Assessment Schedule – 2023

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

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Analyse inflation involves*:*	*Analyse inflation* ***in depth*** involves*:*	*Analyse inflation* ***comprehensively*** involves*:*
• **explaining** the causes of changes in inflation using economic models	• **explaining, in detail,** the causes of changes in inflation, using economic models	• **analysing** causes of changes in inflation by **comparing** and / or **contrasting** their impact on inflation
• **explaining** the impacts of changes in inflation on various groups in New Zealand society	• **explaining, in detail,** the impacts of changes in inflation on various groups in New Zealand society.	• **analysing** the impacts of changes in inflation by **comparing** and / or **contrasting** the impact on various groups in New Zealand society
• **identifying, defining,** or **describing** inflation concepts.		• **integrating** changes shown on economic models into **detailed** explanations.

Evidence

Q1	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	AS shifted inwards and labelled correctly (see Appendix).	• Graph One completed correctly.		
(b)	The increase in wage expectations and minimum wages in New Zealand will cause an increase in businesses costs of production, as they will now be paying their workers more. Due to this increase in costs, businesses will decrease their levels of production, which will cause a decrease in aggregate supply AS to AS_1. In order to remain profitable, businesses will increase their prices which results in cost-push inflation shown from PL to PL_1.	• Explains that AS will decrease due to increased costs of production and relates to inflation.	• Uses Graph One to explain how the AS curve decreases due to increased costs of production and that producers will increase prices to maintain profit margins. • Refers to correct labels.	
(c)	AD shifted outwards and labelled correctly (see Appendix).	• Graph Two completed correctly.		
(d)	The cost of living payment will increase income for each eligible person in New Zealand by $350. This is additional income that can be spent on goods and services, thereby increasing consumer spending (C). Consumer spending is a component of aggregate demand AD = C+I+G+(X-M). Therefore, the increase in consumer spending results in an increase in aggregate demand AD to AD_1 and an increase in the price level PL to PL_1. Demand-pull inflation has occurred.	• Explains that AD will increase due to an increase in consumer spending or government spending. • Relates to inflation.	• Uses Graph Two to explain why inflation will increase due to an increase in the consumption component of AD. • Refers to correct labels.	

(e)	It is likely that the increase in wage costs has had a larger impact on New Zealand's current inflation rate. Increasing wages has impacted businesses across all sectors of the economy, which would have resulted in a large decrease in aggregate supply and consequently a large increase in the price level. The shift from AS to AS_1 on Graph One is likely to be a significant shift. However, the increase in aggregate demand resulting from the cost of living payment would be smaller due to its being a limited, one-off payment of $350. It was paid only to people in the eligible income brackets, which ensured that funds would be spent rather than saved, but this means that it impacted only a portion of households in New Zealand, resulting in a small shift in aggregate demand and the price level. The shift from AD to AD_1 on Graph Two will be a smaller shift than in Graph One. The increase from PL to PL_1 on Graph Two is likely to be larger than the increase from PL to PL_1 on Graph One, showing a larger impact on inflation in New Zealand.			• Explains in detail that the decrease in AS as a result of the increasing wage costs will be larger than the decrease in AD due to the cost of living payment, by referring to the idea that most businesses across the country will be impacted by increased wages, but the increase in C will be only temporary and limited to the $350 payment. • Refers to the graphs.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Q2	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	Possible answers include: • Prices rising rapidly can create uncertainty for consumers and businesses, which can lower both consumer and business confidence, which may limit future growth. • Consumers may struggle with an increasing cost of living, which results in their missing out on essential goods and services. This results in a lower standard of living. • High inflation rates can increase income inequality, which could have negative impacts on low-income households and create social tension. • Workers will start to demand higher wages to maintain their standard of living. This may result in increased costs for businesses and lower levels of production in the economy.	• States one reason why high inflation rates would have a negative impact.	• Explains one reason why high inflation rates would have a negative impact.	
(b)	M = Money supply V = Velocity of circulation P = Price level Q = Real output	• Three out of four correct.		
(c)	The quantity theory of money states that MV = PQ. If there is a decrease in the money supply, this will impact the price level in New Zealand. Assuming that velocity of circulation and real output remain constant, a decrease in the money supply will cause a proportionate decrease in the price level.	• Uses equation to identify that there will be a decrease in price level.	• Uses equation to identify that there will be a proportionate decrease in price level.	

(d)	When velocity of circulation and real output are held constant, any change in the money supply results in a proportionate change in the price level. A 2% decrease in the money supply would cause a 2% decrease in the price level, achieving the government's objective. However, during a recession, real output will be decreasing as economic activity slows down and there are less goods and services produced. Due to the decrease in real output, the impact on the price level as a result of a decrease in money supply will be different compared to when output is constant. The decrease in money supply by 2% accompanied by the decrease in real output of 3% would cause price level to increase by approximately 1% for the equation to remain true. Therefore, decreasing the money supply to control inflation would be less effective during a recession as inflation would still increase.	• Identifies the change in price level that would occur when there is a recession.	• Explains that there is an increase in price level when in a recession.	• Uses data and the quantity theory of money to compare and contrast how the price level may be impacted when money supply and real output decrease.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Q3	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	The CPI is a weighted basket of goods and services purchased by New Zealand households that is used to measure changes in the general price level, or inflation.	• Identifies that the CPI measures changes in inflation.	• Explains that the CPI is measured using a basket of goods and services / weighted to reflect spending patterns.	
(b)	Deflation is a decrease in the general price level of a nation. Disinflation is a decrease in the rate of inflation. New Zealand's current inflation rate of 7.2% is high, which means that measures to control inflation taken by the Reserve Bank of New Zealand are likely to decrease the inflation rate (disinflation) rather than cause deflation. For deflation to occur, the inflation rate would need to become negative, and it is unlikely that this would occur in the short term.	• Defines disinflation and / or deflation correctly.	• Explains, using data, why deflation is unlikely in the current context.	
(c)	Workers who are earning minimum wage have had their nominal wages increase at essentially the same rate as the current inflation rate of 7.2%, which means that their real wages have remained the same. These workers are still able to purchase the same amount of goods and services as before the large increase in inflation. The average worker in New Zealand whose nominal wage has increased by only 3.7% in the last year would be experiencing a decrease in their real wages of 3.5%, which causes a decrease in their purchasing power. These workers will be worse off as a result of the current levels of inflation.	• Identifies that workers earning the average wage will have a decrease in their real wages (or for workers on minimum wage the real wage remains the same).	• Explains, using data, that workers earning the average wage have a larger decrease in their real wages compared to those on minimum wage.	

(d)	Low-income households are likely to be impacted much more as a result of high inflation than high-income households. Low-income households are often on fixed incomes, such as unemployment benefits or pensions, or in low-skilled employment. They are unlikely to be able to negotiate wage increases to ensure that their real wage rate does not decrease, and therefore face a decrease in the purchasing power of their income. These households are also likely to spend all of their income rather than save or invest, which will result in their missing out on essential goods and services and facing a decrease in their standard of living as a result of high inflation. High-income households are often those in higher-skilled jobs and professions who are more likely to be able to negotiate pay increases to ensure that their wage keeps up with inflation. Therefore, their real wages are less likely to decrease, and they are less likely to see a decrease in the purchasing power of their incomes. These households are also more likely to have discretionary income that they save or invest, which means that even if they do face a decrease in real wages, they would still be able to afford essential goods and services and are less likely to face a substantial decrease in their current standard of living. High-income households are also more likely to own assets, such as property, which will increase in value as inflation increases, which results in an increase in wealth. If these households have borrowed funds to purchase these assets, they are also better off during times of high inflation as the real value of their debt will be decreasing.	• Gives a reason why high inflation has an impact on low-income households OR high-income households.	• Explains why high inflation has an impact on low-income households OR high-income households.	• Explains in detail why low-income households will be more heavily impacted by high inflation than high-income households.

N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

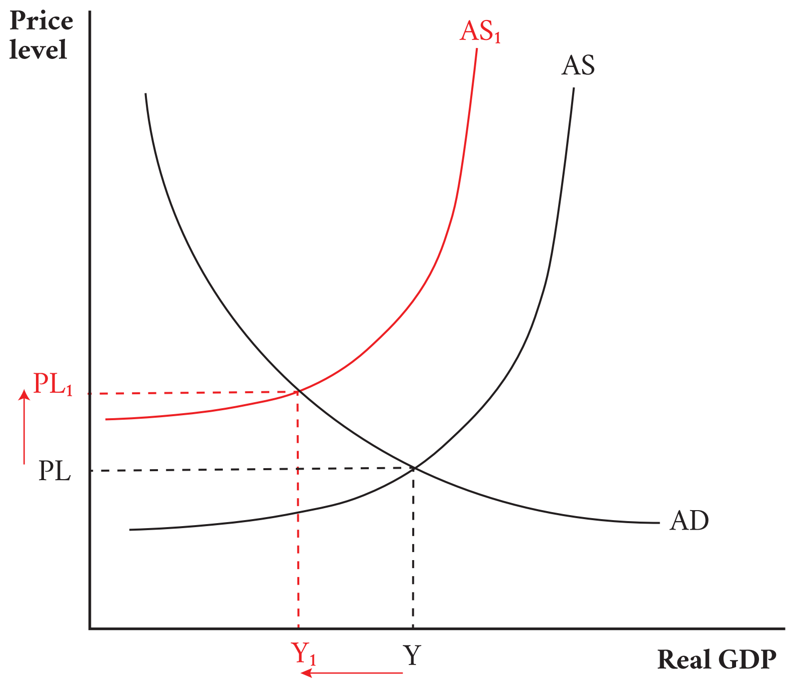
Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0 – 7	8 – 13	14 – 18	19 – 24

Appendix

Question One (a)

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



Question One (c)

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