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NEW ZEALAND QUALIFICATIONS AUTHORITY
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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

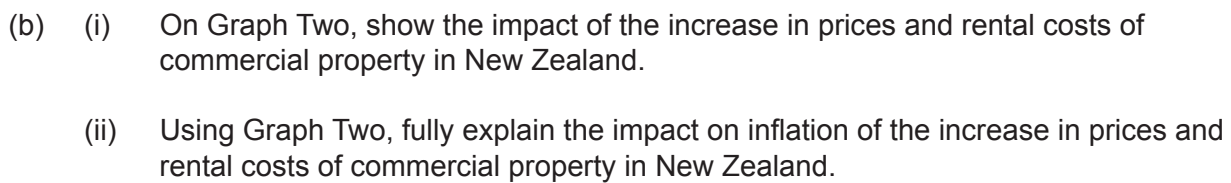
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The Government wants to make New Zealand conservation land predator-free by 2050, increasing budget funds to target the eradication of all pests that threaten New Zealand's native birds.

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

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.

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



- (iii) Fully explain why the impact on inflation of the government programme in part (a) may be less than the impact of increases in the price and rental costs of commercial property in New Zealand in part (b).

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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.

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

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

(a) Fully explain how real wages can fall even when there is an increase in nominal wages. In your answer, include a definition of nominal wages and real wages.

Source (adapted): http://www.stats.govt.nz/browse_for_stats/economic_indicators/prices_indexes/HouseholdLivingCostsPriceIndexes_HOTPSep16qtr

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

Economics 91222, 2017

(ii) Compare and contrast the impact of inflation on the living standards of:

- superannuitants

AND

- the top 20% of households by expenditure

if the incomes of both groups increased by the same percentage between 2008 and 2016.

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

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