

**93402Q**

NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

## Scholarship 2005 Economics

2.00 pm Thursday 8 December 2005  
Time allowed: Three hours  
Total marks: 60

### QUESTION BOOKLET

You must complete ALL the questions.

You should write all your answers in Answer Booklet 93402A. Start each question on a NEW page.  
Number each question carefully.

Check that this booklet has pages 2–6 in the correct order.

You are advised to spend approximately 60 minutes on each question.

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

You have three hours to complete this examination.

**General Instructions for Candidates**

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

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

You should plan your answers.

**QUESTION ONE: THE LABOUR MARKET AND WAGE RATES (20 marks)****Common labour market between New Zealand and Australia**

The gap between Australian and New Zealand average incomes is a challenge to the New Zealand ...

Otherwise those airport departure lounges are only going to get more crowded.

Adapted from the *New Zealand Herald*, 14 July 2005

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- (a) (i) Using an example, define labour productivity.
- (ii) With the aid of a labour market diagram, explain the effect of higher labour productivity on wages. (6 marks)
- (b) (i) Using the article above to assist you, suggest reasons that help to explain why New Zealand's labour productivity is lower than in Australia.
- (ii) Using supply and demand analysis, explain how the differing wage rates affect permanent and long-term migration between the two countries.
- (iii) Discuss how New Zealand producers may respond to the shortage of skilled labour. (6 marks)
- (c) Discuss likely policies (including those suggested in the article) that the New Zealand government might use to close the gap in average incomes between the two countries. Evaluate how effective these policies will be in reducing the number of workers migrating to Australia. (8 marks)

**QUESTION TWO: THE KYOTO PROTOCOL (20 marks)****Getting to the roots of Kyoto problems**

New Zealand is a signatory to the Kyoto Protocol and its main commitment is to add no more

...

pollution problem with government involvement limited to the initial allocation of the permits only.

Adapted from the *New Zealand Herald*, 9 July 2005

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**Comalco says carbon tax may force it out of NZ**

Aluminium smelter and major export earner, Comalco, says the government's Kyoto Protocol

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burning fossil fuels, the Tiwai Point smelter produces considerable greenhouse gas emissions.

Adapted from the *New Zealand Herald*, 16 March 2005

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- (a) (i) What evidence is there in the article that implies forestry firms are making subnormal profits?
- (ii) With the aid of an appropriate diagram, explain why subsidies (in the form of carbon credits) paid to Kyoto foresters will lead to a more socially desirable level of forest planting.  
(6 marks)
- (b) (i) With the aid of a diagram, outline the effect of the carbon tax on the market for electricity.
- (ii) Assume that Comalco chooses to shut down its New Zealand operations because of the pending introduction of the carbon tax. Identify and explain a range of positive and negative impacts on the New Zealand economy, including those suggested in the articles.  
(6 marks)
- (c) Discuss and evaluate whether the government should proceed with the carbon tax, **or** implement the 'cap and trade' system advocated by some economists, in order to reduce greenhouse gas emissions and thus global warming.  
(8 marks)

### QUESTION THREE: THE MACRO ECONOMY (20 marks)

#### A snapshot of the New Zealand economy, August 2005

- The current account deficit has continued to increase and now stands at \$10 billion, more than 7% of Gross Domestic Product.
- The domestic economy remains strong and unemployment is 3.9%, the second lowest rate in the OECD.
- Inflationary pressure continues to build, including rises in insurance premiums, council rates, and oil prices, a new excise tax on petrol, and a 5% wage claim by unions. The annual rate of inflation ending the June quarter 2005 was 2.8%.
- The NZD exchange rate remains at historically high levels and broke through the USD0.70 mark earlier in the year.
- The government wants annual economic growth of 3% to lift New Zealand's GDP per capita ranking among OECD countries.

- (a) (i) Using examples relevant to New Zealand, outline how the current account balance is calculated.
- (ii) Give reasons why a strong domestic economy can lead to an increasing current account deficit.
- (6 marks)
- (b) With the aid of an appropriate diagram, explain how the Reserve Bank's response to inflationary pressure can lead to an appreciation of the exchange rate.
- (6 marks)
- (c) With the aid of appropriate diagrams, discuss whether the New Zealand government's objectives of achieving price stability **and** economic growth may conflict.
- (8 marks)