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912220



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 2 Economics, 2016

91222 Analyse inflation using economic concepts and models

2.00 p.m. Tuesday 15 November 2016
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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“Weaker oil prices – depending on what’s happening with the New Zealand dollar – tends to put downward pressure on inflation,” said a Westpac senior economist.

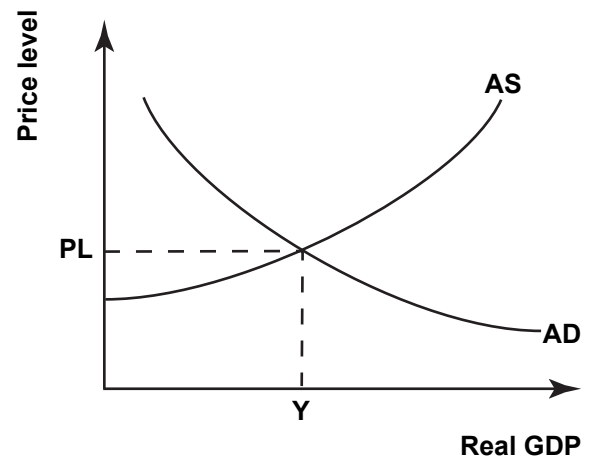
From 1 January 2016, the price of cigarettes will increase by 10 per cent, the fourth and final scheduled annual increase. The Government has yet to announce whether it will commit to further annual price increases but has said it wants to make the country smoke-free by 2025.

(a) Fully explain the different effects on the general price level measured by the Consumer Price Index (CPI) of weaker oil prices and an increase in the price of cigarettes.

- how weaker oil prices can result in a change in inflation
- why an increase in the price of cigarettes may not cause a change in inflation.

- (i)

Graph Two: AD/AS model of the New Zealand economy



Source: *The New Zealand Herald*, 8 January 2016, p. B14.

- (ii)

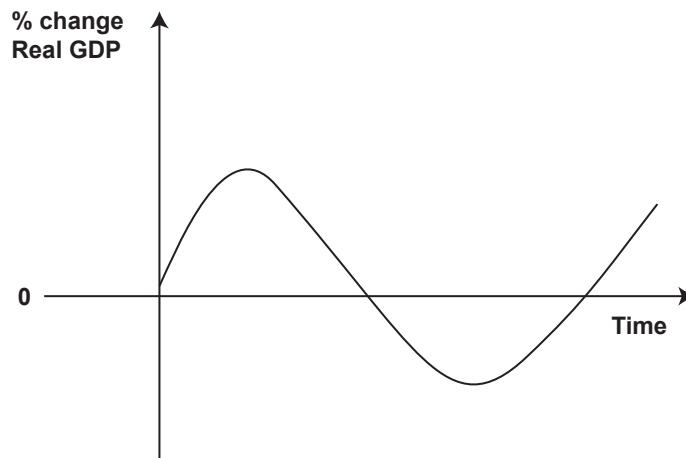
More space for this answer is available on the following page.

QUESTION TWO: THE BUSINESS CYCLE AND DEFLATION

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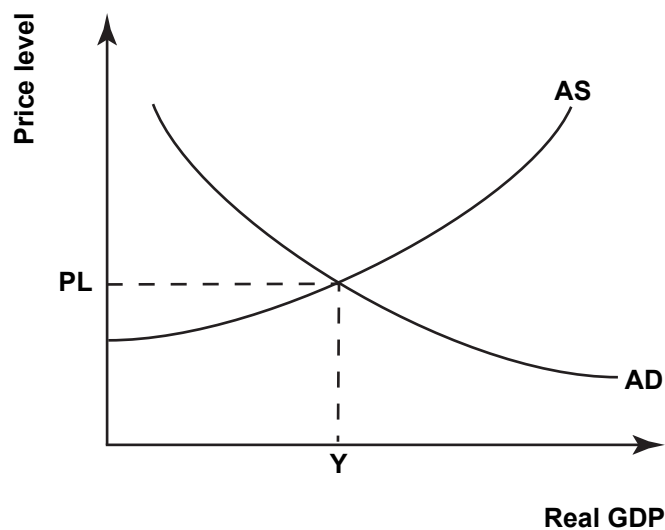
- (a) On Graph Three below, clearly label an example of a recession. Label this point **X**.

Graph Three: The Business Cycle



- (b) (i) On Graph Four below, show the effect of a recession on either the AD or the AS curve.

Graph Four: AD/AS model of the New Zealand economy



- (ii) Use Graph Four to fully explain how a recession may lead to a period of deflation. In your answer, include a definition of deflation.

More space for this answer is available on the following page.

A slowdown of growth in China

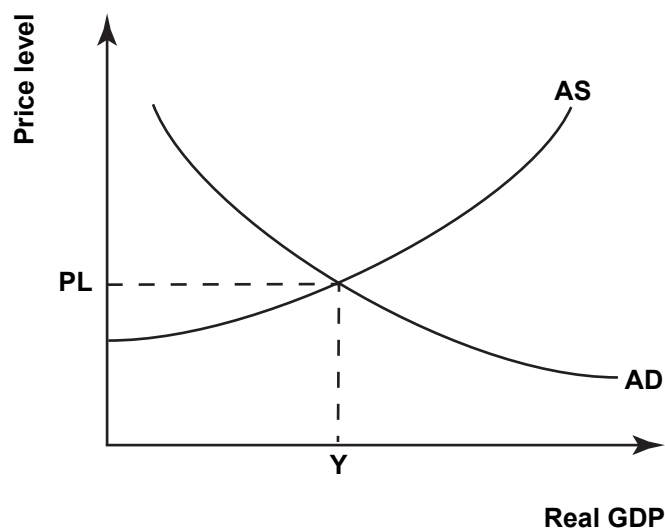
China is important to New Zealand as a trading partner. Australia and China are our main trading partners, and China is Australia's main trading partner. Therefore, any downturn in China will impact directly or indirectly on demand for our exports.

Source (adapted): http://www.rbnz.govt.nz/research_and_publications/speeches/2015/6012526.html

The downturn in China is likely to have a smaller impact on price levels than a recession in New Zealand.

- (c) On Graph Five below, show the impact of a downturn in China on either the AD or the AS curve.

Graph Five: AD/AS model of the New Zealand economy



- (d) Use Graphs Four and Five to fully explain why a downturn in China is likely to have a smaller impact on price levels than a recession in New Zealand.

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The rate of inflation in New Zealand has, in recent years, been at historically low levels and has been falling. This is evidence of a period of disinflation. There is real concern about the possibility of deflation and its potential effects on the economy.

- younger people saving to buy a first home AND older people in retirement who use their savings as a source of interest income
- New Zealand businesses producing for the New Zealand market AND New Zealand businesses producing for export.

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

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