3

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91403

914030

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.

Not Achieved

TOTAL 5

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QUESTION ONE: Changes in a government policy

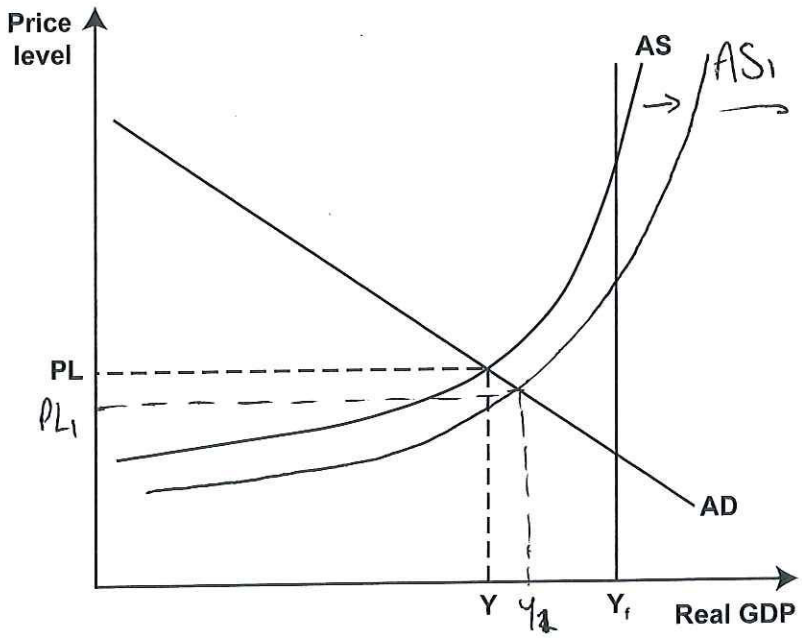
Source (adapted): http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11389827

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.

The impact of the side policy such as the reform of the resource managment act would cause the aggregate supply curve to shift outwards. This decreases the recessionary gap in the market, causing inflation. It stimulates the economy increaseing growth and GDP as the prices of housing will fall (PL → PL1) ~~as~~ increasing the demand from consumers from y1 to y2. As consumers buy more, there is a greater demand, also increasing supply, so there will be a increase in employment to account for the increase in supply. This is an effective ~~or~~ way to ~~[illegible]~~ acheive economic growth and full employment as it decreases deflation in the market and pushes the ~~SRAS~~ aggregate supply curve closer to the full employment line (Yf).

(2)

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A3

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.

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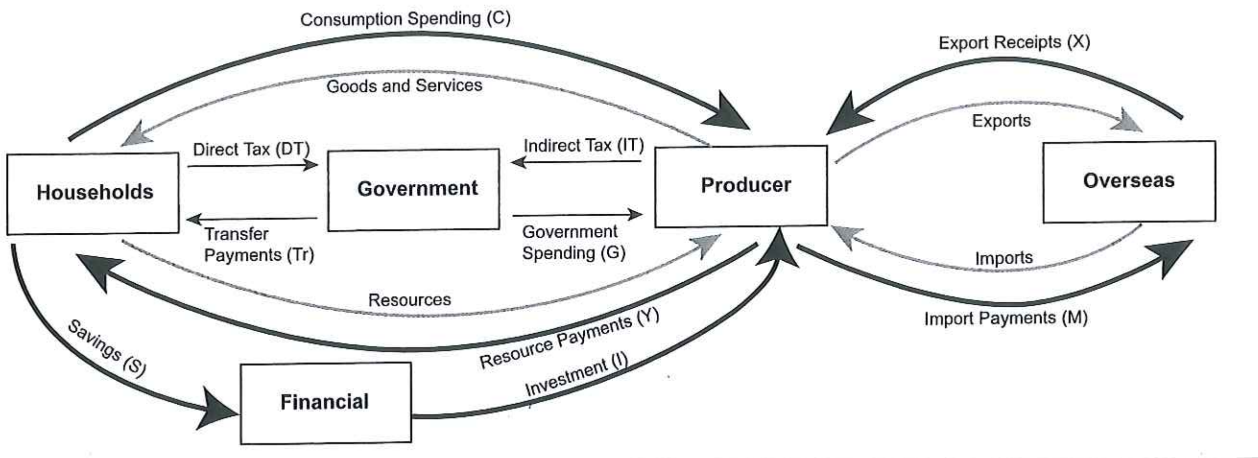
The circular flow diagram below illustrates the relationship between different sectors of the economy.



(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.

The falling in oil prices would lead ~~exports~~ ~~export receipts~~ import payments to decrease, as NZ imports their oil and ~~doesnt~~ rarely export it. With this, producers costs of production will fall, increasing their profits. For the overseas sector ~~the~~ (China) ~~to~~ they won't ~~be~~ be generating as much revenue therefor decreasing aggreate supply ~~&~~ creating deflation in the market.//

(3)

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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.

The impact of falling prices will cause consumption spending to increase, and in return a increase in the goods & services to consumers. The increase in demand will have an impact on the balance of goods as the supply of goods will need to increase to account for the demand. ~~Ser~~ The balance of services would increase as due to the demand for more supply, producers will require more jobs & service from ~~consumers~~ housholds. The impact the slowdown in the world economy will have on the current account is that, with Chinas forcast to decrease from 7.1 to 6.8 percent it causes deflation in the economy, dropping & unbalancing the current account. As China is a price setter in the economy this has a greater impact on the current account than the falling in oil prices. //

(4)

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N1

QUESTION THREE: Consumer spending and the business cycle

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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.)

~~200 million × 0.94 = 188000000~~

~~$\frac{1}{1-(188 \text{ mill})}$~~

(5)

(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.

~~With an increase in consumer spending,~~

(6)

(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.

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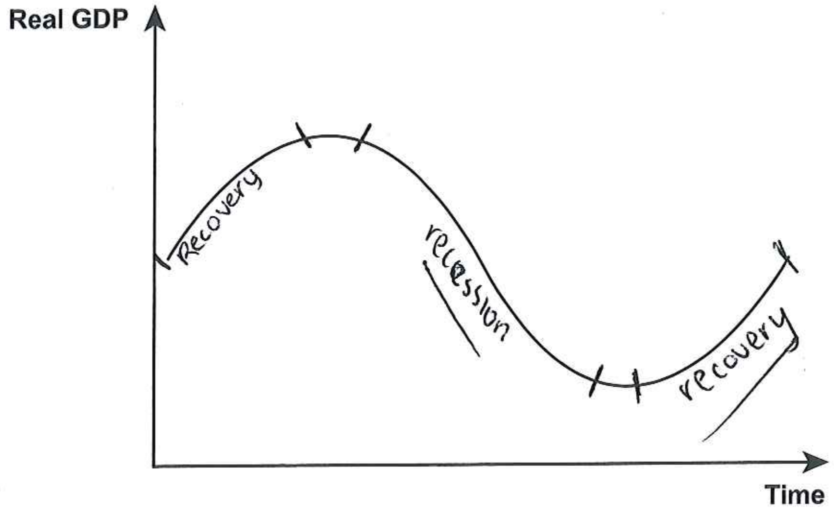
Graph Two: The business cycle of economic activity



(7)

The impact of a recession on price levels causes the price levels to increase as producers are needing more money because consumers arent spending. The impact of a recovery on price levels is that they are decreasing as consumers are spending so the demand increases. An increase in consumer spending is more likely to have an effect on price levels in a recession rather than a recovery. This is because in a recession consumers arent spending, therefor an increase in consumer spending will impact it more because it'll stimulate the economy a begin to bring it out of a recession. If there were to be a increase in

(8)

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consumer Spending in a recovery it would just continue to cause inflation in the economy and continue upwards until it reaches a peek. Investors aren't keen to invest at these periods as there is more of a risk, therefor a great increase in consumer spending in a recovery period would decrease investors ~~spending~~ investing and cause the market to begin to slow down. Where as investors are more likely to invest if there is a increase in consumer spending in a recovery period as the economy will begin to experience an upturn creating a larger effect & stimulating the economy. //

N1

<table>
<tr><td colspan="3">Not Achieved exemplar for 91403 2015</td><td>Total score</td><td>05</td></tr>
<tr><td>Q</td><td>Grade score</td><td colspan="3">Annotation</td></tr>
<tr><td>1</td><td>A3</td><td colspan="3">This candidate has received A3 for this question because they:
a) shifted and labelled the AS curve correctly on Graph One. (1)
b) provided partial explanations about economic growth and employment increasing. (2)</td></tr>
<tr><td>2</td><td>N1</td><td colspan="3">This candidate has received N1 for this question because they:
a) partially explained how the falling oil prices will change import payments, reduce costs of production for firma and lead to deflation. The explanation is incomplete and contains incorrect ideas. (3)
b) provided no relevant explanations with regard to the impact of falling oil prices and the slowdown of the world economy on NZ’s goal of a balanced current account. (4)</td></tr>
<tr><td>3</td><td>N1</td><td colspan="3">This candidate has received N1 for this question because they:
a) were unable to correctly calculate the change in GDP using the spending multiplier. (5)
b) were unable to explain how the spending multiplier works. (6)
c) correctly identified a recession and a recovery on Graph Two (7) but failed to provide any relevant explanations about the impact of recessions or recoveries on the price level (8).</td></tr>
</table>