

**Assessment Schedule – 2014****Economics: Analyse inflation using economic concepts and models (91222)****Assessment criteria**

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

*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).

**Note:** Each question should be read as a whole before awarding a grade.

## Evidence Statement

Question One	Achievement	Achievement with Merit	Achievement with Excellence
(a)	Correctly labels a recovery (refer to <b>Appendix One</b> ).		
(b)	<ul style="list-style-type: none"> <li>Shifts AD to the right, labelling an increase in the price level (refer to <b>Appendix Two</b>).</li> <li>States that C or AD or inflation will increase, or explains that increasing employment will increase inflation, due to increasing incomes, or C or AD.</li> </ul>	<ul style="list-style-type: none"> <li>Shifts AD to the right, labelling an increase in the price level <i>AND</i> explains in detail that increasing employment will increase inflation due to the increased incomes of those who gain a job, increasing the consumption component of AD and resulting in a rise in price level from PL to PL<sub>1</sub> and demand pull inflation. (Candidate must explain the link between increasing employment, C and AD. Includes a clear reference to the graph.)</li> </ul>	
(c)	<ul style="list-style-type: none"> <li>Shifts AD to the right and / or shifts AS to the left, labelling increase in price (refer to <b>Appendix Three</b>)</li> <li>identifies that a boom will increase inflation <i>OR</i> explains that a boom will increase inflation, due to employment/incomes/C/incomes/AD increasing, <i>OR</i> due to costs of resources/costs of production increasing /AS decreasing.</li> </ul>	<ul style="list-style-type: none"> <li>Shifts AS to the left, labelling the increase in price <i>AND</i> explains in detail that a boom will increase inflation, because scarce resources will increase the cost of resources, and hence, the costs of production for producers. Hence, they will raise prices to maintain profit margins (cost – push inflation) and AS will decline (Candidate must explain the link between scarce resources and increased costs, and refer to profit. Includes a clear reference to the graph.) <i>OR</i> shifts AD to the right, labelling an increase in the price level <i>AND</i> explains in detail that a boom will increase inflation, because of the high rates of employment and incomes, increasing consumption, AD and resulting in demand – pull inflation. (Candidate must give a valid, detailed explanation for why a boom will result in demand – pull inflation. Includes a clear reference to the graph.)</li> </ul>	<p>Compares and contrasts the impact of the recovery stage on inflation with the impact of the boom stage on inflation by:</p> <ul style="list-style-type: none"> <li>explaining in detail how a recovery will affect inflation in part (b) or (c)</li> <li>explaining in detail how a boom would increase inflation</li> <li>explaining in detail that a boom will have the greater impact on inflation, as only AD increases in a recovery, <b>compared to</b> AD increasing and AS decreasing in a boom <i>OR</i> explaining in detail that a boom will have the greater impact on inflation, as AD increases by a greater amount <b>compared to</b> the increase in AD for a recovery, as employment and income levels are higher</li> <li>referring specifically to Graph Two <i>AND</i> Graph Three, eg the increase in the price level in Graph Two, PL to PL<sub>1</sub> is smaller relative to the price increase in Graph Three, PL to PL<sub>2</sub>.</li> </ul>

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanation.	Most Achievement evidence, including at least one explanation.	Nearly all Achievement evidence, including at least one explanation.	Some Merit evidence.	Most Merit evidence.	Excellence evidence. Most points covered.	Excellence evidence. One part may be weaker.

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

Question Two	Achievement	Achievement with Merit	Achievement with Excellence
(a)	<p>Defines disinflation or deflation <i>OR</i> explains the difference between disinflation and deflation.</p>	<ul style="list-style-type: none"> <li>Explains in detail why the change in the CPI is disinflation, as the rate of inflation has declined from 5.3 to 0.7 – but the general level of prices is still increasing. For deflation to occur, the general level of prices must be decreasing.</li> </ul> <p>(Candidate must refer to the data from the resource material, and make a specific comparison between deflation and disinflation).</p>	
(b)	<ul style="list-style-type: none"> <li>Identifies/describes TWO groups who could be better off, eg exporters, consumers, savers <i>OR</i> explains why at least ONE group could be better off, eg exporters will be better off, as exports are more price competitive.</li> <li>Identifies/describes TWO groups who could be worse off, eg importers, borrowers, speculators <i>OR</i> explains why at least ONE group could be worse off, eg borrowers could be worse off as the real interest rates on their loans will not be declining by as much.</li> </ul>	<ul style="list-style-type: none"> <li>Explains in detail why at least ONE group could be better off (Candidate must give two reasons for the group being better off <i>OR</i> explain the link between the main result and being better off, eg exporters are better off, because exports are more price competitive, so they will have increased demand for exports / more sales / revenue / profit). <i>OR</i> explains in detail why at least ONE group could be worse off.</li> </ul> <p>(Candidate must give TWO reasons for the group being worse off <i>OR</i> explain the link between the main result and being worse off, eg borrowers are worse off, because the purchasing power of what they have borrowed is declining by less, so the real value of their loan / interest payments will not be declining by as much).</p>	<p>Compares and contrasts the impact of disinflation on various groups in New Zealand society by:</p> <ul style="list-style-type: none"> <li>explaining in detail why TWO groups will be better off <i>AND</i></li> <li>explaining in detail why TWO groups will be worse off.</li> </ul>

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

Question Three	Achievement	Achievement with Merit	Achievement with Excellence
(a)	<ul style="list-style-type: none"> <li>Identifies / describes that increasing inflationary expectations would increase the velocity of circulation <i>OR</i> explains that increasing inflationary expectations would increase V as consumer spending increases.</li> <li>Identifies / describes that increasing inflationary expectations would increase the general price level <i>OR</i> explains that increasing inflationary expectations would increase the general price level as P would have to increase because V is increasing.</li> <li>Identifies / describes all of the variables in the quantity theory of money, ie M, V, P, Q.</li> </ul>	<ul style="list-style-type: none"> <li>Explains in detail that increasing inflationary expectations would increase V, as people would spend more now at a faster rate to beat future price increases.</li> <li>Explains in detail that increasing inflationary expectations would increase the general price level, as P would have to increase to match the increase in V for the <math>MV=PQ</math> equation to balance, assuming M and Q are constant. Producers can increase their prices, as consumers are spending / demanding more / demand – pull inflation.  (Candidate must refer to all variables in the quantity theory of money, and have an economic reason for the increase in the price level.).</li> </ul>	
(b)	<ul style="list-style-type: none"> <li>Shifts AD to the right in Graph Four, and labels an increase in the price level (refer to <b>Appendix Four</b>).</li> <li>Shifts AD to the right in Graph Five <i>OR</i> shifts AS to the left, and labels an increase in the price level (refer to <b>Appendix Four</b>).</li> <li>Identifies / describes that a depreciation would increase inflation <i>OR</i> explains that a depreciation would increase inflation due to exports or AD increasing <i>OR</i> due to costs of production increasing or AS decreasing.</li> </ul>	<ul style="list-style-type: none"> <li>Shifts AD to the right in Graph Five <i>OR</i> shifts AS to the left, and labels an increase in the price level <i>AND</i></li> <li>explains in detail that a depreciation would increase inflation, due to exports being more price competitive / foreign earnings exchanged for more \$NZ, so exports, and hence AD increase. Includes a clear reference to the graph. <i>OR</i> explains in detail that a depreciation would increase inflation, due to the cost of imported materials increasing, increasing costs of production, and hence reducing AS. Includes a clear reference to the graph.</li> </ul>	<p>Compares and contrasts the impact on inflation of increasing inflationary expectations with the impact of a depreciation of the New Zealand dollar by:</p> <ul style="list-style-type: none"> <li>explaining in detail how increasing inflationary expectations would affect inflation in part (a) or part (b)</li> <li>shifting AD to the right in Graph Five <i>AND</i> shifting AS to the left, and labels an increase in the price level <i>AND</i> explaining in detail that a depreciation would increase inflation, due to exports being more price competitive / foreign earnings exchanged for more \$NZ, so exports, and hence AD, increase <i>AND</i> explaining in detail that a depreciation would increase inflation, due to the cost of imported materials increasing, increasing costs of production and hence reducing AS.</li> <li>explaining in detail that the depreciation would have a greater impact on inflation, as AD is increasing and AS is</li> </ul>

			<p>decreasing <b>compared to</b> an increase in inflationary expectations, which only increases AD.</p> <p>(Candidates may comment about an AS shift, but the magnitude of the AS shift is smaller compared to a depreciation of the \$NZ).</p> <ul style="list-style-type: none"> <li>referring specifically to Graphs Four <i>AND</i> Five, eg the increase in the price level in Graph Four, PL to PL<sub>1</sub>, is less than the increase in the price level in Graph Five, PL to PL<sub>2</sub>.</li> </ul>
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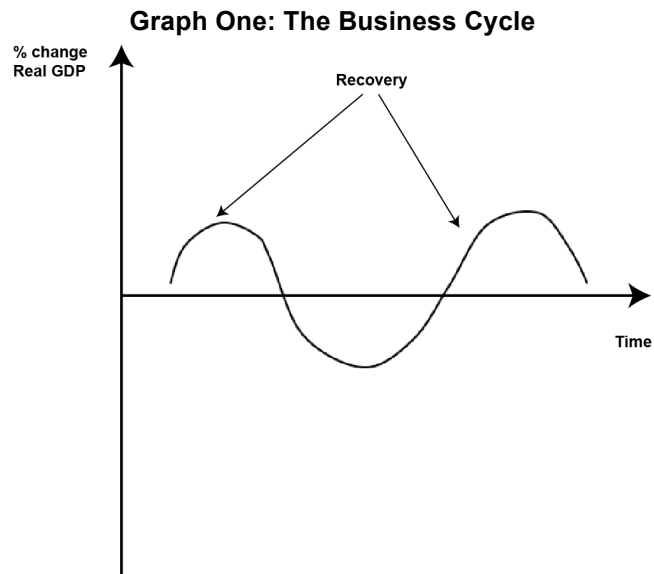
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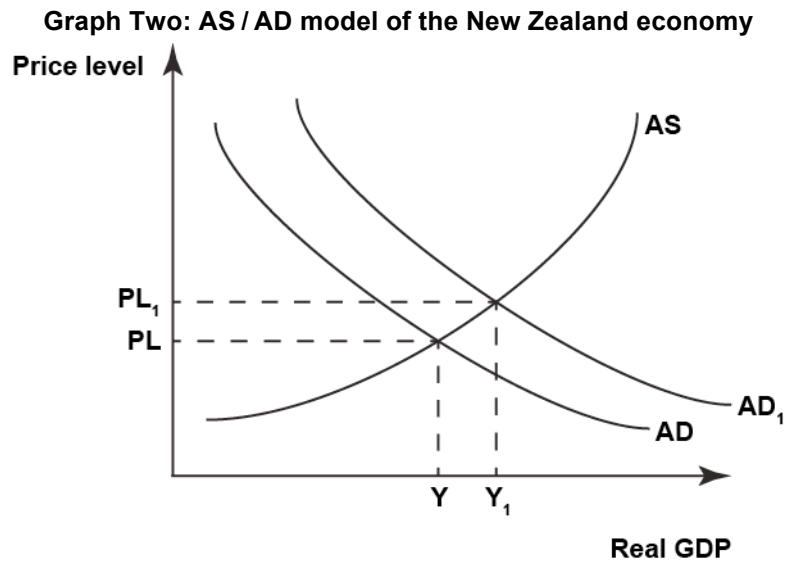
**Cut Scores**

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 6	7 – 12	13 – 18	19 – 24

**Appendix One**  
**Question One (a)**



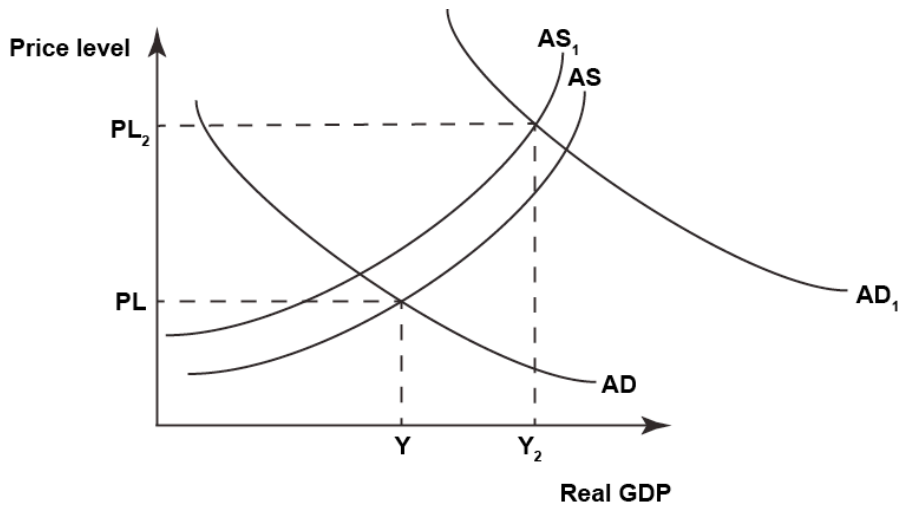
**Appendix Two**  
**Question One (b)**



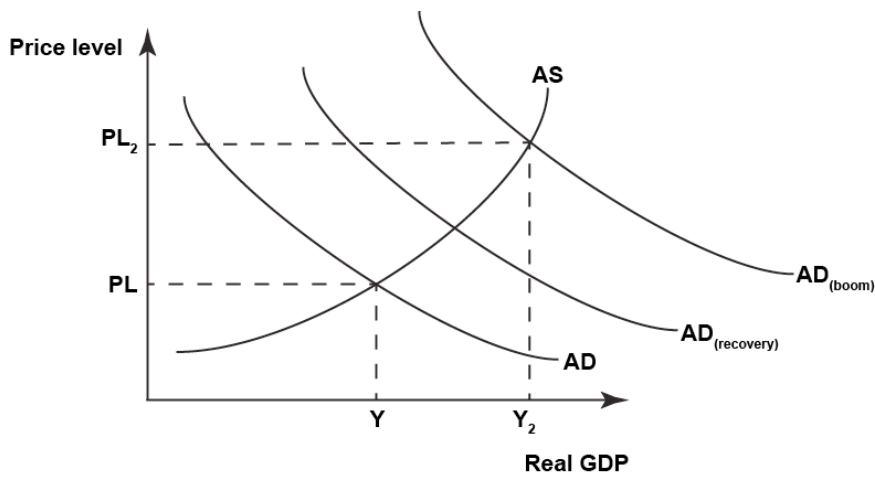


Appendix Three  
Question One (c)

Graph Three: AS / AD model of the New Zealand economy

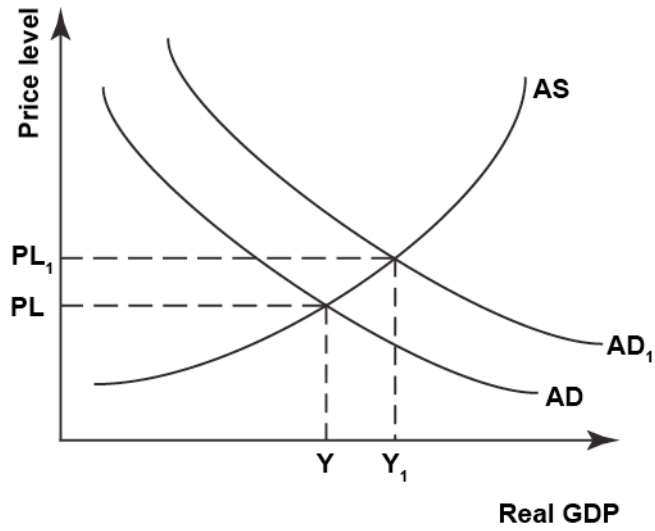


OR



Appendix Four  
Question Three (b)

Graph Four: The New Zealand economy with increasing inflationary expectations



Graph Five: The New Zealand economy with depreciation of the New Zealand dollar

