



91403

Mana Tohu Mātauranga o Aotearoa New Zealand Qualifications Authority

# Level 3 Economics 2023

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

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.

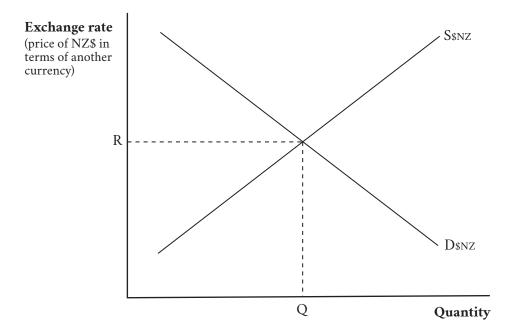
If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–15 in the correct order and that none of these pages is blank.

Do not write in any cross-hatched area (<sup>ov write in i</sup>). This area will be cut off when the booklet is marked.

### YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

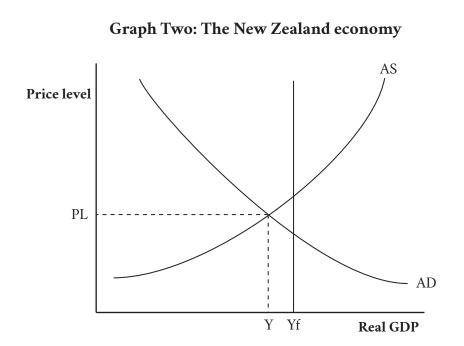




# Graph One: The market for the New Zealand dollar

- (a) (i) On Graph One, show the impact of the Reserve Bank increasing the OCR. Fully label the changes, including the new exchange rate  $R_1$ .
  - (ii) Explain how the increase in the OCR could affect the market for the New Zealand dollar, and how this may negatively affect the trade balance. Refer to Graph One in your answer.





- (b) (i) On Graph Two above, show the impact on the economy of the increasing OCR. Fully label the changes.
  - (ii) Explain how the increase in the OCR will affect the New Zealand economy and price stability. Refer to Graph Two in your answer.

Answer space continues over ►

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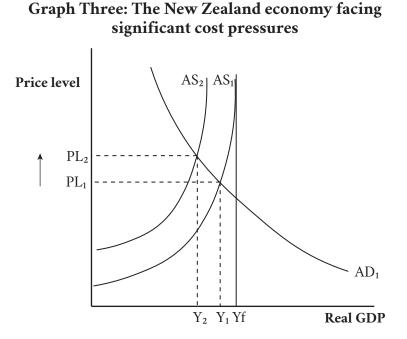
Explain why the increase in the OCR will be effective in achieving both price stability and a (C) favourable trade balance in the long run, despite the effect on the exchange rate in the short term. In your answer, refer to Graph One and Graph Two as well as the definition of price stability.

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# **QUESTION TWO:** Risk of stagflation and a recession

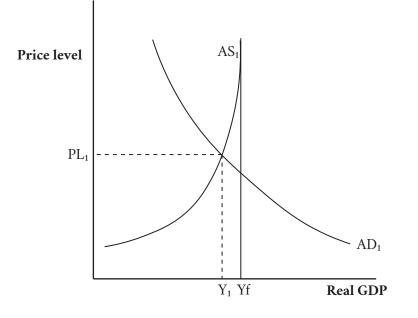
Stagflation is a situation where inflation is high, economic growth slows, and unemployment remains steadily high. It presents a dilemma for economic policy because actions intended to lower inflation may worsen unemployment.

Sharp increases in fuel and commodity prices along with increasing wage pressure make for significant cost pressures for businesses.

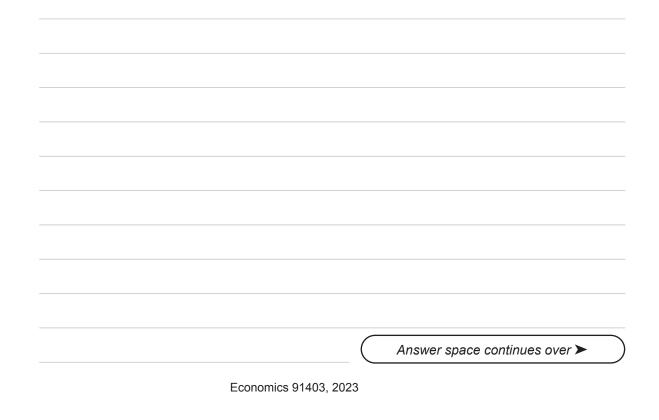


(a) Explain how the significant cost pressures will affect economic growth. Refer to Graph Three and the resource material in your answer.





- (b) (i) On Graph Four above, show the impact of falling domestic confidence on the economy by labelling the new curve, the new price level ( $PL_3$ ), and real GDP ( $Y_3$ ).
  - Explain the effect of falling domestic confidence on the economy. In your answer explain why it may be more helpful for achieving price stability than it is for economic growth. Refer to Graph Four in your answer.

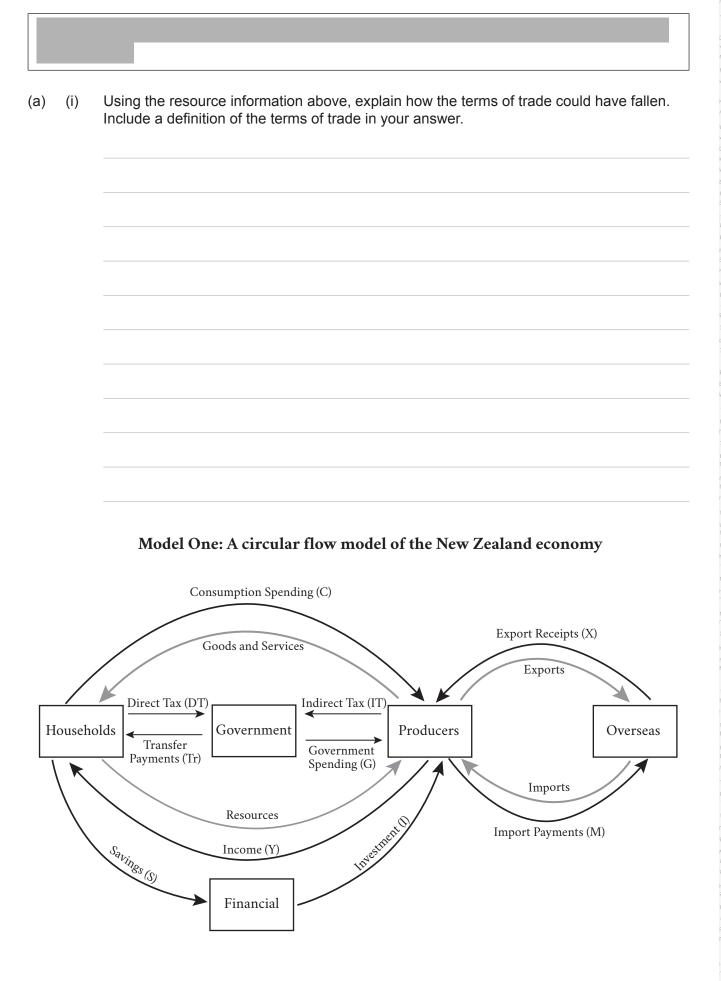


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vith fa	in why the Government would be more concerned by the significant cost pressures than alling domestic confidence when dealing with a potential recession. Refer to Graphs Three our and the definition of stagflation in your answer.

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(ii) Using Model One, explain how the falling terms of trade could affect employment. Refer to the resource material on page 10 in your answer and include examples of imports or exports affected.

(b) (i) Using Model One, explain whether loosening migration settings would have a positive or negative impact on employment.

Using Model One, explain why the fall in the terms of trade is likely to have a smaller effect on employment than loosening migration settings. (ii)

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#### Acknowledgements

Material from the following sources has been adapted for use in this assessment:

#### **Question One**

Reserve Bank of New Zealand. (2022). *Monetary Policy Statement*. https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/ files/publications/monetary-policy-statements/2022/mps-nov-22/mpsnov22.pdf

#### **Question Two**

Wikipedia. (2023). Stagflation. https://en.wikipedia.org/wiki/Stagflation, CC BY-SA 3.0.

Treasury. (2022, October 28). Fortnightly Economic Update. https://www.treasury.govt.nz/sites/default/files/2022-10/feu-28oct22.pdf, CC BY-SA 4.0

Stuff. (2022, December 20). Business confidence sinks to a fresh record low as firms prepare for a recession next year. https://www.stuff.co.nz/business/money/300770468/.

Gray, J. (2022). *NZ consumer confidence falls to lowest point on record - Westpac*. New Zealand Herald. https://www.nzherald.co.nz/business/nz-consumer-confidence-falls-to-lowest-point-on-record-westpac/ R2KYG2NN3NDZXPXWZ53ZQ52DYA/.

#### **Question Three**

Treasury. (2022, December 9). Fortnightly Economic Update 9 December 2022. https://www.treasury.govt.nz/sites/default/files/2022-12/feu-9dec22.pdf

Hickey, B. (2022). Govt expands 'green list' for work-to-residency visas to include nurses, construction workers and teachers; expands straight-to-residency visa list to midwives and auditors. interest.co.nz. https://www.interest.co.nz/public-policy/118861/govt-expands-green-list-work-residency-visas-include-nurses-construction.

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