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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.**

Merit

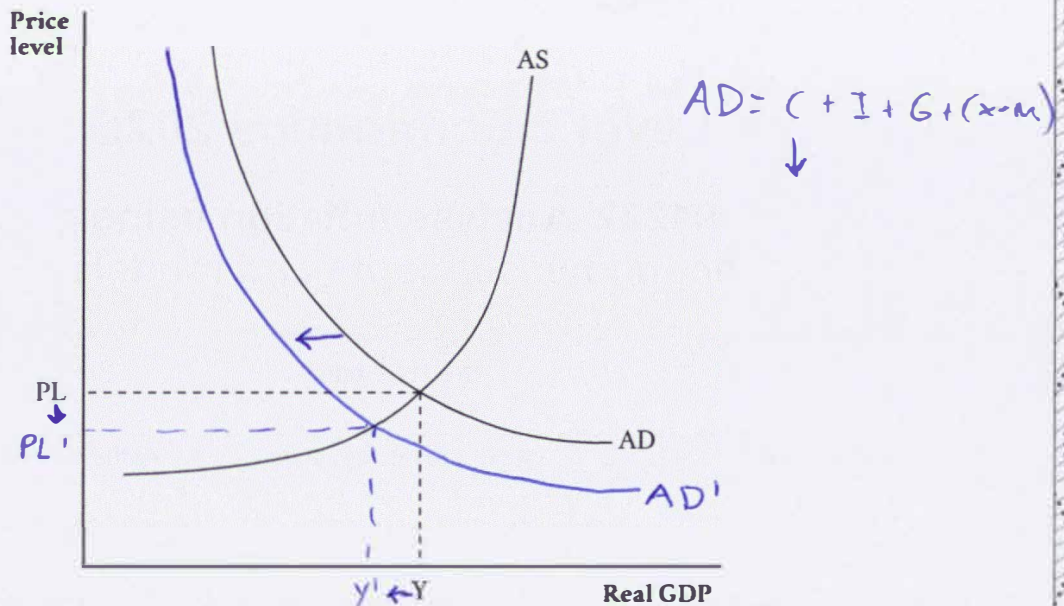
TOTAL 15

### 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



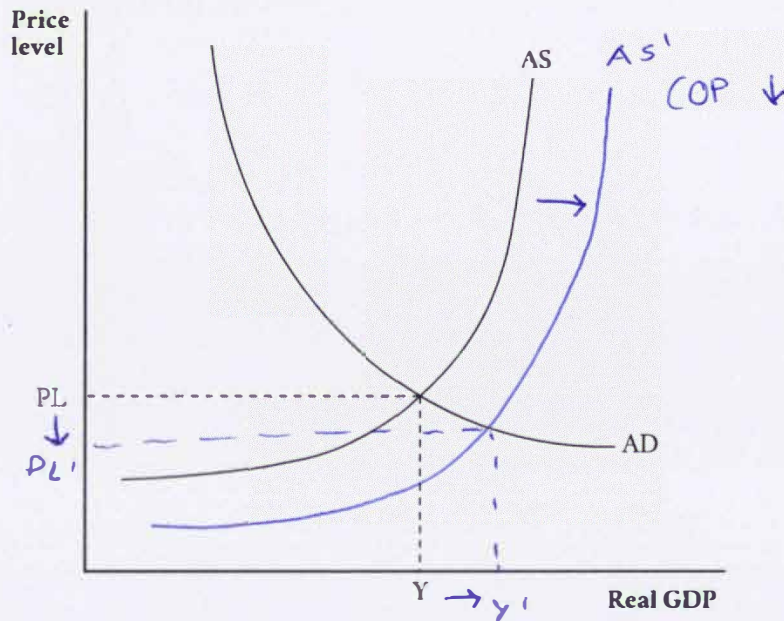
- (b) Explain the impact of job losses in New Zealand on the price level. Refer to Graph One in your answer.

The large scale job losses, will lead to a decrease (↓) of AD from  $AD \rightarrow AD'$ , due to the ↓ in consumption spending as a result of lower incomes (if any) for some households. AD decreasing sees a ↓ also of both real GDP ( $Y - Y'$ ) + price level ( $PL - PL'$ ). As a result of AD ↓ ( $AD = C + I + G + (x - m)$ ) + less consumption spending in the NZ economy Price level is decreased as consumers are less willing + able to purchase goods, with a lower income if they lost their jobs.

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.

The decreasing petrol costs will see AS <sup>increase</sup> (↑) from AS - AS', due to the lower costs of production; (of petrol, for most if not all businesses). As AS ↑ to AS' this sees (Y - Y1) ↓, however PL ↓ to PL'. With the lower <sup>costs of production</sup> (COP) businesses are more willing & able to supply goods / services as it is more profitable. However as supply ↑, inflation (PL) decreases. ~~etc~~

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 price level as it affects almost everybody in NZ (everyone with a petrol vehicle). AS  $\uparrow$  to AS' seeing a decrease in PL to PL' meaning inflation has  $\downarrow$ . This  $\downarrow$  costs of production for businesses all throughout NZ, and will have a larger impact on consumers in NZ, due to the scale of those affected. On the other hand the job losses only affect some households in NZ, not all, meaning it has a lower impact on inflation.

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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 can be viewed in 2024.~~ Disinflation is when a country is still experiencing inflation, but at a lower rate than previously (eg; the quarter before). Deflation however, is when there is a fall in the general price level. So from 2022 where the inflation was 7.3%, to 2024's 2.2% inflation rate, disinflation is demonstrated.

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

One positive of the inflation rate lowering, is that while NZ is still experiencing inflation of 2.2%, it is much lower than before at 7.3%, so the general <sup>price</sup> level of goods is still high / goods are expensive, it is lower / goods are cheaper than before in 2022 compared against 2024.

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.

The velocity of circulation is a measure of how frequently money values (cash, card, bank transfer) travels around an economy. If interest rates ↓, saving is less appealing + consumers are more willing + able to <sup>spend</sup> their money. This will see consumption of goods + services increase + so will the transferring of money (through purchases) throughout the NZ economy, ↑ increasing the velocity of circulation.

$$M V = P Q$$

↓

- (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.

$$\overset{\uparrow}{M} \times \overset{\uparrow}{V} = P \times Q$$

The quantity theory of money states (Money supply  $\times$  velocity of circulation = Price level  $\times$  Total output)

If the velocity of circulation increases ( $\uparrow$ ) + both  $M + Q$  remain constant, price level must also  $\uparrow$  to follow / balance the equation. Therefore if  $P$  must  $\uparrow$  &  $P =$  price level, price level = inflation, so inflation in NZ would  $\uparrow$ .

$$M \times V = P \times Q$$

Inflation would also be impacted if  $V \uparrow + Q$  (real gap) also  $\uparrow$ . If  $M$  stays constant / does not change, then again, to keep the equation balanced,  $P$  must also remain constant. Therefore inflation may not be impacted.

$$\overset{\uparrow}{M} \times \overset{\uparrow}{V} = P \times \overset{\uparrow}{Q}$$



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

Low-income households ~~are~~ feel the effects of inflation somewhat greater than high income households. This is because some households with lower incomes, even without inflation, still struggle to pay for basic necessities such as suitable clothing + enough food to fill up an entire family. The cost of living is already massive + with ~~inflation~~ high levels of inflation on top of that, some low-income households are having to cut back on food + ~~some~~ <sup>some</sup> clothing. However low income households are supported by the government with beneficiaries and financial aiding, to try help/ minimise the effects of the inflation.

High income households, while also feeling the effects/are impacted by inflation, may find the higher inflation frustrating, however they may not have to make many adjustments to their daily lives, such as cutting out the purchasing of basic necessities such as new clothing + proper food. ~~If the high inflation meant that interest~~





**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](http://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](http://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2025/Other/Economic-Overview_120225-QEO_report_12Feb25.pdf)

## Merit

**Subject:** Economics

**Standard:** 91222

**Total score:** 15

Q	Grade score	Marker commentary
One	M6	<p>The AD and AS explanations refer to the components of AD and AS with direct references to the graph.</p> <p>To achieve Excellence, in part (e) the candidate should have referred to the relative shifts of AD and AS, and therefore the relative shifts of PL, by referring to the graph.</p>
Two	M5	<p>Disinflation and deflation are explained with reference to the data. The effect on V is explained with reference to a definition and effect on spending.</p> <p>To achieve Excellence, the answer to part (d) should have stated the proportional increase in PL from an increase in V, and explained that the effect the changes in V and Q have on PL depends on the relative changes of V and Q.</p>
Three	A4	<p>The candidate explained the CPI calculation, the effect on Government revenue, and the effects of inflation on low- and high-income earners.</p> <p>To achieve Merit, the explanation of the effect on Government revenue and GST should directly reference high prices and therefore more GST, and the comparison of the effects of inflation on low- and high-income earners needed more depth, for example a mention of assets or the ability to increase income.</p>