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Notes to the Student

(i) Do all the activities set by your teacher, making sure you mark these accurately and correct any errors. Ask questions and ask for assistance with topics or questions that you have difficulty with, it is the way to improve your understanding of topics or questions you are unsure of.

(ii) The solutions to all activities are in the Teachers' Guide. All the best.

(iii) For further help, notes and activities visit www.elearneconomics.com and become a premium member.

Contents

2 **a** Complete the table below to classify the products as New Zealand exports or imports and as a good or service.

Product	**Circle one Export (X) or Import (M)**	**Circle one Good or Service**
(i) Disney decides to use the Weta Workshop for its new movie	X or M	Good or Service
(ii) A Greymouth family going on holiday in Bali	X or M	Good or Service
(iii) A New Zealand firm assists to build a bridge in Bangladesh	X or M	Good or Service
(iv) Otago lamb	X or M	Good or Service
(v) Holden cars	X or M	Good or Service
(vi) A British family fly Air New Zealand to visit grandchildren in Auckland	X or M	Good or Service
(vii) Tea	X or M	Good or Service
(viii) Sugar cane	X or M	Good or Service
(ix) Reef shipping insuring its cargo on the way up to the islands with a New Zealand firm	X or M	Good or Service

b Complete the table.

New Zealand's most important export markets, by dollar value	**New Zealand's most important exported goods, by dollar value**
Australia, USA	Dairy products, meat
China, Japan	Forestry (wood) products, machinery

c **(i)** List New Zealand's most important imported goods by dollar value.

Fuel and oils, machinery, motor vehicles, electrical machinery.

(ii) List New Zealand's most important import markets, by dollar value.

Australia, USA, China, Japan.

d Australia is one of New Zealand's top trading partners. Explain why this is the case.

Australia is one of New Zealand's top trading partners because transport costs between both countries are low, making New Zealand goods cheaper to export/import compared with other nations. New Zealand and Australia have a free trade agreement, Closer Economic Relations (CER), so there are no barriers to trade making goods cheaper to export/import compared with other countries.

Questions

1 a Rewrite the following statements to identify if they are an argument for free trade or an argument for protectionism in the space provided below.

Prevent dumping	Strategic reason
Lower prices	Protect local employment
Resources will be used more efficiently	Greater range of products for consumers
Allow infant industry to develop	Can increase exports
Tariff revenue for government	

Argument for free trade:

Lower prices, greater range of products for consumers, resources will be used more efficiently, can increase exports.

Argument for protectionism:

Protect local employment, allow infant industry to develop, prevent dumping, strategic reason, tariff revenue for government.

b Use the words below to complete the gaps in the table below.

consumers	domestic	fewer	greater	higher	scarce
less	lower	more	specialisation	producers	

Protection	Free Trade
Domestic producers protected from overseas competition. Maintains employment.	International specialisation, increased productivity. Countries can make the best use of scarce resources.
Fewer goods available to consumers, less variety, and higher prices.	More goods available to consumers, greater variety and lower prices.
Some producers benefit from reduced competition.	Consumers benefit.

c Complete the statement on gains and losses from free trade using the words below.

access	expand	jobs	scale	cheaper
extra	markets	unable	forced	overtime
efficient	increased	sales		

Some domestic (local) firms that are less efficient than overseas producers, may be forced out of business, because they find that they are unable to compete with the cheaper imported goods, this may cost some workers their jobs. Some local (domestic) producers will have access to larger markets, increasing the scale (size) of their operation as they expand output to meet increased demand and sales in overseas markets. This increase may require extra workers or existing workers working overtime.

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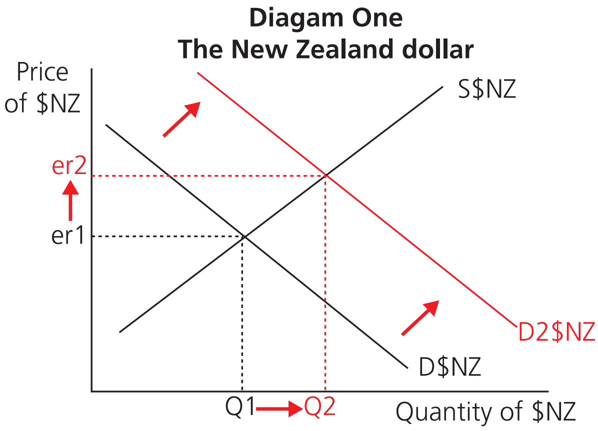
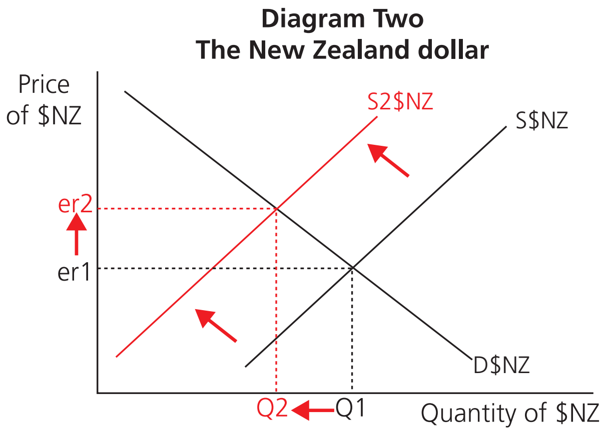
Questions

1 **a** Explain in detail what may cause an appreciation of the New Zealand dollar. On Diagram One, show the impact of an appreciation of the New Zealand dollar caused by a change in the demand for $NZ, and on Diagram 2 an appreciation caused by a change in the supply of $NZ. For both diagrams explain a possible cause for the change to the market for New Zealand dollar.





The New Zealand dollar will appreciate if there is an increase in demand for it and/or a decrease in supply of it in forex markets. An increase in demand for the New Zealand dollar (shown on Digram One as the shift from D$NZ to D2$NZ) could be due to an increase in the number of tourists visiting New Zealand. More visitors means there will be greater demand for New Zealand dollars in the forex market. A global upturn means that incomes in overseas countries rise, which will result in an increase in demand for New Zealand-made goods and services therefore greater demand for New Zealand dollars in forex markets. Higher commodity prices will mean that foreign buyers of New Zealand-made goods will need to buy (demand) more New Zealand dollars in the forex market, to purchase the commodities they require, causing the New Zealand dollar to appreciate.

The supply of the New Zealand dollar will decrease (shown on Diagram 2 as the shift from S$NZ to S2$NZ) when fewer New Zealanders travel overseas because New Zealand travellers will sell (supply) fewer New Zealand dollars to purchase foreign exchange to use in the country or countries they visit. New Zealand firms that import also need to sell New Zealand dollars to purchase foreign exchange to pay overseas suppliers (firms) in their own currency. Therefore, if New Zealand imports fewer goods and services, the supply of New Zealand dollars decreases in the forex market and the New Zealand dollar will appreciate.

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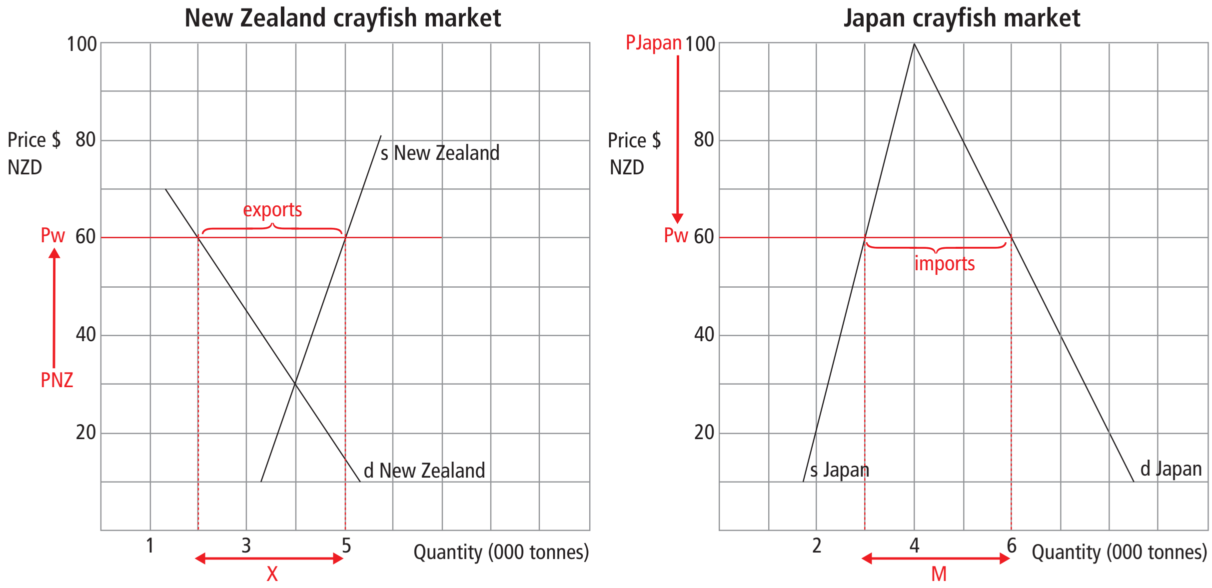
Questions

1 Use the diagram below to answer the questions that follow.



a **(i)** Label the original price in New Zealand and Japan appropriately.

(ii) Show a world price of $60 as Pw and indicate which nation imports crayfish and exports crayfish.

b Complete the statements below.

(i) The original price paid in New Zealand is $30, while in Japan it was $100, the world price is $60.

(ii) New Zealand exports 3 000 tonnes of crayfish and Japan imports 3 000 tonnes of crayfish.

(iii) New Zealand exports crayfish at the world price of $60. Domestic consumption falls from 4 000 tonnes to 2 000 tonnes, while production increases from 4 000 tonnes to 5 000 tonnes.

(iv) Japan imports crayfish at the world price of $60. Domestic consumption increases from 4 000 tonnes to 6 000 tonnes, while domestic production in Japan falls from 4 000 tonnes to 3 000 tonnes.

c Complete the spaces in the sentences below.

When New Zealand exports products overseas the price that domestic consumers pay increases and the quantity purchased decreases, as supply to the domestic market falls. When New Zealand imports products from overseas the price that domestic consumers pay decreases and the quantity purchased increases.

d The prices on each model are measured in the same currency, New Zealand Dollars. Why is it necessary, when using this model, to use the same currency on both diagrams?

So relative prices in each country can be compared.

e **(i)** State the total revenue at the world price for New Zealand firms of NZ$60.

$60 x 5 000 = $300 000

(ii) Domestic sales revenue $60 x 2 000 = $120 000

(iii) Export sales revenue $60 x 3 000 = $180 000

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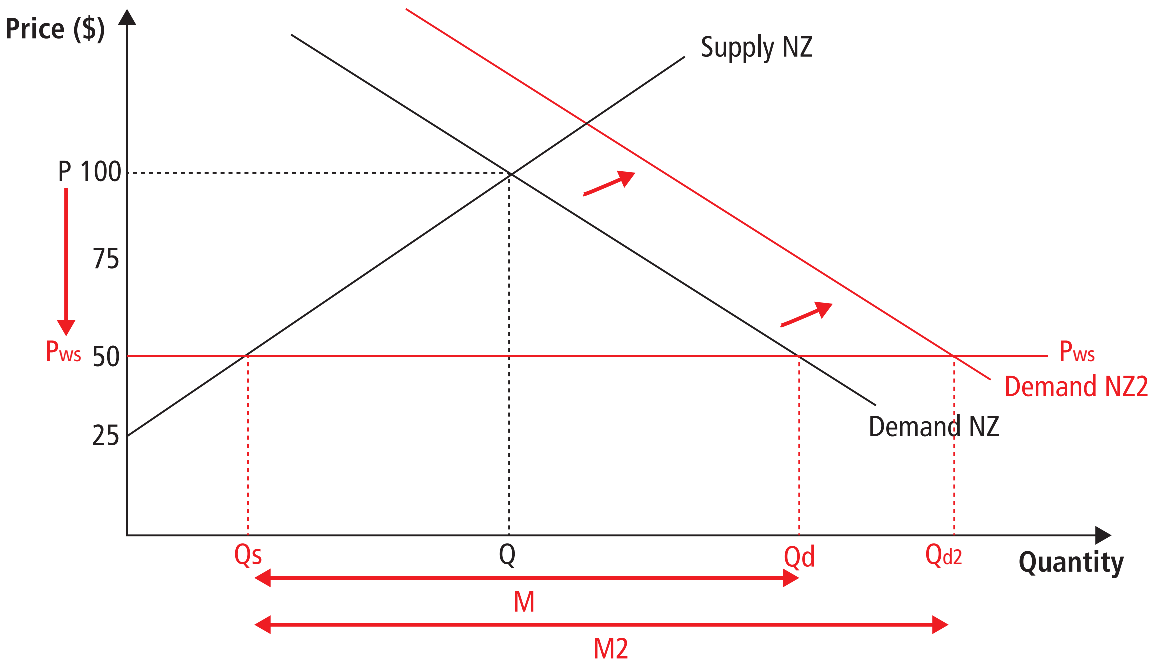
Graph One: New Zealand market for clothes



2 **a** **(i)** Show on **Graph One** above a world price of $50 (Label as **Pws**). Label the quantity of exports (**X**) or imports (**M**).

(ii) Show the effect on the graph of an increase in demand for clothes in New Zealand. Label the new exports (**X2**) or imports (**M2**).

b Explain the effect on the market for clothes in New Zealand of an increase in demand. In your answer discuss:

- The impact on the price
- The impact on the consumer

The increase in demand for clothes in New Zealand will have no impact on the world price because New Zealand is a price taker, it is too small to influence the world price of clothes, any amount of clothes may be imported at Pws to satisfy the New Zealand demand.

New Zealand consumers will buy more imported clothes as shown by the change from M to M2, the total value of spending on clothes will increase as more clothes are purchased at the same price. Spending on domestic firms' clothing remains the same.

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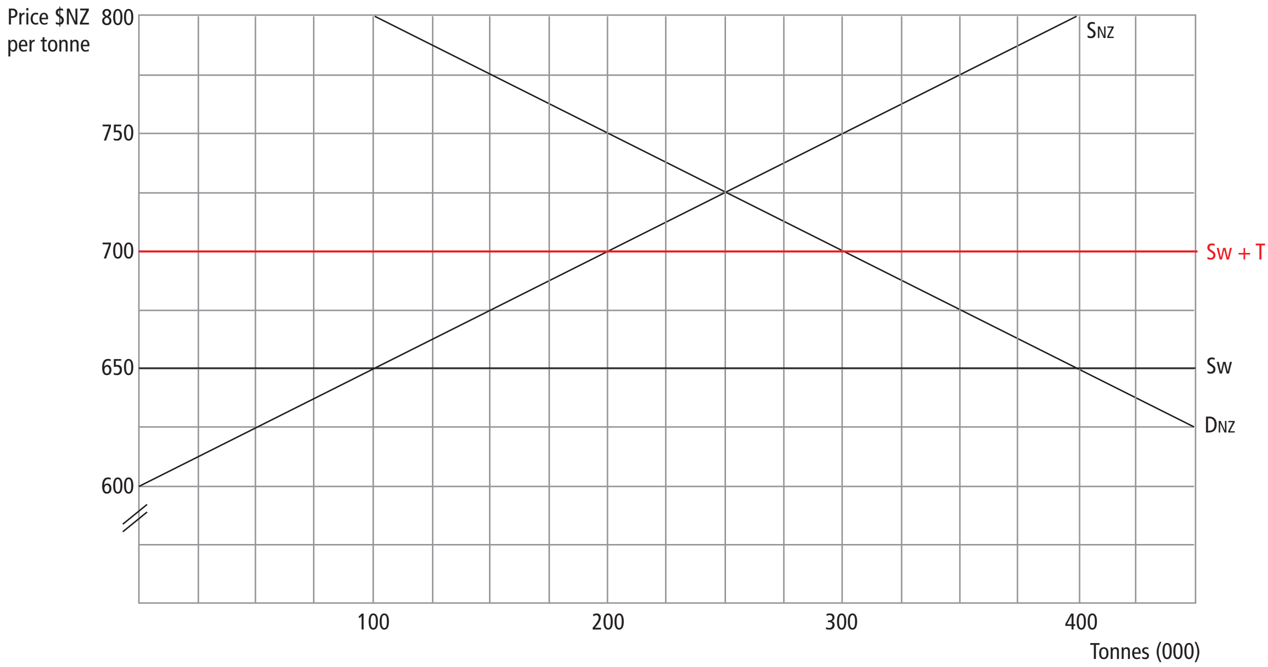
2 a Refer to Graph 1 below to answer the questions that follow.

Graph 1: The New Zealand steel market



SW shows the world supply of steel. State, assuming free trade:

(i) the price of steel in New Zealand. $NZ 650 per tonne.

(ii) the quantity of steel sold in New Zealand. 400 000 tonnes.

b Assume that a tariff of $50 per tonne is levied on imported steel. On **Graph 1** draw the new supply curve, including the tariff, and label Sw+T.

c (i) quantity supplied by New Zealand firms 200 000 tonnes.

(ii) quantity imported 100 000 tonnes.

(iii) revenue received by the government as a result of the tariff $5 million

d Read the extract and answer the questions that follow.

> An outbreak of mad cow disease in Europe is predicted to have an impact on the level of economic activity in New Zealand immediately and in the long term. Recent years have seen an increase in global demand for agricultural product.

(i) List several economic effects on the New Zealand farming industry of mad cow disease in Europe.

Increased production; increased exports; higher incomes; jobs created; an improvement in New Zealand's current account; inflationary pressures.

(ii) Identify the likely impact on economic growth in New Zealand indicated by the information in the extract.

Economic growth will increase, i.e., real GDP will increase.

(iii) Suggest one possible reason for the 'increasing global demand for agricultural products'.

Increased standards of living / increased incomes. Increase in global population or economic growth.

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