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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 3 Economics 2024

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 2–14 in the correct order and that none of these pages is blank.

Do not write in the margins (//////). This area will be cut off when the booklet is marked.

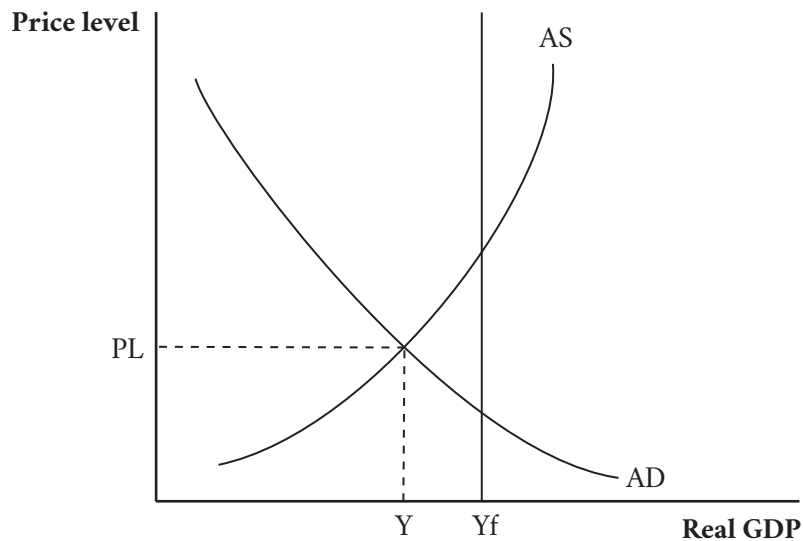
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

QUESTION ONE: Migration and monetary policy

Immigration surge threatens smooth path to lower interest rates.



Graph One: The New Zealand economy



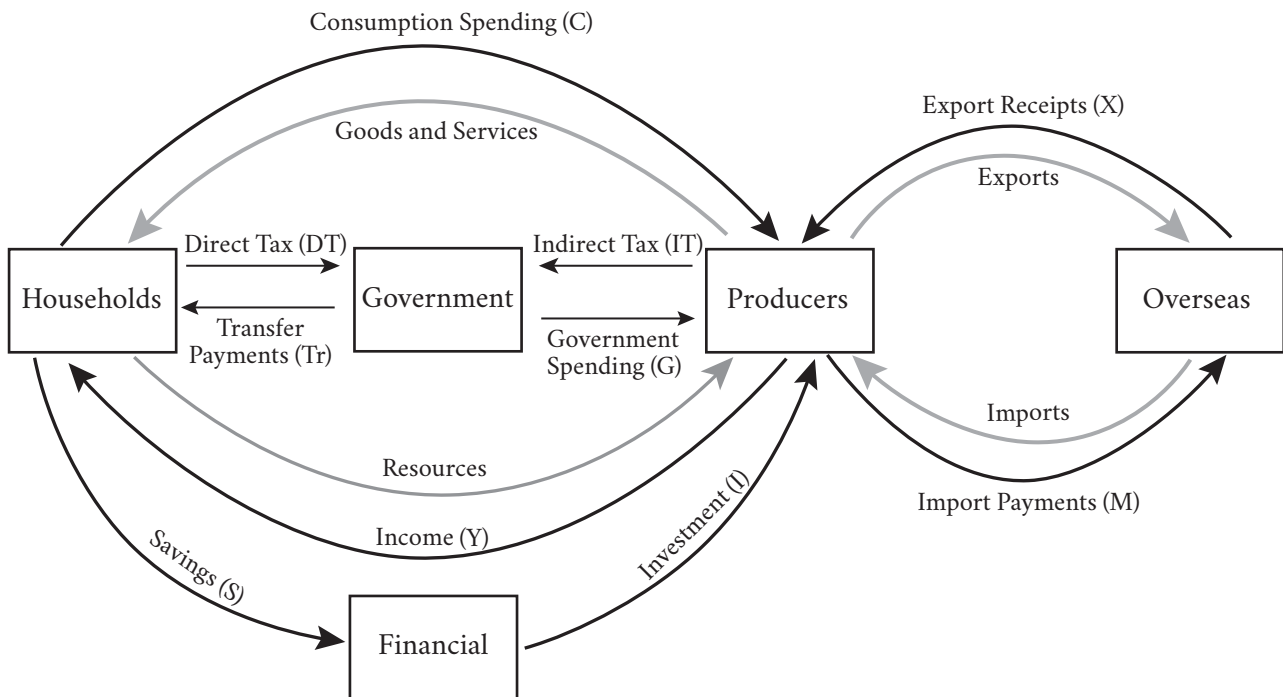
- (a) (i) On Graph One above show the effect of higher net migration by shifting both curves. Fully label all changes.
- (ii) Referring to the changes to Graph One above and the resource material, explain the impacts higher net migration may have on economic growth.

(b) Referring to the changes to Graph One and the resource material, explain how the higher net migration could affect price stability. In your answer, state the current Policy Targets Agreement and explain how this may impact the Reserve Bank’s monetary policy decisions.

QUESTION TWO: Fiscal policy and economic growth



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



- (a) Use Model One and the multiplier formula $[1/(1 - MPC)]$ to calculate and explain the final effect on real GDP and economic growth. In your answer, assume changing tax brackets could lead to a \$17.5b tax cut and that the marginal propensity to consume is 0.83.

Rather than providing tax cuts, the \$17.5b could be spent on infrastructure, such as improved transport, education, and healthcare facilities. This could allow the economy to accommodate a larger population and also lead to a much larger increase in real GDP and economic growth.

- (b) (i) Explain how infrastructure spending of \$17.5b will result in a larger increase in real GDP and economic growth. Refer to Model One in your answer.

Question Two (b) continues on the next page ►

- (ii) Explain why increasing spending on infrastructure could also create a larger (more sustainable) increase in economic growth in the long run, compared to tax cuts. Refer to Model One and the resource material in your answer.

New Zealand has recently signed a free trade agreement (FTA) with the European Union. While FTAs like this can lead to increased economic growth, they can also lead to increased spending on imports, reducing the multiplier effect of domestic fiscal policy.

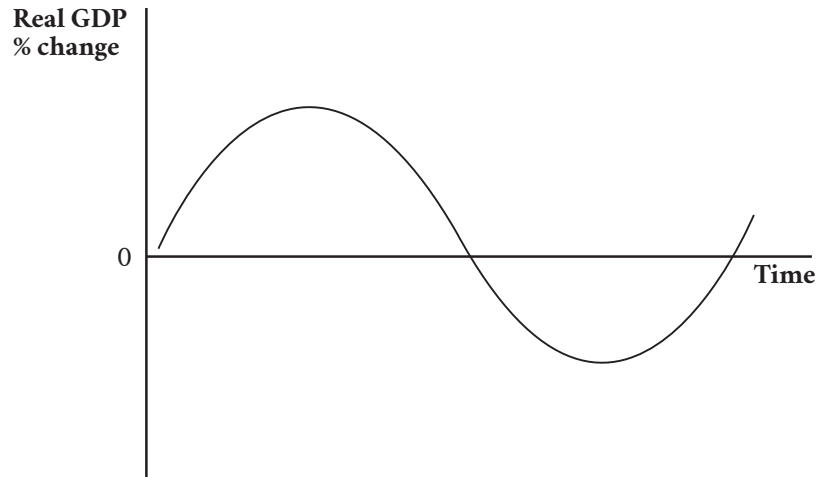
- (c) Explain how increased imports could reduce the impact of the multiplier and, as a result, the final impact either tax cuts or infrastructure spending could have on real GDP and economic growth. In your answer, refer to Model One and the multiplier effect.

QUESTION THREE: Internal influences on inflation and employment

Economic activity declined in New Zealand for three out of four quarters from December 2022 to September 2023. On a per capita basis, economic activity fell for all four quarters.

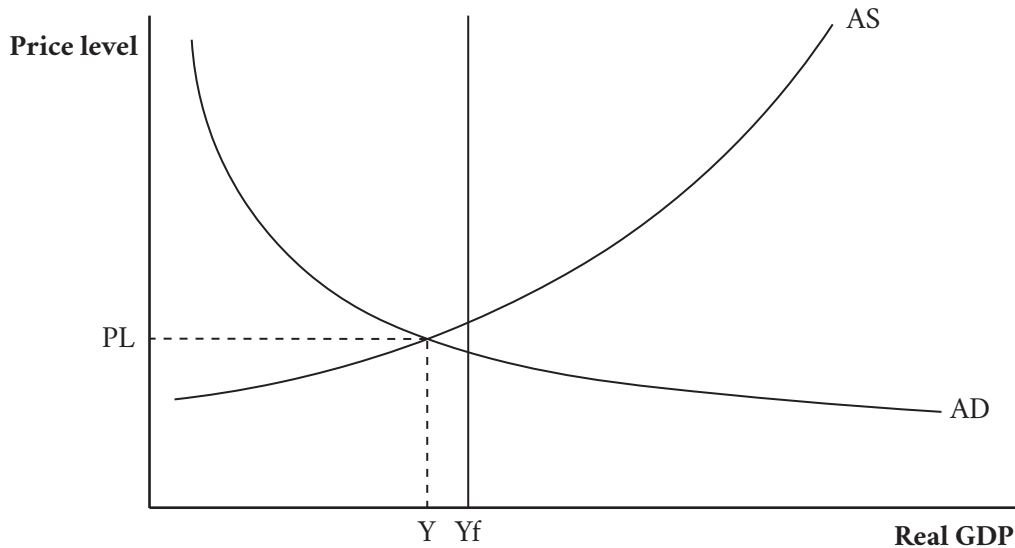
- (a) (i) Based on the resource information above, identify and mark with an X on Model Two the likely position of the New Zealand economy in September 2023.

Model Two: The business cycle



- (ii) Explain your choice of location of the New Zealand economy on Model Two.

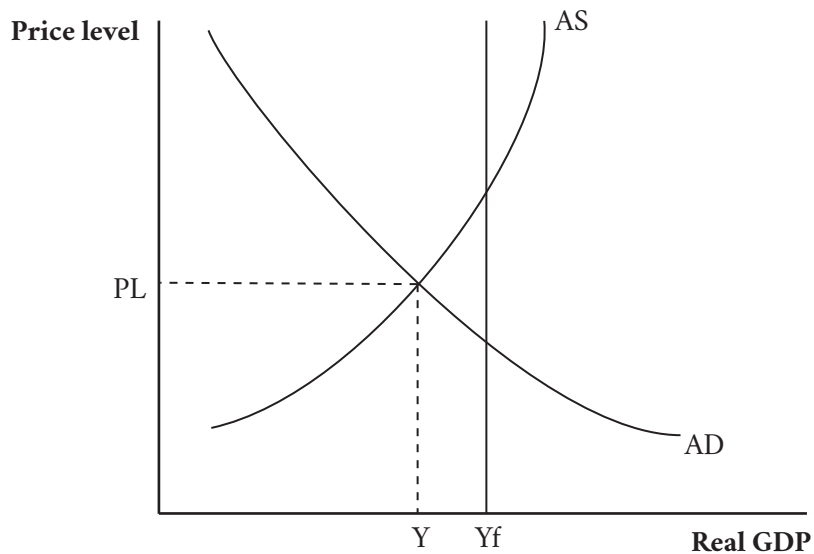
Graph Two: The New Zealand economy with falling house prices



- (b) (i) On Graph Two above, show the effect of falling house prices by shifting one curve. Label all changes, including to the recessionary gap.
- (ii) Explain, using the changes you made to Graph Two above, the effect of falling house prices on inflation and employment.

Fuel prices have risen since the fuel tax discount ended.

**Graph Three: The New Zealand economy
with higher fuel prices**



- (c) (i) On Graph Three above, show the effect of rising fuel prices by shifting one curve. Label all changes, including to the recessionary gap.
- (ii) Explain, using the changes you made to Graph Three above, the effect of rising fuel prices on inflation and employment.

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

QUESTION
NUMBER

Lined area for student responses.

Acknowledgements

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

Question One

Puller-Strecker, T. (2023, November 30). Immigration surge threatens smooth path to lower interest rates. *The Post*. <https://www.thepost.co.nz/business/350121386/immigration-surge-threatens-smooth-path-lower-interest-rates>.

Question Two

Walker, R & Sothcott, J. (2023, February). *Inflation and personal tax bracket creep – a bigger picture*. <https://www.deloitte.com/nz/en/services/tax/perspectives/inflation-and-personal-tax-bracket-creep-a-bigger-picture.html>.

Stuff. (2023, February 10). *Stuff*. Here's how much you'd save in tax if brackets had moved with inflation.

<https://www.stuff.co.nz/business/money/300803072/heres-how-much-you-d-save-in-tax-if-brackets-had-moved-with-inflation>.

Stats NZ. (2023, November 1). *Labour market statistics: September 2023 quarter*. <https://www.stats.govt.nz/information-releases/labour-market-statistics-september-2023-quarter/>, CC BY-SA 4.0.

Question Three

Stats NZ. (2023, December 14). *Gross domestic product: September 2023 quarter*. <https://www.stats.govt.nz/information-releases/gross-domestic-product-september-2023-quarter/>, CC BY-SA 4.0.

Cann, G. (2023, March 29). What happens when housing's 'wealth effect' dries up? *Stuff*. <https://www.stuff.co.nz/business/131611087/what-happens-when-housings-wealth-effect-dries-up>.

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