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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.

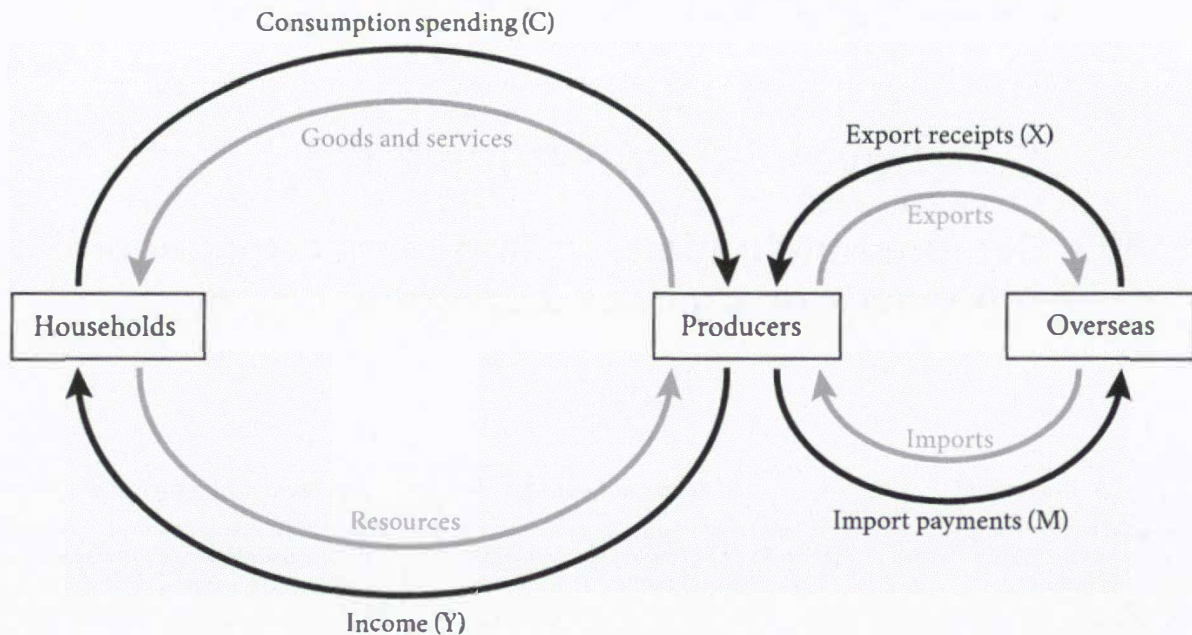
Excellence

TOTAL 23

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 in China and Australia could negatively affect New Zealand's economy as a recession in these countries would mean that foreign importers of New Zealand goods and services would be less willing and able to purchase New Zealand exports. As such export receipts will decrease which would negatively affect producers as they will be earning less their revenue would decrease. As such they might lay off workers or raise costs to maintain profit margins which would negatively affect the household sector as they will be earning less and paying more demonstrating how a recession in China and Australia could negatively affect New Zealand's economy.

Current account
Balance goods
services
income
current transfers

- (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.

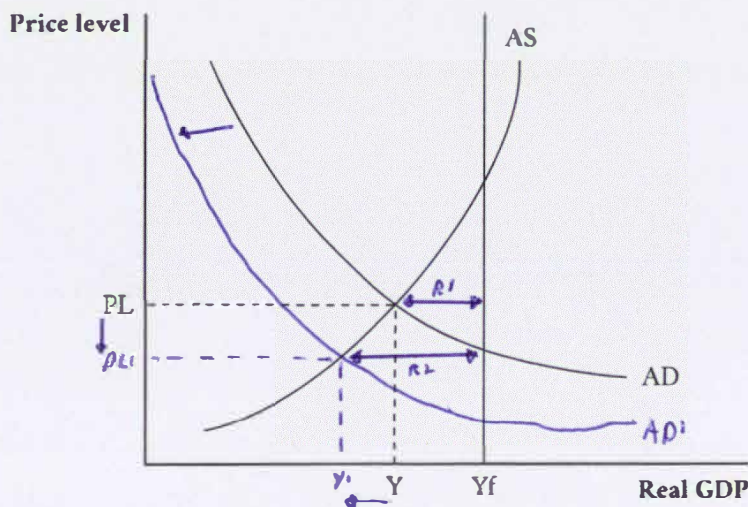
A recession in both China and Australia could negatively impact the New Zealand Government's macroeconomic goal of a balanced current account as the recession would cause exports of both goods and services to decrease and so the balance on goods and balance on services would worsen assuming import receipts stay the same. Therefore provided the balance on income and current transfers stay the same the current account would be negatively affected as worsening balance on goods and services creates a larger deficit or smaller surplus for the current account.

Graph One: The New Zealand economy

$DNZ \downarrow$

$NZ\$ \downarrow$
 $X \uparrow$
 $AD \uparrow$

$X \downarrow$
 $AD \downarrow$



- (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.

China and Australia entering a recession could negatively impact the New Zealand Government's goal of full employment as a recession in these countries will cause export receipts for New Zealand to decrease.

Answer space continues on the next page ➔

As export receipts are a component of the aggregate demand equation ($CAD = C + I + G + (X - M)$), a decrease in export receipts (X) causes aggregate demand to decrease as shown on graph due by a shift inwards of the aggregate demand curve from AD to AD' . This negatively impacts the goal of full employment as New Zealand exporters will be earning less revenue and may choose to lay off workers to maintain profit margins. As such unemployment increases as shown on graph one by the greater recessionary gap of R^1 to R^2 as the economy → continued output

- (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.

This recession may only have a temporary effect on New Zealand's current account however. This is because the recession decreases the New Zealand's export receipts and so demand for the New Zealand Dollar decreases as New Zealand's largest trading partners of China and Australia no longer exchange their currency for the New Zealand Dollar. This puts downward pressure on the New Zealand Dollar in the Forex market causing the New Zealand Dollar to depreciate. A depreciated New Zealand Dollar means that foreign importers in other countries such as the United States or India will have to exchange fewer of their domestic currency for New Zealand Dollars making New Zealand exports appear relatively more price competitive. This may cause New Zealand's export receipts to increase therefore improving the balance on goods and balance of services mitigating some of the lost exports.

receipts ^{from} Australia and China as New Zealand exports are more price competitive ~~in~~ in foreign markets not in recession. Therefore a recession in China and Australia may only have a temporary impact as the balance on both goods and services improves so the current account has a larger surplus or smaller deficit.

$$\text{Multiplier} = \frac{1}{\text{MPS}}$$

$$1 \div 0.15 = 6.66$$

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.

A \$9.97b increase in health and education spending would have a larger than impact on real GDP and economic growth. This is because every dollar spent ~~will have~~ by the government for individuals is someone else's income so with a marginal propensity to save of 0.15 the initial spending of \$9.97b \$8.47b (2dp) will be spent again ($\$9.97b \times 0.75$) then \$7.20b (2dp) and so on. Therefore this initial increase of \$9.97b will have a greater effect as with a marginal propensity to save of 0.15 the multiplier is 6.67 (2dp) so on average each dollar is spent 6.67 times so the initial spending of \$9.97b leads to a much larger increase on real GDP and economic growth of \$66.47b (2dp).

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.

Multiplier = $\frac{1}{MPS} = \frac{1}{0.15} = 6.67$ (2dp) with an initial change of \$273m and a multiplier of 6.67 the total decrease in real GDP = \$1,820.91m
(273m x 6.67)

- (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.

By increasing the International Tourism Visitor Conservation and Tourism Levy from \$35 to \$100 visitor numbers will reduce by 48,000 causing an initial loss of real GDP of \$273m as fewer tourists lead to lower export receipts. Furthermore with a multiplier of 6.67 (2dp) this initial change in real GDP will be increased as the initial loss of spending of \$273m represents lost income and so lost additional sums of spending of \$232.05m (273m x 0.85) and so on leading to a larger decrease in real GDP and thus economic growth as real GDP has decreased.

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.

The increased spending on health and education could have positive long term effects on New Zealand's economic growth. This is because higher spending on health could lead to a healthier population as more spending now could prevent certain illnesses in the future resulting in a more productive work force and lower health spending in the future. Additionally higher education spending could create a more skilled work force in the future and thus a more productive work force benefitting productivity in the long term thus positively affecting economic growth in the long term.

The increase in IVL may also have positive effects on economic growth in the long term as the increased revenue could pay for conservation and public services to ensure New Zealand remains attractive to tourists therefore ensuring export receipts from tourism continue and into the future thus positively affecting economic growth in the future.

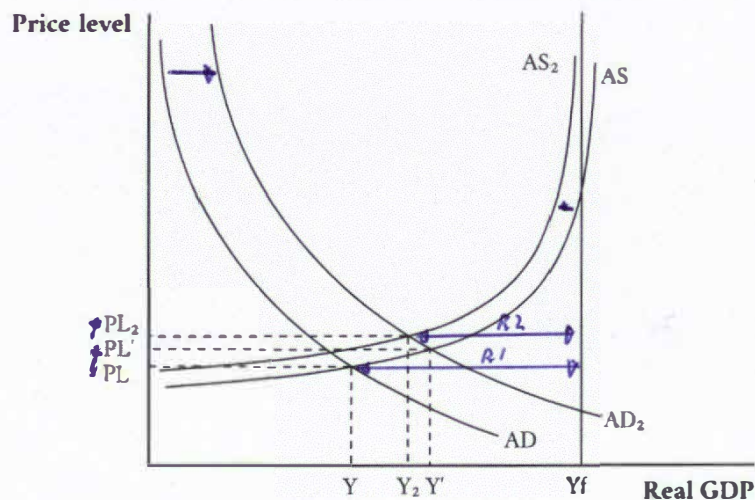
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QUESTION THREE: Impact of expansionary monetary policy on price stability and employment under different recessionary gaps

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

Expansionary monetary policy affects interest rates as it causes the reserve bank to decrease the Official Cash Rate to 4.25% in the resource which is the overnight settlement rate charged to commercial banks. therefore banks will subsequently lower interest rates to remain competitive demonstrating how expansionary monetary policy affects interest rates

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 will affect households as interest rates will decrease so the reward for saving will decrease so households will be less likely to save their income and thus more likely to spend. Furthermore lower interest rates means the cost of borrowing will decrease so households may take out loans ~~on mortgages~~ to spend on big ticket items such as

a car. Therefore households will spend more of their income and thus consumption spending will increase. Similarly with a lower cost of borrowing businesses may take out loans to purchase new capital goods which are relatively cheaper with lower interest rates therefore investment spending will increase. The increase in both consumption^(C) and investment spending^(I) will cause aggregate demand to increase as both are components of the equation for aggregate demand $(AD = C + I + G + (X - M))$ as can be seen by a shift outwards of the aggregate demand curve on Graph Two from AD^1 to AD^2 . This increase in aggregate demand causes demand pull

continued
on next page →

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

A depreciation of the exchange rate caused by the expansionary monetary policy will negatively impact inflation. This is because expansionary monetary policy causes interest rates to decrease. This means the foreign investors will be less likely to keep their money in New Zealand banks so demand for the New Zealand Dollar decreases on the Forex market. Furthermore foreign investors or domestic investors with money in New Zealand may be motivated to exchange the New Zealand Dollars to keep their money elsewhere with higher interest rates as such the New Zealand Dollars supply increases in the Forex market. The increased supply and decreased demand for the New Zealand Dollar causes the dollar to depreciate meaning this means that domestic businesses will have to pay more for imported exchange more New Zealand Dollars to purchase imported raw materials this increases cost

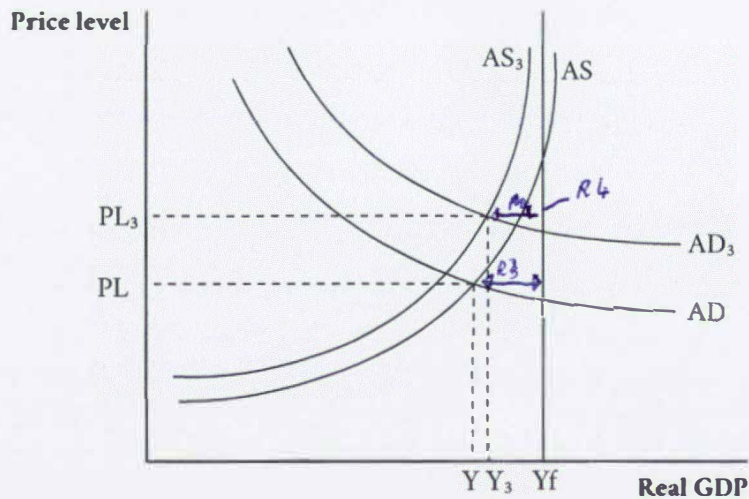
Question continues on the next page ►

- (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 will be effective in achieving price stability as with a falling inflation rate of 2.2% disinflation will occur, in order to prevent further disinflation where the rate of inflation would fall below the target of 1-3%.

~~Expansionary~~ expansionary monetary policy cause both demand pull inflation to occur increasing the price level from PL to PL' on Graph two and cost push inflation to occur further increasing the price level to PL2. This increases inflation ensuring the rate doesn't fall below the target of 1-3% therefore effectively achieving price stability.

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.

Expansionary monetary policy is more effective in lowering unemployment when the recessionary gap is larger. This is because with a larger recessionary gap there is more idle capacity in the economy, so it is cheaper for firms to employ more workers as there is fewer competitors for resources such as labour. This means ~~an~~ expansionary monetary policy is more effective with a ^{larger} ~~smaller~~ recessionary gap as can be seen by the greater reduction in the recessionary gap from R¹ to R² on Graph Two compared to the smaller decrease in recessionary gap from R³ to R⁴ on Graph Three.

Extra space if required.
Write the question number(s) if applicable.

QUESTION
NUMBER

Q1b is further from the full employment line of YF.

Q3b: inflation to occur as the price level increases from ~~P_1 to P_2~~
 P_1 to P_2 therefore causing inflation to ~~decrease~~ increase.

Q3bii: imported raw materials increasing the cost of production causing aggregate supply to ~~increase~~ decrease as shown on graph two by a shift inward of the AS curve from AS to AS₂. This causes cost push inflation to occur as shown by an increase in price level from P_1 to P_2 as inflation has occurred.

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>

Excellence

Subject: Economics

Standard: 91403

Total score: 23

Q	Grade score	Marker commentary
One	E8	<p>In part (a)(i), the candidate explained why the recession in China and Australia causes a decrease in exports and therefore a fall in export receipts and the negative impact on the New Zealand economy.</p> <p>In Part (a)(ii), the candidate:</p> <ul style="list-style-type: none"> • identified the main components of the current account • made an assumption that import receipts remain unchanged • showed the worsening of deficit due to falling export receipts. <p>In Part (b)(i), they showed the correct movement of AD to AD₁, PL₁, and Y₁, and identified and labeled the original and new recessionary gaps.</p> <p>The answer to Part (b)(ii):</p> <ul style="list-style-type: none"> • states the negative impact on the Government goal of full employment • refers to Graph One • identifies export receipts as a component of AD • shows the decrease in X causing a decrease in AD • shows the increase in recessionary gap from RG to RG₁ • shows that unemployment increases due to staff layoffs to maintain profit levels with decreased production. <p>In Part (c), the candidate:</p> <ul style="list-style-type: none"> • explained why depreciation occurs • explained why export receipts increase due to price competitiveness • identified Australia and China as New Zealand's largest trading partners • identified the impact as temporary • Shows the improved balance of goods and balance of services with a larger surplus or smaller deficit.

Two	E8	<p>The answer to Part (a):</p> <ul style="list-style-type: none"> • identifies the multiplier and correctly calculates final change • explains how government spending becomes others' spending through the multiplier • uses marginal propensity to save (MPS) to calculate saving and re-spending • identifies the multiplier concept of each \$ being used / spent multiple times. <p>In Part (b), the candidate:</p> <ul style="list-style-type: none"> • correctly calculated the final fall in export receipts • identified loss of export receipts, income, and re-spending due to fewer tourists • showed that 85c in each dollar is re-spent. <p>In Part (c), the candidate identified:</p> <ul style="list-style-type: none"> • that Government spending on health will lead to increases in productivity and lower future spending with less sickness • that Government spending on education will lead to a more skilled workforce and improved productivity • that Government spending of International Visitor Conservation and Tourism Levy revenue would lead to increases in future tourism • that the above will have an overall positive impact on economic growth.
Three	E7	<p>In Part (a), the candidate stated that EMP reduces OCR and banks will reduce interest.</p> <p>In Part (b)(i), they:</p> <ul style="list-style-type: none"> • gave two reasons for household spending (C) increases • explained why investment spending (I) increases • showed that AD increases as a result of the increase in C and I • referred to Graph Two • identified demand pull inflation • showed that the increase in PL to PL₁ causes inflation. <p>The answer to Part (b)(ii):</p> <ul style="list-style-type: none"> • explains how EMP leads to depreciation • refers to Graph Two • explains how the depreciation causes an increase cost of imported raw materials, decreasing AS, and bringing about cost push inflation. <p>In Part (b)(iii), the candidate:</p> <ul style="list-style-type: none"> • used data from the resource • identified PTA • explained the increase in PL to PL₂ as a result of both an increase in AD and a decrease in AS • named demand pull and cost push inflation • explained the purpose of not falling below accepted targets. <p>The answer to Part (c) recognises that expansionary monetary policy is more effective in lowering unemployment when the recessionary gap is larger and the employment of idle capacity. It Refers to Graph Two and Graph Three.</p>