

90794



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Economics, 2009

90794 Describe inflation and its causes and effects using economic models

Credits: Four

2.00 pm Tuesday 24 November 2009

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

Answer ALL the questions in this booklet.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–8 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.

<i>For Assessor's use only</i>	Achievement Criteria		
Achievement	Achievement with Merit	Achievement with Excellence	
Describe inflation and its causes and effects using economic models. <input type="checkbox"/>	Explain inflation and its causes and effects using economic models. <input type="checkbox"/>	Fully explain inflation and its causes and effects using economic models. <input type="checkbox"/>	
Overall Level of Performance			<input type="checkbox"/>

You are advised to spend 40 minutes answering the questions in this booklet.

QUESTION ONE

The Consumer Price Index (CPI) fell 0.5% in the December 2008 quarter.

The price of overseas packaged holidays went up 7.5% in the same quarter.

Higher prices for petrol (up 25.9%) made the most significant individual contribution to the increase in the CPI for the year to June 2008.

Source: <http://www.stats.govt.nz/store/2009/01/consumers-price-index-dec08qtr-hotp.htm>

- (a) State the **economic term** that describes the fall in the CPI in the December 2008 quarter.

- (b) Explain why an increase in the **price of overseas packaged holidays** is NOT considered to be **inflation**.

QUESTION TWOAssessor's
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- (a) Define the term **disinflation**.

- (b) Identify the stage of the **business cycle** during which disinflation occurs AND explain why it occurs at that stage.

(i) Stage of business cycle: _____

(ii) Explanation: _____

QUESTION THREEAssessor's
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Tania, an accountant, earns a salary of \$68 000. She has \$20 000 saved in a bank. She also owns a three-bedroom house for which she has an \$80 000 mortgage with a fixed interest rate.

- (a) Describe the impact an **increase in the inflation rate** would have on Tania's **real income**.

- (b) Explain the impact an **increase in the inflation rate** would have on Tania's **savings**.

- (c) Explain ONE **positive impact** of increasing inflation for Tania, given that she is a homeowner.
