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93402



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OUTSTANDING SCHOLARSHIP EXEMPLAR



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Tick this box if you
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Scholarship 2022 Economics

Time allowed: Three hours
Total score: 24

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should answer ALL the questions in this booklet.

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

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–28 in the correct order and that none of these pages is blank.

Do not write in any cross-hatched area (☒). This area may be cut off when the booklet is marked.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF
THE EXAMINATION.**

INSTRUCTIONS: Write an essay in response to EACH of the THREE questions in this paper. Question Two is on page 10, and Question Three is on page 18.

QUESTION ONE: Protectionist trade policies and allocative efficiency

Use information from **Resources A to D**, and your knowledge of micro-economic theory, to answer this question.

Cheap imports have some domestic producers asking the government for protection from the unfair competition of subsidised overseas-produced goods. Anti-dumping duties (tariffs) have been imposed on a range of imported goods, including canned peaches from South Africa and galvanised wire from Malaysia.

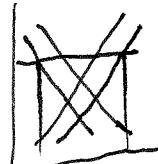
Explain the changes in the European market that lead to surplus goods that could be dumped on other markets. Analyse the impact of dumping these cheaper surplus goods on the New Zealand market. Evaluate the extent to which protectionist policies would impact participants and allocative efficiency in the New Zealand market.

In your answer:

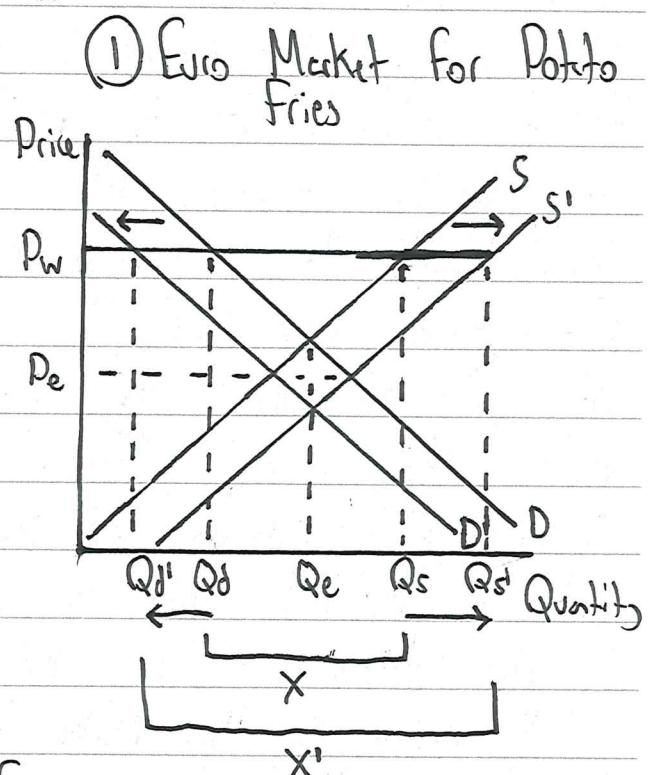
- use appropriate economic models throughout
- illustrate and explain the changes in the European market for EITHER potato fries OR specialty cheese that have resulted in dumped goods
- analyse New Zealand's position as a price taker for imported goods, and the impact of lower-priced imports on producer revenue and allocative efficiency in EITHER the potato fries OR specialty cheese market
- analyse the impact of the TWO protectionist policies suggested in **Resource D** on producer surplus, consumer surplus, the government, and allocative efficiency in the New Zealand market
- evaluate which policy would be most effective in protecting New Zealand producers from unfair competition, whilst minimising the impact on consumers and allocative efficiency.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING



Currently, "there is evidence that European-produced potato fries" (B) are being dumped into NZ at a "price less than what exists in the domestic Market." (A). This is due to "fewer people eating out" (B) in European Restaurants, which has in turn led to a fall in demand for Potato Fries in Europe from D to D'. Equally, "Europe has increased its Potato Plantings to record levels" (B), which has led to an increase in the supply of potato fries from S to S'. As the world price P_w is above the equilibrium price P_e , European growers sell at the world price. This in turn means that the market changes have caused the quantity demanded within Europe to fall from Q_d to Q_d' while equally causing the quantity supplied within Europe to rise from Q_s to Q_s' . This creates a surplus within the domestic market, with this surplus then exported overseas, with the export volumes of potato fries increasing from X to X' as shown above, which has in turn led to the dumping of goods.

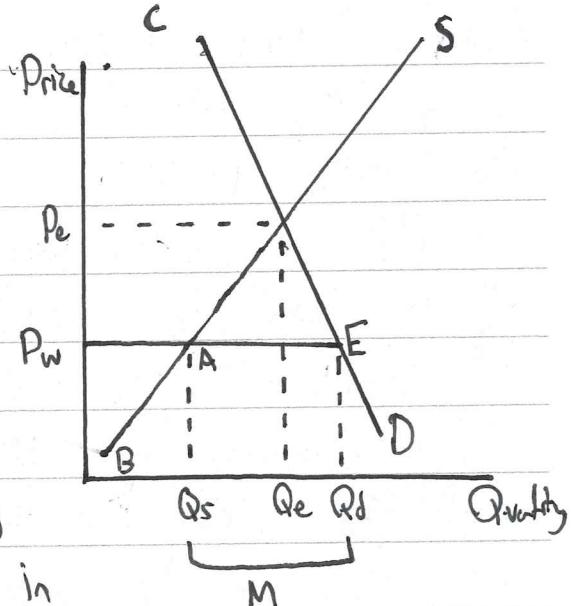


New Zealand is a price-taker for potato fries, which in turn means that the world price is below our equilibrium price to grow potato fries, as such we take the world price rather than setting our own. As such, NZ takes the world price P_w (see ②) when importing potato fries. This in turn means that the quantity supplied by domestic growers is

② NZ Potato Fries Market

Much less Qs than the quantity demanded by consumers Qd, so in turn causing a shortage which is made up by imports M. Because NZ is a price-taker, producer surplus, which is the difference between what producers are willing to receive and actually receive, is much lower than it would be if the market operated at domestic equilibrium. PS can be seen in area PwAB. This is because producers are selling a lower quantity Qs at a lower price Pw, which in turn reduces the amount of units of which they can gain a surplus and in turn reduces their revenue.

Allocative efficiency occurs when the market operates at equilibrium and producer surpluses and consumer surpluses are collectively maximized with no deadweight loss. Consumer surplus, which is the difference between what consumers are willing to receive and actually receive, can be seen in area CEPr. CS sufficiently offsets the lower PS as consumers are consuming more units Qd at a lower price Pr, in turn increasing the amount of units of which to gain a surplus. Thus, because the market is operating with CS and PS collectively maximised and without a deadweight loss it can be seen to be allocatively efficient.



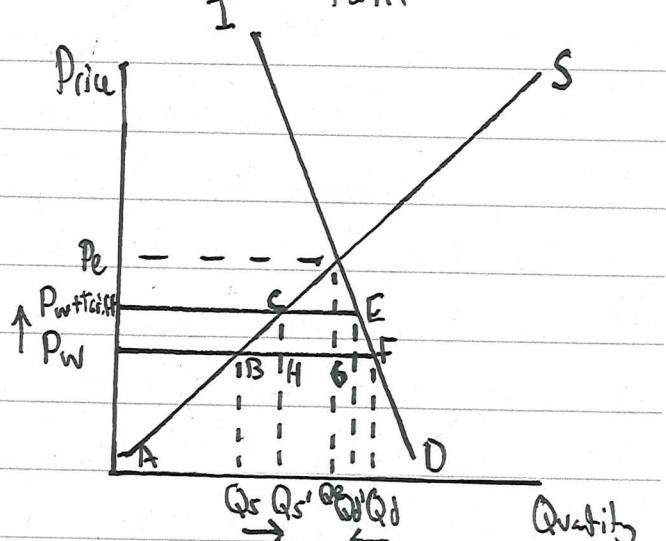
One policy to reduce dumping would be to add a "tariff on potato fries" (D). This would in turn raise the price of potato fries from P_w to $P_w + \text{Tariff}$ as dumpers would have to pay a duty on all fries they import/export to NZ. A tariff would cause PS to increase from area AB P_w to area ACP $w + \text{Tariff}$. This is

③ N2 fries market with tariff

because producers would be providing a greater quantity, Q_s' at a higher price P_{w+T} , in turn increasing the amount of units of which to gain \leftarrow surplus.

Consumer Surplus, which is the difference between what consumers are willing to pay and actually pay, would

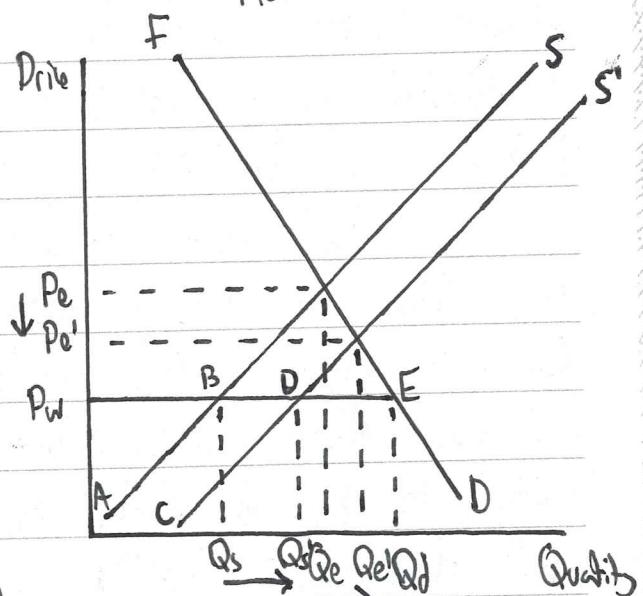
fall from area IFP_w to area IEP_{w+T} . This is because consumers will be consuming a lower quantity Q_d' at a higher price P_{w+T} , in turn decreasing the amount of units consumed of which to gain \leftarrow surplus. Government revenue would increase by area $CEGH$ as the government captures revenue from the tariff. This revenue in the future could then be used to help the hot potato fry market become more internationally competitive. However, even with the gains in DJ by area $P_{w+T}BP_w$ and gain in government revenue by area $CEGH$, it is not sufficient, offset by the losses in CJ by area $P_{w+T}EF P_w$. As such, a deadweight loss will emerge in area BCH and area EFG , in turn meaning the market is not collectively efficient as CJ and DJ are both not collectively maximized.



A second policy to reduce dumping would be to provide a "research and development grant" (D) to potato industries which would hopefully "increase productivity" (D). As productivity within the market increases, supply would increase from S to S' . This would in turn cause the quantity supplied within the market to increase from Q_s to Q_s' as the fall in price from P_w to P_w' becomes closer to world price P_w . This would

(4) NZ Market for Hot Fries

in turn cause P_S to increase from ABP_w to CDP_w \hookrightarrow they will be providing a higher market quantity Q_S' at the price P_w , in turn increasing the amount of units of which to gain a surplus. CS will stay constant at area FEP_w , so consumers will continue to consume the same quantity



Q_D at the same price P_w , in turn not changing the amount of units consumed of which to gain a surplus. The government will be initially impacted in the cost of the grant, however, as it will lead to allowing the potato industry to better survive. Such cost may be worth it especially as the industry provides "just over \$1bn a year to the economy." (B). In terms of allocative efficiency, both CS and PS will be maximized with a grant, with no additional DWL, as such, the market will remain allocatively efficient with this policy.

A grant would be more effective at protecting NZ growers while maintaining allocative efficiency. This is because a grant will allow the market to increase its supply, thus reducing the difference between P_e and P_w and in turn allowing firms to supply a greater quantity. It will also not interfere with CS while increasing PS, thus keeping the market allocatively efficient. On the flip side, the increase in PS and government revenue will not sufficiently offset the losses to CS, as such will make the market allocatively inefficient. While a grant may take a while to have its desired impact, it will ultimately be more

Sustainable in the long-term by keeping the market competitive
efficient at helping prevent NZ producers from unfair competition. //

QUESTION TWO: Reducing smoking incidence and inequities in New Zealand

Use information from **Resources E to H**, and your knowledge of micro-economic theory, to answer this question.

In 2011, the Government set a target for a Smokefree Aotearoa – that by 2025 fewer than 5% of the population would be smokers. The goals include eliminating inequities in smoking rates and smoking-related illnesses. Policy options identified have been categorised into three themes – affordability, availability, and addictiveness of tobacco.

Analyse the market failure in the New Zealand cigarette market. With reference to allocative efficiency and equity, evaluate the effectiveness of three policies suggested by the government on different groups in society.

In your answer:

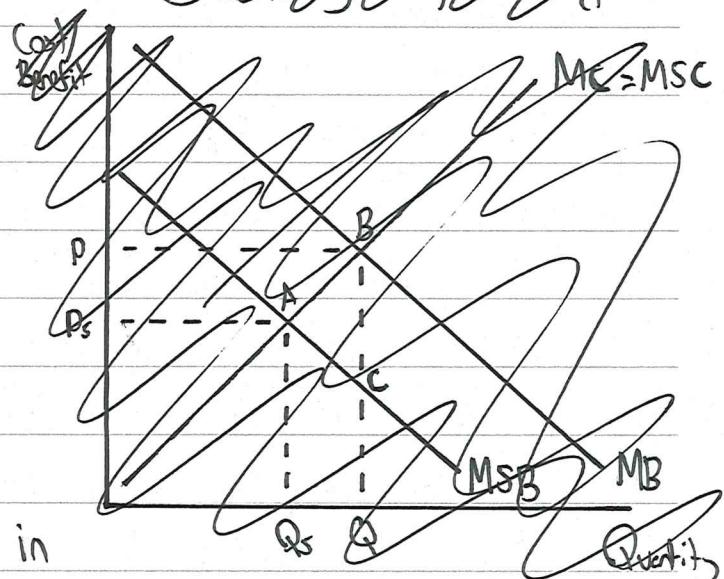
- use appropriate economic models throughout
- explain and illustrate the **externalities** associated with smoking cigarettes, and why market failure occurs
- explain and analyse **THREE government policies** from **Resource H** and their impact on allocative efficiency and equity for different groups in society
- evaluate which policy or policies would be most effective, and allocatively efficient, for the government to pursue to achieve its goals in the short-and long-term.

Use this space for planning your essay. This plan will NOT be marked.

PLANNING

Smoking is "the single biggest cause of premature death" (F) in NZ with over "4500 NZers dying annually" (F) due to tobacco related illnesses such as "lung cancer, respiratory disease and cardiovascular disease." (F). The prevalence of these diseases in turn means that smokers are taking away hospital beds from others who need them, which in turn causes a cost on a third-party and means that the marginal social benefit from smoking is much less than the marginal benefit. This in turn means that smoking leads to a negative externality of consumption which creates a deadweight loss in area ABC, and in turn means that cigarettes \rightarrow (see Graph ①).

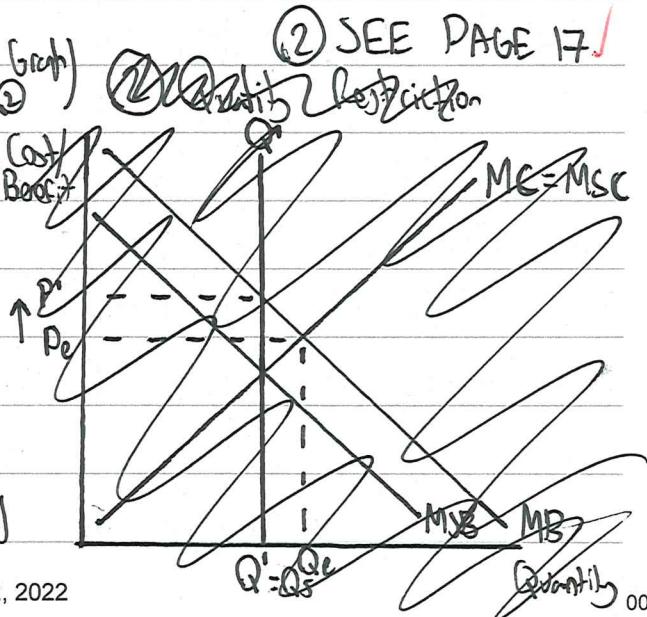
are overconsumed at current quantity Q , because an externality is present, the market is now inefficient and market failure has occurred, in turn giving justification for the government to intervene.



One policy to reduce smoking is to "reduce outlets selling cigarettes from 5000 to 300" (H). This would in turn

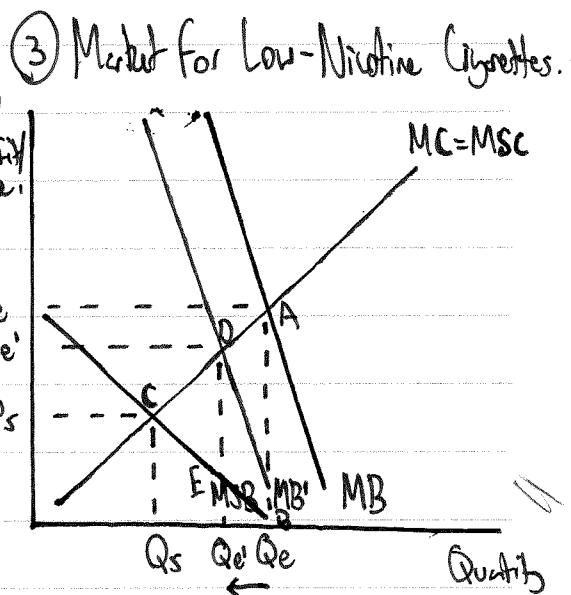
place a quota on cigarettes at (see Graph ②) Q' which would be equal to the socially desirable quantity of Q_s .

Such policy would be effective as it would reduce the availability of tobacco, which could "reduce cigarette retailers clustering in low-income areas or close to schools." (H), which would



in turn allow for the government to fulfill its goal of reducing Smoking. It would also be an efficient policy as it would force the market to operate at the socially desirable quantity Q_s , in turn removing the negative externality and subsequent deadweight loss. However, such policy could be deemed as inequitable. This is because smoking is "highly addictive" (F) as such there may be "high travel costs" (H) for those who are addicted to travel to go buy cigarettes. When we consider that smoking overwhelmingly and disproportionately harms those in "socioeconomically deprived areas" (F) we find that such policy is inequitable as it forces a higher cost onto those who spend a higher proportion of their income on cigarettes as in turn cannot get off them. The policy may also lead to the "expansion of the black market" (E) in low-income communities which may in turn reduce the overall effectiveness of the policy. As such, the policy is likely to make the market efficient but may lead to inequitable and potentially ineffective outcomes.

A second policy would be to implement a "nicotine reduction" (H) into cigarettes. This would in turn reduce the demand for cigarettes by making smoking less appealing, in turn causing MB to fall from MB to MB' . This would in turn mean that the quantity of cigarettes consumed would fall from Q_e to Q'_e , in turn reducing the DWL from the externality from area ABC to area CDE. Such policy would be effective if the ability to monitor nicotine levels becomes



lesser, however, because it is likely to be very difficult to monitor every cigarette on the market this may be hard. However, if implemented it may help to reduce the occurrence of smoking which would help fulfill the government's goals. There are unlikely to be many equitable concerns of such policy, as it doesn't target a specific group but rather all cigarettes. However, it will not completely remove the externality as a level of nicotine still exists within the cigarettes, in turn the market will remain inefficient although less so. Additionally, there could be concerns that a black market with higher nicotine cigarettes emerges as a result of such reduction, which is possible due to cigarettes being "highly addictive" (F). As such, the policy may not be completely effective.

A final policy to reduce smoking would be to give a "lifetime ban on future generations" (H) which would prevent "anyone born after 2004" (E) from buying cigarettes. This policy would help to reduce the demand for cigarettes over time as it would reduce the access that this generation has to cigarettes. However, it may be ineffective as "older generation" (H) can still buy cigarettes for younger people. Equally, there may be equity concerns for low-economic groups who are exposed to more smokers in their lives and in turn will gain less benefit from the policy as they will be still exposed to it and in turn try cigarettes from their relatives or wider community, which will have particular impacts on Māori and Pacific who disproportionately smoke. Equally, such policy may cause "bankruptcy for dairy owners" (E) who will face reduced demand for cigarettes and in turn reduced revenue over time. ~~These are 2 other reasons~~ However, if the policy is

able to eventually phase out smoking, we would expect to see a fall in demand (MB) over time, to the point where it is equal to MCB and in turn removes the externality entirely, which would remove the DWL and make the market more efficient in the long-run.

Through evolution, it could be argued that the lifetime ban on smoking for younger generations is the most effective. This is because firstly, it will be effective upon implementation, as a nicotine reduction is likely to be hard to monitor (as different cigarette varieties exist) alongside the fact that it would help to prevent smoking from ever starting, which in turn makes the problem easier to deal with as less people are addicted overall. The policy is also more equitable in the long-run, as it is a ban on all young people. A reduction in sales is likely to be unequitable due to the inelastic nature of cigarettes which in turn may force vulnerable, low-income households who are addicted to pay very high prices, of which is unfair as it consumes a larger portion of their income. While the policy of reduction may have less of an effect on those exposed in environments that have high volumes of smokers (Maori, Pacific, low-income), it does not punish those who are addicted which makes it more fair. All three policies may cause a rise in the black market as cigarettes become harder to obtain, however a sales ban on youth will do so the least as less young people will have an addiction in turn reducing demand over the long-term. Thus, in the long-term a ban will be the most effective policy.

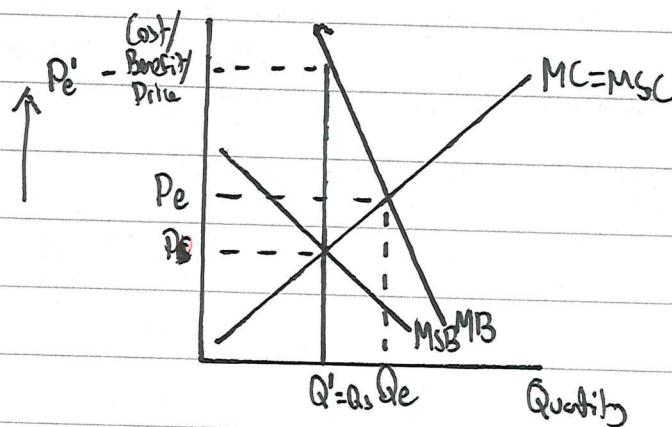
In terms of allocative efficiency, a nicotine reduction will not be

Completely allocatively efficient \Rightarrow the reduction from MB to MB^1 will still not lead to $MB^1 = MSB$. A quota will be efficient if it will allow quantity to be set at the socially desirable level in turn removing the externality entirely. In the short-term, a youth sales ban will not be the most efficient \Rightarrow smokers will still exist, however in the long-term we may expect such policy to be effective as it gradually reduces $MB/demand$ (due to lower exposure w/ this addition) to a point where $MB = MSB$. As such, the policy may be effective in the long-term.

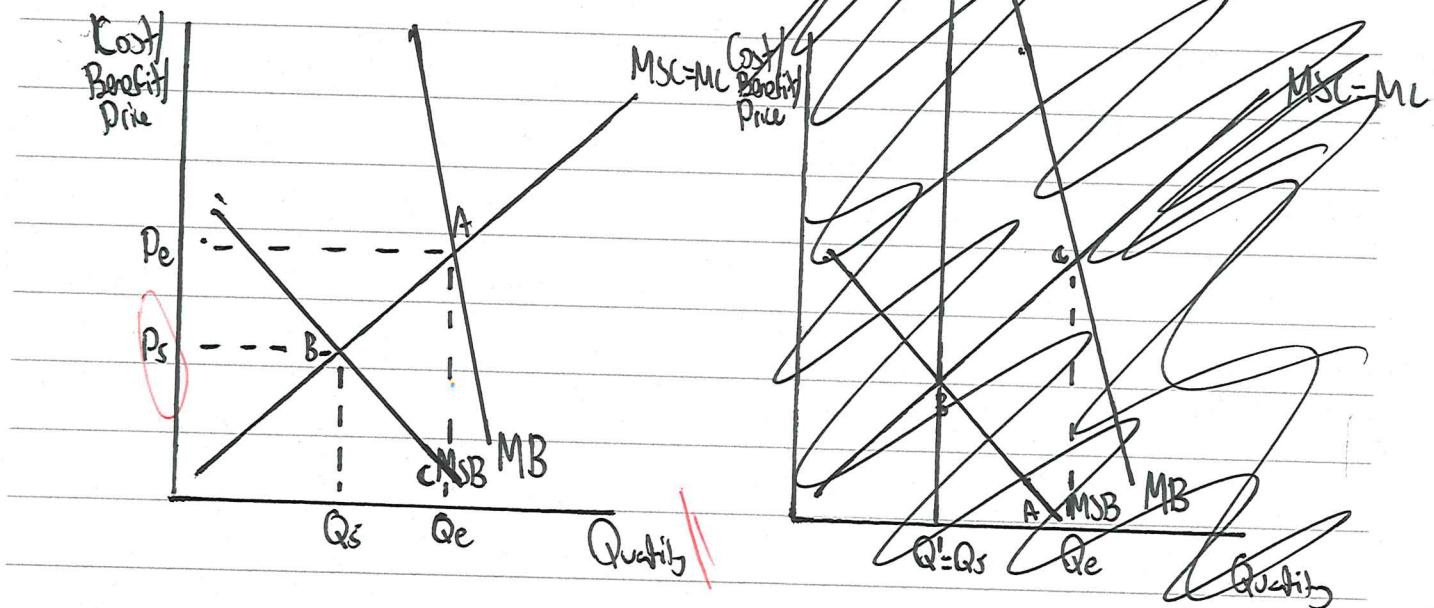
With this in mind, a sales ban on youth is likely to be the best policy \Rightarrow it is the most effective and may lead to long-term allocative efficiency, even if such impact is not seen in the short term.

(*) Equally, Cigarettes can be seen to be relatively inelastic \Rightarrow a 10% rise in price only saw a 4% fall in consumption" (H). They are also addictive, which makes them a "perceived necessity"; single-use; a small portion of one's income (though this is less of the case for low-income households) and have few substitutes, of which makes them inelastic. As such, a massive reduction in quantity to Q' would cause a significant increase in price from P_e to P'_e , of which may be seen as inequitable to those on low-incomes who spend a greater portion of their income on Cigarettes, but are punished due to the addictive nature of Cigarettes.

② Quota for Cigarettes



① Market for Cigarettes.



QUESTION THREE: Inflationary pressures and the New Zealand economy

Use information from **Resources I to M**, and your knowledge of the New Zealand economy and macroeconomic theory, to answer this question.

The consumers price index (CPI) increased

in early 2022, the largest r

with many other OECD countries

experiencing higher inflation than in recent decades.

Analyse the factors causing inflation that were impacting the New Zealand economy in early 2022.
Evaluate the impact of implementing a contractionary monetary policy on the New Zealand economy and macro-economic goals.

In your answer:

- use appropriate economic models throughout
- analyse the aggregate demand and aggregate supply factors that led to increasing inflation in New Zealand in early 2022
- explain why price stability is an important macroeconomic goal
- evaluate the effect of an increasing Official Cash Rate on the New Zealand economy and key macroeconomic goals, given the position of the New Zealand economy in early 2022.

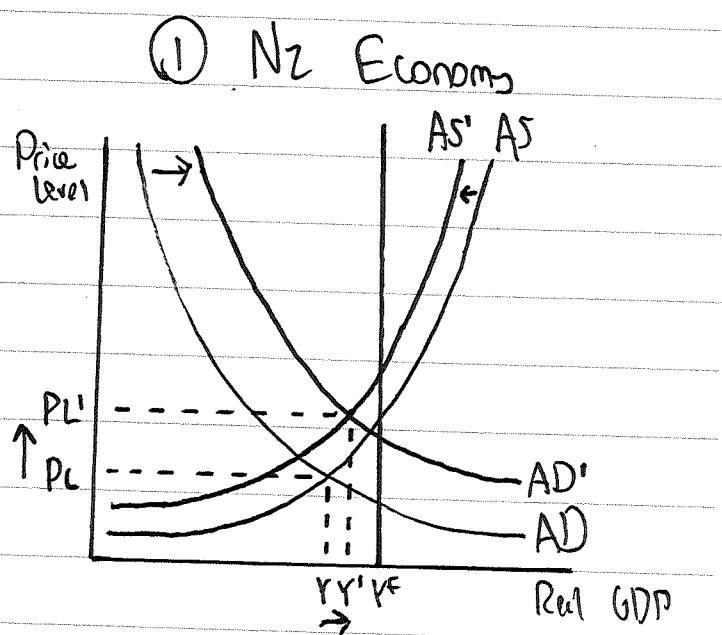
Use this space for planning your essay. This plan will NOT be marked.

PLANNING

A variety of factors have influenced the NZ economy and in turn caused inflationary pressures. To start, "aggregate household and business belief strength" (I) remains strong, indicating an increase in consumption spending and business investment likely due to the emergence out of the 2021 COVID lockdown. The presence of "expansionary fiscal policy" (F) also indicates that government spending has increased. Finally, "strong export returns" (I) as a result of "strong terms of trade and dairy prices" (I) have led to an increase in NZ exports as export volumes rise. As all four of

these factors are components of aggregate demand, AD has increased from AD to AD'

a) as a result of current economic conditions. Additionally, changes have been seen in aggregate supply. "Imported goods" (M) are said to be under price pressure, which is likely to raise the costs



of production for firms that import. Additionally, "oil prices have surged globally" (M) which is likely to contribute to an increase in costs of production only magnified further by "supply disruptions and a tight labour market" (M), all of which makes the cost of resources and in turn production more expensive. These has also been observed "further weakness in the NZD against the USD" (M), which is likely to have contributed to the rise in exports discussed earlier (as the cost of NZ goods becomes more competitive, cheaper).

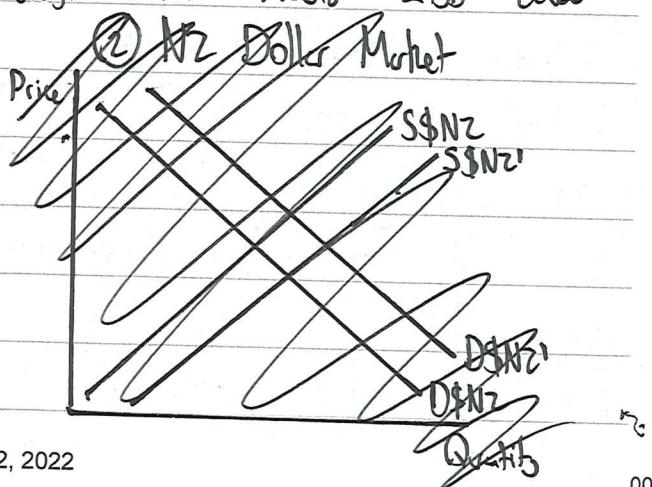
however, the depreciation of the NZD also means that the cost of imports becomes comparatively more expensive (as the NZD is weaker and thus purchases less), all of which contributes to a rise in costs of production, a component of aggregate supply. As costs of production have risen, aggregate supply has been reduced from AS to AS'. The combined shifts of AD and AS have caused the price level to increase from PL to PL', indicating greater inflations pressures which explains the CPI inflation of 6.9% seen in March 2022. It also causes Real GDP to increase by a less than proportionate amount from Y to Y' - this is because projected Real GDP measures still see +3.9% annual change in 2022 (K), as such we would expect the decrease in AS to be less than the increase in AS. However, the less than proportionate increase can also be attributed to the fact that NZ was at 96.1% capacity utilization rate in September of 2021 (L), which is currently in turn means that any increases in Real GDP would come with massive increases to the price level due to AS being more inelastic and resources being constrained. This is strengthened by the close proximity of Y' to Y_f - a signal of our high capacity utilization rates. As such, due to the falls in AS and increases in AD, these factors inflation has occurred within the NZ economy.

Price stability is the belief that the prices of goods and services should be relatively stable and not experience any drastic increases or decreases over the long-term. The Reserve Bank measures price stability in its Policy Target Agreement (PTA)

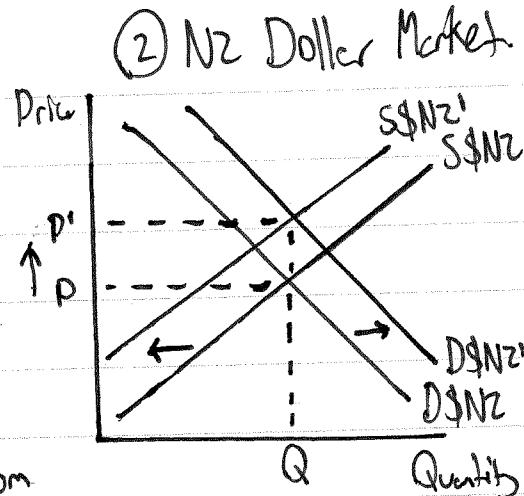
With the NZ Government, which states that inflation should stay between 1-3% over the medium term. Price stability is important as it makes it easier for firms and governments to plan investment or spending schemes as the price of resources has not drastically changed over time. It is also important for consumers as it means that their savings will not be rapidly depleted by hyper inflation, but equally, that there is still an incentive to spend which would not be found through deflation. Because inflationary pressures impact the behaviour of numerous economic actors, of which in turn impact the wider macro-economy, price stability can be seen as an important goal.

The OCR or Official Cash Rate is the rate at which the Reserve Bank lends money to commercial banks, as such it is very influential on interest rates within the economy. The Reserve Bank has raised the OCR from 0.25 points to 1.5 points from August 2021 to April 2022 (5), which would have in turn led to a rise in interest rates. A rise in interest rates would cause a fall in consumption spending, as it is now comparatively more advantageous to keep money in the bank as the returns are higher. It would also cause a fall in investment spending as it is now more expensive to take out a loan to invest into something. Rising interest rates would also cause an appreciation of the NZD.

This is because higher interest rates would be more attractive to currency speculators due to higher returns, in turn increasing demand from D\$NZ to S\$NZ.



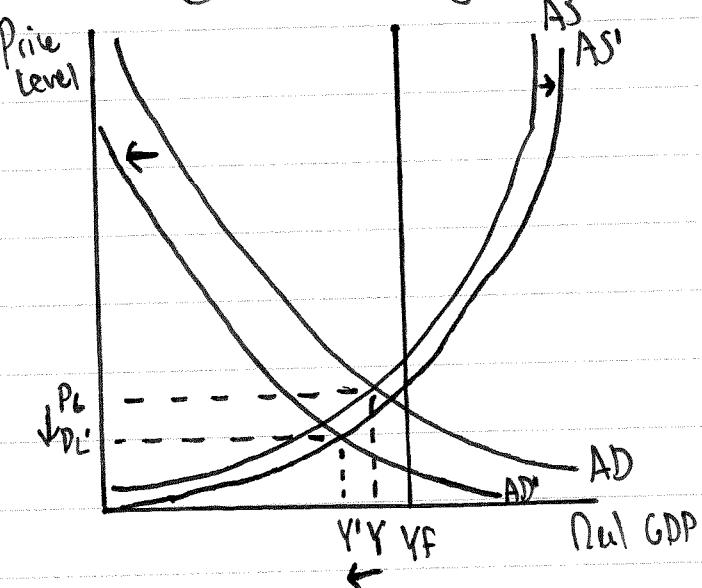
Additionally, the supply of the NZD would fall from $S\$NZ$ to $S\$NZ'$, as buyers trade their other currencies for NZD, in turn decreasing its supply on foreign exchanges. This will in turn cause the NZD to appreciate from P to P' .



As the NZD becomes stronger, ~~external~~ imports volumes will rise as it becomes comparatively cheaper to import as the NZD is stronger. Equally, exports will fall, as NZ goods become comparatively more expensive as the NZD is stronger. As such, net exports will fall. The combined changes to these three components of AD will cause AD to fall from AD to AD' . Equally, an appreciation of exchange rates will cause AS to increase, though by a less than proportionate amount, as for firms who import their costs of production will fall (as imports are comparatively cheaper), in turn causing AS to increase from AS to AS' .

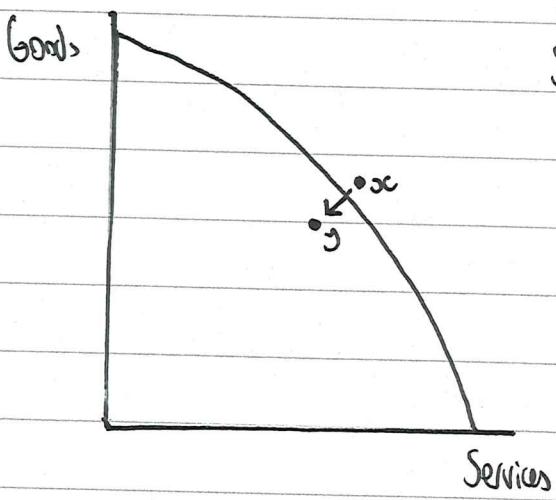
The shift of these two will cause the price level to fall from P_L to P_L' , indicating a reduction in inflationary pressures, which will push inflation closer to the PTA price stability range bringing it closer to NZ's macroeconomic goals. It will also cause a reduction in Real GDP from Y

③ NZ Economy



to Y' , indicating less economic growth and in turn extending the recessionary gap between Y' and YF . While Real GDP increasing is a goal of the NZ Government, such reduction may be desirable especially if NZ is "performing above its current potential" (I), which if true would mean that further economic growth would come with significant inflationary pressures (as resources are scarce). As such, we would expect such changes to the OCR to push NZ from point x_0 to point x_1 as shown on the PPC graph (4). Finally, in regards to employment, the expansion of the recessionary gap indicates a widening of the amount of un-utilized resources, which in turn means that unemployment is likely to increase. However, considering that "employment is now above its maximum sustainable level" (I), such change is desirable as it prevents the labour cost index from increasing rapidly as it has been forecasted to by 2022.

(4) NZ Economy



Given the position of the NZ economy, OCR rises are likely to be desirable, as they will help reduce NZ's inflation while also easing the pressure on our labour market as overall capacity utilization, while causing marginal harms to Real GDP which are not too drastic to be harmful in themselves.

Acknowledgements

Material from the following sources has been adapted for use in this assessment:

Question One

<https://www.customs.govt.nz/about-us/news/important-notices/update-imposition-of-provisional-anti-dumping-duties-on-galvanised-wire-from-china-and-goods-currently-subject-to-anti-dumping-duties>
<https://www.newshub.co.nz/home/rural/2020/07/new-zealand-specialty-cheesemakers-call-for-tariffs-on-eu-imports.html>

Question Two

<https://www.health.govt.nz/our-work/preventative-health-wellness/tobacco-control/smokefree-aotearoa-2025>

Question Three

<https://www.stats.govt.nz/news/annual-inflation-reaches-30-year-high-of-6-9-percent>

93402

Scholarship Exemplar 2022

Subject	Economics		Standard	93402	Total score	19	
Q	Score	Annotation					
1	7	<p>Candidate explicitly synthesised the resource material to identify and illustrate that there would be a decrease in Demand and an increase in supply in the EU market for fries, resulting in a large surplus. Comparison was made between the exports from the EU market to the shortage being filled in New Zealand by imports.</p> <p>On page 4 producer surplus theory was explained whilst giving a detailed analysis of changes to both price and QS to justify; the model was referenced consistently throughout. Impact on producer revenue was responded to according to the question. A comparison is made to the impact on consumer surplus and the offsetting impact this will have on the market and allocative efficiency. At this level it is noted that the model is consistently referred to correctly. To gain an 8, the candidate should have drawn Pw decreasing from a previously higher Pw (not from the equilibrium as illustrated).</p> <p>The Tariff Model is illustrated and labelled correctly on Page 5, identifying the increase in Pw and corresponding changes to CS / PS / DWL and Govt Revenue. The candidate concisely explains and analyses each of these areas after the introduction of the Tariff and compares the net loss of surpluses in the market to justify why it is no longer allocatively efficient.</p> <p>On page 6 the R&D Grant is correctly illustrated with the perfectly elastic Sw and the increase in Snz. Comparison is made justifying New Zealand's position as a price taker to analyse why CS remains the same, while PS increases. Again, the model is correctly referred to and used alongside economic theory to thoroughly respond to this part of the question. Resource material was also integrated in a sophisticated manner to justify the Government spending on the grant.</p> <p>The two interventions were evaluated in terms of their efficiency and time taken to be implemented on Page 6-7</p>					
		<p>On pages 11 and 17 the explanation of the externality in the cigarette market includes examples of effects of smoking on third parties not included in the resource material, demonstrating critical thinking.</p> <p>The explanation of the market failure links to the model, with reference made to a specific point. For example, 'cigarettes are overconsumed at current quantity, Q1'. However additional economic theory could be incorporated to explain the market failure in more depth. For example, explaining the current operation of the market where MSC=MB, rather than the more socially efficient equilibrium where MSC=MSB.</p> <p>The decrease in cigarette outlets is illustrated and analysed, using a quota on an MSC / MSB graph. However, as the restriction was on the number of outlets and not the number of cigarettes a decrease in supply from MC=MSC to MC1 = MSC1 would have been more appropriate.</p> <p>The discussion on the impacts on equity is perceptive and sophisticated, integrating and synthesising a range of information from the resource material. The link between the inelastic nature of cigarettes and the impact on price and quantity, and therefore equity is discussed comprehensively.</p> <p>On pages 12 -13 the effect on allocative efficiency of the nicotine reduction policy is illustrated and analysed, correctly using the MSB / MSC model. The use of letters clearly denotes the change in allocative efficiency in the market. To achieve a 7 further economic theory could be applied. For example, the reason for the decrease in demand and the reduction in externality could be explained in more depth. Additionally, the MB1 curve could be drawn as more elastic.</p>					

		<p>The impact of the 'lifetime ban' policy on efficiency and equity is analysed, however there is no specific economic model provided. For a higher grade the MSB / MSC model would have been included – illustrating either a decrease in demand in the short run or a complete ban for cigarettes in the long run.</p> <p>On page 14 the evaluation is logically developed and precise, considering both the equity and allocative efficiency of policies, in both the long and the short term. This provides evidence for a grade of 6 rather than a grade 5.</p> <p>Overall, the response was awarded a 6. Sophisticated integration and synthesis of the resource material to discuss the equity impacts was a strength of this response. The consistent use of the MSC / MSB model to illustrate and analyse the impact of policies also contributed to a sophisticated economic analysis.</p>
3	6	<p>The candidate has produced an essay including a generally sophisticated economic analysis with very good integration of the resource material.</p> <p>On pages 20 and 21 the candidate provides a competent explanation of most of the factors that have impacted inflation in 2021 / 22, including a suitable AD / AS graph.</p> <p>On page 21 the candidate shows sophisticated integration of the resource material by reflecting on the significance of the high level of capacity utilisation and the impact on resource scarcity and inflationary pressures, in turn relating this to the AD/AS graph drawn.</p> <p>On page 21 the candidate provides a limited explanation of the importance of price stability for the economy.</p> <p>On pages 22 and 23 the candidate provides a competent explanation on the impact of an increased OCR on the economy. This could have been improved through a more in-depth explanation of the effect of higher interest rates on consumers and businesses.</p> <p>On page 23 the candidate shows good integration of resource material in a relatively sophisticated discussion of the impact of the higher OCR on economic growth and employment however does not examine the impact on the current account deficit.</p> <p>This essay provides evidence towards a 6 rather than a 5 due to the sound discussion of the impacts of most factors causing inflation and of an OCR increase, combined with sophisticated integration of resource material. To gain a 7 the candidate would needed to have discussed the importance of price stability in more detail and provided a more in-depth explanation of the effect of contractionary monetary policy on employment, economic growth, and the current account.</p>