No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose of gaining credits towards an NCEA qualification.

3

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91403

914030

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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.

Achievement

TOTAL 9

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QUESTION ONE: Changes in a government policy

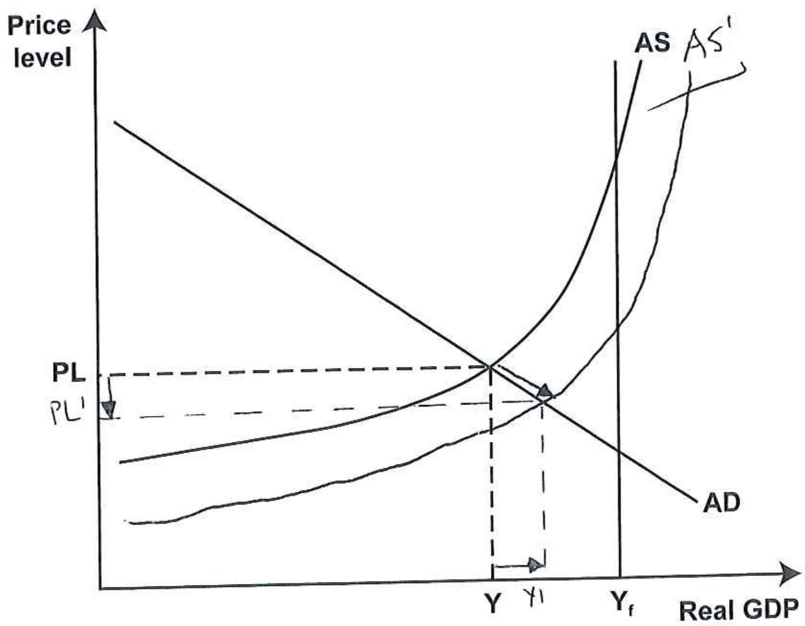
Source (adapted): http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11389827

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.

A supply-side policy such as the reform of the Resource Management Act will have a positive impact on increasing Real GDP, as shown on the graph (Y-Y1). This is because when the environmental regulations were removed this dramatically decreases cost of production for the producers ~~ones~~ (builders). ~~~~ When the cost of production decreases for producers, they are able to employee more. Which not only means overhauling the RMA creates more jobs but then it brings the Government closer to their goal of full employment. This then means with more employee's productivity will increase, meaning ~~more~~ in this case more ~~houses~~ homes can be built, which increases aggregate supply (AS - AS' on the graph). With

(3)

(2)

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an increase in aggregate supply means an increase in output. When output increases we can see that real GDP then increases (Y-Y¹). We can see the effectiveness this has on acheiving the goals of both economic growth and full employeement. Also on the graph we can see price level decrease (from PL - PL¹) as ~~removing~~ the RMA regulations were increasing the cost of homes and apartments, removing these regulations decreased price level//

A4

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

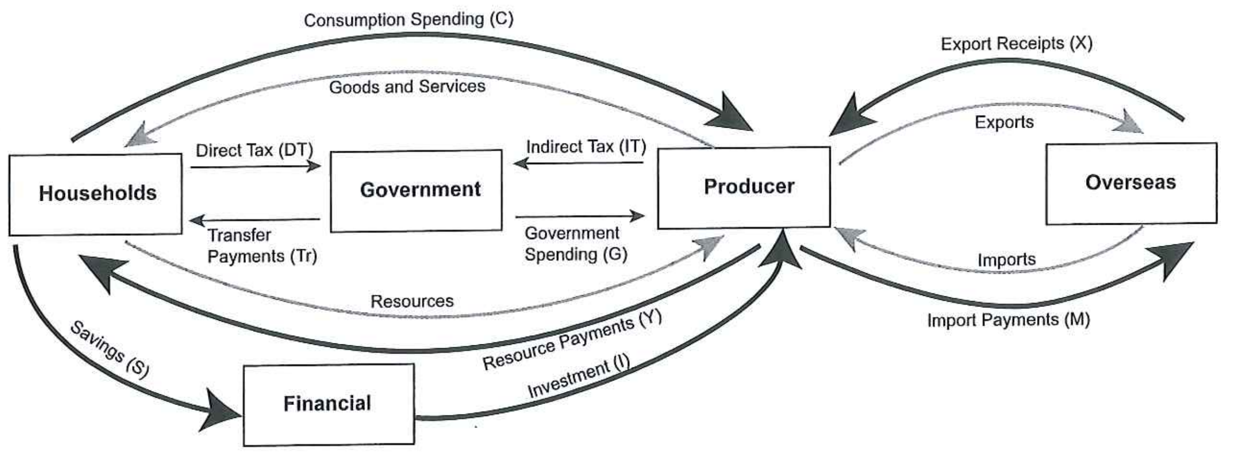
Deflation looms as oil prices fall

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.

ASSESSOR'S 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.

The impact that falling oil prices will have on the producer sector is a decrease in cost of production. This means it will cost less for producers to produce their goods or services. This impact on the producer sector could result in deflation as producers could sell their goods or services for a lower price as it is cheaper to produce. Deflation being a persistent decrease in the general price level, this impact on the producer sector could cause it, as the general price level has been lowered

(4)

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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 Fact that New Zealand imports far more oil ~~than~~ than it exports, falling oil prices will lead to a current account deficit. This is because of falling oil prices ~~with make~~ making the balance on goods and the balance of services also at a deficit as the imports increase a significant amount over exports. (5)

The impact the ~~slow~~ slowdown in the world economy will have on the balance on goods and the balance on services will ~~have~~ be a similar ~~effect~~ impact as oil prices. With China having a decrease in economic growth will decrease China's output meaning they will export less but it also means that ~~China~~ China will have ~~an increase~~ less export ~~reciepts reciepts~~ reciphts meaning they will then import less from traders such as New Zealand. (6)

This will mean once again New Zealand will be importing more than exporting as New Zealand might import from another cantry

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but a decrease in exports to China will have a huge impact on the current account. ~~[illegible] will [illegible]~~ A slowdown in the world economy will have a greater impact ~~[illegible]~~ than falling oil prices as the world economy is much more impactful than just oil ~~[illegible]~~ goods & services. //

A4

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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.

(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.)

1.06 = 212,000,000

~~$200,000,000 × 0.06~~

212,000,000 × 0.06 = 12,720,000

$\frac{1}{1-MPC} = \frac{1}{1-200{,}000{,}000} = -5.000000025E-09$

(7)

(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.

An increase in consumer spending ~~confidence~~ will increase aggregate demand, as it is a determint of it. This increased spending will mean producers can increase their supply to keep up with demand, so aggregate supply increases. When output increases, there will be in increase in the Gross Domestic product as seen by the spending multiplier

(8)

(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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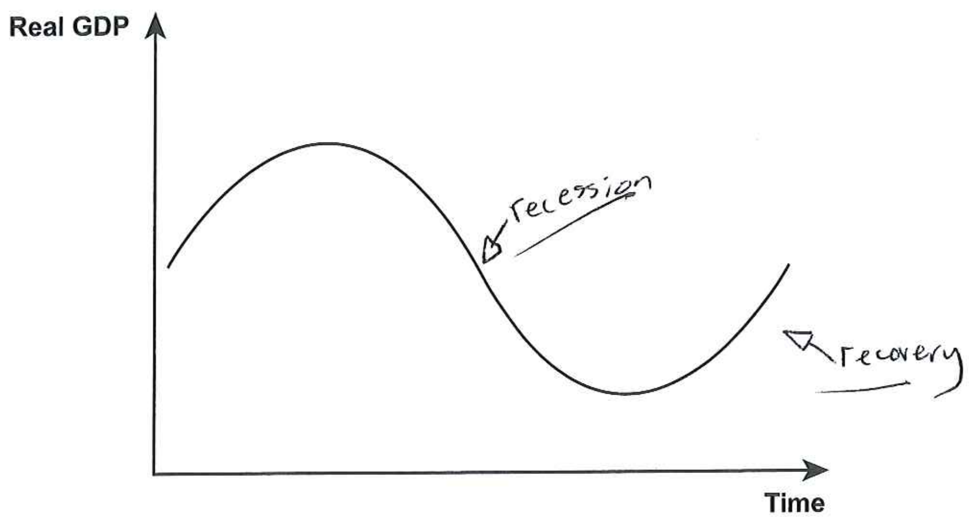
Graph Two: The business cycle of economic activity



(9)

An increase in consumer spending will have an impact on the macro economic goal of price stability as it can help keep the inflation rate between the 1-3% goal but aiming at 2%. Increased consumer spending increases aggregate demand, and when aggregate demand is increasing, so is ~~[illegible]~~ inflation. During a recession ~~price levels are decreasing~~ increased consumer spending would increase aggregate demand which would increase price levels and increase Real GDP. This is extremely positive

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as during a recession real GDP is decreasing. This will have a lot bigger impact than it would during a recovery period, as during a recovery period Real GDP is already increasing. So the impact will be much greater during a recession as it brings the Government closer to the ~~macro econo~~ macroeconomic goals of price stability by increasing the price levels to keep inflation between 1-3% and also increasing Real GDP to ~~gai~~ acheive economic growth. //

(10)

N1

Achievement #2 exemplar for 91403 2015			Total score	10
Q	**Grade score**	**Annotation**		
1	A4	This candidate has received A4 for this question because they: a) shifted and labelled the AS curve correctly on Graph One. **(1)** b) provided partial explanations on how the reform of the RMA will impact Real GDP **(2)** and Employment **(3)**. More in-depth explanations would have included details such as the impact of improved productivity and/or reduced time delays, the components that make up AS, the significance of the changes to Eco Growth and/or Employment, the derived demand concept, and more specific explanation of the potential job creation.		
2	A4	This candidate has received A4 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. **(4)** b) partially explained the impact of falling oil prices on NZ's import payments and current account **(5)**, and partially explaining the impact of the slowdown in the world economy on NZ's export receipts and current account **(6)**. A more thorough answer would have explained why the falling oil prices decreases import payments, why export receipts would decrease and also include explanations using other variables that impact the current account.		
3	N2	This candidate has received N2 for this question because they: a) calculated the spending multiplier but incorrectly calculated the change in GDP. **(7)** b) have not used the spending multiplier to explain how the change in GDP occurs. **(8)** c) correctly identified a recession and a recovery on Graph Two **(9)** and identified that in a recovery Consumption and the Price level are increasing **(10)** but got side-tracked by explaining the impact of fiscal policy.		

3

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Achievement

TOTAL 10

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QUESTION ONE: Changes in a government policy

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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.

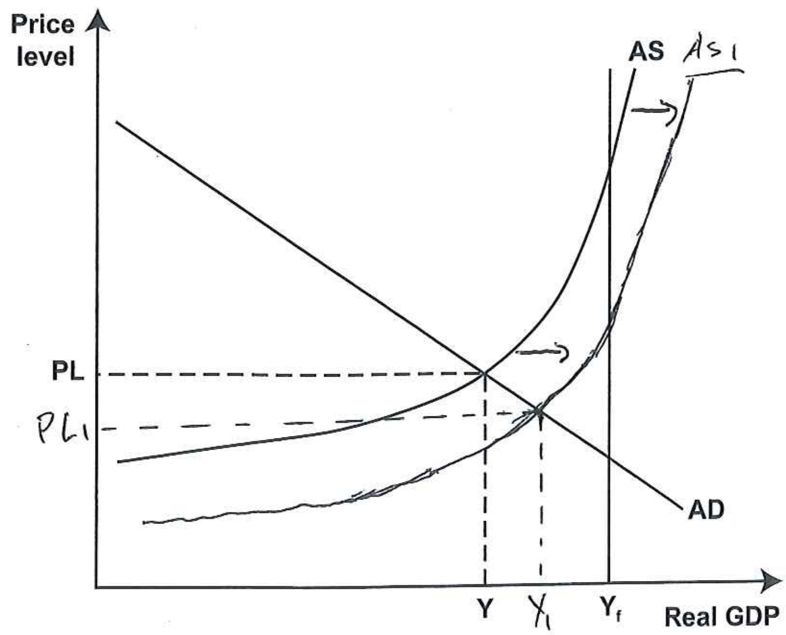
Source (adapted): http://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11389827

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)

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.

The reform on the resource managment act will have a positive impact on real GDP. This is because the new act decreases cost of production which will increase profitability of firms. This will cause an increase in aggregate supply causing a shift to the right from AS to AS1 and increasing Real GDP from Y to Y1.//

A supply-side policy is able to create jobs as an increase in aggregate supply will increase real GDP. this also means As you can see from the reform resource managment act there has been a decrease in distance from the new equilibrium Y to Yf which indicates an increase in employment. Also because the demand for labour resources is higher. (2)

The policy to reform the Resource Management Act is effective in achieving economic growth and (3)

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full employment. This can be seen on the graph as althoug there are deflationary pressures on the price level as it has decreased from PL to PL1, there has been an increase in Real GDP from Y to Y1 which indicates economic growth. This is also effective for the governments goal of full employment as the new equilibrium Y1 is ~~closer~~ a smaller distance from Yf which is full employment.//

A4

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.

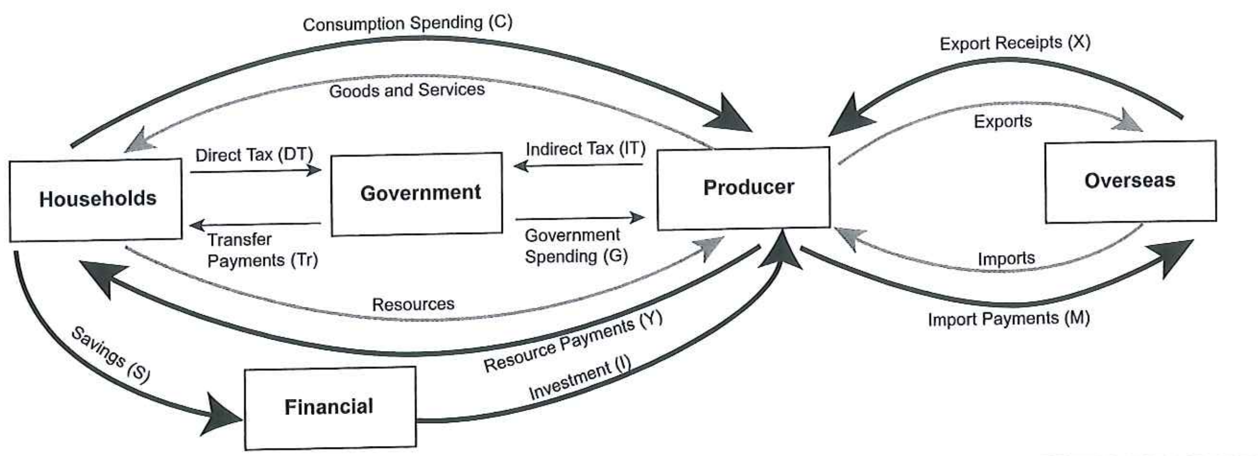
"The drop in oil prices is turning out to be a windfall gain for consumers," he said. "Households have ended up with extra money in their pockets to spend on other goods and services instead – boosting, rather than contracting, future activity."

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'S 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~~ Oil is one of NZ largest imports and due to the price of oil lowering, this will decrease import payments and decrease cost of production of oil based products. This means that there will be a higher demand of labour resources as producing is more profitable increasing resource payments (for extra labour).

This impact on the producer sector could result in deflation as ~~the~~ cost of imported raw materials is a factor of aggregate supply. This means there will an increase in aggregate supply in the New Zealand economy which causes deflationary pressures on the price level leading to deflation. in the long run if oil prices stay low.

(4)

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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 mean that petrol at the pump will be cheaper so households will see an increase in their real income as they save on purchasing petrol. This means that consumption spending will increase ~~meaning~~ ~~there will be an increase~~ in the balance on goods and the balance on services due to increased real income (balance on goods will be impacted more). This falling oil prices will ~~increase~~ have a positive effect on the current account as lower oil prices means that import payments decrease making export recepits higher then imports payments. //

(5)

The slowdown of the word economy means that net exports from New Zealand will decrease as foreigners have lower incomes and therefore will reduce ~~the number of exp~~ decreasing export revenue. This means the balance on goods and services will decrease as unemployment increases in export based sectors which will decrease aggregate demand in the New Zealand economy ~~meaning~~ meaning consumption spending has decreased. The slowdown in the world economy will have a negative effect on the current account as the decrease in net exports //

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means that import payments will be greater then export recepits in NZ creating a deficit in the current account //

(6)

The slowdown in the world economy will have a larger impact on the current account then falling oil prices because China is one of the main countries New Zealand exports to. Since China has had such a large decrease in growth from 7.1 to 6.8%, ~~so this will have impact of decrease in net ex the the decrease in export recepits~~ this will effect the economy of the rest of the word (growth reduced from 3.8 to 3.5%) meaning that the decrease in export recepits will offset the ~~increase in~~ decrease in import payments from falling oil prices (as it is one good). This means the current account will be negatisley impacted overall showing the slowdown in world economy will have the largest impact on the current account. //

A4

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 = 94%

therefore ~~#~~ the spending multiplier = $\frac{1}{1-0.94}$ = 16.7

200 × 16.7 = $3,340,000 change in GDP //

(7)

(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.

An increase in consumer spending of $200 million with a 0.94 MPC means that consumers will spend 94% of their income and save 6%. ~~The spending~~ multiplier //

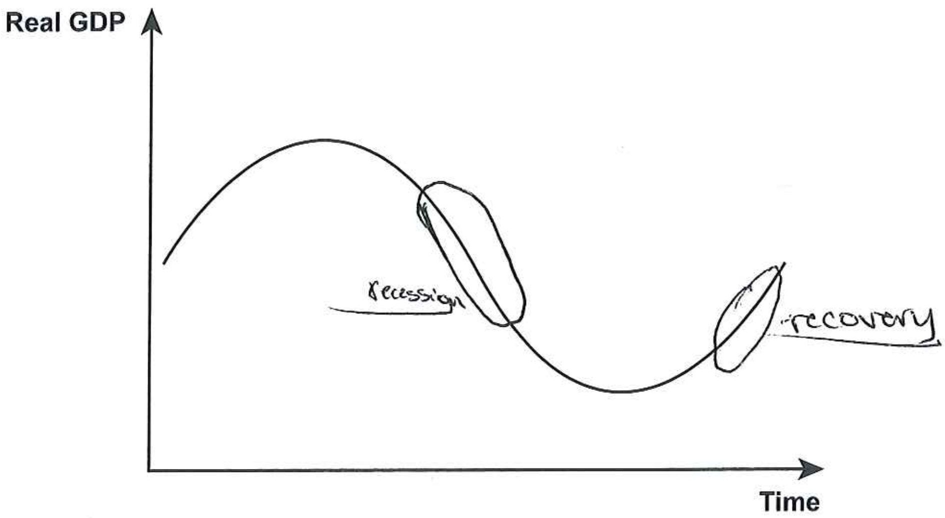
(8)

(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



(9)

In a recession, the government is ~~carrying out~~ making budget surplus or using contractionary fiscal policy. This means that the government is making more revenue then it spends on social welfare. This is withdrawing money from the economy to pay off debt ~~With an increase in consumer spending~~ This will decrease aggregate demand in the economy as households disposable income has decreased (due to increase tax / less transfer payments). This means that there will be a decline in growth (Real GDP) and there will be deflationary pressure on the price level (it decreases). //

In a recovery stage, the government is running budget deficits as they are injecting money to stimulate

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growth in the economy. This will increase aggregate demand in the economy as ~~the government~~ ~~or~~ households have higher income due to decrease in income tax ~~and~~ ~~or~~ increase in transfer payments increasing consumption. This ~~will increase~~ means that real GDP will increase indicating growth and inflationary pressures will be put on price level (price level increases)//

(10)

An increase in consumer spending will have a larger impact in a recovery stage. This is because with the government injecting money into the economy ~~boosting~~ creating higher consumer confidence because of positive thoughts of future employment and income, consumption spending will increase creating a larger flow of goods and services in the economy. This means that there will be higher levels of growth and a boom will be higher then it otherwise could. This will lead to a larger increase in aggregate demand and therefore a larger increase in price level.//

N2

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

QUESTION NUMBER

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2.b) which will increase aggregate demand in the New Zealand economy. ~~Also because the cost of imported raw materials has~~ This will cause an increase //

91403

Not Achieved exemplar for 91403 2015		Total score	05
Q	**Grade score**	**Annotation**	
1	A3	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)**	
2	N1	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)**	
3	N1	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)**.	