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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
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Level 3 Economics, 2018

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

2.00 p.m. Friday 30 November 2018
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

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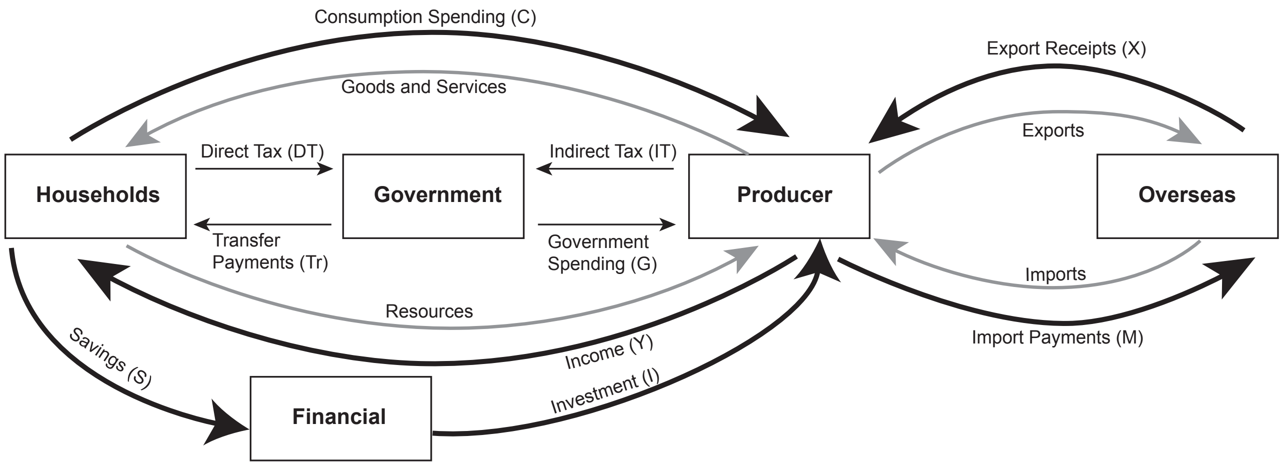
QUESTION ONE: Impact of monetary policy on inflation and employment

One of the main policy options for the Government to achieve the goal of price stability is a tight monetary policy. This policy could also have an impact on employment.

Model One: A circular flow model showing the New Zealand economy



(a) Explain in detail the impact of a tight monetary policy on the relevant **money flows** from Model One.

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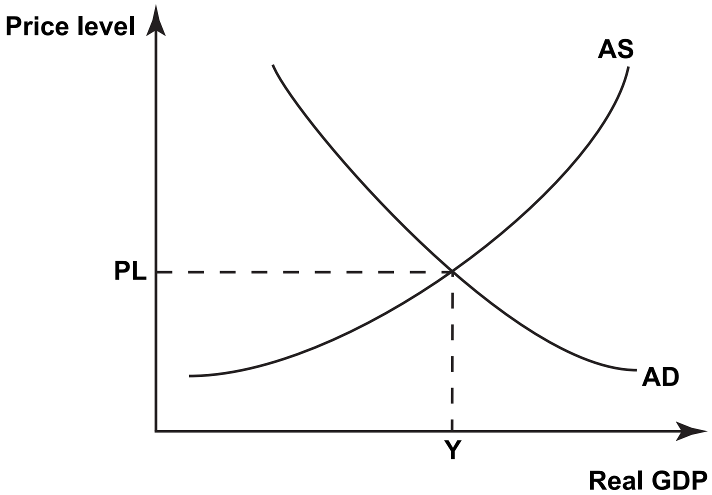
Graph One: The New Zealand economy



(b) On Graph One above, show the impact of a tight monetary policy on the economy. Fully label any changes you make.

(c) Compare and contrast the impact of a tight monetary policy on the goals of price stability and full employment. In your answer, refer to Model One and Graph One and explain in detail:

- the impact of a tight monetary policy on aggregate demand and aggregate supply
- why a tight monetary policy is more likely to achieve the goal of price stability than the goal of full employment.

More answer space is available on the next page.

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QUESTION TWO: Impact of changes in imports and the multiplier on economic growth

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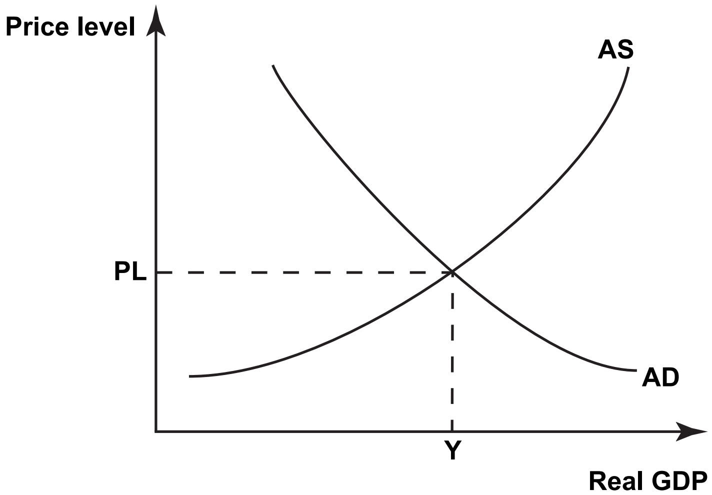
The value of imports rose $713 million between January 2017 and January 2018.

Source (adapted): https://www.stats.govt.nz/information-releases/overseas-merchandise-trade-january-2018.

The value of the multiplier can be affected by a number of factors, including changes in consumers' willingness to spend income on imported goods.

Graph Two: The New Zealand economy



(a) (i) On Graph Two, illustrate the impact of increased spending on imports on real GDP.

(ii) Explain in detail the impact of increased spending on imports on real GDP. Refer to the changes you made to Graph Two.

(b) Explain in detail how an increased willingness to spend income on imported goods would affect the multiplier for New Zealand made goods. In your answer, include the formula for calculating the multiplier.

The Westpac-McDermott Miller consumer confidence index in New Zealand increased from 108.0 to 112.4 between the third quarter of 2016 and the third quarter of 2017.

Source (adapted): https://tradingeconomics.com/new-zealand/consumer-confidence.

(c) Compare and contrast the impact of increased spending on imports and increased consumer confidence on the goal of economic growth. In your answer, refer to the changes you made to Graph Two AND to the multiplier, and explain in detail:

- the impact of increased consumer confidence on economic growth
- the combined impact on economic growth of increased spending on imports and increased consumer confidence.

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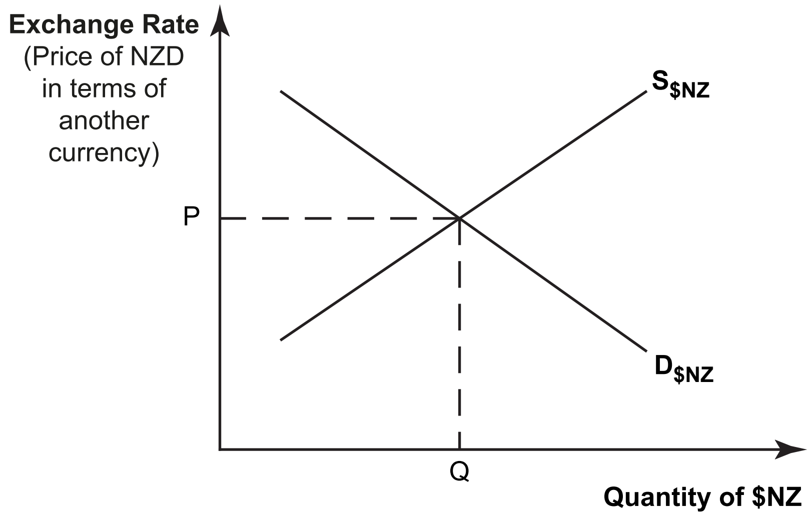
QUESTION THREE: Impact of foreign exchange market intervention on the Current Account and price stability

New Zealand's Current Account deficit widened in the third quarter because of a seasonal fall in dairy exports, and an increase both in imports and in Kiwis travelling abroad. The annual Current Account deficit has remained between 2 per cent and 4 per cent of GDP since 2010, Statistics New Zealand said.

https://www.nbr.co.nz/article/current-account-deficit-widens-third-quarter-b-211390.

An intervention strategy aimed at reducing the cyclical variability in the exchange rate could improve the Current Account balance. It would mean that when the New Zealand dollar was assessed to be too high, the Reserve Bank would sell New Zealand dollars and buy foreign currency.

Graph Three: The market for the New Zealand dollar



(a) (i) On Graph Three, show the impact of the Reserve Bank selling New Zealand dollars to buy foreign currency by shifting ONE curve and labelling the new exchange rate $\mathbf{P_1}$.

(ii) Explain in detail how the Reserve Bank selling New Zealand dollars could affect New Zealand's Balance on Goods. In your answer, refer to the resource material and Graph Three, and explain:

- whether the sale of New Zealand dollars would result in an appreciation or depreciation of the exchange rate
- how the change in the exchange rate would affect New Zealand's Balance on Goods.

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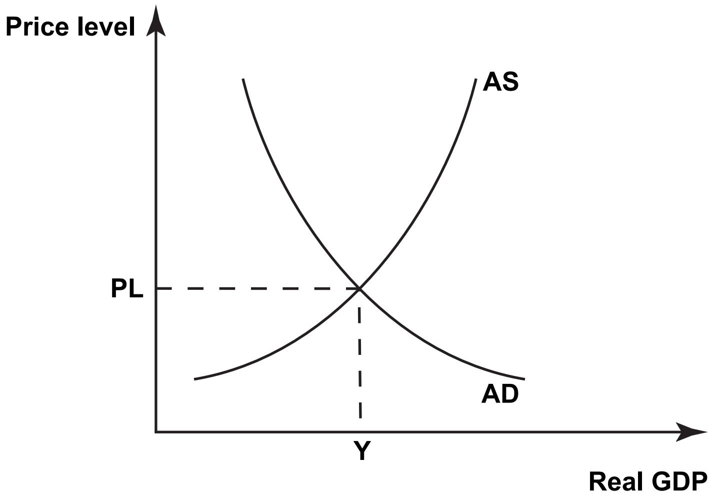
Graph Four: The impact of exchange rate intervention on the AD / AS model of the New Zealand economy



(b) (i) On Graph Four, show the impact of the change in the exchange rate from Graph Three on the New Zealand economy. Fully label the changes.

(ii) Referring to the changes you made to Graph Four above, explain in detail the impact on the price level of the change in the exchange rate from Graph Three.

The question continues on the next page.

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(iii) Compare and contrast the impact of the exchange rate intervention on the Government's goals of price stability and a balanced Current Account. In your answer, refer to changes you made to Graphs Three and Four, and explain in detail:

- whether the change in the exchange rate would help achieve the Government's inflation range for price stability
- the impact of the change in the exchange rate on the goal of a balanced Current Account
- how the impact of the change in the exchange rate on inflation might affect the Current Account balance in the long run.

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

QUESTION NUMBER

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