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91403



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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.

TOTAL

ASSESSOR'S USE ONLY

QUESTION ONE: Changes in a government policy

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

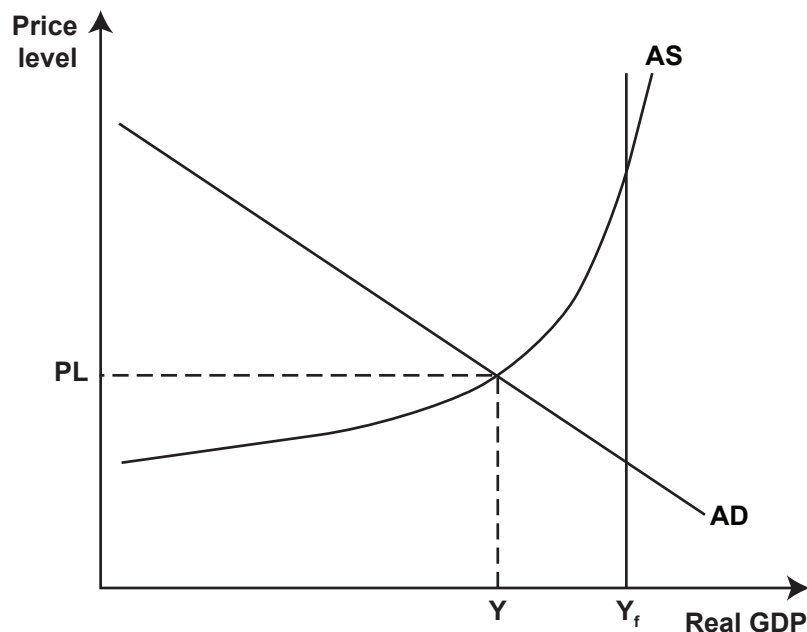
Changes to the Resource Management Act is an example of a supply-side policy.

- (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



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.

QUESTION THREE: Consumer spending and the business cycleASSESSOR'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 $\frac{1}{1 - MPC}$, 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.)

- (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.

(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.

Graph Two: The business cycle of economic activity

