

93402Q



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2006 Economics

9.30 am Friday 8 December 2006

Time allowed: Three hours

Total marks: 48

QUESTION BOOKLET

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

Read the resources **before** answering the questions in this booklet.

You should answer ALL questions in Answer Booklet 93402A.

Check that this booklet has pages 2–3 in the correct order.

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

You have three hours to complete this examination.

General Instructions

You are required to answer three essay questions based on microeconomic and macroeconomic concepts. All three questions must be attempted.

Each question has three sections. Sections (a) and (b) of each question require application and some analysis. Section (c) of each question will require evaluation, synthesis and critical thought.

It is recommended that you spend time planning your answers.

QUESTION ONE: A BAD SEASON FOR APPLE GROWERS

Use **Resource A** on page 3 of Resource Booklet 93402R, and your own knowledge, to help you answer the following questions.

- (a) (i) With the aid of a market diagram, illustrate and explain the fall in price received by apple growers in 2005.
- (ii) Use your knowledge of the theory of the firm, and appropriate diagrams, to analyse and briefly explain:
- the short-run equilibrium position for an individual apple grower receiving \$14 per case
 - the long-run impact on market supply and resource allocation in the economy.
- (b) Using material from the case study and your own knowledge to back up your comments, contrast the market structures of the apple growers, apple exporters and the overseas supermarket retail chains.
- (c) (i) Discuss if it is possible for the New Zealand apple industry to adopt non-price marketing strategies to improve the incomes of growers.
- (ii) An increased concentration of market power is taking place in the supermarket industry in most developed economies. Evaluate the impact of this on the following three stakeholders: consumers, apple growers and supermarket retailers.

QUESTION TWO: AUCKLAND'S TRAFFIC

Use **Resources B and C** on pages 4 and 5 of Resource Booklet 93402R, and your own knowledge, to help you answer the following questions.

- (a) (i) Use a diagram to illustrate the externalities of private transport use in Auckland, and explain how the private market and social preferences differ.
- (ii) Explain what economists mean by 'internalising an externality', and state TWO ways the externalities of private transport use could be internalised.
- (b) (i) Identify and explain reasons why Auckland transport planners can no longer rely on supply-side congestion management and are now suggesting a move to demand-side congestion management.
- (ii) Would a significant increase in the prices of transport fuel provide the incentive required to reduce congestion without the need for government intervention? Discuss.
- (c) Evaluate claims that road pricing reflects 'market principles', corrects existing market distortions, increases economic efficiency, increases equity and consumer benefits, and increases growth through increasing productivity.

QUESTION THREE: GLOBALISATION AND MONETARY POLICY

Study **Resource D** on pages 6 and 7 of Resource Booklet 93402R carefully before answering the following:

- (a) (i) Use an aggregate demand and aggregate supply diagram to analyse and briefly explain the macroeconomic policy measures that could be used to maintain price stability in New Zealand.
- (ii) Suggest why the Reserve Bank of New Zealand (RBNZ) has adopted a 1–3% target range for inflation.
- (b) (i) Explain how globalisation has influenced the capacity constraints that have been the major concern of the RBNZ.
- (ii) Some commentators have criticised the Official Cash Rate (OCR) because of the damage caused to the tradables sector. To what extent does the material in Resource D support this?
- (c) (i) Discuss and evaluate which of the following is the greater evil – inflation or the growing current account deficit in New Zealand.
- (ii) Based on your discussion above, what advice would you give the Reserve Bank Governor to address the imbalances in the contemporary New Zealand economy?