

**Assessment Schedule – 2013**

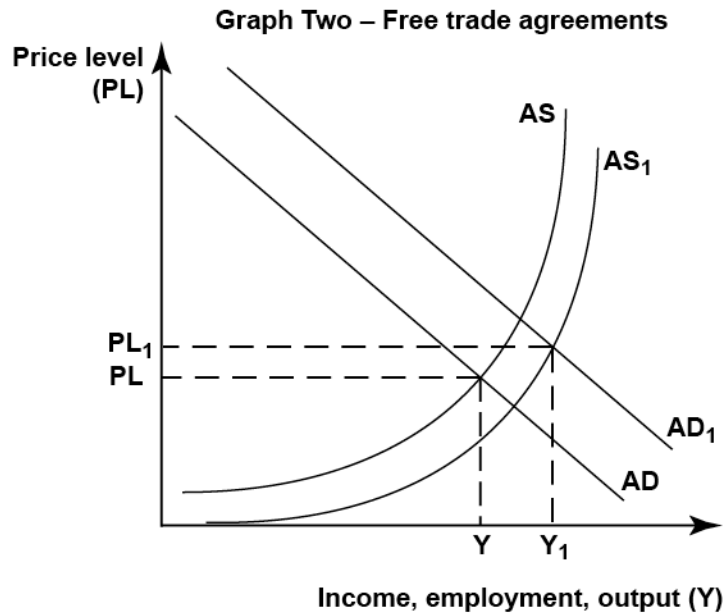
**Economics: Demonstrate understanding of macro-economic influences on the New Zealand economy (91403)**

**Evidence Statement**

**Note for markers:** For each question, the answer should be read as a whole before the grade is allocated.

Question	Evidence
<p><b>ONE</b> (a) (i)</p>	<p style="text-align: center;"><b>Graph One – Foreign exchange policy</b></p> <p style="text-align: center;"><b>Income, employment, output (Y)</b></p>
<p>(ii)</p>	<p>An exchange rate favourable to a trade surplus would encourage exports (X) and discourage imports (M), therefore increasing aggregate demand from AD to AD<sub>1</sub>. AS decreases to AS<sub>1</sub>, because the exchange rate favourable to a trade surplus will make the cost of the imported raw materials more expensive, therefore causing a decrease in aggregate supply.</p> <p>The demand for exports will increase, so New Zealand export producers will increase output and require increased labour resources to do so. Therefore, employment will increase, shown by the shift from Y to Y<sub>1</sub>.</p> <p>Other potential answers could relate to:</p> <ul style="list-style-type: none"> <li>• increased incomes for exporters being spent in other industries, resulting in a net increase in employment throughout the economy</li> <li>• decreased imports could result in increased production for the domestic market, creating jobs.</li> </ul>

(b)



Free trade leads to increased exports, and also increased imports. But the increase in exports is likely to outweigh the increase in imports – resulting in a trade surplus, shown on Graph Two as an increase in AD to AD<sub>1</sub>.

New Zealand has a large current account deficit. The trade surplus will reduce the deficit, moving the current account balance closer to zero.

Free trade will increase demand for exports. With the increased demand, New Zealand producers will increase production, which will require more resources.

The exporters may employ more labour, as production increases. This will reduce the unemployment rate.

Some workers will lose jobs – however, as increased imports and imported raw materials will occur through the import substitution effect, demand for labour within those same industries in New Zealand will decrease.

The AD / AS diagram shows a net result of an increase in employment from Y to Y<sub>1</sub>, which will move the unemployment rate closer to full employment.

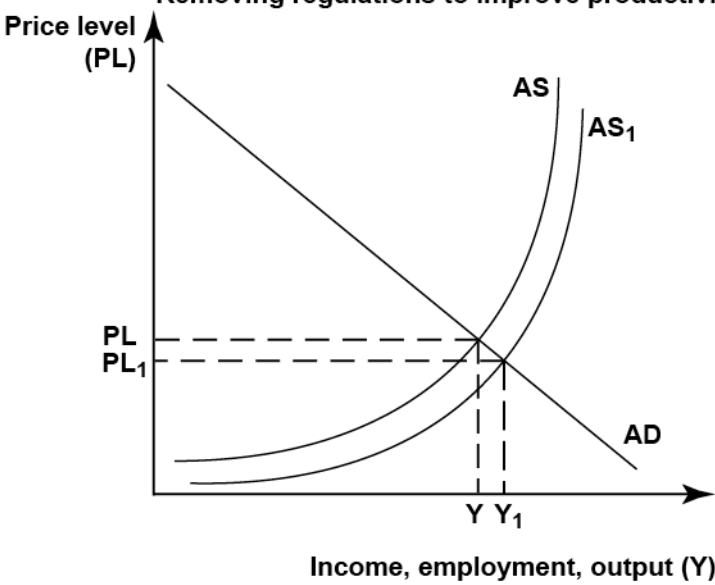
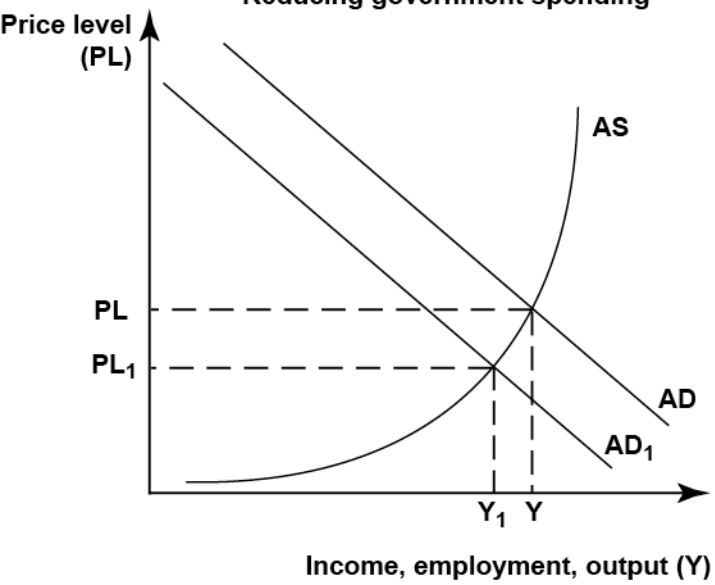
Because of the potential loss of jobs due to cheaper imports, free trade may not have a big impact on achieving full employment, and overall employment could actually decrease.

Because New Zealand is already a very open economy with low trade restrictions on imports and imported raw materials, free trade agreements will increase the total value of exports to a greater extent than an increase in imports. This will move the current account closer to a balanced situation.

Unemployment could still exist in other industries not related to international trade.

N1	N2	A3	A4	M5	M6	E7	E8
<p>Some of the requirements of N2 are met.</p>	<p>For <i>EITHER</i> graph:</p> <ul style="list-style-type: none"> <li>AD increased</li> <li>curves correctly labelled</li> <li>PL and Y equilibriums identified.</li> </ul> <p>AND</p> <p>1 correct point in explanation</p>	<p>Understanding involves for <i>EITHER</i> Graph:</p> <ul style="list-style-type: none"> <li>AD increased with curves labelled correctly, and equilibriums identified</li> <li>AS correctly moved, the extent of the move not required</li> <li>the shift in AD to AD<sub>1</sub> explained</li> <li>the shift in AS to AS<sub>1</sub> explained</li> <li>the effect on employment explained</li> <li>the foreign exchange movement or the effect on balanced current account explained</li> </ul> <p>Some parts may be incomplete.</p>	<p>Understanding involves for <i>EITHER</i> Graph:</p> <ul style="list-style-type: none"> <li>AD increased with curves labelled correctly, and equilibriums identified</li> <li>AS correctly moved, the extent of the move not required</li> <li>the shift in AD to AD<sub>1</sub> explained</li> <li>the shift in AS to AS<sub>1</sub> explained</li> <li>the effect on employment explained.</li> <li>the foreign exchange movement or the effect on balanced current account explained.</li> </ul>	<p>In-depth understanding involves for <i>EITHER</i> Graph:</p> <ul style="list-style-type: none"> <li>AD and AS both correctly moved, with the shift in AD greater than the shift in AS</li> <li><i>BOTH</i> of the shifts in AD AND AS explained with reference to the graph to support</li> <li>effect on employment and / or current account balance explained in detail.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>In-depth understanding involves for <i>EITHER</i> Graph:</p> <ul style="list-style-type: none"> <li>AD and AS both correctly moved, with the shift in AD greater than the shift in AS</li> <li><i>BOTH</i> of the shifts in AD AND AS explained, with reference to the graph to support</li> <li>effect on employment and / or current account balance explained in detail.</li> </ul>	<p>Comprehensive understanding involves for Graph Two:</p> <ul style="list-style-type: none"> <li>correct changes are made to the graph, clearly labelled and explained in detail</li> <li>detailed explanation of how FTA lead to balanced current account AND full employment</li> <li>explanation of why Free Trade is more likely to lead to balanced current account than full employment</li> <li>changes to Graph Two are integrated into the answer.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>Comprehensive understanding involves for Graph Two:</p> <ul style="list-style-type: none"> <li>correct changes are made to the graph, clearly labelled and explained in detail</li> <li>detailed explanation of how FTA lead to balanced current account AND full employment</li> <li>explanation of why Free Trade is more likely to lead to balanced current account than full employment</li> <li>changes to Graph Two are integrated into the answer.</li> </ul>

**N0** = No response; no relevant evidence.

Question	Evidence
<p><b>TWO</b> (a) (i)</p>	<p style="text-align: center;"><b>Graph Three</b> <b>Removing regulations to improve productivity</b></p>  <p style="text-align: center;"><b>Price level (PL)</b></p> <p style="text-align: center;"><b>Income, employment, output (Y)</b></p> <p>(ii) Productivity is a determinant of AS. Increased productivity enables New Zealand producers to either produce more goods and services at the same price level, produce the same quantity of goods and services at a cheaper price level, or produce more goods and services with the same resources, or decrease the cost of production for producers. This is shown as an increase in AS to AS<sub>1</sub>, which causes real output to increase from Y to Y<sub>1</sub>, (increasing economic growth/Real GDP) and the price level to decrease from PL to PL<sub>1</sub> (decreasing inflation/improving price stability).</p>
<p>(b) (i)</p>	<p style="text-align: center;"><b>Graph Four</b> <b>Reducing government spending</b></p>  <p style="text-align: center;"><b>Price level (PL)</b></p> <p style="text-align: center;"><b>Income, employment, output (Y)</b></p> <p>(ii) Government spending is a determinant of AD. Decreased government spending will decrease AD, assuming ceteris paribus. AD shifts from AD to AD<sub>1</sub> causing real output to decrease from Y to Y<sub>1</sub> (decreasing economic growth/Real GDP) and the Price Level to decrease from PL to PL<sub>1</sub> (decreasing inflation/improving price stability).</p>

(c)	<p>Increased productivity encourages firms to increase production, by enabling them to produce more at the same or lower price, or produce more goods and services with the same resources or decreases costs of production for producers.</p> <p>The increased production will increase the output of the economy, which is Real GDP.</p> <p>An increase in output is economic growth – shown on the graph as a shift from <math>Y</math> to <math>Y_1</math>.</p> <p>Because the productivity shows AS increasing – which is a shift downwards along the AD curve – PL decreases to <math>PL_1</math>.</p> <p>This lowers the price level, anti-inflationary. (This can keep prices stable if price levels are near the top of the 1 – 3% PTA).</p> <p>Government spending (G) is a component of aggregate demand. Assuming ceteris paribus, if government spending decreases, there will be less aggregate demand, shifting AD to <math>AD_1</math>.</p> <p>The decrease in AD means less output in the economy – which is shown by a shift from <math>Y</math> to <math>Y_1</math>. So economic growth will decrease in the short term.</p> <p>When AD decreases, there is a decrease in the price level. A decrease in inflationary pressure occurs. This will help maintain price stability, if prices are near the upper end of the 1 – 3% PTA target.</p> <p>Encouraging productivity can be more effective in achieving both economic growth and price stability, because it results in an increase in output, whilst reducing inflationary pressure.</p>
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N1	N2	A3	A4	M5	M6	E7	E8
<p>Some of the requirements of N2.</p>	<p>In <i>EITHER</i> graph:</p> <ul style="list-style-type: none"> <li>correctly shifts the appropriate curve</li> <li>curves correctly labelled</li> <li>PL and Y equilibrium identified.</li> </ul> <p>AND</p> <p>1 correct point in explanation</p>	<p>For Graph Three, understanding involves:</p> <ul style="list-style-type: none"> <li>AS increased with curves labelled correctly, and equilibriums identified</li> <li>AS increases as firms are able to produce more at the same price level explained</li> <li>Output has increased from Y to Y<sub>1</sub></li> <li>Price Level decrease from PL to PL<sub>1</sub></li> </ul> <p>OR</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>AD decreased with curves labelled correctly and equilibriums identified</li> <li>AD decreases as G is a component of AD, and total goods and services produced will decrease is explained</li> <li>Output has decreased from Y to Y<sub>1</sub></li> <li>Price Level decrease from PL to PL<sub>1</sub>.</li> </ul> <p>Some parts may be incomplete.</p>	<p>For Graph Three, understanding involves:</p> <ul style="list-style-type: none"> <li>AS increased with curves labelled correctly, and equilibriums identified</li> <li>AS increases as firms are able to produce more at the same price level explained</li> <li>Output has increased from Y to Y<sub>1</sub></li> <li>Price Level decrease from PL to PL<sub>1</sub></li> </ul> <p>OR</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>AD decreased with curves labelled correctly and equilibriums identified</li> <li>AD decreases as G is a component of AD, and total goods and services produced will decrease is explained.</li> <li>Output has decreased from Y to Y<sub>1</sub></li> <li>Price Level decrease from PL to PL<sub>1</sub>.</li> </ul>	<p>In-depth understanding for Graph Three involves:</p> <ul style="list-style-type: none"> <li>AS increased with curves labelled correctly, and equilibriums identified</li> <li>detailed explanation of the effect of encouraging productivity on both economic growth and price stability, with reference to the graph</li> </ul> <p>OR</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>AD decreased with curves labelled correctly and equilibriums identified</li> <li>detailed explanation of the effect of reducing government spending on both economic growth and price stability, with reference to the graph.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>In-depth understanding for Graph Three involves:</p> <ul style="list-style-type: none"> <li>AS increased with curves labelled correctly, and equilibriums identified</li> <li>detailed explanation of the effect of encouraging productivity on both economic growth and price stability, with reference to the graph</li> </ul> <p>OR</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>AD decreased with curves labelled correctly and equilibriums identified</li> <li>detailed explanation of the effect of reducing government spending on both economic growth and price stability, with reference to the graph.</li> </ul>	<p>Comprehensive understanding involves, for Graph Three:</p> <ul style="list-style-type: none"> <li>the impact of increased productivity is fully explained, with the increased economic growth and deflationary pressure as the outcomes</li> <li>a reference made to the idea of price stability</li> <li>correct changes to the graph are integrated into the answer</li> </ul> <p>AND</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>the impact of reducing government spending is fully explained, with reference to decreased economic growth and deflationary pressure as the outcomes</li> <li>correct changes to the graph are integrated into the answer</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>increasing productivity is the more effective policy, as it reduces inflationary pressure whilst leading to economic growth.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>Comprehensive understanding involves, for Graph Three:</p> <ul style="list-style-type: none"> <li>the impact of increased productivity is fully explained, with the increased economic growth and deflationary pressure as the outcomes</li> <li>a reference is made to the idea of price stability</li> <li>correct changes to the graph are integrated into the answer.</li> </ul> <p>AND</p> <p>For Graph Four:</p> <ul style="list-style-type: none"> <li>the impact of reducing government spending is fully explained, with reference to decreased economic growth and deflationary pressure as the outcomes</li> <li>correct changes to the graph are integrated into the answer</li> </ul> <p>AND</p> <ul style="list-style-type: none"> <li>increasing productivity is the more effective policy, as it reduces inflationary pressure whilst leading to economic growth.</li> </ul>

**N0** = No response; no relevant evidence.

Question	Evidence
<p><b>THREE</b></p> <p>(a)</p> <p>(i)</p>	<p>Any time period when there is a positive change in the Real GDP and employment levels (eg September 2000 to September 2008, Sept 2011-Sept 2012).</p>
<p>(ii)</p>	<p>Increased consumption is an increase in demand for goods and services by households. This causes increased production of goods and services to meet the extra demand, which is an increase in the output of the economy and economic growth.</p> <p>There will be increased demand for labour to produce the additional goods and services. Employment levels should rise following increased output. This pattern is shown on the business cycle, as the pattern for employment growth mostly follows the pattern for Real GDP Growth.</p> <p>This will lead to an increase in economic activity, which will be shown on the business cycle as a recovery or an upswing.</p>
<p>(b)</p>	<p>Savings is income not spent. Increased savings in the short run will decrease economic growth, as there will be less spending on goods and services by households as they save their income.</p> <p>Savings will reduce employment in the short run, as there will be decreased production of goods and services from reduced spending of households.</p> <p>This will lead to a decrease in economic activity, which will be shown on the business cycle as a recessionary phase, or downswing.</p>
<p>(c)</p>	<p>Increased consumption can provide employment opportunities or increased incomes in the economy through additional spending that flows through the economy.</p> <p>This will lead to an upward trend – an upswing, or recovery – in the business cycle.</p> <p>A negative aspect is the inflationary pressure that the increased household spending will cause, decreasing the ability of firms to spend in the future (purchasing power).</p> <p>Savings results in financial institutions having an increase in deposits from which to lend. Banks will encourage borrowing by lowering interest rates.</p> <p>Firms will be encouraged by lower rates to borrow from banks for investment. Increased savings should lead to increased investment.</p> <p>Increased savings leads to lower interest rates, or less inflationary pressure, as spending is less.</p> <p>In the short run, savings can lead to a downturn in the business cycle, as spending decreases, lowering Real GDP.</p> <p>Savings is more likely lead to sustained positive growth on the business cycle, as it enables firms to invest, lowers interest rates and reduces inflationary pressure.</p> <p>OR</p> <p>Savings is more likely to lead to sustained economic growth as the greater funds available for investment lead to more capital goods in the NZ economy which will increase our productive capacity/ability to produce in the future which will result in more sustained long term growth whereas increased consumption will result in higher inflation which will create uncertainty in the economy/less stable economic environment so firms are less likely to invest so growth will be less sustainable.</p>

N1	N2	A3	A4	M5	M6	E7	E8
<p>ONE of:</p> <ul style="list-style-type: none"> <li>identifies when there could have been increased consumption</li> <li>increased consumption results in increased output described</li> <li>increased output results in more jobs described</li> <li>savings is income not spent</li> <li>savings reduces employment in the short run.</li> </ul>	<p>TWO of:</p> <ul style="list-style-type: none"> <li>identifies when there could have been increased consumption</li> <li>increased consumption results in increased output described</li> <li>increased output results in more jobs described</li> <li>savings is income not spent</li> <li>savings reduces employment in the short run.</li> </ul>	<p>Understanding involves:</p> <ul style="list-style-type: none"> <li>an explanation of consumption resulting in increased output (Real GDP growth), which will follow through to increased demand for labour (employment)</li> <li>an explanation of savings being income not spent, which leads to a decrease in output in the short run, and a decrease in employment</li> <li>an explanation of the link between savings and investment and how increased savings may lead to lower interest rates and less inflation or increased investment in capital and thus long term growth.</li> </ul> <p>Some parts may be incomplete.</p>	<p>Understanding involves:</p> <ul style="list-style-type: none"> <li>an explanation of consumption resulting in increased output (Real GDP growth), which will follow through to increased demand for labour (employment)</li> <li>an explanation of savings being income not spent, which leads to a decrease in output in the short run, and a decrease in employment</li> <li>an explanation of the link between savings and investment and how increased savings may lead to lower interest rates and less inflation or increased investment in capital and thus long term growth.</li> </ul>	<p>In-depth understanding involves:</p> <ul style="list-style-type: none"> <li>a detailed explanation of consumption, resulting in increased output, which will follow through to increased demand for labour, with a link made to when the business cycle is likely to be in an upswing or recovery phase</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>a detailed explanation of savings being income not spent, which leads to a decrease in output in the short-run, and a decrease in employment, plus a link made to when the business cycle is likely to be in downswing or recessionary stage</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>A detailed explanation of the link between savings and investment and how increased savings may lead to lower interest rates and less inflation or increased investment in capital and thus long term growth plus link to a correct stage in the business cycle.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>In-depth understanding involves:</p> <ul style="list-style-type: none"> <li>a detailed explanation of consumption, resulting in increased output, which will follow through to increased demand for labour, with a link made to when the business cycle is likely to be in an upswing or recovery phase</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>a detailed explanation of savings being income not spent, which leads to a decrease in output in the short-run, and a decrease in employment, plus a link made to when the business cycle is likely to be in downswing or recessionary stage</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>A detailed explanation of the link between savings and investment and how increased savings may lead to lower interest rates and less inflation or increased investment in capital and thus long term growth plus link to a correct stage in the business cycle.</li> </ul>	<p>Comprehensive understanding involves comparing and contrasting the impacts of increased consumption and increased savings by:</p> <ul style="list-style-type: none"> <li>a detailed explanation of positive impact on the economy, and a negative impact on the economy of increased consumption, with a stage in the business cycle integrated into the answer</li> <li>explanation of the link between savings and investment, including a broad overview that increased savings leads to increased investment through lower interest rates</li> <li>a detailed explanation of positive impact of increased savings on the economy, and a negative impact with stage in the business cycle integrated into the answer</li> <li>increased savings is more likely to lead to sustained growth through less inflationary pressure, and the increased output or productive capacity of the economy through increased investment.</li> </ul> <p>Some parts may lack detail or are incomplete.</p>	<p>Comprehensive understanding involves comparing and contrasting the impacts of increased consumption and increased savings by:</p> <ul style="list-style-type: none"> <li>a detailed explanation of positive impact on the economy, and a negative impact on the economy of increased consumption, with a stage in the business cycle integrated into the answer</li> <li>explanation of the link between savings and investment, including a broad overview that increased savings leads to increased investment through lower interest rates</li> <li>a detailed explanation of positive impact of increased savings on the economy, and a negative impact with stage in the business cycle integrated into the answer</li> <li>increased savings is more likely to lead to sustained growth through less inflationary pressure, and the increased output or productive capacity of the economy through increased investment.</li> </ul>



**N0** = No response; no relevant evidence.

### Judgement Statement

	<b>Not Achieved</b>	<b>Achievement</b>	<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>
<b>Score range</b>	0 – 7	8 – 13	14 – 18	19 – 24
<p><b>Codes</b></p> <p><b>U</b> = Evidence of Achievement</p> <p><b>I</b> = Evidence of Merit</p> <p><b>C</b> = Evidence of Excellence</p>				