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91403



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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 3 Economics 2025

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 2–16 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.

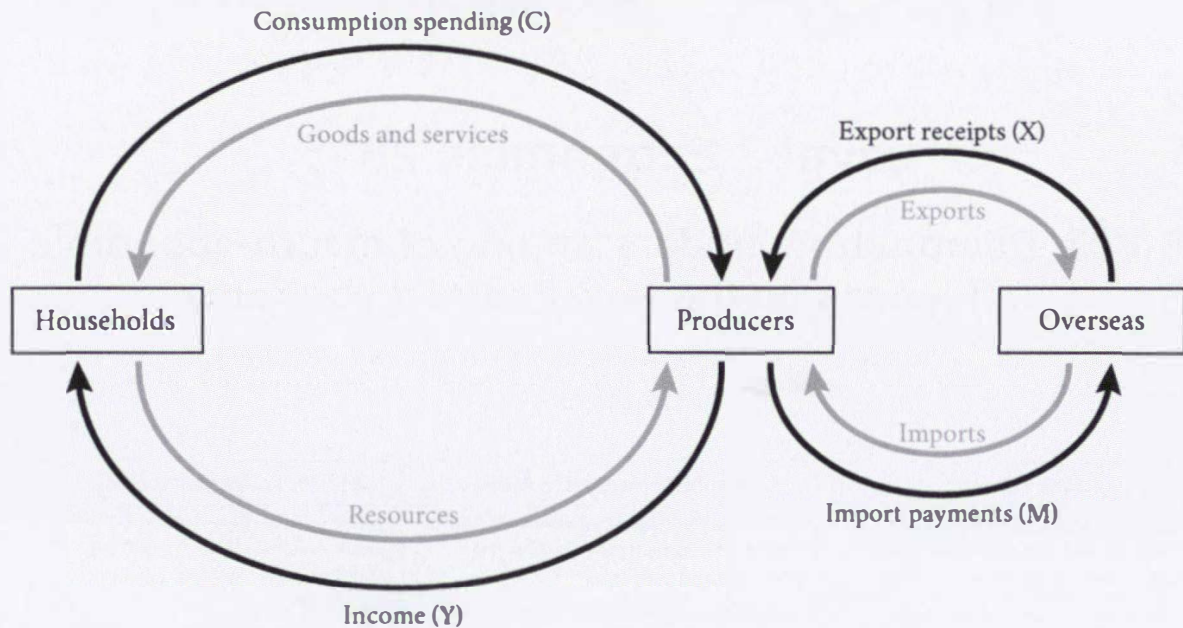
Achievement

TOTAL 11

QUESTION ONE: External influences on trade and employment



Model One: A simple circular flow model of New Zealand producers, households, and the overseas sector



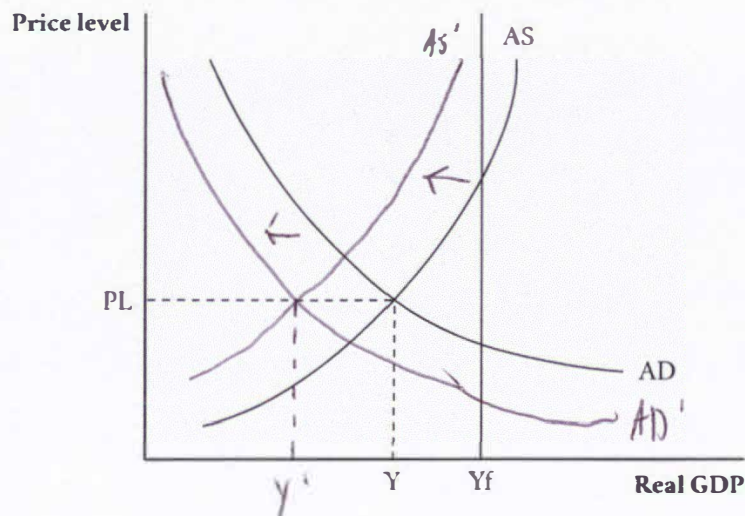
- (a) (i) Using Model One above, explain how a recession in China and Australia could negatively affect New Zealand's economy.

A recession refers to low business activity and with China and Australia being in a recession, this decreases the total export receipts NZ earns. Because of this, ~~export~~ producers that relied on major exporters such as China and Australia are now facing cost pressures as the cost of production has increased. In order to maintain profit margins, producers will have to lay off workers which leads to a decrease in consumption spending on producers.

- (ii) Explain how a recession in both China and Australia could negatively affect the New Zealand Government's macroeconomic goal of a balanced current account. In your answer, refer to the components of the current account, and relevant flows from Model One on page 2.

The current account refers to the transaction of accounts of what New Zealand earns overseas compared to what NZ spends overseas. NZ is typically in a deficit as it is a price taker and relies heavily on international tourism and trade. As China and Australia are both in a recession, this means NZ exporters are earning less export receipts as China and Australia are both major export partners. With decreased trade activity, the total import payments will continue to increase, further putting the current account deeper into a deficit.

Graph One: The New Zealand economy



- (b) (i) On Graph One above, show the effect on the New Zealand economy of China and Australia being in recession. Label all changes, including to the recessionary gap.
- (ii) Using your changes to Graph One, explain how China and Australia entering a recession could affect the New Zealand Government's goal of full employment.

With China and Australia both entering a recession, this decreases aggregate demand from AD to AD'. This is because of reduced trade activity leads to a decrease in export

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~~Receipts~~ receipts which is a component of $AD = C + I + G + (X - M)$ and a decrease in X decreases AD . Aggregate supply decreases from AS to AS' as producers that rely on exports are now worse off. In order to maintain profit margins, producers will have to lay off workers in order to keep the business running which does not achieve the government's goal of ^{full} employment. Real GDP decreases from Y to Y' due to the decrease in AD and AS ~~which~~ due to China and Australia being in a recession which indicates a decline in economic growth.

- (c) Explain why a recession in China and Australia might have only a temporary effect on New Zealand's current account. In your answer, refer to the resource material above and Model One on page 2.

With China and Australia being in a recession, it will have a temporary effect on New Zealand's current account. This is because China and Australia being in a recession potentially puts downward pressure on the NZD and because of this, the decrease in the NZD may allow New Zealand exporters to be more price competitive with other global competitors. This can allow New Zealand to create new trade partners or rely more on other countries that NZ did not export to as much due to Australia and China. Because of this, the current account may return back to its original place as exporters are slowly earning from other trade partners.

QUESTION TWO: Fiscal policy decisions and economic growth

- (a) Referring to the multiplier formula, and the resource material above, calculate and explain the final effect of a \$9.97b increase in health and education spending on real GDP and economic growth.

Assume that the marginal propensity to save (MPS) is 0.15. $MPC = 0.85$ $1 - 0.15 = 0.85$ $MPC = 0.85$

$$\frac{1}{1 - 0.85} = 6.67 \times 9.97 = 66.5$$

The multiplier refers to one person's spending becomes another's income, and with the ^{injection of} government investing \$9.97 billion into health and education will lead to a final GDP of \$66.5 (2dp) billion dollars. This is because with the initial investment of \$9.97 billion dollars, households spend if a household ~~were to spend \$~~, they would spend \$8.4745 billion of the \$9.97b and circulates and continues to spend until the total final real GDP and economic growth reaches \$66.5b (2dp). Households would also save 15% of the \$9.97b which would be \$1.4955b.

Assume the predicted fall in visitor spending decreases export receipts by the same amount.

- (b) (i) Use the MPS of 0.15 to calculate the final change in real GDP from the fall in export receipts.

$$\text{MPC} = 0.85 \quad \text{Multiplier} = \frac{1}{1 - 0.85} = 6.67 \times 273 = 1.826$$

Final change in GDP: \$1.826

- (ii) Referring to your calculation in (i) above, the multiplier, and the resource material, explain the final effect of a decrease in export receipts on real GDP and economic growth.

With the decrease of export receipt of \$273 million, this results in a final GDP of \$1.82 billion. If the New Zealand government were to not increase the cost of I.V.L.^{to \$100}, they would have generated a final GDP exceeding \$1.82 billion, despite the lower cost of \$35, the loss of potential visitor numbers of 48,000 is greater than the cost. This decreases the potential of economic growth New Zealand could have earned.

Question continues on the next page >

- (c) Referring to the resource material above, explain the potential long term positive effects on economic growth of both the increased spending on health and education and the increase in the IVL.

In the long term, increased spending on health and education ~~best~~ lead to ~~eco~~ economic growth. This is because the injection of \$9.97b from the government lead to a final GDP of \$66.5b, and in the long term, investments in health and education both lead to higher employments which further achieves the government goals of full employment in the long term. Despite the loss of 48,000 potential visitors, the increase cost of the IVL from \$35 to \$100 will support economic growth over the long term. This is because the higher cost of \$100 can be used to further support areas of NZ that need support such as public services and projects. With improved public services, households may now rely on using public transport compared to ~~cars~~ ~~but~~ personal vehicles with further improves economic growth.

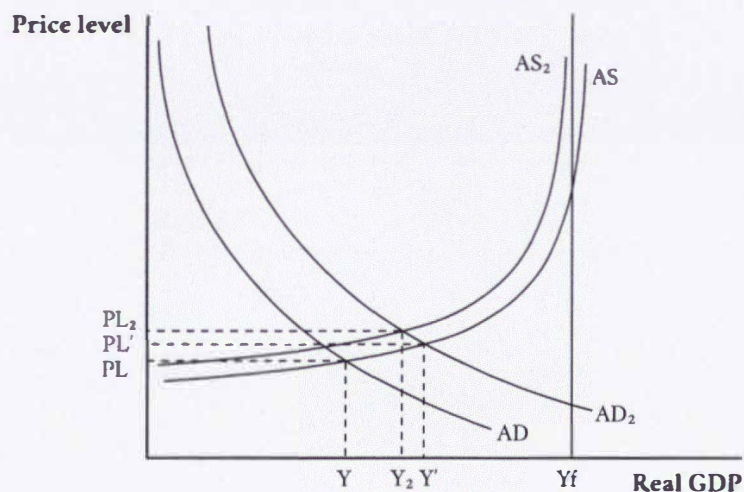
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QUESTION THREE: Impact of expansionary monetary policy on price stability and employment under different recessionary gaps

- (a) Explain how expansionary monetary policy affects interest rates in New Zealand.

Expansionary monetary policy works by depreciating the exchange rate of New Zealand. With a ~~decrease~~ decrease in exchange rates, interest rates will decrease due to banks receiving less of savings.

Graph Two: The New Zealand economy with a large recessionary gap



- (b) (i) Referring to Graph Two above, explain how expansionary monetary policy will affect households, businesses, and inflation.

Expansionary monetary policy works by policy can lead to a decrease in the OCR. With a decrease in interest rates, household spending increases as households are less inclined to save due to lower interest rates, which leads to increased consumption spending which is a component of $AD = C + I + G + (X - M)$ and an increase in C increases AD, shifting

AD to AD². Investments also increase as the cost of borrowing has increased due to lower interest rates and an increase in I further influences AD to increase. Aggregate supply decreases from AS to AS' as domestic importers are now worse off due to NZD depreciating. This means the cost of importing has increased which increases the cost of production for firms that rely on materials overseas. With the decrease in aggregate demand and supply, price levels increase from PL to PL² which further increases inflation.

- (ii) Referring to Graph Two on page 10, explain how a depreciation of the exchange rate will affect inflation.

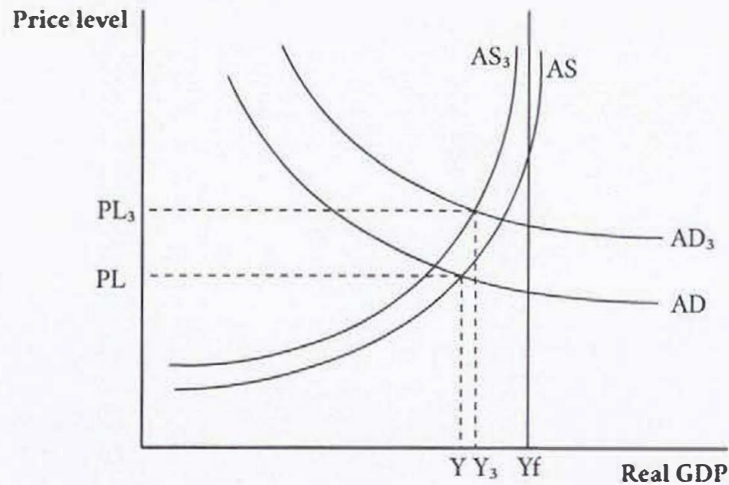
A deeper depreciation of exchange rates increases inflation as a decrease in the OCR shifts aggregate demand outwards from AD to AD² as consumption spending increases and due to lower returns on investments, and investments increase for businesses as lower cost of returns from loans. Aggregate supply ~~increases~~^{decreases} from AS to AS' as the cost of importing ~~has~~ has increased and making producers that rely on imported goods worse off. This leads to cost of production increasing which decreases aggregate supply. Because of an increase in AD and a decrease in AS, this leads to price levels increasing from PL to PL² which contributes to inflation.

Question continues on the next page ►

- (iii) Referring to Graph Two and the resource material on page 10, explain why the expansionary monetary policy will be effective in achieving price stability.

Expansionary monetary policy is effective in achieving price stability as ~~decreased~~ ~~exchange rates~~ shown on graph 2, the increase in aggregate demand due to higher consumption spending and investments and decreased import payments leading to higher costs of production increases price levels from p_1 to p_2 , and because of this, it ~~reach~~ it achieves price stability by reaching the 1-3% mark.

Graph Three: The New Zealand economy with a small recessionary gap



- (c) Explain the effectiveness of expansionary monetary policy on lowering unemployment when New Zealand has different recessionary gaps. In your answer, refer to Graph Two and Graph Three.

Recessionary gaps refer to New Zealand not utilising its resources at its full potential. Expansionary monetary policy works by ~~in~~ depreciating exchange rates and due to lower exchange rates, business investments will increase as ~~less~~ the cost of ~~less~~ borrowing has decreased. This leads to business expansion and leading to businesses opening more firms and leading to higher employment.

Acknowledgements

Material from the following sources has been adapted for use in this assessment:

Question One

Econfix. (2019). *AS Revision – TWI and Floating Exchange Rates*. <https://econfix.wordpress.com/2019/10/01/as-revision-twi-and-floating-exchange-rates/>

Question Two

The Treasury. (2024). *Budget Economic and Fiscal Update 2024*. <https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2024>. CC-BY-4.0

The Treasury. (2024). *Budget at a Glance*. <https://budget.govt.nz/budget/2024/at-a-glance/health-education.htm>. CC-BY-4.0.

McCulloch, Craig. (2024). Tourists will have to pay \$100 to enter NZ. *Stuff.co.nz*. <https://www.nz.co.nz/news/national/526894/tourists-will-have-to-pay-100-to-enter-nz>

Klingensmith, J. Zachary. (n.d). *Introduction to Macroeconomics*. <https://psu.pb.unizin.org/introductiontomacroeconomics>. CC-BY-SA-4.0.

Question Three

Reserve Bank of New Zealand. (2024). *Monetary Policy Statement November 2024*. <https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2024/monetary-policy-statement-291124>

Reserve Bank of New Zealand. (2024). *The Official Cash Rate*. <https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/the-official-cash-rate>

Achievement

Subject: Economics

Standard: 91403

Total score: 11

Q	Grade score	Marker commentary
One	A4	<p>In Part (a)(i), the candidate identified China and Australia as major partners and identified a decrease in export receipts.</p> <p>In Part (a)(ii), the candidate:</p> <ul style="list-style-type: none"> • explained the current account but did not give a definition or formula • recognised the current account will go further into deficit • did not refer to the Government goal. <p>In Part (b)(i), the AD was correctly moved to the left, but the AS was incorrectly moved to the right and the original and new recessionary gaps were not marked.</p> <p>In Part (b)(ii), the candidate:</p> <ul style="list-style-type: none"> • correctly identified the fall in AD, due to a fall in the component of export receipts • correctly stated the fall in Y to Y_1 and the move away from the Government goal • referred to Graph One • did not connect the fall in employment with the fall in export receipts through derived demand. <p>In Part (c), the candidate identified the downward pressure on NZD that makes New Zealand exporters more price competitive. However, they did not extend that idea to increasing export receipts and improving the current account position in the longer term.</p>
Two	A4	<p>In Part (a), the calculations were correct, but the multiplier concept was not explained.</p> <p>In Part (b), the candidate identified the multiplier and correctly calculated the final change.</p> <p>In Part (c), the candidate did not refer to:</p> <ul style="list-style-type: none"> • spending on education leading to increased productivity • spending on public services attracting visitors • other countries also increasing levies. <p>To achieve a merit score for this question the candidate could have explained the idea of decreasing incomes or export receipts in the tourism industry.</p>

<p>Three</p>	<p>A3</p>	<p>The candidate correctly identified the decrease in interest rates in Part (a) but incorrectly attributed the fall to depreciation rather than expansionary monetary policy.</p> <p>Part (b)(i):</p> <ul style="list-style-type: none"> • explains the increase in AD with the increase in consumption due to households being less inclined to save • refers to Graph Two with PL increasing to PL₂ and inflation increasing. <p>In Part (b)(ii), the candidate:</p> <ul style="list-style-type: none"> • explained that AS decreases due to increased costs of production using imported raw materials, causing increased inflation • referred to Graph Two. <p>The candidate stated in Part (b)(iii) that the preferential trade arrangement reaches 1–3%. They did not receive a Merit for this part of the question as they did not refer to the resource or spare capacity.</p> <p>The candidate did not refer to Graphs Two or Three in their answer to Part (c).</p> <p>The answer lacks sufficient evidence for a Merit grade as it does not refer to cost-push inflation or explain why cost of production increases with depreciation. It also Incorrectly confuses depreciation with a fall in the OCR.</p>
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