

93402



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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2008 Economics

2.00 pm Friday 28 November 2008

Time allowed: Three hours

Total marks: 48

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

Pull out Resource Booklet 93402R from the centre of this booklet. Refer to the Resource Booklet when you answer this paper.

You should answer ALL THREE questions in this booklet. Each question is worth 16 marks.

For EACH question, you are encouraged to spend 10 minutes reading the appropriate resources and planning your essay.

Show ALL working.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–24 in the correct order and that none of these pages is blank.

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

You have three hours to complete this examination.

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QUESTION ONE

A lack of elasticity has contributed to the rise in the price of petrol in 2008.

(a) (i) Referring to Resource A:

(1) Calculate the price elasticity of demand for petrol (to 2 decimal places and show your working).

(2) Calculate the cross elasticity for rail transport against petrol prices (to 2 decimal places and show your working).

(3) Briefly comment on what your coefficient in (2) above identifies.

(ii) Briefly suggest why petrol is considered to be *price* inelastic with respect to both demand and supply in the short run, and then explain why this combination leads to large, sudden changes in prices.

(1) Demand:

(2) Supply:

(3) Why this combination leads to large, sudden changes in prices:

- (iii) Using Resources B and C and your answers to the earlier parts of this question, draw a supply and demand diagram to show the price of crude oil increasing from US\$60 in 2007 to US\$135 in 2008.

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- (b) Using Resources C and D and your own knowledge, explain how and why the price elasticities of demand and supply for transport fuels will change over time.

- (i) Demand:

- (ii) Supply:

- (c) **Evaluate** the extent to which price elasticities will influence the effectiveness of taxes and subsidies that are used to discourage the use of fossil fuels and encourage the use of more efficient passenger transport.

You should refer to Resources D, E, and F as well as your analysis in the previous questions. Use appropriate diagrams/models in your answer.

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

Begin your essay here.

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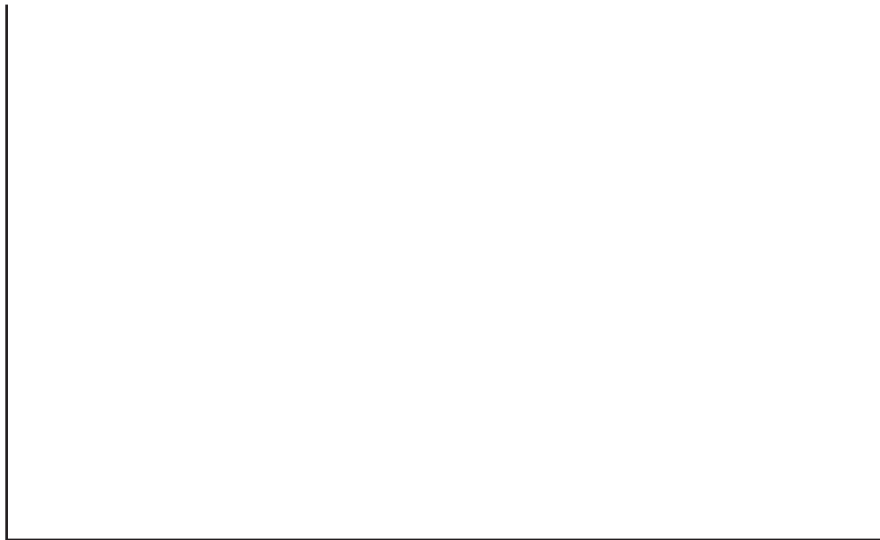
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QUESTION TWOAssessor's
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A natural monopoly can be a justification for government intervention.

- (a) (i) Define a natural monopoly and explain the ways in which the railways in New Zealand would qualify as a natural monopoly.

- (ii) Draw a graph to illustrate a natural monopoly operating at the profit-maximising level of output.



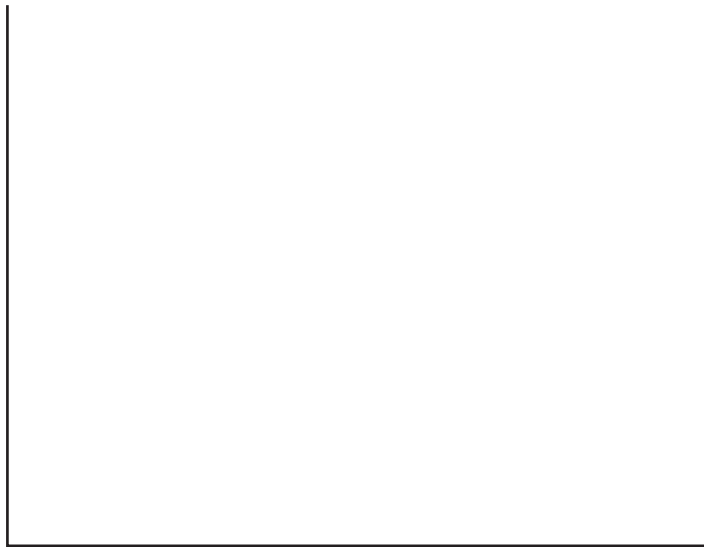
- (iii) Referring to your graph above, explain the impact of this level of output on allocative efficiency.

- (iv) Why might an economist disagree with the writer's comment in Resource G: "Whether it is Auckland International Airport, The Warehouse or Vector, the issue is the same."?

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Road transport has externalities.

- (b) (i) It is stated in Resource H that "road transport in itself did not carry its full costs". Explain this statement with the help of an appropriate diagram.



- (ii) On your diagram above, identify the loss of allocative efficiency of road transport.

- (iii) With reference to your answers in (b) (i) and (ii) on the previous page, would government measures to encourage rail instead of road transport be justifiable? Explain.

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- (c) **Evaluate** the Government's decision to nationalise the railways in New Zealand, instead of intervening in other ways, in order to achieve a more socially desirable outcome from this natural monopoly.

You should refer to Resources G, H, and I as well as your analysis in the earlier parts of this question. Use appropriate diagrams/models in your answer.

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

Begin your essay here.

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[illegible]

The economy is experiencing “the perfect storm”.

- [illegible]

There has been much discussion this year about recession.

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- (b) (i) Define a recession and draw a business cycle illustrating a recession.



- (ii) Discuss the extent to which a recession in the United States will have a detrimental impact on the performance of the New Zealand economy.

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- (c) **Evaluate** the policy responses available to the government to minimise the impact of the economic downturn overseas on the New Zealand economy.

You should refer to the information provided in Resources K to O and your own knowledge of macro-economic theory. Include appropriate economic diagrams/models to support your answer.

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

Begin your essay here.

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**Extra paper for continuation of answers if required.
Clearly number the question.**

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Question Number	Marks
One	(a) and (b) (8)
	(c) (8)
Two	(a) and (b) (8)
	(c) (8)
Three	(a) and (b) (8)
	(c) (8)
TOTAL	(48)

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