Assessment Schedule – 2014

Economics: Demonstrate understanding of macro-economic influences on the New Zealand economy (91403)

Assessment criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding involves: • providing an explanation of the current state of the New Zealand economy in relation to macro-economic goals • identifying, defining, calculating, and describing or providing an explanation of macro-economic influences on the New Zealand economy • using an economic model(s) to illustrate concepts relating to macro-economic influences on the New Zealand economy.	*Demonstrate in-depth understanding* involves: • providing a detailed explanation of macro-economic influences on the New Zealand economy • using an economic model(s) to illustrate complex concepts and / or support detailed explanations of macro-economic influences on the New Zealand economy.	*Demonstrate comprehensive understanding* involves: • comparing and / or contrasting: – the effectiveness of one government policy in achieving different macro-economic goals and / or the effectiveness of different government policies in achieving one macro-economic goal – the impacts of one macro-economic influence on the New Zealand economy in relation to different macro-economic goals and / or the impacts of different macro-economic influences on the New Zealand economy in relation to one macro-economic goal • integrating an economic model(s) into explanations of macro-economic influences on the New Zealand economy that compares and / or contrasts the impacts on macro-economic goal(s).

Note:

Explanation involves giving a reason for the answer.

Detailed explanation involves giving an explanation with breadth (more than one reason for the answer) and / or depth (eg using flow-on effects to link the main cause to the main result).

Each question should be read as a whole before awarding a grade.

Evidence Statement

Question One	Sample answers / Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	(i) See **Appendix One**. • New curves labelled • Increase in P labelled P_1 (ii) Overseas investors will seek relatively higher returns in New Zealand, so will buy more $NZ, increasing the demand to $D_{\$NZ1}$. Investors will keep investments in New Zealand to take advantage of the relatively higher returns in New Zealand over Australia, so will sell less $NZ, decreasing the supply to $S_{\$NZ1}$.	(i) Shift in D$NZ to right, and shift in S$NZ to left. (ii) Increase in demand explained OR decrease in supply explained – returns higher in New Zealand over Australia OR increased overseas investor OR earn more interest OR more attractive.	(i) Shift in $D_{\$NZ}$ to right, and shift in $S_{\$NZ}$ to left. (ii) Increase in demand explained *AND/OR* decrease in supply explained – returns higher in New Zealand over Australia, with reference to curve shifts in graph.	
(b)	*Tourism* An appreciation in the $NZ exchange rate makes the $NZ more expensive to buy in overseas currency. This makes spending money in New Zealand more expensive for Australians. Australians will be less likely to come to New Zealand, or may spend less money when in New Zealand, which reduces revenue for tourism operators. *Current account* Producer sector will sell less exports to the overseas sector, decreasing the flow of exports overseas, and export receipts into the producer sector. Imports become cheaper, so the flow of imports into the producer sector will increase, and the flow of import payments to the overseas sector will increase. The net result on the current account when export receipts decrease, and import payments increase, is a decrease in the current account. The deficit will increase, moving away from the government goal of balanced current account.	• $NZ becoming more expensive in $AUS (appreciation). • Tourism operators receive less revenue (or profits) from either fewer Australian tourists or Australian tourists spending less money in New Zealand, or less demand for services. • Increase in imports or import payments, as imports become cheaper. **AND/OR** Decrease in exports or export receipts, as exports become more expensive overseas. **OR** Current account deteriorates because X (receipts) decrease, and M (payments) increase.	• $NZ becoming more expensive in $AUS (appreciation). • Tourism operators receive less revenue (or profits from either fewer Australian tourists or Australian tourists spending less money in New Zealand), or less demand for services. • Increase in imports or import payments, as imports become cheaper, while exports or export receipts decrease, since exports become more expensive overseas. Current account deteriorating explained, as due to an increase in import payments and a decrease in export receipts.	• $NZ becoming more expensive in $AUS (appreciation). • Tourism operators receive less revenue (or profits from either fewer Australian tourists or Australian tourists spending less money in New Zealand), or less demand for services. • Increase in imports or import payments, as imports become cheaper, while exports or export receipts decrease, since exports become more expensive overseas. Current account deteriorating explained, as due to an increase in import payments and a decrease in export receipts.

	Economic growth Economic growth is the increase in production of all goods and services in New Zealand. An appreciation in the $NZ exchange rate results in less exports to be sold / produced and an increase in imports. Because there could be more unemployment and, therefore, less income, there will be less spending / production of consumer goods. Investment may decrease, because of lower business expansion due to lower incomes and lower demand for exported goods. Economic growth will decrease. **BUT** appreciation of $NZ leads to cheaper imported raw materials so firms' costs of production decrease leading to increased willingness to supply goods at each price level so AS increases, reducing the negative impact on economic growth. *Comparison of impacts* Exchange rates primarily impact on the trade sectors of the economy (exports and imports of goods and services), which are major components of the current account. Economic growth includes all sectors of the economy, including the government sector, which is not directly impacted by the exchange rate – for example, government spending may increase, or interest rates may decrease, which might offset the negative effects of an appreciation of the exchange rate. Therefore, an appreciation is likely to have a lesser effect on economic growth.	Idea of Economic growth will decrease as less production of exports, or reduced investment. **OR** X (or [X–M]) decrease which is a component of AD so AD decrease which decreases economic growth	Economic growth will decrease, as less production of exports and flow-on effects of less consumer spending because less resources are used / less incomes are earned, causing a decrease in production of consumer goods or some other flow-on effect from Circular Flow Model – two flows from CFM explained.	Economic growth will decrease, as less production of exports and flow-on effects of less consumer spending because less resources are used / less incomes are earned, causing a decrease in production of consumer goods or some other flow-on effect from Circular Flow Model – two flows from CFM explained. Idea of exchange rates having a major impact on the current account, whilst exchange rate has a partial impact on economic growth, as economic growth can be influenced, particularly by the government (OR impact on price of imported raw materials reduces negative impact on economic growth), which can negate any effects of an exchange rate appreciation.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence, partial explanations.	Some Achievement evidence	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Excellence evidence. Most points covered.	Excellence evidence. One part may be weaker.

N0 = No response; no relevant evidence.

Question Two	Sample answers / Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	The multiplier must be 4 so 1 / (1–MPC) = 4. 1 – MPC = 0.25, MPC = 0.75 or MPS = 0.25. The injection of $5 billion becomes income of firms or households. 0.75 of the $5 billion (or $3.75 billion) is then spent to become further income of other households or firms, then a further 0.75 of the $3.75 billion (or $2.81 billion) is then spent, and so on – until the increase in total spending is $20 billion.	• The multiplier must = 4. *OR* MPC = 0.75. *OR* MPS = 0.25. • The idea that the $5 billion becomes income, of which 0.75 is spent, and so on.	The idea that the $5 billion becomes income, of which 0.75 is spent, and so on – with figures given, and the end result a total increase in spending (or income) of $20 billion. (Reference to figures.)	The idea that the $5 billion becomes income, of which 0.75 is spent, and so on – with figures given, and the end result a total increase in spending (or income) of $20 billion. (Reference to figures.)
(b)	Savings is income not spent, and consumption is the spending on goods and services. When interest rates are lower, there is a disincentive to save, so savings will decrease, leading to greater consumption. Consumers will also borrow more, so consumption will increase. Lower interest rates increase income of firms from the increased consumption; this income will be spent, creating a multiplied effect throughout the economy. Because savings will decrease, the MPS will decrease. When MPS decreases to be less than 0.25 (or MPC will increase to be above 0.75), the spending multiplier will increase, which increases the multiplier effect to above 4. Increased government spending (G) will not increase the multiplier. In this case, 25 per cent will be saved. The multiplied effect of government spending will likely be less than the additional spending, caused by lower interest rates, multiplied by greater than 4.	• Savings will decrease, leading to greater consumption. • Lower interest rates are also an incentive to borrow for consumption • When interest rates decrease, economic growth increases	• Lower interest rates are a disincentive to save. Savings will decrease, and consumption will increase because of lower return • Lower interest rates are also an incentive to borrow for consumption because of lower cost of interest. [These need a link to growth] • Detailed explanation of re-spending idea.	• Lower interest rates are a disincentive to save. Savings will decrease, and consumption will increase because of lower return • Lower interest rates are also an incentive to borrow for consumption because of lower cost of interest. [These need a link to growth] The multiplier will increase to above 4 because MPC will increase above 0.75 OR MPS will decrease below 0.25. Government spending will not increase total spending by as much, because multiplier stays at 4 plus 0.25 of G is saved. And, decrease in interest rates will influence a greater

				proportion of economic activity (C & I) to increase by increasing MPC above 0.75, creating a bigger impact on economic growth.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence, partial explanations	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Excellence evidence. Most points covered.	Excellence evidence. One part may be weaker.

N0 = No response; no relevant evidence.

Question Three	Sample answers/Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	(i) See **Appendix Two**, increase in AD to AD_1. (ii) An increase in business confidence affects the level of investment (I) in the economy. Investment is firms spending on capital goods; and with increased business confidence in future profits or sales, firms are more likely to borrow funds for business expansion, or replacing or upgrading old equipment, etc. Investment is a component of aggregate demand. As I increases, AD will increase, causing the shift from AD to AD_1 on the graph. Business confidence impacts on I, as firms borrow to increase production *OR* upgrade and replace capital goods, which increases, causing AD to increase to AD_1. The shift in AD will be inflationary. As firms increase investment, the quantity supplied will increase, as shown by the shift of the AD curve up the AS curve. Because of the placement of the AD curve on the AS curve closer to the Y_f line, any increase in AD will cause a big increase in the price level (PL). This is because resources are becoming scarce and, therefore, more costly – so any increase in output causes price rises, as firms look to retain profitability. The Government goal of price stability is to target 1–3% inflation. If the shift causes inflation above 3%, the Government's goal will not be met.	AD increased to AD_1. • New AD labelled • Increase in PL and Y labelled Business confidence impacts on I, which increases, causing AD to increase. Shift in AD causes inflation or reduced price stability as a shift up the AS curve (or closer to the Y_f line).	AD increased to AD_1. Business confidence impacts on I, as firms borrow to increase production (*OR* upgrade and replace capital goods, which increases), causing AD to increase to AD_1. Because of increased expected future sales or increased future profits. Shift in AD is inflationary (PL increase), because • reference to the proximity to Y_f line **OR** • the idea of resources becoming scarce (or more expensive) / the economy is booming / large scale investment due to bus confidence at 20 year high (page 7 resource material) [Valid reason] • **SO** More difficult to obtain (more likely to breach 3% upper limit) Government's goal of price stability (1–3%).	
(b)	See **Appendix Three** – increase in AD and a decrease in AS. Must show PL increasing to PL_2. Shift in Y depends on the amount of the shift in AD and AS, so not required as evidence. Wage growth and falling unemployment impact on both AD and AS, as shown on the diagram. Both cause incomes to rise, which causes an increase in consumer spending (C).	**Appendix Three** – Increase in AD *AND / OR* decrease in AS shown: • AD and / or AS labelled • Increase in PL and new Y labelled Wage growth and **(OR)** falling unemployment leads to	**Appendix Three** –Increase in AD *AND* decrease in AS shown. • AD and / or AS labelled • Increase in PL and new Y labelled Wage growth and falling unemployment causes increased C because of increased	**Appendix Three** –Increase in AD *AND* decrease in AS shown. • Wage growth and falling unemployment causes increased C because of increased (disposable) incomes (OR I reason)

	C is a component of AD – so any increase, ceteris paribus, will cause AD to increase to AD_1. The increase will flow on to more I from firms to increase production to satisfy the increased consumer demand. AS decreases, as wages are a cost of production for firms. When costs increase, there is a decrease in production at each price level, as shown by the decrease in AS to AS_1. Both the increase in AD and the decrease in AS act against each other. The decrease in AS slows the positive impacts of the increase in AD. However, as the decrease in AS will be less than the increase in AD, since both C and then I (both large components of AD) will increase, there will still be economic growth, as shown by the shift from Y to Y_2. (Depends on curve shifts. Answer should be consistent with changes to Graph Three.) Both a decrease in AS and an increase in AD cause price levels to rise. The Government has a goal of keeping inflation between 1% and 3%. If the PL increase is greater than 3%, then the Government's goal of price stability won't be met.	increased C (*OR* increased I from firms wanting to increase output) which increases AD *OR* Wage growth increases costs of production, (or decreased profitability) which decreases AS *OR* A decrease in AS, or an increase in AD, causes inflation / less price stability. [Consistent with AD/AS model.] OR Change in economic growth explained – economic growth increases because Real GDP (or Y) increases. [Consistent with AD/AS model.]	(disposable) incomes (OR I reason) increasing AD OR Wage growth increases costs of production, decreasing firms' profitability / making them less willing to supply at each price level which decreases AS OR The shift to the right of the AD curve and shift left of the AS counteract each other but equilibrium output shifts from Y to Y_2. The increase in output is economic growth *OR* Both the decrease in AS and increase in AD are inflationary (reduce price stability), as shown by PL rising to PL_2.	increasing AD • Wage growth increases costs of production, decreasing firms' profitability / making them less willing to supply at each price level which decreases AS • Both the decrease in AS and increase in AD are inflationary (reduce price stability), as shown by PL rising to PL_2. • The shift to the right of the AD curve and shift left of the AS counteract each other but equilibrium output shifts from Y to Y_2. The increase in output measured by an increase in GDP is economic growth. • AD shift is bigger than AS shift because C & I bigger components / economy is booming so growing *AND* • Both the decrease in AS and increase in AD are inflationary, as shown by PL rising to PL_2. • The Government goal of price stability won't be met if the PL increase is over 3% on average, over the medium term.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence, partial explanations.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence. (a) or (b)	Most Merit evidence. (a) or (b)	Excellence evidence. Most points covered.	Excellence evidence. One part may be weaker.

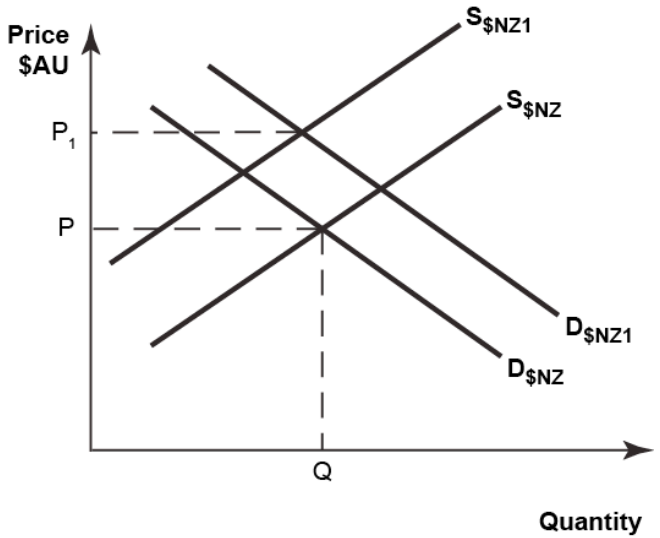
N0 = No response; no relevant evidence.

Cut Scores

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 7	8 – 12	13 – 18	19 – 24

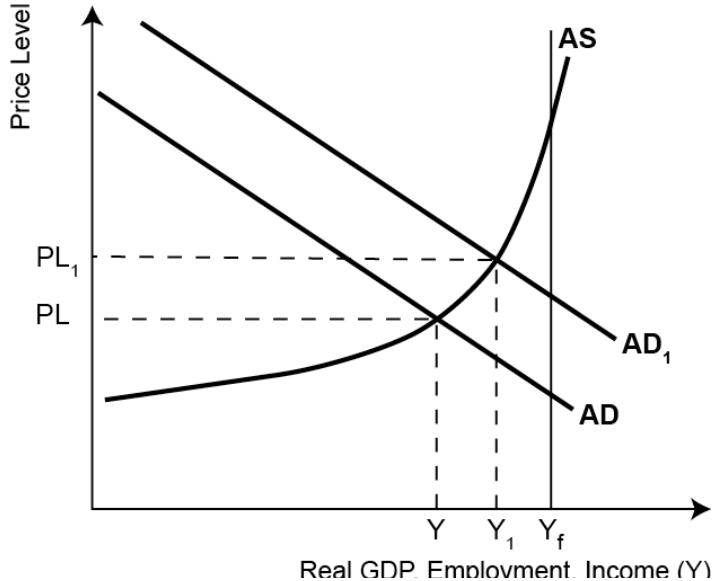
Appendix One – Question One (a)

Graph One: The market for the New Zealand dollar



Appendix Two – Question Three (a)

Graph Two: The New Zealand economy



Appendix Three – Question Three (b)

Graph Three: The New Zealand economy