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Tick this box if there is no writing in this booklet

Level 2 Economics 2020

91222 Analyse inflation using economic concepts and models

2.00 p.m. Tuesday 1 December 2020 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Analyse inflation using economic concepts and models.	Analyse inflation in depth using economic concepts and models.	Analyse inflation comprehensively using economic concepts and models.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

91222

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–11 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

QUESTION ONE: The AD/AS model

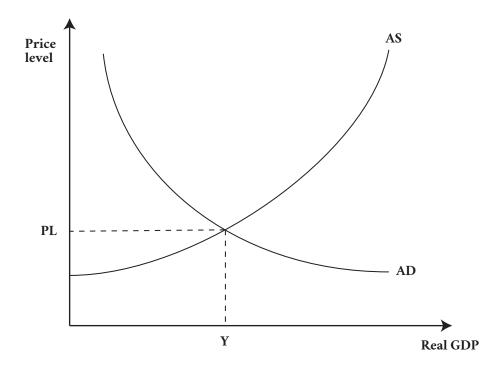
(ii)

ASSESSOR'S USE ONLY

A policy option available to the government is allowing the first \$15 000 of income to be tax-free for all people. This policy would provide direct benefits to households and indirect benefits to business growth.

(a) (i) On Graph One, show the impact on aggregate demand of removing all income taxes on the first \$15000 earned by people in New Zealand.

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



Fully explain the impact on inflation of removing all income taxes on the first \$15000 earned by people in New Zealand. Refer to Graph One in your answer.						

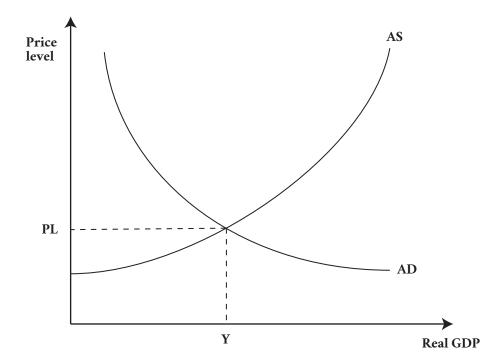
ASSESSOR'S USE ONLY

The Government has a goal to generate electricity in New Zealand using 100% renewable energy by 2035. This may be costly, with commercial power prices projected to increase by 29%. That figure increases to 39% for industrial businesses.

 $Source \ (adapted) \ https://www.iccc.mfe.govt.nz/assets/PDF_Library/daed 426432/FINAL-ICCC-Electricity-report.pdf$

(b) (i) On Graph Two, show the impact on aggregate supply of an increase in electricity prices in New Zealand.

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



(ii)

Refer to Graph Two in your answer.					

Please turn over ➤

electricity prices.		

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QUESTION TWO: The Quantity Theory of Money

ASSESSOR'S USE ONLY

The Quantity Theory of Money states that the quantity of money circulating in the economy is equal to the monetary value of the goods and services available within the economy.

(a) (i) State the four variables used in the Quantity Theory of Money equation.

M:

V: _____

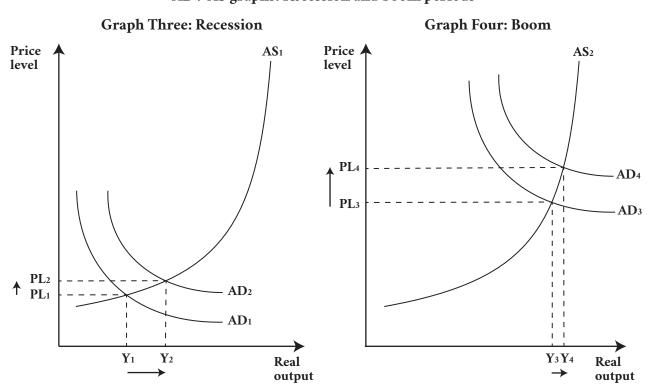
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(ii) State the Quantity Theory of Money formula.

(b) Compare and contrast the impact of an increase in aggregate demand due to an increased quantity of money circulating in the New Zealand economy during a recession, with the same increase in a boom period (in the business cycle).

AD / AS graphs: Recession and boom periods



In your answer you should:

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ASSESSOR'S
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- refer to the Quantity Theory of Money
- refer to Graph Three to fully explain how an increase in the quantity of money circulating in the New Zealand economy during a recession may result in a small increase in inflation

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•	refer to Graph Four to fully explain how an increase in the quantity of money circulating in the New Zealand economy during a boom may result in a large increase in inflation.								

QUESTION THREE: Inflation impacts

ASSESSOR'S USE ONLY

The Smokefree Aotearoa 2025 policy has resulted in tobacco taxes increasing each year. The aim is to reduce tobacco purchases in New Zealand. In 2020, the price of tobacco increased by 11.5%.

 $Source (adapted): https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1\&objectid=12298523$

ASSESSOR'S USE ONLY

New Zealand's Consumer Price Index (CPI) inflation rate for 2020 is predicted to be 1.9%, while the 2020 predicted rates are 2.5% for China, and 2.7% for the United States (as at 20 January 2020).

Sources: https://www.statista.com/statistics/244983/projected-inflation-rate-in-the-united-states/https://www.statista.com/statistics/270338/inflation-rate-in-china/https://www.statista.com/statistics/375265/inflation-rate-in-new-zealand/

(b) Compare and contrast the impact of New Zealand having a 2020 inflation rate that differs from those of our major trading partners, as described in the resource material, above, on:

•	New Zealand export firms and New Zealand import firms workers in New Zealand export firms and workers in New Zealand import firms.						

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