2

SUPERVISOR'S USE ONLY

91222

912220

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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

Level 2 Economics, 2015

91222 Analyse inflation using economic concepts and models

2.00 p.m. Thursday 12 November 2015
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse inflation using economic concepts and models.	Analyse inflation in depth using economic concepts and models.	Analyse inflation comprehensively using economic concepts and models.

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 2–11 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 10

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QUESTION ONE: CAUSES OF INFLATION

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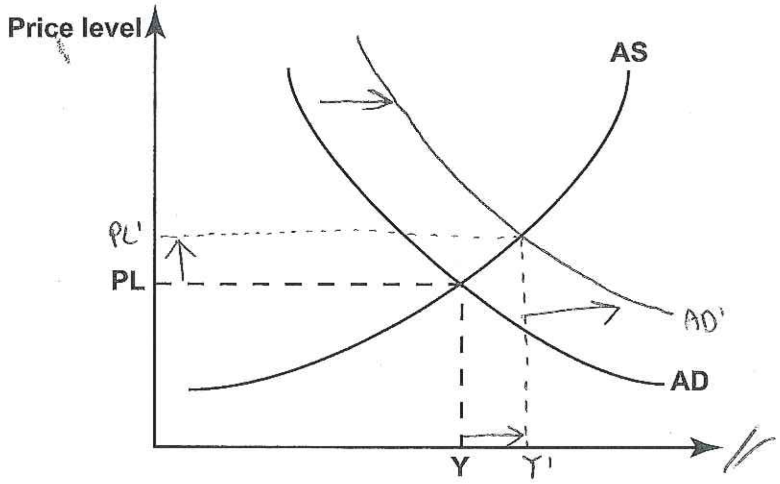
Surveys show 13% of tourists say the Hobbit films influenced their decision to travel to New Zealand. The surge in spending by tourists from premium markets such as Germany, the US, and the UK can be explained by film tourism.

Source (adapted): *The New Zealand Herald*, 7 January 2015, p. A15.

(a) Explain in detail the impact on inflation of the increase in film tourism in New Zealand. In your answer:

- ✓ use Graph One to show the impact of the increase in film tourism on inflation
- ✓ explain in detail how the increase in film tourism could affect inflation
- ✓ refer to the change you made on Graph One to support your answer.

Graph One: AD / AS model of New Zealand economy



An increase in film tourism ~~to~~ in New Zealand will increase Aggregate demand. This is because Consumer spending (c), a componant of Aggregate demand, is increasing. This is due to there being more people spending there money on goods and services in New Zealand. This increase on Aggregate demand is shown on the graph by AD → AD'. This increase in Aggregate demand has caused price level to increase from PL → PL'. This is inflation.

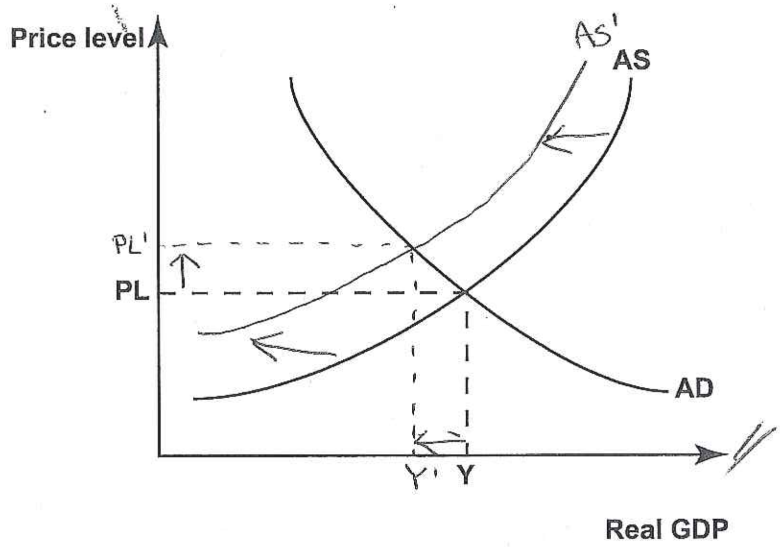
Government regulations will require all firms to undertake earthquake strengthening assessments and complete necessary strengthening by a given date. The total estimated costs for firms will be in excess of $2 billion.

(b) Compare and contrast the impact on inflation of the increase in film tourism with the impact of earthquake strengthening regulations.

In your answer:

- use Graph Two to show the impact of earthquake strengthening regulations on inflation
- explain in detail how earthquake strengthening regulations would affect inflation
- explain in detail how the increase in film tourism may have a smaller impact on inflation than earthquake strengthening regulations
- refer to the changes you made on Graph One and Graph Two to support your explanations.

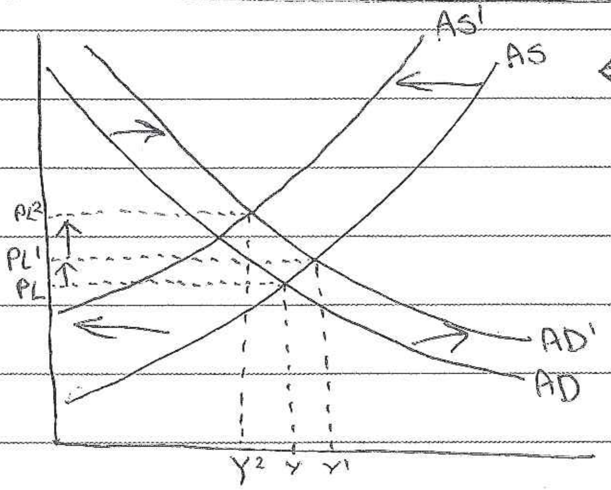
Graph Two: AD/AS model of New Zealand economy



~~An increas~~ Earthquake strengthening for all firms is going to increase cost of production. This increase costs in production effects Aggregate supply. This impact is shown on the graph by a decrease from AS → AS'. Cost of production is increasing due to firms now requireing to undertake earth quake strengthing costing firms. This decrease in Aggregate supply has caused price level to increase from PL → PL'. This is inflation. The increase in film tourism may have a smaller impact on inflation than the

There is more space for your answer to Question One on the following page.

new regulations for earthquake strengthening because "film" tourism is only a small section in the economy, whereas "All firms" are now required to have earthquake strengthening put in place. (effecting ALL firms)



⇐ On the graph I have drawn. The regulations for earthquake strengthening has a larger ~~effe~~ impact on inflation than the increase in film tourism. This is shown on the graph as film tourism shows slight inflation from PL → PL'. But earthquake strengthening has a larger impact from PL → PL². Greater inflation

A4

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QUESTION TWO: THE QUANTITY THEORY OF MONEY

During 2014, the fall in export receipts represented an estimated $6.1 billion reduction in dairy farming income, compared to the previous year in the New Zealand economy. Reductions in export receipts have an effect on the money supply.

(a) Explain in detail the impact of reduced export receipts in the New Zealand dairy industry on inflation.
In your answer:
- explain in detail how reduced export receipts in the dairy industry will affect inflation
- refer to all the variables in the Quantity Theory of Money equation.

export reciepts effects Money supply (M). ~~If a decrease in (M)~~ If there is a decrease in (M), according to the Quantity Theory of Money equation, all variables must stay constent. There for (P) price level would also decrease. e.g $M\Downarrow V = P\Downarrow Q$. If there is a decrease in price level this will mean deflation is occuring. (or possibly disinflation, no data is given on what inflation is at so I cant make the call).

Increased production by foreign producers may make it more difficult for the New Zealand dairy industry to regain the record level of export receipts experienced in 2013. Historically, when export-dependent industries experience permanent declines in export receipts and income, they respond by reducing production.

(b) Discuss how a permanent fall in export receipts in the dairy industry may affect inflation in the long run.
In your answer:

- explain in detail why real output in the Quantity Theory of Money may change when there is a permanent fall in dairy export receipts
- explain in detail the impact on inflation if there is a change in real output
- compare and contrast the overall impact on inflation between the initial decline in export receipts in the dairy industry in the short run, and the additional impact of changes in real output if the fall in export receipts remains permanent in the long run.

If there is a permanent fall in export receipts than real output could be effected in the long run.
If real output (Q) decreases in the Quantity theory of money than according to 'all variables must stay constant.' Than (V) velocity of circulation will decrease

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A3

QUESTION THREE: CAUSES AND IMPACTS OF INFLATION

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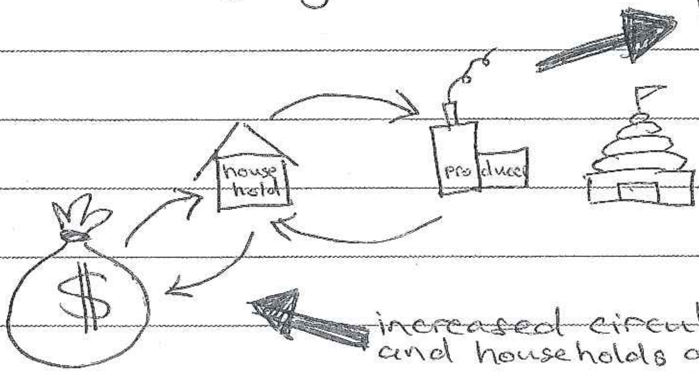
1. During 2014 daily early bird parking fees increased in price from $13 to $17 for council owned central city parking in Auckland.
2. House owners are feeling confident after learning their property values have increased significantly over the last three years. Increased confidence in their wealth means that home owners are willing and able to borrow more from banks to spend on new cars, boats, and home renovations.

Source (adapted): *The New Zealand Herald*, 12 November 2014, p. A8.

(a) Explain in detail the different effects on the general price level measured by the Consumer Price Index (CPI) of an increase in price of early bird parking fees (a single product) and the increase in house values.
In your answer:
- explain why an increase in price of early bird parking fees may not cause a change in inflation
- explain in detail how the increase in house values as indicated in the resource material can result in a change in inflation.

An increase in price of early bird parking fees may not cause a change in inflation because not everyone drives a car (dont need parking), some people bike, walk, or catch the bus or train. Also the increase in parking fees is only for council owned central city parks in 'Auckland'. Not effecting the whole country/economy. However, the increase in house values, creating an increase in House Owners feeling confident. Effects the whole coutry and therefore will have a large impact on inflation. as there is increased ~~confident~~ confidence there is increased consumer spending and increased investment. Therefore Consumers/households spending more of there wore. Inflation is going to occur.



Increased circulation ~~between~~ households and producers as consumerspending is increasing. purchases of goods and services.

~~increased circulation between banks~~ and households as they will take out loans from banks and spend more rather than save.

(b) The business cycle results in periods of inflation and disinflation. Compare and contrast the impact of these periods of inflation and disinflation on various groups in New Zealand society. In your answer:

- explain the difference between inflation and disinflation
- explain in detail the impact of both inflation AND disinflation on savers
- explain in detail the impact of both inflation AND disinflation on the Government's operating balance.

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Inflation is an increase of the general price level of goods and services in a economy.

Disinflation is a decrease in inflation. (but still above 0)

There is more space for your answer to Question Three on the following page.

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A3

Achieved exemplar for 91222 2015		Total score	10
Q	**Grade score**	**Annotation**	
1	A4	Part A has a correctly labelled graph that is referenced in the explanation. There is an explanation of the cause of the shift in aggregate demand, but, there is some inaccuracy in the economic concepts required for merit. Part B has a correctly labelled graph that is referenced in the explanation. There is an explanation of the cause of the shift in aggregate supply. An expansion of the answer to profit margins would have benefited the depth required for detail.	
2	A3	Part A has an explanation that correctly links money supply and price level using the quantity theory of money model stipulated in the question. Part B links a change in output to an incorrect variable in the quantity theory of money.	
3	A3	Part A correctly explains the difference between a single market and the general price level. Part B incorrectly identifies disinflation. No explanation on the impact of inflation types on savers or government operating balance is attempted.	