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NZQA | 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.

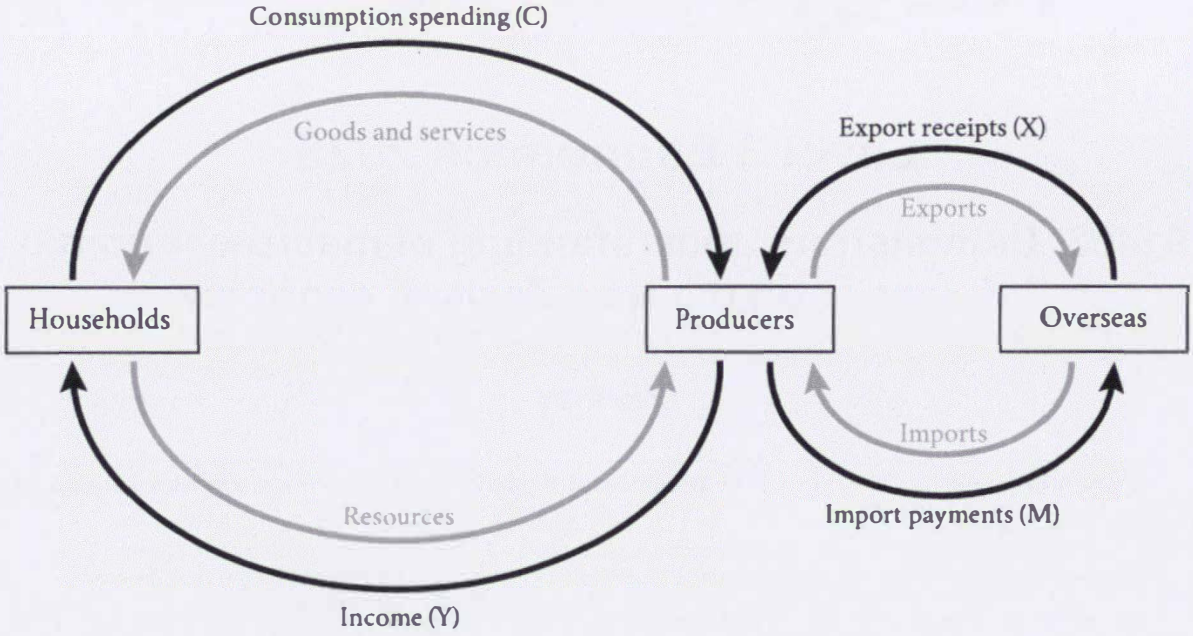
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Merit

TOTAL 18

QUESTION ONE: External influences on trade and employment

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



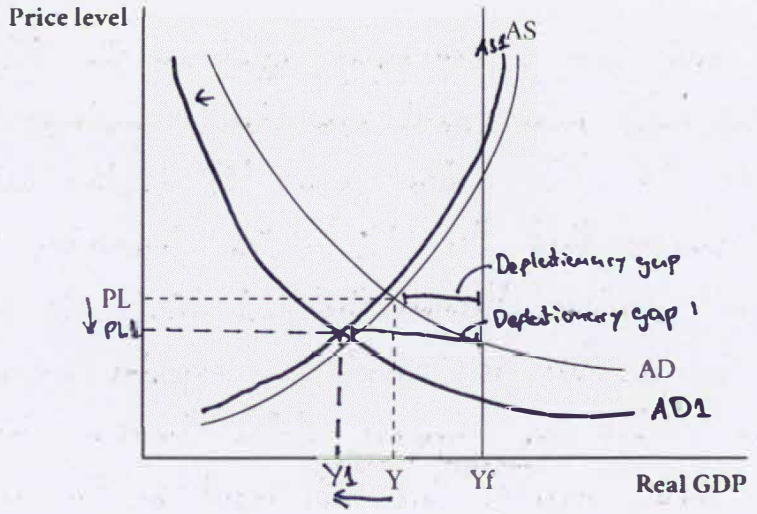
(a) (i) Using Model One above, explain how a recession in China and Australia could negatively affect New Zealand's economy.

A recession in China and Australia would result in a decrease in the amount of export receipts coming into NZ as there is now a decrease in exports. A recession results in a lower GDP and lower consumer spending, meaning citizens in China and Australia (NZ's biggest trade partners) would import less goods from NZ, meaning NZ receives less export receipts as a result. Due to the fact that the injection of export receipts into the economy decreases, people (workers) may be layed off for export companies to maintain profit margins. This results in less consumer spending and more saving (money taken out of circulation) in the economy. This will continue, resulting in NZ real GDP decreasing as a result.

(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.

Current account refers to NZ's balance on goods and services (and trade). Due to the fact that there is a recession (in China and Australia) exports going out of NZ will decrease and export receipts will decrease as well. Meaning that there is a decrease in the amount of income (money coming into NZ. Imports and Import payments may increase as the recession may make it more affordable to purchase Chinese and Australian goods (increase in the amount of money/income going out of NZ). This overall results in a decrease in (X - M) (component of current account) therefore a decrease in the balance of trade. Resulting in ~~less~~ a worsend current account. As there is a decrease in injections (export receipts) coming into the NZ economy and more extraction (import payments).

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.

China and Australia being in a recession causes the number of ~~exports~~ exports going out of the country to decrease and the number of imports coming into NZ to decrease slightly (as China and Australia maybe exporting less goods and

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AD = aggregate demand
AS = aggregate supply
NZ = New Zealand

services to maintain profit margins), export receipts decrease, import payments decrease (less than exports as we export to wider market) therefore (X−M) decreases as a result. Causing the AD curve to shift left (decrease) as (X−M) is a component of AD}. C (consumer spending, component of AD) may also decrease as workers in export industry may have layed them off resulting in them having less disposable income (contributes to AD decrease). AS shifts left slightly (to AS1) as cost of production may increase (less accessibility to Chinese and Aus resources, need to get other resources from dsewhere). Both shift in AS and AD cause the deplationary gap to increase (to deplationary gap one) which means that the use of resources and employment in the economy decreases. Unemployment increases in NZ. Which means that... *1

(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.

NZD = New Zealand dollar

Downward pressure on the NZ dollar (from NZ trading with countries in inplation) means that the NZ dollar depreciates in value compared to overseas dollars. Meaning that 1 NZD is now worth less oversea dollars. This is good for exportes because they now get more NZD per overseas dollar, therefore increasing the value of their exports (and export receipts). This will result in the number of exports increase as it is now more profitable for producers (increases money coming into NZ, injection increase). This will result in a decrease in the number of imports into NZ as it is now relatively more expensive for consumers to purchase overseas goods and services, therefore decreasing import payments and money/income flowing out of NZ (extraction decrease). This therefore results in the (X−M) increasing, meaning that the balance of trades

improves. Which indicates that overtime (long term) as NZ continues to trade with China and Australia, the current account will improve. Lessening the impact of the initial worsening of the Current account (short term).

* 1) this does not help contribute towards the governments goal of full employment (actively works against it).

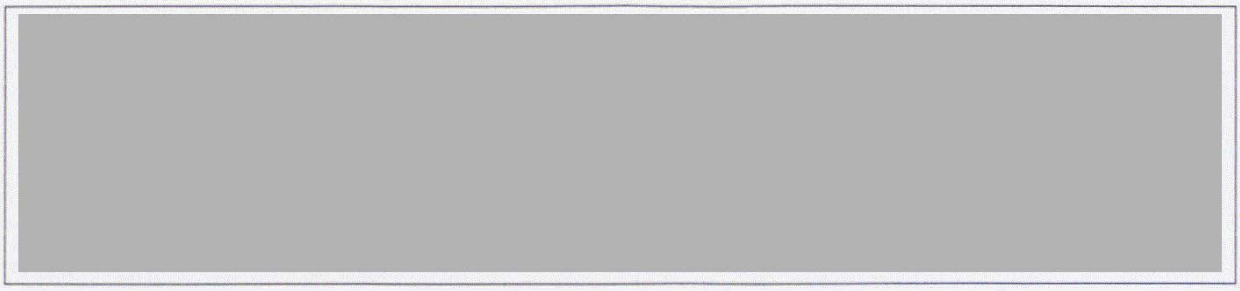
QUESTION TWO: Fiscal policy decisions and economic growth

(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.

Multiplier = $^{1}/_{MPS}$ = $^{1}/_{0.15}$ = 6.67

6.67 × $9.97 Billion = $66.5 Billion increase in real GDP.

The multiplier effect refers to how much on an increase or decrease in real GDP will happen when an injection (government spending on healthcare) is introduced into the economy. Because of the fact that the MPS is low (consumers save only 15% of income) the amount of money/income they spend is high (85% of income, MPC). This is then received by workers who also spend 85% of their income, etc, etc. This continues until the injection of $9.97b into the economy makes it's way through all sectors until the real GDP increases by $66.5 Billion as a result. This works against the governments goal of making the 2024 budget contractionary as the healthcare spending increased economic growth. Whereas contractionary fiscal (government) policy is meant to reduce economic growth (real GDP).



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 = $1/MPS$ = $1/0.15$ = 6.67

6.67 x 277 million = $1.85 Billion decrease in Real GDP.

(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.

The decrease in export receipts due to decreased visitor numbers will result in a decrease in visitor spending of $273 million NZD. This will result in the real GDP decreasing by $1.85 billion NZD due to the low MPS in the NZ economy. This is because even though producers and workers in the tourism industry are earning less, they still spend around 85% of their income as that is the MPC. This loss of injection into the NZ economy will decrease the overall spending of New Zealanders in each sector (as they have less income to spend) until the decrease in real GDP of $1.85 billion has been fully seen through (less NZD circulating in the economy). This will be offset by the increase in real GDP from the $4.97 Billion injection by the NZ (New Zealand) government.

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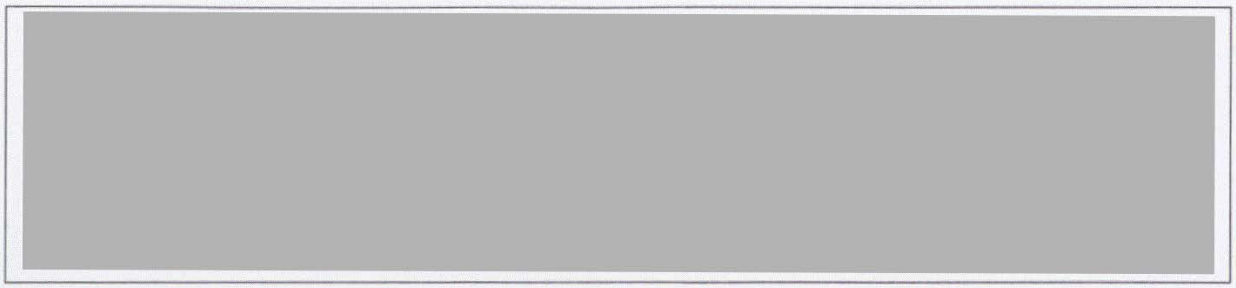

(c) Referring to the resource material above, explain the potential long term positive effects on economic growth of **both** the increased spending on health and education and the increase in the IVL.

The positive effects of economic growth from bothe the increased spending on Healthcare and increased IVL are that there will be an increase in employment in NZ. This is because as the economy having increased economic growth will improve buissness confidence, which will result in them hiring more workers so that they can produce more goods and services (increase in productivity). This helps contribute to the governments goal of full employment.
The increased IVL making NZ a more attractive visitor destination will increase the amount of export receipts coming into NZ (increased injection), meaning more income/money coming into NZ. This will result in a further increase in the real GDP as that injection is circulated through the economy and effected by the Multiplier. Therefore further improving economic growth in NZ.

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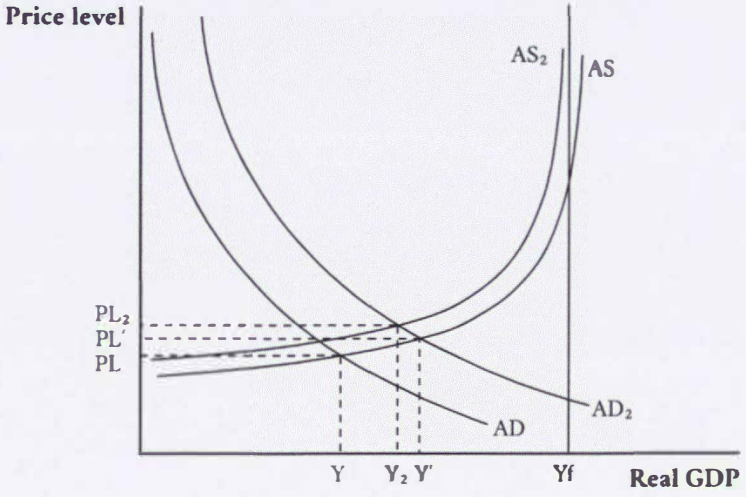
QUESTION THREE: Impact of expansionary monetary policy on price stability and employment under different recessionary gaps

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

Expansionary Monetary policy refers to the Reserve Bank of New Zealand (RBNZ) using the OCR to induce economic growth. The OCR is the interest rate NZ banks (westpac, ANZ, etc) operate on when borowing or depositing money/income from RBNZ. When OCR decreases the banks no longer need as much income to pay off the RBNZ OCR therefore they decrease their own interest rates (pass it on to customers) to make their services more appealing.

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 decreases interest rates. Which results in consumer spending (C) decreasing as households will spend less of their income on loans and more on goods and services. Investment (I) will also increase as buissnesses will have more income to spend on capital goods (technology). (X-M) will increase as well because overseas investors will stop investing in NZ due to lower

AS= aggregate supply

interest rates, which will depreciate N2D which increases exports (X) and decreases imports (M) (increasing (X-M)). All three components are components of aggregate demand (AD), therefore they result in a large increase (shift) right of AD to AD2. AS decreases slightly to AS2 (shifted left) as cost of production increased (component of AS) due to the depreciation of N2D making it more expensive to import resources. Both of the shifts in the AD and AS curves result in PL (inflation) increasing to PL2 and Y (real GDP / growth) increasing to Y2.

AD = C + I + G + (X-M)

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

Depreciation of the exchange rate will result in the number of exports increasing as 1 overseas dollar equalls more N2 dollars. Meaning that export receipts increasing, making exports (X) more profitable. Imports (M) will decrease as it is now relativly more expensive for households and baisnesses to purchase overseas resources/goods meaning that imports payments will decrease (less affordable) This causes the (X-M) to increase as well which will cause AD to increase as (X-M) is one of it's components. Contributes to AD shift right to AD2. Which results in the PL increasing (inflation) to PL2. Also causes AS to shift to AS2 as it is more expensive for baisnesses to purchase overseas resources (CoP (cost of production) increases, component of AS), which also contributes to inflation increase of PL to PL2.

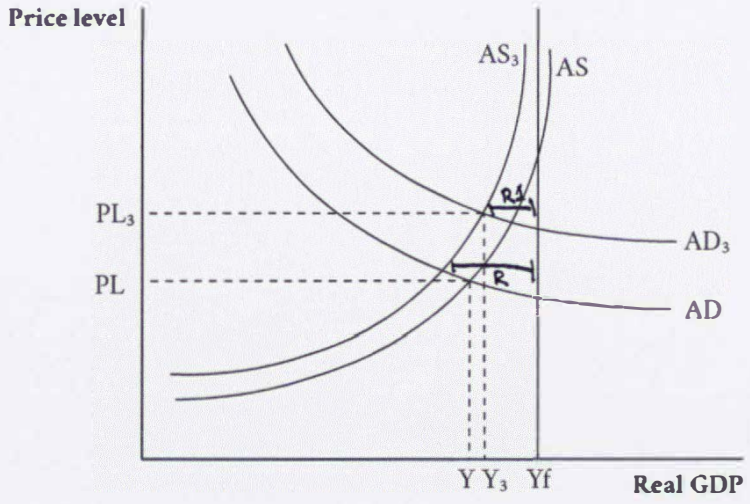
AD = C + I + G + (X-M).

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 policy will be effective in achieving price stability in the ~~short~~ term. It causes the inflation rate to increase, preventing it from continuing to drop from 2.2% to below one. Allows us to stay within the 1-3% threshold (goal. However, in the long term the inflation rate may continue to increase until it is above the goal of 1-3% inflation rate. In that case, expasionary monetary policy helps achieve price stability in the ~~long~~ short term but not the ~~short~~ long term.

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.

The recessionary gap displays the total use of resources and individuals in the NZ economy. Therefore it can be used to measure/see the effect of expansionary monetary policy on employment rates. Expansionary monetary policy resulted in AD shifting right to AD_3 and AS shifting left to AS_3. Causing the recessionary gap to decrease from R to R1. Therefore unemployment rate is low when recessionary gaps are low, like in graph 3. However, in graph 2 the recessionary gap is large. Therefore the unemployment is larger in graph 2. When recessionary gap is large, it is harder to manage unemployment and price stability (less effective monetary policy). When it is low, monetrary policy will have a higher/better impact as seen in graph 3. On unemployment specifically, price level may be harder to manage when recessionary gap is small as it results in a bigger change in PL (inflation) than in graph 2. Unemployment easier to manage when recessionary gap is large as it will have a larger impact (monetary policy will have a larger impact). Because Y (real GDP) increases by a larger amount than in graph three.

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QUESTION NUMBER

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QUESTION NUMBER

91403

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.rnz.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

Merit

Subject: Economics

Standard: 91403

Total score: 18

Q	Grade score	Marker commentary
One	E7	In Part (a)(i), the candidate: • identified China and Australia and New Zealand's largest trading partners • gave a reason for the fall in exports and export receipts • identified the negative impact on the New Zealand economy • did not make accurate references to Model One In Part (a)(ii), the candidate: • described the current account • identified impact on (X-M) as a component of the current account • Identified the worsening of current account. The candidate correctly illustrated the fall in AD to AD_1, PL to PL_1, and Y to Y_1 in Part (b)(i). However, they did not correctly label the original and new recessionary gaps and incorrectly referred to the gap as depletionary or deflationary, rather than recessionary. In Part (b)(ii), the candidate: • explained why export receipts fall causing decrease in AD, with reference to Graph One • recognised the increase in the recessionary gap • recognised the decrease in employment. In Part (c) the candidate explained: • the increase in export receipts due to depreciation • the decrease in import payments • that both the above lead to an increase in net exports leading to an improved current account in the long term.
Two	M6	In Part (a), the candidate: • identified the multiplier and correctly calculated the final change • explained and applied mps and mpc • applied the multiplier concept of re-spending. In Part (b), the candidate correctly calculated the final decrease in real GDP and applied the idea of loss of incomes in tourism and the consequent reduced re-spending. In Part (c), the candidate explained: • there is increased productivity because of increased confidence accrued from spending • that spending on tourism increases exports receipts in the long term • that spending the International Visitor Conservation and Tourism Levy on making New Zealand more attractive to visitors leads to increased export receipts and therefore increased economic growth in New Zealand.

Three	M5	The candidate, in Part (a), stated that EMP reduces the OCR and that the banks pass on the decrease in interest rates. In Part (b)(i), they: • described the increase in consumption, however they wrote decrease instead of increase • described the increase in investment spending • described the increase in (X-M) due to depreciation • showed how the above all lead to an increase in AD, with reference to Graph Two • showed that AS decreases due to depreciation, causing an increase in cost of imported raw materials • showed the increase in PL on Graph Two. In Part (b)(ii), the candidate: • explained why export receipts increase and import payments decrease, causing an increase in net exports and consequent increase in AD • showed that decrease in AS due to increased cost of imported raw materials • referred to Graph Two and the increase in PL to PL_2. In Part (b)(iii), they: • identified the goal of PTA being an inflation rate of 1–3% • used the resources • differentiated between short term and long term. In Part (c), the candidate: • referred to Graph Two and Graph Three • identifies that unemployment falls in both situations • showed that the price level changes more in Graph Three with the smaller recessionary gap • showed that employment increases more in Graph Three with the larger recessionary gap. The answer to this question lacked the detail for Excellence and did not use the language of demand pull or cost push inflation.