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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2010 Economics

9.30 am Wednesday 1 December 2010

Time allowed: Three hours

Total marks: 24

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

Answer ALL the questions in the spaces provided in this booklet.

Sections (a) and (b) for each of the three questions are for providing a framework to guide your evaluation in the essay in Section (c). Your answers should be concise; there is no need to go beyond the spaces provided.

For Section (c) of each question, space is provided to plan each essay. It is strongly recommended that you make time to carefully plan your essays. The three pages provided for each essay answer should be sufficient.

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 2–22 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.

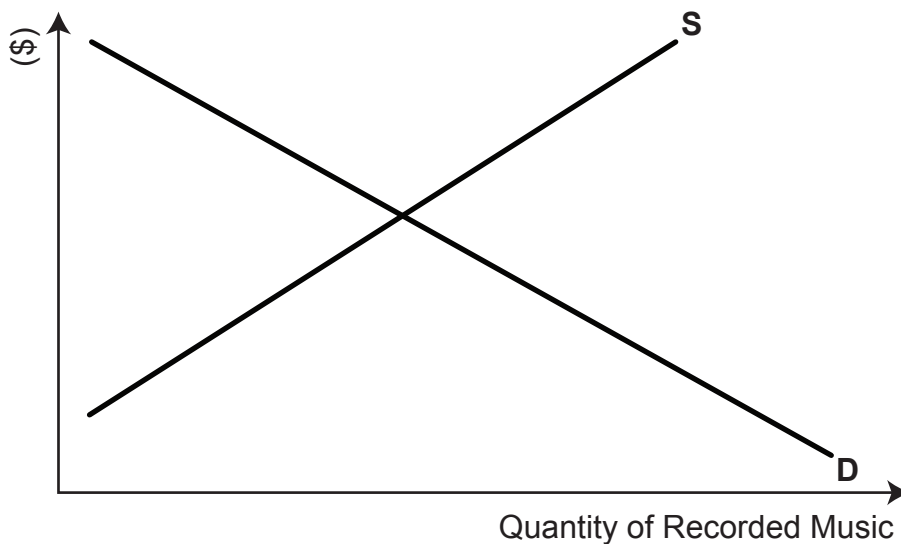
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QUESTION ONE: The impact of the digital revolution on the recorded music industry

Refer to Resources **A–D** when answering this question.

- (a) (i) Developments in information and communications technologies (ICT) have reduced the marginal cost of producing and distributing recorded music.

Complete the graph below to show the effect of this change in costs on the market for recorded music. In the space below, explain why allocative efficiency is achieved at the new equilibrium position.

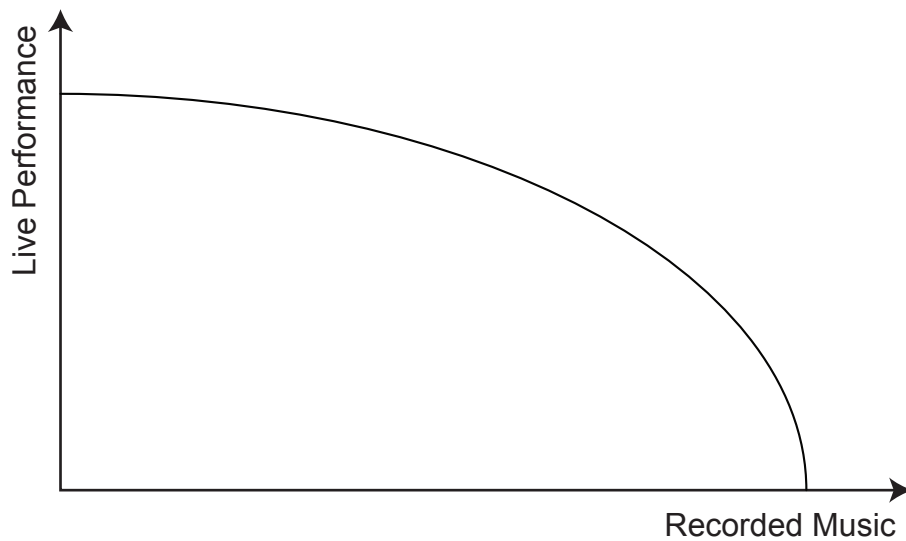


- (ii) Explain how the change in price of recorded music will affect the supply of live music performances.

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- (iii) On the production possibility diagram below, illustrate the reallocation of resources from the recorded music industry to live performances. In the space below the graph, explain how your diagram shows consumer sovereignty and allocative efficiency.

Production Possibility Curve of Music



- (b) The ICT has reduced the barriers to entry in the music industry. Explain how this has changed the level of competition and the market structure in the recorded music industry.

- (c) Discuss how knowledge of elasticities of demand and supply could be of assistance to firms in the music industry, and comment on the extent to which firms in the music industry should rely on pricing decisions to maximise revenue and profits.

You should refer to Resources **A–D**, as well as your analysis in parts (a) and (b) and your knowledge of micro-economic theory, in making this evaluation. 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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Refer to Resources **E–I** when answering this question.

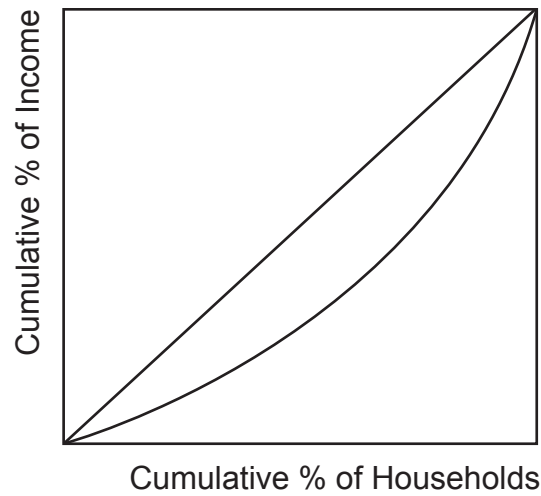
(i) Using the concepts of vertical and horizontal equity, explain how the government uses income taxes and transfer payments to improve the equity of the distribution of income in New Zealand.

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- (iii) On the Lorenz curve below, illustrate the likely change in the distribution of income resulting from reducing the top rate of income tax and increasing the rate of GST. Explain your answer.

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New Zealand's Lorenz Curve



- (b) Describe the efficiency **gains** that may be achieved by reducing the top rate of income tax and increasing the rate of GST.

- (c) Evaluate the arguments as to whether a government should reduce income inequalities in the interest of improving equity.

You should refer to Resources **E–I**, as well as your analysis in parts (a) and (b), and your knowledge of microeconomic theory, in making this evaluation. Use appropriate diagrams/models in your answer.

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Begin your essay here.

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QUESTION THREE: Monetary policy and New Zealand's international competitivenessAssessor's
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Refer to Resources **J–P** when answering this question.

- (a) (i) On the graph below, illustrate how the market for the New Zealand dollar (NZD) would be affected if the Reserve Bank tightens monetary policy. In the space provided below the graph, explain the changes illustrated.

The Market for the New Zealand Dollar

- (ii) Using an appropriately labelled diagram, illustrate the effect of an appreciation of the exchange rate on the New Zealand economy. In the space provided below the graph, explain the changes illustrated.

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The New Zealand Economy



- (b) With reference to Resource **K**, identify reasons for fluctuations in the NZD/AUD exchange rate.

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- (c) Evaluate the extent to which tightening monetary policy would reduce international competitiveness, and whether reduced international competitiveness and the issues surrounding independent monetary policy might be solved by adopting a common currency with Australia.

You should refer to Resources **J–P**, as well as your analysis in parts (a) and (b) and your knowledge of macro-economic theory, in making this evaluation. Use appropriate diagrams/models in your answer.

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

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

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