Assessment Schedule – 2018

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

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding involves: • 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. *Explanation* involves giving a reason for the answer.	*Demonstrate in-depth understanding* involves: • 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. *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: • comparing and / or contrasting: - 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).

Cut Scores

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

Question	Sample answers / Evidence
ONE (a)	A tight monetary policy involves the Reserve Bank increasing the Official Cash Rate (OCR). This would increase retail interest rates, which would: • reduce the **consumption spending flow** because of the **savings flow** increasing, since consumers would save more of their income because of greater returns, so less income would be available to spend. The cost of borrowing and floating mortgage payments would also increase • reduce the **investment flow** because the cost of borrowing for investment for firms would have increased so they would purchase fewer capital goods • reduce the **export receipts flow** because increased interest rates would increase the demand for the NZD and reduce the supply of the NZD, appreciating the exchange rate and making exports less price competitive (or foreign currency earned is exchanged for less New Zealand dollars). • increase the **import payments flow** because imports would be more price competitive because of the appreciating NZD.
(b)	See **Appendix One**.
(c)	Inflation will decrease because of declines in consumption, investment, and net exports. These are all components of aggregate demand, so AD would shift to the left (**AD** to **AD_1**). The appreciation of the NZD would also increase aggregate supply because of the cost of imported material declining, so AS would shift to the right (**AS** to **AS_1**), since producing goods becomes more profitable at each price. Hence, there would be a decrease in the price level, from **PL** to **PL_1**. A tight monetary policy would be more effective in achieving price stability because the combined decrease in AD and increase in AS would result in a significant decrease in the price level, so the inflation rate would be more likely to be within the 1–3% range. However, this policy would be unlikely to help achieve full employment because the impact of an increase in AS due to the NZD appreciating would be more than offset by the impact of the reduction in AD due to C, I, and (X–M) declining. Hence, there would be a reduction in real GDP (**Y** to **Y_1**), so fewer workers would be needed because of less being produced in the economy. Hence, employment would decrease OR The impact of an increase in AS would be cancelled out by the decrease in AD, so real GDP would stay at Y, so the level of employment would not increase because the same amount would be produced. OR Some of the impact of an increase in AS would be offset by the decrease in AD, so real GDP might increase only a small amount, so the level of employment would not significantly increase, since not many more workers would be required to produce the extra output.

Achievement	Achievement with Merit	Achievement with Excellence
(a) Explains: • Consumption flows would decrease, with a valid reason given • Investment flows would decrease, with a valid reason given • Export receipts would decrease OR import payments flow would increase, with a valid reason given. (b) AD curve shifted left and AS curve shifted right. Change in price level and real GDP clearly labelled. (c) Explains: • AD decreases with reference to TWO of C,I, X increasing or M decreasing • AS increases with reference to cost decreasing for firms • Tight monetary policy more likely to achieve price stability as the price level decreases because of AD decreasing OR AS increasing • Tight monetary policy unlikely to achieve full employment because of real GDP decreasing.	(a) Explains in detail: • Consumption AND investment flows would decrease, with a valid reason • Export receipts flow would decrease AND import payments flow would increase, with a valid reason given. (c) Explains in detail: • AD decreases with reference to THREE of C, I, X increasing or M decreasing • AS increases with reference to cost decreasing for firms. Must give a reason for costs decreasing for firms • Tight monetary policy more likely to achieve price stability as the price level decreases because of AD decreasing AND AS increasing **OR** Tight monetary policy unlikely to achieve full employment because of real GDP decreasing, so fewer workers needed because of less being produced.	(a) Explains in detail: • Consumption AND investment flows would decrease, with a valid reason • Export receipts flow would decrease AND import payments flow would increase, with a valid reason given. (c) Explains in detail: • AD decreases with reference to THREE of C, I, X increasing or M decreasing • AS increases with reference to cost decreasing for firms. Must give a reason for costs decreasing for firms • Tight monetary policy more likely to achieve price stability as the price level decreases because of AD decreasing AND AS increasing **AND** Tight monetary policy unlikely to achieve full employment because of real GDP decreasing, so fewer workers needed because of less being produced.

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 or Graph One	Most Merit evidence. Must refer to Model One or Graph One.	Excellence evidence. One part may be weaker AND integrates relevant information from both Model One and Graph One into the explanation.	All points covered AND integrates relevant information from both Model One and Graph One into the explanation.

N0 = No response; no relevant evidence.

Question	Sample answers/Evidence
TWO (a)	(i) See **Appendix Two**. (ii) Increased spending on imports would reduce aggregate demand because it would decrease net exports (X–M), which is a component of aggregate demand. Increased spending might also lead to a decrease in consumption if consumers reduced spending on New Zealand-made goods to finance their spending on imported goods. Because of the decrease in AD, real GDP would decline from **Y** to **Y_1**.
(b)	The formula for the multiplier is 1/(1–MPC). An increase in the willingness to spend income on imports would reduce the multiplier because the marginal propensity to consume New Zealand-made goods (MPC) would decline. This would increase (1–MPC) so 1/(1–MPC) would decline.
(c)	Increased consumer confidence means consumers are feeling more confident about their future job and income prospects and so they may increase their spending. Increased consumption would increase aggregate demand, hence increasing real GDP and growth because more is produced to meet the extra demand. The overall impact on growth of increased consumer confidence and increased spending on imported goods would be **negative** because some consumers who are feeling more confident might choose to spend more on imported goods rather than New Zealand-made goods. Hence, the increase in AD might not be significant compared to the decrease in AD from increased spending on imports (**AD** to **AD_1** in Graph Two). Hence, AD and real GDP might decline. Also, because of the decrease in the multiplier, additional increases in real GDP due to consumers and producers spending extra income generated may not be significant. OR The overall impact on growth of increased consumer confidence and increased spending on imported goods would be **positive** because consumption would be a much bigger component of AD than imports. Hence, if more confident consumers increased consumption of New Zealand-made goods, then the increase in AD due to C increasing would be greater than the decrease in AD due to M increasing. Even though the multiplier would have declined, there would be significant further increases in real GDP from increased consumer spending as the income generated from additional spending is spent. Hence, AD and real GDP would increase.

Achievement	Achievement with Merit	Achievement with Excellence
(a) (i) AD shifted to the left and decline in real GDP labelled. (ii) Explains that increased spending on imports will reduce real GDP because of a decrease in AD. (b) Formula for multiplier identified OR explains in detail that the multiplier will decrease, with a valid reason given. (c) • Explains that an increase in consumer confidence would increase growth because of C and AD increasing. • Explains that the overall impact on growth would be **negative** because the increase in AD from increased consumer confidence would be less than the decrease in AD from increased spending on imports. **OR** Explains that the overall impact on growth would be **positive** because the increase in AD from increased consumer confidence would be greater than the decrease in AD from increased spending on imports.	(a)(ii) Explains in detail that increased spending on imports will reduce real GDP due to a decrease in AD. Must give a valid reason for AD decreasing. (b) Formula for multiplier identified AND explains in detail that the multiplier will decrease, with a valid reason given. (c) • Explains in detail that an increase in consumer confidence will increase growth due to C and AD increasing. Must give a reason for C increasing. **OR** • Explains in detail that the overall impact on growth would be **negative** because the increase in AD from increased consumer confidence would be less than the decrease in AD from increased spending on imports. Must give a valid reason for why the decrease in AD from increased spending on imports would be greater. **OR** Explains in detail that the overall impact on growth would be **positive** because the increase in AD from increased consumer confidence would be greater than the decrease in AD from increased spending on imports. Must give a valid reason for why the increase in AD from increased consumer confidence would be greater.	(a)(ii) Explains in detail that increased spending on imports will reduce real GDP due to a decrease in AD. Must give a valid reason for AD decreasing. (b) Formula for multiplier identified AND explains in detail that the multiplier will decrease, with a valid reason given. (c) • Explains in detail that an increase in consumer confidence will increase growth due to C and AD increasing. Must give a reason for C increasing **AND** • Explains in detail that the overall impact on growth would be **negative** because the increase in AD from increased consumer confidence would be less than the decrease in AD from increased spending on imports. Must give a valid reason for why the decrease in AD from increased spending on imports would be greater AND refer to the multiplier. **OR** • Explains in detail that the overall impact on growth would be **positive** because the increase in AD from increased consumer confidence would be greater than the decrease in AD from increased spending on imports. Must give a valid reason for why the increase in AD from increased consumer confidence would be greater.

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.	Excellence evidence. One part may be weaker AND integrates relevant information from Graph Two into the explanation.	All points covered AND integrates relevant information from Graph Two into the explanation.

N0 = No response; no relevant evidence.

Question	Sample answers / Evidence
THREE (a)	(i) See **Appendix Three**. (ii) The exchange rate intervention would result in a depreciation of the NZD because of the increased supply pushing the value of the NZD down from **P** to **P_1**. The depreciation of the NZD would mean that less of our trading partners' currencies would be required to buy each NZD, resulting in NZ exports such as dairy products becoming more price competitive, hence increasing the demand for our exports and increasing export receipts. On the other hand, imports of goods would become less price competitive because more NZ dollars would be required to purchase foreign currency and pay for imports, so demand for imports would decrease, reducing import payments. Hence, the Balance on Goods would improve because export receipts would be increasing and import payments would be decreasing.
(b)	(i) See **Appendix Four**. (ii) The price level would increase from **PL** to **PL_1**. As explained earlier, the depreciation of the NZD would lead to an increase in export earnings relative to import payments, meaning net exports (X–M) would increase. Because (X–M) is a component of aggregate demand, AD would increase, shifting it to the right (from **AD** to **AD_1**). The depreciation of the NZD would also decrease aggregate supply because the cost of imported materials would increase, increasing firms' cost of production, so AS would shift to the left (from **AS** to **AS_1**). The exchange rate intervention would be inflationary. (iii) The exchange rate intervention would not help the Government achieve its inflation range for price stability, which is defined as 1–3% p.a. on average over the medium term. This is because the increase in AD, combined with the decrease in AS would result in a significant increase in the price level (**PL** to **PL_1**) and could move inflation to beyond the 1–3% range OR the exchange rate intervention could help the Government achieve its inflation target for price stability if the current rate is below 1%, as the combined increase in AD and decrease in AS could increase inflation to within the 1–3% range. The exchange rate intervention would have a positive impact on the goal of a balanced current account because it would increase the Balance on Goods, which is a component of the Current Account, and reduce the Current Account deficit. As well as goods, services exports such as tourism would also be more price competitive, and import of services such as overseas travel would be less price competitive and more expensive for Kiwis. Hence, export service receipts would increase and import service payments would decrease, increasing the balance on services and improving the Current Account balance. Increased inflation in New Zealand would mean that prices in New Zealand would be relatively higher than the rest of the world, making our exports less price competitive. In the long run, this would result in a reduction in the demand for our exports, causing our export receipts to fall. New Zealand consumers and firms would increase their demand for imports because imports would be relatively cheaper than New Zealand-made goods/alternatives, leading to an increase in import payments. In the long run, this would worsen our Current Account balance.

Achievement	Achievement with Merit	Achievement with Excellence
(a) (i) S_{NZD} shifted to the right and fall in NZD labelled (ii) Explains that: • Intervention would result in a depreciation of the NZD because of the increased supply of NZD • The depreciation of the NZD means less of our trading partners' currencies are required to buy each NZD, meaning NZ exports become cheaper OR more NZD required to buy our trading partners' currencies meaning our imports become more expensive • Balance on Goods would improve because of demand for exports (or export receipts) increasing OR demand for imports (or import payments) decreasing.	(a)(ii) Explains in detail that a depreciation of the NZD means less of our trading partners' currencies are required to buy each NZD, making exports of goods more price competitive and / or making imports of goods more expensive, improving the balance on goods.	(a)(ii) Explains in detail that a depreciation of the NZD means less of our trading partners' currencies are required to buy each NZD, making exports of goods (e.g. dairy) more competitive, increasing demand, while making imports of goods more expensive decreasing demand for imports, improving the balance on goods. Must refer to resource material (dairy) and give valid reasons for export receipts increasing and import payments decreasing.

(b) (i) AD shifted to the right and AS shifted to the left. (ii) Explains that: • Price level increases because of AD increasing OR because of AS decreasing. (iii) Explains that: • the exchange rate intervention would not help achieve the inflation target of 1–3% p.a. over the medium-term target because of a significant increase in the price level, which may result in inflation increasing above 3% **OR** the exchange rate intervention could help the Government achieve its inflation target for price stability if the current rate is below 1%, as the combined increase in AD and decrease in AS could increase inflation to within the 1–3% range. The exchange rate intervention would be effective in achieving a balanced current account **because of** the improvement in balance on goods, which is a component of the Current Account OR explains that Current Account would worsen in the long run because of inflation.	(b)(ii) Explains in detail that: • Price level increases because of AD increasing as (X-M) increases AND because of AS decreasing as input costs increase Must give valid reason for AD increasing OR valid reason for AS decreasing. (b)(iii) Explains in detail that: • the exchange rate intervention would not help achieve the inflation target of 1–3% p.a. over the medium-term target because of significant increase in the price level, caused by the increase in AD and reduction in AS, which may result in inflation increasing above 3% **OR** the exchange rate intervention could help the Government achieve its inflation target for price stability if the current rate is below 1%, as the combined increase in AD and decrease in AS could increase inflation to within the 1–3% range. • the exchange rate intervention would be effective in achieving a balanced Current Account **because of** the improvement in balance on goods, which is a component of the Current Account AND the balance on services improving **because of** exports of services being more price competitive and imports of services being less price competitive • inflation would cause NZ exports to lose competitiveness, so demand for exports would decrease and so the	(b)(ii) Explains in detail that: • Price level increases because of AD increasing as (X-M) increases AND because of AS decreasing as input costs increase Must give valid reason for AD increasing AND valid reason for AS decreasing. (b)(iii) Explains in detail that: • the exchange rate intervention would not help achieve the inflation target of 1–3% p.a. over the medium-term target because of significant increase in the price level, caused by the increase in AD and reduction in AS, which may result in inflation increasing above 3% **OR** the exchange rate intervention could help the Government achieve its inflation target for price stability if the current rate is below 1%, as the combined increase in AD and decrease in AS could increase inflation to within the 1–3% range. • the exchange rate intervention would be effective in achieving a balanced current account **because of** the improvement in balance on goods, which is a component of the Current Account AND the balance on services improving **because of** exports of services being more price competitive and imports of services (e.g. overseas travel) being less price competitive • inflation would cause NZ exports to lose competitiveness, so demand for exports would decrease and so the

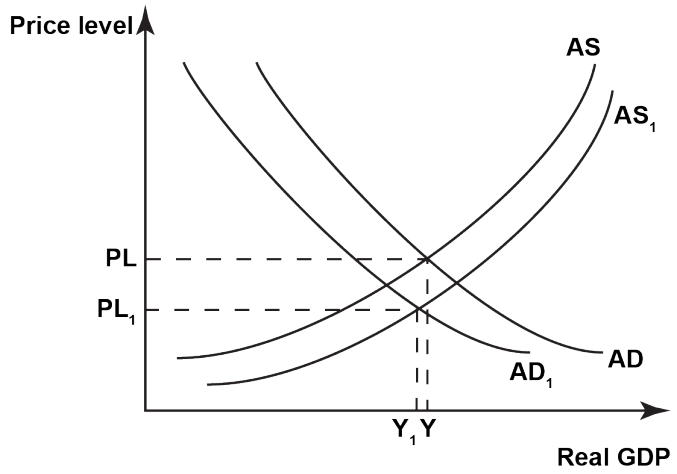
	Current Account would worsen in the long run **OR** inflation would mean imports are cheaper, so demand for imports would increase and so the Current Account would worsen in the long run. (Must give a valid reason for how the Current Account would worsen in the long run.)	Current Account would worsen in the long run **AND** inflation would mean imports are cheaper, so demand for imports would increase and so the Current Account would worsen in the long run. (Must give a valid reason for how the Current Account would worsen in the long run.)

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 Three or Four.	Most Merit evidence. Must refer to Graphs Three and Four.	Excellence evidence. One part may be weaker AND integrates relevant information from both graphs and from resource material into the explanation.	All points covered AND integrates relevant information from both graphs and from resource material into the explanation.

N0 = No response; no relevant evidence.

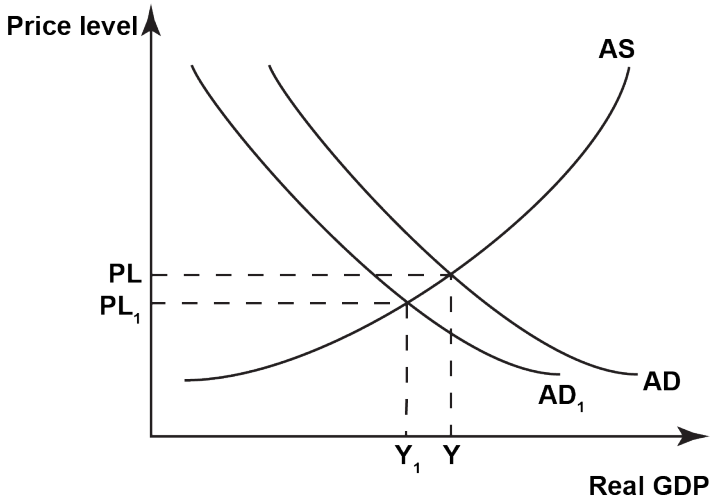
Appendix One – Question One (b)

Graph One: The New Zealand Economy



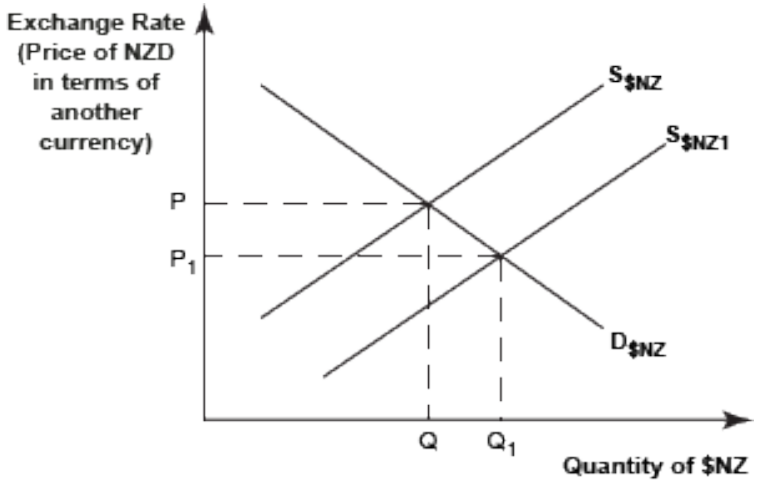
Appendix Two – Question Two (a) (i)

Graph Two: The New Zealand Economy



Appendix Three – Question Three (a) (i)

Graph Three: The market for the New Zealand Dollar



Appendix Four – Question Three (b) (i)

Graph Four: AD/AS Model of the New Zealand economy