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SUPERVISOR'S USE ONLY

91403



Level 3 Economics, 2016

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

2.00 p.m. Friday 25 November 2016 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 2–8 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.

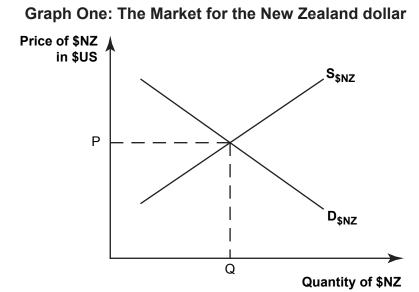
TOTAL

On 10 September 2015, the Reserve Bank reduced the Official Cash Rate (OCR) by 25 basis points to 2.75 per cent.

Inflation remains below the price stability target of 1 to 3 per cent due to the previous strength in the New Zealand dollar.

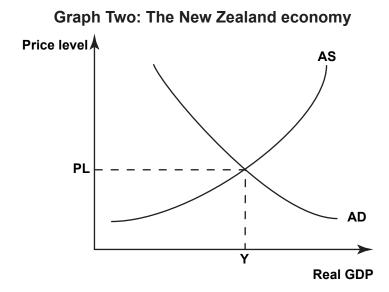
A reduction in the OCR is warranted by the softening in the economy and the need to keep future average CPI inflation near the 2 per cent target midpoint.

Source (adapted): http://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement/mps2015-09



(a) On Graph One above, shift both curves to illustrate how a reduction in the OCR could affect

the value of the New Zealand dollar. Clearly label any changes you make.



(b) On Graph Two above, shift both curves to illustrate how a reduction in the OCR could affect the New Zealand economy. Clearly label any changes you make.

the impact of a reduction in the OCR on the value of the New Zealand dollar the impact of a reduction in the OCR on aggregate demand and aggregate supply the effectiveness of a reduction in the OCR in achieving the goals of economic growth AND price stability.	omic growth and price stability. ur answer, fully explain:
the effectiveness of a reduction in the OCR in achieving the goals of economic growth	
AND price stability.	
	AND price stability.

QUESTION TWO: Impact on the Current Account of an increase in the Terms of Trade and a depreciation of the New Zealand dollar

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New Zealand's Terms of Trade index increased from 1 319 to 1 353 between January 2015 and July 2015. In New Zealand, the Terms of Trade (ToT) is the ratio of the price of exportable goods to the price of importable goods.

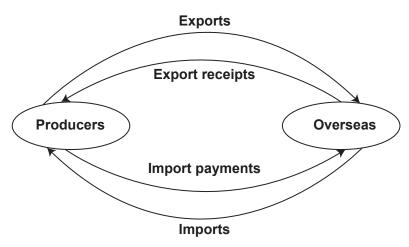
Source (adapted): http://www.tradingeconomics.com/new-zealand/terms-of-trade

During the same time period, the value of the New Zealand dollar depreciated as New Zealand's Trade Weighted Index (TWI) decreased from 75.44 (30 January 2015) to 70.14 (31 July 2015).

Source: Reserve Bank of New Zealand.

(a)

Model One: Simple circular model showing New Zealand producers and the overseas sector



ew Zealand's (lel One, fully explain how an Current Account balance.	increase in the ferms of	Trade could improve

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QUESTION THREE: Impact of fiscal policy on growth and employment

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Government spending on the recovery of Christchurch includes spending on key building projects in the CBD, fixing of roads and sewers, the repairs of schools and hospitals, and insurance pay-outs. The Christchurch City Council has estimated that this spending will generate additional spending by consumers and businesses.

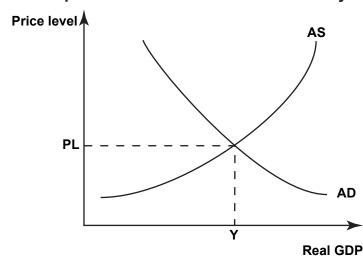
 $Source\ (adapted): http://www.stuff.co.nz/the-press/business/the-rebuild/70084887/How-much-is-the-Government-really-spending-to-fix-Christchurch$

The contribution of the Canterbury region (which includes Christchurch) to national GDP rose 0.9 percentage points to 13.1 per cent between March 2009 and March 2014.

Source (adapted): http://www.stats.govt.nz/browse_for_stats/economic_indicators/NationalAccounts/RegionalGDP_HOTPYeMar14.aspx

a)	Using the multiplier, fully explain the increase in real GDP that would occur if there were an additional \$40 billion of spending and the marginal propensity to consume (mpc) in Christchurch is 0.70.				

Graph Three: The New Zealand economy



	rthquake recovery would affect the New Zealand economy. Clearly label any changes you ake.
ff	eferring to Graph Three, the multiplier, and the resource material, compare the ectiveness of government spending on the Christchurch earthquake recovery on the goals economic growth and full employment for the New Zealand economy.

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		Extra space if required.	
	1	Write the question number(s) if applicable.	
QUESTION NUMBER		(, 11	