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91403



Level 3 Economics, 2013

91403 Demonstrate understanding of macro-economic influences on the New Zealand economy

9.30 am Monday 18 November 2013 Credits: Six

| Achievement | Achievement with Merit | Achievement with Excellence |
|---|---|--|
| Demonstrate understanding of macro- economic influences on the New Zealand economy. | Demonstrate in-depth understanding of macro-economic influences on the New Zealand economy. | Demonstrate comprehensive understanding of macro-economic influences on the New Zealand economy. |

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 space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

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: THE INFLUENCE OF TRADE POLICIES ON THE NEW ZEALAND ECONOMY

New Zealand records big December trade surplus

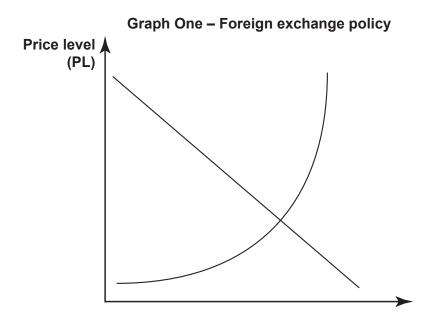
In the December 2012 quarter, New Zealand recorded its biggest December trade surplus since 1991, as imports – particularly of aircraft – fell more sharply than exports.

The trade surplus was \$486 million in December, equal to 12% of exports – roughly 10 times the average surplus of \$49m for December in the previous five years, Statistics New Zealand said.

 $Source\ (adapted): www.3news.co.nz/NZ-records-big-December-trade-surplus/tabid/421/articleID/284802/Default.aspx$

Government policies designed to encourage a balanced current account could include signing free-trade agreements, and intervening in the foreign exchange market, so that the exchange rate is favourable to a trade surplus.

These policies will also affect employment in the New Zealand economy.



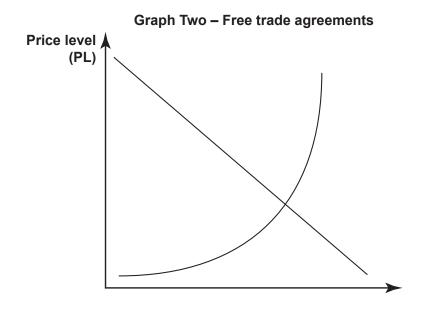
Income, employment, output (Y)

(a) (i) On Graph One above, illustrate the influence that an exchange rate favourable to a trade surplus would have on the macro-economy.

- label the curves
- label any curve shifts
- identify the equilibrium points

Question One (b) is on page 4 ▶

The government has macro-economic goals of a balanced current account, as well as full employment.



Income, employment, output (Y)

(b) Compare and contrast the effectiveness of **signing free-trade agreements** on the macroeconomic goals of a **balanced current account** *AND* **full employment**.

- make changes to Graph Two, above, to illustrate the influence that free trade agreements would have on the macro-economy. Label curves and identify equilibrium points
- refer to changes in Graph Two
- explain how free trade agreements can lead to a balanced current account
- explain how free trade agreements can lead to full employment
- explain why free trade agreements could be more effective at achieving a balanced current account than full employment.

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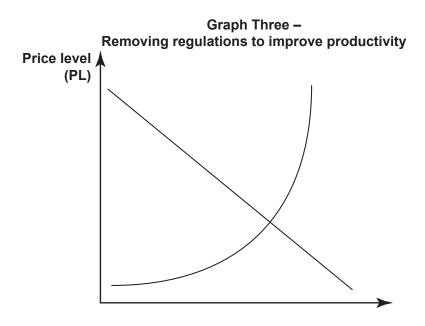
QUESTION TWO: THE INFLUENCE OF GOVERNMENT POLICIES ON GROWTH AND INFLATION

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In recent years suggestions for government policies to stimulate economic growth, while maintaining price stability in the New Zealand economy have included making Research and Development (R&D) attractive to business, removing regulations to improve productivity and investment, and reducing government spending.

Source (adapted): www.scoop.co.nz/stories/PO1011/S00043/nz-needs-world-leading-pro-growth-policies.htm

Complete (a) to (c) to compare and contrast the influence that different government policies have on economic growth and inflation.

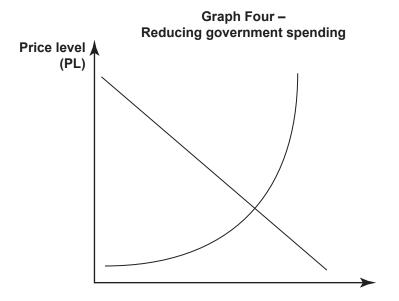


Income, employment, output (Y)

(a) (i) On Graph Three above illustrate the influence that **removing regulations to improve productivity** has on the macro-economy.

- label the curves
- label any curve shifts
- identify the new equilibrium.

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Income, employment, output (Y)

(b) (i) On Graph Four, illustrate the influence that **reducing government spending** has on the macro-economy.

In your answer:

(ii)

- label the curves
- label any curve shifts
- identify the new equilibrium.

| kpiain the changes you | made to Grap | ni i Gui. | |
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The government's task of managing the economy is made difficult by the challenge of achieving both economic growth along with maintaining price stability.

Compare and contrast the effectiveness on achieving economic growth and maintaining price (c) stability of the two suggested policies of removing regulations to improve productivity and reducing government spending.

- explain the effect of encouraging productivity on both economic growth and price stability
- explain the effect of reducing government spending on both economic growth and price stability

| • | explain which policy is more effective in encouraging economic growth and maintaining price stability |
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| • | integrate changes to Graphs Three and Four. |
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| | Tor copyright reasons, this resource cannot be reproduced here. |
| | Source (adapted): www.rbnz.govt.nz/statistics/econind/ |
| | (a) to (c), to discuss the impacts that the business cycle and macro-economic influences rowth and employment. |
| (i) | From the resource above, identify a time period when the New Zealand economy could have experienced increased consumption. |
| | |
| (ii) | Explain the impact that increased consumption has on Real GDP growth and employment. Refer to the business cycle model in your answer. |
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Question Three (b) is on page 10 ▶

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| Re | efer to the business cycle model in your answer. | |
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| ewe | acro-economic influences of consumption, savings, and investment should not be d as independent, with all three having an influence on each other. The right balance en the three can help ensure sustained economic growth over the long term. | |
| | ompare and contrast the effectiveness of encouraging consumption or encouraging encouraging as a way to achieving sustained economic growth in the New Zealand economy. | |
| In | | |
| | your answer: | |
| • | your answer: explain ONE positive and ONE negative impact of increased consumption on the macro-economy | |
| • | explain ONE positive and ONE negative impact of increased consumption on the macro-economy explain the link between savings and investment explain ONE positive and ONE negative impact of increased savings on the macro- | |
| • | explain ONE positive and ONE negative impact of increased consumption on the macro-economy explain the link between savings and investment | |
| • | explain ONE positive and ONE negative impact of increased consumption on the macro-economy explain the link between savings and investment explain ONE positive and ONE negative impact of increased savings on the macro-economy explain which is more likely to lead to sustained economic growth – increased | |
| • | explain ONE positive and ONE negative impact of increased consumption on the macro-economy explain the link between savings and investment explain ONE positive and ONE negative impact of increased savings on the macro-economy explain which is more likely to lead to sustained economic growth – increased consumption, or increased savings | |
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