

90798



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Economics, 2008

90798 Describe government policies in relation to economic issues

Credits: Six

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 2–12 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.

<i>For Assessor's use only</i>	Achievement Criteria		
Achievement	Achievement with Merit	Achievement with Excellence	
Describe how policies are intended to achieve economic objectives related to given issues. <input type="checkbox"/>	Explain how policies are intended to achieve economic objectives in relation to given issues. <input type="checkbox"/>	Fully explain how policies are intended to achieve economic objectives in relation to given issues. <input type="checkbox"/>	
Describe effects of policies on other issues. <input type="checkbox"/>	Explain the linkages between policies and their effects on other issues. <input type="checkbox"/>	Fully explain the linkages between policies and their effects on other issues. <input type="checkbox"/>	
Overall Level of Performance (all criteria within a column are met)			<input type="checkbox"/>

You are advised to spend 60 minutes answering the questions in this booklet.

QUESTION ONE

- (a) (i) State the **purpose** of the Resource Management Act 1991.

- (ii) Explain the expected **long-term** effects of this Act on economic growth.

One of the objectives of the Public Finance Amendment Act 2004 is that the government should run a budget surplus until prudent debt levels have been reached.

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- (b) (i) Describe what is meant by the term **budget surplus**.

- (ii) Explain how the objective mentioned in the resource above could affect **economic growth**.

The government has accumulated a relatively large budget surplus over the last few years. Early in 2008 the government announced it would increase spending in some important areas of the economy.

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- (c) (i) Name the type of **policy** being used by the government when its **spending increases**.

- (ii) Explain the likely effect on **inflation** of the **increase** in **government spending**.

- (iii) Describe how the Reserve Bank is likely to **respond** to the **new level of inflation**.

One of the priorities of funding for tertiary education is to “increase educational success for young New Zealanders – more achieving qualifications at level four and above by age 25”.

Source: Statement of Intent, Tertiary Education Commission 2007 / 08 – 2009 / 10, pg 7.

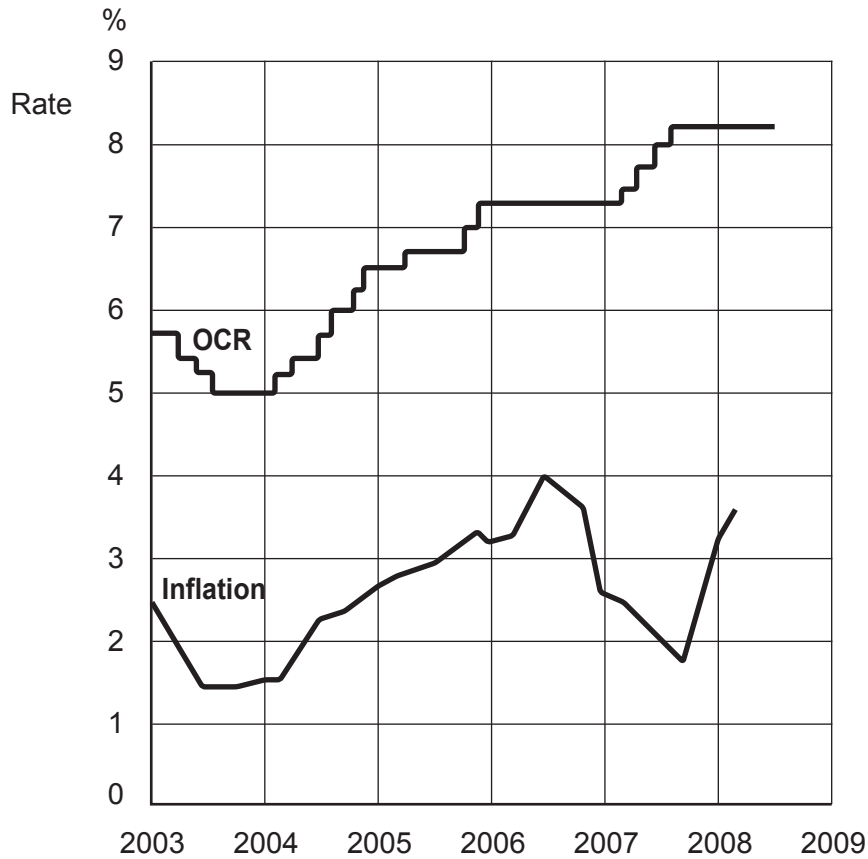
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- (d) Explain the effect that **increased numbers of young people gaining higher education qualifications** would have on **economic growth**.

QUESTION TWO

Graph One shows changes to the Official Cash Rate (OCR) by the Reserve Bank from January 2003 through June 2008. Also shown is the rate of inflation from 1 January 2003.

Graph One: The OCR and Inflation



- (a) (i) Describe the concept of a **time lag** in relation to **government policies**.

- (ii) Using the concept of a time lag and the graph above, explain the **effect** of the **increase** in the Official Cash Rate in 2004 on the **inflation rate** of the following **three years**.

- (b) In the table below, tick the box to indicate whether each government action is an example of **Monetary Policy** or **Fiscal Policy**.

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Action	Monetary Policy	Fiscal Policy
Decrease in income tax rate		
Open market operations		
A decrease in OCR by RBNZ		
Increase in government spending on education		
Government budget surplus		

Our business cycle is out of step with the rest of the world. Relatively low global interest rates over the past five years have delayed the impact on the transmission mechanism of monetary policy ...

Source: Report from RBNZ Governor, 25 January 2008.

- (c) (i) Describe the **business cycle**.

- (ii) The transmission mechanism of monetary policy refers to the series of changes that occur after an Official Cash Rate announcement by the Reserve Bank of New Zealand.

Fully explain how the changes that occur will eventually impact on **economic growth**.

(d) The changes that the Reserve Bank makes to the OCR to **decrease inflationary pressure** have significant **effects on trade**. Fully explain these effects.

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QUESTION THREEAssessor's
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Because agriculture makes up such a large share of our exports, New Zealand takes a keen interest in the global trading environment. Although New Zealand farmers are very competitive agricultural producers, world agriculture markets are severely distorted by protection measures.

Source: <http://www.mfat.govt.nz/Trade-and-Economic-Relations/NZ-and-the-WTO/Market-Access/0-agriculturenegs.php>

- (a) (i) The source internet address above includes the letters **WTO**. What do these letters stand for?

- (ii) State the **purpose** of the WTO.

- (iii) Explain, using an example, how **world agricultural markets** are “severely distorted by protection measures”.

In December 2007, Trade Minister Phil Goff said he expected that a Free Trade Agreement with China should be signed by April. ... Exports to China will increase by NZ\$260 million to NZ\$400 million per year, according to government estimates.

Source: Adapted from *National Business Review*, 21 January 2008.

(b) (i) State the meaning of the term **free trade agreement**.

(ii) If New Zealand **exports** to China do **increase** by the amount that the government predicts, explain how this would affect New Zealand's **economic growth**.

(iii) Explain how the Free Trade Agreement with China could affect the New Zealand economy with regard to **inflation**.

Two government initiatives, “Buy Kiwi and we’ve got it made” and “Export Year 07”, have had an impact on trade and economic growth.

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- (c) (i) Identify the likely **goal** of each of these **campaigns**.

“Buy Kiwi and we’ve got it made”: _____

“Export Year 07”: _____

- (ii) Explain how each of these government initiatives might **achieve its goal**. Refer to the **current account** in your explanation.

“Buy Kiwi and we’ve got it made”: _____

“Export Year 07”: _____
