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.

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SUPERVISOR'S USE ONLY

91222



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.

TOTAL 5

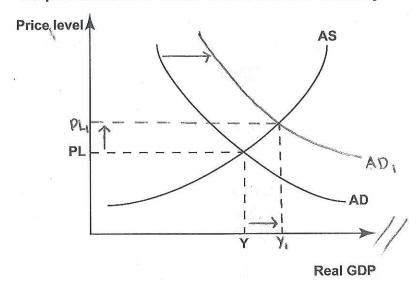
QUESTION ONE: CAUSES OF INFLATION

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.

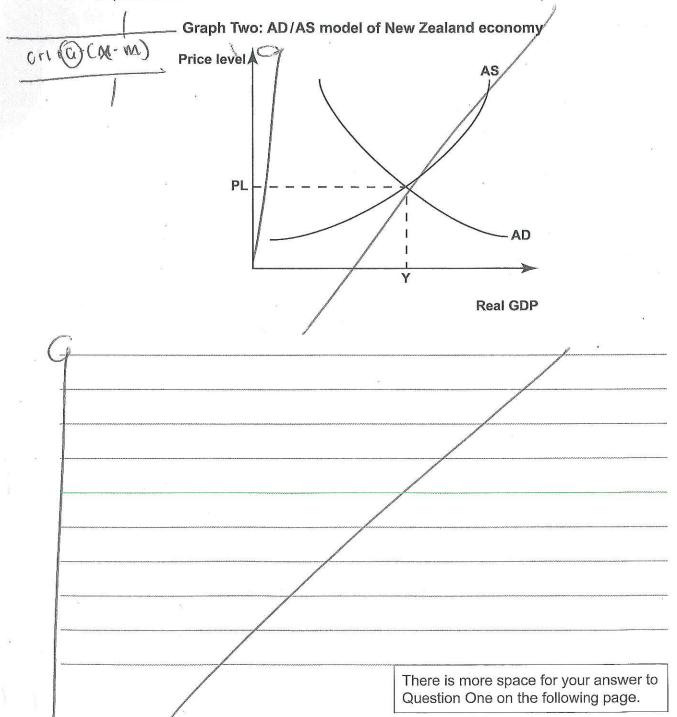
Graph One: AD/AS model of New Zealand economy



Inflation is a vise in the general level of prices. If tourism was to increase in New Tealand inflation would increase shown on the graph shifting AD AD, this is due to the increase of tourism this will increase PI-PL, showing an increase of inflation, and also increasing lead GDP from Y-Y. As a survey has shown 187. of tourists will be influenced by the Hobbit movie to travel to New Tealand this will cause more people coming into New Tealands market increasing demand for goods and services and further on As will need to increase to compensate for that high alemanal for the compensate for the c

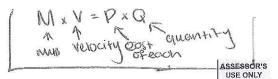
Government regulations will require all firms to undertake earthquake strengthening assessments and complete necessary strengthening by a given date. The total estimated costs for firms will be in excess of \$2 billion.

- (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.



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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.

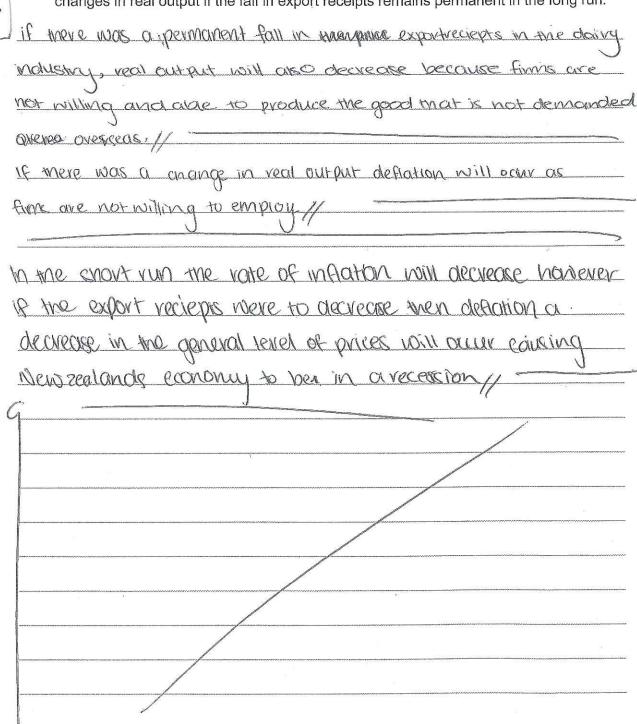
In your answer:

- 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.

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My New Zealands export reciepts have decreased an estimate \$6.1 billion,
This will cause disinflation in the economy as the vate of inflation
is akaleosing.
$M \times V = P \times Q / C$
M=money supply/
V= Velocity (times it rivaliates) //
P=rost 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 worknowing a Quantity throwy
of money remains equaly

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.



ASSESSOR'S USE ONLY

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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.

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(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.

can result in a change in initiation.	
Bear-An Increase in earlybird parking may not cause an incre in inflation because comsumers can stop paying for park; by not parking in the places where there has being an increa- in parking tax	vq
A more people are more willing to borrow from the bank because they have the business confidence that their house is able to pay the bank wach the meney what has being borrow will in are are inflation as more money is entering the econo	owed.