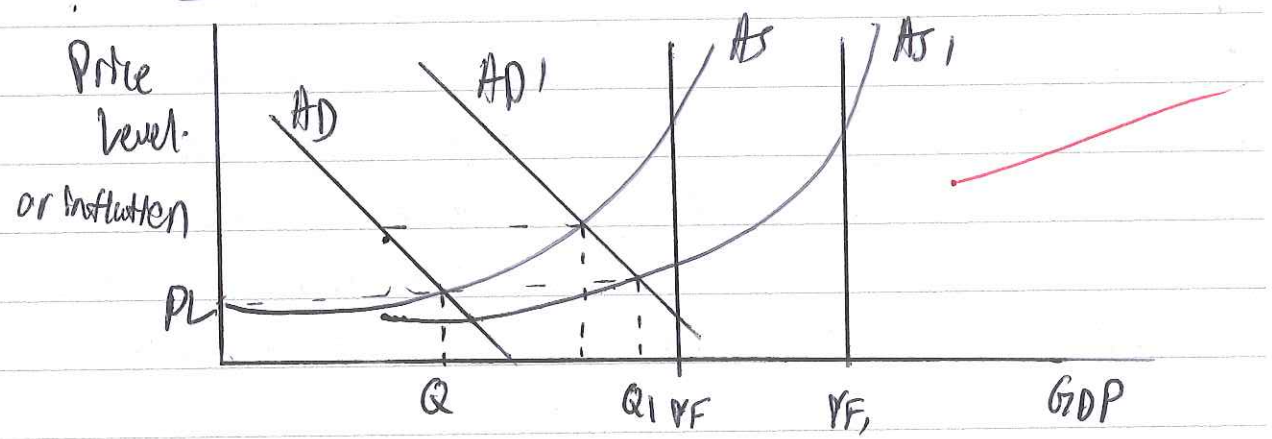
The increase in demand causes AD, or Aggregate Demand, to shift outwards (increase) as consumer expenditure is a component of AD, and consumer expenditure increases when income tax falls. This would increase GDP from Q → Q1, but would raise the price level from PL → PL1. However, because NZ's inflation is low (0.4%) it wouldn't have a major effect upon the price level. In addition to this the recessionary gap would decrease as shown. The increased demand would see an increase in employment due to derived demand being a component of employment, and thus more resources are being employed. In addition to this the firms will be receiving more as the price level has increased

meaning they can hire more workers, research and develop, or ~~reduce~~ pay out share holders.

The second option is reducing debt. This is good because it means that in the future ~~there~~ there are more ~~funds~~ funds available for policies, but it has no ~~dir~~ immediate impact upon the economy. Thus it is unlikely to be a favourable option. In addition to it not increasing Real GDP, there is the issue that those in power will only implement policies because of self-interest. Thus the decrease in debt could have ulterior motives, or simply not be chosen as voters see no benefit for themselves. Although the rebate is presented in resource M, of paying down debt meaning we have more funds for ~~disa~~ disasters is referenced in resource M, $500 million simply won't be enough to "withstand any future economic shocks or natural disasters".

The third option is the increase of infrastructure. This could be the creation of new roads. The increased spending by the government has both an accelerator and a multiplier effect. The injection of funds causes an acceleration effect due to the increase in AS. The multiplier

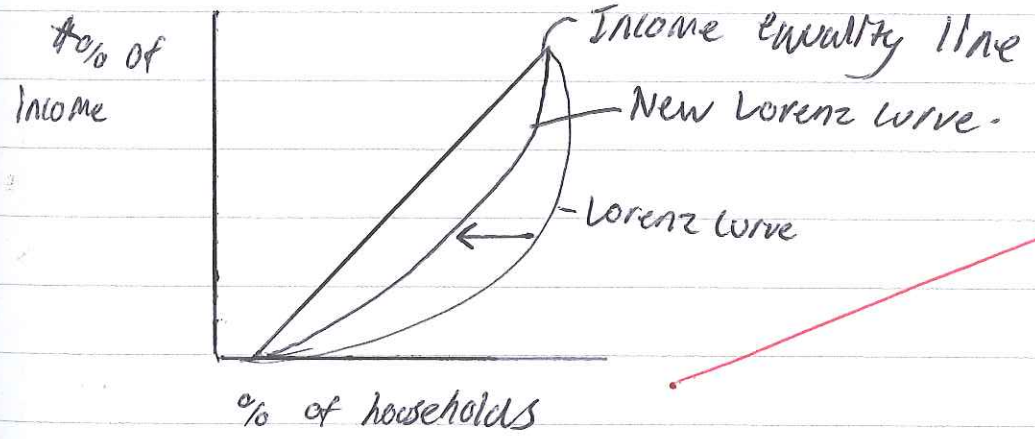
effect is seen to be true when the notion of buying the goods/services to build the roads is ~~the~~ evaluated. The injection of lets say $1.5 billion will translate to much more as it circulates through the economy due to jobs being created, increased spending due to higher incomes, and some ~~bit~~ of this goes back to the government through taxes so they can do it again.



The increased spending by the Government is a component of AD, and this increase spending on things like roads increases AD. This is shown by the outwards shift of the AD curve. The roading increase will reduce costs of production for all firms as transport is a cost of production, thus AS increases from AS → AS1. The new equilibrium of Q1 PL is the same level of inflation/price level because the increase in demand causing demand pull inflation is offset by the increase

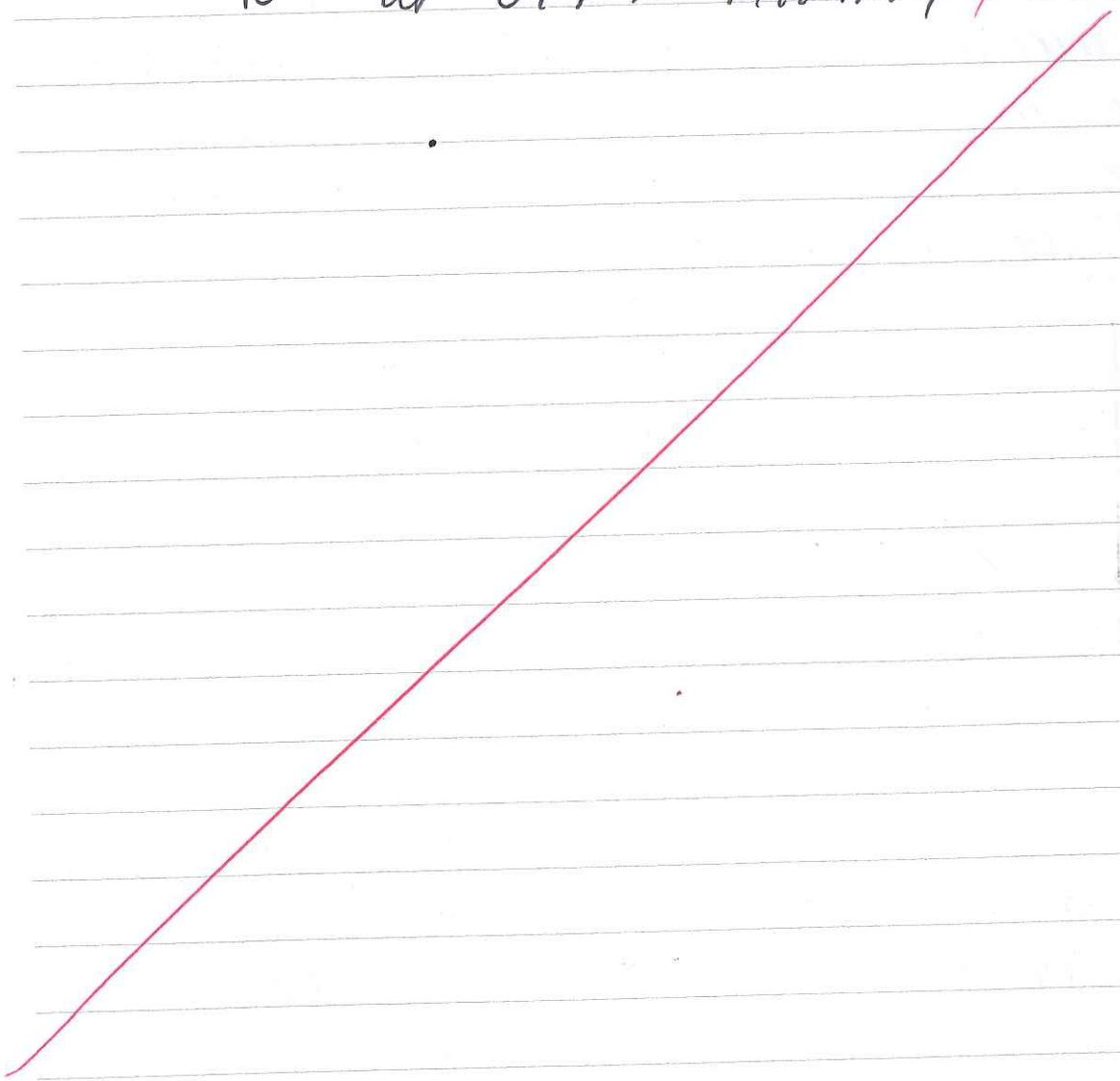
In AS due to decreased costs, the PF or maximum capacity shifts outwards because the reduced costs can ~~do~~ in turn mean increased profits for firms who can invest in research and development and shift the maximum capacity for the ~~eco~~ economy from PF→PF1. This is a long-run idea.

The final policy of ~~taxation~~ restarting payments into the NZ Superannuation Fund is good at increasing income equality. An increase in effective social welfare means an inwards shift of the Lorenz curve, demonstrating the increased level of income equality



I believe the best policy would be to increase in expenditure on national investments that support economic growth in the long-run. Thus the option of spending more on roads or optic fibre by the government would be a good choice. It increases demand,

which has a plethora of benefits for the economy; and it increases AS, supply and PF in the long run, meaning that the Real GDP is increasing, and inflationary pressure remains the same. This is good for NZ as we want low inflation because we are an export driven economy but we don't want deflation as as it could even we fall into the liquidity preference trap. which we are close to at 0.4% inflation 4



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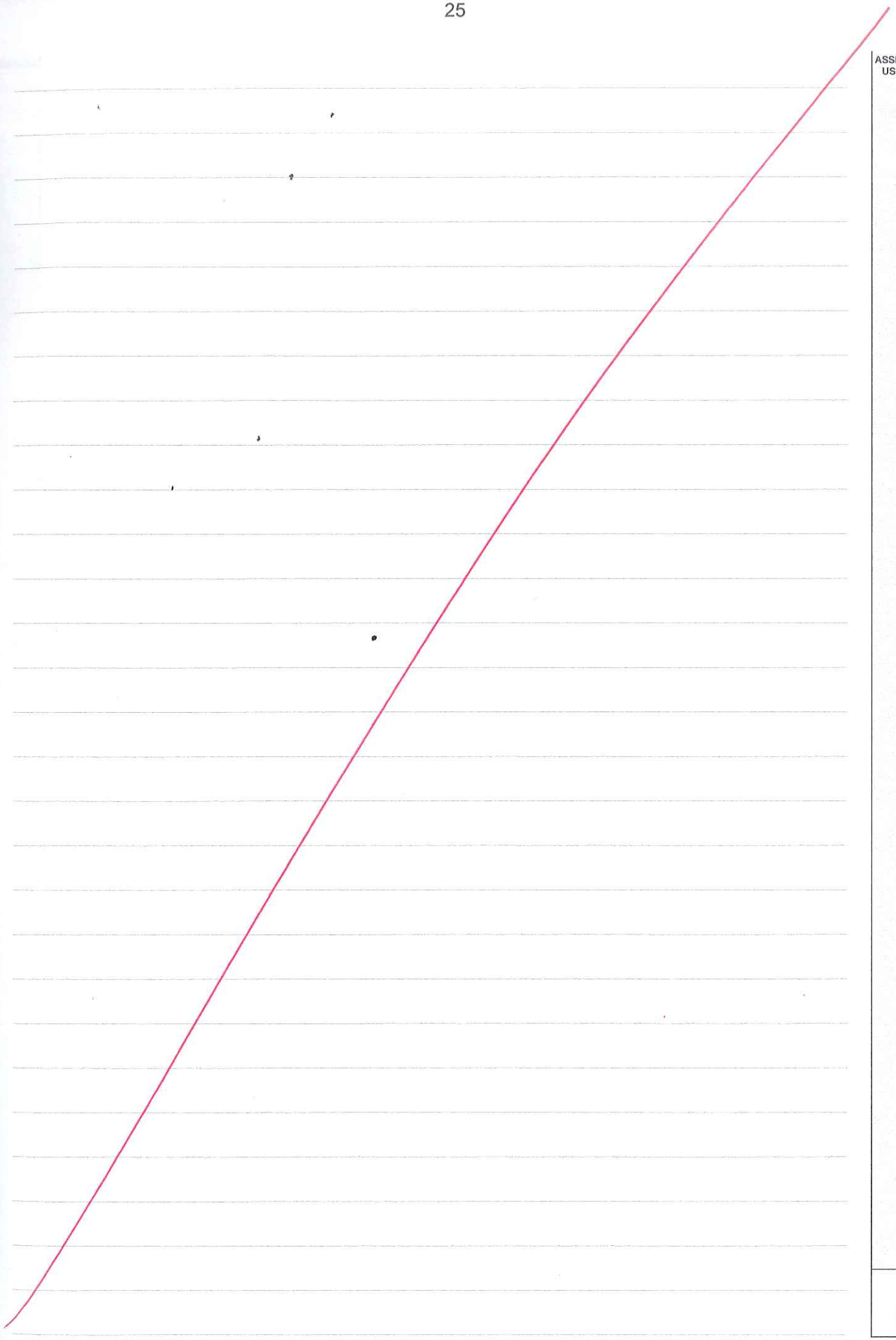

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Scholarship exemplar

Mark: 15/24

Question One

The candidate produces and effectively communicates a sophisticated economic analysis of the allocative efficiency of *Transpower* as a natural monopoly and of possible pricing regulations, by applying appropriate microeconomic theory. This demonstrates a high level of analysis and critical thinking.

The candidate provides a detailed explanation of why *Transpower* is an example of a natural monopoly (Page 3). The candidate provides a definition of a natural monopoly and provides a reason as to why this model is applicable to *Transpower*. This has been supported with evidence from the resource material.

An accurate model has been provided (Page 4), and the shape and/or placement of the curves has been adequately explained (Page 4 and 5). However, the deadweight loss created by *Transpower* when operating at profit maximisation has been incorrectly identified and not adequately explained.

An analysis of Average Cost Pricing has been provided (Page 6). The candidate has explained the Commerce Commission's strategy, referencing the resource material and an appropriate model (Page 5). The impact on *Transpower* has been accurately described.

Marginal Cost Pricing has also been analysed (Page 7). The explanation references an appropriate model (Page 4), but the impact on *Transpower* is vague and does not identify any subnormal profit.

An evaluation of the extent to which the Commerce Commission regulation of pricing of *Transpower* would allow allocative efficiency to be achieved in the market has been attempted.

Overall, the essay is judged to have reached Scholarship standard because the analysis was competent, and the resource material was integrated effectively. A more accurate and complete use of the model, in addition to a fuller explanation of the existence of a deadweight loss using marginal analysis, would have led to a higher grade.

Question Two

Overall, this candidate reached the Scholarship standard for this question. The candidate produces a sound economic analysis of each of the key points of the question and competently incorporates the resource material. The explanations are generally clear, logically developed, and economically literate but, in order to gain a higher grade, needed a greater degree of depth and integration of the context.

The candidate correctly identifies, explains, and illustrates the externalities of production in terms of climate change that are created by the production of energy (Pg 11 & 12) and why this is an example of market failure.

The candidate correctly identifies, explains, and illustrates the externalities of consumption in terms of climate change that are created (Pg 12 & 13) and why this is an example of market failure. In both cases, the candidate could have extended the explanations to provide greater depth to their analysis.

The candidate identifies the features of a public good, however provides little explanation as to how these factors relate to the environment (Pg 14).

The candidate provides some relevant rationale for the delayed response to climate change but could have improved their answer by connecting the delayed response to the characteristics of a public good (Pg 14 & 15).

The candidate accurately describes the effect of a carbon tax on a market (Pg 15 & 16), however does not relate the explanation to the consumer fossil fuel market, identifying the policy as solely impacting production externalities. The answer could have been further improved by considering the relevance of elasticities on the impact of the tax in terms of reducing the equilibrium quantity produced and consumed.

The candidate accurately describes and illustrates the concept of a subsidy on sustainable energy producers. This answer could have been improved by providing greater explanation of how this policy would affect the markets for non-renewable energy production and the negative externalities related to climate change and by further considering the fiscal impact of these subsidies (Pg 16 & 17).

The candidate could have improved their overall analysis of policy options by considering other options to expand the range of analysis.

The candidate provides a brief recommendation (pg 17) but could have expanded on this to provide economic justifications in terms of why these would be the most effective policies to implement.

Question Three

The candidate produces and effectively communicates a sophisticated economic analysis of the short- and long-term economic impact of different options for utilising the government operating balance surplus by applying macroeconomic theory.

The candidate provides an explanation of why an operating surplus would be relatively more difficult to achieve in a recession compared to a boom period. This explanation could have been strengthened by stating that in a recession, the government revenue would be lower and government expenditure would be higher. This would cause a shortfall and, therefore, the government would either have a reduced surplus or a deficit (Pg 19). There is some integration of the resource material.

The candidate explains how a cut in income taxes would cause an increase in aggregate demand. The candidate draws an aggregate demand/aggregate supply model that illustrates an increase in aggregate demand caused by higher consumption. An explanation of how an increase in aggregate demand will cause a decrease in unemployment is also given (Pg 20).

A relatively weak explanation of the advantages of the government reducing debt is given. The candidate touches on the point that if the government pays off debt, then this will mean that in the event of a future shock, the government will potentially be able to borrow more funds. The candidate has integrated the resource material into the explanation (Pg 21). This paragraph could have been strengthened by including the ideas of improved credit rating or lower interest repayment if the level of public debt is lower.

The candidate provides an explanation of how if the government spends the surplus on infrastructure development, then this will have the effect of increasing aggregate demand and aggregate supply. This was one of the key points that usually differentiated candidates that could communicate a sophisticated economic analysis and candidates who received lower marks for this question. The candidate explains in detail the reasons why aggregate demand and aggregate supply will shift. This paragraph showed a level of analysis required for a Scholarship grade. A correctly drawn aggregate demand/aggregate supply model is drawn which illustrates the effect of the government spending more funds on building infrastructure (Pg 22).

The candidate also uses the concept of the multiplier effect to explain how any change to government expenditure will have a larger impact on the economy compared to the initial expenditure. This demonstrates a sophisticated economic analysis of the long-term economic impact of using the surplus. It also shows a degree of critical thinking.

The candidate fails to provide an adequate explanation for how an increase in payments into the superannuation fund will lead to an increase in economic growth.

The conclusion was relatively weak and was not a justified recommendation because it did not justify why the selected option would provide the greatest economic benefit in the long term.

Overall, this candidate did provide a sophisticated economic analysis; however, one of the major points was incomplete and there was some inadequacy in the evaluation.