3

SUPERVISOR'S USE ONLY

91403

914030

NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

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.

Merit

TOTAL 15

ASSESSOR'S USE ONLY

QUESTION ONE: Changes in a government policy

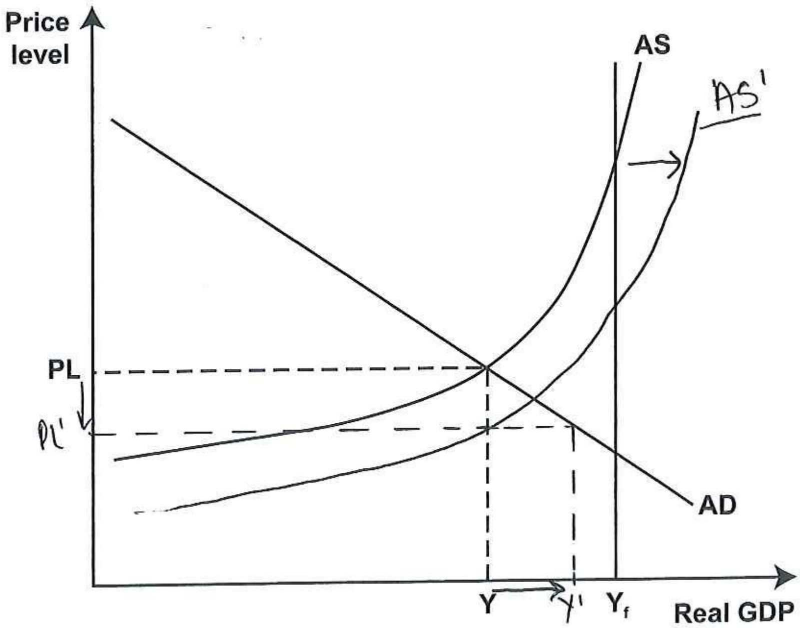
ASSESSOR'S USE ONLY

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



(i)

ASSESSOR'S USE ONLY

"The high-level reforms were designed to reduce building costs and reverse the skyrocketing price of housing in New Zealand."

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

Source: quotes from resource material on page 2.

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.

Supply-side policies are implemented to increase aggregate supply in the economy and thus encourage production. The reform of the Resource Management Act resulted in an increase in aggregate supply as shown on the graph from AS to AS'. This shift resulted in a fall in the price level from PL to PL'. The reform impacted Real GDP by an increase from Y to Y'. This indicates economic growth as the economy nears full employment and the recessionary gap is reduced. The reform of this Act could create more jobs as the production of houses are encouraged as the costs of production of houses are lessened, thus aggregate supply increased. Producing houses are now relatively more profitable and firms shift ~~their resources~~ into the housing industry. This increases employment as more jobs are created in the industry, and therefore, national incomes also rise. This is also shown on the graph as real GDP increased//

(2)

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from Y to Y' and reached full employment. This effectively reduces unemployment in New Zealand. //

This policy was effective in achieving both of the government's goals of economic growth and full employment. This is because the reform lowered housing companies' costs of production and therefore increased the supply of houses and buildings in the economy. The increase in aggregate supply (right shift from AS to AS') resulted in both economic growth and employment increasing from Y to Y' as the model illustrates changes in growth, employment and national incomes. As explained by Environment Minister Nick Smith, in the resource material, "...overhauling the RMA was critical to addressing the housing supply and affordability and encouraging economic growth." //

However, as the economy reaches near full capacity (Y_F), increases in production are costly as resources become scarce. Growth becomes highly inflationary and past full capacity, is not sustainable due to resources used over time. Therefore the growth needs to be monitored and ~~that~~ maintained at a level where employment and economic growth is sustainable, whilst maintaining price stability. //

(3)

M5

QUESTION TWO: The impact of falling oil prices and slowdown in world economy on the current account

IMF World Economic Outlook pessimistic

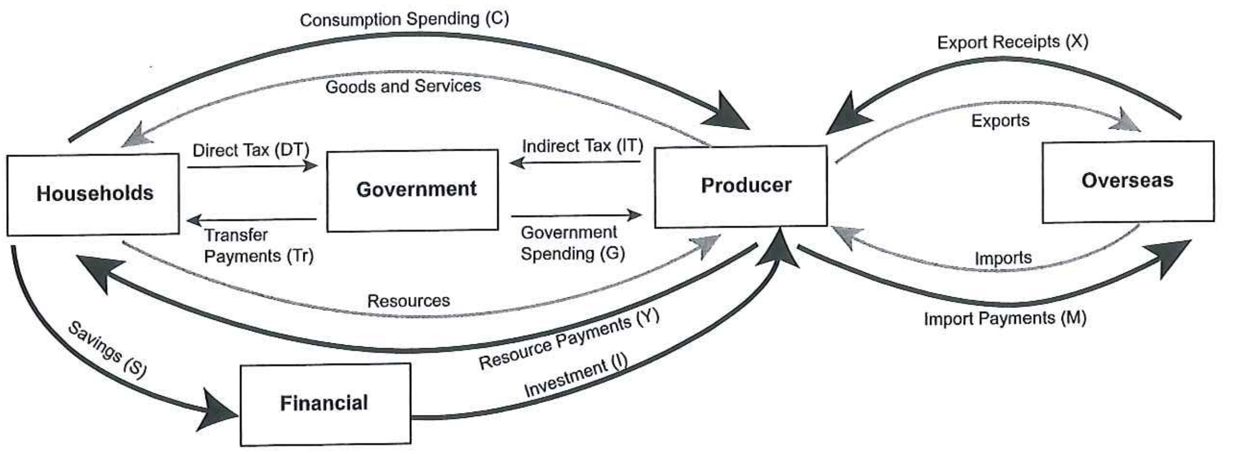
Source (adapted): http://www.stuff.co.nz/business/world/65250567/imf-global-outlook-more-pessimistic

Deflation looms as oil prices fall

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 circular flow diagram below illustrates the relationship between different sectors of the economy.



(a) Explain in detail how falling oil prices could lead to deflation.
In your answer, refer to the relevant real and money flows from the circular flow diagram to explain:

- the impact of falling oil prices on the producer sector
- how the impact on the producer sector could result in deflation.

Falling oil prices impacts the producer sector as it lowers producers' costs of production. Firm's importing oil pay lower prices therefore reducing their import payments and increasing production and their supply to the economy. Firms may take advantaged of the lower oil price and import more as well. ~~As~~ firm's costs of production fall due to cheaper imported raw materials, aggregate supply in the economy increases. This results in a fall in the general price level and an increase in Real GDP (economic growth.) As oil prices continue falling and aggregate supply increases, the price level will continued to fall persistently. As this deflation occurs, price stability may not be achieved if it falls below 1%. If the price level falls to negative, the economy is closer to a recession which the government's policies try to avoid. Therefore, the falling oil prices need to be counteracted slightly with government policies so that the economy's price stability is maintained (inflation between 1-3%.)

(4)

ASSESSOR'S USE ONLY

New Zealand both imports and exports oil, but it imports far more than it exports.

(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.
In your answer, use money flows and real flows from the circular flow diagram to explain in detail:

- 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.

x - mp   x - M

The impact that falling oil prices will have on the balance on goods is an improvement as the balance ~~in~~ in determined by ~~import payments~~ export receipts minus import payments. Therefore, as firms import cheaper oil, their import payments will decrease which improves the balance on goods. However, if firms take advantage of the lower prices, and imp~~ort~~ higher quantities of oil, import payments would increase which worsen's the balance on goods. As New Zealand exports oil, export receipts may rise as it exports higher quantities of oil, which improves the balance.

(5)

Cheaper oil prices encourages consumption but discourages production as firms cannot continue operating when their products are not earning profits or breaking even. The balance on services will be affected as more New Zealanders travel overseas due to ~~more~~ lower costs of living. Therefore, the balance on services ~~will~~ may be ~~worsened as~~ improved as export receipts for services outweigh the import payments for services. Therefore, the current account will be positively impacted as the balance on goods and balance on services improve, therefore lessening the current account deficit.

(6)

The slowdown in the world economy means that growth, employment and national incomes are not increasing and therefore consumers and businesses are not consuming and investing as often as they were. The balance on goods will improve as New Zealand imports less and therefore reduces its import payments. As New Zealand is a main dairy exporter, exports may not be reduced significantly, therefore the reduction in import payment will outweigh the reduction in export receipts, improving the ~~ex~~ balance on goods. Similarly, the balance on services will be improved as tourism is reduced and export receipts outweigh decreases ~~increases~~ in import payments. The current account deficit, overall is reduced as the balance on goods and. balance on services are positive and reduce the deficit ~~def defict~~ in the current account. The slow down in the world economy will have a bigger impact ~~impact~~ on the current account than falling oil prices because it has a greater influence on all the secters in the economy. Household's consumption spending and saving is reduced as well as producer investments. Trade is reduced overall and imports and exports are lowered. In the current account, the balance on income is worsened as New Zealanders do not invest heavily overseas due to lower confidence. Falling oil prices mainly influence the producer and overseas secters with a smaller impact on households and the government. Therefore, as the slowdown in the world economy impacts all sectors in the economy quite significantly, it will have a bigger impact on the current account than falling oil prices would. //

(7)

M6

ASSESSOR'S USE ONLY

QUESTION THREE: Consumer spending and the business cycle

Retail card spending shows slight rise

New Zealanders increased their spending on debit and credit cards in December, with gains in apparel, consumables, and hospitality …

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.

~~APS~~ MPS = 0.06
MPC = 0.94

(a) Calculate, using the spending multiplier formula $\frac{1}{1-\text{MPC}}$, the change in Gross Domestic Product if consumer spending increased by \$200 million and New Zealand households save 6 per cent of their income. (Round your answer to the nearest \$ million.)

0.06

The Marginal Propensity to save = 6% = 0.06
Marginal Propencity to consume = 94% = 0.94
Multiplier = $\frac{1}{1-\text{MPC}} = \frac{1}{0.06} = 16.667$ (3dp)
Change in GDP = \$200,000,000 x 16.667 = \$3.33 billion
= \$3 billion

(8)

(b) Explain in detail how an increase in consumer spending of \$200 million can lead to the change in GDP you have calculated. In your answer, refer to the spending multiplier.

The theory of the multiplier is that ~~any investment~~ one person's spending becomes another's income. Therefore, an increase in consumer spending of \$200 million can lead to an increase in GDP of approximately \$3 billion as ~~nation~~ consumption is increased. Increases in consumption lead to an increase in GDP as it is a component of aggregate demand. The increase in consumption is multiplied as it is transferred through the economy and further increased to give an overall result of an increase in GDP. As one person's spending becomes another person's income, GDP is increased as national incomes also improve from greater consumption. Therefore, the ~~that~~ increase in GDP has resulted from the multiplier effect where consumption ~~was~~ had increased by \$200 million.

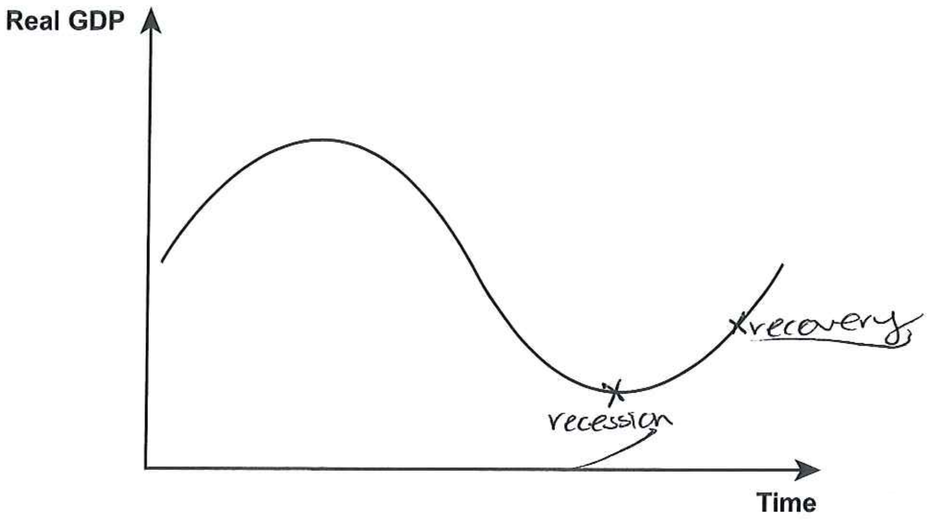
(9)

(c) Compare and contrast the impact an increase in consumer spending will have on the macroeconomic goal of price stability during BOTH a recession phase AND a recovery phase of the business cycle.
In your answer:

- clearly identify a recession AND a recovery on Graph Two
- explain in detail the impact of a recession on price levels
- explain in detail the impact of a recovery on price levels
- explain in detail whether an increase in consumer spending is more likely to have a bigger impact on price levels in a recession or a recovery.

ASSESSOR'S USE ONLY

Graph Two: The business cycle of economic activity



(10)

A recession negatively impacts price levels as ~~price stability~~ inflation is lowered and deflation ~~will~~ occurs. During a (11) recession, price stability is not maintained because the rate of inflation ~~[illegible]~~ is below ~~%~~ 1% and the economy experinces negative growth. This is because consumer and (12) business confidences are low and therefore, consumption and investment decrease. This leads to a fall in aggregate demand and subseqently, the price level. Therefore, it will have a negative impact on the goal of price stability (inflation betwee 1-3% with an emphasis on 2%). //

In the recovery phase ~~on~~ of the business cycle, the economy is moving out of the recession or trough and economic activity is increased. As such, consumption and investment //

ASSESSOR'S USE ONLY

increase as consumers and ~~fi~~ producers gain confidence in the economy and their financial situations. Trade recovers as exports and imports ~~incre~~ increase due to increased activity and confidence. Therefore, the price level increases as aggregate demand increases. This ~~increase~~ increase in aggregate demand is likely to outweigh any increase in aggregate supply as all components of aggregate demand, consumption, investment, government spending and net exports improve. Therefore, as the price level increases, the economy nears price stability and ~~active~~ is closer to achieving the government's goal. //

An increase in consumer spending is more likely to have a bigger impact on price levels in a recovery phase because all sectors of the economy will simultaneously ~~be~~ increase their economic activity. Consumer spending (Consumption) is the largest sector in the economy and therefore is a main contributor to the economic growth in the economy. In a recession, an increase ~~in~~ in consumption will improve the real GDP however, as it is one component of the economy, it will not have a significant impact on the price level if it is the only sector that has increased. Therefore, increased consumption will have a bigger impact on the price level in a recovery phase because the economy ~~was~~ a whole will ~~be more~~ ~~be~~ be more active and ~~closer~~ therefore, ~~closer~~ price stability may be achieved if inflation meets the Policy Target Agreement. However, as the recovery phase is inflationary, the Government will need to stabilise the economy to ensure that inflation stays between 1 - 3% and consumer confidence is maintained. This means that consumption will increase growth even more as consumer's are confident in the economy's future. //

(13)

(14)

A4

Merit #1 exemplar for 91403 2015			Total score	15
Q	**Grade score**	**Annotation**		
1	M5	This candidate has received M5 for this question because they: a) shifted and labelled the AS curve correctly on Graph One. **(1)** b) provided detailed explanations on how the reform of the RMA will reduce costs of production, increasing Real GDP and increasing AS **(2)** and how this will create more jobs and improve Employment **(3)**. More in-depth explanations would have included details such as the impact of reduced time delays, improving productivity, the components that make up AS, the significance of the changes to Eco Growth and/or Employment, and the derived demand concept.		
2	M6	This candidate has received M6 for this question because they: a) explained how the falling oil prices will change import payments, reduce costs of production for firms and lead to deflation. **(4)** A more complete answer would have included a more specific example of costs of production impacted by oil price changes and used the idea of profitability to explain why firms lower their prices. b) gave detailed explanations of the impact of oil prices on the import of goods, the export of goods **(5)**, the import of services and NZ's current account **(6)**. The explanations of the impact of the world economic slowdown are contradictory and contain inaccuracies **(7)**.		
3	A4	This candidate has received A4 for this question because they: a) calculated the spending multiplier and the change in GDP. **(8)** b) have not used the spending multiplier to explain how the change in GDP occurs. **(9)** c) correctly identified a recession and a recovery on Graph Two **(10)** and identified that in a recession inflation is low **(11)** and consumption is decreasing **(12)** and that in a recovery consumption is increasing **(13)** and so there is increasing pressure on prices **(14)**. A more detailed answer would have explained other typical characteristics of a recession and a recovery and elaborated on the contrasting utilisation of resources between a recession and a recovery and their respective impact on the price level when consumer spending increases.		

3

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Merit

TOTAL 15

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QUESTION ONE: Changes in a government policy

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.

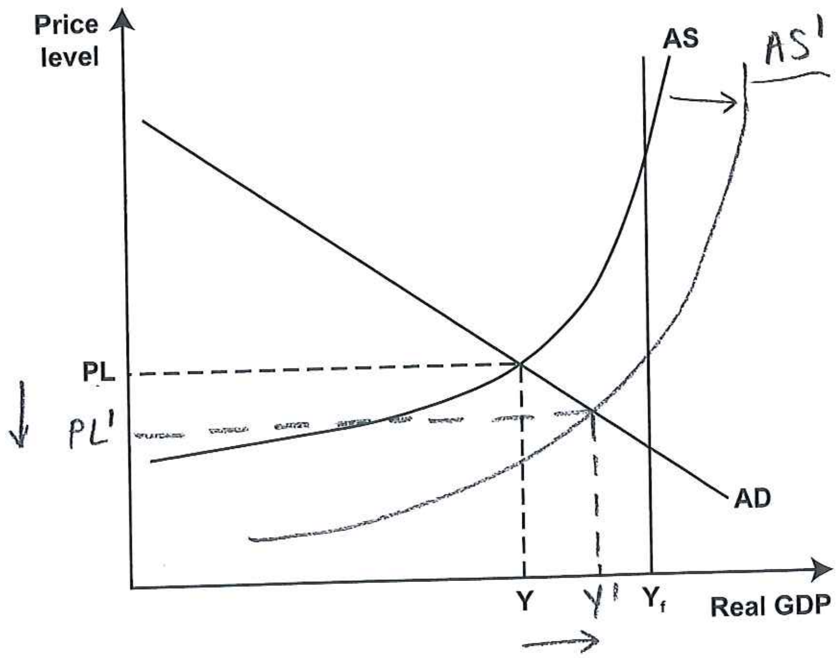
Environment Minister Nick Smith said overhauling the RMA was critical to addressing housing supply and affordability and encouraging economic growth, while also managing the environment.

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



(1)

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"The high-level reforms were designed to reduce building costs and reverse the skyrocketing price of housing in New Zealand."

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

Source: quotes from resource material on page 2.

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.

Reform of the Resource Management Act would increase aggregate supply, causing the AS curve to shift from AS to AS'. ~~As such, the price level of building costs~~ As such, building costs may fall as the price level falls from PL to PL', subsequently pushing output from Y to Y'. This would have a positive effect on Real GDP as Resource Management Reformation could improve productivity and lower the costs of ~~production for~~ building firms, thereby increasing the housing supply in NZ. If more houses are on the market, it would be made more affordable fof NZ consumers, thereby increasing the quantity demanded. Because of the increase in productivity, building firms will start increasing production, which has a positive effect on employment as more people

(2)

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become employed by such firms. This is illustrated in Graph One, (Y to Y') with Y' moving closer to full employment. If more people become employed, as a result of increased production, they would receive higher wages and ∴ more disposable income. Thus, consumers' purchasing power increase allowing them to buy affordable housing. Therefore, reformation of the RMA is effective in achieving both economic growth and full employment.

(3)

M5

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.

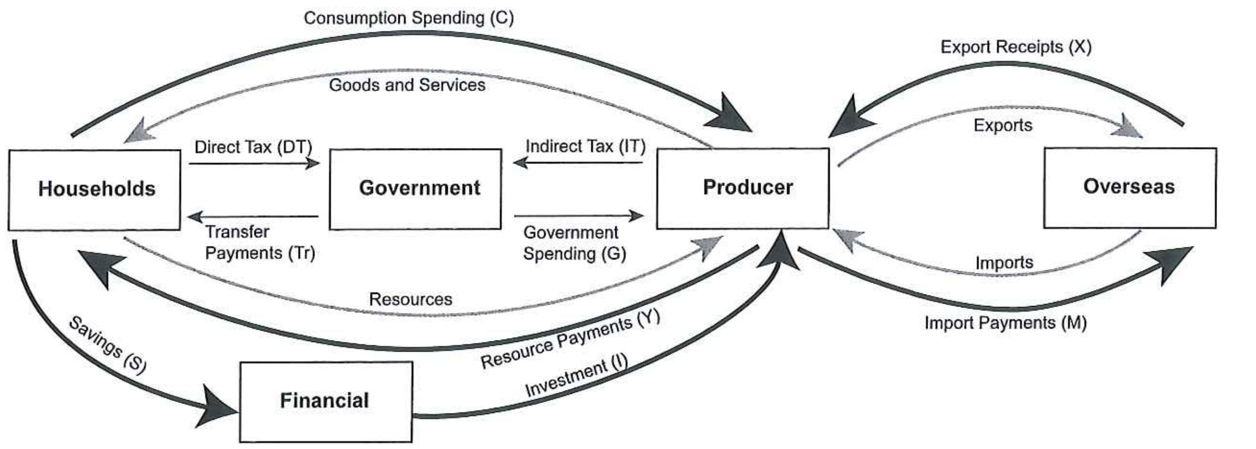
"The drop in oil prices is turning out to be a windfall gain for consumers," he said. "Households have ended up with extra money in their pockets to spend on other goods and services instead – boosting, rather than contracting, future activity."

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.

ASSESSOR USE ONLY

The circular flow diagram below illustrates the relationship between different sectors of the economy.



(a) Explain in detail how falling oil prices could lead to deflation.
In your answer, refer to the relevant real and money flows from the circular flow diagram to explain:

- the impact of falling oil prices on the producer sector
- how the impact on the producer sector could result in deflation.

Falling oil prices would be beneficial to producers as it forms a large component of ~~their~~ costs of production. Thus, a fall in the price of oil would significantly reduce firms' costs of production allowing them to supply goods, such as fertilizers and plastics, and services (transport & distribution) at a lower ~~cost~~ price, to consumers.* This increases aggregate supply and results in deflation as the price of goods and services fall. Falling oil prices would also reduce the cost of imported raw materials, allowing for more imports into the country. //

(4)

* In addition, firms may be able to increase resource payments to households as a result of the lower costs of production //

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New Zealand both imports and exports oil, but it imports far more than it exports.

(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.
In your answer, use money flows and real flows from the circular flow diagram to explain in detail:

- 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.

Falling oil prices will lower the costs of production for NZ firms, allowing for a fall in the price of goods and services. Additionally, low oil prices would also reduce ~~the cost of imports~~, which (5)
increases the demand for imports, resulting in increased ~~import~~
~~lowers import payments~~. ~~Additionally,~~ ~~exports~~ payments.
exports become more competitive due to their lower price on the world market, increasing export receipts. This is beneficial to the current account as the fall in oil prices improves the balance on goods and the balance on services. Conversely, a slowdown in the world economy will have a negative effect on NZ trade as NZ is ~~primarily~~ primarily an export driven economy. A slowdowns ~~especially~~ in growth in China will be detrimental to NZ's economy as China is a major trading partner. As such, ~~NZ~~ China's demand for NZ exports will decrease, resulting in a fall in export receipts. This has a negative impact on the balance on goods and services and worsens the current account deficit. The slowdown in world economy will have a greater impact on the current account than falling oil prices because

(6) (7) //

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NZ is an export driven economy. The inability to purchase NZ exports will result in a fall in export receipts and ∴ a ~~a fall in aggregate demand~~ worsening of the current account. ~~as~~ ~~On the other hand, falling oil prices mainly effect imports~~

M5

QUESTION THREE: Consumer spending and the business cycle

ASSESSOR'S USE ONLY

Retail card spending shows slight rise

New Zealanders increased their spending on debit and credit cards in December, with gains in apparel, consumables, and hospitality …

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.

(a) Calculate, using the spending multiplier formula $\frac{1}{1-\text{MPC}}$, the change in Gross Domestic Product if consumer spending increased by $200 million and New Zealand households save 6 per cent of their income. (Round your answer to the nearest $ million.)

MPC = 0.94 $\quad \frac{1}{1-(0.94)} = 16.67 \quad$ 200m × 16.67

= 3,334,000,000

(8)

~~$\frac{1}{1-mpc} = 200$~~ ~~$1 = 200 - 200x = 1$~~ ~~$200 = 1 + 200x$~~

~~$\frac{1}{} = 200(1-x)$~~ ~~$-200x = 1 - 200$~~ ~~$200 - 1 = 200x$~~

~~$-200x = -199$~~ ~~$199 = 200x$~~

~~$200x = 199$~~ ~~$x = \frac{200}{199}$~~

~~$x =$~~ ~~$x = 1.00$~~

(b) Explain in detail how an increase in consumer spending of $200 million can lead to the change in GDP you have calculated. In your answer, refer to the spending multiplier.

~~when one pe~~ NZ households marginal propensity to save is 0.06. Thus, their marginal propensity to consume is 0.94 i.e NZ households spend 94% of their income. As this continues from households to households, it results in an increase in the GDP. Therefore an increase of $200M can lead to ~~an increas~~ a total of $3.3B in the economy.//

(9)

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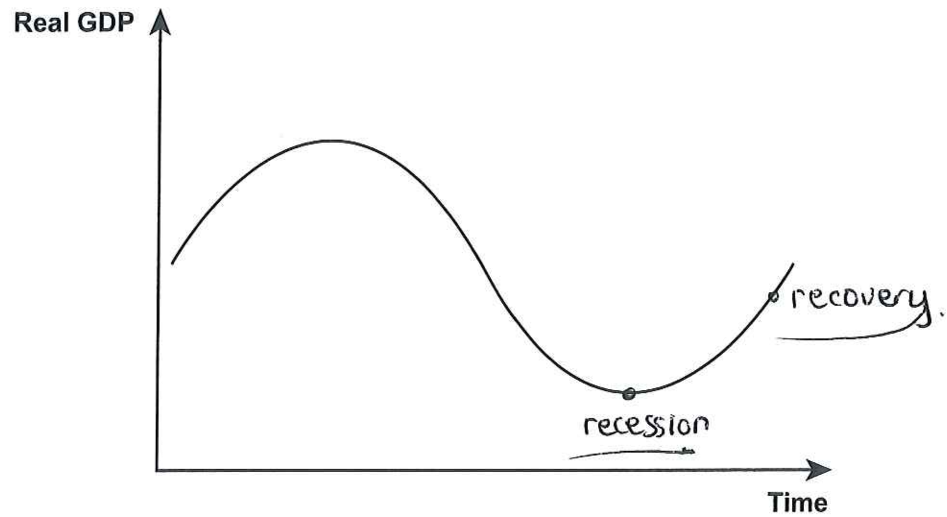
(c) Compare and contrast the impact an increase in consumer spending will have on the macroeconomic goal of price stability during BOTH a recession phase AND a recovery phase of the business cycle.
In your answer:

- clearly identify a recession AND a recovery on Graph Two
- explain in detail the impact of a recession on price levels
- explain in detail the impact of a recovery on price levels
- explain in detail whether an increase in consumer spending is more likely to have a bigger impact on price levels in a recession or a recovery.

Graph Two: The business cycle of economic activity



(10)

An increase in consumer spending will effect aggregate demand since 'C' is a component of AD. As such, an increase in AD during a recession would have a positive impact as resources will no longer be unemployed and underutilised. Since the increase (12) in 'C' is occuring during a recession, the price level will increase. However, the macroeconomic goal of price stability is to keep inflation between 1 and 3%.. During a recession, the level of inflation will be below 0%., indicating negative (11) growth. As such, increased consumption will have a positive effect on price stability as there is little inflationary pressure during a recession.

A recovery, or up turn, indicates that resources are becoming employed and utilised. Thus, increased consumption is a characteristic of an upturn as the economy is growing towards full employment. In order to maintain price stability, the rate of inflation must not exceed 3%. An increase in consumer spending during a recovery, then, is more likely to have a bigger impact on the price level as increased consumption increases price. Since resources are being utilised, companies will raise the price which results in inflationary pressures. //

ASSESSOR'S USE ONLY

(13)

(14)

M5

<table>
<tr><td colspan="3">Merit #2 exemplar for 91403 2015</td><td>Total score</td><td>15</td></tr>
<tr><td>Q</td><td>Grade score</td><td colspan="3">Annotation</td></tr>
<tr><td>1</td><td>M5</td><td colspan="3">This candidate has received M5 for this question because they:
a) shifted and labelled the AS curve correctly on Graph One. (1)
b) provided detailed explanations on how the reform of the RMA will reduce costs of production and improve productivity, increasing Real GDP (2) and how this will create more jobs and improve Employment (3). More in-depth explanations would have included details such as the impact of reduced time delays, the components that make up AS, the significance of the changes to Eco Growth and/or Employment, and the derived demand concept.</td></tr>
<tr><td>2</td><td>M5</td><td colspan="3">This candidate has received M5 for this question because they:
a) explained in detail how the falling oil prices will change import payments, reduce costs of production for firms and lead to deflation. (4) A more complete answer would have used the idea of profitability to explain why firms lower their prices.
b) provided detailed explanations of the impact of falling oil prices on import payments (5) and export receipts (6) with a partial explanation of the impact on the current account. A detailed explanation of the impact of the world slowdown on NZ’s export receipts (7) is accompanied by a partial explanation of the impact on the current account. A more thorough answer would have included explanations using other variables impacted by the changes to oil prices and the world slowdown and a valid contrast between the two changes.</td></tr>
<tr><td>3</td><td>M5</td><td colspan="3">This candidate has received M5 for this question because they:
a) calculated the spending multiplier and the change in GDP. (8)
b) have not used the spending multiplier to explain how the change in GDP occurs. (9)
c) correctly identified a recession and a recovery on Graph Two (10) and identified that in a recession inflation is low (11) and resources are under-utilised (12) and that in a recovery resources are being more fully-utilised (13), increased consumption occurs and there is increasing pressure on prices (14). A more detailed answer would have explained other typical characteristics of a recession and a recovery and elaborated on the contrasting utilisation of resources between a recession and a recovery and their respective impact on the price level when consumer spending increases.</td></tr>
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