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91222

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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.

Not Achieved

TOTAL 5

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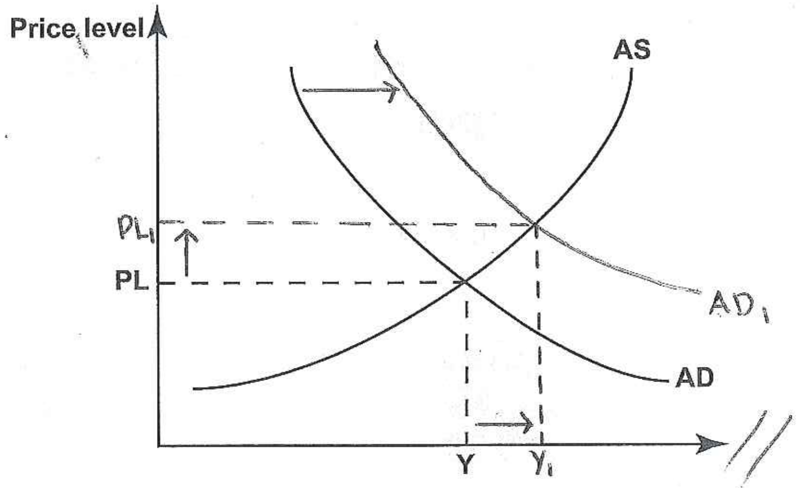
QUESTION ONE: CAUSES OF INFLATION

> 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



Inflation is a rise in the general level of prices. If tourism was to increase in New Zealand inflation would increase. Shown on the graph shifting AD - AD1 this is due to the increase of tourism this will increase PL - PL1 showing an increase of inflation, and also increasing real GDP from Y - Y1. As a survey has shown 13% of tourists will be influenced by the Hobbit movie to travel to New Zealand this will cause more people coming into New Zealands market increasing demand for goods and services and further on AS will need to increase to compensate for that high demand //

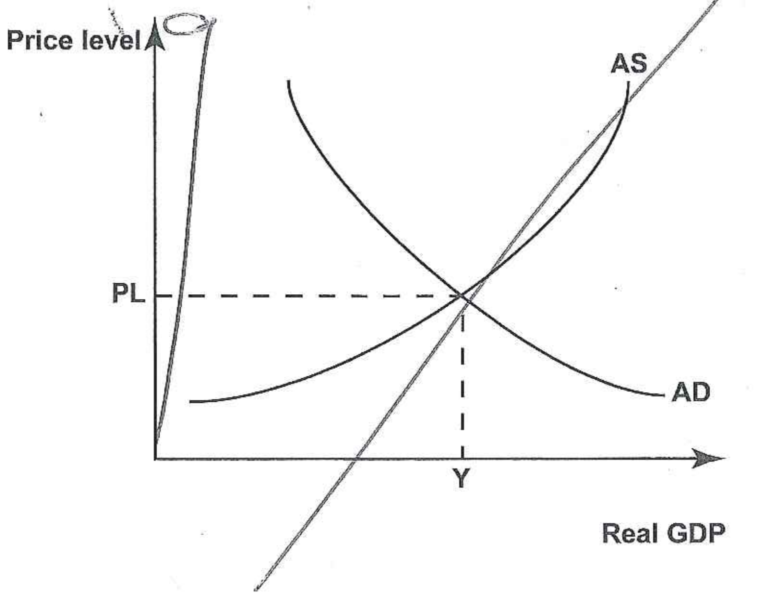
Government regulations will require all firms to undertake earthquake strengthening assessments and complete necessary strengthening by a given date. The total estimated costs for firms will be in excess of $2 billion.

(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.

C+I+G+(X-M)

Graph Two: AD/AS model of New Zealand economy



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

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$M \times V = P \times Q$
mun velocity cost of each quantity

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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.

~~My~~ New Zealands export reciepts have decreased an estimate \$6.1 billion, This will cause disinflation in the economy as the rate of inflation is decreasing. //

$M \times V = P \times Q$ //

M = money supply //

V = velocity (times it circulates) //

P = cost per good //

Q = Quantity (real output) //

If money supply was to decrease 6.1 billion the cost of each good would also have to decrease to ensure ~~[illegible]~~ Quantity theory of money remains equal. //

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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 was a permanent fall in ~~price~~ exportreciepts in the dairy industry, real output will also decrease because firms are not willing and able to produce the good that is not demanded ~~overse~~ overseas.

if there was a change in real output deflation will occur as firms are not willing to employ.

In the short run the rate of inflation will decrease however if the export reciepts were to decrease then deflation a decrease in the general level of prices will occur causing New zealands economy to be in a recession

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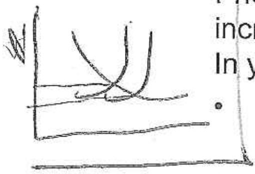
QUESTION THREE: CAUSES AND IMPACTS OF INFLATION

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.

~~Bec~~ An increase in earlybird parking may not cause an increase in inflation because consumers can stop paying for parking by not parking in the places where ~~there~~ has being an increase in parking tax //

A more people are more willing to borrow from the bank because they have the business confidence that their house will be able to pay the bank back the money that has being borrowed. This will increase inflation as more money is ~~entering~~ circulationg the economy //

(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 a rise in the general level of prices //

Disinflation is a decrease in the rate of inflation //

During times when high periods of inflation is occuring (Boom stage of the business cycle) saving is dicourged as prices of goods and services are increasing you have no purchasing power. In a period of disinflation (downturn) saving will benefit as goods and services have decreased in price. //

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

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Not Achieved exemplar for 91222 2015			Total score	05
Q	**Grade score**	**Annotation**		
1	N2	Part A has a fully labelled graph one that is correctly drawn. There is a description of the graph but the depth and terminology required for an explanation is insufficient for achieved. Part B has not been attempted.		
2	N2	In part A the components of quantity theory of money are correctly identified. The impact on inflation is identified, but, not explained. No new evidence is provided in part B.		
3	N1	Part A provides no explanation or description of the difference between an increase in price of a single market and an increase in the general price level. In part B there is a description of the impact of inflation on savers, but no explanation.		