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91403



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

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.

TOTAL

ASSESSOR'S USE ONLY

QUESTION ONE: Impact of monetary policy on growth and inflation

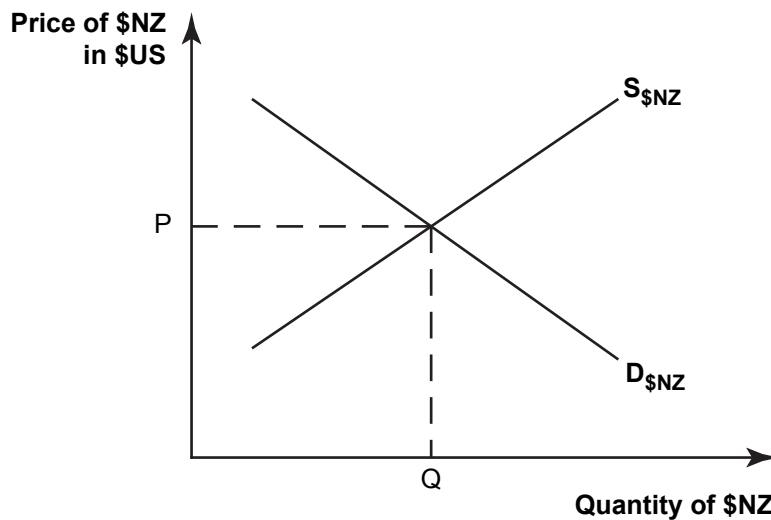
On 10 September 2015, the Reserve Bank reduced the Official Cash Rate (OCR) by 25 basis points to 2.75 per cent.

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.

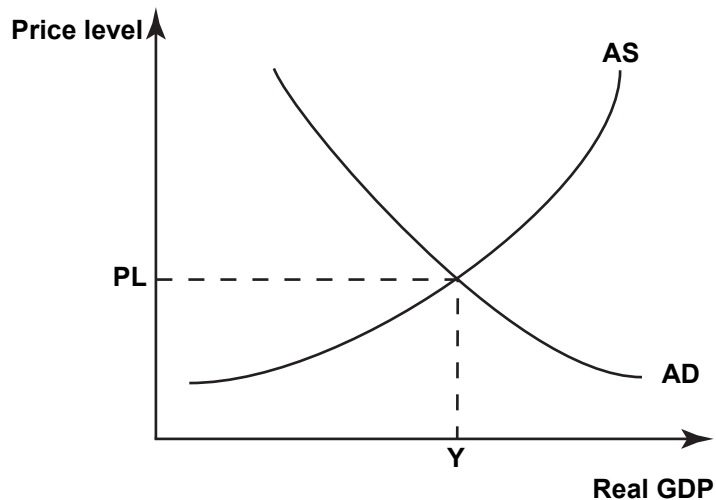
Source (adapted): <http://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement/mps2015-09>

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.

QUESTION TWO: Impact on the Current Account of an increase in the Terms of Trade and a depreciation of the New Zealand dollar

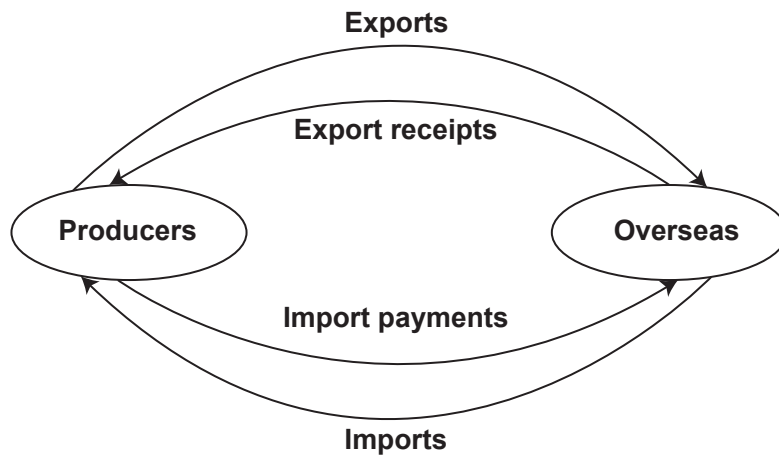
New Zealand's Terms of Trade index increased from 1 319 to 1 353 between January 2015 and July 2015. In New Zealand, the Terms of Trade (ToT) is the ratio of the price of exportable goods to the price of importable goods.

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.

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

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

QUESTION THREE: Impact of fiscal policy on growth and employmentASSESSOR'S
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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.

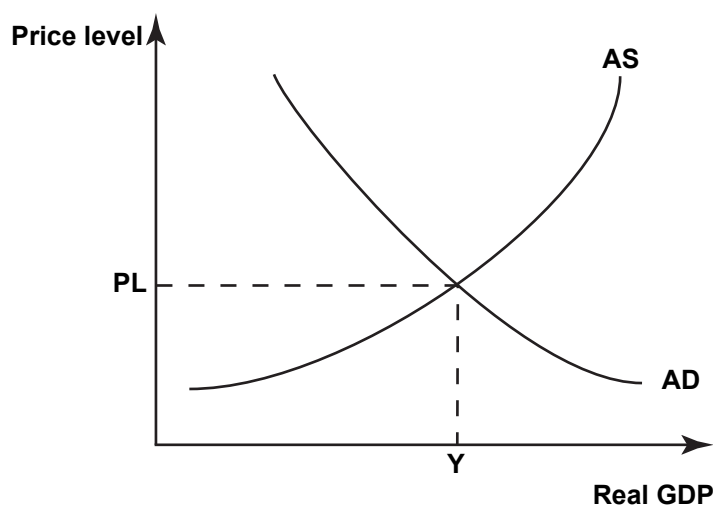
Source (adapted): <http://www.stuff.co.nz/the-press/business/the-rebuild/70084887/How-much-is-the-Government-really-spending-to-fix-Christchurch>

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

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

Graph Three: The New Zealand economy



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

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