SUPERVISOR'S USE ONLY

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Draw a cross through the box (☒) if you have NOT written in this booklet

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NZQA | 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.

Achievement

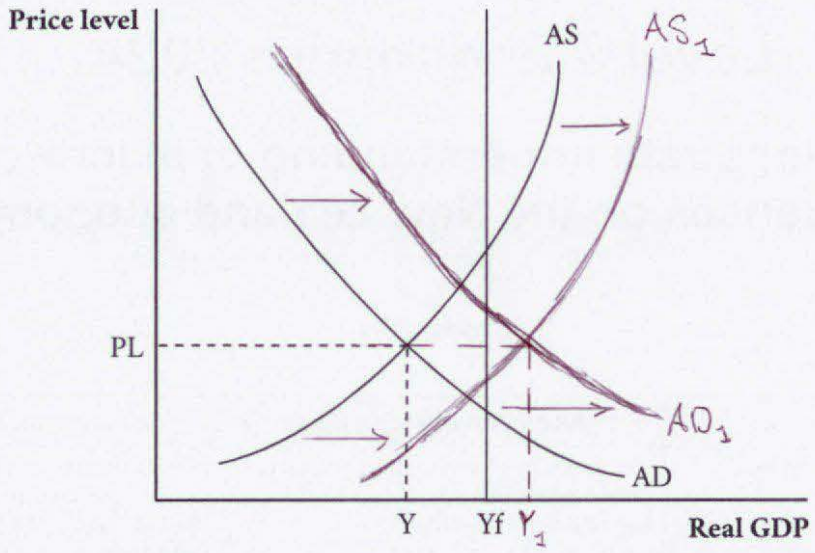
TOTAL 11

QUESTION ONE: Migration and monetary policy

Immigration surge threatens smooth path to lower interest rates.

[redacted]

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.

Higher net migration may cause heightened demand as seen in the graph above as an outward shift of the AD curve from AD to AD_1. Additionally higher net migration may cause an increase in aggregate supply as it may reduce wage pressure, and therefore cost of production which is a factor of aggregate supply. This is seen as an outward shift of the AS curve from AS to AS_1. Both outward shifts of the AD curve (AD to AD_1) and AS curve (AS to

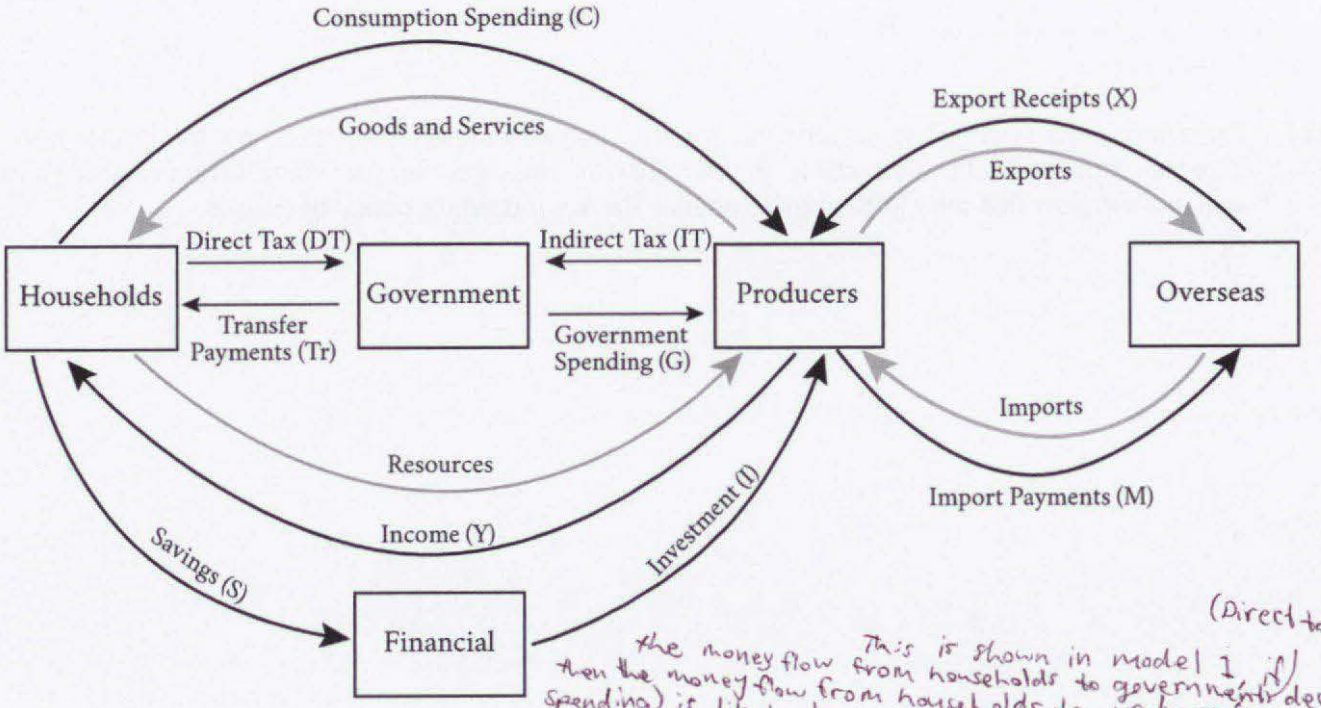
AS_1) cause an increase in ~~real~~ economic growth as, on graph one, real GDP is seen to increase from Y to Y_1, with an inflationary gap between Y_F and Y_1 (as ~~empt~~ Y_1 is above full employment level).

(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.

The current PTA ~~agg~~ aims to keep inflation between 1% and 3%. As explained in (a)(ii) an increase in net migration is likely to cause inflation (inflationary gap ~~then~~ caused between Y_F and Y_1). ~~AD will increase first in the short term as, causing demand pull inflation,~~ Because of this, the RBNZ may be more inclined to increase the OCR in order to increase interest rates and therefore decrease economic activity to mitigate the inflation caused by increased net migration. In the long term, price stability won't change dramatically due to increased net migration as seen on Graph one with no change in price level (PL) because the increase in supply is met with an increase in demand.

QUESTION TWO: Fiscal policy and economic growth

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



(Direct tax)

the money flow This is shown in model 1 if then the money flow from households to government decreases spending) it likely to increase from households to producers (consumption

(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.

$$\text{Multiplier} = \frac{1}{1-0.83}$$

$$= 5.8824$$

$$5.8824 \times 17.5 = 102.9412$$

$$= \$102.94 \text{ (2dp)}$$

Tax cuts will result in an increase in consumer spending as households will have more disposable income ∴ Consumer Spending is a component of AD ∴ AD will increase causing an increase in real GDP

~~a $17.5b tax cut could lead to~~ approximately a $102.94 increase in real GDP, ~~and therefore lead to~~ increased ~~economic growth~~

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.

An infrastucture spending of 17.5 $ means ~~government spending of~~ an increase in G which is a component of Aggregate demand ∴ aggregate demand would increase, causing an increase in real GDP. Additionally, improved transport & and education may improve productivity in the workforce, meaning a decrease in cost of production for producers, causing an increase in aggregate supply, and ∴ an increase in real GDP. Tax cuts cause an increase in consumer spending & ∴ an increase in Aggregate demand, infrastructure spending causes an increase in both aggregate demand & aggregate supply, this is why increased infrastructure spending causes a greater increase in real GDP than tax cuts.

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.

Increasing spending on infrastructure could ~~also~~ create a more sustainable long term increase in economic growth because things such as improved education and healthcare tend to have longevity and can be generational/* cause generational economic growth as healthier, better educated people tend to be more productive & ∴ decrease costs of production.

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.

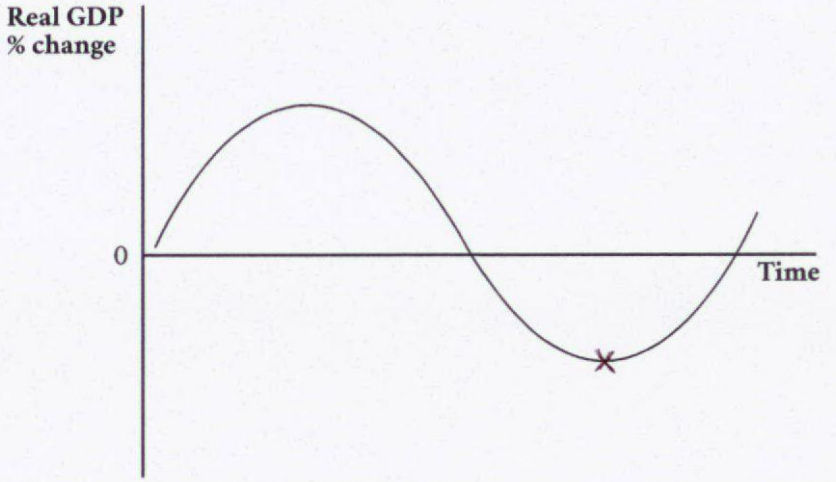
currency spent on imports does not ~~become~~ effectively become the income of another person living in New Zealand / another New Zealand household. This is ~~why~~ how increased imports could negatively impact the multiplier effect.

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.

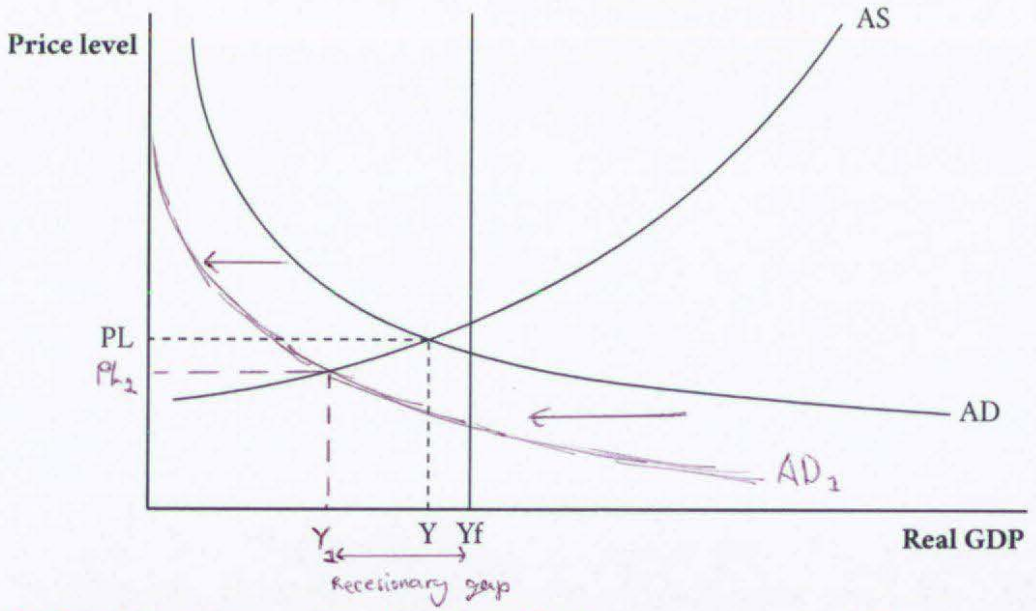
Model Two: The business cycle



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

~~Have~~ I have chosen this location because New Zealand had been in a state of negative economic growth for 2 or more consecutive quarters ∴ New Zealand was experiencing a recession. Recessions are typically marked at a slump / lowest point on the graph.

Graph Two: The New Zealand economy with falling house prices



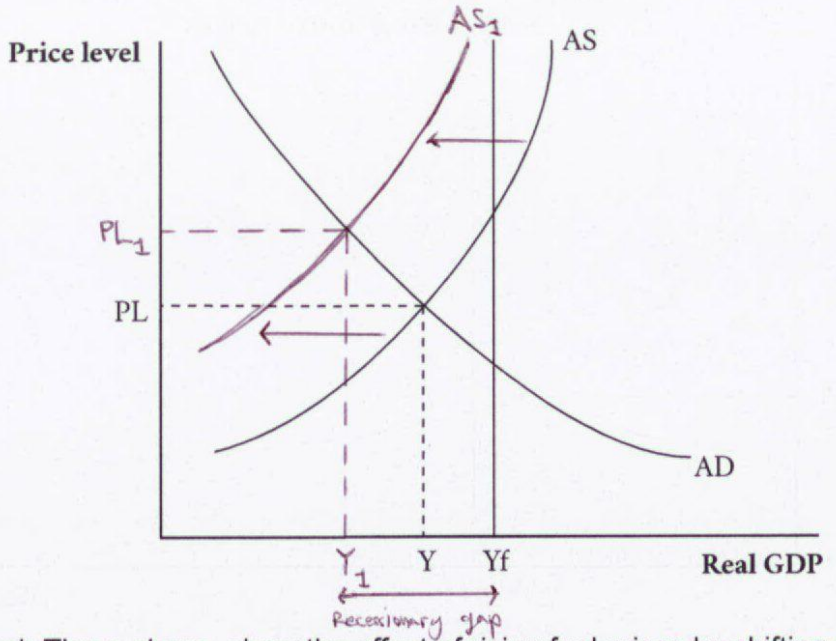
(b) (i) On Graph Two above, show the effect of falling house prices by shifting one curve. Label all changes, including to the recessionary gap.

(ii) Explain, using the changes you made to Graph Two above, the effect of falling house prices on inflation and employment.

According to the wealth effect, falling house prices cause a decrease in consumption spending as property owners lose confidence. Consumtion spending (c) is a component of Aggregate Demand ∴ ~~and~~ a decrease in consumption spending will cause a decrease in aggregate demand, shifting the AD curve from AD to AD_1. This will cause a decrease in ~~the~~ price level from PL to PL_1 and a decrease in employment and inflation as represented by the increase in the recessionary ~~gap~~ gap which was ~~the~~ Y to Y_f and is now Y_1 to Y_f as Y has ~~shifted fro~~ decreased from Y to Y_1.

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.

Rising fuel prices will result in increased cost of production for firms as transporting resources will become more expensive. ~~This~~ This means aggregate supply will decrease, shifting the AS curve from AS to AS_1. This will cause an increase in price level from PL to PL_1 and ∴ an increase in inflation. Additionally this will cause a decrease in employment as Y shifts from Y to Y_1, Y_1 being further left ~~from~~ of full employment (Y_F) than Y.

(d) Explain which of falling house prices or higher fuel prices will have a greater impact on inflation and employment. In your answer, refer to the changes you made to Graph Two and Graph Three.

As seen in graph 2, falling house prices causes a smaller decrease in inflation (as price level decreases from PL to PL_2) than the increase in inflation caused by higher fuel prices (as price level increases from PL to PL_1). ∴ higher fuel prices has a greater impact on inflation than falling house prices. As seen in graph 2, falling house prices causes a greater decrease in employment than higher fuel prices as the decrease in employment from Y to Y_1 in graph 2 is greater than the decrease in employment from Y to Y_2 in graph 3, ~~Therefore~~ (although this difference is very small and could change depending on how the graph is drawn / how great the fall in house prices & and the rise in fuel prices are.) therefore, according to graphs 2 & 3, falling house prices has a greater impact on employment than rising fuel prices.

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-youd-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.

Subject: Economics

Standard: 91403

Total score: 11

Q	Grade score	Marker commentary
One	A4	The response was awarded an A4 because the candidate: • shifted both curves correctly with PL_1 and Y_1 marked. It did not achieve a Merit as the shift in AD was not greater than shift in AS • related the increase in AS to the fall in cost of production leading to increase in real GDP • stated the policy target agreement (PTA) and increase in Official Cash Rate (OCR), although PL stable.
Two	A3	The response was awarded an A3 because the candidate: • completed the calculations correctly but missed the concepts • identified the increase in Government spending • explained that healthier, better educated people increase productivity.
Three	A4	The response was awarded an A4 because the candidate: • plotted X correctly • correctly cited the definition of a recession • shifted the AD curve shifted with PL_1 and Y_1 marked. It did not achieve a Merit as the change in recessionary gap was not correctly identified • stated the loss in consumer confidence caused a fall in consumption which caused a fall in AD as consumption is a component of AD • shifted the AS curve correctly with PL_1 and Y_1 marked. It did not achieve a Merit as the change in recessionary gap was not correctly identified • explained the increasing fuel costs causes an increase in the cost of production and falling AS.