

93402R



Scholarship 2007 Economics

9.30 am Monday 26 November 2007

RESOURCE BOOKLET

Refer to this booklet to answer the questions for Scholarship Economics 93402.

Check that this booklet has pages 2–8 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

RESOURCE A

This Week's Snapshot (updated 20 April 2007)

	This week	One month ago	One year ago
Lamb 15 kg (\$/head)	45.57	45.35	46.08
Steer 300 kg (c/kg)	300	312	303
Stag 60 kg (c/kg)	462	462	341
Skim milk (\$/kg FOB)	5.37	5.32	3.24
Wood 35 m (c/kg clean)	333	332	395
Wheat 11% (\$/tonne)	326	326	322
Pine logs (K grade) (\$/tonne)	79	87	62
Rural mortgage rate (%)	9.0	8.7	8.4
US Dollar	0.745	0.715	0.633

<http://www.agri-fax.co.nz>

RESOURCE B

Dairy Industry at Crossroads

Fonterra has recently raised its forecast of this season's payout to dairy farmers. And global trends suggest that this upturn is sustainable long-term. Prices are at record highs: milk powders are about \$US3500 a tonne, more than double the long-run average of \$US1800. They might weaken later, but they appear to have established a significantly higher trading range.

Among the factors driving this are water shortages in Australia and China curtailing milk supply and sharply higher grain prices, thanks to sudden, strong demand from biofuels, which has flowed through into feed for cows and thus into milk prices.

Rising demand is also underpinning the optimism. Worldwide consumption of dairy products will grow by 2.7% a year in the decade to 2014, Fonterra expects. This is 0.5% faster than its previous forecasts.

(Adapted from *Sunday Star-Times* Sunday, 8 April 2007)

RESOURCE C

Fewer but bigger dairy farms predicted

The number of dairy farms in New Zealand could drop from about 10 000 to 6 000 in the next decade, says dairy farmer and Fonterra director Mark Townshend. Waikato-based Townshend, who is involved in farming in New Zealand, Chile, the United States and Russia, said the need to achieve economies of scale was "a reality in a commodity world".

Townshend said there were about 10 000 farms with an average of 320 cows, while in 10 years there might be 6 000 with an average of 600 cows. The average herd size of those leaving was 130 to 140 cows; the average of the new was 600 cows. Farm amalgamations added to the bigger farm trend. "Every year in Waikato or Taranaki there'll be 2 per cent or 5 per cent of the farms [that] are bought by neighbours and combined into one."

Adapted from *New Zealand Herald* 20 March 2007
http://www.nzherald.co.nz/section/3/story.cfm?c_id=3&objectid=10429692

RESOURCE D**It's not all doom and gloom**

It's not all doom and gloom because of the high exchange rate. OK, the New Zealand economy is going through a period of structural adjustment caused by a number of factors, such as the high NZD, high interest rates, shortages of skilled labour and increasing raw materials costs, etc.

This has resulted in some firms in industries such as sheep farming and fishing becoming unprofitable and laying off workers, particularly those involved in exporting that may have heavy debt burdens.

New Zealand is a low-unemployment economy with severe capacity constraints resulting from structural shortages of key resources. Therefore, while there are some company failures and job losses in the unprofitable export sector, there are many other firms out there that want to expand their profitable operations, but cannot get the workers or other resources they need. It would be highly desirable for these resources to be re-allocated to those industries that are constrained by resource shortages.

(Adapted from *BNZ Weekly Overview* 19 April 2007)

RESOURCE E

Labour market update

The unadjusted labour cost index (which includes performance-related pay increases) shows annual wage growth of 4.9% at December 2006, down from 5.1% at September 2006, and the consumer price inflation for the year to December 2006 was 2.6%.

Major changes over pay and working conditions come into force on the 1st April 2007.

There is the introduction of a minimum of four weeks annual holiday for workers, New Zealand Superannuation is increasing, and the adult minimum wage increased from \$10.25 to \$11.25 an hour, and for workers under 18 years increased by 80c per hour to \$9 an hour. Around 120 000 workers are expected to benefit from these rates.

Adapted from NZH 1 April 2007

RESOURCE F

Mary Holm: Rent control doesn't help the poor

Question: On the issue of rising house prices, we tend to overlook the more important issue of rental prices rising beyond the means of many households. With accommodation being one of life's staples, surely some stronger form of regulation should be set on rents. Regulation would have the added effect of keeping house prices from soaring out of all reason because investor-buyers would not be able to count on renters to bail them out of sticky financial situations.

Answer: Rent control is another one of those nice ideas that does more harm than good. "Economists are virtually unanimous in the conclusion that rent controls are destructive," says US economist Walter Block. And it's not just right-wing economists. Block quotes Nobel laureate Gunnar Myrdal, a Swedish left-winger, as saying: "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by Governments lacking courage and vision." Another Swedish economist and socialist, Assar Lindbeck, goes even further. "In many cases, rent control appears to be the most efficient technique presently known to destroy a city - except for bombing."

(Adapted from *New Zealand Herald* 21 April 2007
http://www.nzherald.co.nz/section/12/story.cfm?c_id=12&objectid=10435239)

RESOURCE G

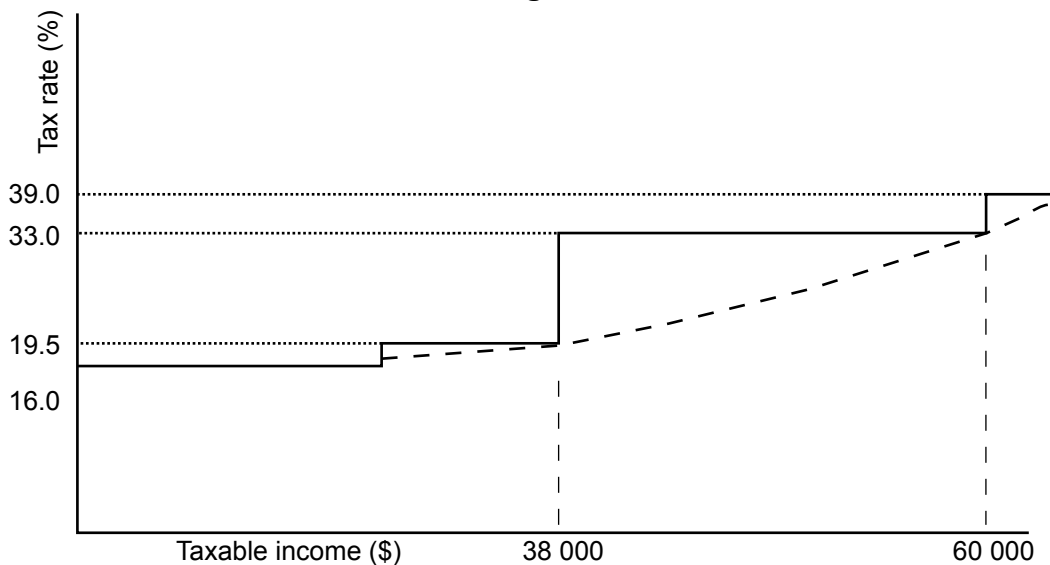
Working for Families

Thousands of families are now receiving Working for Families (WFF) tax credits, making it one of the most significant welfare initiatives in New Zealand's history. It represents a redistribution of \$1.5 billion that helps avoid distress among many struggling low and middle income families. However, WFF seems to be discouraging productivity. It's happening at the point at which a firm offers a pay increase. Many employees are discovering that the result of a pay increase is that their WFF goes down. There's a strong link between reward and motivation. If you don't feel fully rewarded by a pay increase - because WFF has taken away half of it - you won't be so motivated to work harder or smarter in future.

Adapted from articles in the New Zealand Herald 5 April and 12 April 2007

RESOURCE H

Progressive Tax



Key --- ATR = average tax rate — MTR = marginal tax rate

RESOURCE I

Saving

Saving can mean different things to different people. According to the Reserve Bank, saving is simply the portion of national income accruing to a country (or sector thereof) that is not consumed and is, therefore, available to finance investment. If a country's desired consumption and investment spending exceed its national income, then it will need to draw on the savings of another country in order to help fund this expenditure. It would need to either borrow from or sell assets to foreigners. Saving (whether internally generated or channelled from abroad) must always equal a country's investment. For any given level of national income, if a country wishes to consume more, then it will need to rely more heavily on foreign savings unless it is prepared to cut back on its investment.

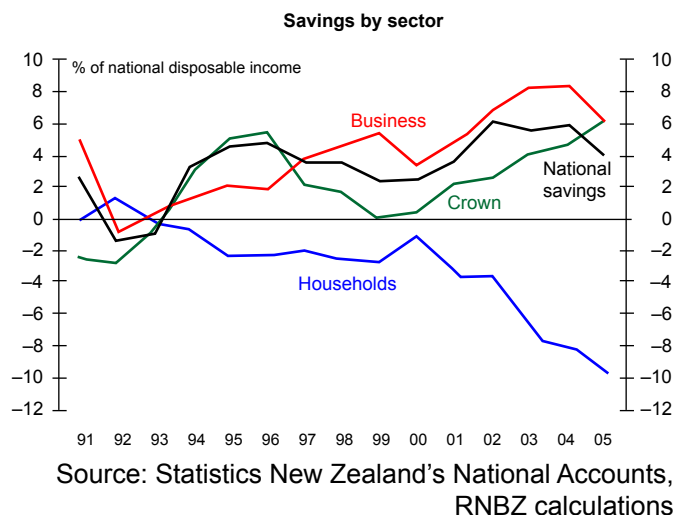
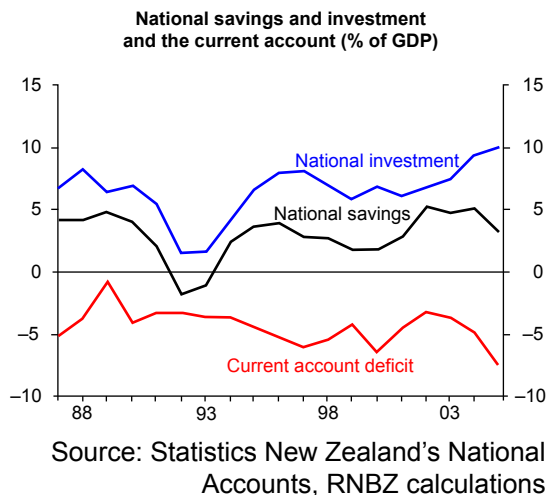


Table 1 The calculation of household savings – the household income and outlay account

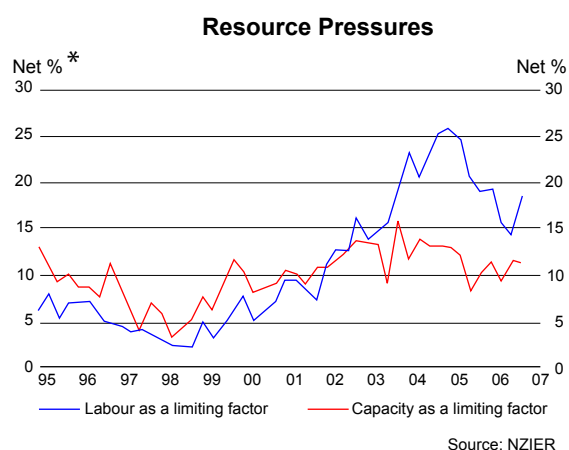
	\$ Billions		
	1990	2000	2005
Salaries and wages	32.5	45.8	63.3
All other income (1)	32.7	47.8	52.1
Tax and other mandatory payments (2)	-21.5	-28.3	-37.9
Income	43.7	65.3	77.5
<i>less consumption of fixed capital (3)</i>	-1.0	-1.9	-2.7
Disposable Income	42.7	63.5	74.7
Less Household Consumption	-41.7	-64.5	-85.8
Saving	0.9	-1.0	-11.1
<i>% of disposable income</i>	<i>2.2</i>	<i>-1.6</i>	<i>-14.8</i>

- (1) Includes entrepreneurial income (farm and non-farm), social assistance, pension income and interest, and dividend receipts
 (2) Includes interest on housing and non-housing debt
 (3) A non-cash item to reflect the depreciation of the housing stock over the period.

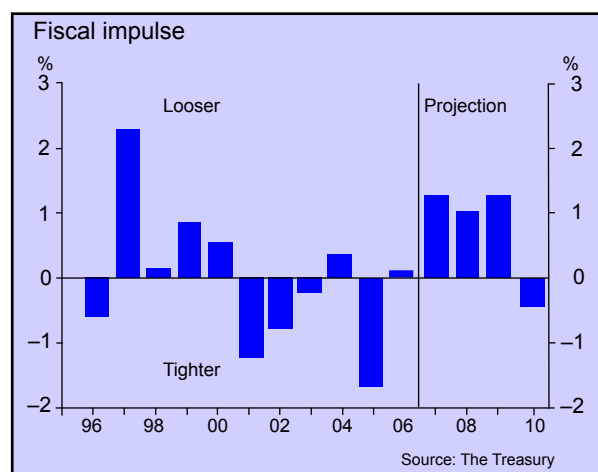
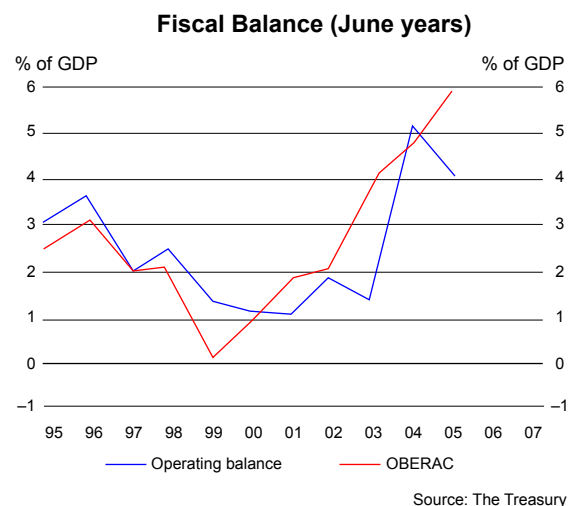
Source: Consolidated version of Statistics New Zealand's Household Income and Outlay Account

(Source: Household savings and wealth in NZ, RBNZ, 2006)

RESOURCE J



* Net % refers to the difference between % of businesses expecting to have trouble expanding because of resource constraints, and those businesses that do not expect difficulties.



Government Spending (Total core spending and selected components, 2005–2007)

\$ Million, June Years

	2005 Actual	2006 Actual	2007 Forecast	2005–2007 Growth
Social Security and Welfare	14 682	15 598	16 970	16%
Health	8 813	9 547	10 673	21%
Education	7 930	9 914	9 640	22%
Transport and Communications	1 635	1 818	2 481	52%
Total Core	46 234	49 900	53 963	17%
Nominal GDP (Production Basis, RBNZ estimates)	150 600	157 300	164 600	9%

Source: Household Savings and Wealth in NZ, RBNZ, 2006

RESOURCE K**There's saving and saving**

At present, in New Zealand, only 12% of the population is over the age of 65. However, by 2030 this will have risen to 25%. This ageing of the population will place greater demands on government finances, in terms of increased superannuation payments and health-related costs. To help provide for this in future years, the government has established the New Zealand Superannuation Fund, where about \$2 billion is allocated every year and invested in overseas sharemarkets.

However, attempts at encouraging New Zealand households to save for their own retirement have contrasted sharply with policies in Australia, where a compulsory saving scheme was established. The increase in household savings has been invested on the Australian stock market, providing for business expansion in Australia. Some of these Australian funds are now being used to pay for purchasing shares in New Zealand listed companies. The repatriation of profits from these acquisitions will further exacerbate New Zealand's current account deficit.

This is in contrast to New Zealand households' appetites for 'investing' in the residential property market as a form of retirement saving. This goes some way towards explaining the boom in the property market. And, as house prices have increased, it has meant consumers feel wealthier leading to increased consumption spending, fueling inflation pressures in the economy. Saving in this way has also meant that these funds are not available for productive investment elsewhere in the economy.

RBNZ has had difficulty in reducing inflationary pressures using traditional methods. This has led to a deterioration of the business environment in New Zealand, with high interest rates and an even higher exchange rate, which has penalized exporters, so much so that some manufacturing firms are seeking to outsource their production overseas. An example of this is Fisher and Paykel outsourcing its manufacturing of dishwashers and washing machines to Thailand.

Source: Adapted from articles in the *New Zealand Herald* 27 April 2007