91403

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NEW ZEALAND QUALIFICATIONS AUTHORITY
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SUPERVISOR'S USE ONLY

Level 3 Economics, 2017

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

2.00 p.m. Wednesday 29 November 2017
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 2–12 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.

Achievement

TOTAL 11

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QUESTION ONE: Fiscal and supply side policies

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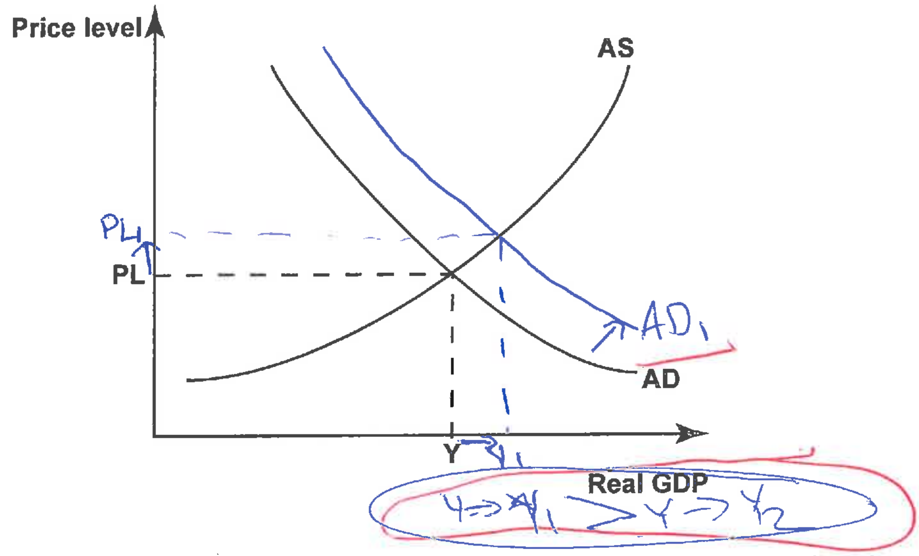
The 2016 Budget included spending on regional roading projects and upgrading regional tourism infrastructure, e.g. extending the New Zealand Cycle Trail.

Source (adapted): http://www.treasury.govt.nz/budget/2016/at-a-glance/b16-at-a-glance.pdf

The impact on long-term economic growth of this expansionary fiscal policy may be affected by the multiplier.

Graph One: The New Zealand economy



(1)

(a) (i) On Graph One above, illustrate the impact of increased spending on regional roading projects and tourism infrastructure on aggregate demand and real GDP.

(ii) Explain in detail the impact of this expansionary fiscal policy on economic growth. In your answer:

- refer to the changes made to Graph One
- explain why at least two components of aggregate demand, other than Government spending, will increase.

The impact of this expansionary fiscal policy on economic growth is an ~~will result~~ increase to aggregate demand from AD to AD1. This is because the upgrading of regional tourism infrastructure will cause an increase in not only government spending but also consumption and export reciepts. This is because improved infrastructure such as the NZ cycle trail will cause consumers to want to use these improved facilities causing an increase in consumption of complementary goods such as bicycles. Export reciepts will increase as these tourist infrastructures cause an influx of tourists

(2)

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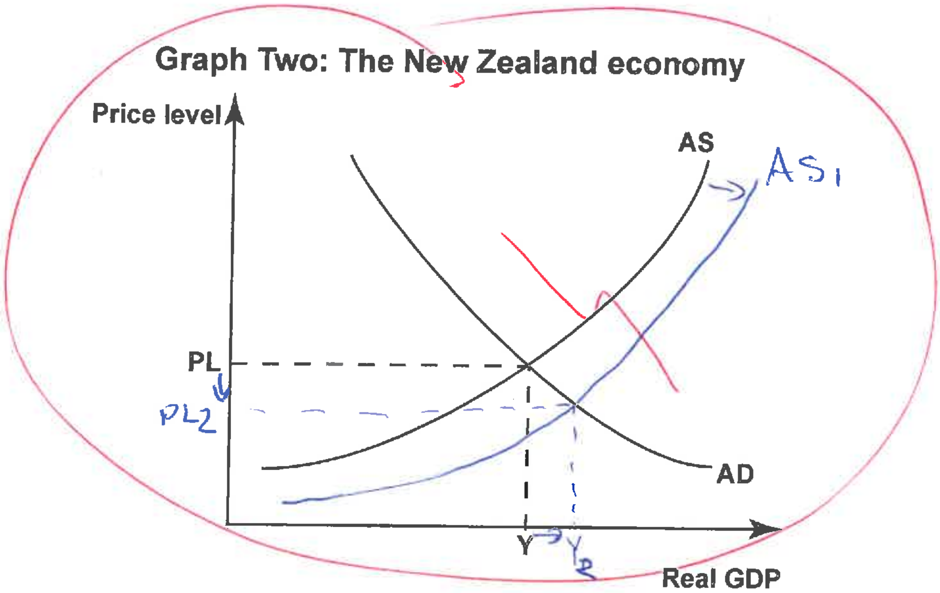
Supply side policy includes any policy that improves an economy's productive potential and its ability to produce.

Source: http://www.economicsonline.co.uk/Global_economics/Supply-side_policies.html

The 2016 Budget also included spending on tertiary education and apprenticeship programmes, to develop the skilled workforce needed for a 21st century economy.

Source (adapted): http://www.treasury.govt.nz/budget/2016/at-a-glance/b16-at-a-glance.pdf



(3)

(b) On Graph Two above, illustrate the impact of increased spending on tertiary education and apprenticeship programmes on real GDP, assuming that this expansionary fiscal policy is also an example of a supply side policy.

(c) Referring to the resource material on pages 2 and 3 and Graphs One and Two, compare and contrast the impact on long-term economic growth of these two policies. In your answer, explain in detail:

- the impact of increased spending on tertiary education and apprenticeship programmes on economic growth
- whether increased spending on regional roading projects and tourism infrastructure or increased spending on tertiary education and apprenticeship programmes would have the greater impact on long-term economic growth.

Increased spending on tertiary education and apprenticeship programmes will eventually lead to increased productivity in the work force as more skilled work forces are developed. This increased productivity will cause an increase in Aggregate supply from AS to AS_1. This will cause a fall in the price level from PL to PL_2 and overall increase in economic growth with the rise in Real GDP from Y to Y_2.

(4)

More answer space is available on the next page.

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Increased spending on regional roading projects will have a greater impact on long-term economic growth than spending on tertiary education and apprenticeship programmes. This is because infrastructure spending affects multiple components of aggregate demand and is affected by the multiplier effect due to its widespread effect and therefore will continue to increase economic growth in the long term as the money grows in the economy through the multiplier. Spending on tertiary edu. and programmes only affects one component of aggregate supply and is focused on training so will have a smaller effect on the economy and therefore will have smaller economic growth. $Y_1 > Y_2$ //

A4

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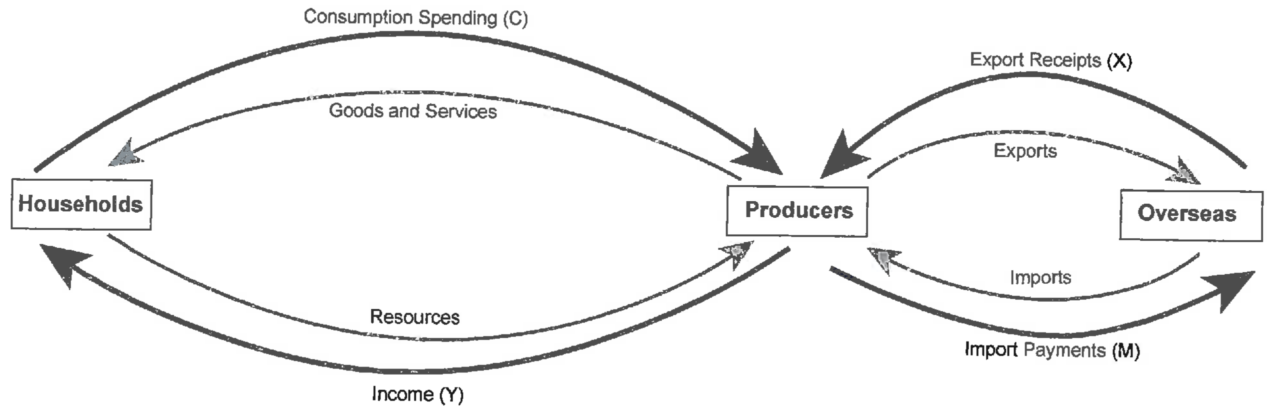
QUESTION TWO: Impact of free trade agreements on the current account and employment

As at the beginning of 2017, New Zealand has successfully concluded free trade agreements involving 16 countries that are members of the World Trade Organisation. New Zealand is negotiating to conclude another five free trade agreements involving significant economies such as India.

Source (adapted): https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/ and https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/.

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



(a) Referring to changes in the relevant real and money flows from Model One, explain in detail how New Zealand's entry into a further five free trade agreements could improve New Zealand's current account.

New Zealand's entry into a further five free trade agreements could improve the New Zealand's current account. This would happen through an increase in exports to these countries such as India which would increase export reciepts. (1) If imports to NZ from these economies were to increase they would have to increase relatively smaller than the increase in exports to ~~of the increase~~ improve the current account. Therefore export reciepts would have to increase relatively more than import payments to these contries to improve the current account by increasing the Balance of goods. // (2)

ASSESSOR'S USE ONLY

(b) Referring to changes in the relevant real and money flows from Model One, explain in detail how New Zealand's entry into a further five free trade agreements could increase employment in New Zealand.

This free trade agreement could increase employment in New Zealand as increased export reciepts (x) would increase the revenue for Producers. This increase in revenue could cause an increase in Income (Y) to households and thus export producers could also then hire more workers to ~~dea~~ help with these extra exports to these free trade countries. Thus, this increasing employment in New Zealand.

(3)

(c) Explain in detail whether the new free trade agreements could be more effective in helping achieve the goals of either a balanced current account or full employment for the New Zealand economy.

The free trade agreements will not be very effective in achieving the goals of a balanced current account. This is because these new countries may be countries that NZ will import things from rather than export, ↓ net exports and lowering the Balance of Goods as import payments are relatively higher than export reciepts. This would worsen ~~decrease~~ the current account for NZ. The free trade agreements also affects only one component of the current account, the Balance of Goods and therefore the current account would not be balanced

(4)

~~without~~ with the trade agreements because the other components, such as Balance of Services, ~~i~~are unaffected. The free trade aggrements will also be uneffective in reaching full employment for New Zealand as it only affects the businesses that import and export and so it is not possible to effect the entire economy through just trade aggrements and reach full employment as it ignores other local businesses and services.

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A4

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QUESTION THREE: Impact of savings and investment on the economy

"… saving is undeniably an important part of the economic process that gives rise to new investment and economic growth."

Source (adapted): http://www.abc.net.au/money/currency/features/feat4.htm

(a) Explain in detail how increased savings may result in more investment in the economy. In your answer, define the terms "savings" and "investment".

Savings ~~are~~ is the ~~mon~~ extra money availble after costs not spent. If there is increased savings in the economy. ~~If~~ as savings are quite large in the economy consumers and producers may use this extra money to invest in new machinery (producers) or in stocks for businesses (consumers). Investment is putting money into goods and stocks in order to increase the value of your dollar. For businesses this is done by investing in goods to improve your business and thus looking for increased profits. For consumers this is by investing your money into businesses inorder to increase ~~your savings~~ the value of your money

(1)

(1)

The magnitude of the impact of increased investment on the economy is dependent on New Zealand's position on the business cycle.

Model Two: The business cycle

(2)

(b) (i) Using Model Two, identify a possible position of the New Zealand Economy if it is close to achieving the full employment level of output.

BOOM

(ii) Referring to the relevant stage of the business cycle, explain in detail why you chose the position identified in (i).

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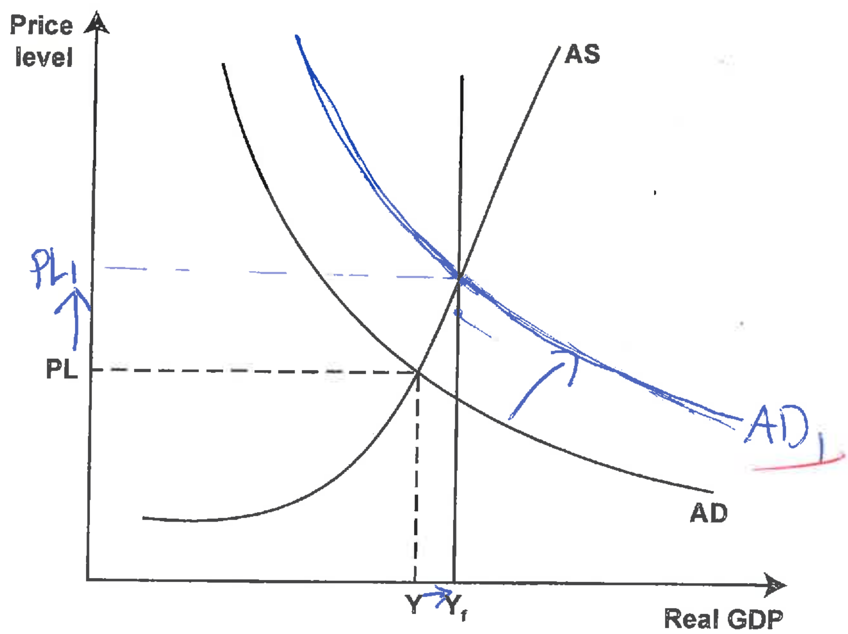
Position (a) labeled in Model Two is when the economy is experiencing ~~a~~ the boom stage of the business cycle. This is when the economy has experienced ~~is spending and~~ increased their savings ~~on~~ investment and spending in the economy. Employment is reaching it's max and businesses are maximising their resources. Inflation is rising heavely because of this ~~therefore~~ raising great economic growth, it is towards the top of the peak of the curve as economic growth is large, when employment hits its peak; and thus the economy will start to fall and growth will decrease ~~inflation~~ thus this is before we hit the top of the curve.

(3)

(c) (i) On Graph Three below, show the impact of increased investment on the price level and real GDP, assuming that full employment is reached.

Graph Three: The New Zealand economy operating close to the full employment level of output (Y_f)



(4)

The question continues on the next page.

(ii) Referring to Graph Three and Model Two, compare and contrast the impact of increased investment on the goals of price stability and economic growth when the economy is close to full employment. In your answer, explain in detail:

- the impact of increased investment on the price level and real GDP
- the effectiveness of increased investment in achieving price stability and significant economic growth in the **short run** when the economy is operating close to the full employment level of output.

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Increased investment will cause a rise in Aggregate demand from AD to AD_1. This is because investment is a component of aggregate demand. This ↑ investment will cause a rise in the price level from PL to PL' as there is inflationary pressure arising from large investment into the economy. This investment also will cause a rise in real GDP from Y to Yf, resulting in full employment in the economy. This is because with this investment, all resources are being maximised and this creates large economic growth. ↑ Investment is effective in achieving economic growth in the short run as the investment will cause all resources to be maximised and the greatest amount of economic growth the economy can have ~~handle~~ is achieved, due to limited resources it can not achieve greater. Price stability is not achieved as ~~the large gap~~ this increased investment is very inflationary and in the short-run has greatly increased the price level, not reaching the price stability of 1%-3% and is not effective

(5)

(7)

(6)

A3

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

QUESTION NUMBER

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Q1a(ii) and therefore ↑ our export reciepts thus ↑ net exports. Overall, both consumption, government spending and net exports are components of aggregate demand, ↑ AD. This leads to a rise in the price level from PL to PL, and overall improves economic growth with the increase of real GDP from Y to Y₁.

Achievement exemplar 2017

Subject:	Economics	Standard:	91403	Total score:	11

Q	Grade score	Annotation
1	A4	This candidate has received A4 for this question because they: a) shifted and labelled the AD curve correctly on Graph One, (1), explained how Consumer Spending would increase and fully explained how Export Receipts would increase, linking this to increased economic growth and the model. (2) b) failed to shift and label the AD curve correctly on Graph Two. (3) c) explained how the increased government spending would lead to improved productivity and an increase in AS and cause economic growth (4), while including reference to Graph Two. A more detailed answer would have recognised that the increased government spending would have initially increased AD and fully explained why this would have occurred. This would then allow a more relevant comparison between Policy One and Policy Two.
2	A4	This candidate has received A4 for this question because they: a) Explained that NZ's entry into further FTA's will lead to increased exports and export receipts for NZ (1), improving NZ's Balance of Goods and Current Account. (2). A more detailed answer would have explained how the FTA's would reduce protectionism and make NZ's exports more price competitive. b) Explained that the increase in export receipts would lead to increased employment in NZ. (3) A better answer would have explained that the increased exports will require increased production and from this, the demand for resources such as labour will increase. c) Explained that import payments may increase more than export receipts, but failed to provide a detailed explanation as to whether the new FTA's will be more effective in helping achieve a balanced current account or full employment for the NZ economy. (4)
3	A3	This candidate has received A3 for this question because they: a) Failed to define Savings and Investment due to poor use of economic terminology. (1) b) Identified a position on the business cycle where the NZ economy would be close to achieving the full employment level of output, (2) and explained why they chose this point. (3) A more detailed answer would have explained that nearly all resources in the economy will be employed to achieve this level of GDP. c) shifted and labelled the AD curve correctly in Graph Three so full employment is reached, (4) and fully explained how an increase in investment caused this shift. (5) They recognise that the increase in price level is inflationary and price stability will not be achieved (6) but do not explain why and incorrectly state the investment will be effective in achieving significant growth. (7) A more detailed explanation would have linked the price instability and a lack of significant economic growth to the scarcity of resources.