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Level 2 Economics, 2015

91222 Analyse inflation using economic concepts and models

2.00 p.m. Thursday 12 November 2015
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 2–11 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: CAUSES OF INFLATION

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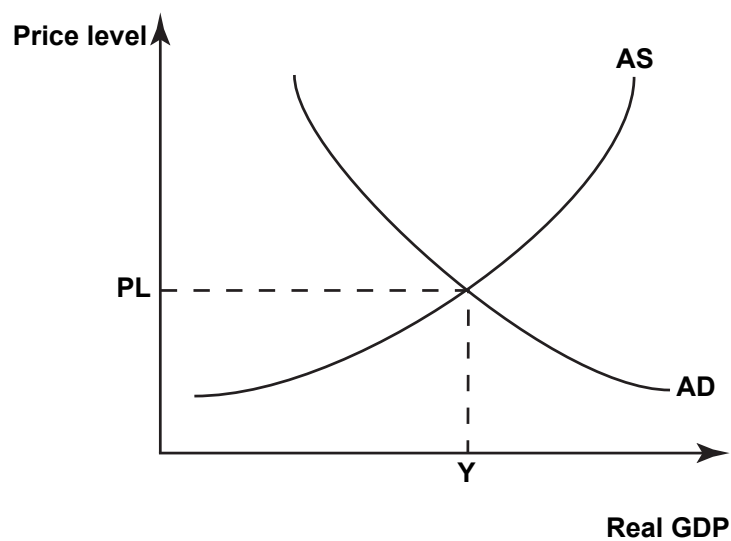
Surveys show 13% of tourists say the Hobbit films influenced their decision to travel to New Zealand. The surge in spending by tourists from premium markets such as Germany, the US, and the UK can be explained by film tourism.

Source (adapted): *The New Zealand Herald*, 7 January 2015, p. A15.

(a) Explain in detail the impact on inflation of the increase in film tourism in New Zealand. In your answer:

- use Graph One to show the impact of the increase in film tourism on inflation
- explain in detail how the increase in film tourism could affect inflation
- refer to the change you made on Graph One to support your answer.

Graph One: AD/AS model of New Zealand economy



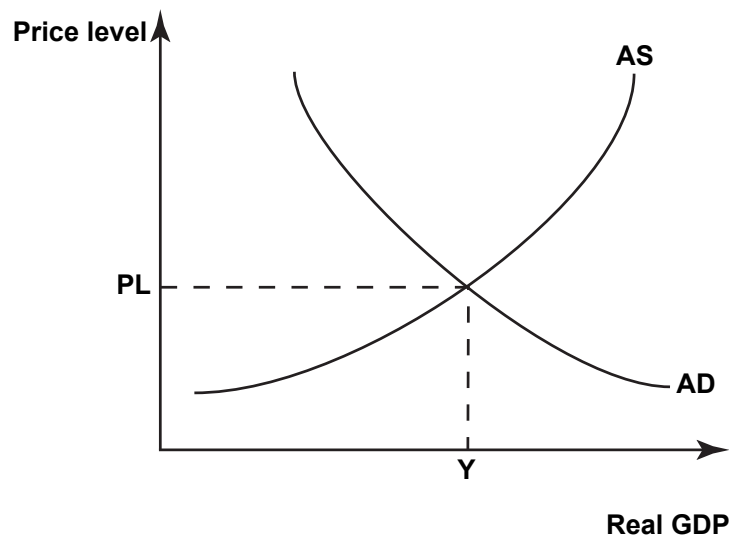
Government regulations will require all firms to undertake earthquake strengthening assessments and complete necessary strengthening by a given date. The total estimated costs for firms will be in excess of \$2 billion.

- (b) Compare and contrast the impact on inflation of the increase in film tourism with the impact of earthquake strengthening regulations.

In your answer:

- use Graph Two to show the impact of earthquake strengthening regulations on inflation
- explain in detail how earthquake strengthening regulations would affect inflation
- explain in detail how the increase in film tourism may have a smaller impact on inflation than earthquake strengthening regulations
- refer to the changes you made on Graph One and Graph Two to support your explanations.

Graph Two: AD/AS model of New Zealand economy



There is more space for your answer to Question One on the following page.

During 2014, the fall in export receipts represented an estimated \$6.1 billion reduction in dairy farming income, compared to the previous year in the New Zealand economy. Reductions in export receipts have an effect on the money supply.

- In your answer:

- explain in detail how reduced export receipts in the dairy industry will affect inflation
- refer to all the variables in the Quantity Theory of Money equation.

(b) Discuss how a permanent fall in export receipts in the dairy industry may affect inflation in the long run.

- explain in detail why real output in the Quantity Theory of Money may change when there is a permanent fall in dairy export receipts
- explain in detail the impact on inflation if there is a change in real output
- compare and contrast the overall impact on inflation between the initial decline in export receipts in the dairy industry in the short run, and the additional impact of changes in real output if the fall in export receipts remains permanent in the long run.

1. During 2014 daily early bird parking fees increased in price from \$13 to \$17 for council owned central city parking in Auckland.
2. House owners are feeling confident after learning their property values have increased significantly over the last three years. Increased confidence in their wealth means that home owners are willing and able to borrow more from banks to spend on new cars, boats, and home renovations.

(a) Explain in detail the different effects on the general price level measured by the Consumer Price Index (CPI) of an increase in price of early bird parking fees (a single product) and the increase in house values.

- explain why an increase in price of early bird parking fees may not cause a change in inflation
- explain in detail how the increase in house values as indicated in the resource material can result in a change in inflation.

(b) The business cycle results in periods of inflation and disinflation. Compare and contrast the impact of these periods of inflation and disinflation on various groups in New Zealand society. In your answer:

- explain the difference between inflation and disinflation
- explain in detail the impact of both inflation AND disinflation on savers
- explain in detail the impact of both inflation AND disinflation on the Government's operating balance.

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There is more space for your answer to
Question Three on the following page.

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

QUESTION
NUMBER

