

91222



912220



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

2

SUPERVISOR'S USE ONLY

Level 2 Economics, 2012

91222 Analyse inflation using economic concepts and models

2.00 pm Monday 12 November 2012

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse inflation using economic concepts and models.	Analyse inflation in depth using economic concepts and models.	Analyse inflation comprehensively using economic concepts and models.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–8 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

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You are advised to spend one hour answering the questions in this booklet.

QUESTION ONE: THE AGGREGATE DEMAND AND SUPPLY MODEL

Complete questions (a)–(d) to comprehensively analyse the effects of an increase in business insurance costs and beef export earnings on inflation.

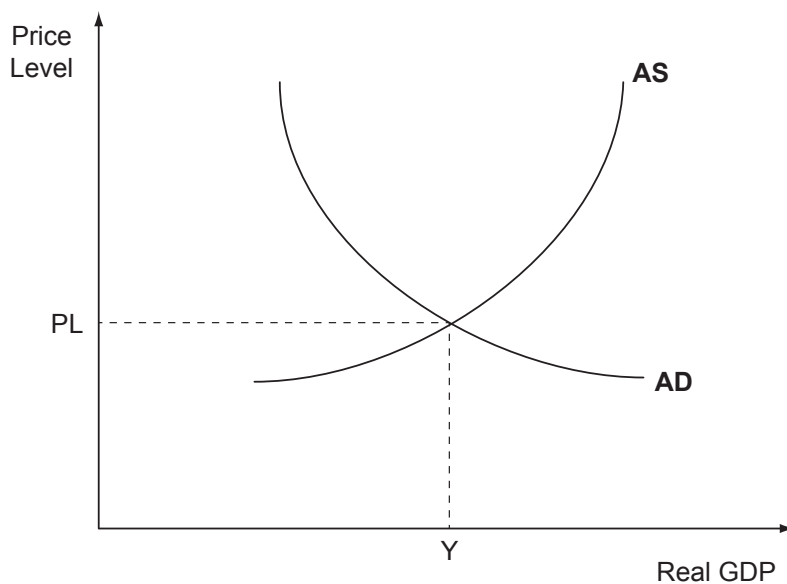
(a) Define **inflation**.

As a result of the Christchurch earthquakes thousands of New Zealand businesses are facing higher insurance costs.

Source (adapted): <http://www.stuff.co.nz/the-press/business/6219582/Casino-quake-excess-jumps-to-5m>

(b) On Graph One, show how an increase in insurance costs for New Zealand businesses could affect inflation. Fully label the change.

Graph One: AS/AD Model of the New Zealand Economy



(c) Explain in detail the change you made in (b).

Source (adapted): *The Dominion Post*, 14 January 2012

The diagram illustrates the AS-AD model. The vertical axis is labeled 'Price Level' and the horizontal axis is labeled 'Real GDP'. An upward-sloping curve is labeled 'AS' and a downward-sloping curve is labeled 'AD'. The two curves intersect at an equilibrium point. Dashed lines from this intersection point lead to 'PL' on the vertical axis and 'Y' on the horizontal axis.

QUESTION TWO: THE QUANTITY THEORY OF MONEY

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Complete questions (a)–(c) to comprehensively analyse the effect of changes in the money supply and consumer confidence on inflation.

- (a) Define each of the four variables used in the Quantity Theory of Money equation.

M: _____

V: _____

P: _____

Q: _____

The M3 measure of the money supply increased by \$12 602 million between April 2011 and April 2012.

Source (adapted): <http://www.rbnz.govt.nz/statistics/monfin/c3/download.html>

- (b) Using the Quantity Theory of Money, explain in detail how an increase in the money supply could affect the price level, assuming other variables remain constant.

Source (adapted): *The Dominion Post*, 20 December 2011

- refer to the Quantity Theory of Money
- explain in detail how a reduction in consumer confidence will affect the velocity of circulation
- explain in detail which of the two changes out of (i) and (ii) above will have a greater effect on the price level.

QUESTION THREE: EFFECTS OF INFLATION ON HOUSEHOLDS AND BUSINESSES

Complete questions (a)–(c) to comprehensively analyse the effects of a reduction in inflation on households and businesses.

Cheaper prices for some food items, consumer durables (eg televisions), and internet access are expected to drive inflation down.

Source (adapted): *The Dominion Post*, 16 January 2012

- (a) Explain in detail why cheaper prices for some food items, consumer durables, and internet access could cause **disinflation** but may not lead to **deflation**.

- (b) Explain in detail how households AND businesses could benefit from cheaper food, consumer durables, and internet access. In your answer, you should explain how the benefits to one of these two groups may have flow-on effects for the other group.

- (c) Compare and contrast the different effects of a reduction in inflation between:
- (i) a large business that employs 60 people and sells its goods mainly to overseas markets AND a small business that specialises in importing goods and selling them to the local market
 - (ii) a householder who owns a house with a fixed-interest-rate mortgage AND a householder who has a fixed income and \$60 000 savings in the bank.

Extra space if required.
Write the question number(s) if applicable.

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