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91403



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 3 Economics, 2017

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

2.00 p.m. Wednesday 29 November 2017

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

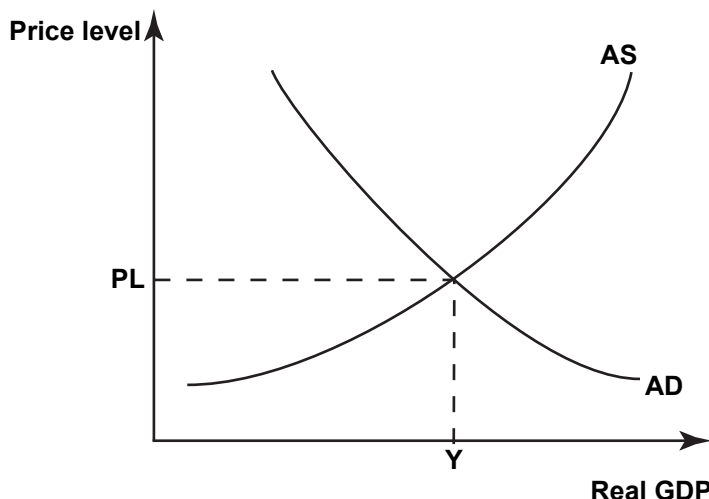
QUESTION ONE: Fiscal and supply side policies

The 2016 Budget included spending on regional roading projects and upgrading regional tourism infrastructure, e.g. extending the New Zealand Cycle Trail.

Source (adapted): <http://www.treasury.govt.nz/budget/2016/at-a-glance/b16-at-a-glance.pdf>

The impact on long-term economic growth of this expansionary fiscal policy may be affected by the multiplier.

Graph One: The New Zealand economy



- (a) (i) On Graph One above, illustrate the impact of increased spending on regional roading projects and tourism infrastructure on aggregate demand and real GDP.
- (ii) Explain in detail the impact of this expansionary fiscal policy on economic growth. In your answer:
 - refer to the changes made to Graph One
 - explain why at least two components of aggregate demand, other than Government spending, will increase.

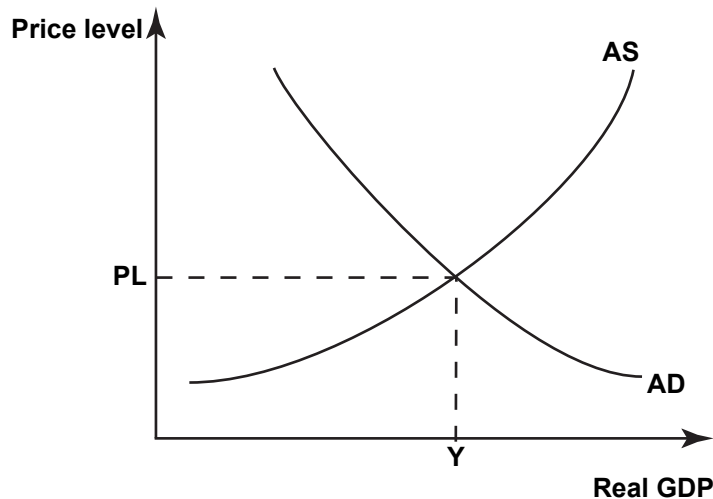
Supply side policy includes any policy that improves an economy's productive potential and its ability to produce.

Source: http://www.economicsonline.co.uk/Global_economics/Supply-side_policies.html

The 2016 Budget also included spending on tertiary education and apprenticeship programmes, to develop the skilled workforce needed for a 21st century economy.

Source (adapted): <http://www.treasury.govt.nz/budget/2016/at-a-glance/b16-at-a-glance.pdf>

Graph Two: The New Zealand economy



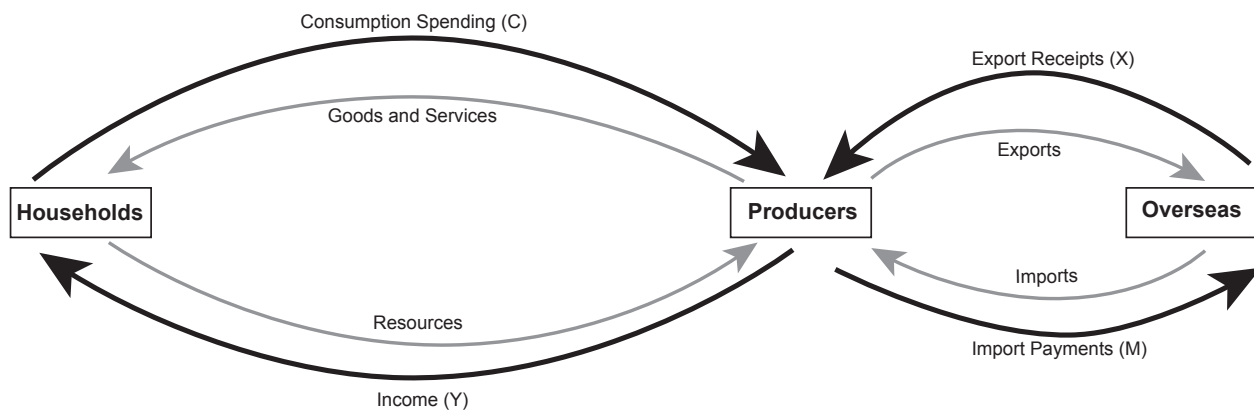
- (b) On Graph Two above, illustrate the impact of increased spending on tertiary education and apprenticeship programmes on real GDP, assuming that this expansionary fiscal policy is also an example of a supply side policy.
- (c) Referring to the resource material on pages 2 and 3 and Graphs One and Two, compare and contrast the impact on long-term economic growth of these two policies. In your answer, explain in detail:
- the impact of increased spending on tertiary education and apprenticeship programmes on economic growth
 - whether increased spending on regional roading projects and tourism infrastructure or increased spending on tertiary education and apprenticeship programmes would have the greater impact on long-term economic growth.

More answer space is available on the next page.

QUESTION TWO: Impact of free trade agreements on the current account and employment

As at the beginning of 2017, New Zealand has successfully concluded free trade agreements involving 16 countries that are members of the World Trade Organisation. New Zealand is negotiating to conclude another five free trade agreements involving significant economies such as India.

Source (adapted): <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/> and <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/>.

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

- (a) Referring to changes in the relevant real and money flows from Model One, explain in detail how New Zealand's entry into a further five free trade agreements could improve New Zealand's current account.

(b) Referring to changes in the relevant real and money flows from Model One, explain in detail how New Zealand's entry into a further five free trade agreements could increase employment in New Zealand.

(c) Explain in detail whether the new free trade agreements could be more effective in helping achieve the goals of either a balanced current account or full employment for the New Zealand economy.

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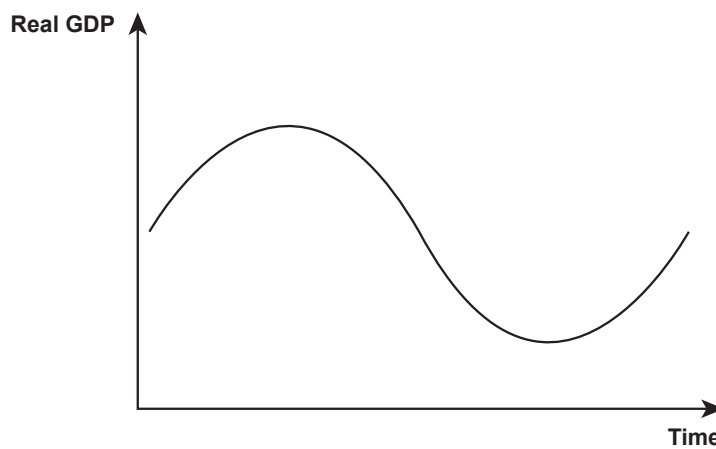
QUESTION THREE: Impact of savings and investment on the economyASSESSOR'S
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“... saving is undeniably an important part of the economic process that gives rise to new investment and economic growth.”

Source (adapted): <http://www.abc.net.au/money/currency/features/feat4.htm>

- (a) Explain in detail how increased savings may result in more investment in the economy. In your answer, define the terms “savings” and “investment”.

The magnitude of the impact of increased investment on the economy is dependent on New Zealand’s position on the business cycle.

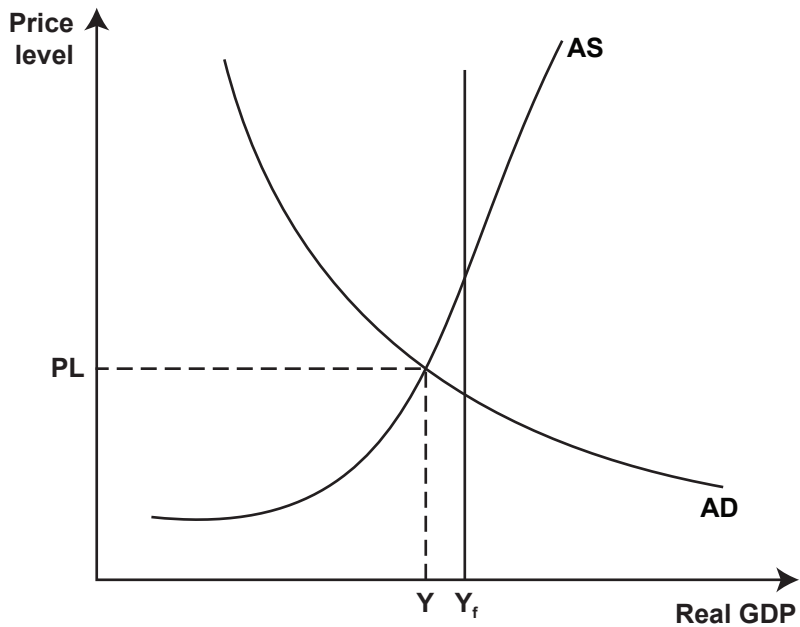
Model Two: The business cycle

- (b) (i) Using Model Two, identify a possible position of the New Zealand Economy if it is close to achieving the full employment level of output.

(ii) Referring to the relevant stage of the business cycle, explain in detail why you chose the position identified in (i).

(c) (i) On Graph Three below, show the impact of increased investment on the price level and real GDP, assuming that full employment is reached.

Graph Three: The New Zealand economy operating close to the full employment level of output (Y_f)



The question continues on the next page.

(ii) Referring to Graph Three and Model Two, compare and contrast the impact of increased investment on the goals of price stability and economic growth when the economy is close to full employment. In your answer, explain in detail:

- the impact of increased investment on the price level and real GDP
- the effectiveness of increased investment in achieving price stability and significant economic growth in the **short run** when the economy is operating close to the full employment level of output.



