

Assessment Schedule – 2015**Economics: Analyse inflation using economic concepts and models (91222)****Assessment Criteria**

Achievement	Achievement with Merit	Achievement with Excellence
<p><i>Analyse inflation</i> 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><i>Analyse inflation in depth</i> 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><i>Analyse inflation comprehensively</i> involves:</p> <ul style="list-style-type: none"> • analysing causes of changes in inflation by comparing and/or contrasting their impact on inflation • analysing the impacts of changes in inflation by comparing and/or contrasting the impact on various groups in New Zealand society • 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 (e.g. using flow-on effects to link the main cause to the main result).

Evidence

Question ONE	Evidence	
Achievement	(a)	<ul style="list-style-type: none"> • Correctly draws and labels an increase in aggregate demand, increase in the general price level (Appendix One). • Explains a reason for an increase in aggregate demand – the increase in film tourism will increase export receipts and will cause an increase in aggregate demand, resulting in the general price level increasing – which is inflation. (Alternatively, workers in the film tourism industry increase consumption, or increase investment by businesses in film tourism industry).
	(b)	<ul style="list-style-type: none"> • Correctly draws and labels a decrease in aggregate supply and an increase in the general price level (Appendix Two). • Explains one reason for a decrease in aggregate supply – an increase in costs of production due to complying or carrying out earthquake strengthening regulations causing aggregate supply to decrease, resulting in the general price level increasing – which is inflation. (Alternatively, a fall in profitability due to regulations.)
Achievement with Merit	(a)	<ul style="list-style-type: none"> • Explains in detail the increased aggregate demand causing an increase in inflation, referenced to a correctly drawn graph. The increase in film tourism results in an increase in export receipts (a component of aggregate demand) and will cause an increase in aggregate demand (AD to AD₁), resulting in the general price level increasing from PL to PL₁ (demand pull inflation). OR This will cause an increase in income for workers in film tourism, who will increase their consumption, causing an increase in aggregate demand, resulting in the price level (inflation) increasing from PL to PL₁. OR firms involved in the film tourism industry increase their investment or auxiliary industries such as accommodation, transport, or food with same argument.
	(b)	<ul style="list-style-type: none"> • Explains in detail the decreased aggregate supply causing an increase in inflation, referenced to a correctly drawn graph. The increased costs of complying or carrying out the earthquake strengthening regulations for, causing aggregate supply to decrease (cost push inflation). In order to maintain profit margins, there will be an increase in the general price level (inflation), increasing from PL to PL₂. (Alternatively, if the increased costs are greater than the worth of the buildings, the buildings may be demolished – which would also cause aggregate supply to decrease.) • Both detailed explanations have clear reference to respective graphs in their answers.
Achievement with Excellence	(a) and (b)	<ul style="list-style-type: none"> • The increase in price level PL to PL₁ due to increased aggregate demand is drawn (Graph One) AND referred to in detailed explanation as being smaller than the increase in price level PL to PL₂ in Graph Two due to decreased aggregate supply. • Gives a detailed economic explanation of why increase in aggregate demand is smaller than the decrease in aggregate supply. Film tourism affects only some industries or regions in New Zealand, whereas complying or carrying out earthquake strengthening regulations will affect a broader range of businesses in New Zealand. (Although all components of aggregate demand are affected, it is limited in the number of firms affected and/or regions – so cannot be greater than decrease in aggregate supply reason.) <p>Note: It is intended that candidates are able to gain Achievement with Excellence by comparing and contrasting single curve shifts. However, a candidate who uses accurate combination shifts should not be disadvantaged.</p>

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence, partial explanations.	Some Achievement evidence.	Most Achievement evidence. At least one explanation.	Nearly all Achievement evidence.	Some Merit evidence. One detailed explanation. With some reference to the graph, but minor errors.	Most Merit evidence One detailed explanation. With clear references to the graph.	Some Excellence evidence. Compare and contrast. One part may be weaker.	Most Excellence evidence. Compare and contrast with detailed explanations.

N0 = No response; no relevant evidence.

Question TWO		Evidence					
Achievement	(a)	<ul style="list-style-type: none"> Defines/refers to the components of the Quantity Theory of Money equation, $MV = PQ$. Explains that decreased export receipts will cause a decrease in money supply (M). If velocity of circulation (V) and real output (Q) are held constant, then there will be a corresponding decrease in the general price level inflation (P). 					
	(b)	<ul style="list-style-type: none"> Explains that a decrease in export receipts reduces the funds available to spend. If prices fall permanently, then it is less profitable for producers and they will reduce real output. Explains that a permanent drop in export receipts or profitability will cause some industries (dairy industry and firms that are directly associated with it such as suppliers or others in supply chain) to reduce real output (Q), resulting in an increase in (P). 					
Achievement with Merit	(a)	<ul style="list-style-type: none"> Explains in detail the decrease in general price level inflation. An explanation that decreased export receipts will cause a decrease in money supply (M). If velocity of circulation (V) and real output (Q) are held constant, then there will be a corresponding and equally proportional decrease in the general price level inflation (P). The decrease in export receipts will also decrease income (and investment), resulting in a decrease in the general price level. (OR that the decrease in (M) will decrease funds available to spend, and, correspondingly, the value of goods and services. If the real output (Q) does not decrease, then the price level (P) will.) 					
	(b)	<ul style="list-style-type: none"> Explains in detail why real output will fall. The fall in export receipts will cause firms to reduce investment and employment in order to regain profit margins, and aggregate supply will fall, resulting in fall in real output. In order to maintain profit margins OR because of shortages, there will be an increase in price levels. A reduction in real output will put downward pressure on the value of goods and services in the economy. If the money supply (M) and velocity of circulation (V) do not change, then the funds available will not change but there are fewer goods to purchase. As a result, the price level (P) will rise. 					
Achievement with Excellence	(a) and (b)	<ul style="list-style-type: none"> Both detailed explanations are given for (a) and (b), referenced to Quantity Theory of Money equation. The decrease in real output caused by profitability OR shortages causes an increase in price level that compensates for the fall in price levels due to initial fall in export receipts. Thus, the initial fall in price level will be greater than the long-term fall. Alternatively – shift of resources from dairy industry to an alternative (export) industry will mean that, in the long run, the fall in inflation will be smaller – but still needs to be referenced to Quantity Theory of Money and decreasing real output in the economy. 					
N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence, partial explanations.	Some Achievement evidence.	Most Achievement evidence. At least one explanation.	Nearly all Achievement evidence.	Some Merit evidence. One detailed explanation. With some reference to the model, but minor errors.	Most Merit evidence. One detailed explanation. With clear references to the model.	Some Excellence evidence. Compare and contrast. One part may be weaker.	Most Excellence evidence. Compare and contrast with detailed explanations.

Question THREE	Evidence	
Achievement	(a)	<ul style="list-style-type: none"> • Explains that an increase in price of early bird parking fees is an increase in a single product but is not an increase in inflation. Inflation is a sustained increase in the general price level (increase in the average price of goods and services in the economy OR many products OR description of what a basket of goods is when calculating the CPI). • The increase in house values has allowed households to borrow to purchase a range of other goods such as boats and house renovations; therefore, it directly affects many products / markets.
	(b)	<ul style="list-style-type: none"> • Explains the difference between inflation and disinflation (e.g. Inflation is an increase in the general level of prices, while disinflation is inflation at a lower rate than before.) • In periods of inflation, there will be a decrease in savings as the purchasing power (real value) of the savings decreases, motivating consumption rather than savings. (OR inflation leads to relatively low real interest rates and, therefore, is a disincentive to save.) • In periods of disinflation, there may be an increase in savings because the purchasing power (real value) of the savings is eroded less. (OR lower levels of inflation will result in higher real interest rates and provide a greater incentive to save.) • In periods of inflation, there will be an improvement in the Government operating balance as government revenue increases. • In periods of inflation, there will be an improvement in the Government operating balance as government spending falls. • In periods of disinflation, there will be a worsening in the Government operating balance as government revenue falls. • In periods of disinflation, there will be a worsening in the Government operating balance as government spending increases.
Achievement with Merit	(a)	<ul style="list-style-type: none"> • Gives a detailed explanation that the willingness and ability to borrow to purchase on credit a range of goods such as boats, cars, and home renovations will cause an increase in price level of several markets and, therefore, inflation, which is an increase in all markets, on average. The increase in early bird parking fees is only a single product and has no impact on other goods and service markets. (OR an answer that refers to the Wealth Effect and its impact on consumer confidence, consumption spending, and, therefore, AD leading to inflation OR an answer that reflects the significance of house values and parking fees on the CPI by commenting on their relative weightings.)
	(b)	<ul style="list-style-type: none"> • In periods of inflation, there will be a decrease in savings as the purchasing power (real value) of the savings decreases. The impact of inflation is that the purchasing power is eroded, motivating consumption rather than savings, and this will stimulate the economy. • In periods of disinflation, there may be an increase in savings even though the purchasing power (real value) of the savings decreases. The impact of slower inflation is that the purchasing power is eroded less, motivating savings, and this is likely to lead to a reduction in economic stimulus. • In periods of inflation, there will be an improvement in the Government operating balance as government revenue increases. Inflation causes income tax revenue and/or consumption tax revenue to increase, OR there will be an improvement in the Government operating balance as government spending decreases as the Government decreases welfare spending OR no longer compensates as household spending on items such as health, housing, and education can be taken out of their own income. • In periods of disinflation, there will be a worsening in the Government operating balance as government revenue falls. Disinflation causes growth in income tax revenue and/or consumption tax revenue to fall relative to spending, OR there will be a worsening in the Government operating balance as government spending increases as the Government increases welfare spending OR compensates for falling household spending on items such as health, housing, and education.

Achievement with Excellence	(b)	<ul style="list-style-type: none"> Explains that in periods of inflation, there will be a decrease in savings as the purchasing power (real value) of the savings decreases. The impact of inflation is that the purchasing power is eroded, motivating consumption rather than savings, and this will stimulate the economy AND In periods of disinflation, there may be an increase in savings even though the purchasing power (real value) of the savings decreases. The impact of slower increasing inflation is that the purchasing power is eroded less, motivating savings, and this is likely to lead to a reduction in economic stimulus. In periods of inflation, there will be an improvement in the Government operating balance as government revenue increases. Inflation causes income tax revenue and/or consumption tax revenue to increase OR there will be an improvement in the Government operating balance as government spending decreases as the Government decreases welfare spending OR no longer compensates as household spending on items such as health, housing, and education can be taken out of their own income. AND In periods of disinflation there will be a worsening in the Government operating balance as government revenue falls. Disinflation causes growth in income tax revenue and/or consumption tax revenue to fall relative to spending OR there will be a worsening in the Government operating balance as government spending increases as the Government increases welfare spending OR compensates for falling household spending on items such as health, housing, and education. <p>Note: Alternatively, the candidate may use the idea of deficits and surpluses in the Government operating balance, and correctly explain in depth the nominal trend of these terms.</p>					
	N1	N2	A3	A4	M5	M6	E7
Very little Achievement evidence, partial explanations.	Some Achievement evidence.	Most Achievement evidence. At least one explanation.	Nearly all Achievement evidence.	Some Merit evidence. Any TWO detailed explanations.	Most Merit evidence. (a), and (b) with savers OR the Government.	Some Excellence evidence. Detailed explanations of effects on both savers and the Government's operating balance. One part may be weaker.	Most Excellence evidence. Compare and contrast all of (b).

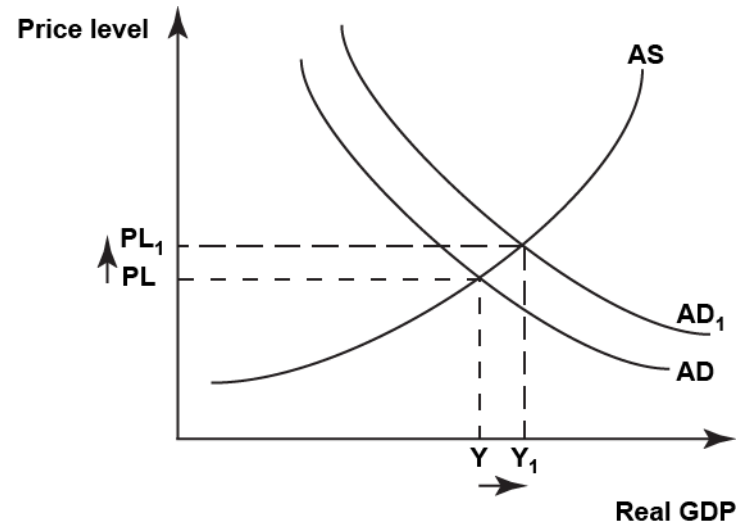
N0 = No response; no relevant evidence.

Cut Scores

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

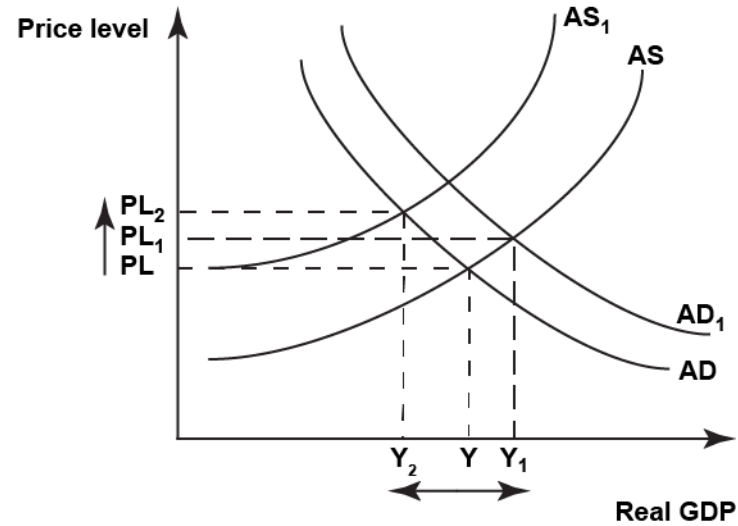
Appendix One – Question One (a)

Graph One: AD / AS model of New Zealand economy



Appendix Two – Question One (b)

Graph Two: AD / AS model of New Zealand economy



Note: Shift of AD to AD₁ not necessary on Graph Two as long as explanation includes appropriate reference to Graph One. When comparing the two graphs, the shift of AS and the resulting impact on Price level axis should be greater than shown on Graph One.