

Assessment Schedule – 2016**Economics: Demonstrate understanding of macro-economic influences on the New Zealand economy (91403)****Assessment criteria**

Achievement	Achievement with Merit	Achievement with Excellence
<p><i>Demonstrate understanding</i> involves:</p> <ul style="list-style-type: none"> • providing an explanation of the current state of the New Zealand economy in relation to macro-economic goals • identifying, defining, calculating, and describing or providing an explanation of macro-economic influences on the New Zealand economy • using an economic model(s) to illustrate concepts relating to macro-economic influences on the New Zealand economy. 	<p><i>Demonstrate in-depth understanding</i> involves:</p> <ul style="list-style-type: none"> • providing a detailed explanation of macro-economic influences on the New Zealand economy • using an economic model(s) to illustrate complex concepts and /or support detailed explanations of macro-economic influences on the New Zealand economy. 	<p><i>Demonstrate comprehensive understanding</i> involves:</p> <ul style="list-style-type: none"> • comparing and /or contrasting: <ul style="list-style-type: none"> – the effectiveness of one government policy in achieving different macro-economic goals and /or the effectiveness of different government policies in achieving one macro-economic goal – the impacts of one macro-economic influence on the New Zealand economy in relation to different macro-economic goals and /or the impacts of different macro-economic influences on the New Zealand economy in relation to one macro-economic goal • integrating an economic model(s) into explanations of macro-economic influences on the New Zealand economy that compares and /or contrasts the impacts on macro-economic goal(s).

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

Note: *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).

Question One	Sample answers / Evidence
(a)	See Appendix One .
(b)	See Appendix Two .
(c)	<p>The New Zealand dollar would depreciate to P_1 because:</p> <p>Lower interest rates would make foreign investment in New Zealand less attractive because of lower returns, so the demand for the New Zealand dollar would decrease from $D_{\\$NZ}$ to $D_{\\$NZ1}$.</p> <p>Lower interest rates would encourage New Zealand investors to invest more overseas, as returns in New Zealand become less attractive relative to returns overseas. Hence, the supply of the New Zealand dollar would increase from $S_{\\$NZ}$ to $S_{\\$NZ1}$.</p> <p>AD would increase from AD to AD_1 because:</p> <p>A cut in the Official Cash Rate (OCR) would lower retail interest rates for borrowing and savings.</p> <p>Consumption would increase, as the cost of borrowing has decreased (e.g. on mortgages) and the return on savings has decreased.</p> <p>Investment would increase, as the cost of borrowing for firms wanting to invest has declined.</p> <p>Net exports would increase, as the New Zealand dollar would depreciate because of the reduction in demand and increase in supply for the New Zealand dollar. This would make exports more price competitive and imports less price competitive.</p> <p>AS would decrease from AS to AS_1 because:</p> <p>The depreciation of the New Zealand dollar would increase the cost of importing materials for firms, increasing their costs of production and reducing their profit margins.</p> <p>Reducing the OCR should be effective in achieving growth, as the increase in AD should be larger than the decrease in AS because several components of AD are increasing. Hence, there would be an increase in real GDP from Y to Y_1.</p> <p>OR</p> <p>Reducing the OCR would not be effective in achieving growth, as the decrease in AS would offset the increase in AD, resulting in little or no increases in real GDP.</p> <p>Reducing the OCR would be effective in achieving price stability if the increase in AD and decrease in AS result in an increase in the price level to PL_1, raising the rate of inflation to within the 1–3% target, e.g. 2%, as stated in the resource material.</p> <p>OR</p> <p>Reducing the OCR would not be effective in achieving price stability, as both the increase in AD and the decrease in AS would add to inflationary pressures, increasing the price level significantly from PL to PL_1 and raising the inflation rate to above the 1–3% target.</p>

Achievement		Achievement with Merit			Achievement with Excellence		
<p>(a) On Graph One:</p> <ul style="list-style-type: none"> • $D_{\\$NZ}$ shifted left • $S_{\\$NZ}$ shifted right • new value of New Zealand dollar labelled. <p>(b) On Graph Two:</p> <ul style="list-style-type: none"> • AD shifted right • AS curve shifted left • new price level and real GDP labelled. <p>(c) Explains:</p> <ul style="list-style-type: none"> • New Zealand dollar would depreciate with reference to demand decreasing OR supply increasing for the New Zealand dollar. • AD increases with reference to ONE component of AD increasing (C, I or X–M) • AS decreases with reference to costs increasing for firms. 		<p>(c) Explains in detail:</p> <ul style="list-style-type: none"> • New Zealand dollar would depreciate with reference to demand decreasing OR supply increasing for the New Zealand dollar. Must explain why demand or supply of the New Zealand dollar changes. • AD increases with reference to TWO components of AD increasing. Must explain why each component increases. • AS decreases with reference to costs increasing for firms. Must explain why costs of production increase for firms. • The effectiveness of a cut in OCR in achieving growth. Must refer to the relative size of the shifts in AD and AS <p>OR</p> <p>The effectiveness of a cut in OCR in achieving price stability. Must refer to the shifts in AD and AS OR PL increase brings into/beyond the 1–3% target.</p>			<p>(c) Explains in detail:</p> <ul style="list-style-type: none"> • New Zealand dollar would depreciate. • AD increases. • AS decreases. • The effectiveness of a cut in OCR in achieving growth. Must refer to the relative size of the shifts in AD and AS <p>AND</p> <p>The effectiveness of a cut in OCR in achieving price stability. Must refer to the shifts in AD and AS AND the 1–3% target.</p>		
N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanations.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence. Must refer to Graph One OR Graph Two.	Most Merit evidence. Must refer to Graph One AND Graph Two.	Excellence evidence. One part may be weaker AND integrates relevant information from both graphs into the explanation.	All points covered. AND integrates relevant information from both graphs into the explanation.
N0 No response; no relevant evidence							

Question Two	Sample answers / Evidence		
(a)	An increase in the Terms of Trade could improve the current account balance because the increase in the ToT would have been caused by export prices increasing relative to import prices (or import prices declining relative to export prices). Assuming that quantities traded don't change significantly, this would increase the export receipts flow relative to the import payments flow (or reduce import payments relative to export receipts).		
(b)	A depreciation of the New Zealand dollar could improve the current account balance because: <ul style="list-style-type: none"> • exports would become more price competitive, so the demand for exports would increase, increasing exports and the export receipts flows • imports would become less price competitive, reducing the demand for imports, reducing imports and the import payment flows. 		
(c)	A depreciation would more likely have the greater impact on the current account balance because: <ul style="list-style-type: none"> • e.g. the increase in the Terms of Trade would increase only the balance on goods, whereas a depreciation would increase the balance on goods and the balance on services, so more components of the current account would be affected in a positive way OR <ul style="list-style-type: none"> • e.g. a depreciation may increase export receipts and reduce import payments, whereas an increase in the terms of trade caused by an increase in export prices (with import prices constant) will increase only export receipts. 		
Achievement	Achievement with Merit	Achievement with Excellence	
(a) Explains: <ul style="list-style-type: none"> • An increase in the Terms of Trade could improve the current account balance because of export prices increasing OR import prices decreasing. • An increase in the Terms of Trade could improve the current account balance because of increased export receipts OR less import payments. (b) Explains: <ul style="list-style-type: none"> • A depreciation could improve the current account balance because of more exports OR more export receipts. • A depreciation could improve the current account because of fewer imports OR lower import payments. 	(a) Explains in detail: <ul style="list-style-type: none"> • An increase in the Terms of Trade could improve the current account balance because of export prices increasing and, therefore, more export receipts. • An increase in the Terms of Trade could improve the current account balance because of import prices decreasing, and, therefore, less import payments. (b) Explains in detail: <ul style="list-style-type: none"> • A depreciation could improve the current account because of more exports/ export receipts. Must give a valid reason for exports increasing. • A depreciation could improve the current account because of fewer imports/ import payment. Must give a valid reason for imports decreasing. 	(a) Explains in detail that an increase in the Terms of Trade could improve the current account balance. (b) Explains in detail that a depreciation could improve the current account balance. (c) Explains that a depreciation would more likely have the greater impact on the current account balance. Must give a valid reason for the depreciation having the greater impact. Note: An increase in the Terms of Trade having the greater impact is acceptable if valid reason is given.	

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanations.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence. Must refer to Model One.	Most Merit evidence. Both parts in (a) OR (b) Must refer to Model One.	Excellence evidence. One part may be weaker AND integrates relevant information from Model One into the explanation.	All points covered. AND integrates relevant information from Model One into the explanation.
N0 No response; no relevant evidence							

Question Three	Sample answers/Evidence
(a)	Real GDP would increase by \$133.33 billion ($\$40 \text{ billion} \times (1 \div 0.3)$). This would happen as the increased spending by consumers and businesses would be income for others, which would be spent creating more demand, output and income, which would be spent, etc.
(b)	See Appendix Three .
(c)	<p>Government spending on the Christchurch earthquake recovery would increase real GDP because:</p> <p>Consumption would increase in the economy because firms would need to employ more workers to fix the roads, repair the schools etc. This would increase incomes which would be spent. Insurance pay-outs would also be spent.</p> <p>Investment would increase because firms would need to buy more capital goods to complete the building projects and the repairs.</p> <p>As C and I are increasing, AD would increase to AD₁, increasing real GDP from Y to Y₁.</p> <p>Unemployment would decline because more workers would be needed for building projects and repairs. Also, the increase in output because of more AD would create jobs to meet the extra demand.</p> <p>Government spending would be effective in achieving the goal of growth for the New Zealand economy because the Canterbury region contributes a significant amount to the nation's economy (as indicated in the resource material), so the increase in real GDP because of the increase in AD would be significant for the whole economy; also, the effect of the multiplier would result in more long-term growth in the economy.</p> <p>(Also accept explanation that it would not be effective if justified correctly and reference made to the multiplier, e.g. even though there is a multiplied increase in real GDP, the increase may be focused in only Christchurch/Canterbury, and so the growth for New Zealand may not be significant.)</p> <p>Government spending may be less effective in achieving the goal of full employment because the job creation would be focused in Christchurch/Canterbury and so may not have a significant impact on New Zealand's overall unemployment rate.</p> <p>(Also accept explanation that it would be effective for full employment if justified correctly, e.g. by reference to the multiplier.)</p>

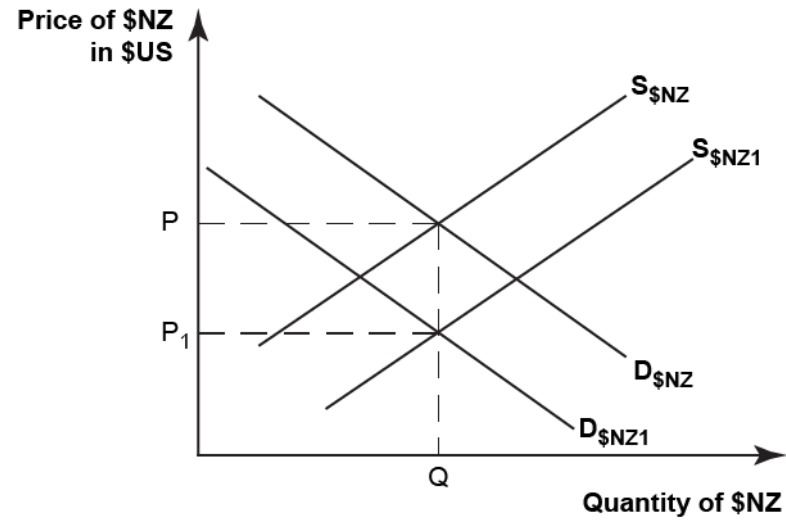
Achievement		Achievement with Merit			Achievement with Excellence		
<p>(a) • Increase in real GDP calculated.</p> <ul style="list-style-type: none"> Explains that real GDP would increase by \$133.33 billion as the increased spending of \$40 billion would result in additional increases of output. <p>(b) AD shifted to the right. Increase in price level and real GDP labelled.</p> <p>(c) Explains:</p> <ul style="list-style-type: none"> Real GDP increases because of G OR C OR I OR AD and hence real GDP increasing. Unemployment declines because of more being produced. 		<p>(a) Explains in detail real GDP would increase by \$133.33 billion. Must explain how the increased spending of \$40 billion would result in additional increases in output, with idea of spending creating income for others.</p> <p>(c) Explains in detail:</p> <ul style="list-style-type: none"> Real GDP increases because of C or I AND AD and hence real GDP increasing. Must explain why C or I increases. Unemployment declines because of more being produced. Must explain the link between increased output and more jobs (concept of derived demand). The effectiveness of Government spending in achieving growth. <p>OR</p> <p>The effectiveness of Government spending in achieving full employment.</p> <p>Must refer to the multiplier in at least one of the effectiveness explanations.</p>			<p>(c) Explains in detail:</p> <ul style="list-style-type: none"> Real GDP increases. Unemployment decreases. The effectiveness of Government spending in achieving growth <p>AND</p> <p>The effectiveness of Government spending in achieving full employment.</p> <p>Must refer to the multiplier in at least one of the effectiveness explanations.</p>		
N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanations.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence. Must refer to Graph Three and multiplier in (c).	Excellence evidence. One part may be weaker AND integrates relevant information from Graph Three into the explanation.	All points covered. AND integrates relevant information from Graph Three into the explanation.
N0 No response; no relevant evidence							

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 6	7 – 13	14 – 18	19 – 24

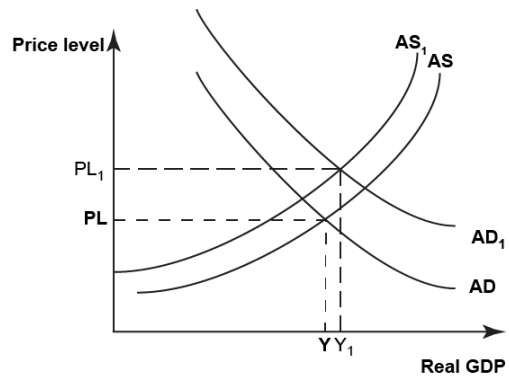
Appendix One – Question One (a)

Graph One: The market for the New Zealand dollar



Appendix Two – Question One (b)

Graph Two: The New Zealand economy



Appendix Three – Question Three (b)

Graph Three: The New Zealand economy

