

**Economic Advantages of the European Union –  
An Inquiry into Economic Growth and Trade  
Relationships for European Union Member States**

## Student Formative Assessment

You are advised to spend 60 minutes answering these questions:

### QUESTION 1: Economic growth

- (a) The government is considering decreasing the interest rate. This is an example of:  
(circle the correct answer)

Fiscal policy

Monetary policy

- (b) Explain how a decrease of interest rates can **stimulate** economic activity:

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- (c) Explain, using an example, how the EU's energy policy can be a **restraint** on economic growth:

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(d) Identify and explain the economic impact that new countries joining the EU may have on existing EU Member States when it comes to:

(i) **International trade**

Impact: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Explanation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(ii) **Inflation**

Impact: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Explanation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(e) Explain the **link** between **tax cuts** and **interest rates**:

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

**QUESTION 2: Price stability**

(a) Describe how the EU controls price stability:

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(b) Describe what is meant by the **Official Cash Rate**:

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(c) Identify and explain ONE effect of an increase in interest rates on each of the following issues:

(i) **Economic growth**

Effect: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Explanation: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(ii) **International trade**

Effect: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Explanation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**QUESTION 3: Trade flows**

(a) Define the following terms:

(i) **Tariff** \_\_\_\_\_

(ii) **Quota** \_\_\_\_\_

(b) (i) Describe what a **Free Trade Agreement** is:

\_\_\_\_\_

(ii) Identify how the internal market works within the EU:

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

(c) Identify and explain ONE economic impact that new countries joining the EU have on New Zealand:

Impact: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Explanation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(d) (i) Identify TWO arguments for free trade:

First: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Second: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(ii) Identify TWO arguments for protectionism:

First: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Second: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(iii) What would be the most advantageous economic outcome for new countries joining the EU?

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