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| Title | Investigate macroeconomic activity using the aggregate demand/aggregate supply model | | |
| Level | 5 | Credits | 3 |

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| Purpose | People credited with this unit standard are able to: demonstrate understanding of; illustrate and explain inflation and stagflation using; and illustrate and explain non-inflationary economic growth using; the aggregate demand/aggregate supply model. |
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| Classification | Economic Theory and Practice > Macro Economics |
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| Available grade | Achieved |
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Guidance Information

Definitions

Aggregate demand refers to the total demand for final goods and services in the economy at a given time and price level.

Aggregate supply refers to the short-run aggregate supply, and is the relationship between the aggregate quantity of goods and services supplied (real Gross Domestic Product) and the price levels.

Aggregate supply curve plots the relationship between the quantity of real GDP supplied and the price level, all else held constant.

Stagflation is inflation that occurs while the economy is contracting (stagnating) and real output is declining.

Outcomes and performance criteria

Outcome 1

Demonstrate understanding of the aggregate demand/aggregate supply model.

Performance criteria

- 1.1 The derivation of the aggregate demand curve is explained in terms of aggregate expenditure at different price levels.
- 1.2 The derivation of the aggregate supply curve is explained in terms of aggregate production and cost behaviour at different output levels.

Range explanation includes the distinction in shape between low output levels and full employment.
- 1.3 The equilibrium level of output and the price level consistent with the aggregate demand/aggregate supply model are established.

- 1.4 The causes of shifts in the aggregate demand curve are described in terms of the aggregate demand/aggregate supply model.
- Range includes – changes in government spending, investment, consumption, net exports.
- 1.5 The causes of shifts in the aggregate supply curve are described in terms of the aggregate demand/aggregate supply model.
- Range includes – changes to input prices, technology, productivity, resource availability, climatic conditions.
- 1.6 Shifts in equilibrium level Gross Domestic Product (GDP) resulting from performance criteria 1.4 and 1.5 are illustrated in terms of their impact on the price level and real output.
- 1.7 The stability of equilibrium is explained and illustrated in terms of the market forces which exist at disequilibrium.
- Range disequilibrium – one of – excess demand, excess supply.

Outcome 2

Illustrate and explain inflation and stagflation using the aggregate demand/aggregate supply model.

Performance criteria

- 2.1 The explanation and illustration shows the potential for aggregate demand to produce price inflation by means of shifts in aggregate demand.
- 2.2 The explanation and illustration shows that a fall in aggregate supply has the potential to increase prices and reduce output (stagflation).

Outcome 3

Illustrate and explain non-inflationary economic growth using the aggregate demand/aggregate supply model.

Performance criteria

- 3.1 The expansionary impact of outward shifts in the aggregate demand curve is explained and illustrated.
- 3.2 Non-inflationary economic growth as a result of shifts of the aggregate supply curve is explained and illustrated.

This unit standard is expiring. Assessment against the standard must take place by the last date for assessment set out below.

Status information and last date for assessment for superseded versions

| Process | Version | Date | Last Date for Assessment |
|-----------------------|---------|-------------------|--------------------------|
| Registration | 1 | 29 October 1996 | 31 December 2021 |
| Revision | 2 | 21 July 1999 | 31 December 2021 |
| Revision | 3 | 14 September 2005 | 31 December 2021 |
| Review | 4 | 16 October 2009 | 31 December 2021 |
| Rollover and Revision | 5 | 16 April 2015 | 31 December 2021 |
| Review | 6 | 27 June 2019 | 31 December 2021 |

Consent and Moderation Requirements (CMR) reference

0116

This CMR can be accessed at <http://www.nzqa.govt.nz/framework/search/index.do>.