



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

# **Scholarship, 2004**

**Economics (93402)**

**National Statistics**

**Assessment Report**

**Assessment Schedule**

## Economics, Scholarship, 2004

Scholarship candidates for Economics should be able to demonstrate the following:

### Attributes

- Analytical skills
- Critical thinking skills
- Evaluation skills
- Reflective skills
- Problem-solving skills: flexible thinking in unfamiliar/complex situations
- Communication skills: organisation, development and articulation of ideas
- Originality and/or sophistication in approaches, performances or solutions.

### Knowledge

- Thorough grounding in the subject
- Ability to make deductions: apply, integrate and synthesise knowledge
- High subject-specific literacy skills to the extent that they have to integrate written, graphical and mathematical forms of expression to complete a scholarship standard answer.

### General Comments

The Scholarship criterion requires students to 'produce and effectively communicate a sophisticated economic analysis by applying microeconomic and macroeconomic theory in a contemporary New Zealand context.' Successful candidates were able to communicate effectively and complete all the required elements:

- demonstrate their depth of understanding of the theory
- apply it to the situations given
- evaluate different theoretical solutions to economic problems.

Of particular importance were the abilities to:

- apply theory to the specific situation
- evaluate conflicting arguments of particular importance.

The three questions were each structured in such a way as to provide the candidate with a framework on which to construct an effective answer.

Part (a) required a straightforward explanation of theory appropriate to the given situation, with the emphasis on an understanding of the theory.

Part (b) required a more complex application, identification of relationships, and a deeper understanding of the theory to arrive at straightforward conclusions, perhaps with one or two reservations.

Part (c) required the 'critical thought'. Each question required an evaluation and there were at least two different perspectives to be considered.

The best answers tended to have about 35% of their writing answering Parts (a) and (b) and 65% on answering Part (c).

### National Statistics

Number of Results	Percentage		
	Not Achieved	Scholarship	Outstanding
295	91.2%	7.8%	1.0%

## **Assessment Report**

### **Candidates who attained Scholarship**

Successful candidates were familiar with the requirements of the standard, could write a clearly, and had good understanding of the theory covered in the level three achievement standards. They were able to extend this knowledge to the application of the theory to the specific situation.

It is the nature of Economics that there is rarely only one answer to a real world situation. Discussion of different ways of solving problems, and familiarity with how to evaluate conflicting arguments by applying economic theory to analysis of real world situations were the essential skills shown by candidates who gained scholarship.

Specifically such candidates:

- followed instructions such as 'illustrate' by including graphs and/or diagrams
- explained by giving reasons
- related answers to the stimulus material
- answered the questions asked
- were not sidetracked by minor issues and/or irrelevant ideas
- evaluated by looking at the relative merits of different viewpoints – not just one
- went beyond theory when evaluating
- wrote concisely
- showed evidence of having planned/structured answers
- followed conventions.

#### **Note:**

For more than a decade Year 13 Economic students have not been required to write an essay or extended paragraph in an external assessment. Without specific practice with this type of question it is difficult for a candidate to reach scholarship standard.

## Assessment Schedule

### Scholarship Economics (93402)

#### Evidence Statement

Scholarship requires candidates to demonstrate both breadth and depth in understanding.

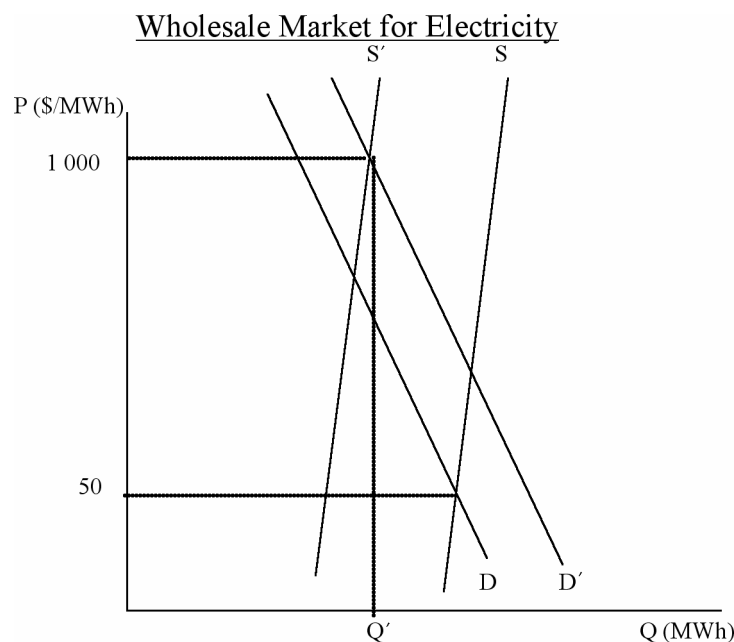
Candidates have to determine the range of ideas to cover and which ones to cover in more depth. The outstanding candidate will show discrimination in determining a balance between breadth and depth. It is also likely that some Scholarship standard candidates will have more strength in one part of the course than in another. With three essays it is anticipated that Scholarship may be achieved even if the third essay does not quite meet the standard as an individual essay, provided the other two essays clearly meet the requirements.

(Note: this is not to be interpreted as suggesting that the candidate only needs to write two excellent essays.)

Scholarship students should be able to include the following:

#### QUESTION ONE

- (a) (i) Demand for electricity is likely to be inelastic as there are few substitutes (at least in the short-term for most consumers, and even less for producers). Supply is likely to be inelastic as time constraints mean electricity producers are unable to increase production levels quickly. The best answers suggested that the spot market is in the momentary time period and output cannot be changed at this time because of the bad weather disrupting supply. This would produce vertical, perfectly inelastic, supply curves.

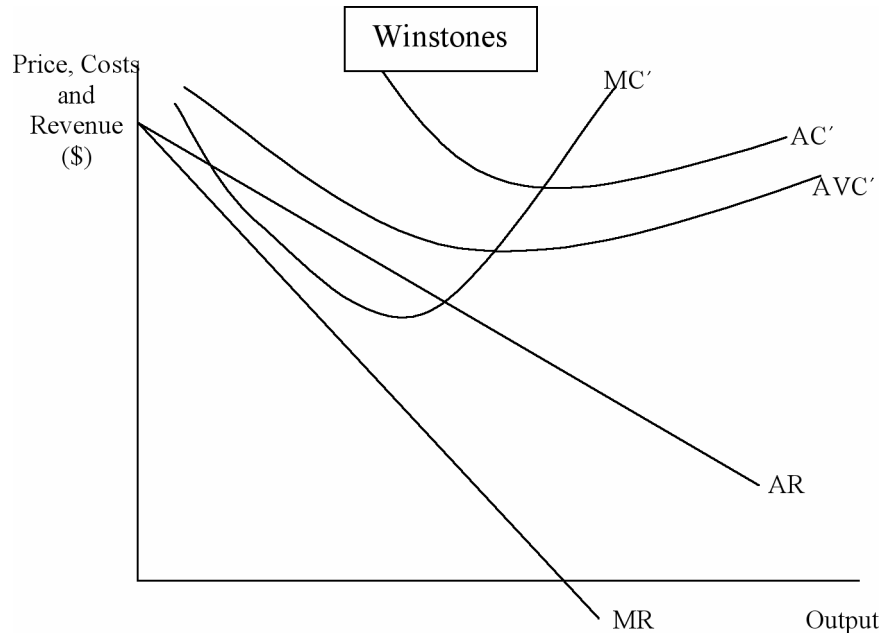


- (ii) The supply has decreased significantly because of bad weather disrupting the transmission lines. The demand has increased because of people returning from their holidays. This has resulted in prices increasing from P<sub>1</sub> to P<sub>2</sub>. Equilibrium quantity should fall because of the weather.

#### General Comment:

Surprisingly few students labelled the axes with the appropriate units, and even fewer took the actual prices for the wholesale market provided in the material. Some candidates did not provide a diagram or drew Supply and Demand curves that were not consistent with the elasticities provided in answer to part (i).

(b) (i)

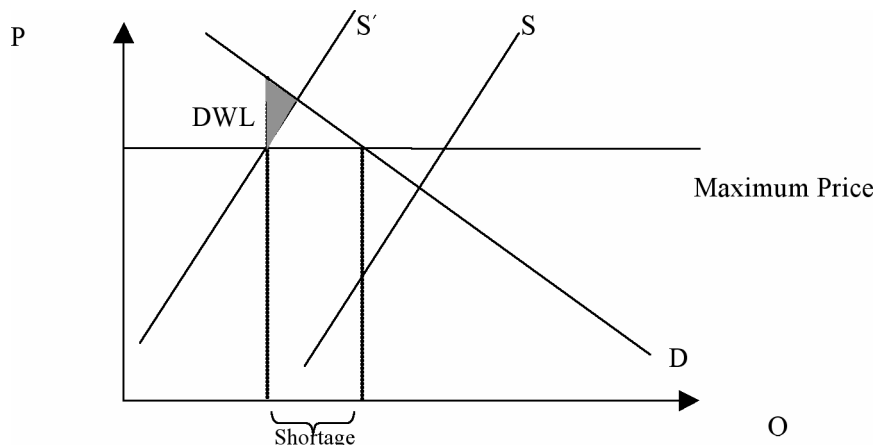


- (ii) The electricity price increase has increased MC and has caused average variable costs to be higher than price. The firm would be better, in the short run, to shut down and minimise its loss by paying only its fixed costs. Otherwise, the greater the output the greater the loss. Wages were a fixed cost – workers were not sent home.

**General Comment:**

The best answer would show the MC curve increasing, but only a very few candidates showed this. Most candidates made the connection with price (average revenue) having to cover the variable costs (which have increased) in order to reduce the loss. It is worth noting that because the monopolist has the ability to set the price there is no supply curve for this firm; there is only one combination of price and output that maximises the profit for the monopolist, whereas a Supply Curve needs the quantity supplied at each and every price.

- (c) An evaluation of the merits of a price control should discuss the advantages and disadvantages of the control and then conclude whether or not the government should introduce one. A diagram was required and the best answers drew a graph with the maximum price above the long-term equilibrium, and discussed how it would only have an effect when price movements were extreme.



Possible advantages:

- lower prices for firms, avoids occasional shut-down and associated costs such as lost profits, loss of export production, lost income for some workers
- increased certainty for firms, which may increase new investment, which results in more jobs, etc

- pulp and paper is an important export industry for New Zealand and provides many jobs. It would be a major loss if these firms shut down permanently because electricity is too expensive
- prevents electricity suppliers profiting from supply disruptions.

Possible disadvantages:

- a maximum price would cause a shortage when it comes into effect. This may result in power blackouts or brownouts which could be worse than price increases
- capacity of electricity producers is not unlimited – the maximum price would mean that electricity users are not receiving the correct signals about the marginal cost of their consumption.
- would cause a deadweight loss (diagram should be used for this point and/or point above)
- may cause electricity producers to under-invest in electricity generation capacity, as they would not be able to make appropriate returns.

A conclusion should be made with justification of the student's choice – note there is no 'correct' conclusion.

### **General Comment:**

Candidates must be disciplined with their answers – stick to the point they are trying to make and remember the situation that is being analysed. A surprising number of candidates considered price control leads to lower prices and went on to discuss how output for Winstones increases; completely ignoring the original problem of a shortage due to increased demand and reduced supply because of bad weather. Very few commented on how the price mechanism had actually worked – those firms that could not afford the price had stopped production so those that received a greater benefit from the electricity, continued consuming or producing.

A surprisingly common error was to assume that electricity generation is a natural monopoly and discuss the need for subsidies and allocative efficiency. A common discussion was how a lower price will increase the quantity demanded of electricity, increasing exports, etc; totally ignoring their own graph showing the shortage at the controlled price.

### **Judgements**

- (a) Required – one reason each for supply and demand being inelastic. On graph supply decreases and demand increases, with labelling reflecting context. Price must be increasing. Reasons must be stated why supply and demand shift.
- (b) Required – on graph, monopoly curves (MR, AR, MC, AVC needed) showing AVC at a higher level than price (if show  $MC = MR$ ). Explanation must include idea that loss will be less if the firm shuts down compared with continuing production.
- (c) Required – a good discussion recognising both viewpoints. Three advantages AND three disadvantages must be adequately explained. The use of a supply and demand graph for analysis of a shortage and/or deadweight loss must be included.

**QUESTION ONE****Meets Scholarship criteria:****This essay will typically cover all the criteria below to some extent to qualify for Scholarship.**

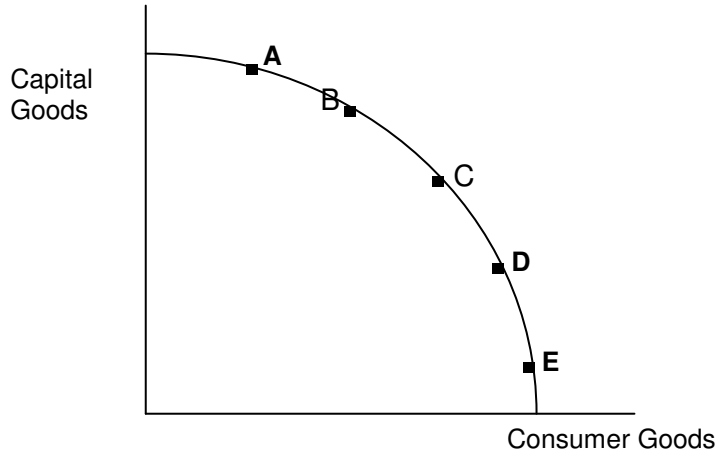
Criteria	Evidence (not an exhaustive list)		Scholarship Judgement	Outstanding PerformanceJudgement
<b>Part (a)</b> Abstraction	Recognising that supply and demand will be inelastic and the impact of the supply disruptions and increased demand on the supply and demand curves.			Completeness requires students to cover the parts of the syllabus that are appropriate to the analysis.  The depth of analysis will be made apparent by the linkages made between different ideas.  All three parts of the question will be answered using all economic ideas / theory that are appropriate to the question.
Economic Literacy	Economic conventions in labelling are followed. A higher price shown.			
<b>Part (b)</b> Abstraction	Recognising the concept of the shutdown point for a monopolist.			
Synthesis	Can correctly link monopoly revenue and cost curves to show a shutdown position where $AVC > P$ .			
Economic Literacy	Monopoly curves and their relationships are correctly drawn. Can effectively communicate why shutting down is preferable to continuing to produce.			
<b>Part (c) (Essay)</b> Abstraction	Recognises the significance of a maximum price at times of peak demand and/or supply disruptions.	<b>Sophisticated analysis</b>	Identify key elements of the situation to enable the application of the theory.	
Synthesis	The effects of a maximum price – shortage, DWL, under-investment.		Identify complex relationships, linkages and the interdependence of ideas.	
Generalisations and Conclusions	A maximum price will have some benefits to major consumers but will result in overall efficiency loss.		Identification of relevant trends and relationships followed by deductions based on the generalisations.	
Evaluation	Look at the effects of a price control from the viewpoints of both consumers and electricity producers. On households and firms, exports, jobs, the effects on producer's future investment, whether or not high electricity prices are actually forcing production overseas etc.		Recognises the strengths and limitations of the data and the models.	
Economic Literacy	Ideas effectively communicated using economic conventions, terminology and a supply and demand graph showing maximum price and the deadweight loss.		Ideas are effectively communicated using appropriate economic language, concepts (including models and graphs) and conventions.	The student will communicate effectively, with fluency and succinctness, using appropriate economic language, concepts (including models and graphs) and conventions.
Critical Thought	Minimum price set above the usual equilibrium. Different groups of consumers affected differently. Some of the decisions made may be politically motivated / influenced by pressure groups.			Critical thought involves the examination of issues from different perspectives and evaluating consequences.

## QUESTION TWO

Scholarship students should be able to include the following:

- (a) Productive efficiency – all resources in an economy are fully employed. Any point on a PPC is productively efficient.

Allocative efficiency – the one point on the PPC (is production efficient) AND where the sum of consumer surplus and producer surplus is maximised.



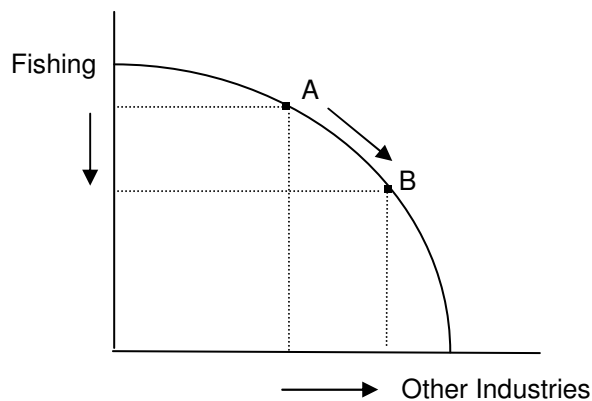
Points A, B, C, D, and E are all productively efficient, but the one allocatively efficient point depends on the markets for consumer and capital goods. (A diagram showing possible market equilibria and linking it to the PPC would show this.) Note that the PPC could show different labels on the axes, for example kahawai and conservation.

### General Comment:

Allocative efficiency is where the markets are at equilibrium only if the markets are perfectly competitive. 'The combination that consumers want' was quite a common answer but does not really capture the idea, something about 'best' or 'most' is required.

- (b) A high NZ dollar means that the NZ currency has appreciated, increased in value relative to other currencies. The NZ fishing industry exports a high percentage of its catch overseas. At the world price, a higher NZD means that the value of export receipts for the fishing industry will decrease (for the same amount of fish exported). The fishing industry will be generally less profitable. Firms earning subnormal profits will leave the industry in the long run and use their resources in other ways. For example, the boats could be used for sightseeing tours and the labour that worked on the boats may lose their jobs and get alternative employment in another industry, eg tourism.

Could use a PPC to illustrate this reallocation of resources....





**General Comment:**

Most candidates understood that NZ exports fish, few discussed the fall in income because NZ is a price taker on the world market. More commonly, the discussion was of increased prices leading to a drop in quantity demanded and therefore fewer resources required to catch fewer fish. The role of subnormal profits was often forgotten or ignored. 'Decreasing revenue' does not really capture the concept. It was a specific question so it was reasonable to expect some suggestion of what the resources were, eg fishing boats and fishers, could be transferred to eg tourism or some importing business. As a matter of technique it would be helpful if more candidates were aware of the difference between 'ie' (that is) and 'eg' (for example); 'transferring resources, eg labour' is quite acceptable, but 'transferring resources, ie labour' raises doubts as to the candidate's understanding.

(c) An evaluation of the regulated and unregulated markets should include the following:

- Property rights – in an unregulated market, property rights are not clearly defined; if you can catch the fish then you have a property right. In a regulated market (QMS) there are clear property rights given by the government; you can own the fish without having caught it first.
- Externalities – over-fishing imposes external costs on others; now and for future generations.

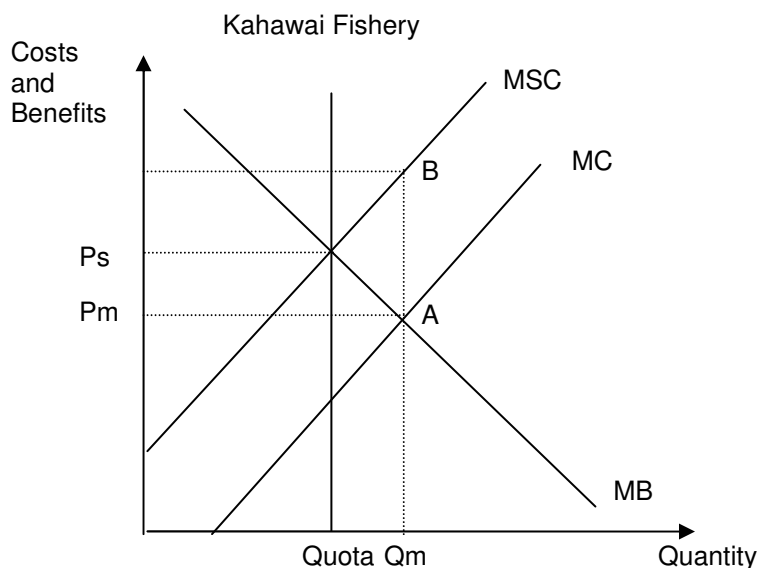
Kahawai as an unregulated fishery:

- No property rights, leading to over-fishing by commercial fishers.
- This leads to external costs imposed on recreational fishers as their catch is down in size and numbers.
- Incorrect price signals and market failure, deadweight loss.
- Would also lead to long-term job losses and loss of export receipts.

Kahawai as a regulated fishery:

- Government decides total allowable catch and then allocates it between commercial and recreational fishers.
- This means there are clearer property rights (especially for commercial fishers).
- Ideally a better management of the resource (sustainable).
- This may lead to increasing number of jobs and possibly export receipts.
- Also better fishing for recreational fishers.
- Tension between recreational and commercial fisherman over allocation of quota, in part due differing uses of kahawai.
- Possible issues over customary rights to kahawai of Māori.

Conclusion should probably indicate that a regulated approach would be beneficial but recognise that there are still possible problems to deal with.



**General Comment:**

The question outlines a suitable structure that was followed by few candidates. Define property rights and define externalities with relation to the fishery. Then look at the pros and cons of an unregulated and then of a market regulated with a QMS with particular regard in both cases to property rights and externalities. A number of candidates discussed the externalities but made the error of suggesting that the quota has introduced a deadweight loss (DWL). In the above diagram there is no DWL. The externalities may be shown either by the rectangle from AB to the vertical axis, or the area between MC and MSC from AB back to the vertical axis. It was pleasing to see very few candidates using the horizontal MC curve, which may be appropriate for the individual, but not for the market.

**Judgement statements**

- (a) Required – clear definitions of productive and allocative efficiency, PPC with conventional shape, illustrating difference between the two concepts.
- (b) Required – explanation of the negative impact that a high NZD has on an export-based industry. Candidate must show they understand what reallocation of resources refers to by using examples from the fishing industry. A PPC would be useful to illustrate this but not necessary.
- (c) Required – clear understanding of how property rights and externalities are related to the fishing industry. Candidate should recognise the disadvantages of an unregulated market and advantages of a regulated market. Although a graph was not specifically required, those candidates who provided an appropriate graph completed a better response.

## QUESTION TWO

**Meets Scholarship criteria:**

**This essay will typically cover all the criteria below to some extent to qualify for Scholarship.**

Criteria	Evidence (not an exhaustive list)		Scholarship Judgement	Outstanding Performance Judgement
<b>Part (a)</b> Abstraction	Recognising the difference between productive and allocative efficiency using a PPC.			Completeness requires candidates to cover the parts of the syllabus that are appropriate to the analysis.  The depth of analysis will be made apparent by the linkages made between different ideas.  All three parts of the question will be answered using all economic ideas / theory that are appropriate to the question.
Economic Literacy	Economic conventions in drawing a PPC are displayed. Definitions of productive and allocative efficiency.			
<b>Part (b)</b> Abstraction	Recognising the significance of a high NZD.			
Synthesis	Can correctly explain the disadvantage of a high NZD to an exporting sector and the impact on resource use – with the idea of subnormal profit.			
Economic Literacy	Ideas effectively communicated using economic conventions, terminology and models/graphs where appropriate, eg PPCs, levels of economic profits.			
<b>Part (c) (Essay)</b> Abstraction	Can explain how property rights and externalities are relevant to the fishing market.	<b>Sophisticated analysis</b>	Identify key elements of the situation to enable the application of the theory.	
Synthesis	Externalities lead to incorrect price signals and market failure. Property rights can solve this.		Identify complex relationships, linkages and the interdependence of ideas.	
Generalisations and Conclusions	An unregulated market will have long-term disadvantages, eg possible loss of resource. A regulated market can improve efficiency.		Identification of relevant trends and relationships followed by deductions based on the generalisations.	
Evaluation	Difficult to properly assess fish stocks and therefore the level of externality, to quantify (and enforce) limits, or determine the distribution of the quota.		Recognises the strengths and limitations of the data and the models.	
Economic Literacy	Ideas effectively communicated using economic conventions, terminology and models/graphs where appropriate, eg negative externalities of production.		Ideas are effectively communicated using appropriate economic language, concepts (including models and graphs) and conventions.	The candidate will communicate effectively, with fluency and succinctness, using appropriate economic language, concepts (including models and graphs) and conventions.
Critical Thought	As fish stocks decrease fishers may turn to other species, relative merit of kahawai for bait or consumption by anglers. Some of the decisions made may be politically motivated / influenced by pressure groups. Government has Treaty of Waitangi obligations.			Critical thought involves the examination of issues from different perspectives and evaluating consequences.

### QUESTION THREE

Scholarship students should be able to include the following:

- (a) China's booming economy has increased demand and caused higher prices for commodities traded on world markets. As a result, New Zealand's imported raw materials including steel, oil and copper have increased in price, as have prices for some of some New Zealand's exported commodities such as aluminium and logs.

Because no information is provided on the changes in price of exports relative to the price of imports it is not possible for us to predict change in the terms of trade. Also, as no information is provided on change in quantities exported or imported (these will depend on the relative price elasticities for exports and imports), it is not possible to predict change in the balance of goods without making some assumptions.

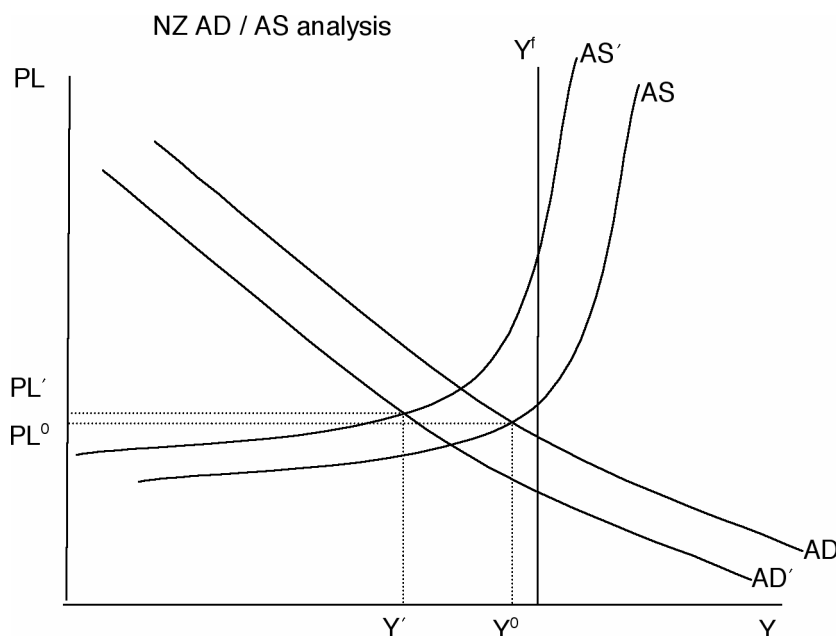
However, the Chinese boom has increased the demand for shipping, resulting in shipping costs rising worldwide. New Zealand imports shipping services for transporting both its imports and exports. Therefore there is an increase in payments of imported services resulting in a decrease in the balance of services. Other things being equal (*ceteris paribus*), it is likely to increase the deficit on current account of the balance of payments.

#### General Comment:

This was quite a specific question – five commodities are mentioned in the stimulus material – for New Zealand there were three imports and two exports plus shipping. It was anticipated that candidates would discuss the effect of the price changes specifically on at least exports, imports and shipping. Surprisingly, many candidates considered shipping as a cost of production affecting exports only and did not relate it to the balance on services in the Current Account. Balance on Visibles and Balance on Invisibles seem to have fallen out of favour with the most recent system of national accounts.

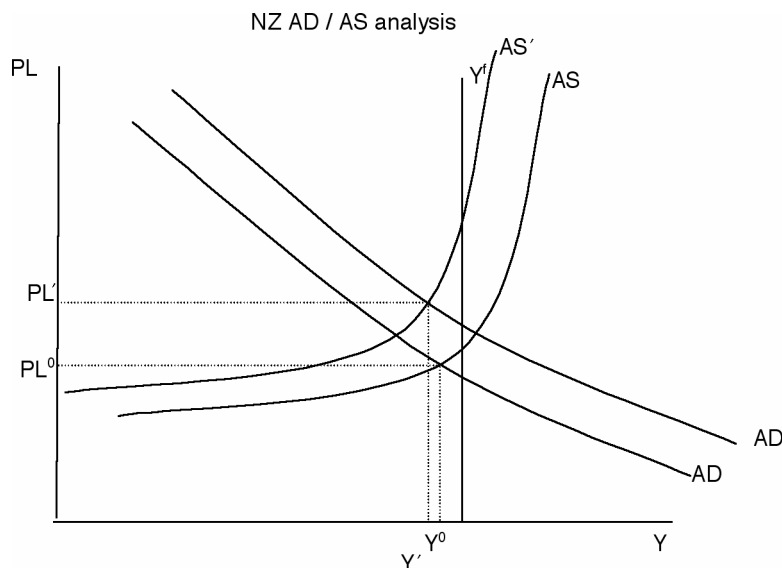
- (b) There is considerable scope for interpreting this question. The answer below represents two possible approaches.

AD / AS model drawn to show New Zealand currently at equilibrium ( $PL^0$  and  $Y^0$ ) close to its full employment level of output at  $Y^f$ . (Candidates should be aware that the NZ economy is near full employment.)



From the analysis in Part A, an increase in the current account deficit will decrease net exports ( $X-M$ ) and result in a decrease in aggregate demand, shifting  $AD$  to the left. An increase in the price of imported raw materials will decrease  $AS$ , a shift to the left. Only a small effect on price level is seen (possibly indeterminate), whereas there is a considerable decrease in New Zealand's real GDP, national output and employment.

However, a more sophisticated analysis recognises that, if inflation in China is higher than in NZ, the NZ economy will become relatively more competitive with an increase in (X-M) resulting in AD shifting to the right. The increase in the cost of imported raw materials will result in a shift of AS to the left. There will be a small effect on New Zealand's real GDP, national output and employment whereas there is a considerable increase in price level, shown in the following diagram.



In the longer term the world economy will adjust to these changes in resource demands and bottlenecks in China. A free trade agreement between China and New Zealand could result in more trade opportunities.

#### General Comment:

Part (a) of this question looks at a single pointing time – this part of the question requires the candidate to recognise the dynamic nature of the economy. A number of candidates took this analysis well beyond what was expected – assuming the NZD strengthens as a result of China's currency weakening, which reduces NZ exports to China and increasing our imports. Not the standard analysis of the results of inflation. A number of candidates misread the question and completed most of their analysis for China before looking briefly at New Zealand. A significant number did not use an AS/AD diagram.

- (c) China uses a range of disinflationary policies including the government imposing price controls on SOEs, and allocating more resources to steel and power production to reduce the bottlenecks in these industries. Chinese monetary policy focuses on controlling the money supply through changes to banks' reserve requirements.

An evaluation of these policies should discuss the advantages and disadvantages of the controls used in China compared with New Zealand's policies.

Advantages of the Chinese policies include price controls applied to important or strategic industries or markets. They have the ability to do this in their more controlled economy. The direct control over bank lending aims to limit the money supply and through this mechanism increase interest rates to reduce consumer spending and AD.

The disadvantages of these controls are as follows. They may not be effective as they do not address the cause of inflation, merely suppress it, and when the controls are lifted inflation may re-emerge. Markets are unable to send effective price signals and market failures will occur. Government controls can misallocate resources so that the outcomes are sub-optimal. Controls on the money supply may be ineffective, as a current account surplus with a fixed exchange rate will lead to increases in liquidity and increases in liquidity will increase inflationary pressures.

(New Zealand, on the other hand, abandoned using these types of controls in the deregulation of the 1980s.) New Zealand monetary policy is implemented by RBNZ, which is independent of government and controls the price of money rather than the money supply, as this is considered to be more effective. RBNZ aims to achieve price stability (with a target range of 1 – 3% inflation) by influencing interest rates through changes in the official cash rate (OCR), which affects the overall level of economic activity. An increase in interest rates will increase the cost of borrowing and this reduces consumption and investment spending, and indirectly through the

exchange rates the level of net exports. This limits growth in aggregate demand, reducing inflationary pressures. It is an advantage to New Zealand to have transparency in the decision-making as this is better for business confidence and results in fewer distortions.

Some candidates may also refer to China moving towards a more market economy where these controls will have less effect in achieving price stability. China will probably need to adopt disinflationary policies more in line with those seen in New Zealand.

**General Comment:**

While the Reserve Bank does use Open Market Operations, they are only to offset the big day-to-day fluctuations in government spending and revenue. The use of the Official Cash Rate means that there is no longer any need to try and affect the interest rates through other avenues. It was very gratifying to read so many answers where the candidates recognised that increasing the OCR or the reserve requirements have similar effects on economic activity.

'Price stability is achieved through influencing short-term interest rates with the announcement of an Official Cash Rate, which in turn influences saving and borrowing by the public and businesses. Decisions on short-term interest rates influence the exchange rate as well, and therefore the prices of imports and exports.'

**Judgement statement**

- (a) Required – correctly identify effect on goods balance and services balance using up-to-date terminology. Correctly identify impact on current account balance.
- (b) Required – appropriately drawn AS / AD diagram(s) of New Zealand economy showing original equilibrium near to full employment and AD and AS curves shifting consistent with the analysis. Some reference to distinction between short-run and long-run equilibrium.
- (c) Required – reference to at least two controls in China and one policy in New Zealand. Two advantages and two disadvantages must be identified and adequately explained; reference must be made to the contrast between China's controls only working in a planned economy and New Zealand's policy more likely to be effective in a market economy.

### QUESTION THREE

**Meets Scholarship criteria:**

**This essay will typically cover all the criteria below to some extent to qualify for Scholarship.**

Criteria	Evidence (not an exhaustive list)		Scholarship Judgement	Outstanding Performance Judgement
<b>Part (a)</b> Abstraction	Recognises which goods and services NZ exports/imports and their impact on balance of goods and balance of services and thus on the current account balance.			Completeness requires students to cover the parts of the syllabus that are appropriate to the analysis. The depth of analysis will be made apparent by the linkages made between different ideas. All three parts of the question will be answered using all economic ideas / theories that are appropriate to the question.
Economic Literacy	Uses appropriate terminology and conventions.			
<b>Part (b)</b> Abstraction	Recognising the impact of Chinese inflation on NZ.			
Synthesis	Makes appropriate links between changes in commodity prices to changes in AS and AD.			
Economic Literacy	Uses appropriate terminology and conventions. Accurately draws AS/AD diagram.			
<b>Part (c)</b> Abstraction	Recognises Chinese disinflation policies as micro and macro economic controls. Recognises similar controls used prior to deregulation in NZ.	<b>Sophisticated analysis</b>	Identify key elements of the situation to enable the application of the theory.	
Synthesis	Analyses use of policies in China and NZ.		Identify complex relationships, linkages and the interdependence of ideas.	
Generalisations and Conclusions	Direct controls used in China only appropriate to a command economy. As China becomes more market orientated it may need to adopt policies similar to NZ.		Identification of relevant trends and relationships followed by deductions based on the generalisations.	
Evaluation	Candidates recognise the size of the Chinese economy and how difficult it is to control it compared with NZ. Transparency of the RBNZ intervention and the problems of short and long term fixes with price controls		Recognises the strengths and limitations of the data and the models.	
Economic Literacy	Uses appropriate terminology and conventions.		Ideas are effectively communicated using appropriate economic language, concepts (including models and graphs) and conventions.	The student will communicate effectively, with fluency and succinctness, using appropriate economic language, concepts (including models and graphs) and conventions.
Critical Thought	Different political systems, levels of development, and sophistication of the financial systems affect the economic system and the efficacy of possible solutions. Short run vs long run effects.			Critical thought involves the examination of issues from different perspectives and evaluating consequences.

## Overall Judgement Statement

To achieve **Scholarship**, candidates are required to produce and effectively communicate a sophisticated economic analysis by applying both microeconomic (mainly in Questions 1 and 2) and macroeconomic theory (in Question 3) in a contemporary New Zealand context.

To achieve **Scholarship with Outstanding Performance**, candidates are required to produce an outstanding analysis, which is complete, demonstrates depth in critical thought, and is economically literate. Evidence of critical thought was mainly collected from the answers to section (c) of each question.

**General Comment:** Although some feedback has been provided on individual parts of questions, the final assessment grade was determined holistically. In very broad terms the answers to parts (a) and (b) of the questions provided evidence of abstraction and synthesis, while more sophisticated skills were demonstrated in the answers to part (c). There were no absolute rules. A candidate who did an outstanding analysis for Question 1 and a reasonable analysis for Questions 2 and 3 could still achieve scholarship. However, because both microeconomic and macroeconomic analyses were required, a number of students who did not provide a full answer to Question 3 could not achieve scholarship. This was also the case for candidates who provided excellent answers for Parts (a) and (b) of each question but did not provide the analysis required for (c).