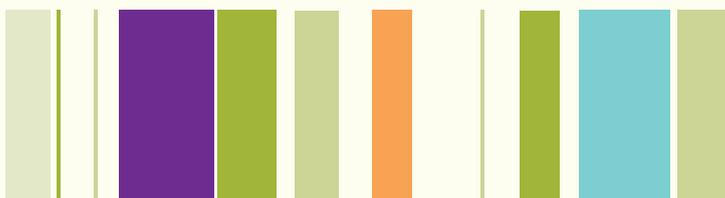




# *Thinking Globally* 2

*New Zealand in the Economic World*

*A social sciences resource for year 9–13 teachers*





## *Acknowledgments*

The Ministry of Education, the Ministry of Economic Development, the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise would like to thank:

- the writing team: Alan Bayly (Kamo High School), Alistair Blyth (Christchurch Girls' High School), Michelle Chapman (Springbank School), Sue Clement (Clyde Quay School), Kate Dreaver (MacLean Communications), Geoff Evans (ACG Parnell College), Paul Godfrey (ACG Senior College), Peter Hobbs (New Zealand Trade and Enterprise), Simon O'Brien (Springbank School), Melissa Stock (Ministry of Economic Development), Suze Strowger (Ministry of Education);
- the evaluators: Leanne Cross (Waimea College), Lois Hawthorne (Christchurch College of Education), Carmel Jolly (George Street Normal School), Ewen Macdonald (Hamilton Boys' High School), Derek McLauchlan (Christchurch Boys' High School), Kaye Webber (Palmerston North Intermediate Normal School), The Export Year Reference Group (Ministry of Foreign Affairs and Trade).

Editor: David Chadwick

Designer: Leon Mackie

Published 2007 for the Ministry of Education by  
Learning Media Limited, Box 3293, Wellington, New Zealand.  
[www.learningmedia.co.nz](http://www.learningmedia.co.nz)

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Dewey number 372.83

ISBN 978 0 7903 1942 1

Item number 31942



**National output:** an estimate of the value of goods and services produced in an economy

**Net exports:** exports minus imports

**Opportunity cost:** the cost of an undertaking in terms of the opportunity foregone, that is, the benefits that could have been derived from the alternative way that the user might have chosen to use the resources (an option that is no longer available once the choice has been made)

**O te mahi ngātahi:** working together cooperatively (literally “work as one”)

**Primary factor (or input):** an input that exists as a stock providing services that contribute to production; the stock is not used up in production, although it may deteriorate with use, providing a smaller flow of services later – the major primary factors are land and other natural resources, labour, and capital, including physical and human capital (skilled labour).

**Primary industries:** industries that take out raw materials that are provided by nature (for example, farmers grow crops, miners extract fuel and minerals)

**Process:** a series of actions taking place in an ordered sequence to produce a particular result

**Protection:** the practice of regulating imports and exports with the purpose of shielding domestic industries from foreign competition. (Protection methods include restrictions in the form of import duties, export bounties, domestic production subsidies, trade quotas, or import licenses.)

**Rāhui:** restriction or prohibition, especially in relation to resources and the environment

**Raw materials:** unfinished materials that are used to make finished goods; often they are naturally occurring

**Rawa:** resource; property

**Resource:** any supply of goods, materials, or assets that is available for use – natural resources include the land and sea; human resources are people and their knowledge, skills, inventiveness, and ingenuity; and resources produced by people include items created by people and financial capital.

**Resource endowment:** the amount and quality of resources, in the forms of land, labour, climate, and so on, possessed by a person, community, country, etc.

**Scarcity:** the concept that resources are always limited in relation to possible uses for them

**Secondary industries:** industries that use raw materials and parts from other industries to make, build, and assemble products (for example, books, furniture, wine)

**Services:** Useful work that is done for others as an occupation or business

**Specialisation:** concentrating on the production of one good or service

**Standard of living:** people’s material comfort as measured by the goods, services, and luxuries available to them

**Subsidy:** money provided from public funds to help an industry or business keep down the price of a commodity or service

**Surplus:** an excess of income or assets over expenditure or liabilities in a given period

**Temperate:** a region or climate characterised by mild temperatures

**Terms of trade:** the relative price of a country’s exports compared to its imports

**Tertiary (service) industries:** industries that give value to people rather than physical goods (for example, teaching, banking)

**Trade:** the process that takes place when goods are exchanged

**Trade pattern:** the goods and services a country trades, the countries with whom it trades, and the direction of the trade

**Trade restrictions:** measures designed to regulate imports and exports in order to protect a country’s domestic industries from foreign competition. (Restrictions may include import duties, export bounties, domestic production subsidies, trade quotas, or import licenses.)

**Value added:** the increase in the value of goods that results from the production process

## Thinking Globally 2

### New Zealand in the Economic World

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Wellington

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# Introduction

This book is designed for teachers of students in years 9–13. It aims to foster an appreciation of New Zealand's place in the economic world and its role as part of the global economy. The information and activities provided in this book can be used to help students develop understandings about the ideas and issues covered in the Economic World strand of the draft social sciences curriculum, including an understanding of trade and the importance of exporting.

The book contains some background information on the concept of trade, a list of useful references, a glossary of economic terms, and two units of learning.

## Unit 1: Exporting Success

The activities in unit 1 focus on ideas about society, which is one of the aspects of social inquiry outlined in the draft social sciences curriculum. Teachers should plan to develop the other aspects of the social inquiry process as part of their wider class programmes. In doing so, they will help their students develop a fuller understanding of how people participate in society and how society operates.

### Social Inquiry

*Through social inquiry, students ask questions, gather information, and examine the background to important societal ideas and events; explore and analyse values and perspectives relating to these ideas and events; and develop understandings about issues and the ways that people (themselves and others) make decisions and participate in social action.*

The activities in this unit should be seen as suggestions only. You should adapt the activities to suit the classroom context and the learning needs of your students. There are many other trade-related ideas that could be incorporated into the unit. These could be identified by student interest as the unit of learning develops.

### Links to economic understandings, effective teaching, and the key competencies

Current research has identified a number of things that teachers can do to help their students learn best (see pages 24–25 of *The New Zealand Curriculum: Draft for consultation 2006*). The activities in the units promote these characteristics of effective teaching practice.

There are a number of ways teachers can enhance their students' understanding of social science concepts. For example, to develop conceptual understanding of "global trade" two specific "mechanisms" that effective social studies teachers might use are:

1. ensuring students have multiple opportunities or experiences (at least four and no more than two days apart) to engage with the concept (Nuthall and Alton Lee, 1994). For example, the students have the opportunity to do this in unit 1 activity 2 when focusing on the concept that New Zealand needs to export the goods and services that we are relatively good at producing in order to import goods and services that we are not so good at producing or do not produce.
2. allowing students to compare and contrast concepts, ideas, and contexts as much as possible (Hamman and Stevens, 2003). For example, in activity 5 the students consider the qualities needed to be a successful exporter and compare their findings with those of other students who have looked at other case studies of other successful exporters.

*For more ideas about what makes a difference in social sciences quality teaching for diverse students, see the Best Evidence Synthesis (BES) Social Sciences due to be published in 2007. The new Social Sciences Online will be the best place to look and be informed of the BES's release.*

*Learning should focus on students' identity and "being" in a complex, rapidly changing, and diverse world (Gilbert, 2005)*

*The New Zealand Curriculum: Draft for consultation 2006* also identifies five key competencies that people need to live, learn, work, and contribute as active members of their communities (see pages 11–12 of the draft). Although the curriculum is still in draft form, teachers will find it useful to be thinking about how some of these key competencies could be integrated into learning programmes such as this.

Each activity in this unit aims to help develop some aspect of these competencies in your students. Examples of how some of the activities could link to some of the key competencies are shown in the following table. For each activity in unit 1, a text box shows how that activity links to the progression of economic understandings and to the characteristics of effective teaching.



Key competency	What this might mean for your learners	Example
Relating to others	Students learn about their own ideas and those of others as they listen, compare, and clarify their thinking with others.	By considering the reasons for specialisation with others in groups and then sharing their conclusions with the class, the students compare their own ideas with those of others, and clarify their own thinking.
Participating and contributing	Learning is developed in authentic contexts that have meaning in students' lives.	By using local exporters as case studies in unit 1 activity 5, students can see that what they are learning is part of their own community and "real".
Thinking	Students are encouraged to develop their critical, creative, and enterprising thinking.	By participating in one of the games listed in activity 3, students think about and develop understandings about some of the ethical issues connected with trade.

## Unit 2: The Rugby World Cup NCEA Achievement Standard 2.4

This unit is based around the economic impact of the Rugby World Cup in 2011. The task will enable students to meet the internally-assessed achievement standard 2.4. The unit includes background notes and an assessment schedule.

This resource, and *Thinking Globally 1*, its companion book for years 1–8 teachers, aims to support teachers as they help their students to develop important understandings about the economic world. The table below shows the progression of economic understandings through the units at the various curriculum levels.

### The Economic World Economic Understandings

Levels 1–2	Levels 3–4	Levels 5–6	Levels 7–8
New Zealand buys things from and sells things to other countries.	New Zealand needs to export the goods and services we are good at producing so that we can import the goods and services we are not so good at producing or do not produce ourselves.	New Zealand needs to export the goods and services that we are relatively good at producing in order to import goods and services that we are not so good at producing or do not produce ourselves. This improves our standard of living and quality of life.	New Zealand exports goods and services in which we have a comparative advantage in order to import those goods and services that we are not so good at producing or we do not produce ourselves. This improves our economic prosperity.
New Zealand needs to sell the things we are good at making to other countries so that we can buy the things we are not so good at making from overseas.	Geographically, New Zealand is a long way from the rest of the world. This means high shipping costs for our exports. However, when we export services we can overcome barriers imposed by distance.	The main obstacles to exporting goods from New Zealand are our small market and our geographic isolation. However, when we export services we can overcome barriers imposed by our size and distance from other countries.	The main obstacles to exporting goods and services from New Zealand are the problems of scale, distance, and barriers to free trade between countries.
	New Zealand is known as an efficient producer of innovative, high-quality specialised goods and services.	New Zealand's ability to produce innovative, high-quality niche goods and services is important to the success of our exports.	New Zealand's reputation for producing innovative, high-quality niche goods and services is important to the success of our exports.
	There are not many people to buy things in New Zealand, so to make the most of our skills and resources, we need to find customers overseas.	Because of New Zealand's relatively small population, we need to find customers overseas in order to make the most of our skills and resources.	Because of New Zealand's relatively small population, we need to find customers overseas in order to optimise our skills and resources.

# Background Notes

These notes provide some background information about the conceptual understandings and the key concepts identified in this book.

## Introduction to Trade

*Words that appear in the text in bold italics are defined/explained for teachers in the glossary on page 48.*

The underlying assumptions of economics are that resources are limited and that human wants are unlimited. This causes the fundamental economic problem of scarcity. As a result of scarcity, every society needs to answer the questions: What should be produced? How should it be produced? and Who should gain the benefit from this production? For example, many of us may think that waiting lists for surgery are too long; we need more surgeons, nurses, and hospitals. However, we do not have a limitless supply of these resources, so we have to make the best use of what we have or give up something else (the **opportunity cost**), for example, more surgeons but fewer GPs.

### Economic resources

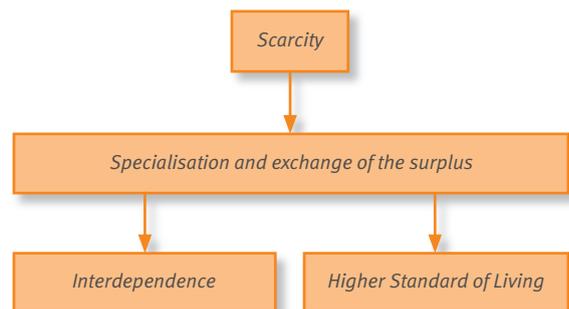
Economic resources or factors of production are the inputs used in the production of **goods** and **services**. The quality and quantity of these resources determines the number of goods and services that will be available in a country. In a **market economy**, it is the ownership of these resources that determines a person's income and therefore their share of the **national output**.

Economic resources include:

- **Natural Resources** Resources from the earth, sea or air, such as land, coal, fish, livestock, water, minerals, and other raw materials
- **Labour** Human effort, workers, and management
- **Capital Resources** All manufactured goods used in production (rather than to directly satisfy a consumer's want), for example, machinery and buildings, and including financial capital
- **Enterprise** Those people who organise all the other resources to produce goods and services in the hope of making a profit.

## Specialisation and trade

Societies have endeavoured to create a better **standard of living** from their given resources through specialisation and the subsequent exchange of the surplus generated. In a modern society, instead of each individual trying to produce everything for themselves, each person concentrates on a little part of the whole process. This means that people are dependent on others to satisfy their needs and wants (**interdependence**), but as a result, they can have a much higher **standard of living**.



In a family or whānau group, this specialisation may take the form of one person hanging out everyone's washing or preparing kai and another member of the family tidying the kitchen after everyone has had breakfast (rather than everybody doing both of these tasks, but only for themselves). In a small town, it may mean the local food store and the farm supplies store are separate. In a larger town, all the car yards might be concentrated in one area (agglomeration) and all the clothes shops may be in another area, or most of the town's commercial and retail businesses might be located together in the central business district while agricultural and arable areas on the periphery of the town provide its population with fresh fruit, vegetables, and dairy produce.

*Discussion of specialisation provides a good opportunity to develop Thinking, one of the key competencies outlined in the draft curriculum. You could ask your students to investigate and suggest reasons why particular businesses are concentrated in particular areas. What are the benefits for the people who run the businesses?*

In some parts of New Zealand, much of the economic production is based on fruit growing while, in other parts, it is based on tourism. On the world stage, some countries specialise in high-tech design while others specialise in mass manufacturing.

In each case, the overall standard of living can improve as a result of the specialisation and exchange that has taken place.

The standard of living that an economy can achieve is affected by the quantity and the quality of the factors of production it has, that is, its “factor endowment”. Where communities have an abundance of a particular factor of production, they may have a **competitive advantage** in producing goods and services that draw on that factor. For example, New Zealand’s fertile soils, temperate climate, and the skills possessed by our agricultural researchers make us world leaders in some aspects of agricultural production. On the other hand, where communities lack a particular factor of production, they are likely to have to import the goods and services that flow from it.

It is easy to see that we have to export so we can pay to import the goods that we cannot produce in New Zealand. However, it’s clear that we also import a lot of goods that we could produce for ourselves. This is because of the gains to be made from specialisation and exchange outlined above. By using our resources to produce those goods that we are really good at producing, and then exchanging them for things that other countries are really good at producing, we can all be better off.

The long-term benefits of free trade are generally accepted by economists, and true free trade has been touted by some as a better solution for world poverty than aid programmes. However, the protests against free trade, for example the large-scale street protests during the 1999 World Trade Organisation meeting in Seattle, are clear indicators that the short-term costs and benefits of free trade are not evenly spread.

### ***New Zealand’s physical isolation and low population density***

New Zealand’s physical isolation and low population density place us at a disadvantage in trading with other countries. Table 1 compares Auckland’s distance from New Zealand’s major markets to that for some major cities in other parts of the world.

### ***Access to Major Markets within a Three-hour Flight Radius***

City	Percentage of world GDP	Percentage of world population
Auckland	1	0.4
Chicago	25	7
Hong Kong	32	42
Paris	26	15

*Adapted from The Conference Board and Groningen Growth and Development Centre, Total Economy Database, May 2006, [www.ggdc.net](http://www.ggdc.net)*

See also Figure 1 on page 47

New Zealand’s isolation means that we experience high transport costs for the goods that we trade. The geography of New Zealand (its long, thin shape, the division of the country into two main islands, and the long distances between the major centres) also means that many producers face high internal transport costs when they move the raw materials and the goods they produce around the country. Our small population limits the size of the internal market for our goods and services and means that we lack the labour force needed to mass-produce goods and services on a world scale.

Historically, New Zealanders have needed to be adaptable to cope with international changes and forces over which we have little control. For example, Britain’s entry into the European Economic Community in 1973 meant that we no longer had a guaranteed purchaser for our meat, wool, and dairy products. We responded by seeking alternative markets and attempting to add greater value to the goods and services that we were producing (for example, we processed our timber products to a higher level) and by diversifying into a greater range of goods and services. These days, the New Zealand government is focusing on encouraging a more knowledge-intensive economy. This focus reflects the understanding that we can make up for the lack of a large labour force by growing our human capital and intellectual property. For example, highly-processed primary products or computer software have lower transportation costs than goods, such as timber or butter. The skills and services offered by New Zealand’s creative industries are in high demand overseas – the creative industries sector currently contribute about \$2.86 billion to the economy (3.1% of total GDP).

To some extent, New Zealand’s physical remoteness is being offset by faster and cheaper transport and by the rapid improvement in telecommunications, especially the Internet. However, some research shows that people prefer to interact face to face, at least in the early stage of a business relationship.



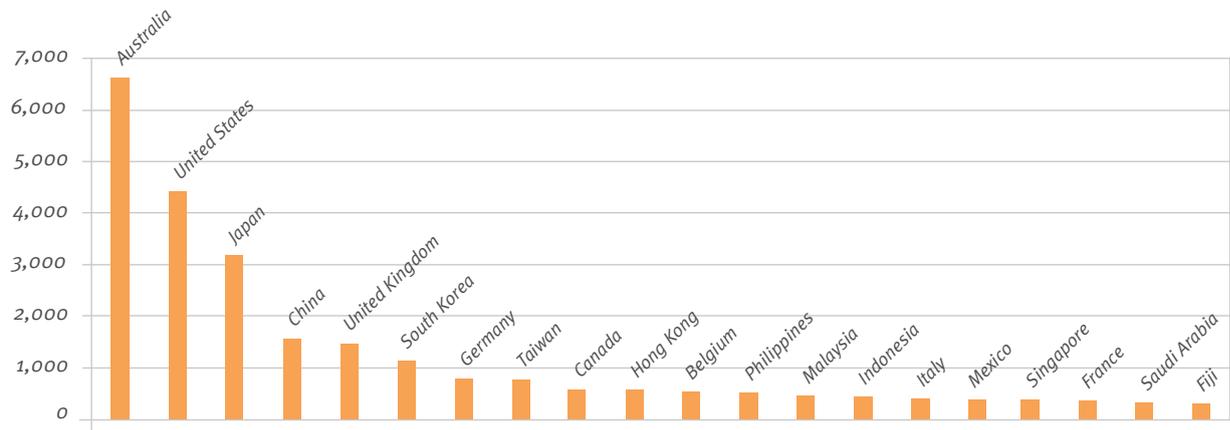
## New Zealand's trade patterns

Originally, New Zealand depended on Britain for much of its trade. In the early 1960s, the British market accounted for about 80 percent of our exports and 50 percent of our imports. From the early 1970s, we diversified with new trading partners, including Australia, Japan, the United States, Korea, China, and India. In 1983, the Closer Economic Relations Agreement liberalised trade between

New Zealand and Australia, allowing capital and labour to move freely between the two countries. Another important event was New Zealand's entry into the Asia-Pacific Economic Co-operation (APEC) forum in 1989. Forum members now account for about 70 percent of New Zealand trade.

## New Zealand's Top 20 Export Markets Year Ended Dec 2005

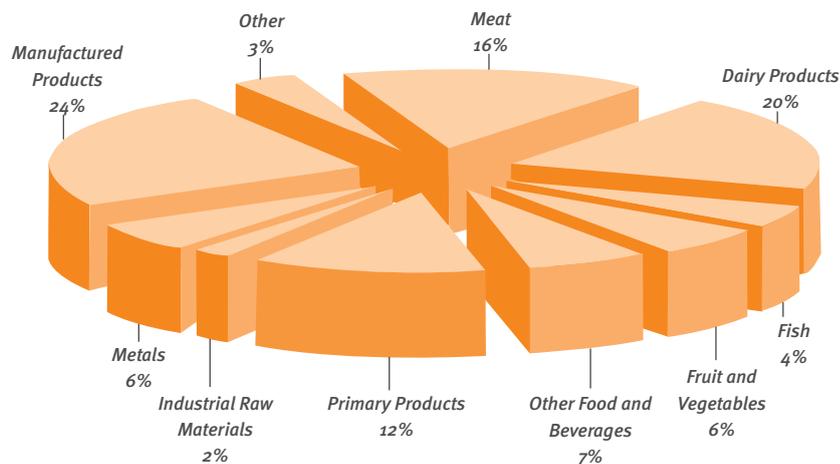
Millions  
NZ\$



New Zealand Trade and Enterprise (NZTE) report the following results for the year ended December 2005:

- The export value of New Zealand's food and beverages was NZ\$15.4 billion, representing just over half of New Zealand's total merchandise exports.
- Manufactured exports totalled NZ\$7.18 billion. These included organic chemicals, pharmaceutical products, plastic products, rubber products, leather, textiles, paper and paper-associated products, furniture, electrical equipment, marine equipment, and agricultural and industrial machinery.
- Primary product exports (including exports of plants/flowers, seeds, wool, raw hides and skins, and wood/pulp) totalled NZ\$3.56 billion.
- Industrial raw materials and metals exports totalled NZ\$2.32 billion, including mineral fuels and oils, aluminium, iron/steel, other metals, and all other raw materials.
- Service exports: Tourism and other travel earned New Zealand \$6.9 billion in the year to March 2006.

## Composition of New Zealand's Major Merchandise Export Sectors Year Ended Dec 2005



## Future trading patterns

The NZTE's figures show a shift away from traditional, land-based commodities towards more value-added, high-tech goods and services, including highly-processed primary products and the sale of intellectual property. Much of New Zealand's future economic growth will depend on that shift continuing. It also depends on growing our relationships with the developing economies of Asia, whose large populations offer us potentially valuable markets.

An important trend is the emergence of inter-industry trade. This takes place when countries simultaneously import and export goods within the same industry. Usually this involves the exchange of raw materials, but it can also include the exchange of intellectual property, for example, when New Zealand experts provide advice on wool production or dairy farming.

A number of New Zealand companies are developing products in New Zealand while moving part or all of their manufacturing overseas. In this way, they are able to take advantage of the lower manufacturing costs in developing countries while retaining value-added activities in New Zealand.

## Useful References

### Books

Alton-Lee, A. and Nuthall, G. (1994). Understanding How Pupils Learn. *SET Research information for Teachers 1994*, Number 2 Item 3. Wellington: New Zealand Council for Educational Research.

Gilbert, J. (2005). *Catching the Knowledge Wave? The Knowledge Society and the Future of Education*. Wellington: NZCER Press.

Hammann, L.A. and Stevens, R.J. (2003). Instructional approaches to improving students' writing in compare-contrast essays: an experimental study. *Journal of Literacy Research* 35, pp731-756. Oak Creek, Wisconsin: National Reading Conference, Inc.

### Multimedia

#### Momentum series on DVD

*Momentum* is a 13-part television series about successful New Zealand businesses. It aired between July and December 2003 on TV1. This resource is available to New Zealand education institutions from NZTE on request. Email [enterpriseeducation@nzte.govt.nz](mailto:enterpriseeducation@nzte.govt.nz) to request a copy of the DVD set.

#### Education for Enterprise – Inspiring Growth CD-Rom/DVD set

The Ministry of Education's Education for Enterprise initiative aims to help students develop the skills that will enable them to better manage opportunities in their personal and professional lives, including working for themselves. This resource was developed by New Zealand Trade and Enterprise, along with Exceleator – The New Zealand Leadership Institute, and an additional team of professional researchers and education

specialists. It includes real life success stories, planning templates, case studies, and weblinks to useful enterprise education information. This resource is available to New Zealand primary and secondary school teachers from NZTE on request. Email [enterpriseeducation@nzte.govt.nz](mailto:enterpriseeducation@nzte.govt.nz) to request a copy.

### Websites and email contacts

#### Austrade: Student and Teacher Resources:

[www.austrade.gov.au/student-centre/default.aspx](http://www.austrade.gov.au/student-centre/default.aspx)

Austrade is the Australian Trade Commission. Its website offers a range of secondary school teaching and learning resources, covering topics such as international trade, business enterprise, exporting and marketing, globalisation, and the global economy. Many of these resources are useful for New Zealand teachers and students, especially the links to the activity sheets.

#### Biz/ed: Virtual Developing Country:

[www.bized.co.uk/virtual/dc/index.htm](http://www.bized.co.uk/virtual/dc/index.htm)

The Virtual Developing Country site introduces users to many of the issues and ideas that are of interest in the field of development economics. Users can take a series of virtual field trips throughout Zambia, visiting a number of places and people. Resources include a teachers' guide and a glossary.

#### bright magazine:

[www.nzte.govt.nz/section/13500/page2.aspx](http://www.nzte.govt.nz/section/13500/page2.aspx)

*bright* magazine is New Zealand Trade and Enterprise's magazine for business people. Read about initiatives being taken by New Zealand business people who are striving for, or achieving, international success.

#### Business Information New Zealand:

[www.biz.org.nz/public/home.aspx?sectionid=53](http://www.biz.org.nz/public/home.aspx?sectionid=53)

This is an online guide to best business practice, advice, and support.

#### Business New Zealand:

[www.businessnz.org.nz](http://www.businessnz.org.nz)

The leading national organisation representing the interests of New Zealand's business and employing sectors.

#### Deardorff's Glossary of International Economics:

[www-personal.umich.edu/~alandear/glossary](http://www-personal.umich.edu/~alandear/glossary)

This site provides definitions of terms and concepts related to international trade.

#### Dev-Zone:

[www.dev-zone.org](http://www.dev-zone.org)

Dev-Zone is an independent Aotearoa New Zealand-based resource centre, providing information to development practitioners and universities on international development and global issues.

#### Education for Enterprise:

[http://www.tki.org.nz/r/education\\_for\\_enterprise](http://www.tki.org.nz/r/education_for_enterprise)

The Ministry of Education's E4E initiative aims to develop an enterprise culture in schools. The site includes examples of useful teacher resources, links to websites, school stories, case studies, and other material designed to support schools in embedding education for enterprise into their curriculum programmes.

#### EH.Net:

<http://eh.net>

EH.Net operates the Economic History Services website and several electronic mailing lists to provide resources and promote communication among scholars in economic history and related fields.



### **Global Education Centre:**

[www.globaled.org.nz](http://www.globaled.org.nz)

The Global Education Centre (GEC) is a non-profit organisation that provides services to the formal and non-formal education sector around Global Education. GEC provides training and resources to teachers, teacher trainees, young people, youth workers, and community groups in Aotearoa New Zealand. GEC is part of the Development Resource Centre along with Dev-Zone.

### **Investment New Zealand:**

[www.investmentnz.govt.nz](http://www.investmentnz.govt.nz)

Investment New Zealand is a division of New Zealand Trade and Enterprise – the New Zealand government’s economic development agency. This site explains what New Zealand has to offer international investors.

### **Investorwords.com:**

[www.investorwords.com/998/competitive\\_advantage.html](http://www.investorwords.com/998/competitive_advantage.html)

This is an online financial glossary.

### **Latitude magazine:**

[www.nzte.govt.nz/section/13673/11839.aspx](http://www.nzte.govt.nz/section/13673/11839.aspx) and [www.nzte.govt.nz/section/14454/15803.aspx](http://www.nzte.govt.nz/section/14454/15803.aspx)

*Latitude* magazine showcases world-leading innovative New Zealand companies. Such companies come from the sectors in which New Zealand has demonstrable world-class talent and significant potential for international growth.

### **Life Style Extra: Financial Glossary:**

[www.lse.co.uk/FinanceGlossary.asp](http://www.lse.co.uk/FinanceGlossary.asp)

This site offers an extensive glossary of financial terms.

### **MarketNewZealand.com:**

[www.marketnewzealand.com/MNZ/Buy/default.aspx](http://www.marketnewzealand.com/MNZ/Buy/default.aspx)

This website is a service provided by New Zealand Trade and Enterprise that helps international buyers to make contact with New Zealand exporters. It includes detailed success stories about New Zealand businesses from a variety of industries that have become successful exporters.

### **Ministry of Economic Development:**

[www.med.govt.nz](http://www.med.govt.nz)

The goal of the Ministry of Economic Development is to ensure that the business environment in New Zealand promotes productivity. The Ministry’s website includes information about its work around exporting, working with our trade partners, and generating international links.

### **Ministry of Education:**

[www.minedu.govt.nz](http://www.minedu.govt.nz)

The New Zealand Ministry of Education’s website.

### **The Ministry of Foreign Affairs and Trade:**

[www.mfat.govt.nz](http://www.mfat.govt.nz)

The Ministry of Foreign Affairs and Trade advises the New Zealand Government on official relations with other countries and international organisations and on external trade and economic relations.

### **New Zealand Institute of Economic Research (NZIER):**

[www.nzier.org.nz](http://www.nzier.org.nz)

NZIER is an independent, non-profit organisation that aims to stimulate economic research in New Zealand. Its website includes a useful glossary of economics terms.

### **New Zealand Trade and Enterprise:**

[www.nzte.govt.nz](http://www.nzte.govt.nz)

New Zealand Trade and Enterprise (NZTE) is the New Zealand government’s national economic development agency. Through its network of offices worldwide, NZTE aims to grow New Zealand’s economy by boosting the capability of businesses and regions and facilitating their sustainable and profitable participation in overseas markets. This site is an extensive resource in its own right. It also provides links to

many other resources, including links to other NZTE-related websites and to NZTE’s magazines, *Latitude* and *bright*.

### **The Royal Society of New Zealand:**

[www.rsnz.org](http://www.rsnz.org)

The Royal Society of New Zealand is an independent, national academy of sciences, a federation of some sixty scientific and technological societies and individual members. The society promotes a critical awareness of science and technology in schools, in industry, and in society.

### **Schools Corner: Statistics New Zealand:**

[www.stats.govt.nz/schools-corner/default.htm](http://www.stats.govt.nz/schools-corner/default.htm)

Schools Corner contains activities and information for teachers as well as student and teacher pages, including links to the economics learning area.

### **Social Studies Online:**

[www.tki.org.nz/r/socialscience/curriculum/SSOL/woolshed/index\\_e.php](http://www.tki.org.nz/r/socialscience/curriculum/SSOL/woolshed/index_e.php)

At the Woolshed is a level 3 unit plan that helps students to learn how and why people manage the wool resource.

### **Te Ara: The Encyclopedia of New Zealand:**

[www.teara.govt.nz/en](http://www.teara.govt.nz/en)

Te Ara is New Zealand’s online encyclopedia. It is a significant resource for both teachers and students. It incorporates the 1966 Encyclopedia of New Zealand and continues to grow and evolve through the addition of new material.

### **The Higher Education Academy: Economics Network:**

[www.economicsnetwork.ac.uk](http://www.economicsnetwork.ac.uk)

This site provides a range of sources aimed at supporting university-level economics teachers but also providing useful background information for other teachers, particularly at the senior secondary level.

### **The New Zealand Edge:**

[www.nzedge.com/intro](http://www.nzedge.com/intro)

The New Zealand Edge aims to strengthen New Zealand’s sense of identity and foster a global community of New Zealanders. It includes the stories of New Zealand heroes such as the entrepreneurs Joseph Nathan who founded Glaxo, the company that produced the famous dried milk formula, and William Davidson and Thomas Brydone who founded the frozen meat export industry.

### **The Times 100 – A Student and Teacher Business Studies Resource Centre:**

[www.thetimes100.co.uk/index.php](http://www.thetimes100.co.uk/index.php)

This resource centre is for business studies students and teachers. It includes teaching materials such as lesson plans, worksheets, and case studies.

### **TKI – Social Studies in the New Zealand Curriculum:**

[www.tki.org.nz/r/socialscience/curriculum/index\\_e.php](http://www.tki.org.nz/r/socialscience/curriculum/index_e.php)

This is the online version of *Social Studies in the New Zealand Curriculum*



# Unit 1: Exporting Success (Level 5)

## Overview



The big idea or big concept around which the activities in this resource are structured is that New Zealand's standard of living is dependent on trade. This resource will also help you to build the following conceptual understandings with your level 5 students:

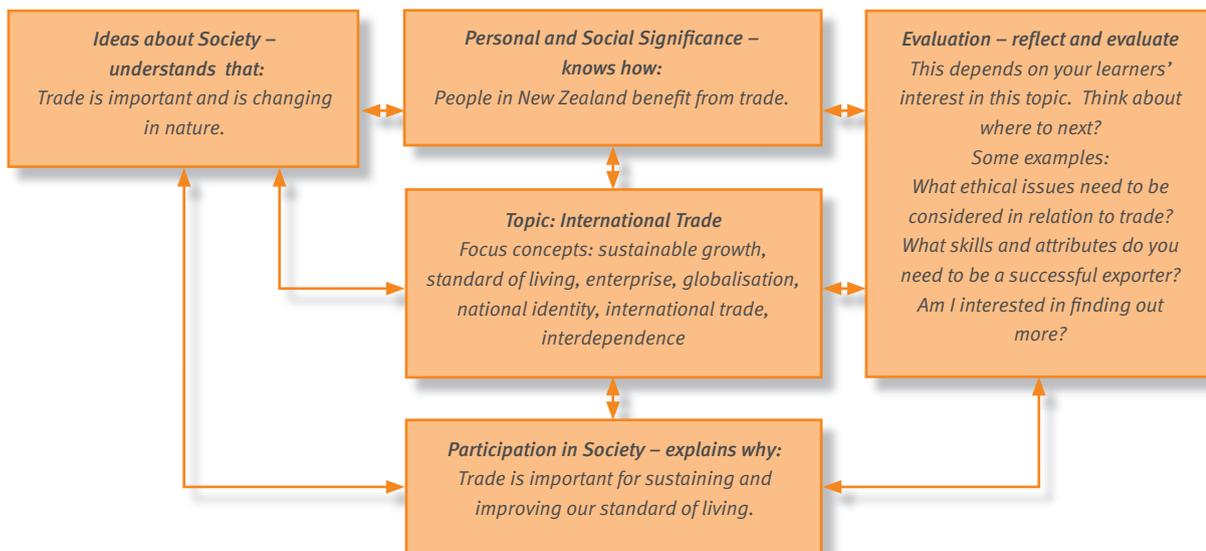
- *New Zealand needs to export in order to import goods and services that we do not make or are not so good at making. This improves our standard of living and our way of life.*
- *The Kiwi "can-do" (or enterprising) attitude is an integral part of the New Zealand's national identity.*
- *Economic decisions related to international trade have an impact on communities.*

In this unit, the students begin by investigating the origin of products that they use in their everyday

lives, looking at the reasons why countries and regions specialise in particular products and becoming familiar with some key economic terms. They also develop their conceptual understandings about trade and economics by participating in a trade-based game. Then, they explore case studies of successful New Zealand exporters and draw on what they have learned to research a local producer and evaluate that producer's export capacity.

### The Social Inquiry Model

The diagram below shows how a possible social inquiry approach can be applied to international trade, the topic of this unit. This approach utilises the key aspects of learning (Ideas about Society, Personal and Social Significance, and Participation in Society) from the New Zealand Exemplar project. Teachers should use this as a guide only.



## Achievement objectives

Note: These social inquiry achievement objectives are those suggested in the 2006 draft curriculum, but they could easily be adapted for your school's curriculum design.

<b>Level 5</b>	<p><b>Major</b> Students understand that people in New Zealand seek and have sought economic growth through business, enterprise, and innovation. Students understand that economic decisions impact on people, communities, and nations.</p> <p><b>Minor</b> Students understand that the way people manage resources has impacts for environmental and social sustainability. Students understand that ideas and actions of people in the past have had a significant impact in shaping people's lives and identities in New Zealand's developing society.</p>
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## Suggested activities

### Activity 1: Introduction

The purpose of activities 1 and 2 is to hook into your students' prior knowledge and to raise their interest in New Zealand's international trading relationships. Specifically, the activities are intended to introduce the key words listed on page 11 and to encourage your students to consider the following questions:

- How does local trade develop?
- Why does international trade exist?
- What do we know about international trade and what do we think about it?
- What do we know about New Zealand's participation in international trade?
- What else do we need to know?

### Discussion

Introduce the questions listed above and encourage the students to respond, charting their responses so that they can continue to refine or add to them later. Don't spend too long on this activity. Simply record the students' responses, and then revisit this chart at appropriate times during the course of the learning and teaching sequence.

### Conceptual understanding

- *New Zealand needs to export the goods and services that we are relatively good at producing in order to import the goods and services that we are not so good at producing or do not produce ourselves. This improves our standard of living and quality of life.*

### Effective teaching

- *Making connections*
- *Facilitating shared learning.*

### Activity 2: Trading patterns

#### 2A: Kiwi-made goods only?

Invite your students to speculate on what their lives would be like if they could only buy Kiwi-made goods. They could think, pair, and share their responses to this question.

*As a related activity, or for home learning, the students could use the Internet to find out about the Buy Kiwi-made campaign. What are its goals? What are the main initiatives of the campaign? They could then debate whether or not they think the campaign will be effective and what criteria they could use to determine the campaign's success.*

#### 2B: Where does it come from?

Ask your students to list all the items in their pencil cases or school bags. Then, have them complete a table like Table 1 below to show the country of origin of each item, and the resources used to make each one. Spend some time discussing the concept of "resources", ensuring that the students consider the role of raw materials, skilled or non-skilled labour, technical expertise, and machinery.

Table 1

Item	Country of origin	Resources
Shoe	China	Leather, rubber, fabric, technical expertise in design, non-skilled labour in manufacture

#### Home learning

Ask the students to repeat the activity above for six items they commonly use at home.

#### 2C: Map of New Zealand's trade patterns

Working in groups of four to six, have the students use a table like Table 2 below to collate all the data they have assembled in the previous activity.

Table 2

Country of origin	Number of items
Korea	3
Australia	1

Give each group a copy of a map of the world and ask them to identify the places the items came from. The students could use a key to indicate the places that most imports seem to come from, or put that information onto a graph or chart. Alternatively, they could add arrows to

show the flow of goods to all the countries that we trade with and label the good/service involved. Each group could add to their map over the course of the unit. Introduce or revisit the terms “factors of production” (or “inputs”) and “competitive advantage”. Talk about the way factors such as resource endowments, low-cost labour, and low trade restrictions affect a country’s ability to trade successfully in particular products. Then, ask each group to revisit Table 1 to analyse why each of the products they listed is made in a particular country. Ask the groups to share their conclusions with the rest of the class. Draw out the idea that countries specialise in producing the goods and services for which they have a competitive advantage. That is, they tend to concentrate on producing those goods and services that they are able to make well and cheaply and to import those that are more difficult for them to produce.

### 2D: Regional specialisations

This activity will help to reinforce some of the concepts that the students have been exploring. Ask them to reform their groups, and present each group with a map showing the goods and services that the various regions of New Zealand specialise in. Ask the groups to speculate about the factors of production that cause this specialisation.

*A possible alternative would be for the class as a whole to inquire into the goods and services that are produced in your local region and to draw conclusions about those that your region specialises in. The class could then divide into groups to consider one other region and report their findings back to the rest of the class as a short TV commercial, a pamphlet, or poster, or a radio jingle and/or advertisement for the region. This approach provides more of an opportunity for you to scaffold the students into the inquiry process and gives the students more time for discussion and research. (The regional Economic Development Agency (EDA) websites are a good source of information for this activity.)*

### 2E: Vocabulary

In their groups, have the students develop definitions for the key words listed in the next column. They could share their definitions with the rest of the class and then select the best definition from the class to record in their workbooks or folders.

### Key words

- *Competitive advantage: An advantage that exists when a country is able to produce a good or service at a lower opportunity cost than its trading partners*
- *Factors of production: The resources that are necessary for production*
- *Free trade: Policy in which a government does not discriminate against imports or interfere with exports*
- *Goods: Articles that can be bought and sold*
- *Raw materials: Materials that are used in the process of manufacture to create finished goods; often naturally occurring*
- *Resources or factors of production: in an economic sense, the inputs used to produce goods and services, that is, land, labour, capital and enterprise*
- *Resource or factor endowment: The amount and quality of resources, in the forms of land, labour, capital, and so on, possessed by a person, community, or country*
- *Services: Useful work that is done for others as an occupation or business*
- *Trade: Takes place when goods are exchanged*
- *Trade pattern: The goods and services that a country trades, the countries it trades them with, and the direction of the trade*
- *Trade restrictions: Measures designed to regulate imports and exports in order to protect a country’s domestic industries from foreign competition – possibly including import duties, export subsidies, domestic production subsidies, quotas, or import licenses and regulations*

### Conceptual understanding

- *New Zealand needs to export the goods and services that we are relatively good at producing in order to import the goods and services that we are not so good at producing or do not produce ourselves. This improves our standard of living and quality of life.*

### Effective teaching

- *Making connections*
- *Facilitating shared learning.*



### Activity 3: Game time

You could help your students to develop their conceptual understandings about trade and economics by having them play one of the games suggested below. Use the information you have gained through the introductory activities to select a game with learning outcomes that will most closely match your students' needs and interests.

- **Trading Trainers Simulation Game: KS3, KS4**

*This simulation game is set in an imaginary Latin American shanty town, where small family businesses are making training shoes to sell to the local market. The game, developed by Christian Aid and the Catholic Agency for Overseas Development, demonstrates how it is possible for people in developing countries to work hard and still remain poor. A 14-page resource pack with everything you need to play the game can be downloaded free from the website. [www.cafod.org.uk/resources/secondary\\_schools/aid\\_debt\\_and\\_trade/trading\\_trainers\\_game\\_ks3\\_ks4](http://www.cafod.org.uk/resources/secondary_schools/aid_debt_and_trade/trading_trainers_game_ks3_ks4)*

- **Alphabet Forests**

*Playing this game will emphasise the point that the amount of value added to resources determines the level of income and standard of living for individuals and communities. Alphabet Forests was distributed to schools as part of the Forestry Insights pack.*

- **Dev-Zone coffee beans game: [www.dev-zone.org](http://www.dev-zone.org)**

*This game explores the ethics of trade. The Coffee Chain Game is a role-play activity that helps participants explore why the money made from coffee is so unevenly distributed. Players take on the roles of participants in the coffee chain – from growers to retailers – and debate whether the amount of money they receive for their work is fair. The final debrief enables them to reflect on how the process works in the real world and how the process could be improved. Teachers can borrow the game from the Dev-Zone library. Contact the Dev-Zone librarian for details. (Phone (04) 472 9549)*

#### **Conceptual understanding**

- *The importance and impact of trade for ourselves and our communities*
- *There are important ethical issues to be considered in relation to trade.*
- *The importance of adding value to achieve economic growth*
- *Trade definitions.*

#### **Effective teaching**

- *Providing multiple opportunities to learn.*

### Activity 4: Breakfast foods

You may like to repeat Activity 2B, this time focusing on the food your students ate for breakfast or six items that their family regularly purchase from the supermarket. This could be an opportunity to revisit the concepts that your students explored in Activity 2 and reinforce their understandings of these concepts.

Alternatively, the students could work out where the components in their jeans or track shoes come from and then use Global Education Centre resources to consider the concept of fair trade. ([www.globaled.org.nz/schools/pdfs/Global\\_Issues15.pdf](http://www.globaled.org.nz/schools/pdfs/Global_Issues15.pdf) and [www.globaled.org.nz/schools/documents/Sweatshops.pdf](http://www.globaled.org.nz/schools/documents/Sweatshops.pdf))

#### **Conceptual understanding**

- *New Zealand needs to export the goods and services that we are relatively good at producing in order to import the goods and services that we are not so good at producing or do not produce ourselves. This improves our standard of living and quality of life.*
- *There are important ethical issues to be considered in relation to trade.*

#### **Effective teaching**

- *Providing multiple opportunities to learn.*

### Activity 5: Successful exporters

This activity is intended to help students to consider the qualities needed to be a successful exporter by exploring a range of case studies.

Ask the students to work in pairs to learn about a successful New Zealand exporter, focusing on the skills and attributes that make this exporter successful. The students could present the exporter's progress in the form of a timeline that identifies the skills the exporter has developed, their successes, and lessons they have learned. Each pair of students could then compare and contrast their findings with those of another pair to draw out the similarities and differences in two exporters' experiences. These experiences are not just about business, but are also about resiliency, resourcefulness, and values.

### Teachers' Note

*The Momentum DVD and the Education for Enterprise – Inspiring Growth CD-ROM/DVD, available free from NZTE, and the booklet, This Way Up, which can be downloaded from the NZTE website, provide useful starters for this activity. These resources are listed in the suggested references for this unit, as are a number of links to specific case studies.*

*It is important that the successful exporters profiled are of interest to the students that you teach. Contact your local Chamber of Commerce to see who is an exporter in your local community. Chances are there is someone local who your students will be able to identify with as a member of their community. Hooking students into authentic learning contexts can increase the relevancy of learning and the interest level of the students. It also gives you the opportunity to invite local exporters to talk to the students. Guest speakers can provide great opportunities for effective learning.*

### Conceptual understanding

- New Zealand's ability to produce innovative, high-quality, niche goods and services is important to the success of our exports.
- Because of New Zealand's relatively small population, we need to find customers overseas in order to make the most of our skills and resources.

### Effective teaching

- Facilitating shared learning.

### Activity 6: Possible extension activity

Explain to the students that you want them to draw on what they have learned in the learning sequence so far to research a local producer and evaluate that producer's export capability. Again, you could contact your local Chamber of Commerce for suitable candidates. The students' inquiry will work through the following stages:

- As an introductory activity investigating the world market for a particular product or service. The students could interview foreign students or carry out a web search to assess the availability of the product or service overseas, to try to identify the most suitable market for the product.
- Visiting and interviewing a local producer to research the product that producer creates.
- Conducting research on the Internet to find out about the potential for selling the product on the world market, considering aspects such as its current availability, world prices, distance to market, and costs. To help the students with the latter, you could take them through a modified version of the NZTE pricing exercise. (See [www.marketnewzealand.com/MNZ/Services/14422.aspx](http://www.marketnewzealand.com/MNZ/Services/14422.aspx))
- Evaluating the implications for exporting for the local producer and area, the region, and the nation.

Explain that in the course of their research you want the students to investigate the following questions:

- How has a local business been able to get involved in exporting or what potential is there for a local business to get involved in international trade?
- What are some of the key challenges and opportunities for exporters when dealing with other cultures, such as those found in Asian and South American countries? What skill sets are required by exporters in these markets?
- What market opportunities exist in an international context (either by building on an existing market or moving to a new market)?
- What trade agreements have been established around these markets?
- What is the importance of exporting to your quality of life?

### Conceptual understanding

- The main obstacles to exporting goods from New Zealand are our small market and our geographic isolation. However, when we export services we can overcome barriers imposed by our size and distance from other countries.
- New Zealand's ability to produce innovative, high-quality, niche goods and services is important to the success of our exports.
- Trade definitions.

### Effective teaching

- Enhancing the relevance of new learning
- Making connections
- Encouraging reflective thought and action.

## References for Unit 1

### Economic Development Association of New Zealand (EDANZ):

[www.edanz.org.nz](http://www.edanz.org.nz)

EDANZ is an organisation of stakeholders who have a role in stimulating sustainable economic development and increasing prosperity in regional and local communities.

### Economic Development Indicators 2005, Ministry of Economic Development and The Treasury:

<http://gif.med.govt.nz/aboutgif/indicators-2005/report/index.asp>

This report presents economic indicators that allow economists and others to monitor New Zealand's progress towards its economic goals and to benchmark its performance against that of other countries in the OECD. Economic indicators can also help people to evaluate the effectiveness of economic policy and provide information on areas of strength and weakness within the economy.

### Exporter Education Programme:

[www.exported.co.nz/whatis.asp](http://www.exported.co.nz/whatis.asp)

This site offers links to further resources for new and existing exporters.

### Global Issues: Trade: A Fair Journey?:

[www.globaled.org.nz/schools/pdfs/Global\\_Issues15.pdf](http://www.globaled.org.nz/schools/pdfs/Global_Issues15.pdf)

This issue of Global Issues looks at issues relating to global trade and fair trade.

### GlobalEd: Fact Sheet: Sweatshops:

[www.globaled.org.nz/schools/documents/Sweatshops.pdf](http://www.globaled.org.nz/schools/documents/Sweatshops.pdf)

### MarketNewZealand.com: Success Stories:

[www.marketnewzealand.com/MNZ/stories/default.aspx?Buyer=true](http://www.marketnewzealand.com/MNZ/stories/default.aspx?Buyer=true)

This page offers further stories of successful New Zealand exporters.

### MarketNewZealand.com: Information and Services:

[www.marketnewzealand.com/MNZ/Services/default.aspx?Exporter=true](http://www.marketnewzealand.com/MNZ/Services/default.aspx?Exporter=true)

This page links to others that provide information about exporting and potential export markets. Particularly useful is the link to the page First Steps to Exporting, which provides a guide with tips on starting out, training, country selection, channelling to the market, using the Internet, and marketing hints.

### New Zealand Chamber of Commerce:

[www.chamber.org.nz](http://www.chamber.org.nz)

This site contains links and contact details for all the regional Chambers of Commerce.

### New Zealand Country Profile: July 2006:

[www.marketnewzealand.com/MNZ/aboutNZ/sectors/14436.aspx#exp](http://www.marketnewzealand.com/MNZ/aboutNZ/sectors/14436.aspx#exp)

This profile includes information about New Zealand's export focus.

### New Zealand Institute: Media Coverage: Radical Models Way of Future:

[www.nzinstitute.org/index.php/news/coverage/radical\\_models\\_way\\_of\\_future](http://www.nzinstitute.org/index.php/news/coverage/radical_models_way_of_future)

Rod Oram responds to the New Zealand Institute's discussion paper *The Flight of the Kiwi* cited below.

### New Zealand Trade and Enterprise:

[www.nzte.govt.nz](http://www.nzte.govt.nz)

Contact NZTE to obtain the *Momentum* DVD, and the *Education for Enterprise – Inspiring Growth* CD-ROM/DVD set. NZTE's website also includes case studies of successful exporters at: [www.nzte.govt.nz/section/11771.aspx](http://www.nzte.govt.nz/section/11771.aspx) and at [www.nzte.govt.nz/section/14454/15777.aspx](http://www.nzte.govt.nz/section/14454/15777.aspx)

### Oxfam (1994). *The Coffee Chain Game: An activity on trade for participants aged 14 years and upwards.* Oxfam UK.

The original version is available from the Global Education Centre. You can find out more information and read about a new revised version at: [www.oxfam.org.uk/coolplanet/teachers/coffee](http://www.oxfam.org.uk/coolplanet/teachers/coffee)

### Television New Zealand video archives:

You can use key words to search for video footage of items related to trade at: <http://tvnz.co.nz>

### The New Zealand Institute: The Flight of the Kiwi: Going Global from the End of the World:

[www.nzinstitute.org/Images/uploads/pubs/The\\_flight\\_of\\_the\\_Kiwi.pdf](http://www.nzinstitute.org/Images/uploads/pubs/The_flight_of_the_Kiwi.pdf)

This discussion paper assesses the problem New Zealand faces in becoming a sustainable global economy. (Appendix 5 of this book is an extract from "The Flight of the Kiwi".)

### This Way Up: Facing the Challenges and Thinking Like an Exporter:

[www.nzte.govt.nz/section/14454/15777.aspx](http://www.nzte.govt.nz/section/14454/15777.aspx)

This NZTE booklet offers advice and tips for would-be exporters based on the Barriers to Export report. The study, based on interviews with exporters and potential exporters, investigated the attitudinal and aspirational barriers to exporting.

### Trading with Australia:

[www.med.govt.nz](http://www.med.govt.nz)

This link to the Ministry of Economic Development website may help you support the students to understand some of the considerations for establishing or enlarging an international market. Click on International Trade on the top navigation bar, then select Trade with Australia.

**Treasury briefing paper to the incoming government, 2002: Growing Higher Living Standards for New Zealanders:**

[www.treasury.govt.nz/briefings/2002/chap1.asp](http://www.treasury.govt.nz/briefings/2002/chap1.asp)

Chapter 1 of this briefing paper provides an easy-to-understand description of the importance of economic growth to living standards and the challenges New Zealand faces in achieving such growth.

**x-rates.com:**

[www.x-rates.com](http://www.x-rates.com)

This website provides a comprehensive up-to-date list of exchange rates for world currencies as well as interactive conversion tables.



# Unit 2: The Rugby World Cup (Level 7)

## Overview

The big idea around which the activities in this resource are structured is that New Zealand's standard of living is dependent on trade. This resource will also help you to build the following conceptual understandings with your level 7 students:

- *We must export in order to import those goods and services necessary for our economy to grow and for our standard of living to improve.*
- *New Zealand's trade is explained not only by our factor endowment but also by the theory of comparative advantage.*
- *All countries can benefit from trade.*
- *The main obstacles to exporting products from New Zealand are the problems of scale, distance, and barriers to free trade between countries.*
- *New Zealand's ability to produce innovative, high-quality niche products is important to the success of our exports.*
- *Because of New Zealand's relatively small population, we need to find customers overseas in order to optimise our skills and resources.*

This resource aims to support teachers with the changes in AS 90795 (Economics 2.2) and AS 90797 (Economics 2.4), specifically the inclusion of absolute and comparative advantage, balance of payments, and the International Investment Position accounts. The resource includes standardised graphs for these topics where appropriate.

We suggest that individual schemes should also include the terms of trade, exchange rates, and the trade-weighted index (TWI) as these are required for AS 2.4 and a proper description of New Zealand trade.

### *Achievement objectives*

Note: These social inquiry achievement objectives are those suggested in the 2006 draft curriculum, but they could easily be adapted for your school's curriculum design.

#### *Level 7*

*Students recognise that economics provides an understanding of contemporary New Zealand economic issues.  
Students understand that economic issues in New Zealand are interrelated.*

*Communities and nations meet their responsibilities and exercise their rights in local, national, and global contexts.*



# Background Notes for the Level 7 Unit



(See also Introduction to Trade on page 4 in this booklet.)

The trade topic is covered in AS 2.2, 2.4, and 2.5. AS 2.2 looks at the reasons for trade, the use of economic models, and the effects of trade. AS 2.5 covers free trade and protectionism, trade agreements, government policies to promote trade, trade regulations, and trade agreements. AS 2.4 requires students to make connections between two issues, terms of trade, the trade-weighted index (TWI), and exchange rates.

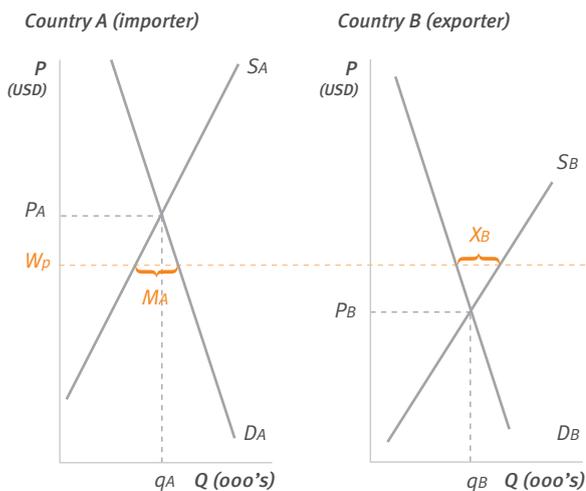
## Models of Trade

### Supply and demand: Reasons for trade in one product

#### Two-country model

This is a very simple application of supply and demand showing different market prices in two different countries with no transport costs or trade restrictions.

Figure 1: Markets for Widgets



Without trade, the price of widgets in Country A is well above that in Country B (both prices converted to US dollars). Producers in Country B will want to sell their product in Country A where they get the higher price. As Country B exports (shown by XB) and Country A imports (shown by MA), the price in Country A falls and the price

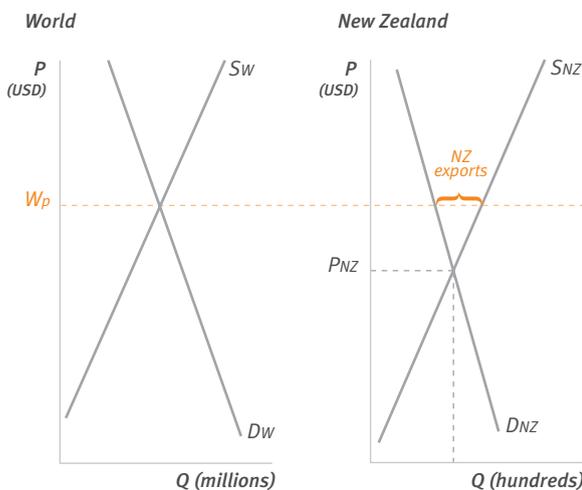
in Country B increases until an equilibrium world price is reached that is the same in both countries (Wp).

In Country A, consumers have benefited and producers have lost. Resources will be re-directed to a more efficient use. In Country B, the producers have benefited, but the local consumers are paying a higher price for locally-produced goods.

#### Price-taker model

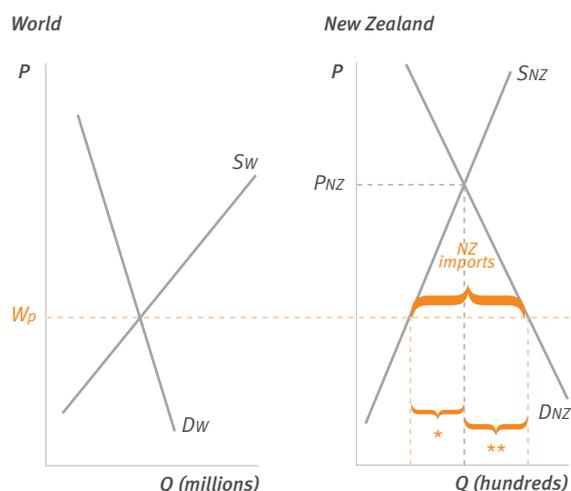
This is a more realistic model for many of the commodity markets in which New Zealand trades (for example, oil). New Zealand is too small to affect the world price, so we are a price taker. We represent this using different scales on the quantity (Q) axis.

Figure 2: Exports



The outcome is very similar to the two-country model.

Figure 3: Imports



\* decrease in NZ production  
\*\* increase in NZ consumption



New Zealand consumers end up paying the world price for the goods we export and import. As a result, it makes economic sense to switch from producing those goods for which the world price is less than the New Zealand price to producing the goods that the rest of the world wants. Overall, this is a more efficient use of the world's resources.

**Absolute advantage and comparative advantage:  
Reasons for trade in two products**

The concepts of comparative and absolute advantage explain how all countries may benefit from the gains made by trade through specialisation. While one country may have an absolute advantage in the production of all products, its trading partner will still have a comparative advantage in some products.

To explain this concept, we can examine a two-country, two-product model, assuming homogeneous labour as the only input (so the amount of labour used gives the product its value), transport costs are zero, technology is constant, and the goods can move freely between the two countries (although labour cannot).

**Example**

In Australia: ONE person-day of labour produces 10 spears  
OR 20 pendants.

In New Zealand: ONE person-day of labour produces 15 spears  
OR 45 pendants.

New Zealand is said to have an **absolute advantage** over Australia in the production of both spears and pendants because it is more efficient in the production of both – one person-day of labour can produce more of both goods in New Zealand.

If we look at intra-country comparisons rather than inter-country we find that:

- In Australia: the opportunity cost of producing 1 spear is 2 pendants.
- In New Zealand: the opportunity cost of producing 1 spear is 3 pendants.

Australia is said to have a **comparative advantage** in the production of spears because they can produce spears at a lower opportunity cost. They do not have to sacrifice as many pendants to produce a spear as New Zealand does. New Zealand has a **comparative advantage** in the production of pendants. We only have to give up one-third of a spear to produce a pendant compared to Australia having to give up half a spear.

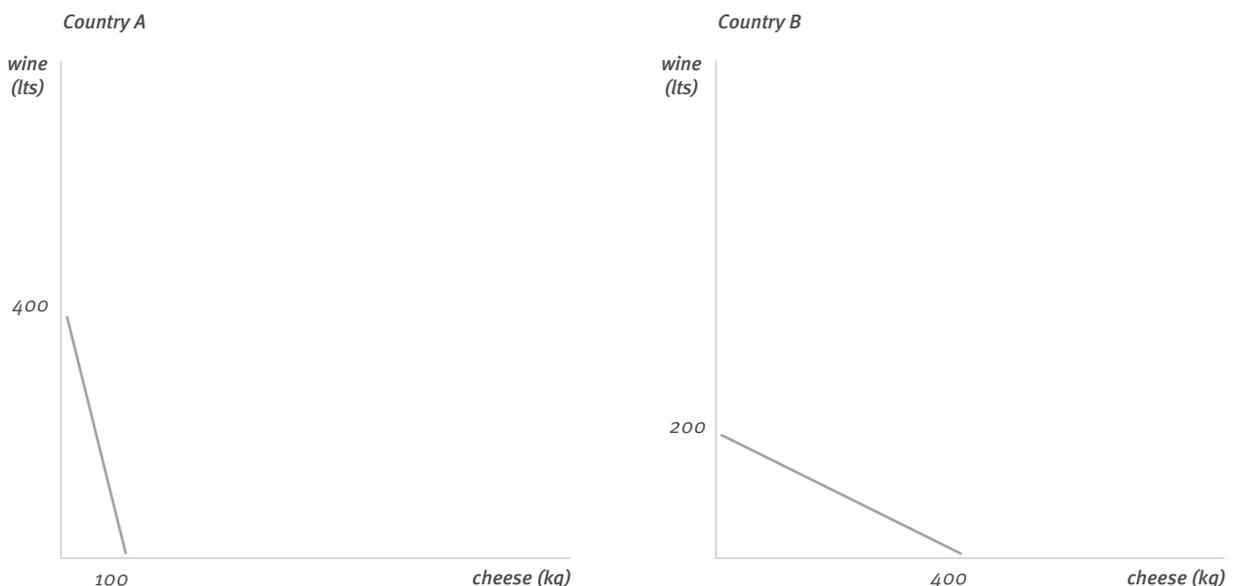
By specialising in the production of that good in which it has a comparative advantage and trading for the other (at a rate somewhere between 1 spear for 2 pendants and 1 spear for 3 pendants), both New Zealand and Australia can be better off.

Absolute advantage explains the relative wage rates and standards of living in each country and why there may be gains from trade in a small number of cases. Comparative advantage explains why all countries can benefit from trade and improve their standard of living, and the limits between which the countries will find it mutually beneficial to trade.

**A graphical approach using production-possibility frontiers**

Assuming we have two products, two countries, a given set of resources, and constant opportunity costs in each country (shown by the straight line in Figure 4), different factor endowments give the two countries different costs of production and therefore different production-possibility frontiers (ppfs).

**Figure 4**



Consider the ppfs in Figure 4. Country A is more efficient/uses less resources than Country B in producing wine, that is, it has an absolute advantage in the production of wine. Country B is more efficient/uses less resources when producing cheese, that is, it has an absolute advantage in the production of cheese. If each country specialises at what they are best at and they exchange their surpluses, both countries can consume at a higher level and improve their standard of living.

With no trade, each country uses half their resources to produce each good.

Table 1 summarises the output.

**Table 1**

	Wine	Cheese
Country A	200	50
Country B	100	200
Total Production/Consumption	300	250

However, if each country specialised in what they were best at and exchanged the surplus, Country A would produce 400 units wine and Country B would produce 400 units of cheese. This increases total production and

allows both countries to consume at a level outside their no-trade ppf.

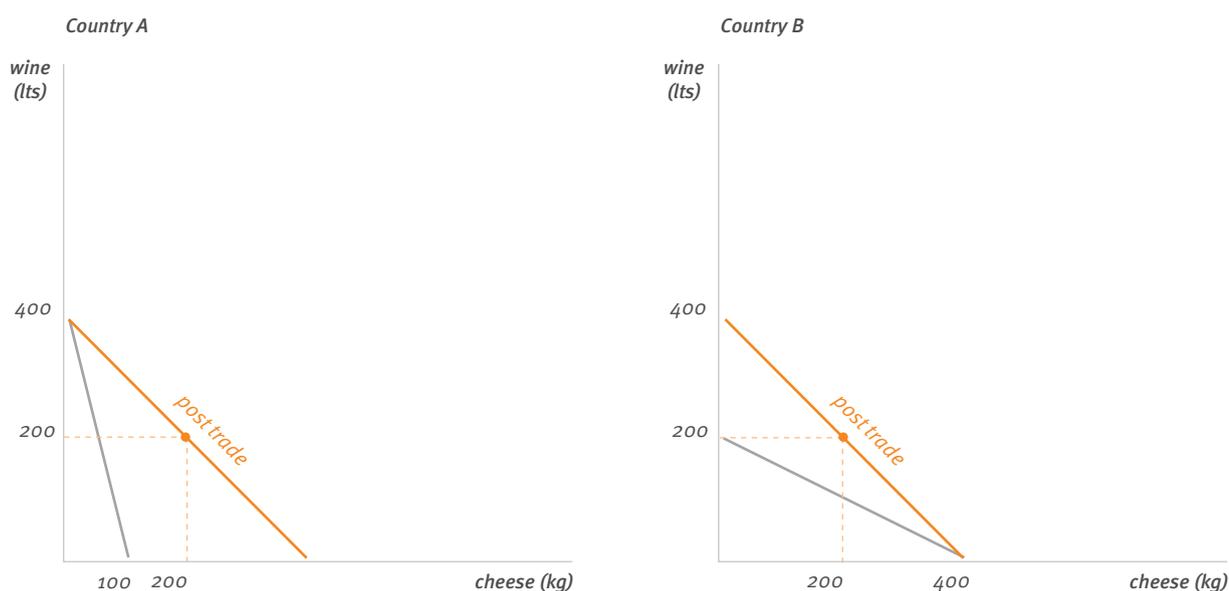
**Table 2**

	Wine	Cheese
Country A	400	0
Country B	0	400
Total Production/Consumption	400	400

NOTE: The terms of trade or the rate of exchange of cheese for wine will lie somewhere between the opportunity costs (OC) for each product. Exactly where will depend on the relative bargaining abilities of the two countries.

The opportunity cost of wine is one-quarter cheese in Country A, so Country A will benefit from trade if it can sell its wine for more than one-quarter cheese. In Country B, the OC of wine is 2 cheese, so Country B will benefit provided they can buy wine for less than 2 cheese. Assume the terms of trade are set at 1 wine for 1 cheese. In Figure 5 below, Country A uses all its resources to produce 400 wine and exchanges one-half (200 wine) with Country B for 200 cheese. Both countries have benefited.

**Figure 5**

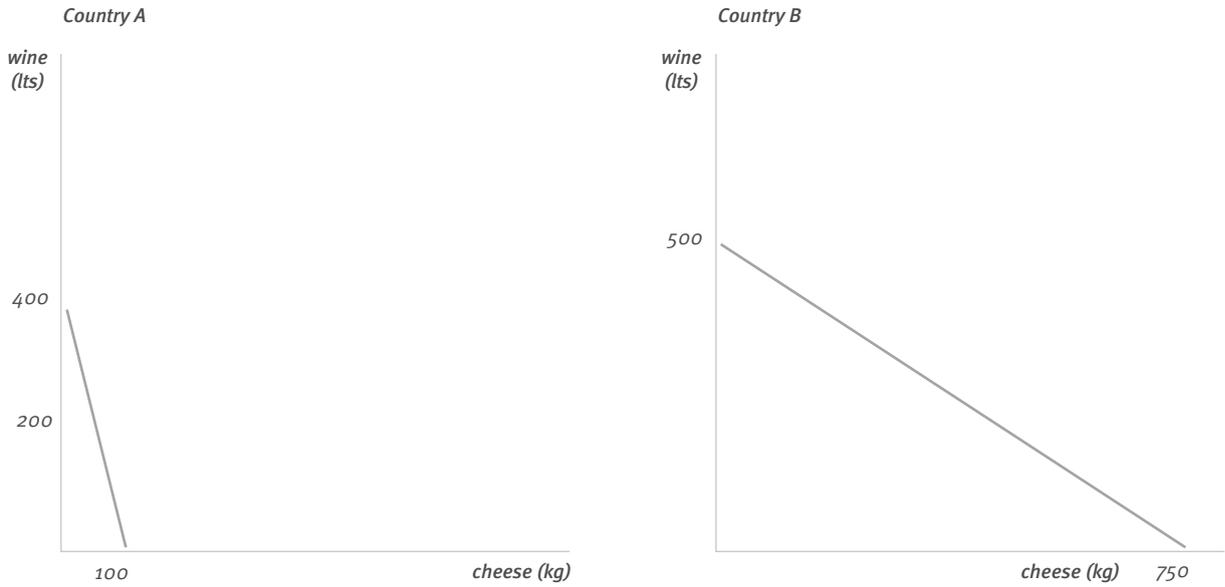


Robert Torrens in his 1815 Essay on the External Corn Trade suggested that it makes sense for a country that is more efficient in the production of a particular good to

reduce its own production and import more of that good. This is certainly not an intuitive conclusion and perhaps explains the difficulties in promoting world trade.



**Figure 6**



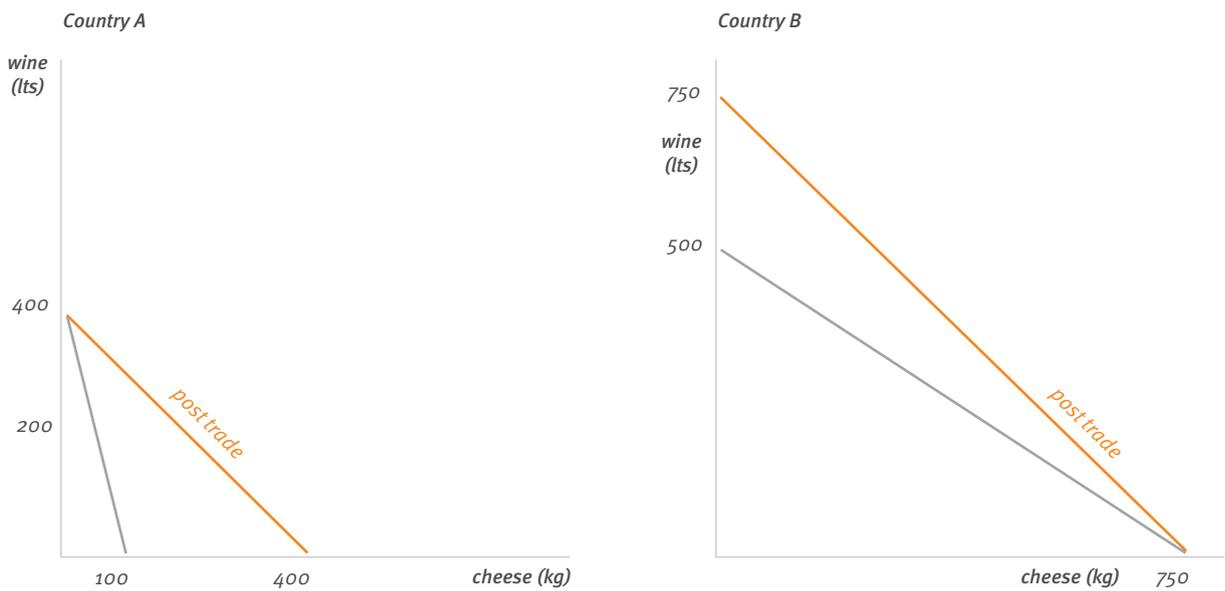
In Figure 6, Country B has an absolute advantage in the production of both goods – it is more efficient than Country A at producing wine and more efficient at producing cheese. It can produce more of both goods. However, if we look at the relative costs in each country, we find the following:

In Country A, the opportunity cost of producing 1 unit of wine is still one-quarter cheese.

In Country B the opportunity cost of producing 1 unit of wine is one and one-half cheese. Country A has a comparative advantage in the production of wine, that is, it can produce wine at a lower opportunity cost than Country B.

Figure 7 shows that if the terms of trade are set at 1 wine for 1 cheese, both countries have an incentive to trade.

**Figure 7**



If Country A specialises in wine, they can produce 400 units and then exchange one-half for 200 units of cheese – they have moved to a ppf outside their original curve. Similarly, Country B can produce cheese and exchange

their surplus of 200 cheese for 200 wine, giving them a consumption possibility of 550 cheese and 200 wine compared with a no-trade position of 550 cheese and only 133 wine.

Both countries have benefited from trade. The post-trade ppf (sometimes called a consumption possibility curve) for the country with the absolute advantage is sometimes drawn as a dotted line beyond the production of the other country – above 500 units of wine in this case.

### Free trade and protectionism

The theory suggests quite clearly that a country will benefit from freer trade, so why are there so many restrictions, and why can't the World Trade Organization make more progress with the removal of trade barriers? Essentially it is because the benefits are not distributed evenly. While on average there is an overall gain, some people suffer. New Zealand used to have a clothing industry and nine car-assembly plants. The benefits of cheaper cars have accrued to many, but the costs to the few thousand who lost their jobs were immense.

### The balance of payments and the international investment position

The balance of payments accounts are analogous to a set of accounts for an individual. The current account records day-to-day transactions – just like a cheque account for an individual. Changes in longer-term transactions, new investments, and so on are recorded in the financial account. The international investment position is the balance sheet; it is a “stock” report, while the other two accounts are records of “flows”.

The current account and the financial account must balance (if we ignore the capital account). If you spend more than your income (a current account deficit), then you must borrow or use up savings (a surplus on your financial account).

If New Zealanders wish to consume more than they produce, then we must run a current account deficit. However, if foreigners wish to invest in New Zealand, then the financial account surplus will also cause a current account deficit.

### What is the balance of payments?

- *The balance of payments is a statistical statement that records the transactions of one country with the rest of the world.*
- *The balance of payments has three accounts: the current account, the capital account, and the financial account.*

### Why produce the balance of payments?

- *The International Monetary Fund (IMF) focuses on international financial stability and growth.*
- *The IMF requires member countries to produce balance of payments and related statistics to enable*

*them to monitor performance in respect to the fund's objectives.*

- *Before foreigners will lend money or invest in New Zealand, they want information about the risk. The balance of payments is an important economic indicator in an open economy.*

There are three major components to the balance of payments statement.

**Current account:** A record of the value of New Zealand's goods, services, and transfers transactions with non-residents.

- Balance on goods (Exports and imports valued free on board [FOB])
- + Balance on services (Services, as with goods, can be both exports and imports. Services include travel, transportation, communication, construction, insurance, financial and computer information, royalties, and government services.)
- + Balance on income (The income earned from New Zealand's investments abroad, less the income earned from foreign investment in New Zealand. This includes profits, dividends, and interest income.)
- + Balance on current transfers (foreign aid, etc)
- = Balance on current account

**Capital account:** (Shown as the net balance because the amounts involved are small.) It has two components – capital transfers (for example, migrants' transfers) and the acquisition or disposal of non-produced, non-financial assets, for example, patents and copyrights.

**Financial account:** This records changes in our assets and liabilities with the rest of the world. It consists of:

- *direct investment (equity > 10% and reinvested earnings)*
- *portfolio investment (equity and debt < 10% of total equity)*
- *other investment (loans, trade credits, deposits, or any other type of asset or liability)*
- *reserve assets (special drawing rights [SDRs] and foreign exchange)*

**Net errors and omissions:** These include all the “residual” – whatever figure is necessary for all the debits to equal all the credits in the above accounts. These can be caused by the variety of data sources used, timing differences, undercoverage (not capturing every transaction), and the possibility of errors in reporting and compilation.



### Exchange rate determination with a floating exchange rate

A change in the demand for the New Zealand dollar (NZD) affects the equilibrium exchange rate. An increase in demand causes the value of the NZD to appreciate. This occurs if:

- in the short term, New Zealand interest rates are above world rates;
- in the long term, increased incomes overseas lead to an increased demand for New Zealand exports and an increase in demand for New Zealand dollars;
- in the long term, New Zealand inflation rates and prices are low, leading overseas consumers to buy lower priced exports from New Zealand.

An increase in supply causes the value of the NZD to depreciate. This occurs if:

- in the short term, New Zealand interest rates are below world rates;
- in the long term, increased incomes in New Zealand lead to an increased demand for imports, so more New Zealand dollars are supplied;
- in the long term, domestic inflation rates and prices are high, leading consumers to buy lower priced imports.

### Appreciation and depreciation

An appreciation of the currency is likely to have the following effects.

- If exports are priced in the foreign currency, exporting is discouraged as the payout in NZD is reduced.
- If exports are priced in NZD, the price paid by overseas consumers rises and the quantity demanded falls.
- If imports are priced in foreign currencies, importing is encouraged because fewer NZD buy the same quantity of goods.
- If imports are priced in NZD, they become cheaper and the quantity demanded increases.
- An appreciation is likely to cause the current account balance to worsen as the balance on goods worsens when we export less and import more.

A depreciation of the currency is likely to have the following effects.

- If exports are priced in the foreign currency, exporting is encouraged as the payout in NZD is increased.
- If exports are priced in NZD, the price paid by overseas consumers falls and the quantity demanded increases.
- If imports are priced in foreign currencies, importing is discouraged because it takes more NZD to buy the same quantity of goods.
- If imports are priced in NZD, they become dearer and the quantity demanded falls.

- A depreciation is likely to cause the current account balance to improve as the balance on goods improves when we export more and import less.

Other factors besides exchange rates that may affect exports and imports include:

- incomes overseas affecting demand for New Zealand exports;
- incomes in New Zealand affecting demand for imports;
- tastes and preferences in importing countries impacting on the goods they buy;
- the price of substitute goods exported by competitors in other countries;
- the quality of goods and the reputation of the exporting country for producing quality goods;
- the existence of trade barriers;
- political events.

### The Trade-weighted index

The trade-weighted index (TWI) is based on the value of the NZD against the Australian, US, Japanese, UK, and Eurozone currencies. The TWI is 50:50 weighted according to:

- each currency area's share of New Zealand's merchandise trade (exports plus imports), normalised to total 100 percent; and
- each currency area's share of the combined nominal GDP of those five currency areas.

The Reserve Bank of New Zealand calculates the TWI daily, using the exchange rates prevailing in the market at 11:10 a.m. For current weightings, go to the Reserve Bank website: [www.rbnz.govt.nz/statistics/exandint/twi/index.html](http://www.rbnz.govt.nz/statistics/exandint/twi/index.html)

### Overseas terms of trade index

The overseas terms of trade index measures the changing volume of merchandise imports that can be funded by a fixed volume of New Zealand's merchandise exports. The merchandise terms of trade index is calculated as the ratio of the total export price index to the total import price index.

An index value above (or below) 1000 indicates that the terms of trade are more (or less) favourable than in the base period.

An increase in the terms of trade index indicates that the real purchasing power of exports has increased, while a decrease indicates a drop in the purchasing power of exports.

Data used in calculating the export and import price and volume indexes is derived from Statistics New Zealand's overseas trade data, which is in turn processed from import and export entry forms lodged with the New Zealand Customs Service.

The indexes cover all commodities classified as merchandise trade, although the export indexes exclude re-exports, bunkering, ships' stores, and passengers' effects. Import indexes use "cost including insurance and freight" (cif) values, while export indexes are calculated using free on board (FOB) values.

### ***Effect of exchange rate movements on terms of trade***

A decline in the value of the New Zealand dollar has an upward influence on both export and import price levels, and a strengthening of the dollar has a downward impact on prices of both exports and imports. This means that any

effect on the terms of trade in either case is likely to be minor and limited to situations where the New Zealand dollar has weakened or strengthened against a particular currency. The effect is also limited to situations where there is a significant imbalance in the values of exports and imports transacted in, or with prices determined by, that currency.

Source: [www.stats.govt.nz](http://www.stats.govt.nz)

## ***Activities***

### ***Activity 1: Game time***

You could help the students to develop their conceptual understandings about trade and economics by playing *The International Trade Game*.

*The International Trade Game* is available online at: [www.economicsnetwork.ac.uk/handbook/games/42.htm](http://www.economicsnetwork.ac.uk/handbook/games/42.htm)  
The site provides a list of suggested learning outcomes at the bottom of the page. Select learning outcomes that will match most closely to your students' needs and interests. For trade, the issues of most interest are as follows:

- *The law of comparative advantage.* Why do countries specialise in particular products? How does this depend on their resources? How does it relate to opportunity cost?
- *Terms of trade.* What determines the relative price of products and how does this relate to resources? Can countries influence the price of products?
- *World inequality.* You could refer to the distribution of resources in the world and ownership patterns. What determines whether inequality is likely to increase or decrease over time?
- *The importance of market power in international trade.* What is the role of multinationals? How do they control markets? Is there anything that developing countries can do to create countervailing power?

(Source: Economics Network of the Higher Education Academy)





**Activity 2: Two-country model – supply and demand**

- (1) Describe why New Zealand is very competitive in the production of meat, wool, and dairy products for the world market.

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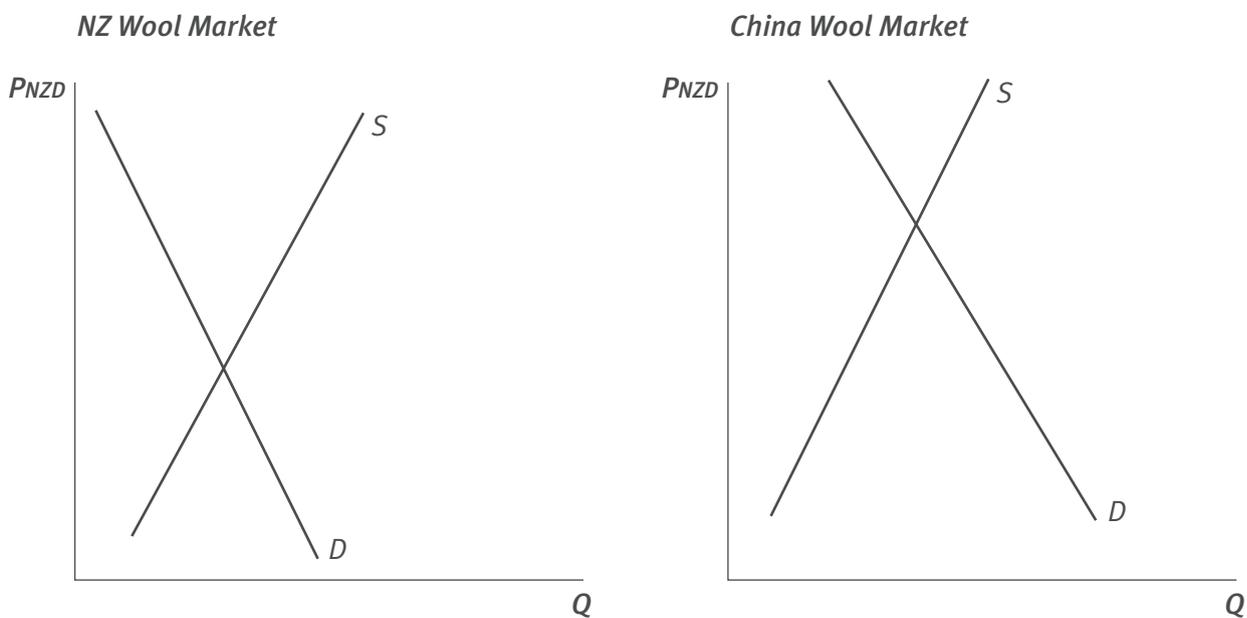
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- (2) A two-country model illustrating trade in wool between New Zealand and China is shown below.

- (a) Show the price at which trade would occur. Label this PT1.  
(b) Draw a horizontal line at PT1. Identify the quantity exported from New Zealand and the quantity imported by China.



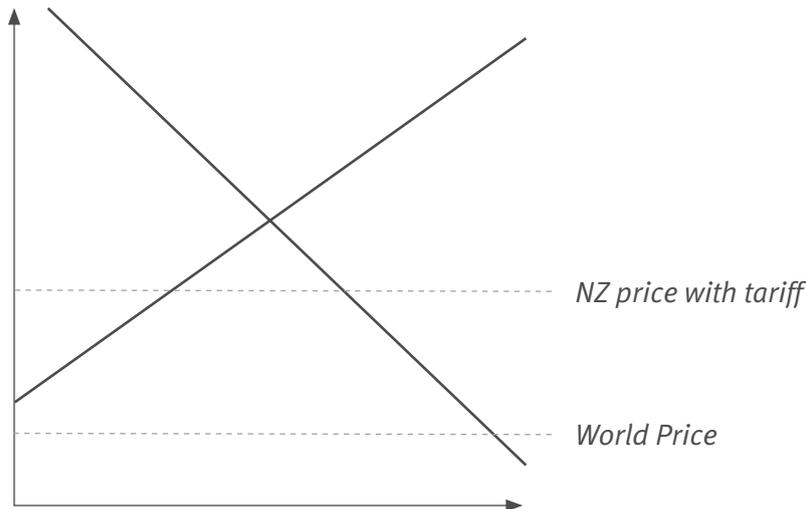
- (3) On the diagram, show the effect of an increase in the costs of producing wool in New Zealand.



**Activity 3: Price-taker model – supply and demand**

The New Zealand market for cars used to be protected by tariffs levied on imported cars. These tariffs have now been removed.

**Diagram 1: The Imported Car Market**



1. Complete Diagram 1, showing the domestic market for cars before and after the removal of the tariff on cars. Label your diagram appropriately.
2. On Diagram 1, label:
  - (a) the number of cars imported when the tariff was in force as  $Q_t$ ;
  - (b) the number of cars produced in New Zealand when the tariff was in force;
  - (c) the revenue the Government gained from the tariff;
  - (d) the quantity traded when the tariff was removed ( $Q$ ) and the new price ( $P$ ).
3. Discuss what effect removing the tariff had on New Zealanders' standard of living and the standard of living of the individual car factory workers, the balance of payments, and resource allocations in general.

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Activity 4: Comparative and absolute advantage models

	<i>Scooters</i>	<i>Motorcycles</i>
<i>Country C</i>	1000	500
<i>Country D</i>	3000	750

Using the same resources, Country C and Country D can produce scooters or motorcycles as shown in the table above.

1. With reference to the above information, explain the meaning of the term “absolute advantage”.

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2. a) Calculate the opportunity cost of producing one motorcycle in Country C.

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- b) Calculate the opportunity cost of producing one motorcycle in Country D.

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3. Which commodity should Country C specialise in producing?

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Why?

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4. Explain how the two countries are both satisfied and agree to trade at an exchange rate of three scooters to one motorcycle.

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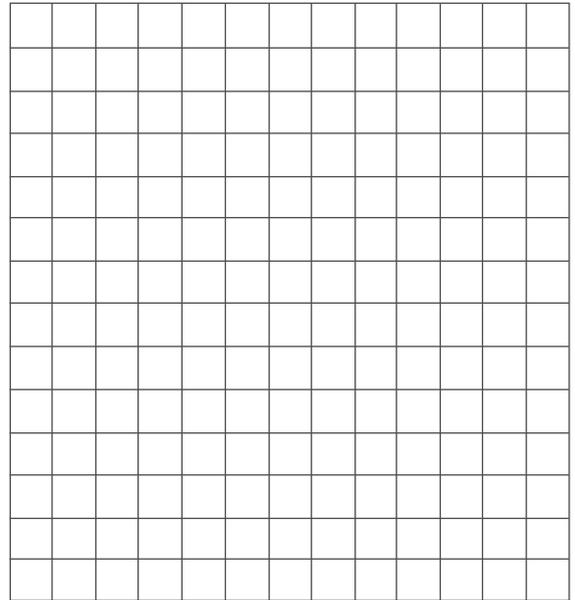
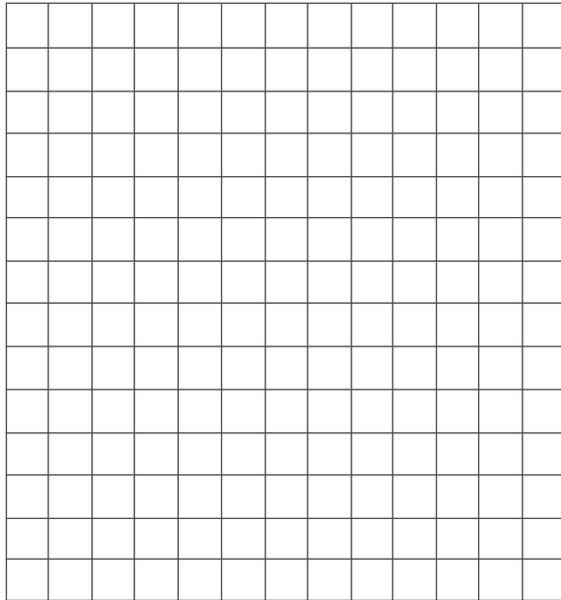
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5. Draw two graphs on the grids below to show the production possibility curves before and after trade for each country.  
(Use an exchange rate of three scooters to one motorcycle.)



6. Explain how the graphs above show the gains from trade.

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7. What would be the effect on trade of Country C if foreign investment and improved education greatly increases that country's ability to produce scooters?

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Questions 8–11 are based on the following data. The data relates to the production per worker of the same two products in two countries.

	<i>Butter (tonnes) per worker</i>	<i>Milk Powder (tonnes) per worker</i>
<i>Country D</i>	12	18
<i>Country E</i>	15	24

8. What would be the opportunity cost of moving one worker in Country D from butter to milk powder production?
- (a)  $4/5:1$
  - (b)  $3/4:1$
  - (c)  $1:1\frac{1}{2}$
  - (d)  $1:1$
9. Country D has a comparative advantage in the production of:
- (a) butter
  - (b) milk powder
  - (c) both butter and milk powder
  - (d) neither butter nor milk powder.
10. What is the most important assumption that has been made in the above model?
- (a) Inflation will not affect trade relations.
  - (b) Resources have mobility within a country.
  - (c) Other countries do not interfere with a country's trade.
  - (d) Any two countries can be represented in this way.
11. If countries C and D trade in the commodities in which they have a comparative advantage, then:
- (a) both countries will experience improved terms of trade;
  - (b) both countries will be equally better off;
  - (c) there will be an overseas trade equilibrium in both countries;
  - (d) production and incomes will increase in both countries.

### Activity 5: Going global

The purpose of this activity is to initiate a class discussion about:

- *the remoteness of New Zealand in the world and the implications of this for the cost of international trade;*
- *the need to build and retain trade links;*
- *the need for New Zealand to trade in products for which we have a comparative advantage.*

Form the students into groups. Give each group a copy of Appendix 5 (Extract from “The Flight of the Kiwi”).

Ask each group to consider the map and the quote and to brainstorm a response, perhaps prompted the following questions:

- *What are the disadvantages of New Zealand’s remote position in the world?*
- *Are there any advantages?*
- *What do you think New Zealand needs to do to grow its trading relationships with other countries?*
- *In which markets do you think New Zealand should be concentrating its efforts?*
- *In what areas do you think New Zealand has an absolute advantage?*
- *In what areas do you think New Zealand has a comparative advantage?*
- *What products do you think New Zealand businesses should be specialising in?*
- *What can the Government do to help?*





**Activity 6: Balance of payments classification**

The following two tables summarise the accounts and balances in the balance of payments.

**ACCOUNTS**

- A Current Account
- B Capital Account
- C Financial Account

**BALANCES**

- A Balance on current transfers
- B Balance on goods
- C Balance on income
- D Balance on services
- E Capital transfers
- F Direct investment
- G Other investment
- H Portfolio investment
- I Purchase/sale of intangible assets and land

Identify the correct account and balance for each transaction below.  
(The first one has been done for you.)

<i>Transaction</i>	<i>Account</i>	<i>Balance</i>
1. Australians buy carpets produced in New Zealand.	A	B
2. A New Zealand bank receives interest on a loan to an overseas government.		
3. An overseas company buys a New Zealand firm.		
4. A New Zealand firm repays part of a loan borrowed from an overseas bank.		
5. Foreign investors buy shares in a range of New Zealand companies.		
6. A New Zealand company borrows money from an overseas bank.		
7. New Zealand investors in an overseas company receive dividends.		
8. New Zealand fruit is sold overseas		
9. New Zealanders buy diamonds from another country.		
10. An overseas couple has their wedding at a New Zealand resort.		
11. Immigrants bring funds into New Zealand.		
12. A New Zealand charity sends money overseas.		
13. The New Zealand government buys land in another country to build an embassy.		
14. A New Zealand company pays dividends to its foreign investors.		
15. Backpackers from overseas go rafting in New Zealand.		



## ***Internal Assessment Resource Supports internal assessment for:***

**Achievement Standard: 90797 Version 1**

**Subject Reference: Economics 2.4**

Title: Process, present, and analyse statistical data in relation to given economic issues.

Credits: 6

*Note: This resource has been designed by experienced senior economics teachers. It is available online at: <http://www.tki.org.nz/r/ncea/>  
Go to the online version for any updates.*

## ***Impact of preparing for and hosting the 2011 Rugby World Cup on New Zealand's trade and growth***

### ***Teacher Guidelines***

The following assessment should take about three or four periods for students to complete. They should be given as much time as they need to complete all tasks. To reduce the class time required, the students could be given the resource material to read before completing the assignment tasks in class under test conditions.

Give the students the Judgement Statement as a further guide for the questions they need to answer for each level of achievement. Do not give the Assessment Schedule to students.

### ***Context/Setting***

This assessment requires the student to process, present, and analyse statistical data in relation to preparing for and hosting the 2011 Rugby World Cup (RWC).

### ***Conditions***

As listed under Student Instructions.

### ***Resources***

Each student will need one copy of each of the following four articles (Appendices 1 – 4):

“Estimated Economic Impact of the 2011 Rugby World Cup”

“The Economic Impact of the Olympic Games”

“The Economic Impact of the 2003 America's Cup Defence”

“The Economic Impact of the 2005 DHL Lions Series on New Zealand”

They will also need a calculator and the equipment necessary to draw a pie graph.



## *Student Instructions and Answer Booklet*

You will have three to four periods of class time to complete this task under **open book test conditions**. Your teacher will keep your partially completed work for you between periods.

Your task is to use the resource material provided and your economics knowledge to process, present, and analyse statistical data in relation to the impact of preparing for and hosting the 2011 Rugby World Cup on New Zealand's trade and growth. You should read the resource material thoroughly before beginning the assignment as it contains many details useful in completing the activities below.

The resource material consists of four articles:

“Estimated Economic Impact of the 2011 Rugby World Cup”

“The Economic Impact of the Olympic Games”

“The Economic Impact of the 2003 America's Cup Defence”

“The Economic Impact of the 2005 DHL Lions Series on New Zealand”

**To achieve this standard**, you need to process and present statistical data and carry out an economic analysis. Processing and presenting statistical data requires you to transform the data provided in the resource material by completing the calculations, the table, and the graphs.

An economic analysis requires you to describe trends shown by your data or to describe relationships between sets of data. You need to do this for data related to both trade and growth.

You also need to identify some potential limitations of your data. You will do this by answering the questions related to the accuracy, validity, timeliness, and usefulness for predicting the impact of a future event.

**To achieve this standard with merit**, you need to process and present statistical data and carry out a **full** economic analysis. This means you need to do everything as for achievement above and also draw conclusions or make deductions for the generalisations you have made, that is, give reasons or explanations for the patterns shown by your data. You also need to complete the questions explaining the connection between data related to both trade and growth.

**To achieve this standard with excellence**, you need to process and present statistical data and carry out a **comprehensive** economic analysis. This means you need to do everything as for achievement and achievement with merit above and also extrapolate the data to make a justified forecast supported by your evidence. You need to use the data to perform calculations to predict the impact of the Rugby World Cup in 2011. You will need to justify your forecast by explaining why it can be considered reliable.



1. a) Use the data on the table below to calculate the estimated contribution to real GDP per capita, in 2007 dollars, of the Rugby World Cup on both the New Zealand and Auckland economies.

	<i>Estimated contribution to GDP in 2011 NZ dollars</i>	<i>Price index (base year 2007 = 1000)</i>	<i>Estimated contribution to real GDP in 2007 NZ dollars</i>	<i>Estimated population in 2011</i>	<i>Estimated contribution to real GDP per capita in 2007 NZ dollars</i>
<i>New Zealand</i>	\$507m	1120	i) \$_____m	4.25m	iii) \$_____
<i>Auckland</i>	\$240m	1120	ii) \$_____m	1.45m	iv) \$_____

- b) Describe how the estimated contribution to real GDP per capita for those who live in Auckland is different from the contribution for those who live in the rest of New Zealand.

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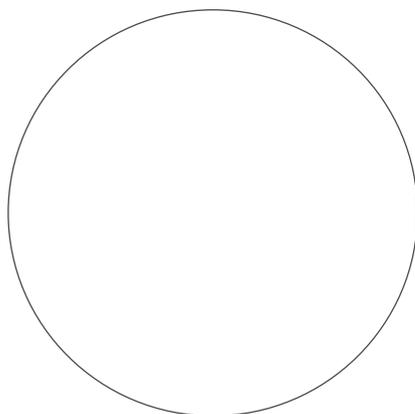
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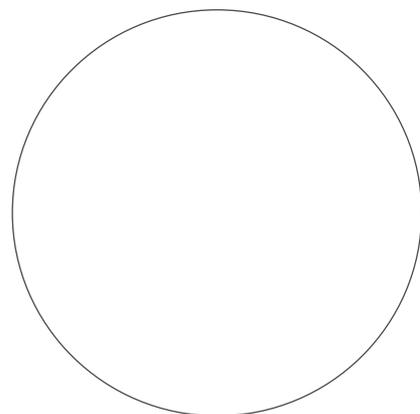
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2. a) In the spaces provided below construct pie graphs that show the contributions to both New Zealand and Auckland GDP of direct value-added, indirect value-added, and induced value-added expenditure that it is estimated will occur as a result of hosting the 2011 Rugby World Cup. This data is included in the article “Estimated Economic Impact of the 2011 Rugby World Cup”.

(i) Contribution to NZ GDP



(ii) Contribution to Auckland GDP



- b) Identify ONE observation you can make from the pie graphs you have drawn above.

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3. Complete the table below by identifying examples of capital formation that will provide economic benefits to Auckland or New Zealand before and after the Rugby World Cup. The article “The Economic Impact of the Olympic Games” will give you some ideas about how to do this.

<i>Time phase</i>	<i>Examples of capital formation</i>
<i>Before the 2011 Rugby World Cup</i>	i) _____ _____  ii) _____ _____
<i>After the 2011 Rugby World Cup</i>	i) _____ _____  ii) _____ _____

4. “Induced value-added expenditure” relates to additional spending by households as a result of the extra income they receive because of the additional business activity caused by an event like the Rugby World Cup. Identify TWO reasons why the actual induced value-added expenditure may be less than the predicted figure.

i) \_\_\_\_\_  
ii) \_\_\_\_\_

5. Identify ONE reason why it is difficult to measure the capital formation (investment) that may occur after the Rugby World Cup.

\_\_\_\_\_  
\_\_\_\_\_

6. Identify ONE reason the predicted increases in spending and GDP may be significantly different to the figures given.

\_\_\_\_\_  
\_\_\_\_\_

7. Identify ONE reason the predicted increases in spending and GDP are considered to be reliable.

\_\_\_\_\_  
\_\_\_\_\_



8. In the article “The Economic Impact of the 2003 America’s Cup Defence” data is provided about additional spending in both Auckland and New Zealand as a result of that event.

a) Identify ONE reason why spending patterns for an event like the America’s Cup may not be useful when predicting spending patterns in **Auckland** as a result of the Rugby World Cup.

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b) Identify ONE reason why spending patterns for an event like the America’s Cup may not be useful when predicting spending patterns in **New Zealand** as a result of the Rugby World Cup.

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Refer to the article “The Economic Impact of the 2005 DHL Lions Series on New Zealand” to answer the following questions related to trade.

9. The chart Additional Revenue in Auckland by Item and Traveller Type shows spending on various categories of goods and services by international and domestic tourists. Ignore both spending by domestic tourists and GST (the figures are in NZD and exclude GST).

Assume the categories referring to goods are those for food and beverage and retail shopping, while all remaining categories refer to services.

a) Calculate the total spending by international visitors for the Lions Tour on goods.

\$

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b) Calculate the total spending by international visitors for the Lions Tour on services.

\$

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c) Describe the impact of the Lions Tour on the New Zealand:

i) balance on goods

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ii) balance on services

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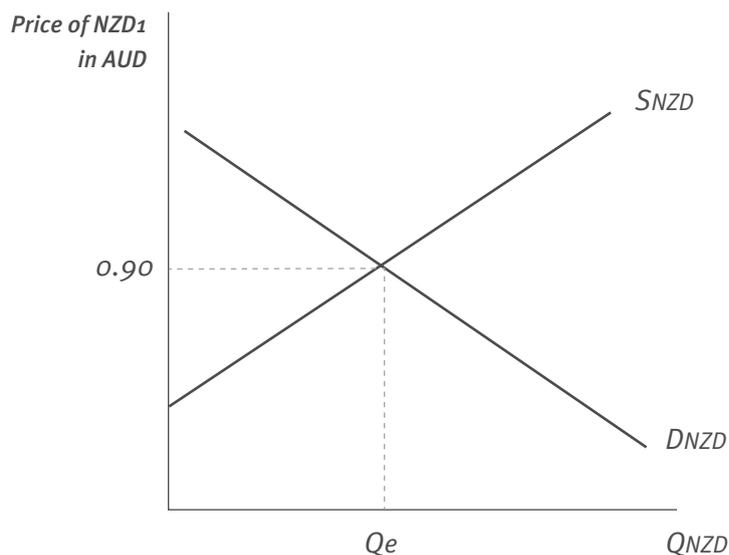
iii) balance on current account

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- d) i) Complete the foreign exchange market diagram below to show the impact of New Zealand hosting an international event like the 2005 Lions Tour and the 2011 Rugby World Cup.

**Market for New Zealand Dollars**



- ii) Describe how the spending by international visitors will affect the exchange rate.

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- iii) Explain the impact you have shown on the diagram in d i) above.

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- iv) Why might the impact caused by the Rugby World Cup on the exchange rate with Australian dollars or Euros be much greater than the impact on the exchange rate with United States dollars?

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- 10.a) Explain how the impact of increased spending by international visitors for the Rugby World Cup will cause changes to both the balance on goods and GDP.

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b) Explain how increased investment as a result of the Rugby World Cup may impact on:  
i) the current account balance

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ii) the exchange rate

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11. Use the estimated data provided in the articles “Estimated Economic Impact of the 2011 Rugby World Cup” and “The Economic Impact of the 2005 DHL Lions Series on New Zealand” to predict the impact of the additional spending in Auckland caused by the 2011 Rugby World Cup on the New Zealand current account balance.

Assume the additional revenue in Auckland by item and traveller type spending patterns for the 2011 Rugby World Cup (shown on Figure 29) are the same as for the 2005 Lions Series. Use the data provided for expected international visitors for the 2011 Rugby World Cup and the number of international visitors that generated the spending shown for the 2005 Lions Series to calculate the impact of the 2011 Rugby World Cup on the current account balance.

a) Impact of the 2011 Rugby World Cup on the balance on goods: \$ \_\_\_\_\_

Working:

b) Impact of the 2011 Rugby World Cup on the balance on services: \$ \_\_\_\_\_

Working:

c) Impact of the 2011 Rugby World Cup on the current account balance: \$ \_\_\_\_\_

Working:

d) Explain why the answer you calculated in c) above could be considered to be a reliable indicator of the change in the current account balance as a result of additional spending in Auckland generated by the 2011 Rugby World Cup.

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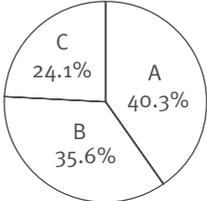
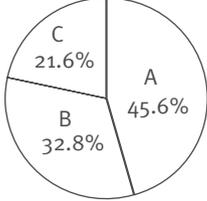
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## Assessment schedule

Achievement Standard: 90797 Version 1

*Impact of preparing for and hosting the 2011 Rugby World Cup on New Zealand's trade and growth*

Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A	1a	(i) 452 - 453 (ii) 214 - 215 (iii) 106.50 – 106.60 (iv) 147.50 – 147.80	THREE of the four answers correct within the ranges shown	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	1b	For example, it is higher for those who live in Auckland than for those who live in the rest of New Zealand.	Valid observation made based on 1a	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	2a	i)  ii)   A Direct value added B Indirect value added C Induced value added	Both graphs completed accurately	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	2b	For example, the proportion of direct value added is higher for Auckland than it is for the whole of New Zealand.	Valid observation made based on 2a	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	3	i) & ii) For example, construction/alterations to stadiums; construction of media facilities, accommodation, etc; improvements to transport or other infrastructure; development of tourism related facilities; development of human capital iii) & iv) Development of human capital; additional investment as a result of continued tourism; development of new businesses attracted by trade or tourism as a result of exposure generated by RWC; further business opportunities may arise due to improved infrastructure (For example, roads, communications), etc	Any THREE valid examples of capital formation	<i>No additional evidence required</i>	<i>No additional evidence required</i>



<i>Code</i>	<i>Question</i>	<i>Evidence</i>	<i>Achievement</i>	<i>Achievement with Merit</i>	<i>Achievement with Excellence</i>
A	4	For example, households may save a larger proportion of their extra income, tax rates may be higher, business activity may be lower than predicted, leading to lower induced value.	ONE valid reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	5	For example, new trade opportunities that arise through contacts made during the RWC or due to perceptions of NZ created by exposure during the RWC are difficult to measure statistically.	ONE reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	6	For example, an external event like a terrorist attack may discourage travel to NZ, political upheaval in a region may affect people travelling from that country, fuel shortages may significantly increase costs of air travel, reducing the number of visitors from overseas, etc.	ONE reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	7	For example, they are based on precedents set at the 2003 RWC and allow for growth over time.	ONE reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	8a	For example, The America's Cup was a different type of event, attracting people over a much longer period of time; attracting a larger number of very wealthy people whose spending patterns would be different to those attending a RWC; spending by syndicates involved in that event would be much greater than by visiting rugby teams, etc.	ONE reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	8b	The America's Cup was centred in one region whereas the RWC will take place in ten regions so there will be much more spending around the rest of the country, etc	ONE reason identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	9a,b,c	a) \$14,759,000 b) \$32,495,000 c) i) improve/increase by \$14,759,000 ii) improve/increase by \$32,495,000 iii) improve/increase by \$47,254,000	(a) & (b) not required. TWO of the three parts in c) correct. Allow follow-through if mistakes are made in a) or b)	<i>No additional evidence required</i>	<i>No additional evidence required</i>



Code	Question	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A	9di	<p><i>Market for New Zealand Dollars</i></p>	<i>DNZD curve shifted right</i>	<i>No additional evidence required</i>	<i>No additional evidence required</i>
A	9dii	It will appreciate	Correct effect identified	<i>No additional evidence required</i>	<i>No additional evidence required</i>
M	9diii	The spending by international visitors increases the demand for NZ dollars.	<i>Not required for achievement</i>	Correct explanation	<i>No additional evidence required</i>
M	9div	For example, there are likely to be more visitors to NZ for the RWC from Australia and Europe than from the US	<i>Not required for achievement with merit</i>	Correct explanation	No additional evidence required
M	10a	The increase in exports of both goods and services will improve the balance on goods and also cause GDP to increase	<i>Not required for achievement</i>	Correct explanation	<i>No additional evidence required</i>
M	10b i	If the investment involves importing capital goods from overseas, the current account balance will worsen	<i>Not required for achievement</i>	Correct explanation	<i>No additional evidence required</i>
M	10b ii	An increase in imports will increase the supply of NZDs and the exchange rate will depreciate	<i>Not required for achievement</i>	Correct explanation	<i>No additional evidence required</i>
	11a,b,c	<p>a) <math>51\,367\,108 (= 71\,000 \div 20\,400 \times 14\,759\,000)</math></p> <p>b) <math>113\,095\,343 (= 71\,000 \div 20\,400 \times 32\,495\,000)</math></p> <p>c) <math>164\,462\,451 (= 71\,000 \div 20\,400 \times 47\,254\,000)</math></p>	<i>Not required for achievement</i>	<i>Not required for achievement with merit</i>	All three calculations correct and a valid justification given for the reliability of those figures
	11d	For example, the visitor figures are based on the precedent of the 2003 RWC with an allowance for growth over time, and the spending figures are for people attending a similar type of event in the 2005 Lions Tour	<i>Not required for achievement</i>	<i>Not required for achievement with merit</i>	

### Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
<p>4 x A from questions 1a, 2a, 3, 9c, 9di</p> <p>3 x A from questions 4, 5, 6, 7</p> <p>2 x A from questions 1b, 2b, 9dii</p>	<p>4 x M</p> <p>4 x A from questions 1a, 2a, 3, 9c, 9di</p> <p>3 x A from questions 4, 5, 6, 7</p> <p>2 x A from questions 1b, 2b, 9dii</p>	<p>1 x E</p> <p>4 x M</p> <p>4 x A from questions 1a, 2a, 3, 9c, 9di</p> <p>3 x A from questions 4, 5, 6, 7</p> <p>2 x A from questions 1b, 2b, 9dii</p>



## Appendix 1: Extracts from the “Estimated Economic Impact of the 2011 Rugby World Cup”

(prepared by Horwath Asia Pacific Limited in conjunction with Market Economics)

These extracts are provided courtesy of the New Zealand Rugby Union.

### Summary of Economic Impact Estimates

	Updated Analysis June 2006
<b>National Level</b>	
Total Direct Additional Expenditure	\$476m
Contribution to GDP	\$507m
<b>Auckland</b>	
Total Direct Additional Expenditure	\$262m
Contribution to GDP	\$240m
<b>Additional Tax Revenue</b>	
GST	\$71m
PAYE	\$20m
Company Tax	\$21m
Total Additional Tax Revenue	\$112m

The 2011 tournament is proposed to follow the same structure as the 2003 and 2007 tournaments with twenty teams participating. The tournament will involve forty-eight matches over a six-week period. Matches will be held at eleven venues in ten regions around New Zealand.

Based on precedents set at the 2003 Rugby World Cup in Australia and allowing for growth over time, we have assumed that the 2011 event could attract approximately 66 000 international supporters, 2500 international media, and 2500 corporate/VIP guests.

#### National Level Economic Impact

It is estimated that the Rugby World Cup 2011 will result in \$476 million of total direct expenditure within New Zealand, which will generate:

- \$204 million in direct value added or direct contribution to GDP. Thus, some 42.9 percent of direct expenditure represents value added;
- \$180 million in indirect value added, from the flow-on increase in business activity;
- \$122 million in induced value added, from the spending of the extra household income generated by the additional business activity.

The economic impact will be primarily generated through the general expenditure of international visitors during their stay in New Zealand. The balance of the impact will be derived through the net reduction in overseas spending by New Zealanders due to the hosting of the Rugby World Cup in New Zealand rather than overseas. The revenues and expenses associated with the organisation of the tournament itself are projected to have no material net impact on the New Zealand economy. In essence, the event acts as a catalyst for significant tourist activity, which drives economic impact.

#### Auckland Level Economic Impact

The Rugby World Cup 2011 is estimated to have a significant impact on the Auckland economy. It is estimated that the Rugby World Cup 2011 will result in \$262 million of total direct expenditure within the Auckland region, which will generate:

- \$110 million in direct value added;
- \$79 million in indirect value added;
- \$52 million in induced value added.

The significant impact on Auckland arises because:

- the tournament headquarters (including officials, staff, and media) are to be based in Auckland;
- there will be a strong focus on the Auckland region during the knockout phase of the tournament, attracting significant numbers of international and domestic visitors to the region;
- two of the proposed match venues are located within the Auckland region.

#### Taxation Impacts

The total additional tax revenue generated as a result of Rugby World Cup 2011 is estimated to be \$111.6 million, as detailed in the table below.

#### Total Taxation Effect

	\$m
GST	\$70.7
PAYE	\$19.5
Company Tax	\$21.4
<b>Total</b>	<b>\$111.6</b>

(Source: Market Economics, Horwath Asia Pacific)



### **Other National Benefits**

As well as the significant economic impacts that will arise as a result of staging the 2011 Rugby World Cup, there is the potential for a range of other impacts to be realised.

These include:

- i) increased national profile on the world stage as a result of significant media coverage over the 6-week period of the tournament;
- ii) spread of benefits throughout the regions of New Zealand as a result of the forty-eight matches being spread across ten different regions from Auckland in the north to Southland;
- iii) potential for trade benefits to be realised with increased awareness of rugby and other sport-related products created in New Zealand;
- iv) potential for Tourism New Zealand to assist in realising significant equivalent advertising value benefits through the extensive media coverage to the benefit of the wider New Zealand tourism industry;
- v) potential for significant positive word of mouth benefits for New Zealand tourism as a result of the 71 000 international visitors projected to attend the tournament;
- vi) potential to lift awareness of the 100 percent Pure New Zealand brand in countries where New Zealand is well recognised as a strong rugby playing nation but not fully appreciated for the tourism opportunities that it offers;
- vii) the profile benefits of the tournament have the potential to act as a catalyst for increased participation in sport, particularly rugby, and there is the ability to realise this potential through the New Zealand Rugby Union's existing rugby in communities programme;
- viii) a successful staging of the tournament has the potential to contribute to national pride and social cohesion, particularly given the extent to which many New Zealanders identify with the sport of rugby;
- ix) the likely need for investment in infrastructure will potentially better position New Zealand to readily take advantage of future event opportunities to the social, cultural, and economic advantage of the country.

### **What are the Economic Benefits to New Zealand of Hosting the Event?**

*The bid office estimates the tournament is expected to attract over 60,000 visitors to New Zealand and will generate significant economic benefits for the country. It is estimated that it will generate \$380 million in direct additional expenditure within New Zealand, with a resultant impact on GDP of \$408 million. In addition, the tax take for the government is expected to exceed \$90 million. This additional expenditure will come mainly from international visitors purchasing accommodation, hospitality, and travel, which will result in further indirect spending.*

This extract is reproduced courtesy of Sport and Recreation New Zealand (SPARC).

[www.sparc.org.nz/About-SPARC/News/New-Zealand-launches-bid-for-rugby-world-cup-2011](http://www.sparc.org.nz/About-SPARC/News/New-Zealand-launches-bid-for-rugby-world-cup-2011)



## Appendix 2: Extract from PricewaterhouseCoopers European Outlook June 2004 “The Economic Impact of the Olympic Games”

This extract is reproduced courtesy of PricewaterhouseCoopers.

**Table 3.1 Key Economic Benefits and Costs of the Games**

	<i>Benefits</i>	<i>Costs</i>
<i>Pre-Games Phase</i>	<i>Tourism Construction activity</i>	<i>Investment expenditure Preparatory operational costs (including bid costs) Lost benefits from displaced projects</i>
<i>Games Phase</i>	<i>Tourism Stadium &amp; infrastructure Olympic jobs Revenues from Games (tickets, TV rights, sponsorship, etc.)</i>	<i>Operational expenditure associated with Games Congestion Lost benefits from displaced projects</i>
<i>Post-Games Phase</i>	<i>Tourism Stadium &amp; infrastructure Human capital Urban regeneration International reputation</i>	<i>Maintenance of stadiums and infrastructure Lost benefits from displaced projects</i>

### **Demand-side Benefits**

Looking at the direct effects of hosting the Olympic Games, tourism is the only activity whose impact may be felt in all three of the above phases. The Olympic Games provide a unique event that attracts visitors both from within the host country and around the globe. Visitors directly linked to the Games include participants (athletes, coaches, team officials), spectators, sponsors, and the media. Moreover, the promotion of the city creates an induced tourism effect as further visitors are attracted by the city’s additional media exposure and enhanced international reputation. While the number of additional visitors reaches a peak during the year of the Games, this latter effect can sustain increased tourism flows for several years after the event.

Additional tourists bring additional demand to the regional (and national) economy as visitors spend money on purchasing food, accommodation, transport, and tickets for the Games themselves. Broadcast revenues and corporate sponsorship may also accrue in part to the host city, although the International Olympic Committee (IOC) will generally also take a significant share of these revenues. Moreover, there is an additional secondary

effect as the new money is re-spent within the borders of the host economy (although the effects here will differ at local, regional, and national level). This “multiplier effect” includes additional Games-related employment and purchasing by local companies, as well as the impact of everyday household spending by employees of the companies benefiting from increased sales.

It should be stressed that it is the net economic impact that is of importance here; only money that would not otherwise have been spent is relevant. Some tourists would have visited the city even without the Games, while some who would otherwise have visited the city may have gone elsewhere for their holiday so as to avoid the large crowds attracted to the event (this is, for example, a concern in relation to London, a possible host for the 2012 Games, given the pressures that already exist on the city’s transport infrastructure in particular).

Indeed, the additional congestion during the Games period could also induce some city residents to leave the region to take a holiday elsewhere.

### **Supply-side Benefits (Legacy Effects)**

Whilst the financing of construction projects may be costly, the host city should also benefit in the longer term from the additional infrastructure. Productivity should be raised, for example, by the improved transport facilities for handling passengers and freight. The creation or enhancement of sports facilities also increases the city’s ability to host other major national and/or international sporting events, provides opportunities for residents to participate, and can generally make the city a more attractive place to live. It may also help to regenerate rundown areas.

While the positive impact from some of these developments may be difficult to measure in economic terms, they are, potentially, an important legacy of the Games.

Many of the other legacy effects of the Games are also hard to quantify statistically. For instance, Olympic-related business contracts may help create longer-term business partnerships. The extensive media exposure during the Games may enhance the reputation of the city as an attractive business centre, further attracting new investment and trade from global companies. Preparations for the Games may also raise the city’s stock of human capital as employees are given additional training in areas such as telecommunications and languages.

## Appendix 3: Extract from “The Economic Impact of the 2003 America’s Cup Defence”

(Prepared for the Ministry of Tourism by Market Economics Ltd in conjunction with Gravitas Research & Strategy Ltd & Horwath Asia Pacific Ltd) October 2003. This extract is reproduced courtesy of the Ministry of Tourism

**Table 1: Net Additional Expenditure by Source by Summary Sectors (2000–03)**

<i>Direct Spend (\$m)</i>	<i>Accommodation &amp; Hospitality</i>	<i>Retail &amp; Entertainment</i>	<i>Transport</i>	<i>Marine Sector</i>	<i>Business &amp; Household Services</i>	<i>Other</i>	<i>Total</i>
<i>New Zealand</i>							
<i>Syndicates</i>	28.4	11.2	8.0	65.1	22.1	35.8	170.6
<i>Syndicate Community</i>	16.5	30.2	4.9	0.1	1.2	0.0	52.9
<i>Superyachts and Other Yachts</i>	11.7	58.9	1.8	76.4	0.0	5.8	154.6
<i>Other Boats/ Ships</i>	2.8	2.2	4.7	0.0	0.8	0.3	10.8
<i>Sponsors and Businesses</i>	2.9	0.7	2.4	0.3	7.5	6.9	20.7
<i>Organisers</i>	3.7	4.1	3.8	0.8	9.1	7.2	28.7
<i>Media</i>	6.0	9.0	4.4	0.0	5.5	3.3	28.1
<i>Government and Communication Services</i>	0.7	2.0	0.8	0.1	1.6	2.3	7.6
<i>International Visitors</i>	19.1	13.6	16.7	0.0	0.0	0.0	49.4
<i>Domestic Visitors</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>91.7</b>	<b>132.0</b>	<b>47.5</b>	<b>142.7</b>	<b>48.0</b>	<b>61.6</b>	<b>523.4</b>

**Table 2: Contribution to the National Economy (2000–03)**

<i>Impact</i>	<i>Direct</i>	<i>Indirect &amp; Induced</i>	<i>Total</i>
<i>Contribution to GDP (\$m) 2000–02</i>	\$54.4	\$83.0	\$137.4
<i>Contribution to GDP (\$m) 2002–03</i>	\$158.3	\$232.8	\$391.2
<b><i>Contribution to GDP (\$m) Total</i></b>	<b>\$212.7</b>	<b>\$315.9</b>	<b>\$528.6</b>
<i>Employment (FTE yrs) 2000-02</i>	1,210	1,140	2,350
<i>Employment (FTE yrs) 2002-03</i>	3,800	3,210	7,010
<b><i>Employment (FTE yrs) Total</i></b>	<b>5,010</b>	<b>4,350</b>	<b>9,360</b>



**Table 3 National Economic Impacts by Source (2000–03)**

<i>New Zealand</i>	<i>Value Added (\$m)</i>	<i>Value Added (%)</i>	<i>Employment (FTEs)</i>	<i>Employment (%)</i>
<i>Syndicates</i>	\$168.1	58%	2,820	56%
<i>Syndicate Community</i>	\$58.6	20%	1,220	24%
<i>Organisers</i>	\$30.9	11%	510	10%
<i>Sponsors and Businesses</i>	\$22.2	8%	360	7%
<i>Government and Communication Services</i>	\$8.1	3%	140	3%
<b><i>Total Participants</i></b>	<b>\$287.8</b>	<b>54%</b>	<b>5,050</b>	<b>54%</b>
<i>Superyachts and Other Yachts</i>	\$146.3	61%	2,550	59%
<i>Other Boats/Ships</i>	\$12.2	5%	220	5%
<i>Media</i>	\$30.5	13%	550	13%
<i>International Visitors</i>	\$51.8	22%	990	23%
<i>Domestic Visitors</i>	\$ –	0%	–	0%
<b><i>Total Spectators</i></b>	<b>\$240.7</b>	<b>46%</b>	<b>4,310</b>	<b>46%</b>
<b><i>Total Event</i></b>	<b>\$528.6</b>	<b>100%</b>	<b>9,360</b>	<b>100%</b>

***Impacts on the Auckland Economy***

The regatta generated an additional \$497m of expenditure into the Auckland economy. This expenditure generated some \$201m in direct value added (about 40 percent of total expenditure). As the expenditure flowed through the economy, the indirect and induced effects added a further \$249m, bringing a total economic contribution to the Auckland region of \$450m. This is a substantial figure, equivalent to around 1.07 percent of the Auckland regional GDP (estimated at \$42Bn for 2003). It shows the event had a significant positive impact on the region’s economy for 2003, following lesser but important impacts in the build-up period.

## Appendix 4: Extract from “The Economic Impact of the 2005 DHL Lions Series on New Zealand”

Prepared for the Ministry of Tourism, Tourism Auckland, Auckland City Council, and Tourism Dunedin. This extract is reproduced courtesy of the Ministry of Tourism and Covec ([www.covec.co.nz](http://www.covec.co.nz))

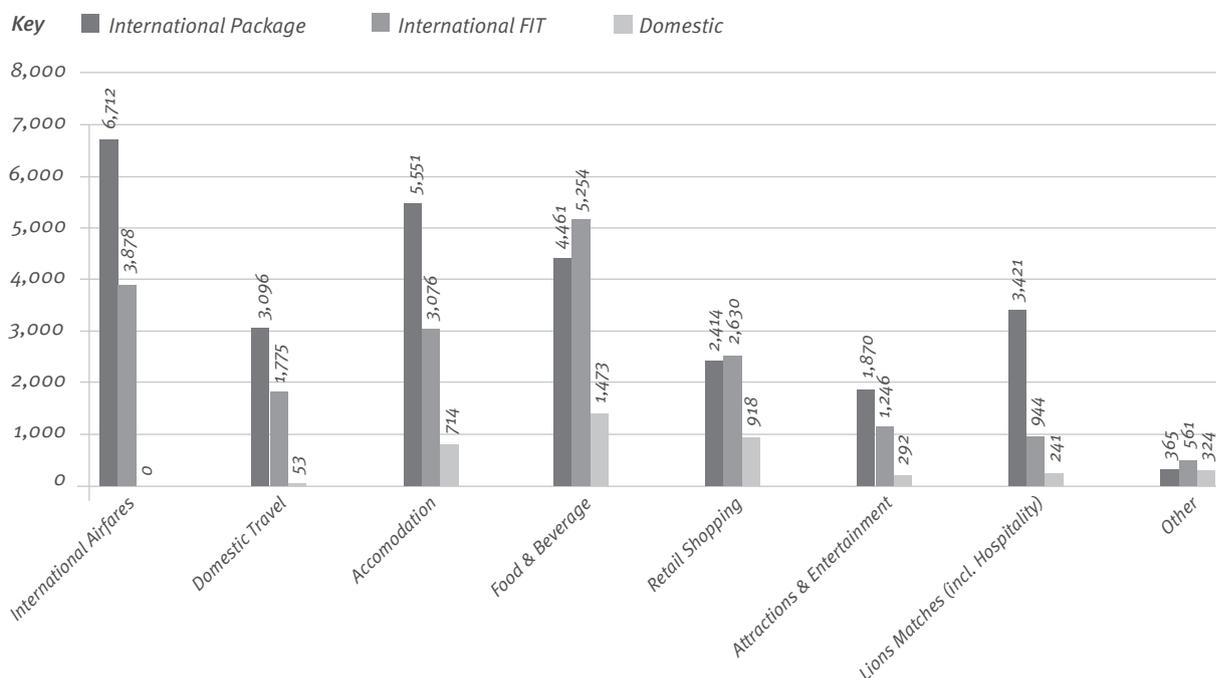
### Impact on New Zealand

The Lions Series generated a large amount of international and domestic visitor activity in New Zealand. It is not valid to include activity generated by domestic travellers in a national economic impact assessment, so the national impact focuses solely on the economic impacts generated by international visitors to New Zealand. The Lions Series generated additional foreign exchange earnings of \$131.0m, which flowed through the New Zealand economy and generated a total GDP impact of \$135.2m (including indirect and induced effects). This GDP would not have existed in the absence of the Lions Series. This is a very substantial impact, especially given the relatively short period of time it was generated in. An estimated 39 percent (8000) of all international visitors travelled to New Zealand on some form of package deal, with the remaining 61 percent (12 400) travelling independently.

### Calculating Economic Impacts

The data collected in the visitor surveys and from key organisations was used to estimate the net national and regional revenue impacts attributable to the Lions Series. However, economic impacts are measured in terms of GDP, which is quite distinct from revenue. In simple terms, GDP is the difference between revenue and the cost of the goods and services required to meet demand (excluding labour costs). This is equivalent to the wages and salaries paid to employees, taxes paid to government, profits and depreciation. A direct, event-related GDP impact is therefore a percentage of the additional revenue generated, but this percentage will vary depending on which sector of the economy the revenue accrues to (some sectors convert a higher percentage of revenue to GDP than others). There are also indirect and induced impacts to take into account, which occur when businesses purchase goods and services off other businesses to satisfy the increase in demand, and workers earn (and spend) more.

**Additional Revenue in Auckland by Item and Traveller Type (\$NZ'000s excl. GST)**



## Appendix 5: Extract from: “The Flight of the Kiwi”

This extract is reproduced courtesy of The New Zealand Institute.

### Distance Is Not Dead

A glance at a world map should be sufficient to provide an indication of a major reason as to why New Zealand’s level of international economic activity is lower than in all other small, developed countries. New Zealand is physically remote from major markets. Indeed, some estimate that New Zealand is the most physically remote developed country in the world relative to major markets.

Figure 1 illustrates this point by describing the shares of global output and population that can be accessed within a three and a half hour flight from various cities. This distance is chosen as the maximum that people can reasonably travel return in a day to support business

activities (e.g. a trans-Tasman trip) or to return home for weekends. On this measure, New Zealand is highly disadvantaged compared to major cities in Asia, Europe, and the US. New Zealand can access about 1% of global output within a three and a half hour flight compared to 26% of global output from Paris, 25% from Chicago, and 32% from Hong Kong.

Skilling, D. and Boven, D. (July 2006). “Discussion paper 2006/1: The Flight of the Kiwi: Going Global from the End of the World.” The New Zealand Institute, page 6. Downloaded from [www.nzinstitute.org/Images/uploads/pubs/The\\_flight\\_of\\_the\\_Kiwi.pdf](http://www.nzinstitute.org/Images/uploads/pubs/The_flight_of_the_Kiwi.pdf)

Figure 1: New Zealand is distant from major markets



Note: Circles represent distance reached within a 3.5hr flight, indicative only due to nature of map.

Source: Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <http://www.ggdc.net>



## Glossary

- Balance of trade:** the value of a country's exports minus the value of its imports
- Commodity:** any object produced for consumption or exchange in markets, often used more narrowly to describe raw foodstuffs and materials (for example, aluminium and beef)
- Comparative advantage:** when a country is able to produce goods or services at a lower opportunity cost than its trading partners
- Competitive advantage:** a condition or set of conditions that enables a company or country to operate in a more efficient or otherwise higher-quality manner than its competitors and that results in benefits accruing to that company or country
- Consumer:** an individual who buys products or services for personal use and not for manufacture or resale
- Consumption:** goods or services that are bought and used up in a single period. These include goods and services used by households or private not-for-profit organisations (collectively known as private consumption) or by government (public consumption).
- Distribution:** the spread or arrangement of natural or cultural phenomena (in terms of geographic areas, economic groupings, or social classes); in a narrower sense, the extent to which different groups or individuals share in the total production or wealth of a community
- Economic growth:** GDP growth; the rate of change in real gross domestic product
- Enterprise:** human activity involving such qualities as initiation, innovation, risk taking, coordinating, and acting decisively and imaginatively; in a narrower economics sense, an activity undertaken for entrepreneurial or commercial reasons
- Exports:** goods and services sent to another country to be sold
- Factor endowment:** The quantity of a primary factor present in a country
- Factors of production:** The resources that are necessary for production
- Food miles:** the distance food travels from where it is grown or raised to where it is ultimately purchased by consumers
- Free trade:** policy in which a government does not discriminate against imports or interfere with exports. (The argument for free trade is based on the economic theory of comparative advantage: each region should concentrate on what it can produce most cheaply and efficiently and should exchange its products for those it is less able to produce economically.)
- GDP:** the production measure of gross domestic product; the total market value of goods and services produced in New Zealand after deducting the cost of goods and services used in the process of production, over a given time period
- Goods:** items that can be bought and sold
- Gross:** value before deductions. (An investment may be described as yielding 15% gross, which means 15% before the deduction of income tax.)
- Identity:** the way a person or a group perceives themselves in relation to the world, including other people and groups
- Imports:** goods brought in from another country
- Intellectual property:** creations of the mind that have a commercial value (for example, symbols, names, designs, patents, trademarks)
- Interdependence:** reciprocal relationships where people and/or groups and/or physical phenomena have a strong influence on one another or depend on one another for support
- Mahi:** work; employment
- Manaakitanga:** hospitality
- Market:** a demand for a commodity or service
- Market economy:** an economy that operates by voluntary exchange in a free market, as opposed to a planned economy that is controlled by a central authority
- Mass production:** the manufacture of goods in large quantities, often using standardised designs and assembly-line techniques



## About this resource

*Thinking Globally 2*, a resource for teachers of social sciences, is the result of a cross-government agency partnership precipitated by the 125th anniversary of New Zealand's frozen export trade in 2007.

The resource includes background information about trade, useful references, suggested outlines for two units of learning at level 5 and level 7 of the draft curriculum, and student activities.

The level 7 unit includes background notes and an assessment schedule and will enable students to meet the internally assessed Economics achievement standard 2.4 (90797). *Thinking Globally 2* encourages schools to design their curriculum to further engage students learning about the concept of trade within contexts relevant to their communities.

This resource will also be available on the new social sciences online development planned for later in 2007. The online version may contain updated activities and information.



ISBN-10: 0-7903-1942-X  
ISBN-13: 978-0-7903-1942-1

