

91222



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NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

2

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## Level 2 Economics, 2013

### 91222 Analyse inflation using economic concepts and models

2.00 pm Monday 11 November 2013

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 2–12 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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## QUESTION ONE: THE BUSINESS CYCLE

Source (adapted): [www.idealogue.co.nz/news/2011/08/inflation-unemployment-tipped-fall](http://www.idealogue.co.nz/news/2011/08/inflation-unemployment-tipped-fall)

(a) Explain in detail the impact of real output increasing on inflation.

- refer to the Quantity Theory of Money
- explain in detail how an increase in real output will affect the price level.

In your answer, explain in detail:

## QUESTION TWO: AGGREGATE DEMAND AND AGGREGATE SUPPLY

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"In 2010, New Zealand issued a series of tax reforms which included lower (personal) income tax rates".

Source (adapted): [www.business.otago.ac.nz/econ/econz/2010/econz\\_issue\\_25.pdf](http://www.business.otago.ac.nz/econ/econz/2010/econz_issue_25.pdf)

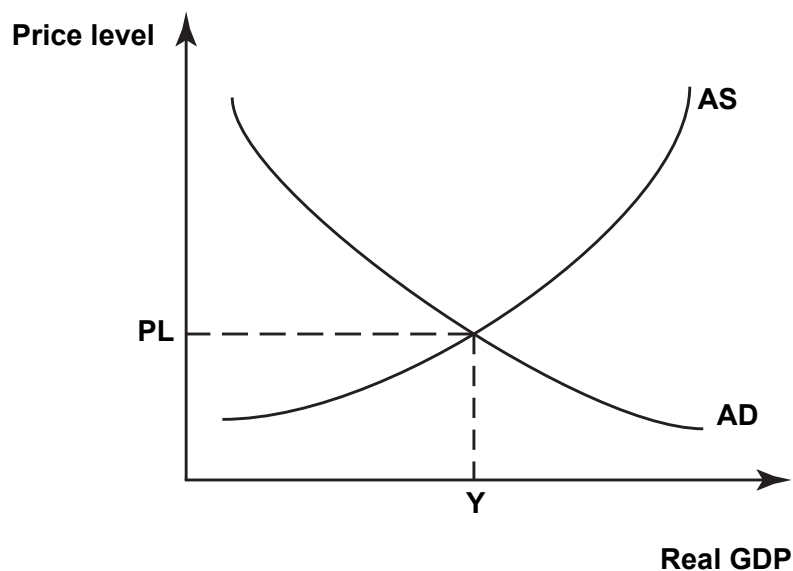
Complete (a) and (b) to comprehensively analyse the effects of lower income tax rates and interest rates on inflation.

(a) Explain in detail the impact on inflation, of lower personal income tax rates.

In your answer:

- fully label Graph One to show the impact of lower personal income tax rates on inflation
- explain in detail how lower personal income tax rates could affect inflation. Refer to the change you made on Graph One to support your answer.

**Graph One**

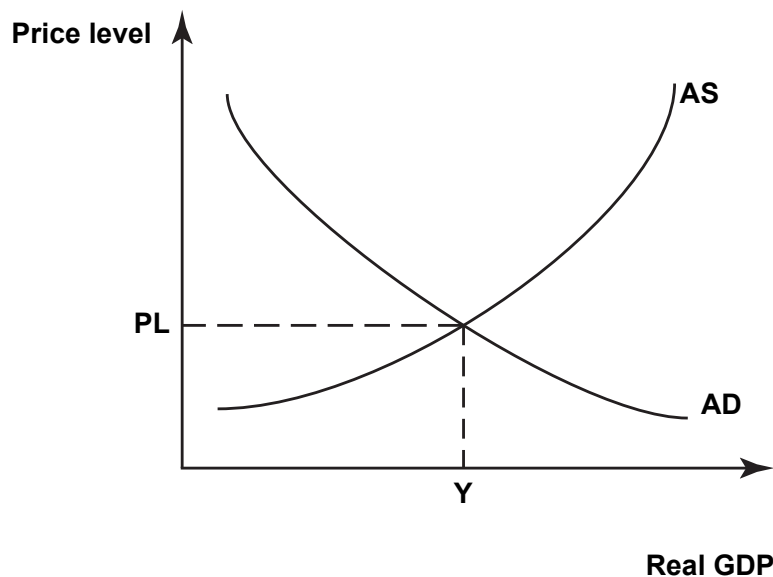


- (b) Compare and contrast the impact on inflation of lower personal income tax rates with the impact of lower interest rates.

In your answer:

- fully label Graph Two to show the impact of lower interest rates on inflation
- explain in detail how lower interest rates would affect inflation
- explain in detail how lower personal income tax rates may have a smaller or greater impact on inflation than lower interest rates
- refer to the changes you made on Graphs One and Two to support your explanations.

**Graph Two**





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The examination continues on the following page.**

“Annually, the CPI increased 0.9% in the year to the December 2012 quarter, due to increased prices for cigarettes and tobacco (up 13%), rentals for housing (up 2.4%), and electricity (up 5.2%)”.

Complete (a) and (b) to comprehensively analyse the effects of inflation on high- and low-income households.

- In your answer:

- explain in detail how the specific changes above might impact on low-income households
- refer to the resource material.



Source (adapted): [www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/CPI\\_inflation/ConsumersPriceIndex\\_MRDec12qtr.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/ConsumersPriceIndex_MRDec12qtr.aspx)

- In your answer:

- explain in detail how the price changes – stated in the resource material above – might impact on high-income households who own their own homes
- explain in detail which group – high-income or low-income households – might be more disadvantaged by the price changes stated in the resource material above, AND on page 8.



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

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