Assessment Schedule – 2020

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

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrating **understanding** of macro-economic influences on the New Zealand economy involves:	Demonstrating **in-depth understanding** of macro-economic influences on the New Zealand economy involves:	Demonstrating **comprehensive understanding** of macro-economic influences on the New Zealand economy 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	• providing a detailed explanation of macro-economic influences on the New Zealand economy	• 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
• using an economic model(s) to illustrate concepts relating to 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.	• 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).

Evidence

Q1	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	**See Appendix.**	Decrease in AD, lower price level and real GDP labelled.		
(b)	A weakening of global activity is most likely to reduce aggregate demand (AD to AD_1 on Graph One), as exports will decline due to our trading partners spending less on NZ-made goods and services. A decline in exports will reduce net exports (X–M), which is a component of AD. Due to the decrease in AD there will be a decrease in the price level (PL to PL_1) and real GDP (Y to Y_1). As real GDP has decreased the recessionary gap will increase (RG to RG_1) as the difference between real GDP and the full employment level of real GDP has increased.	**Explains** that weakening global activity will: • reduce AD, price level and real GDP due to a decrease in exports (or net exports). • increase the RG due to a decrease in real GDP.	**Explains, in detail,** that weakening global activity will: • reduce AD, price level and real GDP due to a decrease in exports (or net exports), as NZ trading partners spend less on NZ goods and services (must have a valid reason for exports declining). • increase the RG due to a decrease in real GDP, which increases the gap between real GDP and Yf.	**Explains, in detail,** that weakening global activity will: • reduce AD, price level and real GDP due to a decrease in exports (or net exports), as NZ trading partners spend less on NZ goods and services (must have a valid reason for exports declining). • increase the RG due to a decrease in real GDP, which increases the gap between real GDP and Yf.
(c)	**See Appendix.**	$D_{\$NZD}$ shifted to the left, OR $S_{\$NZD}$ to the right, with a lower price of the NZ dollar labelled.		
(d)	Lowering the OCR will depreciate the dollar (P to P_1) on Graph Two. This is because retail interest rates will decline, which will make foreign investment in NZ less attractive due to lower returns, hence reducing the demand for the NZ dollar as less foreign currency will be exchanged for NZ currency ($D_{\$NZD}$ to $D_{1\$NZD}$). The supply of the NZ dollar will increase ($S_{\$NZD}$ to $S_{1\$NZ}$), as NZ investors will be exchanging more NZ currency for overseas currency to invest overseas, as investing in other countries becomes relatively more attractive compared to local investment.	**Explains** that the NZ dollar will depreciate because of: • a decrease in the demand for the NZ dollar as foreign investors invest less in NZ. • an increase in the supply of the NZ dollar as NZ investors invest more overseas.	**Explains, in detail**, that the NZ dollar will depreciate because of: • a decrease in the demand for the NZ dollar as foreign investors invest less in NZ, due to relatively lower returns in NZ. • an increase in the supply of the NZ dollar as NZ investors invest more overseas, due to relatively higher returns in other countries.	**Explains, in detail,** that the NZ dollar will depreciate because of: • a decrease in the demand for the NZ dollar as foreign investors invest less in NZ, due to relatively lower returns in NZ. • an increase in the supply of the NZ dollar as NZ investors invest more overseas, due to relatively higher returns in other countries.

Q1	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
	A depreciation of the NZ dollar should increase employment in NZ exporting industries as the demand for NZ exports increases when they become more price competitive. There will also be an increase in real GDP, so more workers will be employed in other sectors of the economy to produce extra output in the economy. The increase in real GDP is caused by an increase in AD as NZ exports become more price competitive and imports become less price competitive, increasing net exports (X–M). Lowering the OCR may be effective in reducing unemployment as, for example, the decline in interest rates will increase consumption and investment as well as net exports, because the cost of borrowing has decreased for firms and consumers. As there are three components of AD directly impacted by the OCR cut, the increase in AD will outweigh the decrease in AD caused by weakening global activity, which may only result in a significant decrease in one component of AD, i.e. X–M. Hence there will be an overall increase in real GDP and a significant decrease in unemployment. *Other responses possible.*	**Explains** that a depreciation will increase employment because of: • increases in NZ exports as exports become more price competitive, **OR** more workers needed in exporting industries. • increase in real GDP due to increases in AD as net exports increase.	**Explains, in detail,** that a depreciation will increase employment because of: • increases in NZ exports as exports become more price competitive **AND** so more workers needed in exporting industries. • increase in real GDP due to increases in AD as net exports increase, so more workers needed to produce more. (Must have idea of increased derived demand for labour).	**Explains, in detail,** that a depreciation will increase employment because of: • increases in NZ exports as exports become more price competitive **AND** so more workers needed in exporting industries. • increase in real GDP due to increases in AD as net exports increase, so more workers needed to produce more. (Must have idea of increased derived demand for labour). • **Explains, in detail and with a valid reason**, why reduction in the OCR may be effective in lowering unemployment even though there is weakening global activity.

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.	All points covered.
				Must refer to Graph One OR Graph Two.		Integrates relevant information from Graph One AND Graph Two into answer.	

N0 = No response; no relevant evidence.

Q2	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	Given that increases in consumption spending of $500 million have resulted in an increase of real GDP of $2.5 billion, the multiplier must be 5. The formula for the multiplier is 1/(1–MPC), which means (1–MPC) = 0.2 so the marginal propensity to consume = 0.8 With a MPC of 0.8, consumers will spend $400 million of the $500 million. This $400 million becomes income for others, which is spent creating more income, demand and spending etc.	**ONE of:** - Identifies the multiplier. - Correctly calculates MPC. **Explains** that tax cuts will be spent which creates income for others.	**BOTH of:** - Identifies the multiplier. - Correctly calculates MPC. **Explains, in detail,** that tax cuts will be spent which creates income for others, which is spent creating more income, spending etc.	**BOTH of:** - Identifies the multiplier. - Correctly calculates MPC. **Explains, in detail,** that tax cuts will be spent which creates income for others, which is spent creating more income, spending etc.
(b)	Increased welfare spending will increase the consumption money flow from Model One. This is because increases in transfer payments to consumers in the economy (e.g. increased unemployment benefits or Government superannuation payments) will increase disposable incomes and consumers will have more to spend. As consumers spend more, the goods and services real flow will increase as producers increase output to meet the increased consumption in the economy. An increase in production represents economic growth.	**Explains** that increased welfare spending could increase growth due to increases in the consumption flow.	**Explains, in detail,** that increased welfare spending could increase growth, due to increases in the consumption flow, as consumers have increased disposable incomes. The goods and services flow will increase as more is produced to meet the increased spending (must give a reason for the consumption flow increasing).	**Explains, in detail,** that increased welfare spending could increase growth, due to increases in the consumption flow, as consumers have increased disposable incomes. The goods and services flow will increase as more is produced to meet the increased spending (must give a reason for the consumption flow increasing).
(c)	Tax cuts may have the greatest impact on growth because more consumers are likely to experience increases in disposable incomes from tax cuts compared to increased welfare spending, especially if the tax cuts are applied to all levels of income. Hence the increase in the consumption flow and the goods and services flow will be greater. The magnitude of this difference will be even greater if tax cuts are granted to higher income earners who are spending significantly more than people receiving transfer payments who are generally earning lower incomes. As the increase in consumption will be higher, the impact of the multiplier on growth will be greater because subsequent increases in income and spending for others will be greater.	**Explains** that tax cuts may have a greater impact on growth as they will result in greater increases in the consumption flow compared to increases in welfare spending.	**Explains, in detail,** that tax cuts may have a greater impact on growth as they will result in greater increases in the consumption flow compared to increases in welfare spending (must give a valid reason why the increases in consumption may be greater for tax cuts).	**Explains, in detail,** that tax cuts may have a greater impact on growth as they will result in greater increases in the consumption flow compared to increases in welfare spending (must give a valid reason why the increases in consumption may be greater for tax cuts). **AND** refers to the multiplier in the explanation.

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.	All points covered.
				Must refer to Graph One OR Graph Two.		Integrates relevant information from Graph One AND Graph Two into answer.	

N0 = No response; no relevant evidence.

Q3	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	The Terms of Trade is the ratio of export prices to import prices. If it has increased, then export prices must have risen by a greater percentage than import prices.	**ONE of:** - Defines the Terms of Trade. - Export prices risen by more than import prices.	**BOTH of:** - Defines the Terms of Trade. - Export prices risen by more than import prices.	
(b)	**See Appendix.**	AD shifted to the right OR AS shifted to the left with increase in price labelled.		
(c)	An increase in the Terms of Trade would increase aggregate demand (AD to AD_1) on Graph Three. This is because the increases in export prices for beef, lamb and dairy products would increase export receipts for these goods (assuming the quantities traded don't change) and hence increase net exports. The import price increases outlined in the resource material would reduce AS (AS to AS_1). This is because increases in fuel prices would increase the cost of imported materials for producers, increasing their costs of production, reducing their profit margins and making production less profitable. The combined increase in AD and decrease in AS would increase the price level in the economy, PL to PL_1.	**Explains** that the price level will increase because: • AD increases due to increases in export receipts. • AS decreases due to increases in costs of production.	**Explains, in detail,** that the price level will increase because: • AD increases due to increases in export receipts, as the price of exports has increased and assuming the quantities traded stay constant (must give a valid reason for export receipts increasing). • AS decreases due increases in costs of production, as the cost of a major imported material (fuel) has increased and production is less profitable.	**Explains, in detail,** that the price level will increase because: • AD increases due to increases in export receipts, as the price of exports has increased and assuming the quantities traded stay constant (must give a valid reason for export receipts increasing). • AS decreases due increases in costs of production, as the cost of a major imported material (fuel) has increased and production is less profitable.
(d)	An increase in the Terms of Trade, caused by the events in the resource material, could improve the current account balance as the increase in export prices would increase export receipts (assuming the quantities traded don't change), which would improve the balance on goods and the current account. Even though import prices have increased, which would increase import payments and worsen the balance on goods and the current account, the overall impact would be positive as the increase in export prices as outweighed the increase in import prices.	**Explains** that an increase in the Terms of Trade will improve the current account because export receipts increase.	• **Explains, in detail,** that an increase in the Terms of Trade will improve the current account because export receipts increase which improves the balance on goods.	• **Explains, in detail,** that an increase in the Terms of Trade will improve the current account because export receipts increase which improves the balance on goods.

Q3	Sample evidence	Achievement	Achievement with Merit	Achievement with Excellence
	An increase in the Terms of Trade, caused by the events in the resource material, would have a greater impact on inflation as AD increases and AS decreases. Also, given that beef, lamb, dairy products and fuel are major commodities that we export and import, the changes in AD and AS will be significant resulting in a large increase in the price level. The increase in the current account may not be as significant as increases in import payments due to increased fuel prices offsetting the positive impact on the current account of export prices increasing, especially as fuel products, such as oil, are significant imports for NZ. OR An increase in the Terms of Trade, caused by the events in the resource material, would have a greater impact on the current account as beef, lamb and dairy are major exports for NZ, so increases in the prices for these goods will significantly increase export receipts, the balance on goods and hence the current account. Increases in AD and inflation may not be significant as net exports is only one component of AD		• **Explains, in detail,** that an increase in the Terms of Trade will have a greater impact on the price level because AD increases AND AS decreases, **OR** because increases in import payments will offset the positive impact on the current account of increases in export receipts, **OR** • **Explains, in detail,** that an increase in the Terms of Trade will have a greater impact on the current account because beef, lamb, and dairy products are major commodities that we export, **OR** because increases in AD may not be significant as only one component of AD (net exports) is increasing.	• **Explains, in detail,** that an increase in the Terms of Trade will have a greater impact on the price level because AD increases AND AS decreases, **AND** because increases in import payments will offset the positive impact on the current account of increases in export receipts, **OR** • **Explains, in detail,** that an increase in the Terms of Trade will have a greater impact on the current account because beef, lamb, and dairy products are major commodities that we export, **AND** because increases in AD may not be significant as only one component of AD (net exports) is increasing.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence, partial explanations.	Most Achievement evidence. 3/5 requirements.	Nearly all Achievement evidence. 4/5 requirements.	Some Merit evidence. 3/5 requirements	Most Merit evidence. 4/5 requirements	Excellence evidence. One part may be weaker.	All points covered.
				Must refer to Graph Three.		Integrates relevant information from Graph Three into answer.	

N0 = No response; no relevant evidence.

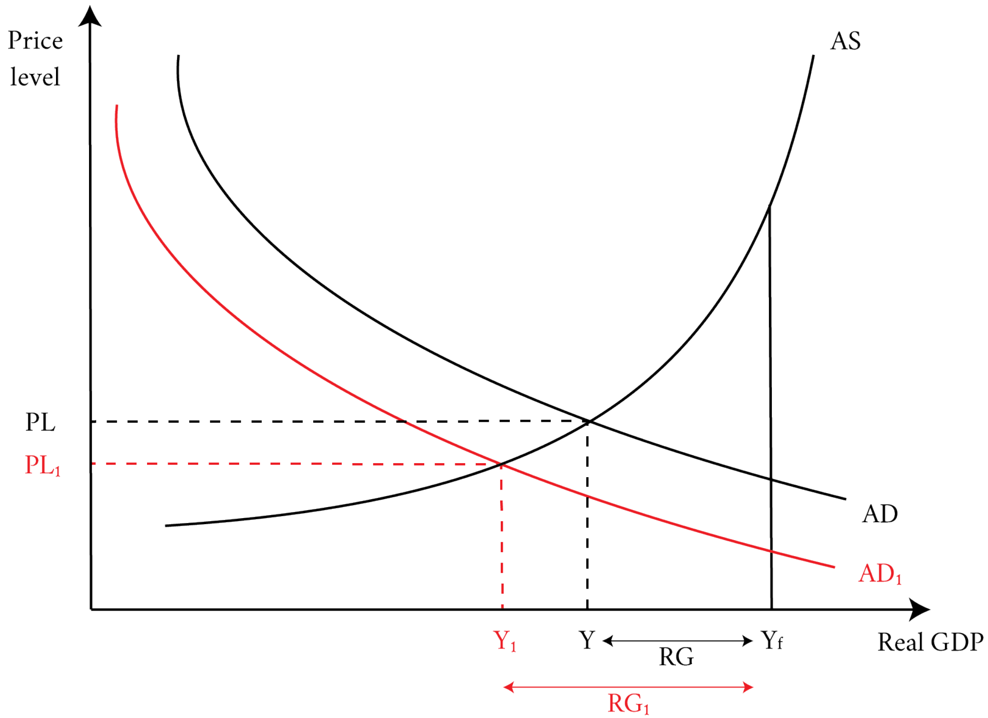
Cut Scores

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

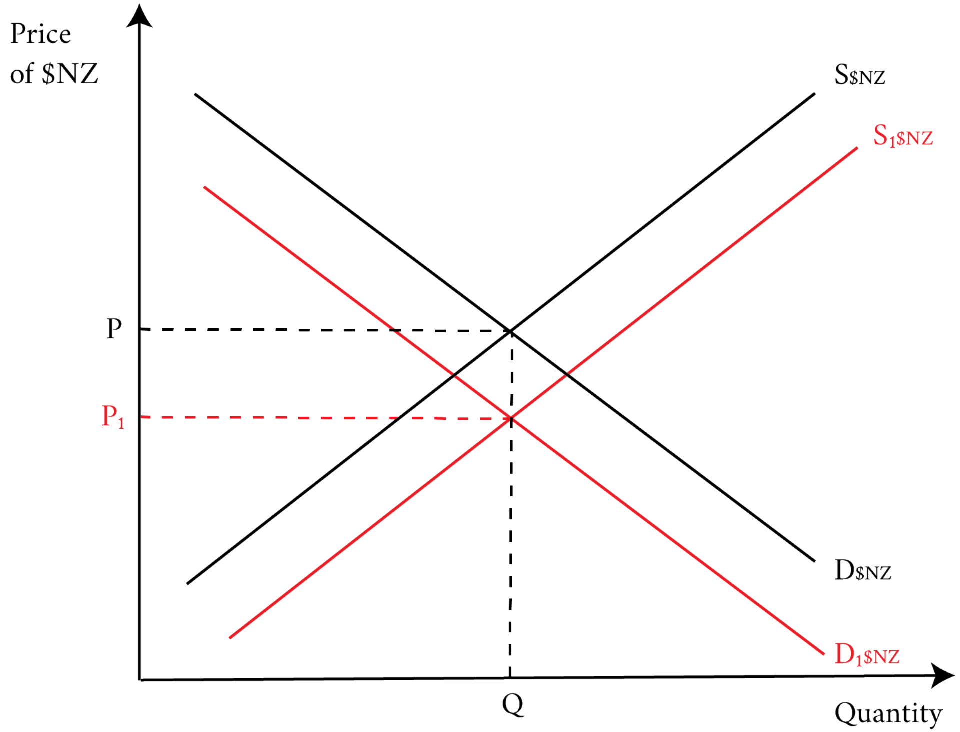
Appendix

Question One (a) and (c)

Graph One: The New Zealand economy operating with a recessionary gap (RG)



Graph Two: The market for the New Zealand Dollar



Question Three (b)

Graph Three: The New Zealand economy