

ECONOMICS 1.2

Internally assessed
5 credits

Demonstrate understanding of decisions a producer makes about production

AS 90984

Achievement Standard 90984 (Economics 1.2) involves demonstrating understanding of the decisions a particular producer makes about production, focusing on the following five areas.

- Commercial and non-commercial goals.
- Resource use.
- Productivity.
- Business expansion.
- Price and non-price competition.

There is no set format for completing Achievement Standard 90984 (Economics 1.2), so it could be assessed as an investigation into a particular firm's production decisions; a case study of a firm or firms; a series of topic tests or in-class experiments, or in some other format. The main thing is that you will need to understand the five areas or concepts well, and be able to apply them to real-life examples.

Achievement criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of decisions a producer makes about production.	Demonstrate <i>in-depth</i> understanding of decisions a producer makes about production.	Demonstrate <i>comprehensive</i> understanding of decisions a producer makes about production.

Achievement

To 'demonstrate understanding' would typically involve:

- defining, identifying, describing or providing a limited explanation of production decisions;
- identifying, describing or providing a limited explanation of consequences of those decisions for the producer and/or society;
- presenting data or information related to producer decisions.

Achievement with Merit

To 'demonstrate *in-depth* understanding' would typically involve:

- providing a sound explanation of production decisions;
- providing a sound explanation of the consequences of those decisions for the producer and/or society;
- using data or information to support explanations of producer decisions.

Achievement with Excellence

To 'demonstrate *comprehensive* understanding' would typically involve:

- linking explanations of production decisions with explanations of the consequences for the producer and/or society;
- integrating supporting data or information into explanations of producer decisions.

Key terms

Producer – a particular individual or firm who or which makes or supplies a good or service.

Decisions – judgement or assessment the producer makes that relates to production (e.g. goals, resource use, productivity, business expansion, price and non-price marketing).

Production – the process of transforming inputs into goods or services.

Productivity – the amount of output (i.e. goods or services) that can be produced per unit of input (production resources).

Resources – those things used in the production process including human, capital, natural and entrepreneurial resources.

Investment – resources (usually money) used for the purchasing of capital goods.

Profit – the difference between the price for which an item is sold and the cost of producing it.

Producers

A producer is any person who, or organisation which, makes or supplies a good or provides a service. There is a wide range of producers in the New Zealand economy, all seeking to fulfil people's needs and wants and all with different goals.

Producers have to decide on the best way of using the resources available to them to satisfy these needs and wants while also achieving their goals.

Types of producer

All producers take part of the production process. In the production process, inputs (i.e. productive resources) are *transformed* into outputs (i.e. goods and services).

There is a range of different types of producer, including:

- firms;
- local and central government;
- voluntary/not-for-profit organisations.

Firms

Firms are organisations that bring together goods and services to sell, with the main aim of generating a profit for the business's owner(s). Firms can be any of the following.

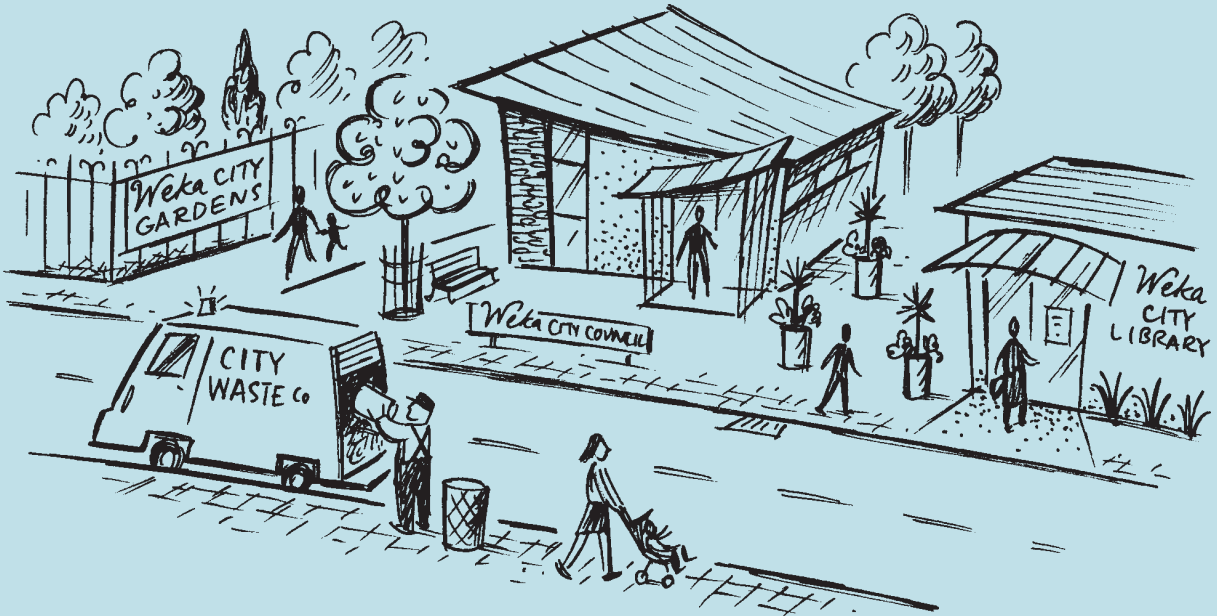
- Sole traders – having just one owner with unlimited liability (i.e. the owner is personally liable for the debts of the business). A sole trader will rely on his or her own savings or bank loans to fund the business.
- Partnerships – having at least two partners (owners) who are joint and severally liable for the debts of the business. Partnerships will rely on partners' savings and bank loans to finance the business.
- Companies – can have any number of owners, known as *shareholders*, and are registered as companies, giving the shareholders *limited liability*. Limited liability means that the shareholders cannot be held personally liable for the debts of the business. Companies can raise funds by selling shares to the public as well as borrowing from banks.

Government

Government provides goods and services that would not be provided by firms or which firms would not provide enough of, or at a low enough price. New Zealand's central government is based in Wellington and provides nationwide services such as healthcare, education, defence, emergency services and social welfare. Central government is funded from taxes – such as income tax, GST and company tax.

Local government is based in your local city or regional council and focuses on providing services for your city or region, such as roads, parks, libraries, rubbish collection, water and wastewater systems. Local government is funded from rates.

Government may also operate businesses that aim to make a profit. State Owned Enterprises (SOEs) are owned by central government – e.g. *Kiwibank*, *TVNZ*, *Landcorp*. Local Area Trading Enterprises (LATEs) are owned by local government – e.g. *Metrowater* in Auckland.



Voluntary and not-for-profit organisations

Voluntary and not-for-profit organisations provide goods and services that would not be supplied by firms or government. These include clubs and charities. They are funded through donations, grants and fundraising.

Goals of producers

All producers have goals. These may be commercial (i.e. focused on business success), or non-commercial.

Commercial goals could include:

- profit maximisation;
- cost reduction;
- sales maximisation;
- producing goods of a high quality;
- increasing market share (the proportion of the total market that buys the business's product).

Non-commercial goals could include:

- providing employment opportunities;
- minimising the business's impact on the environment;
- assisting local community groups;
- providing services not currently available in the community;
- satisficing – making an adequate (but not maximum) profit.

Internationally, there are several firms which are now choosing to focus on the *Triple Bottom Line*, known as 'people, planet and profit', which is a combination of commercial and non-commercial goals – i.e. community- and employee-related goals, environmental goals and profit goals.

Questions 2A: Producers and their goals

1. In the table below, draw a line from each of the listed New Zealand producers to the type of producer it is most likely to be.

Producer	Type of producer
a. Department of Social Development	i. Sole trader
b. Western Suburbs Hockey	ii. Partnership
c. Heart Foundation of New Zealand	iii. Company
d. Kate Laingholm Law	iv. Voluntary organisation
e. Whanganui City Council	v. Not-for-profit organisation
f. Fletcher Building Ltd	vi. Central government
g. Smith, Mackey and Associates	vii. Local government

2. a. Suggest likely goals for each of the following producers. Justify the goals that you have identified. (If necessary, do research about these producers to extend your answers.)

- i. Fletcher Building Ltd.

- ii. Pumpkin Patch.

- iii. Heart Foundation of New Zealand.

iv. Ministry of Education.

- b. *Hubbards Foods Ltd* is a cereal manufacturer in Mangere, Auckland. While the firm seeks to make a profit, it is known for policies such as hiring workers who have been unemployed for a long time and taking the entire staff to Samoa for a holiday.

Explain what goals you think the firm is trying to achieve with these policies.

3. a. Assume that in a particular market, firms earn the following sales revenue in 2011. Complete the table by calculating the *percentage* of the total market sales revenue that each one earned – this is its market share.

Sales revenue for 2011

Firm	Revenue (\$ m)	Percentage of total market sales (market share)
A	42	
B	17	
C	85	
D	6	

- b. The 'market leader' is typically the firm with the largest market share. Identify the market leader in this case, and justify your answer.

- c. Use the market share percentages to draw a pie graph showing the proportion of market sales made by each firm.

Choices producers make about resources

Resources are all those things used to make or provide a good or service. Producers must decide on the best combination of resources to use in order to achieve their goals.

Productive resources are grouped as follows.

- **Natural resources** – those resources that occur in the natural environment or are ‘gifts of nature’, such as grass, oil and sheep.
- **Human resources** – all human effort and input into the production process, such as workers and managers.
- **Capital resources** – human-made goods that can be used to make other goods or to provide services, such as tools, machinery and factory buildings.
- **Entrepreneurship** – the ability to take risks and organise all other resources in an organisation, usually with the goal of making a profit. Entrepreneurship is often included as a part of human resources.

Renewable and non-renewable resources

Natural resources will be either renewable or non-renewable.

Renewable resources are those natural resources that naturally regenerate (in a useful timeframe, such as plants and animals) or which cannot be used up (such as energy from the sun and wind).

Non-renewable resources are those natural resources that, once used, cannot be used again and do not regenerate, such as oil.

The idea of **sustainability** is important in Economics. Sustainability is often defined as ‘meeting the needs of the present without compromising the ability of future generations to meet their needs’. Even renewable resources, if over-used, will not regenerate quickly enough to meet the needs of future generations.

Resource combinations

Producers must decide which combination of resources will best achieve their goals. This may depend on what resources are available, the quality of the resources and the comparative cost of resources.

- A **labour-intensive** production process is one that uses relatively more human resources than capital resources.
- A **capital-intensive** production process is one that uses relatively more capital resources than human resources.

Cultural dimensions of resource use

Many natural resources in New Zealand have special significance to Maori, and, as a result, additional access and rights may apply to local iwi and hapu. Examples include fisheries, ownership of the foreshore and seabed and pounamu (New Zealand greenstone).

Questions 2B: Resources

1. a. Classify the following resources as either human, natural, capital or entrepreneurship.

Resource	Type of resource
i. Field	
ii. Corn seed	
iii. Computer	
iv. Fashion designer	
v. Electrician	
vi. Office building	
vii. Business owner	

b. For each of resources **ii.**, **iii.**, **iv.** and **vii.**, justify your answer.

ii. Corn seed _____

iii. Computer _____

iv. Fashion designer _____

vii. Business owner _____

c. Corn seed used by farmers today has been through a wide range of research and development, with manufacturers spending years developing seed that will produce the best crops possible. Explain why this corn seed might be considered to be a capital resource instead of a natural resource.

2. Each of the following people is a New Zealand entrepreneur. Find out which businesses and industry (or industries) they are associated with, then complete the table.

Name	Business	Industry
Diane Foreman		
Graeme Hart		
A J Hackett		
Jan Cameron		
Sam Morgan		
Karen Walker		
Mike Pero		
Mike Tamati		

Name	Business	Industry
Seeby Woodhouse		
Lisa Er		
Marc Ellis		

3. a. Classify each of the following resources as either renewable or non-renewable.

Resource	Renewable / Non-renewable
i. Pine trees	
ii. Sunlight	
iii. Coal	
iv. Water	
v. Diamonds	
vi. Snapper	
vii. Pounamu	

- b. Justify your answer in a. for each of the following.

i. Pine trees: _____

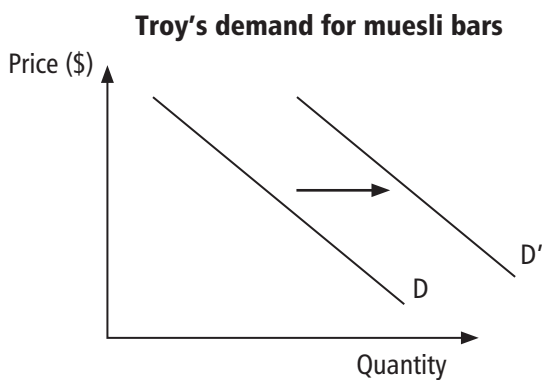
ii. Sunlight: _____

iii. Coal: _____

- c. Hoki is a type of fish caught off the coast of New Zealand. Concerns about overfishing have led to a Quota Management System (QMS) being put in place by the government, setting a limit, each year, as to how much hoki can be caught.

Explain how it is possible that this renewable resource could become to be considered non-renewable. Use the idea of sustainability in your answer.

4. a.



- b. • There has been an increase in demand, as sports drinks and muesli bars are substitute goods; i.e. each one is used instead of the other. As the price of sports drinks increases, muesli bars are better value, so Troy will buy more.
- As a result, Troy will consume more muesli bars compared with his consumption of sports drinks, though his total spending will stay approximately the same. He may choose to consume more tap water or other types of drink instead of sports drinks.

ANSWERS 1.2

Achievement Standard 90984

Questions 2A: Producers and their goals (page 38)

1.

Producer	Type of producer
a. <i>Department of Social Development</i>	vi. Central government
b. <i>Western Suburbs Hockey</i>	iv. Voluntary organisation
c. <i>Heart Foundation of New Zealand</i>	v. Not-for-profit organisation
d. <i>Kate Laingholm Law</i>	i. Sole trader
e. <i>Whanganui City Council</i>	vii. Local government
f. <i>Fletcher Building Ltd</i>	iii. Company
g. <i>Smith, Mackey and Associates</i>	ii. Partnership
2. a.
 - i. Profit maximisation – as *Fletcher Building Ltd* is one of New Zealand's largest companies with many shareholders, its main goal will be to maximise profits for those shareholders. To do this it may have additional goals, such as reducing costs and increasing its market share.
 - ii. Profit maximisation – as *Pumpkin Patch* is a company, it will be seeking to maximise profits for shareholders. Goals may include cost minimisation, maintaining the high quality of clothing sold, and expanding sales overseas.
 - iii. As a not-for-profit organisation, *Heart Foundation of New Zealand's* goals will include breaking even (i.e. matching expenses and income), increasing public awareness of relevant issues, and raising funds for heart research.
 - iv. The *Ministry of Education* is part of central government. Its main goal will be to effectively administer education throughout the country, and at all levels – i.e. from early childcare education to the education provided at tertiary institutions. Its other goals may be to provide these services within the budget that it has been given, and to improve the quality of education in New Zealand.

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