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

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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.

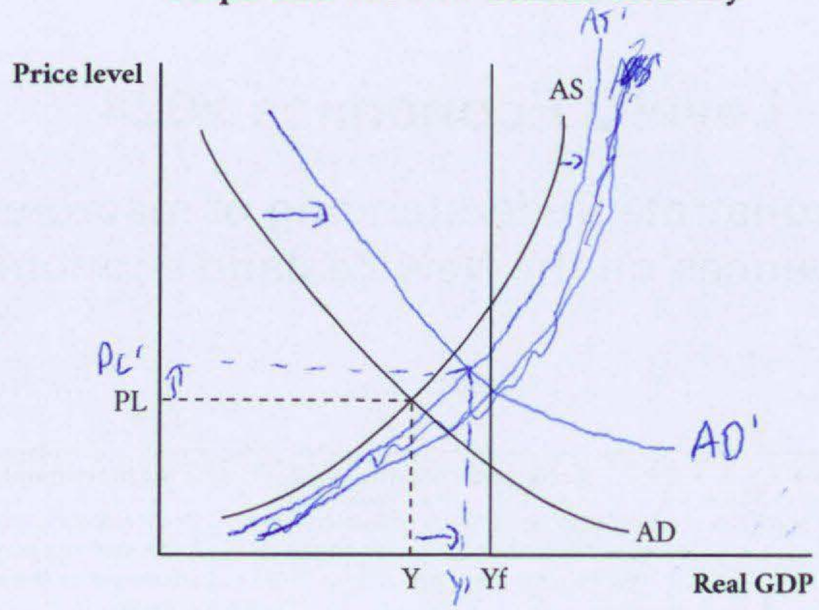
Merit

TOTAL 16

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.

Increased migration will increase economic growth. Increased migration will result in an increase of consumption spending (C), as ~~more~~ a large population is spending money. This will increase Aggregate demand from AD to AD' as AD = C + I + G + (x − m). This will lead to an increase in bussiness confidence and ease wage pressures* which will overall decrease producers cost of production. Producers will now supply more as there goods and services

*As there is more demand for work.

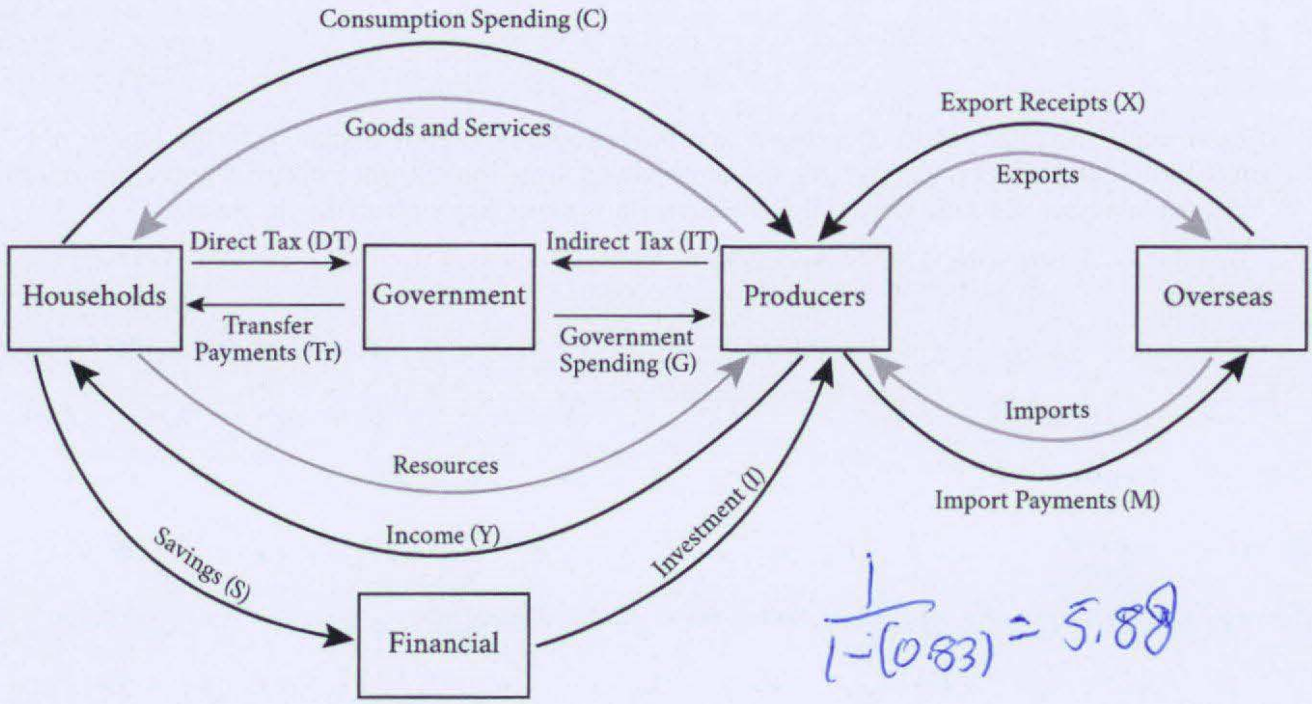
are more profitable. This will increase aggregate supply from AS to AS'. This will lead to a combination of demand pull inflation and cost push inflation and increase inflation (price level) from PL to PL'. Both the increase in aggregate demand and supply will increase economic growth from Y to Y'.

(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 Policy targets Agreements is to keep price stability by keeping the price ~~level~~ level between 1-3%. Higher net migration will increase the price level from PL to PL' as a result of demand pull and cost push inflation. This will decrease price stability as inflation may now be over 3%. The reserve bank may now choose to increase monetary policy to reduce the price level. Increasing the OCR rate will encourage savings and decrease consumption spending (c) as consumers will receive more return on there savings. Producers will decrease investment spending (I) and the cost to debt servicing will be higher. Overall this will decrease AD and decrease demand pull inflation. The decrease in the OCR may offset some of the increase of inflation caused by increased net migration.

QUESTION TWO: Fiscal policy and economic growth

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



$\frac{1}{1-(0.83)} = 5.88$

(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.

$\frac{1}{1-(0.83)}$ = ~~5.88~~ 5.88. ~~Changing the tax brackets by decreasing tax by around $3~~ Changing the tax brackets by decreasing tax by around $3 Million (17.5 billion / 5.88) will result in a $17.5 billion tax cut. The multiplier effect is based on the concept that one persons spending is anothers income, the multiplier is 5.88, meaning that if the government cut tax and increased

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Consumers disposible income, the ~~~~ disposible income would be spent 5.88 times and result in the equivelant of a $17.5 billion tax cut. This would generate economic growth as tax is a withdrawel in the economy. It would generate economic growth and real gdp as producers would increase investment (i) which is an injection and suppy more goods and services

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.

Infrastructure spending of $17.5, ~~~~ would result in a larger increase in real GDP and economic growth. In the short run government spending (G) will increase as the government spends money on building hospitals etc. This is an injection into the economy. ~~Producers will then spend on~~ More consumers will be employed to build the hospitals, which will increase Income (Y). The increase in productivity is a large measure of economic growth.

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.

In the long run the spending on infastructure will increase the full capacity ~~run~~ and utilisation of resources. As ~~[illegible]~~ consumers will have more ~~dispo~~ income due to employment from ~~on~~ the new infastructure, the government will receive more tax direct (DT) to offset the cost of government spending. The ~~reduction~~ tax cut in the long run would lead to decreased government revenue which in result will decrease government spending (G) which is an injection into the economy. Overall in the longrun spending on infastructure of 17.5 billion will be more ~~effective than a~~ sustainable than a tax cut, 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.

After the FTA, imports ~~(M)~~ increase as imports become more price competitive in the NZ market, after tarrifs and quotas are removed. This will effect the multiplier effect as ~~th~~ consumers are not spending there increased disposible income in the New zealand economy, rather there spending it on European import payments (M). This reduces the multplier as the consumer spending won't be multiplied as many times as 5.88 as they are spending money in European economy. Imports (m) are a withdrawel in the economy, therefore real GDP and economic growth will decrease. Overall, the final tax cut will not equal $17.5 billion and it will be somewhat lower ~~at~~ at then end.

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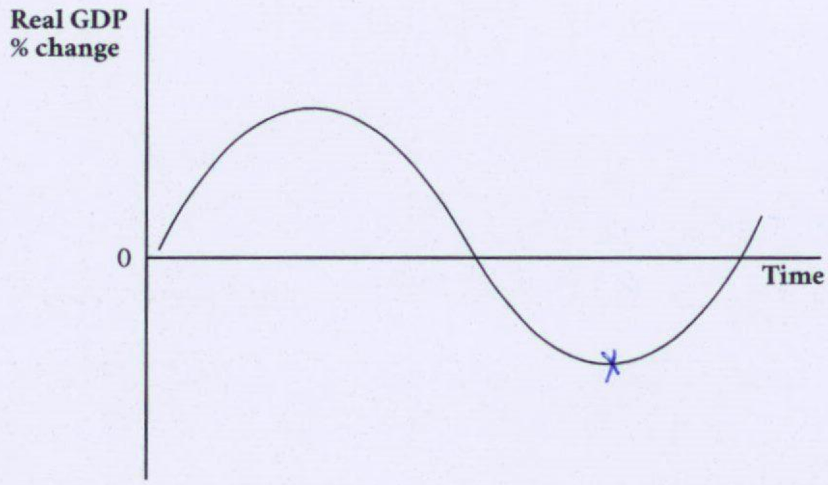
QUESTION THREE: Internal influences on inflation and employment

> 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.

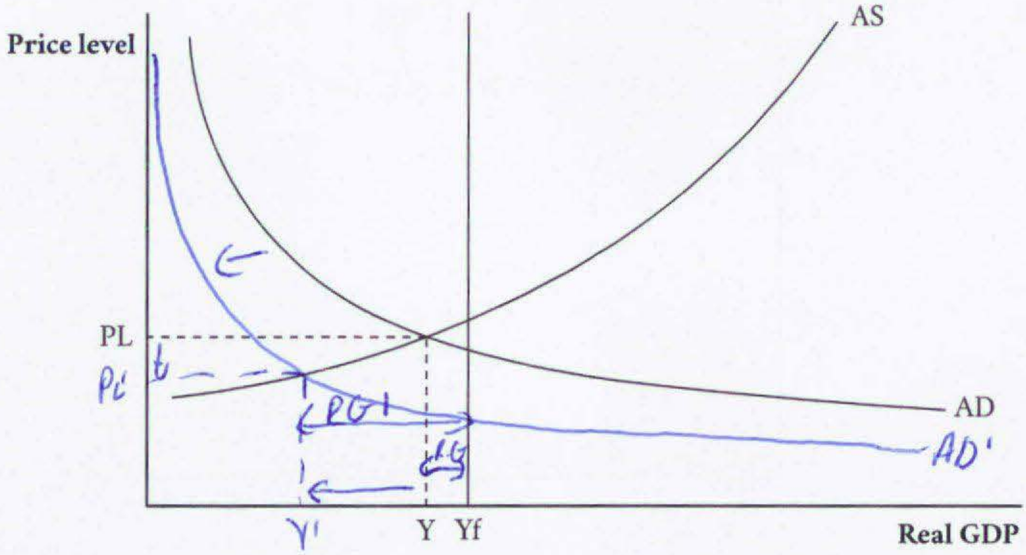
Model Two: The business cycle



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

In September 2023, New Zealand was in a trough/depression. A countinues fall of economic activity indicates that unemployment was high and real GDP was low. When economic activity is at it's minimum, the economy is in a trough.

Graph Two: The New Zealand economy with falling house prices



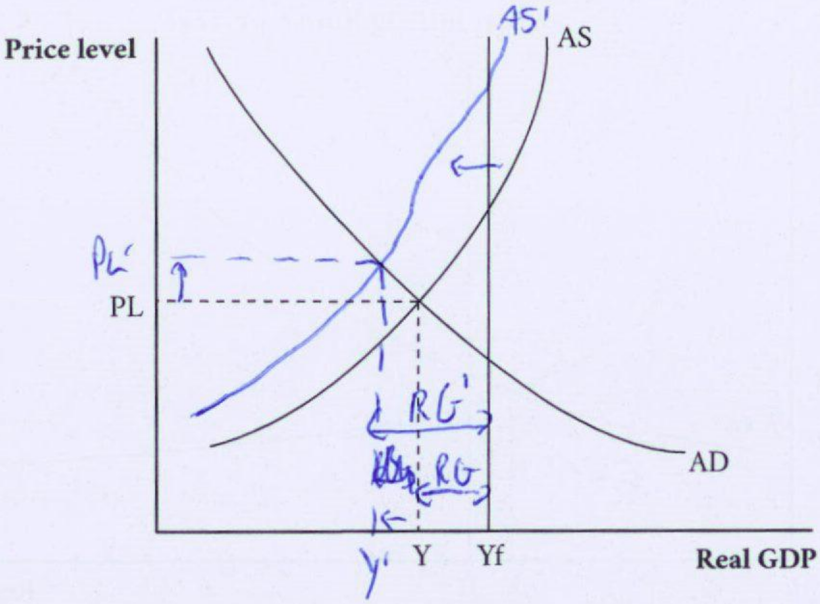
(b) (i) On Graph Two above, show the effect of falling house prices by shifting one curve. Label all changes, including to the recessionary gap.

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

After the "back firing of the wealth effect" from lowering house prices, there will be a decrease in employment and inflation. Decreased ~~co~~ consumption spending (C) causes a decrease in aggregate demand from AD to AD', as AD = C + I + G + (x-m). This will cause a decrease in real GDP from Y to Y'. This means there will be an increase in the recessionary gap from RG to RG'. This shows there is an under utilisation of resources like labour, meaning employment falls from Y to Y'. The price level decreases from PL to PL', showing a decrease in demand pull inflation.

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.

The increase of the price of fuel will decrease employment and increase inflation. Fuel is an essential cost of production for nearly all producers. The increase price in fuel will increase producers cost of production and decrease aggregate supply from AS to AS' as there goods are now relatively less ~~off~~ profitable. This will increase the price level from PL to PL', causing an increase in cost push inflation. Real GDP will fall from Y to Y', reflecting an under utilisation of resources like labour. Employment will decrease as shown by the recessionary gap that increases from ~~XLM~~ RG to RG'. As producers ~~cannot~~ goods are less profitable, they ~~need~~ may fire some workers to help cover costs of production.

(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.

Higher fuel prices will have a greater effect on inflation and employment. Fuel is something that impacts nearly everyone including producers and consumers. ~~As a~~ The rising cost of production from higher fuel prices will lower producers employment intentions and may even fire some workers. The falling house prices will lead to lower consumption spending (C), which results in decreased ~~(consumer)~~ ~~confidence~~ ~~producer~~ bussiness confidence that will lower employment intentions. As the fuel prices effect a larger population it will have the biggest impact on unemployment. This means the ~~Sh~~ decrease from Y to Yf and increase from RG to RG' is greater in graph 3 compared to graph 2. Due to the larger magnitude of shift from AS to AS' on graph 3 compared to AD to AD' on graph 2, the impact on the price level will be greater on graph 3. Fuel prices effect everyone, so increased fuel prices will significantly raise inflation as seen on graph 3 when PL rises to PL1. House prices falling will gradually lead to a decrease in demand pull inflation shown on graph 2 when PL decreases to PL'. Overall rising fuel prices has a greater impact on both employment and inflation compared to falling house 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: 16

Q	Grade score	Marker commentary
One	M6	The response was awarded an M6 because the candidate: • shifted both curves correctly, AD shifted more than AS and PL_1 and Y_1 marked correctly. • identified the increase in C (consumption) due to the larger population causing an increase in business confidence and investment (I) causing an increase in AD • identified the easing of wage growth leading to fall in costs of production (COP), the increase in profitability leading to increase in AS, but without an explanation that would be needed to achieve Excellence • identified there would be demand pull inflation, but incorrectly stated cost push inflation • stated Y shifts to Y_1 but with no comment on real GDP (Gross Domestic Product) • did not explain that the increase in AD was greater than AS, as would be needed for Excellence • stated PTA (Policy Target Agreement) being 1-3% • indicated that the increase in Price Level will likely be beyond 3% • explained that the Reserve Bank increased OCR (Official Cash Rate) to reduce inflation • explained the impact of an increase in OCR on savings, consumption, investment, and therefore AD and demand pull inflation.
Two	M5	The response was awarded an M6 because the candidate: • stated the concept and multiplier correctly but did not give the final change • referred to Government spending being an injection to the circular flow model (CFM) causing an increase in employment and household income, stated increasing productivity leading to economic growth, referred to the model Y and M, and gave examples of infrastructure spending • referred to increasing capacity, employment, and tax revenue whereas changes in tax brackets leads to decreased Government revenue and Government spending (G) • stated that import payments (M) will increase, and this leakage will reduce the multiplier.
Three	M5	The response was awarded an M5 because the candidate: • marked X correctly • Decreased AD correctly and showed the original and new real GDP • referred to the resource • stated a decrease in C (consumption) due to the wealth effect impacting AD • stated the decrease in PL is a decrease in inflation

		• stated the that the decrease in Y leads to an increase in real GDP due to underutilisation of resources (labour) so there is a decrease in employment • identified the correct fall in AS and increase in real GDP • identified fuel as a cost of production (COP), but not how it is used as would be needed for Excellence • identified that goods are less profitable causing increase in PL, cost push inflation, and the release of staff causing increase in unemployment • referred to the model, price level, and real GDP • made a choice due to wider impact • referred to the graphs.