

No part of the candidate's evidence in this exemplar material may be presented in an external assessment for the purpose of gaining an NZQA qualification or award.

SUPERVISOR'S USE ONLY

2

91222



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

+



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.

Achievement

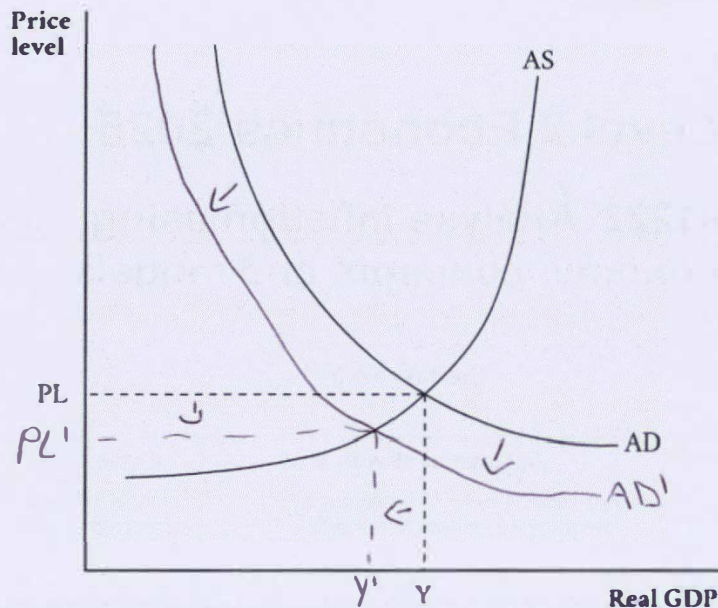
TOTAL 11

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



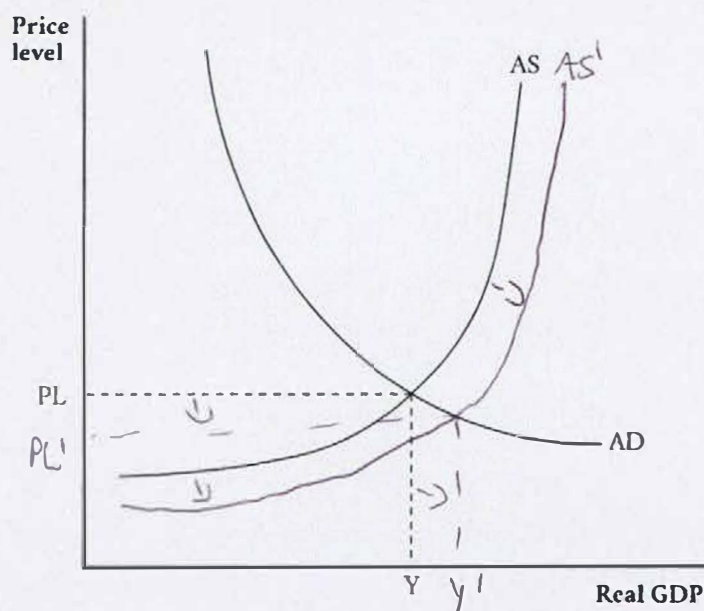
- (b) Explain the impact of job losses in New Zealand on the price level. Refer to Graph One in your answer.

$C + I + G + (X - M)$ in this formula consumption will drop because of less people being employed because of the job losses, therefore there won't ^{be as} ~~be~~ spending as much because there are less people with jobs. This causes AD to drop AD to AD' and this results in inflation dropping.

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.

decreasing petrol prices will mean that cost of production ^{could be} less / cost of imported petrol. ~~at the~~ this could cause ~~an~~ higher aggregate supply which would also result in inflation dropping. graphs show this PL to PL'.

Question One continues on the next page ►

- (e) Explain whether job losses or decreasing petrol prices will have a bigger effect on the price level in New Zealand. Refer to Graphs One and Two in your answer.

decreasing petrol prices will have a bigger effect on the price level in New Zealand because job losses would only cause a drop in demand for those who lost their job, but fuel prices dropping affects a much larger amount of people in New Zealand and therefore is more significant in terms of having an effect on inflation.

**This page has been deliberately left blank.
The assessment continues on the following page.**

QUESTION TWO: Inflation and the quantity theory of money

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

disinflation is when inflation ~~drops~~ is lower than the last measure but still in the positives. deflation is when inflation drops to negatives. we can see inflation dropping from 7.3% to 2.2% in a couple years is disinflation.

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

because each year ^{workers} ~~businesses~~ would loose money having to work each yr unless they can get their nominal wages the same as inflation.

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.

decreasing interest rates would make people more likely to spend their money and less likely to save. more spending is more velocity of circulation.

- (d) Using the quantity theory of money, explain how an increasing velocity of circulation will impact inflation in New Zealand.

In your answer:

- state the quantity theory of money
- explain how inflation will be impacted if the velocity of circulation increases but other variables remain constant
- explain how inflation will be impacted if the velocity of circulation increases and the level of real GDP increases.

$MV = PQ$ in this formula if velocity ~~stay~~ ~~con~~ increase but the other variables stay constant. Usually real output or price level would have to change to make the formula true, but if they all stay constant but velocity increases inflation will still rise because if there is more spending than that will cause inflation to rise, $C + I + G + (X - M)$, in this formula ~~con~~ spending would increase pushing PL up. if real GDP increases as well inflation will rise because ~~con~~ if real GDP increases spending will also go up therefore inflation will rise.

QUESTION THREE: The CPI and its effects on inflation

- (a) What does CPI stand for?

consumer price index

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

CPI Shows how different goods affect inflation more on a weighted scale

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

because it is weighted and ~~it~~ some households have to pay more tax for example.

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

if everything cost more due to inflation being high, the government will bring in more tax money, GST because the general PL has gone up.

- (e) Compare and contrast the impact of high inflation on low-income and on high-income households.

in low income households ~~they~~ high inflation would cause them to have to ~~pay~~ use a much larger amount of their income on necessities ~~and~~ and they would have less money to use for other things. In high income households they would also have to spend more on necessities ~~because~~ because of high inflation, but they would still have money left over for other things.

Also low income households have people who are most likely on minimum wage, this means they are more easily replaceable and probably wouldn't be able to negotiate a raise. On the other hand high income households are ~~more~~ most likely more valuable to their business and less replaceable, so they would be more likely to be able to negotiate a raise to keep up with inflation. Also high income households also will have assets like property ect. that will go up in value with inflation.

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

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

Achievement

Subject: Economics

Standard: 91222

Total score: 11

Q	Grade score	Marker commentary
One	A4	<p>The candidate explained that a decrease in spending will decrease AD and PL, and that lower petrol prices will increase AS and decrease PL.</p> <p>The candidate could have achieved Merit by referring directly to the graph in the explanation of the change to PL in part (b) and to AS in part (d).</p>
Two	A3	<p>Disinflation is defined and the way lower interest rates could increase spending is described.</p> <p>To achieve Merit, there needed to be a reference to increased borrowing in the explanation of the effect on V from lower interest rates and a direct reference to PL increasing proportionally to the increase in V.</p>
Three	A4	<p>The candidate:</p> <ul style="list-style-type: none"> • gave an idea of how the CPI is calculated • explained that GST will increase for the Government • described the effects of inflation on low- and high-income earners. <p>The candidate could have achieved Merit by explaining, with examples, why the CPI affects different households.</p>