

91222



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Mana Tohu Mātauranga o Aotearoa

New Zealand Qualifications Authority

Level 2 Economics 2025

91222 Analyse inflation using  
economic concepts and models

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 2–12 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.

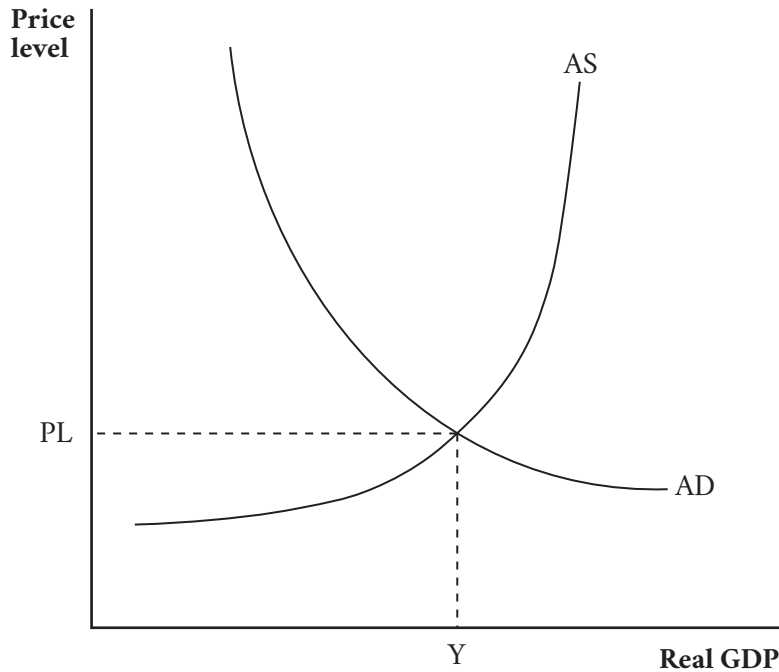
**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

### QUESTION ONE: Causes of inflation

In 2024, there were large-scale job losses and redundancies in New Zealand. These job losses had a flow-on effect on businesses such as cafes and restaurants in city centres.

- (a) On Graph One below, show the impact of job losses in New Zealand on aggregate demand. Fully label all changes.

**Graph One: AS/AD model of the New Zealand economy**



- (b) Explain the impact of job losses in New Zealand on the price level. Refer to Graph One in your answer.

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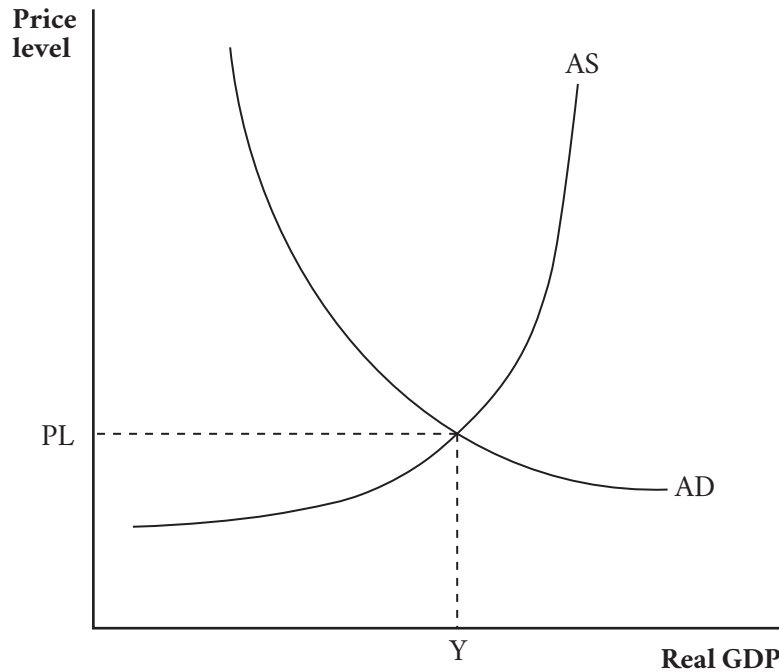
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Decreasing petrol prices, including the removal of the 10c per litre Auckland Regional Fuel Tax, have benefitted businesses across the country.

- (c) On Graph Two below, show the impact of decreasing petrol prices in New Zealand on aggregate supply. Fully label all changes.

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



- (d) Explain the impact of decreasing petrol prices in New Zealand on the price level. Refer to Graph Two in your answer.

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Question One continues on the next page ➤



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**QUESTION TWO: Inflation and the quantity theory of money**

- (a) Use the figures above to explain the difference between disinflation and deflation.

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- (b) Explain one reason why the change in inflation rate from 2022 to 2024 is positive for the New Zealand economy.

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In response to the slowing of inflation rates and slowing economic activity, the Reserve Bank of New Zealand has been decreasing the Official Cash Rate, resulting in decreasing interest rates.

- (c) Explain why decreasing interest rates may increase the velocity of circulation in New Zealand.

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- In your answer:

**QUESTION THREE: The CPI and its effects on inflation**

(a) What does CPI stand for?

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(b) Explain how the CPI is used to calculate the rate of inflation in New Zealand.

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(c) Explain why the rate of inflation, as calculated by the CPI, does not affect all households equally.

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(d) Explain one reason why government revenue might increase during a time of high inflation.

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QUESTION  
NUMBER

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**Acknowledgements**

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

**Question Two (a)**

Reserve Bank of New Zealand. (2025). *Inflation*. [www.rbnz.govt.nz/monetary-policy/about-monetary-policy/inflation](https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/inflation)

**Question Two (d)**

Westpac. (2025). *Economic overview: Turning the corner*. [www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2025/Other/Economic-Overview\\_120225-QEO\\_report\\_12Feb25.pdf](https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2025/Other/Economic-Overview_120225-QEO_report_12Feb25.pdf)