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NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 3 Economics, 2017

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

2.00 p.m. Wednesday 29 November 2017

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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The 2016 Budget included spending on regional roading projects and upgrading regional tourism infrastructure, e.g. extending the New Zealand Cycle Trail.

The impact on long-term economic growth of this expansionary fiscal policy may be affected by the multiplier.

The diagram illustrates the AS-AD model. The vertical axis is labeled "Price level" and the horizontal axis is labeled "Real GDP". An upward-sloping curve is labeled "AS" and a downward-sloping curve is labeled "AD". The two curves intersect at an equilibrium point. Dashed lines from this intersection point lead to "PL" on the vertical axis and "Y" on the horizontal axis.

- (a)
 - (i) On Graph One above, illustrate the impact of increased spending on regional roading projects and tourism infrastructure on aggregate demand and real GDP.
 - (ii) Explain in detail the impact of this expansionary fiscal policy on economic growth. In your answer:
 - refer to the changes made to Graph One
 - explain why at least two components of aggregate demand, other than Government spending, will increase.

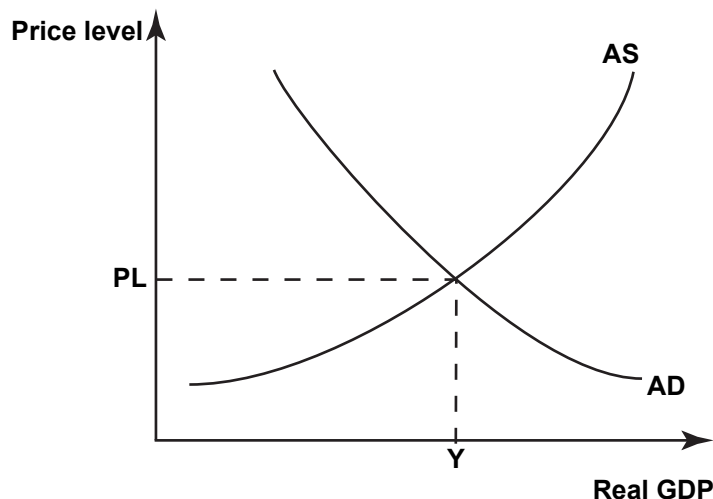
Supply side policy includes any policy that improves an economy's productive potential and its ability to produce.

Source: http://www.economicsonline.co.uk/Global_economics/Supply-side_policies.html

The 2016 Budget also included spending on tertiary education and apprenticeship programmes, to develop the skilled workforce needed for a 21st century economy.

Source (adapted): <http://www.treasury.govt.nz/budget/2016/at-a-glance/b16-at-a-glance.pdf>

Graph Two: The New Zealand economy



- (b) On Graph Two above, illustrate the impact of increased spending on tertiary education and apprenticeship programmes on real GDP, assuming that this expansionary fiscal policy is also an example of a supply side policy.
- (c) Referring to the resource material on pages 2 and 3 and Graphs One and Two, compare and contrast the impact on long-term economic growth of these two policies. In your answer, explain in detail:
- the impact of increased spending on tertiary education and apprenticeship programmes on economic growth
 - whether increased spending on regional roading projects and tourism infrastructure or increased spending on tertiary education and apprenticeship programmes would have the greater impact on long-term economic growth.

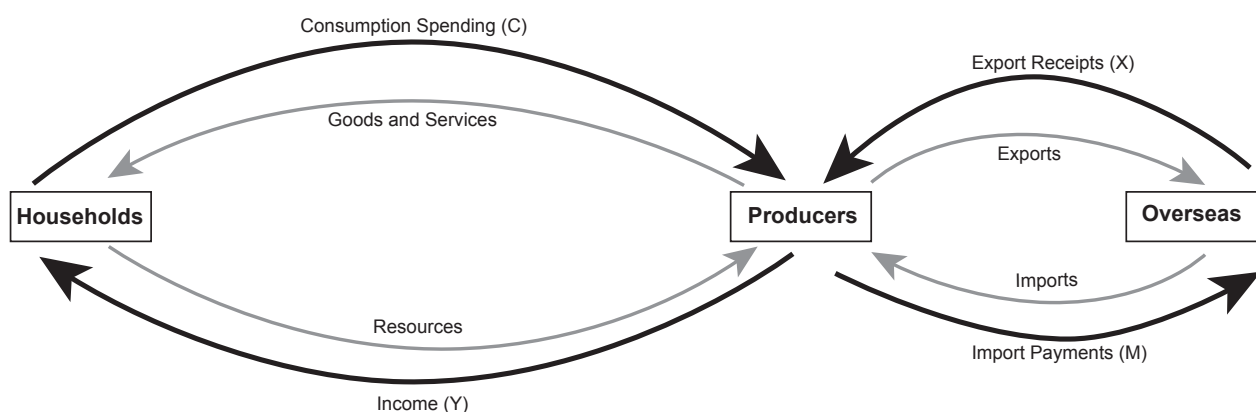
More answer space is available on the next page.

QUESTION TWO: Impact of free trade agreements on the current account and employment

As at the beginning of 2017, New Zealand has successfully concluded free trade agreements involving 16 countries that are members of the World Trade Organisation. New Zealand is negotiating to conclude another five free trade agreements involving significant economies such as India.

Source (adapted): <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/> and <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/>.

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

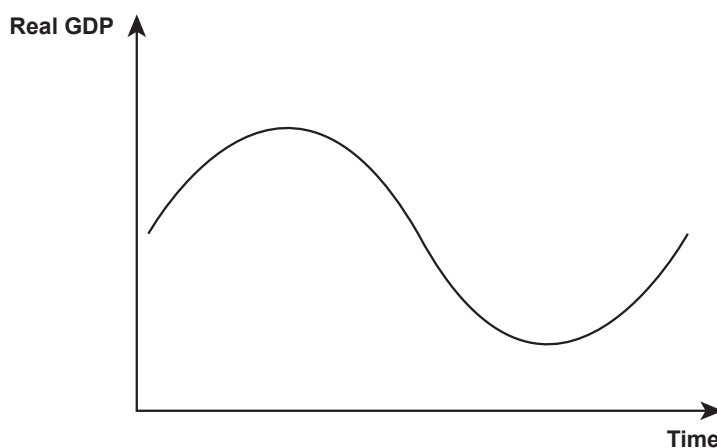


- (a) Referring to changes in the relevant real and money flows from Model One, explain in detail how New Zealand's entry into a further five free trade agreements could improve New Zealand's current account.

“... saving is undeniably an important part of the economic process that gives rise to new investment and economic growth.”

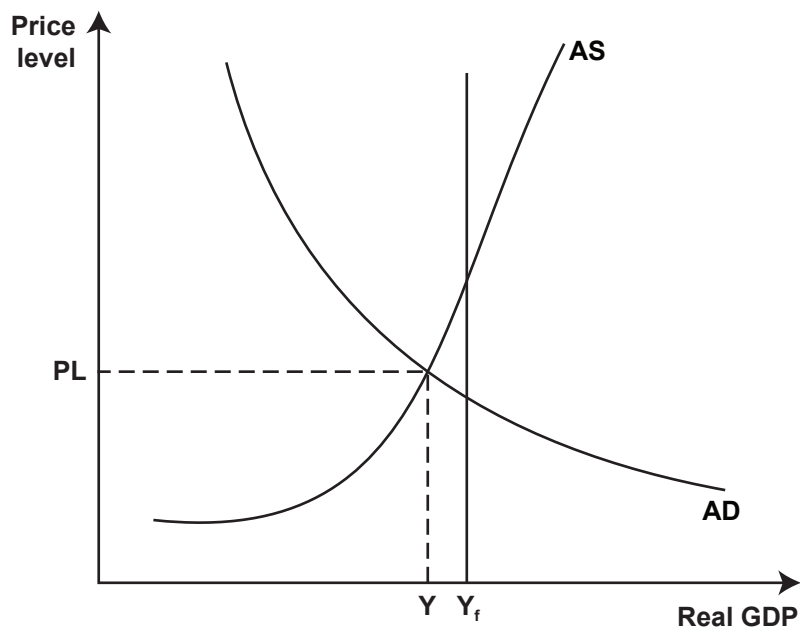
(a) Explain in detail how increased savings may result in more investment in the economy. In your answer, define the terms “savings” and “investment”.

Model Two: The business cycle



- Economics 91403, 2017

- Graph Three: The New Zealand economy operating close to the full employment level of output (Y_f)**



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

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