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91403



NEW ZEALAND QUALIFICATIONS AUTHORITY
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SUPERVISOR'S USE ONLY

Level 3 Economics, 2019

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

2.00 p.m. Monday 18 November 2019
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 2–11 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: Impact of research and development and regional economic development on employment

The 2018 Budget included more than \$1 billion in a Research and Development (R&D) tax incentive to encourage businesses to innovate.

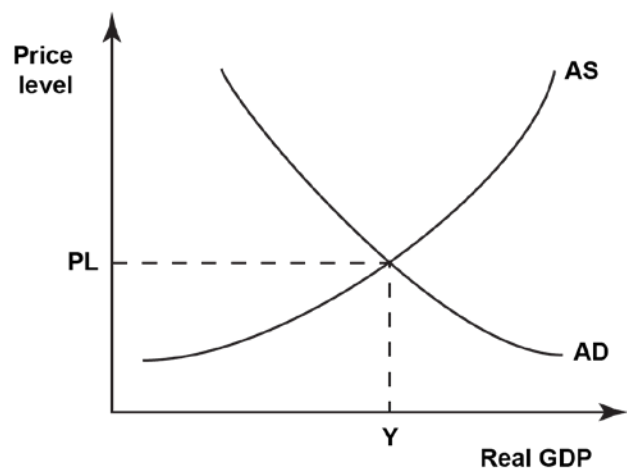
Source (adapted): <https://treasury.govt.nz/sites/default/files/2018-05/b18-at-a-glance.pdf>.

- (a) Explain in detail why an R&D tax incentive could be considered an example of a supply side policy.

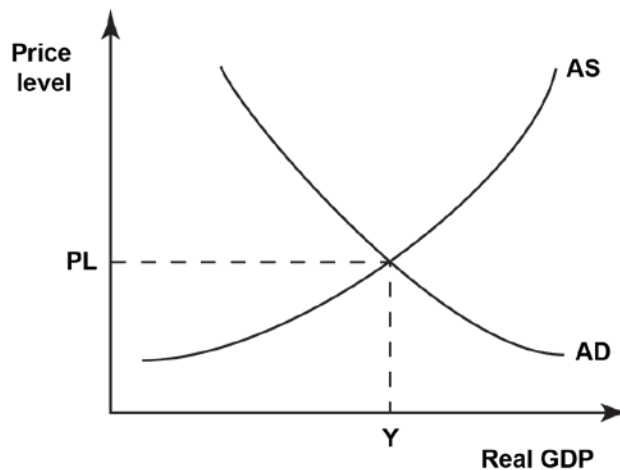
The Coalition Government is investing \$1 billion a year in regional economic development. Major components of this spending include the One Billion Trees programme (where the government has set a goal to plant one billion trees by 2028), and capital injections for both Kiwi Rail and tourism infrastructure.

Source (adapted): <https://www.budget.govt.nz/budget/2018/at-a-glance/the-provincial-growth-fund.htm>.

Graph One: The New Zealand economy



Graph Two: The New Zealand economy



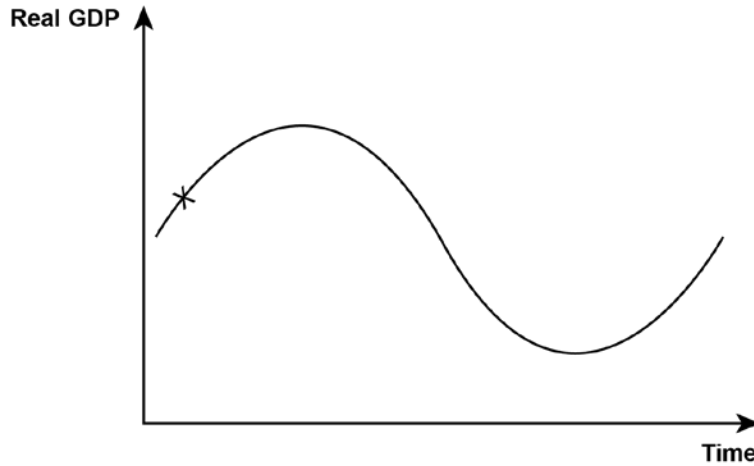
- (b) Compare and contrast the impact of the investment in regional economic development and an R&D tax incentive on the government's goal of full employment. In your answer, refer to graphs, and the resource material and:
 - show the impact of an R&D tax incentive on Graph One and fully label the changes you make
 - show the impact of investment in regional economic development on Graph Two and fully label the changes you make
 - explain in detail how the investment in regional economic development will impact on aggregate demand
 - explain in detail why the investment in regional economic development may be more effective in helping achieve the goal of full employment compared with an R&D tax incentive.

QUESTION TWO: Impact of expansionary fiscal policy on growth and price stability

The extent of the impact of an expansionary fiscal policy on inflation and growth will be determined by the starting point on the AS curve and the multiplier.

- (a) On Model One, show how an expansionary fiscal policy would affect New Zealand's position on the business cycle, assuming the starting position is X and full employment is not achieved. Label the new position X_1 .

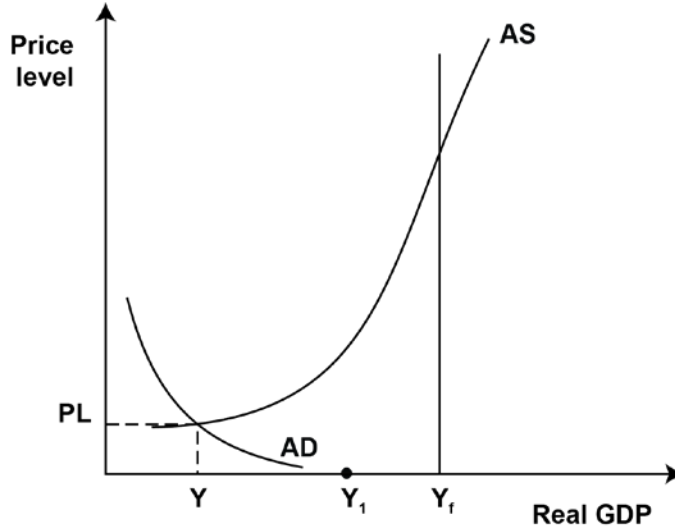
Model One: The business cycle



- (b) Explain in detail the eventual change in Real GDP that will occur if the expansionary fiscal policy results in extra spending in the economy of \$600 million and the marginal propensity to consume is 0.84. In your answer, include the formula for the multiplier.

- (c) On Graph Three, below, show the impact of an expansionary fiscal policy on the price level when the economy is operating at low levels of output. Assume Y_1 is the new level of real GDP and fully label the changes you make.

Graph Three: The New Zealand economy operating at low levels of output



- (d) Compare and contrast the impact of an expansionary fiscal policy on the government's goal of price stability and economic growth when the economy is operating at low levels of output. In your answer, refer to Graph Three and the multiplier, and explain in detail:

- the impact of an expansionary fiscal policy on the price level and real GDP
- why the change in the price level is relatively smaller than the change in real GDP
- the effectiveness of an expansionary fiscal policy in achieving price stability and economic growth when the economy is operating at low levels of output.

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QUESTION THREE: Impact of United States (US) steel tariffs on the current account and employment

The US has decided to allow some of its allies, such as Australia, to not pay import taxes on steel and aluminium. However, New Zealand will still have to pay tariffs on these products, along with other traditional US allies South Africa and Japan.

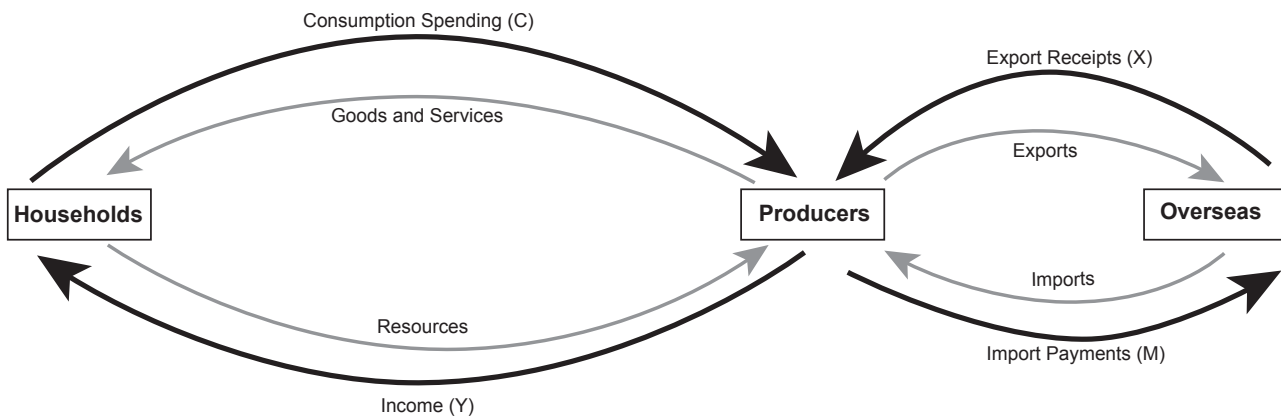
It is not clear what the impact of the tariff would have on New Zealand industries, but it could result in some job losses in the aluminium and steel industries. Fortunately a strong New Zealand economy meant there was a skills shortage and any unemployed workers should be able to find new employment without too much difficulty.

Source (adapted) <https://www.stuff.co.nz/business/industries/103584028/us-decision-to-not-exclude-new-zealand-from-steel-and-aluminium-tariffs>.

New Zealand's iron and steel exports to the US were worth \$39 million last year out of a total of all iron and steel exports of \$433 million, while aluminium exports were worth \$23 million to the US out of a total of all aluminium exports of \$1.1 billion.

Source (adapted): <https://www.stuff.co.nz/business/102011916/us-tariff-move-could-hit-new-zealand-exports>.

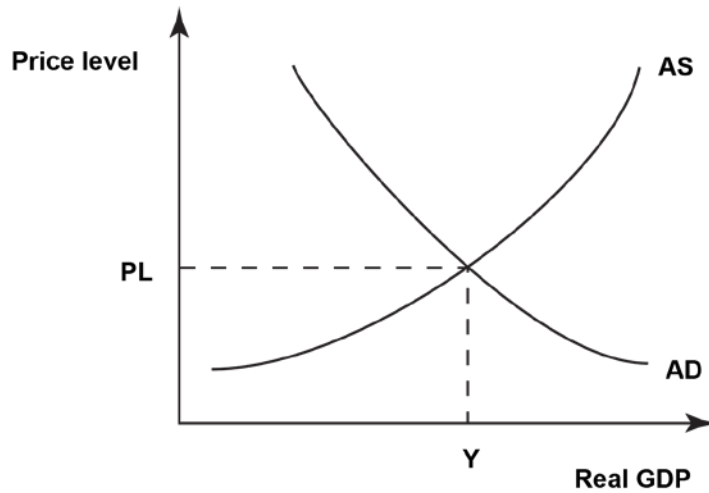
Model Two: Simple circular-flow model showing New Zealand producers, households and the overseas sector



- (a) Explain in detail the impact of US steel and aluminium tariffs on New Zealand's current-account balance. In your answer, refer to the relevant real and money flows from Model Two.

- (b) Using Graph Four, below, show the impact of US steel and aluminium tariffs on the New Zealand economy. Fully label the changes you make.

Graph Four: The New Zealand economy



- (c) Explain in detail how US steel and aluminium tariffs could reduce employment in New Zealand. In your answer, refer to the relevant real and money flows from Model Two on page 7, AND the changes you made to Graph Four.

91403