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91222



# Level 2 Economics, 2017

# 91222 Analyse inflation using economic concepts and models

2.00 p.m. Monday 20 November 2017 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

#### QUESTION ONE: CAUSES OF INFLATION

(a)

(i)

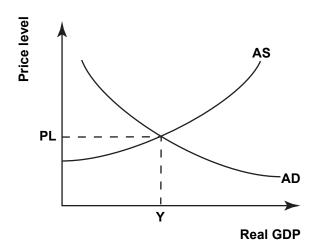
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The Government wants to make New Zealand conservation land predator-free by 2050, increasing budget funds to target the eradication of all pests that threaten New Zealand's native birds.

 $Source\ (adapted): http://www.stuff.co.nz/environment/82454116/government-sets-target-to-make-new-zealand-predatorfree-by-2050$ 

This should have the added benefit of attracting more tourists to New Zealand.

#### Graph One: AD/AS model of the New Zealand economy

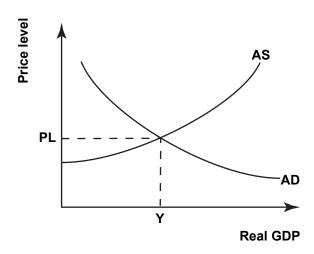


On Graph One, show the impact of the government programme to make New Zealand

	conservation land predator-free by 2050.
(ii)	Using Graph One, fully explain the impact on inflation of the government programme

Along with the increase in residential house prices, there has been a similar increase in commercial property prices and business rental costs. During 2016, these price increases spread from the major cities to smaller towns and rural areas in New Zealand.

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



(b) (i) On Graph Two, show the impact of the increase in prices and rental costs of commercial property in New Zealand.

(ii)

Using Graph Two, fully explain the impact on inflation of the increase in prices and rental costs of commercial property in New Zealand.

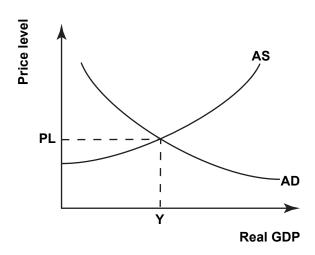
property in New Zealar	nd in part (b).	

#### **QUESTION TWO: RECOVERY AND INFLATION**

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Economic forecasts suggest that New Zealand will experience inflation throughout 2017, increasing to 2.2% by 2020, after hitting a low of 0.1% in January 2016. This increase in inflation is expected to come from the economy experiencing a recovery and growing through increased consumer and business confidence.

## Graph Three: AD/AS model of the New Zealand economy



(a)	(i)	On Graph Three	show the impact of a recov	very on the Aggregate Demand curve.

Using Graph Three, fully explain how a recovery could lead to a period of inflation.					

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From 2014 to the start of 2016, the New Zealand economy experienced a period of disinflation. Projections by economic forecasters suggest that from the beginning of 2016 until 2020, there will be steady and constant inflation in the New Zealand economy.

Source (adapted):http://www.tradingeconomics.com/new-zealand/inflation-cpi/forecast (accessed 17 January 2017)

Compare and contrast the effects of a period of steady and constant inflation on:					
<ul> <li>New Zealand export firms compared to New Zealand import firms</li> </ul>					
<ul> <li>New Zealand savers compared to New Zealand borrowers.</li> </ul>					
'					

# QUESTION THREE: THE IMPACTS OF INFLATION

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Forecast figures from Treasury indicate the possibility of a decrease in real wages during 2017.

Source (adapted): http://www.treasury.govt.nz/economy/overview/2016/10.htm

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New measures of inflation being developed for groups of households by the Statistics Department will provide greater insight into the inflation experienced by these household groups.

 $Source\ (adapted): http://www.stats.govt.nz/browse\_for\_stats/economic\_indicators/prices\_indexes/HouseholdLivingCostsPriceIndexes\_HOTPSep16qtr$ 

Table One: Household living cost inflation rates

Household group	Average rate of inflation between 2008 and 2016	Cumulative rate of inflation between 2008 and 2016	Major items in household spending basket 2014 (approx. % of total spending)
Superannuitants	2.375 %	19.0 %	Housing 42 Transport 9 Clothing 1.5
Top 20 % of Households by expenditure	1.137 %	9.1 %	Housing 15 Transport 17 Clothing 5
National average (CPI)	1.625 %	13.0 %	

 $Created \ from \ figures \ available \ from \ http://www.stats.govt.nz/browse\_for\_stats/economic\_indicators/prices\_indexes/HouseholdLivingCostsPriceIndexes\_HOTPSep16qtr$ 

D)	(1)	household groups have experienced a rate of inflation different from the national average.

The question continues on the following page.

• ;	are and contrast the impact of inflation on the living standards of: superannuitants
	AND
	the top 20% of households by expenditure
2016.	ncomes of both groups increased by the same percentage between 2008 and

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