

90798



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 2 Economics, 2009

### 90798 Describe government policies in relation to economic issues

Credits: Six

2.00 pm Tuesday 24 November 2009

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

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 2–15 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>		<b>Achievement Criteria</b>	
<b>Achievement</b>		<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>
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"/>
Describe effects of policies on other issues.	<input type="checkbox"/>	Explain the linkages between policies and their effects on other issues.	<input type="checkbox"/>
<b>Overall Level of Performance (all criteria within a column are met)</b>			<input type="checkbox"/>

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

**QUESTION ONE**

The creation of a 3000 km national cycleway, from Kaitaia to Bluff, moved a step closer to reality yesterday when Prime Minister John Key took charge of the plan, indicating it would cater for all cyclists ...

Key said the creation of the cycleway could create “a lot of potential jobs”, although it was too early to say how many or when it could start ...

Source (adapted): *New Zealand Herald* 11 March 2009.

(a) Describe what **fiscal policy** is.

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(b) Explain how the proposed cycleway would have **flow-on effects** to the New Zealand economy that also contribute to economic growth, eg health benefits, positive effects on small rural communities, etc.

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PAYE tax rates and thresholds before 1 April 2009		New PAYE tax rates and thresholds from 1 April 2009	
Income thresholds	Rates (%)	Income thresholds	Rates (%)
Income to \$14 000	12.5	Income to \$14 000	12.5
\$14 001 – \$40 000	21	\$14 001 – <b>\$48 000</b>	21
\$40 001 – \$70 000	33	<b>\$48 001</b> – \$70 000	33
\$70 001 and over	39	\$70 001 and over	<b>38</b>

Source: <http://www.ird.govt.nz/news-updates/like-to-know-april-2009-tax-changes.html#01>

(c) **Fully explain** the **purpose** of the tax cuts of 1 April 2009 AND the intended **effects** on the New Zealand economy.

Your answer should include explanations of:

- why the tax cuts were considered necessary
- how the tax cuts were intended to affect the economy
- why the intended effects may not occur.

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QUESTION TWO

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Petrol taxes will rise 6c a litre under the Government's plans to build more roads.

Source: <http://www.stuff.co.nz/national/politics/2267756/Petrol-tax-to-rise-6c-a-litre>

(a) State the effect of **expansionary fiscal policy** on inflation.

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(b) Explain the effect of the **petrol tax** on inflation.

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(c) **Fully explain** how the **development** of more roads will contribute to economic growth, **AND** discuss whether **inflationary consequences** would reduce that contribution.

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**QUESTION THREE**

(a) State TWO examples of **protectionism**.

(1) \_\_\_\_\_

(2) \_\_\_\_\_

(b) Explain why the New Zealand government is **eager** to sign free trade agreements with other countries. Include a definition of a free trade agreement in your explanation.

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On 15 November 2008, the leaders of the 20 most powerful countries in the world signed a pledge to avoid protectionist measures. However, since then, several countries, including 17 of the 20, have implemented 47 measures whose effect is to restrict trade at the expense of other countries.

Source (adapted): <http://www.voxeu.org/index.php?q=node%2F3183>

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- (c) **Fully explain** why protectionist policies may have been used **more** by New Zealand's export partners since the beginning of the recession.

Include an example involving goods that New Zealand exports or a destination for New Zealand exports.

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**QUESTION FOUR**Assessor's  
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- (a) Describe how the **level of trade** affects New Zealand's economic growth.

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- (b) Explain how **protectionist policies** adopted by New Zealand's trading partners could **affect** economic growth in New Zealand.

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New Zealand and India agreed to undertake a joint study into the implications of a free trade agreement in 2007. The study is now complete.

Minister of Trade Tim Groser and his Indian counterpart, Minister Kamal Nath, agreed that, subject to the approval processes of both governments, the two countries would look to commence FTA negotiations by the end of 2009.

Source: <http://www.mfat.govt.nz>

(c) **Fully explain** why New Zealand, having only recently signed a free trade agreement with China, continues to pursue free trade agreements with other countries such as India.

In your explanation, you should discuss:

- the reasons for seeking new markets
- why India is an attractive export market for New Zealand
- the effect of a free trade agreement on New Zealand's standard of living.

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**QUESTION FIVE**Assessor's  
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The Official Cash Rate (OCR) is the **main tool** used by the Reserve Bank of New Zealand (RBNZ) to control inflation.

- (a) State ONE **other** policy tool of the RBNZ.

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- (b) Explain how **inflation** is affected when the RBNZ **increases** the OCR. Refer to **consumers** and **producers** in your answer.

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(c) **Fully explain** why the RBNZ **decreased** the OCR by 5.75 percentage points between February 2008 and April 2009.

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**QUESTION SIX**Assessor's  
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- (a) Describe what happens to the **foreign exchange rate** when the Official Cash Rate (OCR) increases (*ceteris paribus*).

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- (b) Explain the **links** between an increasing **inflation rate** and an increase in the **foreign exchange rate**. State which sector is negatively affected.

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(c) **Fully explain** how an increasing inflation rate **affects** exports AND imports.

In your explanation, also refer to the impact on the current account.

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