

91222



NEW ZEALAND QUALIFICATIONS AUTHORITY
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SUPERVISOR'S USE ONLY

Level 2 Economics, 2016

91222 Analyse inflation using economic concepts and models

2.00 p.m. Tuesday 15 November 2016
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

ASSESSOR'S USE ONLY

QUESTION ONE: CAUSES OF INFLATIONASSESSOR'S
USE ONLY

“Weaker oil prices – depending on what’s happening with the New Zealand dollar – tends to put downward pressure on inflation,” said a Westpac senior economist.

Source: *The New Zealand Herald*, 8 January 2016, p. B14.

From 1 January 2016, the price of cigarettes will increase by 10 per cent, the fourth and final scheduled annual increase. The Government has yet to announce whether it will commit to further annual price increases but has said it wants to make the country smoke-free by 2025.

Source: <http://www.radionz.co.nz/news/national/293137/anti-smoking-advocate-calls-for-further-price-hikes>, 29 December 2015.

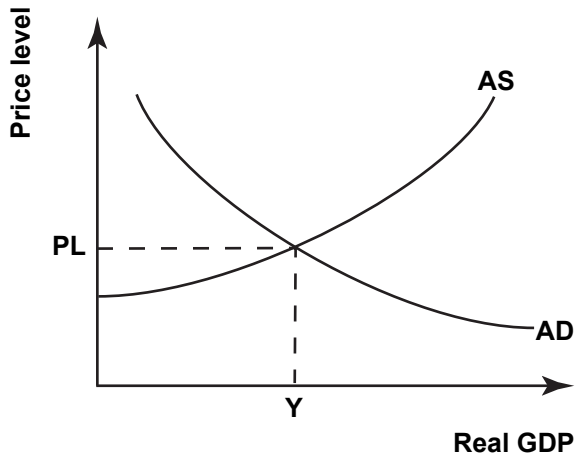
(a) Fully explain the different effects on the general price level measured by the Consumer Price Index (CPI) of weaker oil prices and an increase in the price of cigarettes.

In your answer, explain:

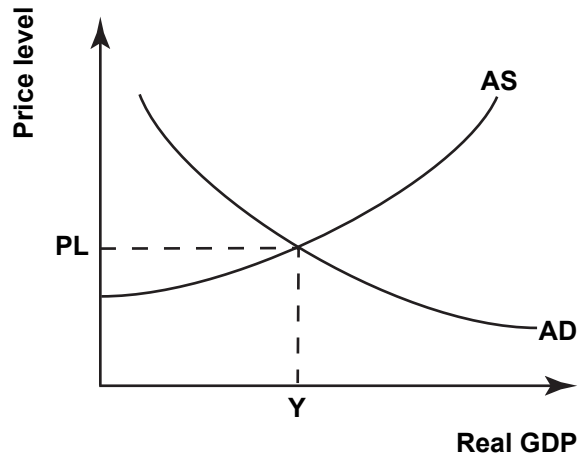
- how weaker oil prices can result in a change in inflation
- why an increase in the price of cigarettes may not cause a change in inflation.

- (b) (i) On Graph One below, show the impact of weaker global oil prices.

**Graph One: AD/AS model
of the New Zealand economy**



**Graph Two: AD/AS model
of the New Zealand economy**



The ANZ Bank expects the New Zealand dollar to decrease in value by year's end.

Source: *The New Zealand Herald*, 8 January 2016, p. B14.

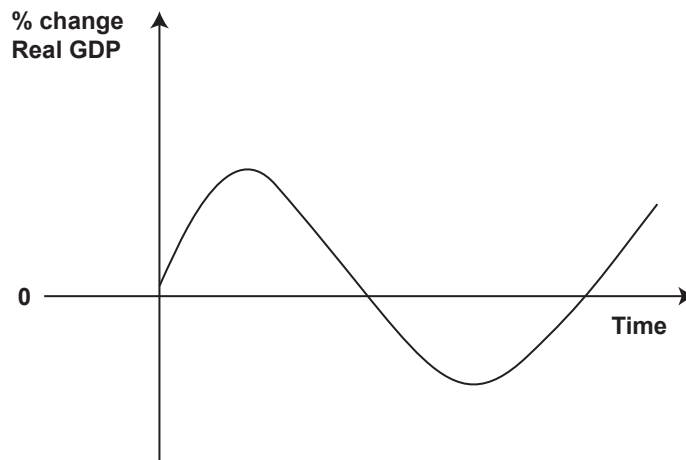
- (ii) On Graph Two above, show the impact of the decrease in the value of the New Zealand dollar.
- (c) Use Graph One and Graph Two to compare and contrast the impact on inflation of a decrease in the value of the New Zealand dollar with the impact of weaker global oil prices. In your answer, fully explain:

- how the decrease in the value of the New Zealand dollar would affect inflation
- why the decrease in the value of the New Zealand dollar may have an impact on inflation that is different from the impact of weaker global oil prices.

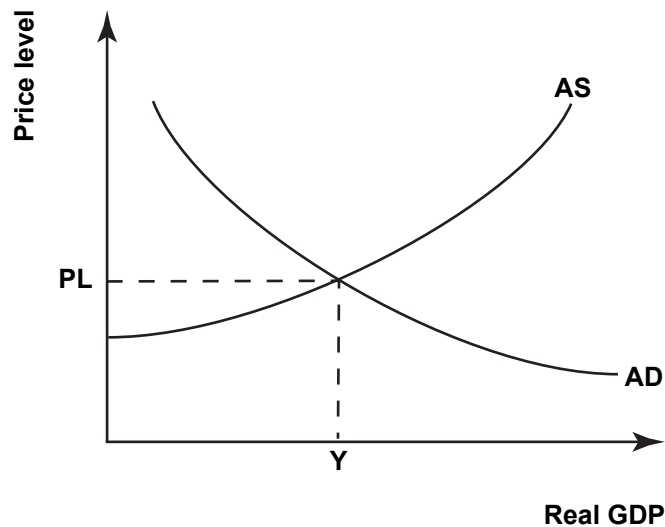
More space for this answer is available on the following page.

QUESTION TWO: THE BUSINESS CYCLE AND DEFLATION

- (a) On Graph Three below, clearly label an example of a recession. Label this point **X**.

Graph Three: The Business Cycle

- (b) (i) On Graph Four below, show the effect of a recession on either the AD or the AS curve.

Graph Four: AD/AS model of the New Zealand economy

- (ii) Use Graph Four to fully explain how a recession may lead to a period of deflation. In your answer, include a definition of deflation.

More space for this answer is available on the following page.

A slowdown of growth in China

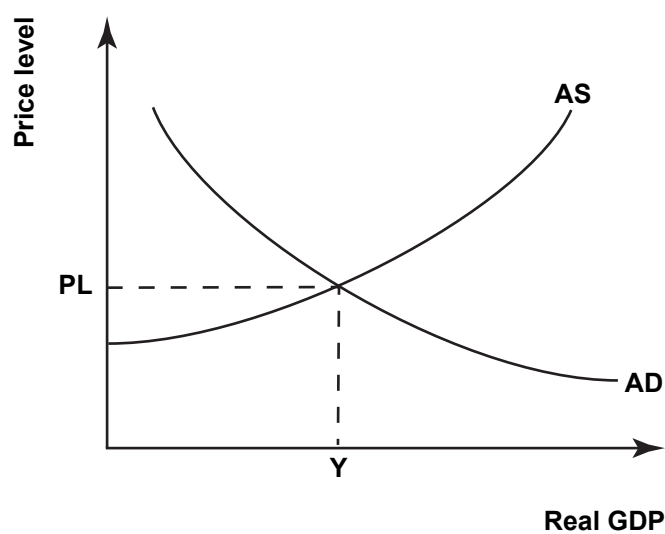
China is important to New Zealand as a trading partner. Australia and China are our main trading partners, and China is Australia's main trading partner. Therefore, any downturn in China will impact directly or indirectly on demand for our exports.

Source (adapted): http://www.rbnz.govt.nz/research_and_publications/speeches/2015/6012526.html

The downturn in China is likely to have a smaller impact on price levels than a recession in New Zealand.

- (c) On Graph Five below, show the impact of a downturn in China on either the AD or the AS curve.

Graph Five: AD/AS model of the New Zealand economy



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

QUESTION
NUMBER

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