Assessment Schedule – 2017

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

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding involves: • 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. *Explanation* involves giving a reason for the answer.	*Demonstrate in-depth understanding* involves: • 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. *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).	*Demonstrate comprehensive understanding* involves analysing: • 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.

Cut Scores

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

Evidence

Question	Achievement	Achievement with Merit	Achievement with Excellence
ONE			
(a)	• Illustrates and labels an increase in AD (*see Appendix*). • Explains that an increase in government spending will cause an increase in aggregate demand, resulting in an increase in inflation *OR* Explains that an increase in export receipts from tourism will increase aggregate demand, resulting in an increase in inflation.	• Fully explains that an increase in government spending will cause an increase in aggregate demand, resulting in an increase in inflation *AND* Fully explains that an increase in export receipts from tourism will increase aggregate demand, resulting in an increase in inflation, with a reference to the graph that price levels will increase from **PL** to **PL_1**.	• Fully explains why there is an increase in aggregate demand curve / demand pull inflation
(b)	• Illustrates and labels a decrease in AS *(see Appendix).* • Explains that the increase in costs of production (through either price or rental costs of commercial property) will cause a decrease in aggregate supply (shift to the left), resulting in an increase in inflation.	• Fully explains that the increased price of commercial property and / or the increased rental costs would increase the costs of production for firms, causing the aggregate supply curve to decrease (at each price level). To maintain profitability levels, firms would need to increase their prices, causing an increase in the price level from **PL** to **PL_2**, which is an increase in inflation.	*AND* Fully explains why there is a decrease in aggregate supply / cost push inflation *AND* Fully explains that business rental costs and the price of commercial property affects all / a majority of businesses in New Zealand, so the increase in inflation / price level **PL** to **PL_2**, will be larger than the increase in inflation / price level **PL** to **PL_1** caused by the increased government spending and export receipts increasing aggregate demand, which affects a smaller number of firms.

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

N0 = No response; no relevant evidence.

Question	Achievement	Achievement with Merit	Achievement with Excellence
TWO			
(a)	• Illustrates and labels a shift to the right of the AD curve *(see Appendix).* • Explains the shift to the right / increase of the AD curve. The reasons can be (but not limited to) increase in consumption or investment or export receipts.	• Fully explains how a recovery may cause inflation, using AD/AS model, e.g.: - A recovery may lead to a period of inflation because during a recovery, consumers and firms have more confidence and this leads to an increase in consumption (C) and investment (I). C and I are components of AD; Aggregate Demand would increase (reference **AD** to $\mathbf{AD_1}$). The shift to the right of AD results in the price level increasing (**PL** to $\mathbf{PL_1}$), which is inflation.	
(b)	Explains that: • NZ export firms would be worse off because their prices would be less competitive in the international market. • NZ import firms would be better off because their prices would be more competitive in the New Zealand market. • savers would be worse off because the value of their savings would be eroded by inflation. • borrowers would be better off because the value of their debt would be eroded by inflation. *Note: The question is about the effect of inflation, not exchange rates or interest rates, which have not changed in the question.*	Fully explains that • NZ export firms would be worse off because their prices would be less competitive in the international market, reducing revenue / sales / profits / investment / business may contract *AND* NZ import firms would be better off because their prices would be more competitive in the New Zealand market, leading to increased sales / revenue / profits / investment / expansion. • savers would be worse off because the value of their savings would be eroded by inflation, decreasing their purchasing power *AND* borrowers would be better off because the value of their debt would be eroded by inflation, and their past debt paid back in current dollars would be less.	• Fully explains that: NZ export firms would be worse off because their prices would be less competitive in the international market, reducing revenue / sales / profits / investment / business may contract *AND* NZ import firms would be better off because their prices would be more competitive in the New Zealand market, leading to increased sales / revenue / profits / investment / expansion. (This may result in the transfer of capital / workers from export firms to import firms.) *AND* savers would be worse off because the value of their savings would be eroded by inflation, decreasing their purchasing power *AND* borrowers would be better off as the value of their debt would be eroded by inflation, and their past debt paid back in current dollars would be less. (This may discourage savings and encourage more borrowing.)

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

N0 = No response; no relevant evidence.

<table>
<tr><th>Question</th><th>Achievement</th><th>Achievement with Merit</th><th>Achievement with Excellence</th></tr>
<tr><td>THREE</td><td></td><td></td><td></td></tr>
<tr><td>(a)</td><td>• Defines nominal wages and / or real wages.

• Explains that if the inflation rate were higher than the wage increase, then real wages would fall.</td><td>• Fully explains that:
the nominal wages are the current dollar value of wages received. This current dollar is eroded by inflation.

if the rate of inflation were greater than the increase in current dollars received, then real wages would have fallen and the worker would have less purchasing power even though his or her wages had increased.</td><td></td></tr>
<tr><td>(b)</td><td>Explains that:
• different household groups experience different rates of inflation because they purchase different items compared to the national average

• superannuitants would experience a fall in their standard of living if their rate of inflation experienced were greater than either the national average or the top 20% of households by expenditure.
• the top 20% of households by expenditure would experience an increase in their standard of living if their rate of inflation experienced were less than either the national average or the superannuitants.</td><td>Fully explains that:
• the goods and services purchased by different household groups contain different goods and services in their weighted household spending basket (or the weighting of these goods and services) than the basket that is used to calculate the national average or consumer price index (examples of figures quoted from table).

superannuitants would experience a fall in their standard of living relative to the top 20% of households by expenditure, because their rate of inflation (reference a figure from table) experienced would be greater than the inflation rate experienced by top 20% of households by expenditure (reference a figure from table)
OR
since the superannuitants had experienced a higher rate of inflation (figure referenced) than the national rate of inflation, they would be worse off in terms of their standard of living. At the same time, the top 20% of households by expenditure would have experienced a rate of inflation (figure from table) lower than the national rate of inflation, so they would be better off in terms of their standard of living. This implies that superannuitants would be worse off than the top 20% of households by expenditure.</td><td>Fully explains that:
• the goods and services purchased by different household groups contain different goods and services in their weighted household spending basket (or the weighting of these goods and services) than the basket that is used to calculate the national average or consumer price index.

superannuitants would experience a fall in their standard of living relative to the top 20% of households by expenditure, because their rate of inflation (reference a figure from table) experienced would be greater than the inflation rate experienced by top 20% of households by expenditure (reference a figure from table)
OR
since the superannuitants had experienced a greater rate of inflation (figure referenced) than the national rate of inflation, they would be worse off in terms of their standard of living. At the same time, the top 20% of households by expenditure would have experienced a rate of inflation (figure from table) lower than the national rate of inflation, so they would be better off in terms of their standard of living. This implies that superannuitants would be worse off than the top 20 of households by expenditure, as a result of the different items they purchased.</td></tr>
</table>

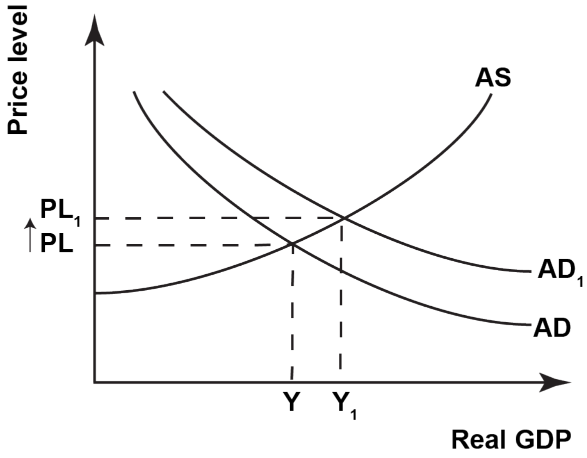
N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanation.	Some Achievement evidence.	Most Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Excellence evidence, one part may be weaker.	Most Excellence points covered.

N0 = No response; no relevant evidence.

Appendix: Graphs

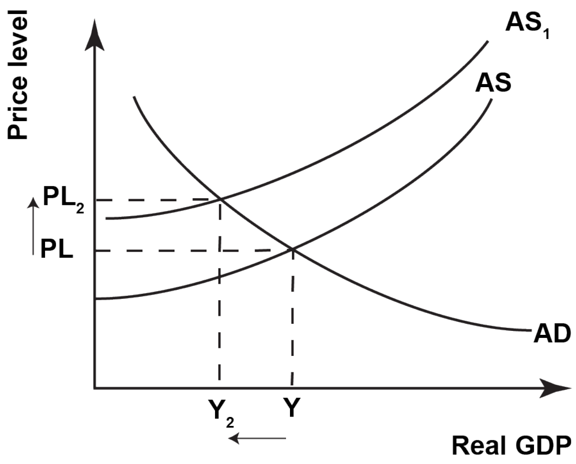
Question One (a)

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



Question One (b)

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



Question Two (a)

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