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Level 2 Economics, 2009

NEW ZEALAND QUALIFICATIONS AUTHORITY MANA TOHU MĀTAURANGA O AOTEAROA

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.

For Assessor's Achievement Criteria			
Achievement	Achievement with Merit	Achievement with Excellence	
Describe inflation and its causes and effects using economic models.	Explain inflation and its causes and effects using economic models.	Fully explain inflation and its causes and effects using economic models.	
Overall Level of Performance			

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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**.

(c) Use the Aggregate Supply and Demand model below to show the **effect** of **petrol price increases** on the price level. Fully label the change.

Aggregate Supply and Demand Model

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(d) **Fully explain** your answer for (c). In your explanation, you MUST give detailed reasons for the **change** you have made.

QUESTION TWO

Iden occi	tify the stage of the business cycle during which disinflation occurs AND explain why i urs at that stage.
(i)	Stage of business cycle:
(ii)	Explanation:

Assessor's use only

(c) Use the Aggregate Supply and Demand model below to show how a **decrease in interest rates** could result in inflation. Fully label the change.

Aggregate Supply and Demand Model



(d) **Fully explain** your answer for (c). In your explanation, you MUST give detailed reasons for the **change** you have made.



Assessor's use only

QUESTION THREE

Tania, an accountant, earns a salary of \$68000. She has \$20000 saved in a bank. She also owns a three-bedroom house for which she has an \$80000 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.

Assessor's use only

- (d) **Fully explain** whether an increase in inflation would have a **positive** or **negative** impact on Leroy's business. In your explanation, discuss what could happen to his:
 - revenue
 - cost of production
 - profit.

Extra paper for continuation of answers if required. Clearly number the question.

Assessor's use only

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