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2

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Level 2 Economics 2020

91222 Analyse inflation using economic concepts and models

2.00 p.m. Tuesday 1 December 2020
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

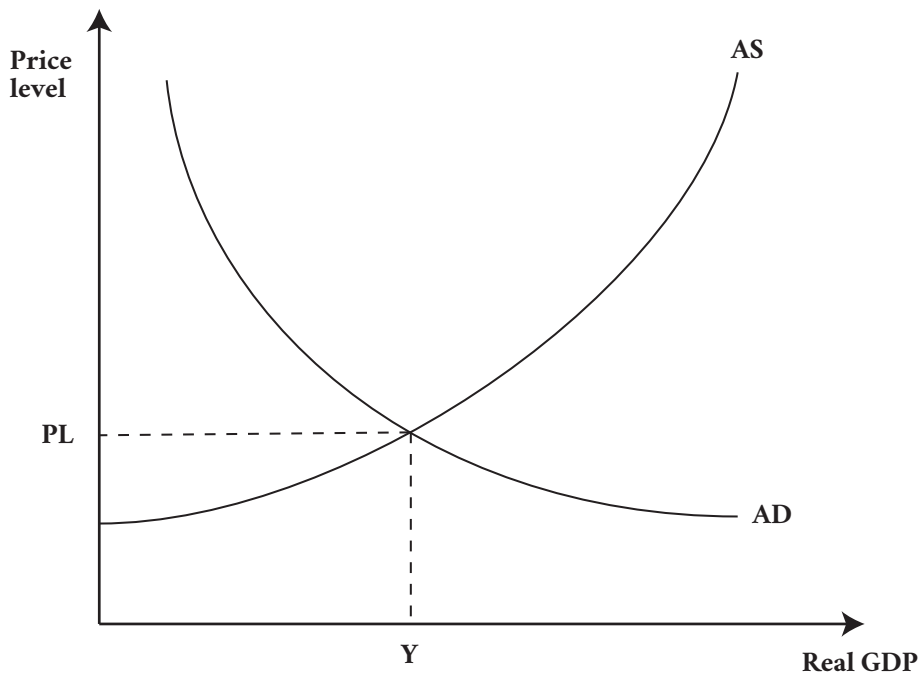
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The Government has a goal to generate electricity in New Zealand using 100% renewable energy by 2035. This may be costly, with commercial power prices projected to increase by 29%. That figure increases to 39% for industrial businesses.

Source (adapted) https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed426432/FINAL-ICCC-Electricity-report.pdf

- (b) (i) On Graph Two, show the impact on aggregate supply of an increase in electricity prices in New Zealand.

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



- (ii) Fully explain the impact on inflation of an increase in electricity prices in New Zealand. Refer to Graph Two in your answer.

Please turn over ►

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The examination continues on the following page.**

QUESTION TWO: The Quantity Theory of Money

The Quantity Theory of Money states that the quantity of money circulating in the economy is equal to the monetary value of the goods and services available within the economy.

(a) (i) State the four variables used in the Quantity Theory of Money equation.

M: _____

V: _____

P: _____

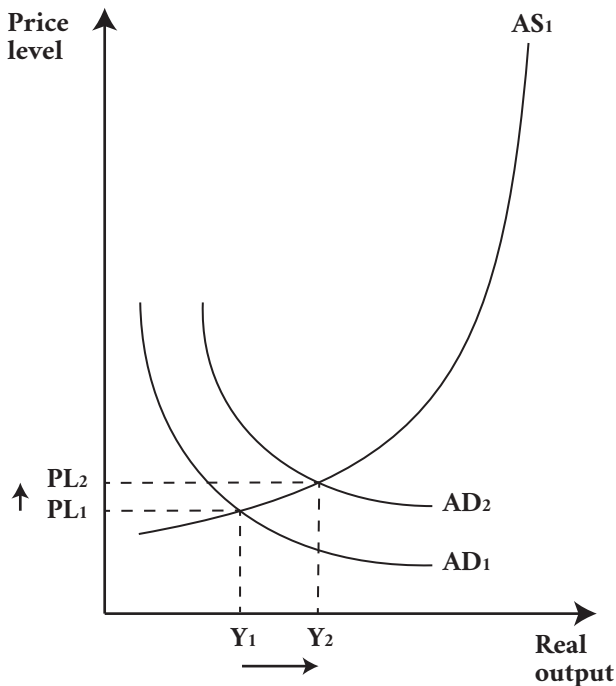
Q: _____

(ii) State the Quantity Theory of Money formula.

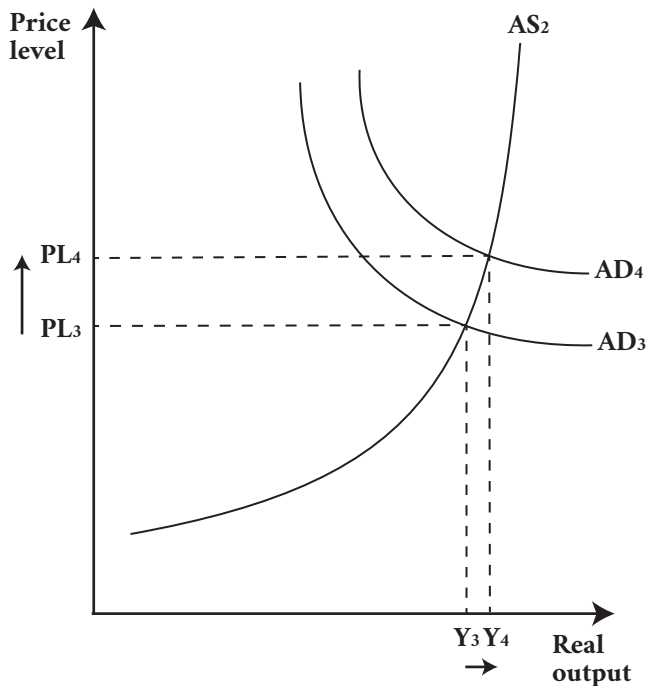
(b) Compare and contrast the impact of an increase in aggregate demand due to an increased quantity of money circulating in the New Zealand economy during a recession, with the same increase in a boom period (in the business cycle).

AD / AS graphs: Recession and boom periods

Graph Three: Recession



Graph Four: Boom



In your answer you should:

- refer to the Quantity Theory of Money
- refer to Graph Three to fully explain how an increase in the quantity of money circulating in the New Zealand economy during a recession may result in a small increase in inflation
- refer to Graph Four to fully explain how an increase in the quantity of money circulating in the New Zealand economy during a boom may result in a large increase in inflation.

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