

Internal Assessment Resource

Economics Level 3

This resource supports assessment against Achievement Standard 91402 version 3

Standard title: Demonstrate understanding of government interventions where the market fails to deliver efficient or equitable outcomes

**Credits:** 5

Resource title: Efficiency and equity

**Resource reference:** Economics 3.4A

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| This resource:   * Clarifies the requirements of the standard * Supports good assessment practice * Should be subjected to the school’s usual assessment quality assurance process * Should be modified to make the context relevant to students in their school environment and ensure that submitted evidence is authentic |

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| Date version published by Ministry of Education | November 2018 Version 2  To support internal assessment from 2019 |
| Quality assurance status | These materials have been quality assured by NZQA. NZQA Approved number A-A-11-2018-91402-02-6420 |
| Authenticity of evidence | Teachers must manage authenticity for any assessment from a public source because students may have access to the assessment schedule or student exemplar material.  Using this assessment resource without modification may mean that students’ work is not authentic. The teacher may need to change figures, measurements or data sources or set a different context or topic to be investigated or a different text to read or perform. |

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Teacher guidelines

The following guidelines are supplied to enable teachers to carry out valid and consistent assessment using this internal assessment resource.

Teachers need to be very familiar with the outcome being assessed by the achievement standard. The achievement criteria and the explanatory notes contain information, definitions, and requirements that are crucial when interpreting the standard and assessing students against it.

Context/setting

This activity requires students to present the case for and against policies [Government interventions] that could be used to correct a situation where the market fails to deliver efficient or equitable outcomes. They will present an economic analysis which includes economic explanations and an economic model(s). These discussions will show the student’s ability to transfer their comprehensive understanding of a situation where the market fails to deliver efficient or equitable outcomes.

Conditions

You will need to determine how long students need to complete each task and what processes they will follow. These will need to be clearly outlined in the student instructions.

Students could prepare and present an online journal, a seminar, a written report or PowerPoint presentation to the class. Any method of presentation is acceptable provided it can be managed and authenticated.

Resource requirements

Internet access.

Additional information

None.

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Student instructions

Introduction

This assessment activity requires you to write a report to explain a situation where the market fails to deliver efficient or equitable outcomes in New Zealand and evaluate two government policies (interventions) that address the problems resulting from the failure to deliver efficient or equitable outcomes.

In your report, you will be assessed on the thoroughness with which you explain a situation where the market fails to deliver efficient or equitable outcomes, the quality of your justification for the recommended intervention, and on your use of models to support your explanations.

This assessment will take place over 3–4 weeks of in-class and out-of-class time.

Task

Choose a situation where the market fails to deliver efficient or equitable outcomes in New Zealand.

Write a report, following the steps below.

1. Fully explain how the market fails to deliver efficient or equitable outcomes.

Support your explanations by using an economic model to illustrate this.

1. Explain two policy options (interventions) that the government could use to address the inefficient or inequitable outcomes, using an economic model(s).
2. For each policy fully explain:

* the efficiency of the policy
* the equity of the policy.

1. Determine which of the two policy options you think is better by referring to efficiency and equity, justifying why you think this policy is better in your recommendation.
2. Integrate an economic model(s) into your recommendation.

When finished, hand in your report to your teacher.

Assessment schedule: Economics 91402 - Efficiency and Equity

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| Evidence/Judgements for Achievement | Evidence/Judgements for Achievement with Merit | Evidence/Judgements for Achievement with Excellence |
| The student has demonstrated understanding of government interventions where the market fails to deliver efficient or equitable outcomes by:   * providing an explanation of: * why the market may not be delivering efficient or equitable outcomes * government interventions * the implications of the government interventions for equity and efficiency * using an economic model(s) to support explanations.   Example of possible student response:  The market for alcohol has negative externalities of consumption and has examples of spill-over effects like drunk drivers crashing into other motorists meaning society pays more in healthcare.  In their report the student draws a social marginal benefit (SMB) or a social marginal cost (SMC) graph with SMB left of PMB and the social and private equilibrium p’s + q’s correctly identified.  Increasing the sales tax on alcohol, raising the drinking age, and imposing blood level limits for drivers are all policies that the government could use to address the situation where the market fails to deliver efficient or equitable outcomes.  The student shows the effect a sales tax will have on the situation where the market fails to deliver efficient or equitable outcomes by drawing a new PMC and tax line to the left and identifies the dual price equilibrium (that is, consumer price PTAX and producer price PPR and quantity at QTAX).  The student identifies that sales taxes are unfair as they are regressive.  *The examples above are indicative samples only.* | The student has demonstrated in-depth understanding of government interventions where the market fails to deliver efficient or equitable outcomes by:   * providing a detailed explanation of: * why the market may not be delivering efficient or equitable outcomes * government interventions * the implications of the government interventions for equity and efficiency * using an economic model(s) to support detailed explanations.   Example of possible student response:  The market for alcohol has negative externalities of consumption because consumers fail to pay for the spill-over cost of their excessive drinking. Because some of this cost is borne by third parties, a deadweight loss occurs at the market equilibrium.  In their report the student labels and refers to areas of spill-over costs, total surpluses, and DWL when explaining a situation where the market fails to deliver efficient or equitable outcomes.  Since a sales tax raises the price of alcohol it will be regressive because, on average, poor people spend a greater percentage of their income on alcohol than wealthy consumers.  When explaining why sales tax improves efficiency, the student refers to the higher price paid by consumers (PTAX) causing a decrease in Qd and a lower price received by the producer (PPR) causing a decrease in Qs and so QTAX = (moves closer to) QSOC.  *The examples above are indicative samples only.* | The student has demonstrated comprehensive understanding of government interventions where the market fails to deliver efficient or equitable outcomes by:   * using a detailed explanation to make a justified recommendation on which government intervention is better in terms of efficiency and equity * integrating an economic model(s) into the justified recommendation.   Example of possible student response:  In their report the student indicates the area of spill-over costs that is covered by market surpluses (PS + CS), showing on the graph a triangle at QFM that is the DWL to highlight why the market has failed*.*  The student shows the area of DWL as arrows, showing ↓Qd and ↓Qs appears on SMC and PMB lines after the new prices caused by the sales tax are entered on their model to indicate that it is allocatively efficient.  The student justifies their policy proposal by using a sales tax by noting that it will have double dividend impact on the alcohol market. *The dual price decreases Qd + decreases Qs and the tax revenue earned from the tax can be used to fund anti-drink driving campaigns (shifting MB) left as spill-over costs are decreased. These combined impacts make it more likely to be effective than raising the drinking age, which only impacts on a small part of the overall market.*  The student shows the SR effect of dual price effect of sales tax removing the DWL and then the LR effect of PMB shifting left, dissolving spill-overs and reducing the need for government intervention in the future.  *Although the Sales Tax will be regressive and impact low income earners to a greater degree, the introduction of the tax will be more immediate and have a guaranteed impact on the level of consumption, and as already discussed creates revenue for the government to provide improved health service to support families who cannot afford to visit a doctor on a regular basis.*  *While the age restriction is inequitable as all underage will be restricted regardless of their creation of spill over costs, it also does not generate any government income to address the impacts of the externalities on other parties.*  *The examples above are indicative samples only.* |

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the Achievement Standard.