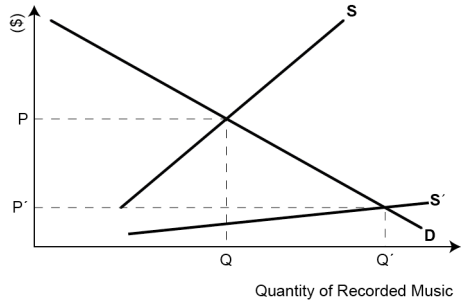
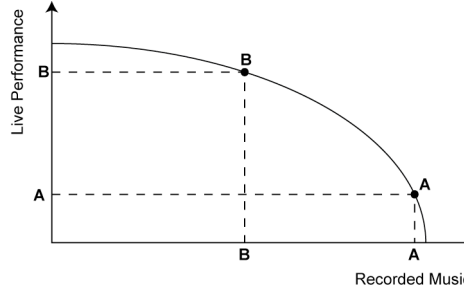


**Assessment Schedule – 2010****Scholarship Economics (93402)****Question One**

This question focuses on the application of economic theory to describe the impact of the digital revolution on the recorded music and the live music industries.

Q	Evidence	
(a) (i)	<p><b>The Market for Recorded Music</b></p> 	<p>The decrease in MC will shift S to S', resulting in a fall in market price from P to P' and increase in quantity from Q to Q'. Allocative efficiency is achieved at the new equilibrium where CS and PS is maximised.</p>
(a) (ii)	<p>Decrease in price of recorded music is likely to reduce revenue and profits in the recorded music industry and lower returns paid to those in the creative industries, such as recording artists. As a result, there will be an increase in the supply of the related good, live music.</p>	
(a) (iii)	<p><b>Production Possibility Curve of Music</b></p> 	<p>Because of the changes in the tastes and preferences for music, consumer sovereignty will determine the changes in the market from recorded music to live performance and resources will be reallocated away from the recorded music industry to the music performance industry shown by the shift along the PPC from A to B. This is the new point of allocative efficiency as it is on the PPC and therefore is productive efficient, and at the combination of music outputs most desired by consumers.</p>
(b)	<p>The strong barriers to entry previously enjoyed by the major record labels included signed up recording artists and controlled distribution of copyrighted recorded music on CDs. The level of competition in the industry was relatively low and could be described as an oligopoly.</p> <p>Developments in ICT enabled online downloads, either legal or from P2P file sharing – piracy. This lowered both the costs (production and distribution) of recorded music and therefore barriers to entry. The level of competition has grown, and the market structure is changing from oligopoly to monopolistic competition with many sellers of differentiated products. Recording artists have been able to distribute their own music, and live music performance has grown.</p>	

Q	Evidence
1 (c)	<p>This is an open-ended essay question that should elicit a range of responses, evaluative commentary and judgement.</p> <p>Firms in the music industry will find the following useful:</p> <ul style="list-style-type: none"> <li>• PED to help with their pricing decisions. For instance, the digital technologies increase the availability of substitutes in the recorded music industry, meaning PED will increase.</li> <li>• PED for live music is likely to be inelastic because of relatively few substitutes. The experience of attending a live performance is a single-use good and cannot be easily pirated, and represents a relatively small proportion of total spending.</li> <li>• CED to determine the relationship between goods, e.g. between recorded music and live music performances. From earlier analysis, a drop in price of recorded music will decrease demand for attendance at a live show.</li> <li>• CED will also be used to help explain why sales of recorded music are down because of increased competition for consumer \$/time, e.g. DVDs, online gaming, etc.</li> <li>• YED will be used to determine whether the music products are normal or inferior goods and will adjust output in line with changes in consumer incomes, e.g. recession.</li> <li>• PES is likely to be inelastic for tickets to attend a live performance because in momentary period the seats available are fixed in supply. This will be used to explain that an increase in demand will result in high ticket prices. This has implications for transferring of resources in the short and long run and the ability of firms to meet changes in demand.</li> </ul> <p>Evaluation and judgement could be demonstrated with comments such as:</p> <ul style="list-style-type: none"> <li>• Because <math>PED &gt; 1</math>, firms should reduce prices of recorded music (as there will be a more than proportionate increase in quantity demanded) and <math>PED &lt; 1</math> firms should increase the price of live performances (as there will be a less than proportionate decrease in quantity demanded) to increase TR and profits.</li> <li>• Firms need to consider both revenue and costs when determining output levels to maximise profits.</li> <li>• Pricing also influenced by market structure. Barriers to entry are falling and level of competition increasing with oligopolistic labels giving way to monopolistic competition.</li> <li>• There are many other factors that help explain this increase in price, such as consumers are now more aware of the importance of shared physical music experience, just as people still enjoy going out to the movies.</li> <li>• Alternatives to price competition also need to be considered for the recorded music industry, such as embracing the online culture to generate online income streams and increased merchandising.</li> </ul>

**Judgement statement**

<b>Performance Descriptor 1</b>	8 marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis by applying microeconomic theory in a contemporary New Zealand context, which is complete, demonstrates depth in critical thought, and is economically literate</p> <p><b>and</b></p> <p>develops a <i>sophisticated</i> discussion as to how the use of elasticities of demand and supply could assist pricing decisions to maximise revenue and profits in the music industry</p> <p><b>and</b></p> <p>excellent level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p> <p><i>excellent</i> application of economic theory relevant to the use of elasticities of demand and supply in the pricing decisions used in the music industry</p> <p><b>and</b></p> <p>provides a <i>sound</i> evaluation well supported by evidence.</p>
	7 marks	<p>The essay fulfils most of the requirements of Descriptor 1 above <b>but</b>:</p> <p>contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p><b>or</b></p> <p>deals inadequately with an essential point</p> <p><b>or</b></p> <p>lacks sufficient abstraction or synthesis of source material</p> <p><b>or</b></p> <p>has some minor failure in the critical evaluation</p> <p><b>or</b></p> <p>is fluent and coherent, but not of outstanding quality.</p>
<b>Performance Descriptor 2</b>	6 marks	<p><i>The student will produce and effectively communicate a sophisticated economic analysis by applying microeconomic theory in a contemporary New Zealand context.</i></p> <p><b>and</b></p> <p><i>develops a well developed discussion as to how the use of elasticities of demand and supply could assist in pricing decisions to maximize revenue and profits in the music industry</i></p> <p><b>and</b></p> <p><i>competent level of abstraction and synthesis of the resource material</i></p> <p><b>and</b></p> <p><i>competent application of economic theory relevant to the use of elasticities of demand and supply in the pricing decisions used in the music industry</i></p>

		<b>and</b> <i>provides an effective evaluation supported by evidence.</i>
	5 marks	The essay fulfils most of the requirements of Descriptor 2 as above <b>but</b> : has some unsupported generalisations <b>or</b> some major point is neglected or part of the question is not answered fully <b>or</b> has some inadequacy in the critical evaluation <b>or</b> ideas are not communicated fully effectively.
<b>Performance Descriptor 3</b>	4 marks	The student will produce a comprehensive analysis by applying microeconomic theory in a contemporary New Zealand context <b>and</b> develops a clear but undeveloped discussion as to how the use of elasticities of demand and supply could assist pricing decisions to maximise revenue and profits in the music industry <b>and</b> some level of abstraction and synthesis of the resource material <b>and</b> some application of economic theory relevant to the use of elasticities of demand and supply in the pricing decisions used in the music industry <b>and</b> provides some evaluation supported by some evidence.
	3 marks	The answers fulfil most of the requirements of Descriptor 3 above <b>but</b> : is incomplete <b>or</b> fails to present a cogent argument or make critical analysis <b>or</b> does not communicate ideas adequately.
	2 marks	The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answers contain a minimal amount of relevant evidence.
	0 marks	Blank booklet or irrelevant answers.

## Question Two

This question focuses on equity issues and tax reform and an evaluation of the extent to which government should reduce income inequalities in the interest of improving equity.

Q	Evidence
(a) (i)	<p>In terms of the equity of income distribution, vertical equity implies the different treatment of those on different levels of income, and horizontal equity implies the same treatment of those on the same income.</p> <p>Income tax is progressive, meaning those on higher incomes are taxed at a higher marginal tax rate (MTR). This is considered vertically equitable because it is fair that those on higher levels of income pay more tax (at a higher MTR) because they can afford to do so. Transfer payments (benefits) are paid to those on lower incomes, or those with more family responsibilities.</p> <p>Horizontal equity is achieved when these progressive income taxes and transfer payments are applied similarly regardless of source of incomes.</p> <p>Thus progressive income taxes and transfer payments have the effect of taking more from the rich and giving to the poor, reducing the gap between the rich and poor so that income distribution is more equitable.</p>
(a) (ii)	<p>Because GST is charged at a uniform rate (15 per cent) on most consumption spending. Those on lower incomes spend a higher proportion of their incomes on consumption, therefore bear a higher tax burden than those on higher incomes – hence the regressive label.</p>
(a) (iii)	<p>Reduction of income tax rates will mean income taxes become less progressive and less effective in reducing income inequalities. This will result in an increase in income inequality. As a result, there will be a move outwards of the Lorenz curve. GST is a consumption tax; and despite having a regressive effect and therefore increasing inequality, it will not impact the Lorenz curve, which measures only income inequality.</p>
(b)	<p>The tax reform package (decrease in income tax/increase in GST) can have efficiency gains. Any two of: less disincentive, therefore more productive efficiency possibly pushing PPC outwards; less tax avoidance therefore more tax revenue and fewer distortions to the level and types of economic activity; less tax evasion (under-the-table payments). Reduces tax burden on labour, which is more internationally mobile so could reduce the brain drain.</p> <p>Efficiency gains from increasing GST: fewer exemptions therefore greater efficiency in the tax collection system.</p>

Q	Evidence
(c)	<p>This is an open-ended question allowing for arguments against the need for reducing income inequalities. These may include:</p> <ul style="list-style-type: none"> <li>• (Becker's argument) Good inequality provides the incentives for enterprise and innovation, and provides motivation to strive for higher education and improvement of skills.</li> <li>• Redistribution 'messes with incentives'</li> <li>• Improves economic efficiency (can incorporate summary of details in question (b), including more economic growth and jobs for New Zealanders)</li> <li>• Reduces inefficiencies/distortions (including deadweight losses from tax) that may result from poorly designed redistributive policies (tax avoidance and evasion)</li> <li>• Income taxes charged on an ever more mobile labour resource; less of a brain drain ... need to ensure tax rates are internationally comparable and do not contribute further to exodus to Australia.</li> </ul> <p>Arguments for the need to reduce the level of income inequalities might include:</p> <ul style="list-style-type: none"> <li>• (Solow's argument) that Becker tends to ignore bad inequality, the kind that comes from inherited wealth or racism</li> <li>• Redistributive policies provide valuable assistance to vulnerable households, e.g. WfF</li> <li>• Income inequalities responsible for loss of social cohesion.</li> </ul> <p>Evaluation could be demonstrated with</p> <ul style="list-style-type: none"> <li>• a discussion of the equity/efficiency trade-off and a diagram to show this</li> <li>• depends on who are the winners and losers and their place in the political landscape, may be a matter of opinion, influenced by other considerations, thus in the political realm</li> <li>• considerations of both vertical and horizontal equity and discussion about whether greater/lesser income inequality is more/less equitable.</li> </ul>

**Judgement statement**

<b>Performance Descriptor 1</b>	8 marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis by applying microeconomic theory in a contemporary New Zealand context, which is complete, demonstrates depth in critical thought, and is economically literate <b>and</b></p> <p>develops a <i>sophisticated</i> argument as to whether a government should reduce income inequalities in the interest of improving equity <b>and</b></p> <p>excellent level of <i>abstraction</i> and <i>synthesis</i> of the resource material <b>and</b></p> <p><i>excellent</i> application of economic theory relevant to arguments about reducing income inequalities in the interest of improving equity <b>and</b></p> <p>provides a <i>sound</i> evaluation well supported by evidence.</p>
	7 marks	<p>The essay fulfils most of the requirements of Descriptor 1 above <b>but</b>:</p> <p>contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p><b>or</b></p> <p>deals inadequately with an essential point</p> <p><b>or</b></p> <p>lacks sufficient abstraction or synthesis of source material</p> <p><b>or</b></p> <p>has some minor failure in the critical evaluation</p> <p><b>or</b></p> <p>is fluent and coherent, but not of outstanding quality.</p>

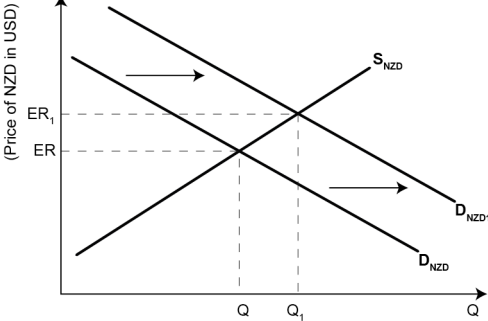
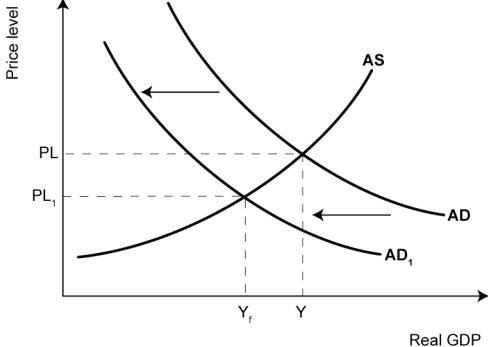
<b>Performance Descriptor 2</b>	6 marks	<p>The student will produce and effectively communicate a sophisticated economic analysis by applying microeconomic theory in a contemporary New Zealand context.</p> <p><b>and</b></p> <p>develops a <i>well developed</i> argument as to whether a government should reduce income inequalities in the interest of improving equity</p> <p><b>and</b></p> <p><i>competent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p> <p><i>competent</i> application of economic theory relevant to arguments about reducing income inequalities in the interest of improving equity</p> <p><b>and</b></p> <p>provides a <i>competent</i> evaluation well supported by evidence.</p>
	5 marks	<p>The essay fulfils most of the requirements of Descriptor 2 as above <b>but</b>:</p> <p>has some unsupported generalisations</p> <p><b>or</b></p> <p>some major point is neglected or part of the question is not answered fully</p> <p><b>or</b></p> <p>has some inadequacy in the critical evaluation</p> <p><b>or</b></p> <p>ideas are not communicated fully effectively.</p>
<b>Performance Descriptor 3</b>	4 marks	<p>The student will produce a comprehensive analysis by applying microeconomic theory in a contemporary New Zealand context</p> <p><b>and</b></p> <p>develops a <i>clear but undeveloped</i> argument as to whether a government should reduce income inequalities in the interest of improving equity</p> <p><b>and</b></p> <p><i>some</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p> <p><i>some</i> application of economic theory relevant to arguments about reducing income inequalities in the interest of improving equity</p> <p><b>and</b></p> <p>provides a <i>some</i> evaluation supported by <i>some</i> evidence.</p>
	3 marks	<p>The answers fulfil most of the requirements of Descriptor 3 above <b>but</b>:</p> <p>is incomplete</p> <p><b>or</b></p> <p>fails to present a cogent argument or make critical analysis</p>



		<b>or</b> does not communicate ideas adequately.
	2 marks	The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answers contain a minimal amount of relevant evidence.
	0 marks	Blank booklet or irrelevant answers.

**Question Three**

This question focuses on the effects of using New Zealand's inflation targeting, how this impacts on the exchange rate and whether a currency union with Australia would improve the situation.

Q	Evidence
<b>3</b> (a) (i)	<p><b>Market for NZD</b></p>  <p>Increased OCR leads to an increase in retail interest rates and, therefore, deposit rates for overseas investors. Graph drawn showing an increase in demand for NZD (moving <b>D</b> curve right) and an appreciation of the currency (and/or) decreased supply as fewer NZD are supplied to the market to invest offshore due to the higher domestic rates – moving <b>S</b> curve left (not shown) and causing an appreciation of the currency.</p>
(a) (ii)	<p><b>The New Zealand Economy</b></p>  <p>An appreciation of NZD will make exports relatively more expensive and imports relatively cheaper. Exports become less competitive and imports relatively more competitive in New Zealand; therefore, decreasing net exports and, therefore, AD shifts to the left. Could also illustrate increase of AS because the appreciation will reduce the cost of imported raw materials (not shown).</p>
(b)	<p>Any two of:</p> <ul style="list-style-type: none"> <li>• different exports and export markets that have fared differently</li> <li>• Australia was able to avoid recession as it was benefiting from China driven minerals boom</li> <li>• NZ smaller therefore has a lower credit rating and higher risk premium</li> <li>• differences in inflationary pressures</li> <li>• interest rate cycles (reflecting different monetary policy stances) differ.</li> </ul>

Q	Evidence
(c)	<p>A good answer will explain how a tight monetary policy would lead to a decrease in international competitiveness by establishing the positive relationship between OCR and the exchange rate through the foreign exchange market (including the carry trade) and negative relationship between the exchange rate and international competitiveness.</p> <p>Evaluation could be demonstrated with comments such as:</p> <ul style="list-style-type: none"> <li>• a tightening of monetary policy may be required to maintain price stability in the short term if the rate of inflation is predicted to exceed rates in our trading partners, so as to maintain international competitiveness in the long term.</li> </ul> <p>The essay should include arguments for and against the establishment of a common currency.</p> <p>Arguments supporting the establishment of a common currency might include reducing the risks for exporters and importers from volatile currency movements and reducing transaction costs for exporters and importers.</p> <p>Arguments against the establishment of a common currency might include:</p> <ul style="list-style-type: none"> <li>• In the long run, successful independent monetary policy will ensure that NZ inflation is no higher than inflation in its trading partners, therefore will maintain international competitiveness</li> <li>• The NZD/AUD exchange rate has varied from a low of 0.70AUD in the early 1990s to a high of 0.96; therefore, how can we establish a fair exchange rate?</li> <li>• Under a currency union, the country no longer has the option to foster a competitive devaluation via nominal exchange rate adjustment or reduce interest rates.</li> <li>• A floating NZD acts as a shock absorber for terms of trade shocks, e.g. depreciating when NZ faces a negative demand shock from the rest of the world.</li> <li>• The rate of interest would have to be the same for both countries; therefore, NZ would no longer have an independent monetary policy to respond to macroeconomic shocks it faces.</li> </ul> <p>Evaluation could be demonstrated with:</p> <p>a discussion of the costs and benefits of various economic policy objectives that are traded off in the respective choice of exchange rate regime, thus debate needed over the net benefits (costs) of exchange rate stability versus the costs (benefits) of giving up an independent monetary policy.</p>

**Judgement statement**

<b>Performance Descriptor 1</b>	8 marks	<p>The student will produce and effectively communicate an outstanding and sophisticated economic analysis by applying macroeconomic theory in a contemporary New Zealand context, which is complete, demonstrates depth in critical thought, and is economically literate <b>and</b></p> <p>develops a <i>sophisticated</i> argument as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p>excellent level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p> <p><i>excellent</i> application of economic theory relevant to arguments as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p>provides a <i>sound</i> evaluation well supported by evidence.</p>
	7 marks	<p>The essay fulfils most of the requirements of Descriptor 1 above <b>but</b>:</p> <p>contains minor factual inaccuracies (when this affects a statement or opinion)</p> <p><b>or</b></p> <p>deals inadequately with an essential point</p> <p><b>or</b></p> <p>lacks sufficient abstraction or synthesis of source material</p> <p><b>or</b></p> <p>has some minor failure in the critical evaluation</p> <p><b>or</b></p> <p>is fluent and coherent, but not of outstanding quality.</p>

<b>Performance Descriptor 2</b>	6 marks	<p>The student will produce and effectively communicate a sophisticated economic analysis by applying macroeconomic theory in a contemporary New Zealand context.</p> <p><b>and</b></p> <p>develops a <i>well developed</i> argument as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p><i>competent</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p> <p><i>competent</i> application of economic theory relevant to arguments as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p>provides an <i>effective</i> evaluation well supported by evidence.</p>
	5 marks	<p>The essay fulfils most of the requirements of Descriptor 2 as above <b>but</b>:</p> <p>has some unsupported generalisations</p> <p><b>or</b></p> <p>some major point is neglected or part of the question is not answered fully</p> <p><b>or</b></p> <p>has some inadequacy in the critical evaluation</p> <p><b>or</b></p> <p>ideas are not communicated fully effectively.</p>
<b>Performance Descriptor 3</b>	4 marks	<p>The student will produce a comprehensive analysis by applying macroeconomic theory in a contemporary New Zealand context</p> <p><b>and</b></p> <p>develops a <i>clear but undeveloped</i> argument as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p><i>some</i> level of <i>abstraction</i> and <i>synthesis</i> of the resource material</p> <p><b>and</b></p>

		<p><i>some</i> application of economic theory relevant to arguments as to</p> <ul style="list-style-type: none"> <li>the extent to which tightening monetary policy would reduce international competitiveness and</li> <li>whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia</li> </ul> <p><b>and</b></p> <p>provides <i>some</i> evaluation supported by <i>some</i> evidence.</p>
	3 marks	<p>The answers fulfil most of the requirements of Descriptor 3 above <b>but</b>: is incomplete</p> <p><b>or</b></p> <p>fails to present a cogent argument or make critical analysis</p> <p><b>or</b></p> <p>does not communicate ideas adequately.</p>
	2 marks	The answers show limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1 mark	The answers contain a minimal amount of relevant evidence.
	0 marks	Blank booklet or irrelevant answers.