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For Supervisor's use only



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2009 Economics

9.30 am Wednesday 2 December 2009

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

Answer ALL the questions in this 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 2–24 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.

You have three hours to complete this examination.

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QUESTION ONE: Competition In The New Zealand Mobile Telecommunications Market

The *2008 Telecommunications Market Monitoring Report* suggests that *Vodafone* and *Telecom* are engaged in oligopolistic behaviour.

(a) Refer to Resources **A** and **B** when answering this section.

- (i) Apart from high termination rates and on-net calling offers, identify one other way that *Vodafone* and *Telecom* have engaged in oligopolistic behaviour.

- (ii) Explain how high termination rates and on-net calling offers represent significant barriers to entry into the New Zealand mobile telecommunications market, and describe how this affects allocative efficiency.

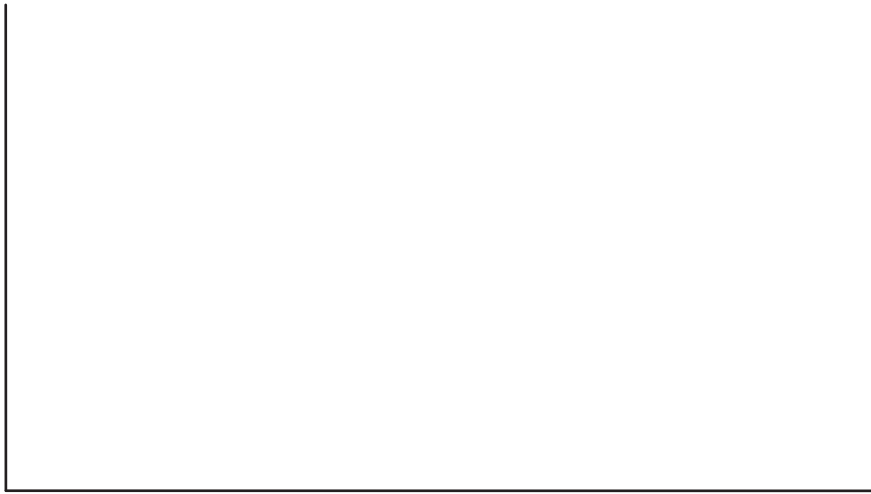
- (iii) Briefly describe how the pricing and output decisions of firms in an oligopolistic market would compare with those in a perfectly competitive market.

(b) Refer to Resources **C** to **E** when answering this section.

- ## New Zealand Mobile Telecommunications Market

- [illegible]

- ## The Oligopolistic Firm



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- (c) **Evaluate** the extent to which the Commerce Commission is needed to achieve allocative efficiency in the market for a **private good**.

Refer to Resources **A** to **E**, and use your own knowledge of micro-economic theory, as well as your analysis in sections (a) and (b), when answering this question. Use appropriate diagrams and/or models in your answer.

Use this space for planning your essay. Start your essay on page 6.

Planning
Page Only

(Your notes will not be marked.)

Begin your essay here.

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Consumers often ignore the social costs when making their drinking decisions.

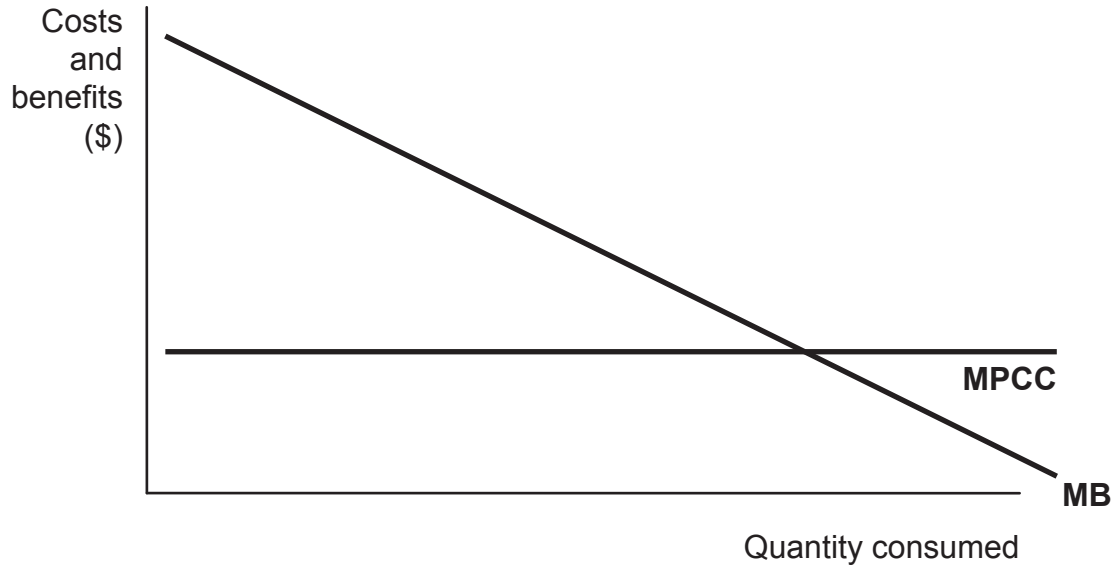
- [illegible]

- [illegible]

(b) Refer to Resource H when answering this section.

(i) Complete the diagram to show how the private and social costs differ as an individual consumer of alcohol consumes more alcohol in a session. Indicate the private (P_p , Q_p) and social (P_s , Q_s) equilibrium prices and quantities consumed using these labels. (**MPCC** shows the marginal private cost of consumption.)

The Individual Consumer of Alcohol



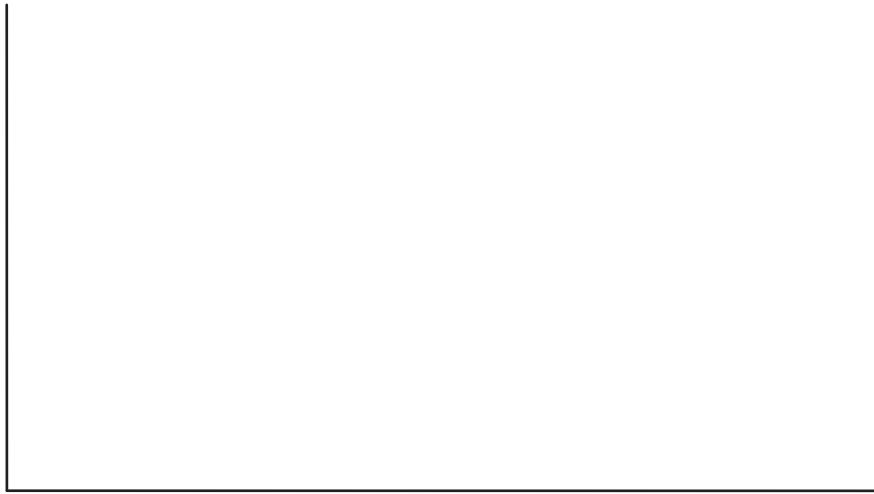
(ii) Explain your answer to (i) above.

[illegible]

- (iii) Draw a fully labelled diagram to show the private market equilibrium and the social equilibrium in the market for alcohol. Then shade the area that represents the loss of allocative efficiency.

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Negative Externalities of Consumption of Alcohol



- (iv) With reference to your diagram above, briefly explain how the negative externalities can be internalised.

- (c) **Evaluate** the extent to which the government should rely on controlling the price, or use other policy measures, to achieve a more socially desirable outcome in the market for alcohol.

Refer to Resources **F** to **K**, and use your own knowledge of economic theory related to market failure, as well as your analysis in sections (a) and (b), when answering this question. Use appropriate diagrams and/or models in your answer.

Use this space for planning your essay. Start your essay on page 13.

Planning Page Only

(Your notes will not be marked.)

Begin your essay here.

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High levels of debt and less willingness to tolerate risk have led to more saving by households and firms at a time when the economy is adversely affected by the global recession.

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- ## The Macroeconomic Effects of Deleveraging



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- (b) Refer to Resources **N** and **O** when answering this section.

Suggest why the International Monetary Fund is concerned about each of the following:

- (i) a synchronised recession

- (ii) surging unemployment

- (iii) deflation.

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- (c) In the context of a continuing worldwide recession, **evaluate** the extent to which policy makers in New Zealand should focus on fiscal stimulus, rather than other measures, in order to achieve a recovery in the New Zealand economy.

Refer to Resources **L** to **R**, and use your own knowledge of macro-economic theory, as well as your analysis in sections (a) and (b), when answering this question. Use appropriate diagrams and/or models in your answer.

Use this space for planning your essay. Start your essay on page 20.

Planning
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(Your notes will not be marked.)

Begin your essay here.

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**Extra paper for continuation of answers if required.
Clearly number the question.**

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Question
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**Extra paper for continuation of answers if required.
Clearly number the question.**

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