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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Economics, 2008

90795 Describe international trade and its causes and effects using economic models

Credits: Four
9.30 am Tuesday 18 November 2008

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.

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 2–11 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.

For Assessor's use only	Achievement Criteria	
Achievement	**Achievement with Merit**	**Achievement with Excellence**
Describe international trade and its causes and effects using economic models.	Explain international trade and its causes and effects using economic models.	Fully explain international trade and its causes and effects using economic models.
Overall Level of Performance		

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You are advised to spend 40 minutes answering the questions in this booklet.

Assessor's use only

QUESTION ONE

Classifications of transactions in the New Zealand Balance of Payments
1. Financial account
2. Capital account
3. Balance on goods
4. Balance on services
5. Balance on income
6. Balance on current transfers

(a) For each transaction below, write the number that corresponds to the classification listed in the box above.

____ Chinese visitors come to New Zealand

____ New Zealanders receive a dividend for shares in an Australian company

____ New Zealand sends aid money to Sudan

____ Dairy exports go to USA

____ A New Zealand family migrates to Australia and takes NZ$300 000

____ An Australian company buys a New Zealand retail firm

(b) New Zealand has a large **current account deficit**.

Explain why this is an important issue for the **New Zealand economy**.

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QUESTION TWO

(a) State TWO assumptions on which the **comparative advantage trade theory** is based.

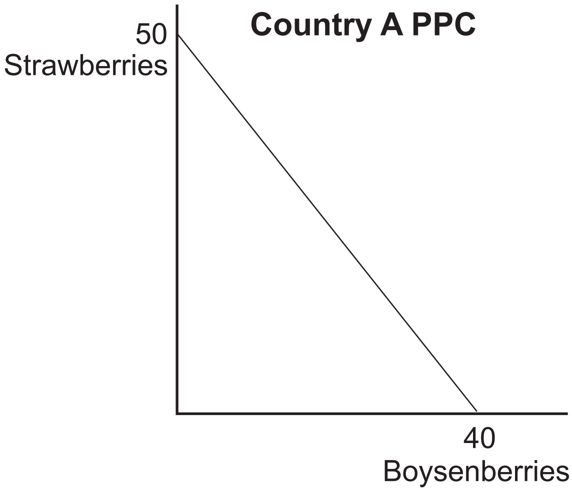
(1) ____

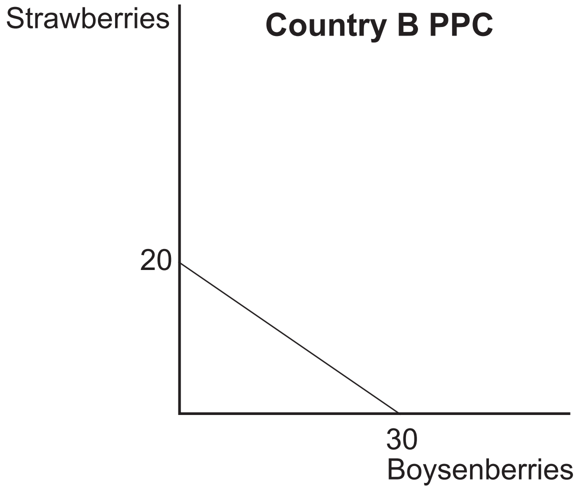
____

(2) ____

____

(b) Country A and Country B have similar resources and can produce either strawberries or boysenberries. Each country's production possibility curve (PPC) shows these levels of output:





Complete the following in terms of opportunity cost. (The first one has been done for you.)

The opportunity cost of producing 1 unit of strawberries in Country A is	$\frac{40}{50}$ = 0.8 units of boysenberries
The opportunity cost of producing 1 unit of strawberries in Country B is	____________ units of boysenberries

(c) (i) Which country should specialise in the production of strawberries?

____

(ii) Explain the reason for your answer.

____

____

____

____

____

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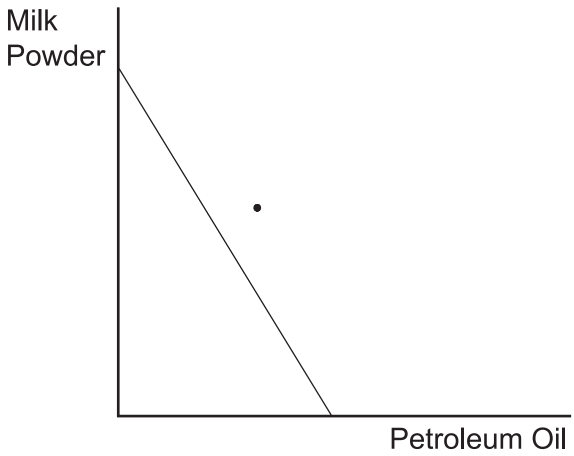
QUESTION THREE

New Zealand and Singapore have a Closer Economic Partnership. New Zealand has a comparative advantage in the production of milk powder and exports it to Singapore. Singapore has a comparative advantage in the production of petroleum oils and exports these to New Zealand.

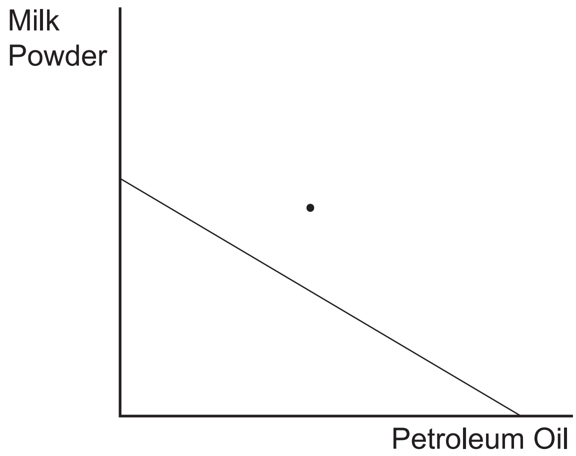
(a) New Zealand's trade with Singapore enables both countries to consume **beyond** their production possibility curves (PPCs). This situation is indicated by the dots on the graphs.

Label each of the graphs to show **exports** (**X**) and **imports** (**M**) that enable consumption **beyond** the PPC. Use all appropriate lines and labels.

New Zealand PPC



Singapore PPC



(b) Refer to the countries in (a) above to explain the effect that consumption **beyond the production possibility curve** has on **economic growth in New Zealand**.

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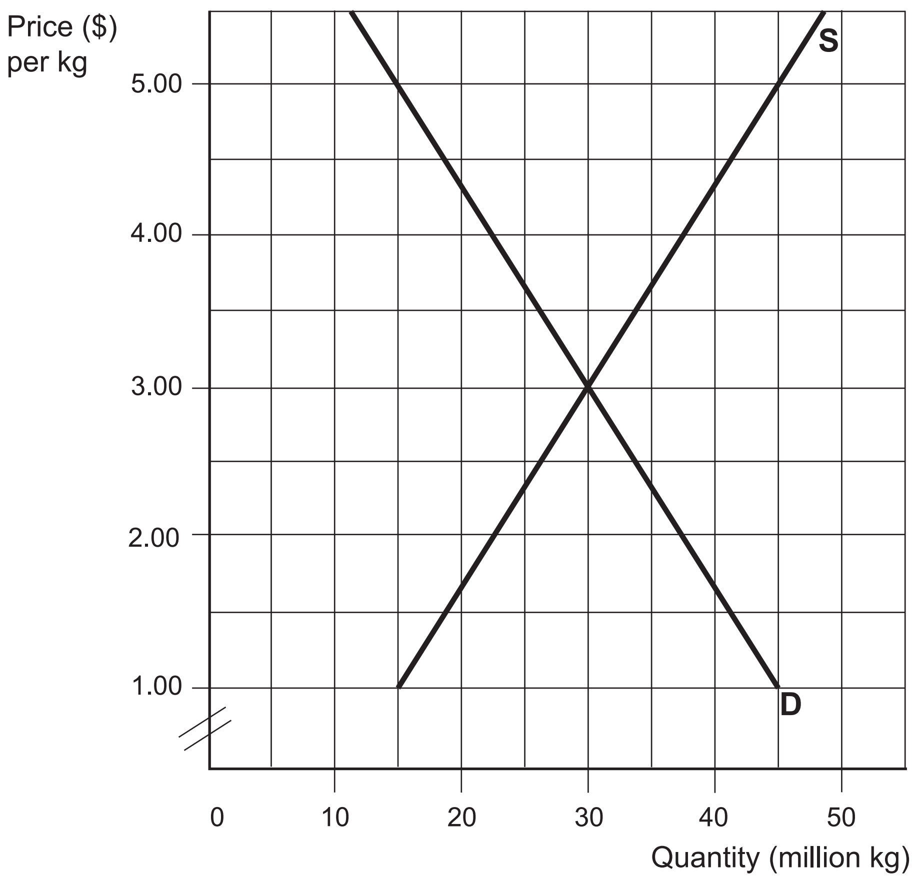
QUESTION FOUR

During 2007, the price of butter increased significantly in New Zealand. Butter is an important export commodity.

New Zealand Butter Market



(a) What are the **equilibrium price** and **equilibrium quantity** of butter in the New Zealand market according to the graph above?

(i) Equilibrium price: $ ____________________ per kg

(ii) Equilibrium quantity: ____________________ kg.

(b) The **world price** for butter has increased to $5.00 per kilogram. Draw and label the world price on the graph above.

(c) State the total **revenue** at the world price of $5.00. Show your working.

____

(d) How much of the revenue is from **domestic sales** and how much is from **export sales**?

(i) Domestic sales ____________________

(ii) Export sales ____________________.

(e) Fully explain the change that has occurred to the **domestic** AND **export** markets by referring to the graph on the previous page.

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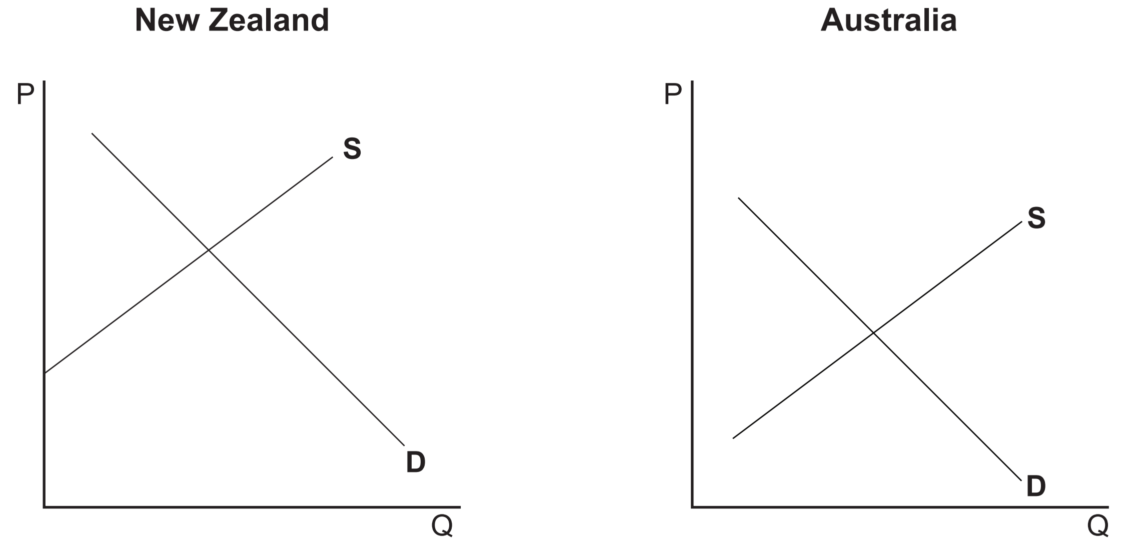
QUESTION FIVE

Market for Canned Peaches



(a) On each of the graphs above, show the equilibrium **price** and **quantity** of canned peaches **before trade**. Use all appropriate lines and labels.

(b) On each of the graphs above, show the **effect** of **trade** on the New Zealand AND Australian canned peaches market. Use all appropriate lines and labels.

(c) Explain why exporting and importing have occurred in the canned peaches market.

QUESTION SIX

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> But the problem for Kiwi beef, most of which was sold to America, was the ongoing strength of the New Zealand dollar against the US currency …
>
> Source: Adapted from *New Zealand Herald*, 11 January 2008.

Fully explain why the strength of the New Zealand dollar against the US dollar is a problem for the New Zealand **beef** industry. Include an explanation of the **flow-on effects** to the beef industry.

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

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