No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose RI JDLQLQJ FUHGLWV WRZDUGV

91403





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

Level 3 Economics, 2016

91403 Demonstrate understanding of macro-economic influences on the New Zealand economy

2.00 p.m. Friday 25 November 2016 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 2–8 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.

Merit **TOTAL**

QUESTION ONE: Impact of monetary policy on growth and inflation

ASSESSOF USE ONL

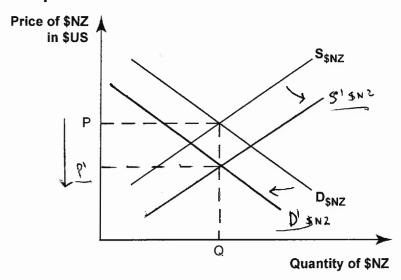
On 10 September 2015, the Reserve Bank reduced the Official Cash Rate (OCR) by 25 basis points to 2.75 per cent.

Inflation remains below the price stability target of 1 to 3 per cent due to the previous strength in the New Zealand dollar.

A reduction in the OCR is warranted by the softening in the economy and the need to keep future average CPI inflation near the 2 per cent target midpoint.

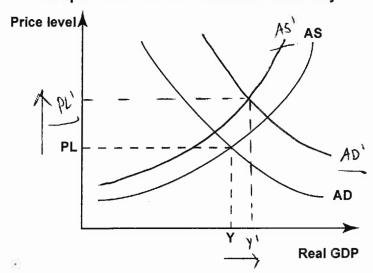
Source (adapted): http://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement/mps2015-09

Graph One: The Market for the New Zealand dollar



(a) On Graph One above, shift both curves to illustrate how a reduction in the OCR could affect the value of the New Zealand dollar. Clearly label any changes you make.

Graph Two: The New Zealand economy



(b) On Graph Two above, shift both curves to illustrate how a reduction in the OCR could affect the New Zealand economy. Clearly label any changes you make.

(1)

(2)

(c) Referring to the resource material on page 2 and to Graphs One and Two, compare and contrast the impact that a reduction in the OCR would have on the Government's goals of economic growth and price stability.

In your answer, fully explain:

- the impact of a reduction in the OCR on the value of the New Zealand dollar
- the impact of a reduction in the OCR on aggregate demand and aggregate supply
- the effectiveness of a reduction in the OCR in achieving the goals of economic growth AND price stability.

The reduction on the OCR means that the interest rates will fall in NZ banks. As a result faeigners will not nort to insest in NZ banks as the retains on funds will now be less than in overtees banks. Therefore the demand fathe NZ dollar non falls from Osnz to pisnz. NZers will non be nonting to invett in a ersecs towar as the returns are non relatively higher than NZ banks so the supply of NZ dollar non increase from Sanz to & Sisnz. As the NZers will non supply more NZ dollar in exchange for fareigne dollars in croler to invest in a residual from P to Pi so there has been a depreciation of the NZ dollar.

Due to the reduction of the OCR, the NZ dollar has depreciated. This non means that expert earmoss are non converted into more NZ dollar so experters may experience an increase in revenue & prefits. So they may per further increase production (ausating the appresant demand (une to increase from Ab to Ab'. As experts vereipts ully further increase. Also households who work in the expert sector may also have pay rises so they will have increased disposable theorems to spend to consumer spending may also increase causing. Ab to increase to

(4)

ASSESSOR'S USE ONLY

(3)

m6

Ap'- //

Economics 91403, 2016

ASSESSOR'S USE ONLY

(1)

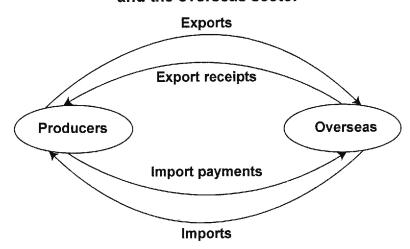
New Zealand's Terms of Trade index increased from 1 319 to 1 353 between January 2015 and July 2015. In New Zealand, the Terms of Trade (ToT) is the ratio of the price of exportable goods to the price of importable goods.

Source (adapted): http://www.tradingeconomics.com/new-zealand/terms-of-trade

During the same time period, the value of the New Zealand dollar depreciated as New Zealand's Trade Weighted Index (TWI) decreased from 75.44 (30 January 2015) to 70.14 (31 July 2015).

Source: Reserve Bank of New Zealand.

Model One: Simple circular model showing New Zealand producers and the overseas sector



(a) Referring to Model One, fully explain how an increase in the Terms of Trade could improve New Zealand's Current Account balance.

The current account is calculated by the inflons-cutflons. An increase in the terms of trade means that the same amount of exports can fund for more imports, as a result producers will increase exports to the alersease Sector. With an increase in exports, exports receipts with also increase from the acrossess sector to the producers sector the halance on accoss the receipts will improve as as inflore of export receipts will improve while outflows of import particles will decrease. Resulting in an approximate improvement on the balance. So the Not current account balance will personally in an approximate improvement on the balance.

(b) Referring to Model One, fully explain how a depreciation of the New Zealand dollar could improve New Zealand's Current Account balance.

ASSESSOR'S USE ONLY

(2)

(3)

A depreciation of the NZ dellar means expect parnings will be converted to more NZ dollars. So export receipts will increse from the preises sector to the NZ producer sector Import payments will increase as more NZ dollar is needed to fund for the

same amount of imports. So import payments uill incitese from the producer sector to consecsor current account belone = inflors - platflors.

NZ exports more goods than imports so the increase in export receipts will be larger than increase in import paymonts, as a rosult the balance on gods armsernes will more close, to zero. Suthe

Explain which of these two events is more likely to have a greater impact on New Zealand's (c)

Current Account balance.

The depreciation of the New Zealand dollar nill have a greater impact on the current account balance for New Zealand than the increase in Terms of Trade. This is because the terms of trade is the ratio of the price of exportable goods to the price of importable good. The price of these exportable and impartable goods will also depend on the NZ dollar. As a depreciation in NZdollar stated will cause import prices to rise which will was on the terms at Trade . While an appleciation of NZ dollar will cause import prices to fall which will imprace the terms of trade. So change in NZ exchange rate will have an grecter impact wit can all affect Tot which can also further affect the canent account.

(4)

QUESTION THREE: Impact of fiscal policy on growth and employment

ASSESSOR'S USE ONLY

(i)

Government spending on the recovery of Christchurch includes spending on key building projects in the CBD, fixing of roads and sewers, the repairs of schools and hospitals, and insurance pay-outs. The Christchurch City Council has estimated that this spending will generate additional spending by consumers and businesses.

Source (adapted): http://www.stuff.co.nz/the-press/business/the-rebuild/70084887/How-much-is-the-Government-really-spending-to-fix-Christchurch

The contribution of the Canterbury region (which includes Christchurch) to national GDP rose 0.9 percentage points to 13.1 per cent between March 2009 and March 2014.

Source (adapted): http://www.stats.govt.nz/browse_for_stats/economic_indicators/NationalAccounts/ RegionalGDP_HOTPYeMar14.aspx

Using the multiplier, fully explain the increase in real GDP that would occur if there were (a) an additional \$40 billion of spending and the marginal propensity to consume (mpc) in Christchurch is 0.70.

If there is an additional \$40 billion of spending, then increase in real app is 3 times the organol amount (3x40 = \$120b). As the 940 billion becomes income for producers + households of which 70% is spent and 30% is sailed. So 70% of Stob whichis \$28 billion is then re-spent which becomes the income of other horseholds, Of which 70%, s spent and 30%, Is sared. This occurs until the multiplied

Graph Three: The New Zealand economy Price level Real GDP

effect add up to \$120 Thoreose in real

(2)

(4)

- (b) Use Graph Three on page 6 to illustrate how the government spending on the Christchurch earthquake recovery would affect the New Zealand economy. Clearly label any changes you make.
- (c) Referring to Graph Three, the multiplier, and the resource material, compare the effectiveness of government spending on the Christchurch earthquake recovery on the goals of economic growth and full employment for the New Zealand economy.

Increased scienment's pending will phocurage production and help to increase in come for households & producers. With mere produced and mere ged morne, it means there will be neve speedly and proestnents. AD = C+ I+ G+(scm) garannent sp andis 159 component of AD and so is consumor spending and involtments. So increase in goier noonl spending, Consumer speeding and investments uill cause Aggregate demand to increase from 10 to 10'. Also as seen on the prevous page, the adoutonal spending of \$40 billion will result in a total of \$120 billion increase in real 9pp as the multiplied effects are 3 times the original amount. So real GDD will neverte alot. The government's good of econome youth is ina achieved as 1ed GDP increases from 4 to 4'nhan means here seeds and services are prediced in the 1/2 econom and thy is increased economic granth. The galiment also further increases employned as nover the econy despite full employedent. As with more sts produced, more labour is requied so emplyed waters increse, from Yey' And the humber of unemployed falls from (y- yF) to (y'- yF). //

(5)

m5

(5)

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

QUESTION NUMBER

(a)

Honever the the depreciation of the NZ dellar means mere N2 dollors is needed to pay for import payments. So it is non more relatively expensive to pay for imports. So imports may deerest so import payment may decrease in the long run if the N2 dellar sets necker as it is le expense to purchase scals Imported gads are also ran moterious for tims such as al. Sout it is more expensive terpurchas, costs of production will increase and or AS vill de reene te As'. As a result price le ve l'incressor from PLte PL' and real GDD increases from 1 to y! The governmentigeal of price stability is to maintain the inflation range between 1-37. acrase on alklage arramedium term Keeping it is close to 21-05 possible. So if PL' is greater than 3%. then government good of price stabilty has not been met. Houser economic growth increases as red GDP increases from Y to Y', meaning more scaly & services are predicted in WZ ecnomy so gaernment acoulof economie growth has been achiered.

Merit exemplar 2016

Subject: Econ		nomics	Standard:	91403	Total score:	15		
Q	Grade score	Annotation						
1	M6	This candidate has received M6 for this question because they: a) Shifted and labelled the S\$NZ and D\$NZ curves correctly on Graph One. (1) b) Shifted and labelled the AS and AD curves correctly on Graph Two. (2) Provided detailed explanations for the impact of a reduction in the OCR on the value of the NZ dollar (3), the Aggregate Demand curve (4) and the Aggregate Supply Curve (5). While partial explanations regarding the effectiveness of the reduction in the OCR in achieving the goals of economic growth and price stability are provided (6), more comprehensive explanations would have contrasted the opposing impact on economic growth of the AD and AS shifts and/or explained the combined impact of the AD and AS shifts on the Price Level and linked this to inflation and the price stability goal more clearly.						
2	A4	 This candidate has received A4 for this question because they: a) Provided a partial explanation on how an increase in the Terms of Trade will improve NZ's Current Account. (1) A more detailed answer would have explained how an increase in export prices relative to import prices (or vice versa) had improved NZ Terms of Trade and how this will improve NZ's Current Account. b) Explained in detail how a depreciation of the NZ dollar will make NZ's exports more competitive and lead to an increase in Export Receipts and improve NZ's Current Account. (2) Provided a partial explanation of how the NZ dollar depreciating will impact NZ's Import Payments. (3) A more complete answer would have explained that the Import Payments would increase if the quantity of imports remained unchanged, despite the decreased price competitiveness. c) Failed to provide an explanation of which event (increase in Terms of Trade or Depreciation of the NZ dollar) will have the bigger impact on the Current Account. (4) 						
3	M5	 This candidate has received M5 for this question because they: a) Used the multiplier to correctly calculate the increase in real GDP although rounded it down unnecessarily. (1) Used the multiplier and the idea of re-spending to explain in detail how the initial \$40 billion of spending would increase real GDP (the rounding is allowed as a follow through error) (2) b) Shifted and partially labelled the AD curve correctly on Graph Three. (3) c) Explained the impact of government spending on the Christchurch earthquake recovery on the goal of economic growth using the AD 						

increase and its components of government spending, consumer spending, and investment(4)

Provided a partial explanation of the impact of government spending on the Christchurch earthquake recovery on the goal of full employment. (5) A more complete explanation would have explained in detail how the government spending would lead to increased spending and that firms need to employ more workers due to the need to increase output to meet the increased demand for goods and services.