Assessment Schedule – 2022

Economics: Analyse inflation using economic concepts and models (91222)

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Analyse inflation involves*:* • **explaining** the causes of changes in inflation using economic models • **explaining** the impacts of changes in inflation on various groups in New Zealand society • **identifying, defining,** or **describing** inflation concepts.	*Analyse inflation **in depth*** involves*:* • **detailed explanation** of the causes of changes in inflation, using economic models • **detailed explanation** of the impacts of changes in inflation on various groups in New Zealand society.	*Analyse inflation **comprehensively*** involves*:* • **analysing** causes of changes in inflation by **comparing** and / or **contrasting** their impact on inflation • **analysing** the impacts of changes in inflation by **comparing** and / or **contrasting** the impact on various groups in New Zealand society • **integrating** changes shown on economic models into **detailed** explanations.

Evidence

<table>
<tr><th>Q1</th><th>Evidence</th><th>Achievement</th><th>Achievement with Merit</th><th>Achievement with Excellence</th></tr>
<tr><td>(a)(i)

(ii)</td><td>Illustrates demand-pull inflation, shown by an increase in AD curve (see Appendix, Graph One).

Possible examples of causes:
increase in consumption – increases in minimum wages, social welfare support payments, inflationary expectations
investment – private, government spending – infrastructure, health spending
net export receipts – increase in exports for products (dairy, timber etc), consumer products (such as technology, entertainment) for an increase in AD.</td><td>Illustrates and labels an increase in aggregate demand.
Explains one economic reason (increase in consumption, investment, government spending, net export receipts) for an increase in AD, resulting in demand-pull inflation.</td><td>Explains two reasons (including appropriate economic terms) for demand-pull inflation.</td><td></td></tr>
<tr><td>(b)(i)

(ii)</td><td>Illustrates cost-push inflation shown by a decrease in AS curve (see Appendix, Graph Two).

Possible examples of causes:
increase in nominal wages such as minimum wages will increase costs of production
other increases in cost of production such as the Auckland petrol tax
increase in imported prices such as the cost of resource materials such as crude oil / petrol (affecting distribution costs), shipping costs
loss of temporary migrant workers has reduced production capacity in New Zealand or increased wages as firms compete for workers
falls in productivity as COVID-19 has reduced availability of workers, imports of resource materials etc.
the New Zealand exchange rate has depreciated increasing the cost of imported resources.</td><td>Illustrates and labels a decrease in aggregate supply.
Explains one economic reason (increase in nominal wages, input prices increase, falls in productivity or productive capacity, depreciation of exchange rate) for a decrease in AS, resulting in cost-push inflation.</td><td>Explains two reasons (including appropriate economic terms) for cost-push inflation.</td><td>States which – demand-pull or cost-push – has had greater impact on inflation.
References both Graph One and Graph Two to compare and contrast to determine which has a greater impact on inflation.
References at least one real world reason for both demand-pull and cost-push inflation.</td></tr>
</table>

(c)	Justifications could include: • economic reasoning as number of businesses / households / sectors impacted by the reasons used • the duration of the impacts (their permanency, the ability of the economy / market to adjust to the change etc. • the short term vs long term impacts of the reasons.			

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Q2	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	Inflation is an increase in the general price level.	• Defines inflation as an increase in the general price level.		
(b)	Price increases of some goods and services are more important than others. For example, an increase in housing costs will have more impact on the average household than an increase in clothing costs.	• Explains that some price increases are more significant than others.	• Explains that some price increases are more significant than others, using an appropriate example.	
(c)	Reason for the inverse relationship between higher interest rates and inflation include: • higher interest rates lead to lower consumption and therefore less spending, reducing aggregate demand. • lower consumer confidence. • less investment. • lower business confidence.	• Explains why higher interest rates lead to lower consumer spending or investment.	• Explains why higher interest rates lead to lower consumer spending or investment, with a link to lower aggregate demand.	
(d)	Inflation may increase revenue (GST as consumption increases, PAYE as nominal wages increase or more jobs / higher wages in economy, company tax as price increases may increase profitability of businesses). Investment – debt servicing is more expensive, so cost of social welfare may increase as benefits increase to maintain living standards. Government may have to subsidise essential services as prices increase. Both government revenue and expenditure will increase. The operating balance depends on which increases faster. It is likely that expenditure will increase faster as the government increases spending on health, education, etc. While revenue from taxes may increase, the inflation rate may lead to lower profits for some companies, and some consumers may cut back spending. Note: justification of revenue increasing faster than spending possible with sound economic reasoning.	Explains: • how inflation may cause government revenue to increase • that inflation may cause government expenditure to increase.	• Explains in detail the impact of inflation on government operating balance (both revenue and expenditure).	• Compares and contrasts the impact of inflation on government revenue and expenditure. • Explains in depth the impact of inflation on government revenue and government expenditure. • Justifies why the impact will be higher on either revenue or expenditure, and the impact on the operating balance is explained.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Q3	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	The worker will have decreased purchasing power as their real wages have fallen by 3%. They can purchase 3% less goods and services than before.	• Explains that purchasing power / real wages will decrease due to inflation increasing at a higher rate than the nominal wage increase.	• Explains that purchasing power will decrease as real wages have fallen by 3%.	
(b)	Reasons for higher inequality include beneficiaries / those who are on fixed incomes may have no changes to their nominal wages whereas those on higher incomes may have the ability to negotiate wage increases in line with or exceeding the inflation rate. **Note**: Other explanations are available, such as export firms may be less competitive internationally.	• Explains one reason why income inequality will increase.	• Explains why income inequality will increase by comparing two different groups.	
(c)	Borrowers are better off in times of high inflation as the value of the assets they buy increases (or future debt repayments will be paid with dollars of less value). Savers are worse off in times of high inflation as the value of their savings fall in real terms. Consumers will also shift toward consumption over savings as they expect prices to rise / purchasing power of savings to fall. Firms are worse off in times of inflation as (factor costs) input / resource prices increase reducing profitability unless product prices are increased. Input prices (factor costs) increases are not constant, so planning is less predictable, reducing business confidence (as the ability to determine if price is sufficient to cover costs and desired profits falls). Firms' cost of borrowing is likely to increase as interest rates increase to combat inflation, making investment more expensive / difficult and business confidence falls. (Also, if savings fall, less investment funds available from financial sector.)	Explains impact on: • borrowers in times of high inflation OR savers in times of high inflation. • firms in times of inflation using costs OR firms in times of high inflation using investment.	• Explains impact on borrowers in times of high inflation **AND** • explains impact on savers in times of high inflation. • Explains impact on firms in times of inflation using costs and investment.	• Explains in detail both impact of high inflation on borrowers and savers and makes a partial explanation of the impact of high inflation on firms. **OR** • Explains in detail the impact of high inflation on firms and makes a partial explanation of the impact of high inflation on borrowers and savers.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 6	7 – 13	14 – 18	19 – 24

Appendix

Question 1(a) and (b)