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NEW ZEALAND QUALIFICATIONS AUTHORITY
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Scholarship 2021 Economics

RESOURCE BOOKLET

Refer to this booklet to answer the questions for Scholarship Economics.

Check that this booklet has pages 2–10 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

THE NEW ZEALAND HONEY MARKET

RESOURCE A: Honey prices slump

New Zealand beekeepers have a bittersweet challenge as an abundance of honey causes prices and jobs to drop.



The Nelson Beekeeper’s Club president said there had been an increase in the number of beekeepers and beehives, “so the whole beekeeping industry has become quite competitive.”

RESOURCE B: Huge growth in hives

There has been huge growth in honey production over the past decade – hive numbers had reached nearly 925 000. In 2008 there were 343 000 hives.

One Whanganui beekeeper said that while established beekeepers had reserves to cope with the over-stocking, the extra hives affected everyone. “We now have up to 9 000 beekeepers in New Zealand, whereas previously, we only had 3 000.”

The chief executive of Apiculture New Zealand said that the surplus was not unexpected. “It’s a fact of the market being corrected. We’ve seen the price of honey increase sharply over the previous five years, resulting in above normal profits, and we’re seeing, for our non-mānuka honeys in particular, quite a dramatic fall in pricing.”

RESOURCE C: Record low interest rates

The message for businesses facing interest rate risk is to expect interest rates to be much lower for much longer. Cash available for debt servicing is important in determining a business’s ability to leverage. The sharp decline in interest rates in recent years (and decades) has significantly reduced debt servicing costs for business and households. The Reserve Bank of New Zealand will keep it that way.

NEW ZEALAND WATERWAYS

RESOURCE D: Public goods

Public goods are defined as goods that are:

- non-excludable by price and
- non-rival and non-depletable.

RESOURCE E: Options to improve water quality

Possible steps that could improve the water quality of New Zealand waterways include:

- **increased regulations** on waterway-affecting industries, requiring firms to take greater steps to reduce water pollution. This could include requiring farmers to take action to minimise nitrogen and effluent runoff into waterways, and requiring developers and councils to plan developments to better protect waterway quality
- **increased government and council spending** on protecting and restoring waterways
- **restricting** or setting specific limits on intensification or growth of farming types that are nitrogen and effluent intensive
- **subsidies or tax credits** for businesses taking action to protect waterways
- **assigning property rights to iwi** over local waterways
- **fining** businesses and farmers that allow pollutants to enter waterways above limits set by the Government.

RESOURCE F: Freshwater report 2020

Our Freshwater 2020 is a report released on 16 April 2020 by the Ministry for the Environment and Statistics New Zealand using the latest evidence showing how the country's waterways are impacted by urban development, farming, and forestry.

New Zealand freshwater sources and stores

- 70 major river systems run for more than 425 000 kilometres.
- New Zealand has 249 776 hectares of wetland.
- We have more than 50 000 lakes – 4 000 are larger than 1 hectare.
- 440 billion cubic metres of water flow in our rivers and streams.
- 711 billion cubic metres of water are stored in underground aquifers.

Issue 1: New Zealand native freshwater species and ecosystems are under threat

New Zealand has a diverse and unique range of freshwater species, habitats, and ecosystems, but many are under threat and continue to decline. These declines are the result of:

- converting land to cities, towns, farms, and plantation forests by clearing native forest and draining wetlands
- changing waterways from their natural form and building in-stream structures like weirs (small dams used to redirect water flows)
- reducing flows.

Collectively these changes put species at risk, reduce the benefits we receive from nature, and affect our way of life and connection to freshwater.

Freshwater fish

In 2017, 76% of our native freshwater fish (39 of 51 species) were either threatened with or at risk of extinction.

Lake health

Computer models estimate that 46% of lakes larger than 1 hectare (1 758 lakes) are in poor or very poor ecological health.

Issue 2: Water is polluted in urban, farming, and forestry areas

The way we live and use our land can result in excess nutrients (like nitrogen), chemicals, pathogens (disease-causing microorganisms), and sediment entering freshwater and causing harm.

Pollution affects almost all of our rivers and many of our lakes and aquifers.

Applying pesticides and fertilisers, increasing the number of cattle per hectare, felling and replanting pine trees, and faulty wastewater and stormwater infrastructure are all examples of activities that contribute to water pollution.

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RESOURCE G: Urban waterways

New Zealand's urban waterways have historically been viewed as drainage networks to quickly remove stormwater and waste from urban centres. Until recently, these waterways received less attention from media, the scientific community, and Government than waterways in rural areas. As a result, most urban waterways currently have poor water quality, degraded habitat, and impaired ecological health due to elevated levels of sediments, bacteria, nutrients, heavy metals, and other pollutants originating in the urban environment.

Water-sensitive urban design, an approach to planning and designing urban areas, is increasingly being considered for mitigation of stormwater impact on New Zealand's urban freshwater environment.

RESOURCE H: Innovative bill protects Whanganui River with legal personhood

In 2017, Parliament passed a historic bill to recognise the special relationship between the Whanganui River and Whanganui iwi. It will also provide for the river's long-term protection and restoration by making it 'a person' in the eyes of the law. The Bill was widely reported in New Zealand and overseas for one particularly innovative effect: it confers a legal personality on the Whanganui River. A legal person is an entity that has the same rights and responsibilities as a person. In New Zealand law, a number of entities have legal personhood including companies, trusts, and societies.

A \$1 million contribution will establish a legal framework to support the Whanganui River. Two people – a representative of the Crown and a representative of Whanganui iwi – will be appointed to Te Pou Tupua, which will act on the river's behalf and protect its interest.

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The resources continue on the following page.**

REPAYMENT OF GOVERNMENT DEBT

RESOURCE I: COVID Response and Recovery Fund

On 25 March 2020, Parliament allowed the Government to significantly increase the amount of money it spent. The result was a \$50 billion COVID Response and Recovery Fund (CRRF), targeted at new initiatives meant to address both the immediate response to the global pandemic and the economic damage left in its wake. The largest source of spending was the Wage Subsidy.

RESOURCE J: Operating balance and government debt 2020

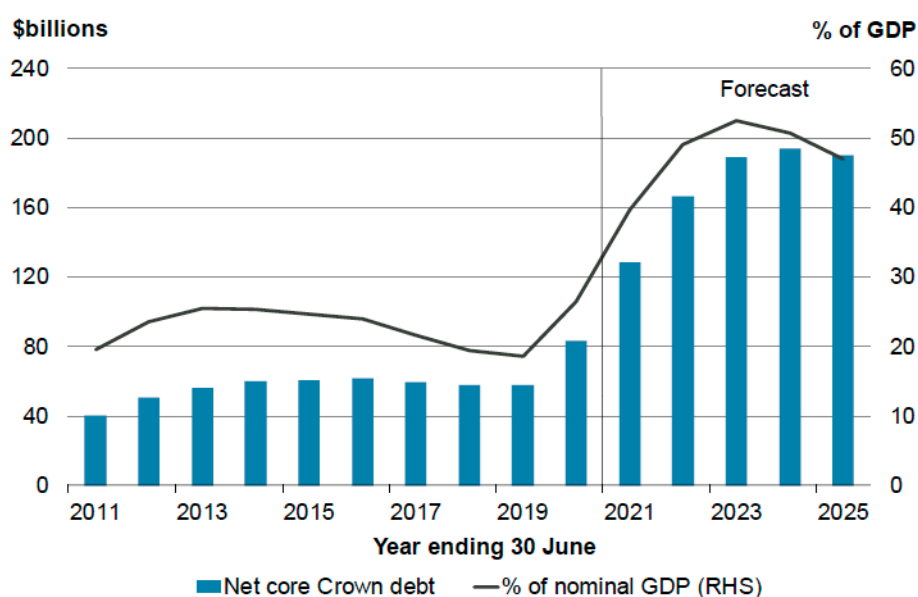
Tax revenue fell in 2020 – with lower services exports, fewer international visitors, weak domestic demand, lower incomes, and increased uncertainty weighing on household consumption and business investment.

Table: Fiscal measures (% GDP)

June years	2019 actual	2020 forecast	2021 forecast	2022 forecast	2023 forecast	2024 forecast
Core Crown tax revenue	28.5	28.0	27.2	26.6	27.4	27.3
Core Crown expenses	28.7	38.7	38.6	36.5	33.7	30.2

Net core Crown debt is expected to grow significantly, reaching \$190 billion in 2024 / 25. The increase is mainly driven by the need to fund the net cash deficits.

Graph: Net core Crown debt



RESOURCE K: Principles of the Public Finance Amendment Act 2013

Each government is required to act in accordance with the principles of responsible fiscal management specified in the Act. These principles promote sound fiscal policy and include:

- reducing total debt to prudent levels, so as to provide a buffer against adverse economic shocks in the future
- on average, ensuring total operating expenses do not exceed total operating revenues
- having regard for present and future generations.

The Public Finance Act does not define the term “prudent”. What may be considered prudent, or taking care for the future, at any given time is influenced by the economy. In 2019, before the COVID-19 pandemic, the Government stated its intention to maintain net core Crown debt between 15% and 25% of GDP beyond 2021 / 22.

RESOURCE L: Policies to reduce national debt

- Cut government spending.
- Increase taxation.
- Stimulate economic growth using supply-side policies.
- Increase the retirement age.

RESOURCE M: Government’s plan to bring down debt

With COVID-19, New Zealand is facing a one-in-one-hundred-year shock. If there is not enough tax income, a Government can raise taxes, cut funding for services like healthcare and education, or borrow money from people buying bonds. Before COVID, New Zealand’s net debt was around 19% of GDP, while the average for other advanced economies was about 80% of GDP.

This is happening in an environment of historically low interest rates, meaning the cost of servicing debt is also low. The Government aims to grow the economy to pay down debt over time. Initiatives such as upgrading key infrastructure and the apprenticeship scheme will support this.

RESOURCE N: Increasing superannuation age and taxation

Superannuitants (pensioners) make up the largest group of beneficiaries in the country. In 2019, NZ Super cost \$14.5 billion, and is increasing by more than \$1 billion each year. There has been much debate on whether to increase the current retirement age of 65 to reflect the fact people are working longer.

RESOURCE O: Tax options

There are choices – a couple of extra income tax brackets and / or a goods and services tax (GST) increase. Some economists predict future governments will introduce some form of tax on assets, such as a land tax, capital gains tax, or a wealth tax.

Acknowledgements

Material from the following sources has been adapted for use in this examination:

Resource A

<https://www.stuff.co.nz/business/farming/117592939/honey-prices-slump-as-trendy-beekeeping-boom-floods-the-market> &
<https://www.medicalnewstoday.com/articles/324966#raw-honey-vs-regular-honey>

Resource B

<https://www.stuff.co.nz/business/114774477/unsold-gold-beekeepers-stockpiling-honey-as-prices-drop-in-saturated-market>

Resource C

<https://www.interest.co.nz/opinion/105997/kiwibank-chief-economist-jarrold-kerr-sees-record-low-interest-rates-supported-copious>

Resource F

<https://www.mfe.govt.nz/overview-our-freshwater-2020>

Resource G

<https://www.parliament.nz/en/get-involved/features/innovative-bill-protects-whanganui-river-with-legal-personhood/>

Resource H

<https://ojs.victoria.ac.nz/pq/article/view/5683/4992>

Resource I

<https://www.stuff.co.nz/national/politics/300090917/the-price-we-have-to-pay-how-to-spend-nearly-48b-in-six-months> (adapted)

Resource J

<https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2020-html> (adapted)
<https://www.treasury.govt.nz/system/files/2020-12/hyefu20.pdf>

Resource K

<https://www.treasury.govt.nz/publications/guide/guide-public-finance-act-html#section-3> (adapted)
<https://www.treasury.govt.nz/publications/speech/what-prudent-debt>

Resource M

<https://www.labour.org.nz/news-debt-faq> (adapted)
<https://www.interest.co.nz/bonds/107044/crazy-times-government-debt#:~:text=The%20average%20interest%20rate%20on,average%20interest%20rate%20of%201.609%25.>

Resource N

<https://www.nzherald.co.nz/nz/nz-super-costs-up-as-nz-retirees-on-100k-passes-30000/SNSRX3N637F4W3LSCSQ236QJJQ/>

Resource O

<https://www.stuff.co.nz/national/politics/opinion/300094380/it-may-be-if-rather-than-how-the-government-pays-back-the-covid-debt-mountain>
<https://www.westpac.co.nz/assets/Business/economic-updates/2020/Other/Economic-Overview-Nov-2020-Westpac-NZ.pdf>

