

Assessment Schedule – 2013

Economics: Analyse inflation using economic concepts and models (91222)

Evidence Statement

Assessment criteria

Achievement	Achievement with Merit	Achievement with Excellence
<p>Demonstrate understanding involves:</p> <ul style="list-style-type: none"> identifying, defining, or describing inflation concepts providing an explanation of causes of changes in inflation, using economic models providing an explanation of the impacts of changes in inflation on various groups in New Zealand society. 	<p>Demonstrate in-depth understanding involves:</p> <ul style="list-style-type: none"> providing a detailed explanation of causes of changes in inflation, using economic models providing a detailed explanation of the impacts of changes in inflation on various groups in New Zealand society. 	<p>Demonstrate comprehensive understanding involves analysing:</p> <ul style="list-style-type: none"> causes of changes in inflation by comparing and / or contrasting their impact on inflation the impacts of changes in inflation by comparing and / or contrasting the impact on various groups in New Zealand society by integrating changes shown on economic models into detailed explanations.

Explanation involves giving a reason for the answer.

Detailed explanation involves giving an explanation with breadth (more than one reason for the answer) and / or depth (eg using flow-on effects to link the main cause to the main result).

Question ONE		Evidence	
Not Achieved	N1	1/4 requirements for Achievement are met.	<p>Analysis includes:</p> <p>(a)</p> <p>(i) Define / refer to the components of the QTOM</p> <p>(ii) Identify / describe that real output increasing will reduce the price level OR</p> <p>Explanation of how real output increasing will reduce the price level (eg to maintain the equation when Q increases P must decrease).</p>
	N2	2/4 requirements for Achievement are met.	
Achievement	A3	3/4 requirements for Achievement are met including at least ONE valid explanation.	<p>(b)</p> <p>(i) Explanation of why the velocity of circulation might increase during the recovery stage of the business cycle (eg during the recovery stage of the business cycle, people are likely to hold less of their income and wealth in reserve. Greater spending is likely to lead to a greater velocity of circulation)</p> <p>(ii) Identify / describe that the velocity of circulation increasing will increase the price level OR</p> <p>Explanation of the impact on the price level of velocity of circulation increasing (eg an increase in velocity of circulation is likely to lead to more demand and as a result the price level may rise, OR the QTOM states that $MV=PQ$. Rising V will result in P rising, if all other things remain constant).</p>
	A4	4/4 requirements for Achievement are met including at least TWO valid explanations.	

Achievement with Merit	M5	1/3 requirements for Achievement with Merit are met.	<p>Analysis in depth includes:</p> <p>(a)</p> <p>Detailed explanation of how real output increasing will affect the price level, with reference to the QTOM (eg the QTOM states that $MV=PQ$. Rising Q will result in P falling, if all other things remain constant – because the surplus production capacity available means costs may not rise, and extra output without extra money available will result in lower prices per good sold).</p> <p>(b)</p> <p>(i) Detailed explanation why the velocity of circulation might increase during the recovery stage of the business cycle (eg during the recovery stage of the business cycle, people are likely to become more optimistic about their employment and income opportunities, or their incomes may have risen. As a result, consumers will be more willing to spend. Rising consumer confidence or rising incomes are likely to lead to a greater velocity of circulation).</p> <p>(ii) Detailed explanation of the impact on the price level of velocity of circulation increasing (eg an increase in the velocity of circulation is likely to lead to more spending of existing income. This means there will be an increase in AD, and as a result, the price level may rise. The QTOM states that $MV=PQ$. Rising V results in P rising, if all other things remain constant).</p>
	M6	2/3 requirements for Achievement with Merit are met.	
Achievement with Excellence	E7	(b) (i) AND (ii)	<p>Comprehensive analysis includes:</p> <p>(b)</p> <p>Compare and contrast the impact on inflation of real output increasing with the impact of velocity of circulation increasing by:</p> <p>(i) Detailed explanation of why the velocity of circulation might increase during the recovery stage of the business cycle</p> <p>(ii) Detailed explanation of the impact on the price level of velocity of circulation increasing</p> <p>AND</p> <p>Recognises that as Q is increasing during the recovery cycle, the increase in P may be minimal.</p>
	E8	(b) (i), (ii) AND (a) at Merit level.	

N0 = No response; no relevant evidence.

Question TWO		Evidence	
Not Achieved	N1	1/4 requirements for Achievement are met.	<p>Analysis includes:</p> <p>(a)</p> <p>(i) Fully labelled and accurate shift of the AD curve. Refer to Appendix One.</p> <p>(ii) Identify / describe that personal income tax rates decreasing will increase inflation / price level</p> <p>OR</p> <p>Explanation of how personal income tax rates decreasing could affect inflation (eg a decrease in personal income tax rates will result in greater spending. Greater consumption will lead to higher C and therefore AD will increase. This will cause the PL to rise).</p> <p>(b)</p> <p>(i) Fully labelled and accurate shift of the AD curve only. Refer to Appendix Two.</p> <p>(ii) Identify/describe that interest rates decreasing will increase inflation / price level</p> <p>OR</p> <p>Explanation of how interest rates decreasing would affect inflation (eg lower interest rates reduce the cost of borrowing. Therefore, consumers will use debt more to finance their spending. C in the AD equation will increase, and therefore AD will shift to the right. This means the price level will rise</p> <p>OR</p> <p>Valid explanation with I increasing</p> <p>OR</p> <p>X – M increasing).</p>
	N2	2/4 requirements for Achievement are met.	
Achievement	A3	3/4 requirements for Achievement are met including at least ONE valid explanation.	
	A4	4/4 requirements for Achievement are met including at least TWO valid explanations.	
Achievement with Merit	M5	1/2 requirements for Achievement with Merit are met.	<p>Analysis includes:</p> <p>(a)</p> <p>Detailed explanation of how a decrease in personal income tax rates could affect inflation, with reference to changes made to Graph One (eg a decrease in personal income tax rates will result in greater disposable income, and an increase in spending. Greater consumption will lead to higher C, therefore AD will increase – as C is a component of AD. AD will shift from AD to AD₁. This will cause the PL to rise from PL to PL₁. This rise in the PL represents inflation). Refer to Appendix One. Must establish a link between decreased income tax rates, increased disposable income, C, and AD.</p> <p>(b)</p> <p>(i) Detailed explanation of how interest rates decreasing could affect inflation, with reference to changes made to Graph Two (eg lower interest rates reduce the reward for saving. This means that consumers will save less and spend more. Lower interest rates also reduce the cost of borrowing. Therefore, consumers will use debt more to finance their spending. Firms will also borrow more for investment. Net Exports will increase as exports become more price-competitive, due to the New Zealand dollar depreciating, and imports will decrease as they are less price competitive. C, I and X – M in the AD equation will increase, and therefore, AD will shift to the right. This means the price level will rise). Must have reference to TWO of C, I, X – M.</p>
	M6	2/2 requirements for Achievement with Merit are met.	

Achievement with Excellence	E7	(b) (ii) <i>AND</i> (iii)	<p>Comprehensive analysis includes:</p> <p>(b)</p> <p>Compare and contrast the impact on the rate of inflation, of personal income tax rates decreasing and interest rates decreasing, by:</p> <p>(i) Detailed explanation of how interest rates decreasing could affect inflation, with reference to Graph Two</p> <p>(ii) Detailed explanation of how personal income tax rates decreasing and interest rates decreasing may have differing impacts on the rate of inflation (eg the impact on inflation of reduced interest rates will be greater, as more components of AD will be increasing: C, I, X – M. Whereas for a reduction in personal income tax rates, only C will be increasing. Therefore AD will be increasing by more, when interest rates decrease)</p> <p>(iii) Refer to changes made on Graphs One and Two. Refer to Appendices One and Two.</p>
	E8	(b) (i) <i>AND</i> (ii)	

N0 = No response; no relevant evidence.

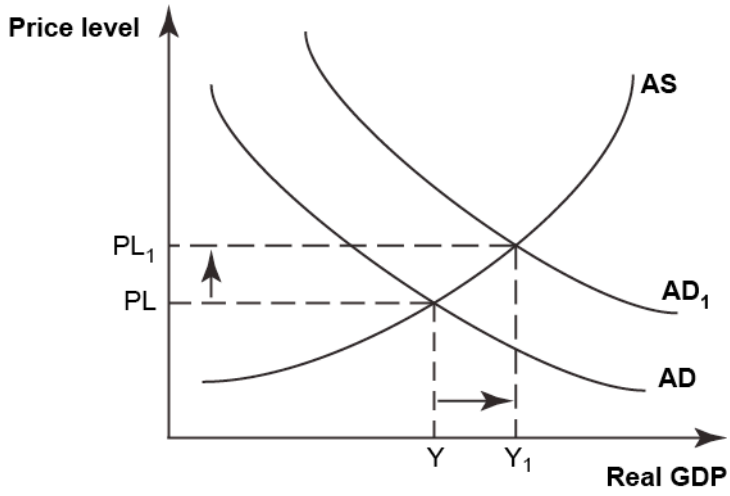
Question THREE		Evidence	
Not Achieved	N1	1/2 requirements for Achievement are met.	<p>(a) Analysis includes: Identify / describe a negative impact on low-income households, eg less purchasing power <i>OR</i> Explanation of the impact of inflation resulting from the changes specified in the resource material on low-income households (eg the likely impact of the price rises stated is that the purchasing power of these households will be negatively impacted, so their real income will decline).</p> <p>(b) Identify / describe that the negative impact on high-income earners who own their own homes will be insignificant <i>OR</i> Explanation of how the changes stated in the resource material might impact on high-income households who own their own homes (eg as high-income households tend to spend more of their income on telecommunications and AV equipment, the impact of inflation is likely to be less on these households). <i>OR</i> Homeowners are not affected by the increase in housing rentals. The overall impact on high-income households of this inflation could be very small.</p>
	N2	2/2 requirements for Achievement are met but no valid explanations.	
Achievement	A3	2/2 requirements for Achievement are met including at least ONE valid explanation.	
	A4	2/2 requirements for Achievement are met including TWO valid explanations.	
Achievement with Merit	M5	1/2 requirements for Achievement with Merit met.	<p>Analysis in depth includes: (a) Detailed explanation of how the specific changes might impact on low-income households (eg low-income households tend to spend more of their income on cigarettes, tobacco, rents, and electricity. The likely impact of the price rises in tobacco, (13%), rents (2.4%), and electricity (5.2%) is that their purchasing power will fall and they will spend less on other goods and services)</p> <p>(b) Detailed explanation of how the changes stated in the resource material might impact on high-income households who own their own homes (eg as high-income households tend to spend more of their income on telecommunications and AV equipment, the impact of inflation is unlikely to be significant on these households, <i>AND</i> home owners are not affected by the increase in housing rentals. The overall impact on high-income households of this inflation could be very small).</p>
	M6	2/2 requirements for Achievement with Merit met.	

Achievement with Excellence	E7	(b) (ii) only	<p>Comprehensive analysis includes:</p> <p>(b)</p> <p>Compare and contrast the impact of inflation on low-income households, and on high-income households who own their own homes, by:</p> <p>(i) Detailed explanation of how the changes stated in the resource material might impact on high-income households who own their own homes</p> <p>(i) Detailed explanation of which of high-income or low-income households might be more disadvantaged by the inflation (eg the high-income households are likely to be less disadvantaged, because they are the ones most likely to gain the largest proportional benefit from the items that have fallen in price, and least likely to incur additional costs from the items rising in price. Low-income households are proportionally more affected by the items rising in price, and tend to purchase less audio-visual equipment, so do not get the benefit from those price decreases).</p>
	E8	(b) (i) <i>AND</i> (ii)	

N0 = No response; no relevant evidence.

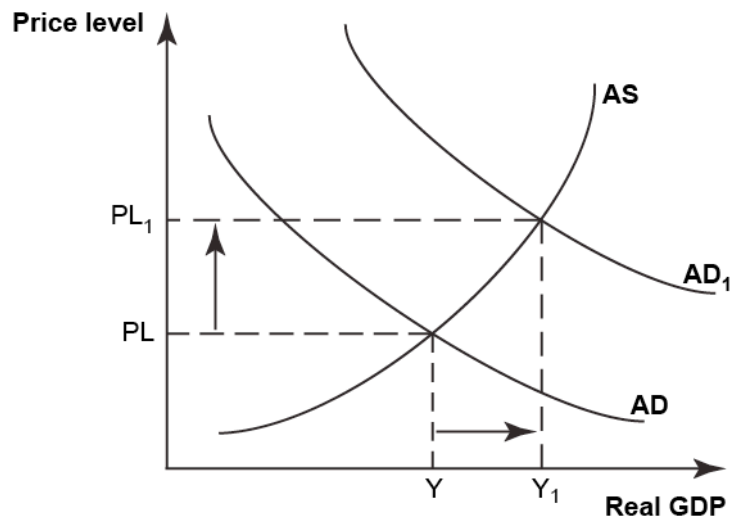
Appendix One
Question Two (a)

Graph One



Appendix Two
Question Two (b)

Graph Two



Judgement Statement

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 6	07 – 12	13 – 18	19 – 24