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Level 3 Economics, 2015

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

2.00 p.m. Wednesday 18 November 2015
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 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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QUESTION ONE: Changes in a government policy

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The Government has outlined its plans to dramatically reform the Resource Management Act (RMA), armed with new research which showed environmental regulations added \$15 000 to the cost of building a new home and \$30 000 to the cost of building a new apartment.

The high-level reforms were designed to reduce building costs and reverse the skyrocketing price of housing in New Zealand, which the Government has blamed squarely on the costs, delays, and uncertainties caused by the laws which govern how this country's environment is managed.

Environment Minister Nick Smith said overhauling the RMA was critical to addressing housing supply and affordability and encouraging economic growth, while also managing the environment.

Source (adapted): http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11389827

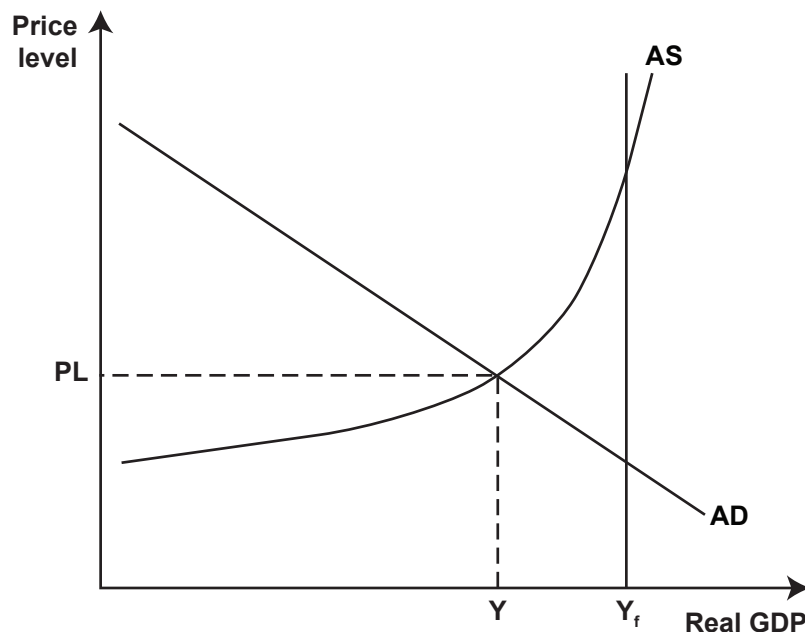
Changes to the Resource Management Act is an example of a supply-side policy.

- (a) On Graph One, shift ONE curve to illustrate the impact that a supply-side policy such as the reform of the Resource Management Act may have on the macroeconomy.

In your answer:

- label the curve shift
- label the new equilibrium.

Graph One: The New Zealand economy



“Environment Minister Nick Smith said overhauling the Resource Management Act was critical to addressing housing supply and affordability.”

Residential and commercial property activity contributes a significant amount to economic growth and employment.

Along with economic growth, the Government has the goal of full employment.

- (b) Compare and contrast the effectiveness of the reform of the Resource Management Act on both economic growth and full employment.
- In your answer:
- explain in detail the impact that a supply-side policy such as the reform of the Resource Management Act could have on Real GDP
 - explain in detail how a supply-side policy such as the reform of the Resource Management Act could create jobs
 - explain the effectiveness of the policy in achieving BOTH economic growth and full employment
 - refer to changes made to Graph One, and to the resource material.

QUESTION TWO: The impact of falling oil prices and slowdown in world economy on the current account**IMF World Economic Outlook pessimistic**

The International Monetary Fund (IMF) has revised down its forecasts for global economic growth, saying that although lower oil prices will give much of the world a boost, it won't be enough to offset the deteriorating outlook in China.

In an update to its World Economic Outlook released on Tuesday, the IMF revised down its 2015 forecast for China from 7.1 to 6.8 per cent. For 2016, it forecast an even lower growth rate of 6.3 per cent.

This would in turn affect the rest of Asia and countries that sold to China such as Australia [and New Zealand].

The IMF cut its forecast for global growth from 3.8 to 3.5 per cent in 2015.

Source (adapted): <http://www.stuff.co.nz/business/world/65250567/imf-global-outlook-more-pessimistic>

Deflation looms as oil prices fall

BNZ economists have pushed back expectations of an official cash rate hike until March 2016, with deflation looming as oil prices continue to fall.

While deflation was traditionally seen as causing a vicious cycle of slowing economic activity, head of research Stephen Toplis said that did not apply to New Zealand's current situation.

"The drop in oil prices is turning out to be a windfall gain for consumers," he said.

"Households have ended up with extra money in their pockets to spend on other goods and services instead – boosting, rather than contracting, future activity."

Source (adapted): <http://www.stuff.co.nz/business/industries/64765449/deflation-looms-as-oil-price-falls>

Definition: **Deflation** is a persistent decrease in the general price level.

The diagram illustrates the circular flow of income and products among five sectors: Households, Government, Producer, Financial, and Overseas. The flows are as follows:

- Households to Government:** Direct Tax (DT)
- Government to Households:** Transfer Payments (Tr)
- Government to Producer:** Indirect Tax (IT)
- Producer to Government:** Government Spending (G)
- Households to Producer:** Consumption Spending (C)
- Producer to Households:** Goods and Services
- Households to Financial:** Savings (S)
- Financial to Producer:** Investment (I)
- Producer to Financial:** Resource Payments (Y)
- Financial to Households:** Resources
- Producer to Overseas:** Exports
- Overseas to Producer:** Import Payments (M)
- Overseas to Producer:** Export Receipts (X)

(b) Compare and contrast the impact falling oil prices and a slowdown in the world economy will have on the macroeconomic goal of a balanced current account.

- the impact falling oil prices will have on the balance on goods, the balance on services, and the current account
- the impact the slowdown in the world economy will have on the balance on goods, the balance on services, and the current account
- why the slowdown in the world economy will have a bigger impact on the current account than falling oil prices.

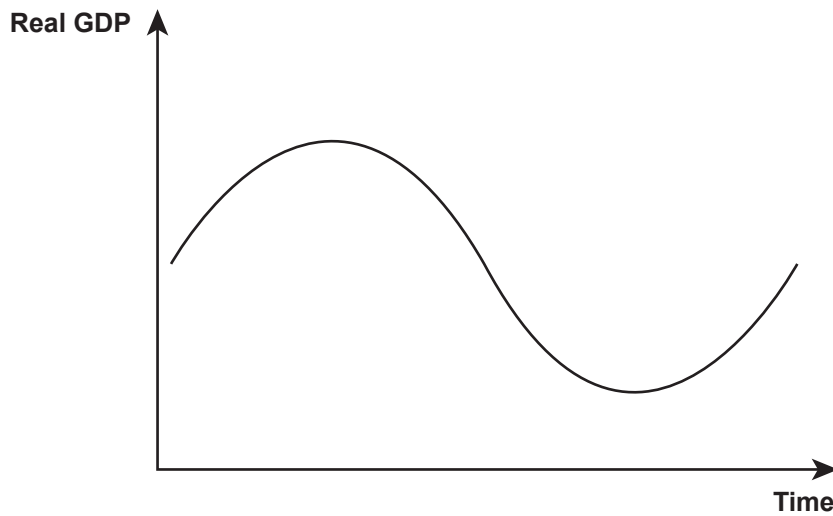
Retail card spending shows slight rise

Source (adapted): http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11386314

Levels of credit card spending are an indicator of consumer confidence.

- In your answer:

- ### Graph Two: The business cycle of economic activity



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

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