Assessment Schedule – 2021

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

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrating **understanding** of macro-economic influences on the New Zealand economy involves:	Demonstrating **in-depth understanding** of macro-economic influences on the New Zealand economy involves:	Demonstrating **comprehensive understanding** of macro-economic influences on the New Zealand economy 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	• providing a detailed explanation of macro-economic influences on the New Zealand economy	• 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
• using an economic model(s) to illustrate concepts relating to 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.	• 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).

Evidence

Q1	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	Border restrictions limit the movement of people, goods, and services between New Zealand and other parts of the world. Since international tourism and education make up a fifth (20%) of New Zealand's export receipts, the continued border restrictions significantly reduce NZ's export earnings. This means that the revenue decreases for **firms** in these industries and related industries such as restaurants, accommodation, and transport providers due to a lack of demand. Firms reduce output, which means fewer workers are required, hence **households**' income decreases through loss of jobs or hours being cut. With less income, households cut back on spending, reducing consumption spending. With less income, households will also have less to save, limiting the funds available for the **financial sector** to lend out to firms for investment. With less household income, the **Government** receives less income tax, limiting its capacity to spend. With less income, households will also demand fewer imported goods, and with overall lower output, firms will not require as many imported materials, leading to less import payments going to the **overseas sector.** (*Accept other valid explanations.*)	Demonstrates understanding by explaining: • a reason for the decrease in export receipts • the flow-on effects to any TWO of the sectors.	Demonstrates in-depth understanding by explaining: • a reason for the decrease in export receipts • the flow-on effects to four of the five sectors, using accurate economic terminology.	
(b)	See Appendix.	Demonstrates understanding by: • accurately shifting $D_{\$NZ}$ to the left OR $S_{\$NZ}$ to the right, (OR doing both) with a lower price of the NZ dollar labelled.		

(c)(i)	See Appendix.	Demonstrates understanding by: • accurately shifting AD_2 to the right of AD_1, with an output level higher than Y_1, labelled (Y_2)		
(ii)	Reducing border restrictions will increase the movement of people, goods, and services between New Zealand and other parts of the world. Since international tourism accounts for a significant proportion (20%) of New Zealand's export receipts, the increase in export receipts should outweigh the increase in import payments resulting in an increase in net exports (X–M). As (X–M) is a component of AD, this will increase AD (as shown by the shift of AD to the right to AD_1), resulting in an increase in real output from Y_e to Y_1, leading to economic growth. In contrast, lowering the OCR may be more effective in promoting growth as it increases more components of the AD equation, therefore shifting AD further to the right (as shown by the shift to AD_2), resulting in a larger increase in real output from Y_e to Y_2 (compared to increase from Y_e to Y_1), leading to greater economic growth. This is because the decrease in interest rates due to the lowering of OCR will increase consumption and investment as well as net exports, as the cost of borrowing decreases for firms and consumers. Lower interest rates also mean lower returns for savings, leading to consumers foregoing saving in favour of increasing current consumption. Net exports increase due to the depreciation of the NZ dollar (from R to R_1) as export receipts increase due to the demand for NZ exports increasing as they become more price competitive, while import payments decrease due to the demand for imports decreasing as they become relatively more expensive for NZ firms and consumers. As there are three components of AD directly increased by the lowering of the OCR, the increase in AD will outstrip that caused by the reducing of border restrictions,	• explaining a reason for the increase in AD resulting in an increase in real GDP / output.	Demonstrates in-depth understanding by explaining: • a reason for the increase in AD due to increase in net exports from reduced border restrictions, leading to an increase in real GDP/output • a reason for the increase in AD due to increase in consumption OR investment OR net exports from the OCR decrease, leading to an increase in real GDP / output. Some reference is made to the graph(s).	Demonstrates comprehensive understanding by explaining reasons for the increase in AD that support the larger increase in real GDP resulting from lower OCR. Uses correct economic terminology and makes accurate references to the graph(s).

	resulting in a greater increase in real GDP, hence more effective in achieving the Government's goal of economic growth. *(Accept other valid explanations, such as AS decrease.)*			

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

N0 = No response; no relevant evidence.

Q2	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)(i)	See Appendix.	Demonstrates understanding by: • identifying a point anywhere on the downward section of the business cycle	Demonstrates in-depth understanding by:	
(ii)	The business cycle has four stages, which are commonly called recovery / growth, peak / boom, downturn / recession, and trough. The resource material indicates that NZ is experiencing a decline in economic activity with low business confidence and businesses expecting lower profits and expecting to produce less. They are therefore needing fewer resources, meaning demand for labour is decreasing (high unemployment). Capacity utilisation is down, indicating surplus of resources. This means that the economy is in the recession phase, shown on the business cycle where real GDP is falling over time.	• identifying the four stages of the business cycle • explaining why NZ is in the recessionary phase.	• linking the marked recessionary position with a fall in real GDP • supporting the recessionary position with both low production and low employment (surplus of resources).	
(b)(i)	See Appendix.	Demonstrates understanding by:	Demonstrates in-depth understanding by explaining:	
(ii)	The decrease in business confidence means firms are not positive about their future prospects or expectations of future sales and their chances of making sufficient profits to justify new investment. This leads to a decrease in the level of investment (I). Investment is a component of AD, so a decrease in I results in AD decreasing, shifting to the left, AD to AD_1. This will result in a decrease in the price level from PL to PL_1 and a decrease in real GDP from Y to Y_1. With less output being produced, firms will require fewer workers, leading to decreased employment.	• accurately shifting AD to the left to AD_1, with a lower price level and lower real GDP labelled • explaining why I decreases • explaining employment decreases due to lower real GDP.	• why I decreases and I being a component of AD hence AD decreases, resulting in lower price level and real GDP, linking lower GDP to decreases in employment • some reference to the graph.	

(c)(i)	See Appendix.	Demonstrates understanding by: • accurately shifting AD_2 to the left of AD, with a price level lower than PL, labelled (PL_2) and an output level lower than Y, labelled (Y_2)		
(ii)	The decrease in price level from PL to PL_2 in Graph Four is larger than the decrease from PL to PL_1 in Graph Three. This is because closer to the economy approaching full employment (upper section of AS, i.e., closer to peak / boom stage of the business cycle), resources become scarce and in order for firms to increase output they will need to pay more for these resources (e.g. overtime rates). This means that when firms decrease output, they stop paying the overtime rates. In contrast, when the economy is operating with plenty of spare capacity at low levels of output as in Graph Three (lower section of AS, i.e., in a recession / downturn stage of the business cycle) there is little competition for resources, hence no overtime rates. When output levels decrease under these circumstances, the decrease in wage costs is minimal (wage rates are "sticky downwards", e.g., firms cannot pay workers less than their contractual rate or minimum wage) as in Graph Three, where there is little room for firms to reduce their prices, hence the smaller price drop, compared to the significant decrease in wage costs when firms that did pay overtime rates stopped doing so, as in Graph Four. In terms of the Government's goal of price stability, i.e., keeping inflation rate within the Policy Targets Agreement range of 1% to 3% over the medium term, the decrease from PL to PL_1 in Graph Three with smaller price changes would help keep inflation within this range more easily than in Graph Four. As output decreases, firms will require fewer workers and employment decreases. The decrease in employment is greater in Graph Three compared to Graph Four, directly linked to the decrease in real GDP being greater in Graph Three (Y to Y_1) compared to the decrease from Y to Y_2 in	• identifying that the price decrease is greater in Graph Four • identifying that the decrease in real GDP OR employment is greater in Graph Three.	Demonstrates in-depth understanding by explaining: • a reason for the larger decrease in price level due to the change happening on the different sections of AS • a reason for the larger decrease in employment level due to the larger decrease in real GDP happening on the lower section of AS. Some reference is made to the graph(s).	Demonstrates comprehensive understanding by explaining: • the reason for the larger decrease in price level linked to the economy operating near full capacity / boom stage of the business cycle (overtime rates) • the reason for the smaller decrease in price level linked to the economy operating with plenty of spare capacity / recession • the reason for the greater decrease in employment linked to the larger decrease in real GDP • employment decreases due to lower real GDP, hence full employment goal is harder to achieve in Graph Three. Uses correct economic terminology and makes accurate references to the graph(s).

	Graph Four, making the goal of full employment harder to achieve when the economy is operating with plenty of spare capacity, as in Graph Three.			

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

N0 = No response; no relevant evidence.

Q3	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)(i)	See Appendix.	Demonstrates understanding by: • identifying RG		
(ii)	Multiplier = 1 / (1 – 0.9) = 10 RG = $1.5b Change in C x 10 = $1.5b Initial increase in C required = $150M	• correct calculation.		
(iii)	In order to close the RG of $1.5 billion, an initial increase in consumption spending of $150M is required. This is less than the RG of $1.5 billion. This is because of the spending multiplier, which is based on the concept that one person's spending is another's income, and this income will further be spent so that an initial spending of $150M will result in a multiplied amount of increase in total spending, in this case 10 times, leading to an increase in real GDP of $150 million.	Demonstrates understanding by: • explaining the concept of spending multiplier (one person's spending = another's income).	Demonstrates in-depth understanding by: • explaining the reason for the increase in C being smaller than the RG, using the multiplier concept and referring to accurate calculations.	
(b)(i)	See Appendix.	Demonstrates understanding by: • shifting AD to the right to AD_1 (anywhere along AS, up to where AS intersects the Yf line), with a higher price level and higher real GDP • Y_1 (can be up to = Yf) labelled		
(ii)	A trade agreement increases trade between the country and its trading partners. This could include removing trade barriers like tariff and quota so that importing and exporting between the country and its trading partners would be easier or cheaper. A trade agreement that improves the current account would mean that the export receipts would increase relatively more than import payments do, meaning net exports (X–M), a component of AD, would also increase. AD shifts to the right to AD_1 (or anywhere up to the point where AS intersects the Y_f	• explaining (X–M) increases • explaining AD needs to increase in order to reduce or close the RG. • explaining AS increases.	Demonstrates in-depth understanding by explaining: • the reason for the increased AD is due to (X–M) increasing • the trade agreement increases export receipts. Some reference is made to the graph.	Demonstrates comprehensive understanding by: • linking increased AD with increased (X–M) due to X increasing more than M (with trade agreement) and the extent AD needs to increase in order for the RG to be reduced (or eliminated),

	line). This will reduce (or fully close) the recessionary gap. This results in a higher price level PL_1, real GDP increases to Y_1, and the recessionary gap is reduced (or where Y_1 equals Y_f and the recessionary gap is eliminated).			resulting in the price level and real GDP increasing • using correct economic terminology and making accurate references to the graph.
(c)	An income tax cut is more effective because of the multiplier, which increases C, and therefore increases AD. As C is the biggest component of AD, this will increase AD by more than the free trade agreement will. OR A free trade agreement is more effective because it increases both AD (by increasing net X) and AS. AS increases as well due to the potential decrease in the cost of imported raw materials. *(Accept other valid explanations.)*			Demonstrates comprehensive understanding by explaining in detail which of the two policies is more effective in removing the RG.

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

N0 = No response; no relevant evidence.

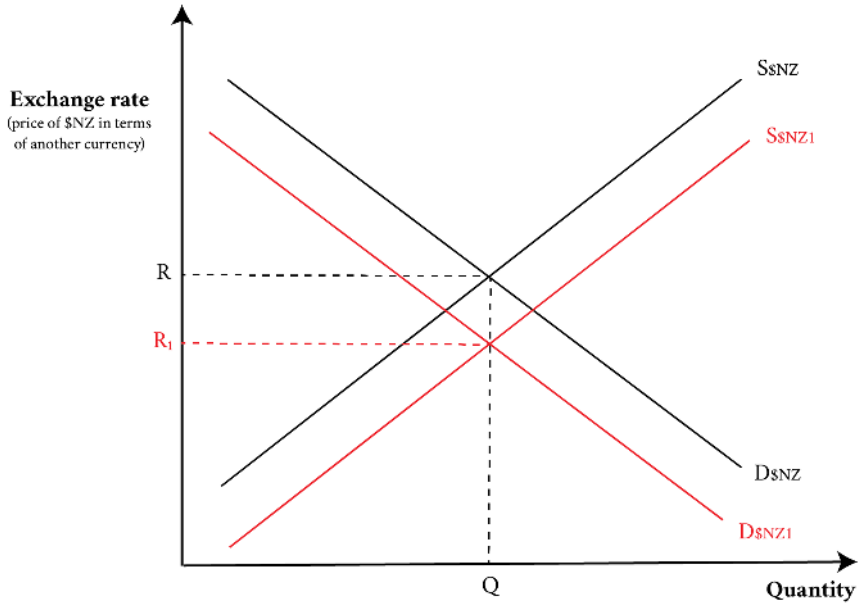
Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 6	7 – 12	13 – 18	19 – 24

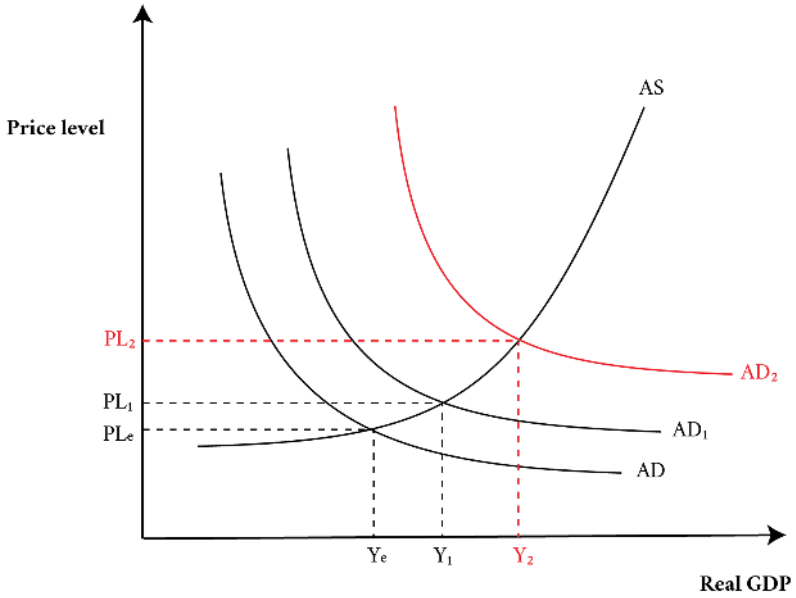
Appendix

Question one (b) and (c)(i)

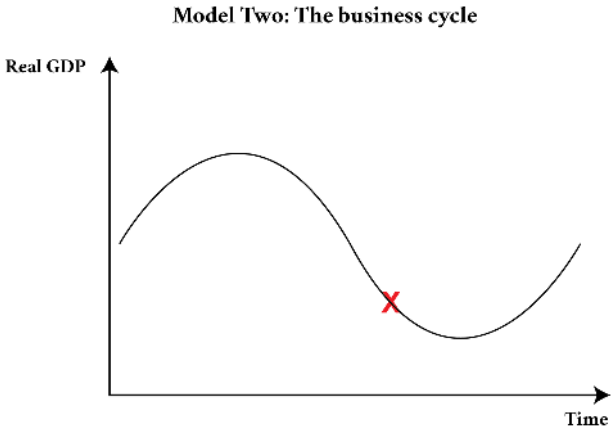
Graph One: The market for the New Zealand dollar



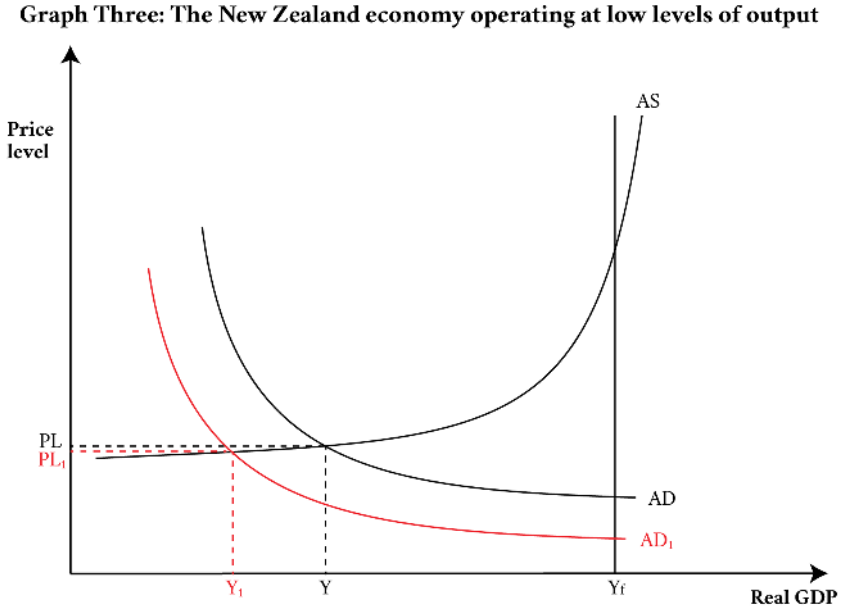
Graph Two: The New Zealand economy after reducing border restrictions

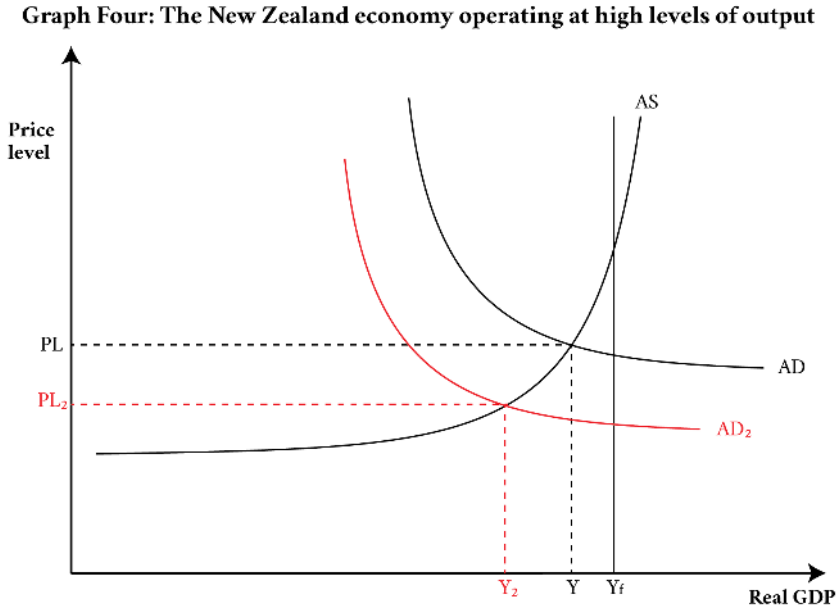


Question two (a)(i)



Question two (b)(i) and (c)(i)





Question three (a)(i) and (ii)

Graph Five: The New Zealand economy with a recessionary gap