Assessment Schedule – 2024

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

Assessment Criteria

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

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
00–07	08–13	14–18	19–24

Evidence

Q1	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
(a)	AD shifted to the right and labelled correctly. See Appendix.	• Graph One completed correctly.		
(b)	When Fieldays is held in the Waikato region, it causes an increase in consumer spending and exports as New Zealand consumers and international visitors spend at the event and in the wider region. This causes an increase in aggregate demand to AD_1 as both C and X are components of aggregate demand (AD=C+I+G+(X-M)), which results in an increase in the price level to PL_1. Therefore, demand-pull inflation has occurred.	• Identifies increase in aggregate demand due to an increase in consumer spending or exports.	• Explains increase in aggregate demand due to an increase in consumer spending or exports, with reference to Graph One.	
(c)	AS curve shifted to the left and labelled correctly. See Appendix.	• Graph Two completed correctly.		
(d)	The destruction of crops due to Cyclone Gabrielle and increasing insurance costs for businesses will result in a decrease in aggregate supply to AS_1 as production levels have decreased and costs of production for businesses have increased. Businesses will increase prices to maintain profit margins, resulting in an increase in the price level to PL_1. Cost-push inflation has occurred.	• Identifies decrease in production or increase in costs of production leading to a decrease in aggregate supply.	• Explains decrease in production and increase in costs of production leading to a decrease in aggregate supply, with reference to Graph Two.	
(e)	Cyclone Gabrielle is likely to have a larger impact on the overall price level, compared to the Fieldays event. Fieldays is a localised event that will only increase spending in the Waikato region and occurs over only one weekend of the year. Cyclone Gabrielle was also localised to the Hawke's Bay / Tairāwhiti regions but has resulted in increasing insurance costs for businesses across the entire country; therefore, the decrease in AS will be larger than the increase in AD and there will be larger impact on overall inflation. The increase in price level to PL_1 on Graph Two will be larger than the increase in price level to PL_1 on Graph One.			• Explains why Cyclone Gabrielle has a larger impact, with reference to the idea that all businesses are impacted by increasing insurance costs compared to regional, one-off impacts because of Fieldays, with reference to Graph One and Graph Two.

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)	See Appendix.	• Model labelled correctly.		
(b)	M = Money supply P = Price level Q = Real output	• Correctly identifies components.		
(c)	During a recession, consumer confidence and household incomes will be low, due to higher levels of unemployment, which will result in less spending in the economy. This means that the velocity of circulation will decrease as money is being spent at a slower rate.	• Links recession to lower spending / confidence or higher unemployment.	• Explains why V decreases with reference to a reason why there is less spending.	
(d)	The quantity theory of money states that MV=PQ. As velocity of circulation and price level are on opposite sides of the equation, when velocity of circulation decreases during a recession, price level will also decrease for the equation to remain true. The rate of inflation decreases.	• Explains a decrease in price level.	• Explains a proportional decrease in price level with reference to equation.	
(e)	During a recession there is likely to be higher unemployment coupled with less spending in the economy. As a result of this change to unemployment and spending, businesses will slow their levels of production, which results in a decrease in real output. If both velocity of circulation and real output are decreasing, according to the quantity theory of money, there will be a small, if any, change in price level. This is because velocity of circulation and real output are on opposite sides of the equation of exchange (MV=PQ), so these changes will keep the equation balanced. If the decrease in velocity of circulation is larger than the decrease in real output, there is likely to be a less than proportionate decrease in the price level. However, if the decrease in real output outweighs the decrease in velocity of circulation, price level will likely experience a less than proportionate increase to keep the equation true. If these changes are proportionate, then price level will remain unchanged.	• Identifies a reason why real output decreases during a recession.	• Explains that V and Q are on opposite sides of the equation, so impact on price level will be less than proportionate.	• Fully explains the less-than-proportionate change in price level and inflation, using the equation of exchange.

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)	Inflation is an increase in the general price level of a nation's economy.	• Correct definition.		
(b)	Workers earning minimum wage would prefer a lower inflation rate. These workers are likely spending the majority of their income on goods and services in their day-to-day lives, so when inflation is lower, their purchasing power increases, and they are more able to afford these goods and services. If inflation is high, they may need to decrease the amount of goods and services they are purchasing or switch to inferior goods that are cheaper but will lower their standard of living.	• Identifies that a lower inflation rate is preferred.	• Explains why a lower inflation rate is preferred, with reference to purchasing power.	• Fully explains why both groups prefer a lower rate of inflation, with reference to purchasing power.
(c)	Savers would also prefer lower inflation rates. When inflation is higher, the purchasing power of savings decreases as less goods and services can be purchased with these savings when they are withdrawn at a later date. Lower levels of inflation minimise this decrease in purchasing power for savers so that they are better off compared to times of higher inflation.	• Identifies that a lower inflation rate is preferred.	• Explains why a lower inflation rate is preferred, with reference to purchasing power.	
(d)	Exporting businesses are disadvantaged during times of inflation, particularly when inflation is higher than our trading partners. These businesses are paying higher costs to produce their goods and services in New Zealand due to inflation, and their products therefore become less price competitive in overseas markets. Goods being exported to the UK and EU will seem more expensive due to the inflation rate of 4.7% in New Zealand being higher than their inflation rates. Export volumes will likely be lower and lead to fewer export receipts for these businesses, which may result in decreasing production to remain profitable. Importing businesses are positively impacted during times of inflation as they are able to import their goods and services from countries at lower prices where inflation rates are lower than 4.7%. They can then price their products more competitively in the New Zealand market while maintaining profit margins. These businesses may increase production to maximise their profits.	• Identifies impact of inflation on businesses that export. OR • Identifies impact of inflation on businesses that import.	• Explains impact of inflation on businesses that export. OR • Explains impact of inflation on businesses that import.	• Fully explains impact of inflation on businesses that export. AND • Fully explains impact of inflation on businesses that import.

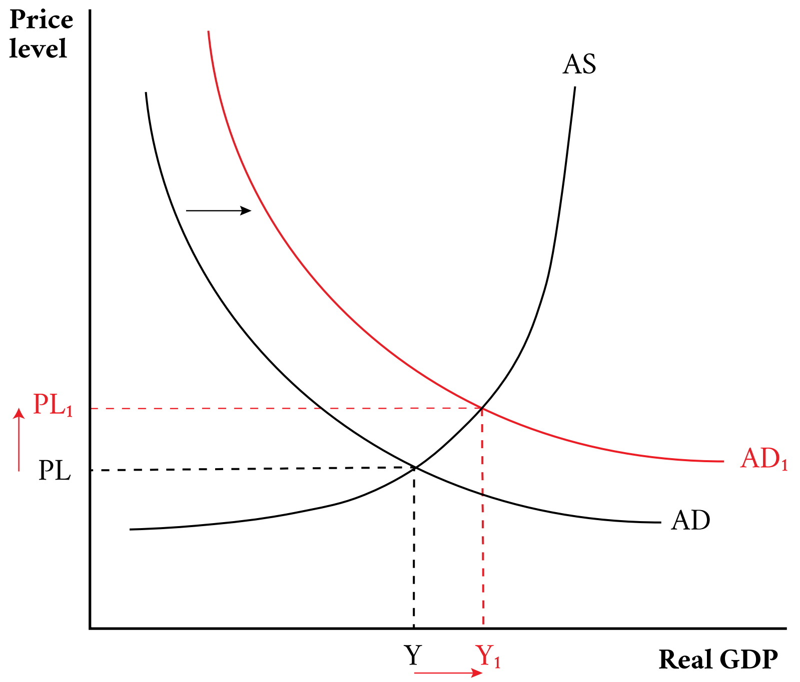
N1	N2	A3	A4	M5	M6	E7	E8
Very little Achievement evidence.	Some Achievement evidence.	Most Achievement evidence.	Nearly all Achievement evidence.	Some Merit evidence.	Most Merit evidence.	Some Excellence evidence.	Most Excellence evidence.

N0 = No response; no relevant evidence.

Appendix

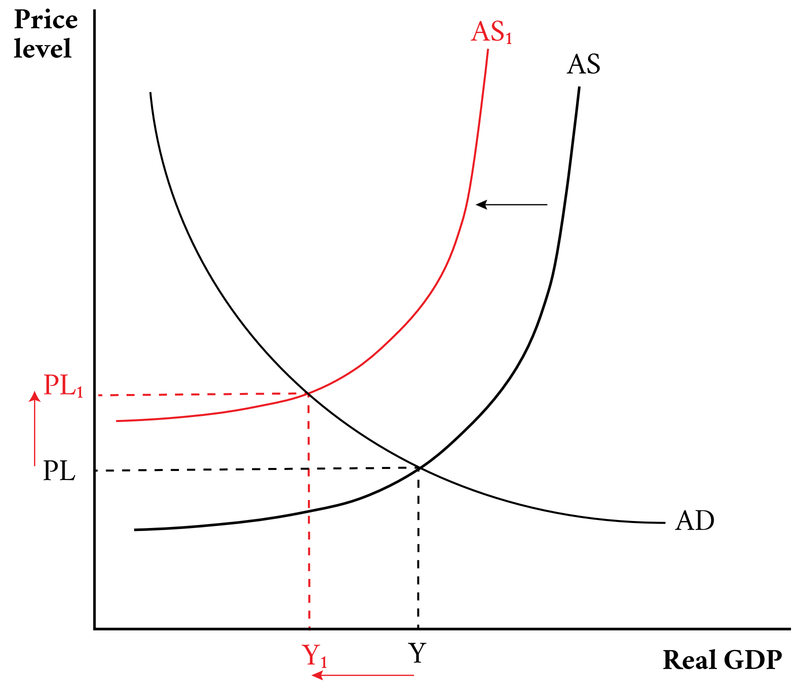
Question One (a)

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



Question One (c)

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



Question Two (a)

Model One: The business cycle