

# **Internal Assessment Resource**

## **Economics Level 2**

This resource supports assessment against:

Achievement Standard 91227 v2

Analyse how government policies and contemporary economic issues interact

6 Credits

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## Internal Assessment Resource

**Achievement Standard Economics 91227:** Analyse how government policies and contemporary economic issues interact

**Resource title:** Sustainable Growth

**Credits:** 6

Achievement	Achievement with Merit	Achievement with Excellence
Analyse how government policies and contemporary economic issues interact.	Analyse in depth how government policies and contemporary economic issues interact.	Analyse comprehensively how government policies and contemporary economic issues interact.

### Student instructions

#### Introduction

This assessment activity requires you carry out an economic analysis that presents at least three sustainable growth policies that will sustainably increase New Zealand's economic growth.

You will present the economic analysis in a mode of your choice. Check with your teacher to see if they believe the mode you have chosen is viable.

You will be assessed on the quality of your explanations, and on your justification for the combination of government policies that would achieve economic growth while minimising the negative flow-on effects on inflation and employment.

This is an individual task and you have 4 weeks of in- and out-of-class time to complete this activity.

#### Task

Research and analyse at least three sustainable growth policies.

*Note: If policies have negative flow-on effects on inflation and/or employment, you must include additional policies that will minimise the negative effects without dramatically affecting the economic growth goal.*

Include the following elements in your analysis.

- An explanation of sustainable economic growth.
- An economic analysis for EACH of the economic growth policies that:
  - illustrates the effect of the policy on an appropriate economic model, for example, AS/AD
  - explains how the policy will impact on economic growth (now and sustainably into the future)
  - integrates the changes shown on the economic model into explanations about the policy.

- An economic analysis for inflation that:
  - illustrates the combined flow-on effects, on inflation, of your growth policies using an appropriate economic model
  - explains how the policies will impact on inflation
  - integrates changes shown on the economic model into explanations about the flow-on effects on inflation.

*If the growth policies have a negative effect(s) on inflation, identify and fully explain a policy that could be added that would minimise the negative effect(s) without significantly affecting the growth objective.*

- An economic analysis for employment that:
  - illustrates the combined flow-on effects, on employment, of your growth policies using an appropriate economic model
  - explains how the policies will impact on employment
  - integrates changes shown on the economic model into explanations about the flow-on effects on employment.

*If the growth policies have a negative effect(s) on employment, identify and fully explain a policy that could be added that would minimise the negative effect(s) without significantly affecting the growth objective.*

- A summary of your analysis. Using an economic model, fully explain how the combination of government policies will achieve the assessment goal of significant and sustainable economic growth, and minimise any negative flow-on effects on inflation and employment.

When you have completed your report, hand it in to your teacher.

## **Resource A:**

### **1. Closing the gap**

#### **Sustainable development**

Sustainable development requires that actions being taken by the present decision-makers do not diminish the prospects of future persons to enjoy levels of consumption, wealth, utility, or welfare comparable to those enjoyed by present population.

Historically there has been a close correlation between economic growth and environmental degradation: as communities grow, so the environment declines. Unsustainable economic growth has been starkly compared to the malignant growth of a cancer because it eats away at the Earth's ecosystem services, which are its life-support system. There is concern that, unless resource use is checked, modern global civilization will follow the path of ancient civilizations that collapsed through overexploitation of their resource base.

Conventional economics is concerned largely with economic growth and the efficient allocation of resources (measured by [in part] maximising profits). However, sustainable economic analysis takes greater account of the social and environmental consequences of growth strategies. These economics emphasise the use of growth strategies and technology that break the link between economic growth and environmental damage and resource depletion, and are equitable, i.e. positive and negative effects of growth are fairly allocated.

Source - [http://en.wikipedia.org/wiki/Sustainability#cite\\_ref-106](http://en.wikipedia.org/wiki/Sustainability#cite_ref-106)

## Assessment schedule: Economics 91227 Sustainable Economic Growth

Evidence/Judgements for Achievement	Evidence/Judgements for Achievement with Merit	Evidence/Judgements for Achievement with Excellence
<p>The student's report describes three government policies for significant and sustainable economic growth.</p> <p>The student has explained the direct impact of the policies on economic growth, using an economic model (AS/AD) to support their explanation.</p> <p>The student has explained the flow-on effects of the government growth policies on inflation and employment using an AS/AD model.</p> <p>Example of possible student response:</p> <p><i>The current government growth agenda is to raise New Zealand's per capita GDP to the OECD mean over the next twenty years, and to close the gap between NZ and Australia.</i></p> <p><i>To achieve this, government can use fiscal policy such as lowering personal tax rates and increasing spending on infrastructure projects such as motorways, which increases DL and so the employment rate increases.</i></p> <p><i>Increasing government spending while decreasing tax will increase expenditure on goods and services resulting in an increase in GDP, but an increase in AD also leads to higher PL or inflation.</i></p> <p><i>Easing consent requirements will encourage investment, which will also increase GDP, and this will shift AS right, which eases inflationary pressure, while still gaining growth in Real GDP through improved productivity of resources.</i></p> <p><i>By lowering income tax, disposable incomes will increase and result in greater consumption. Aggregate Demand will increase. This will increase the real GDP, but also increase the inflationary pressure on prices. Or the increase in government spending will</i></p>	<p>The student's report explains in detail three government policies for significant and sustainable economic growth.</p> <p>The student has explained in detail the direct impact of the policies on economic growth, using an economic model (AS/AD) to support their explanations.</p> <p>The student has explained in detail the flow-on effects of the government growth policies on inflation and employment using an AS/AD model.</p> <p>Example of possible student response:</p> <p><i>The current government growth agenda is to raise New Zealand's per capita GDP to the OECD mean over the next twenty years and to close the gap between NZ and Australia, because the government considers economic growth desirable due to the positive effects it has on households, companies, and the country's financial situation.</i></p> <p><i>By lowering taxes the government is increasing disposable income, which will result in an increase in (C). Increased government spending (G) results in increased government expenditure on goods and services. Both of these result in an increase in AD. The spending on new infrastructure, such as roads and ports, will lower production costs for transport which will result in an increase in AS. Reducing the "red-tape" requirements for building consents will also reduce compliance costs. This will increase AS as costs of production decrease. If this leads to more investment it will also increase AD.</i></p> <p><i>The policies lead to an increase in AD and AS which increases real GDP and DL so</i></p>	<p>The student's report comprehensively explains three government policies for significant and sustainable economic growth.</p> <p>The student has comprehensively explained the direct impact of the policies on economic growth, integrating an economic model (AS/AD) into their explanations.</p> <p>The student has comprehensively explained the flow-on effects of the government growth policies on inflation and employment integrating changes shown on economic models (AS/AD) into the explanations.</p> <p>The student identifies additional policies, if necessary, and justifies them by explaining how they would minimise any negative flow-on effects on inflation and/or employment.</p> <p>The summary ties all the justified evidence from the analysis together, fully explaining how the combination of government policies will achieve significant and sustainable growth and minimise any negative flow-on effects on inflation and employment, using an economic model.</p> <p>Example of possible student response:</p> <p><i>The current government growth agenda is to raise New Zealand's per capita GDP to the OECD mean over the next twenty years and to close the gap between NZ and Australia, because the government considers economic growth desirable due to the positive effects it has on households, companies, and the country's financial situation.</i></p> <p><i>By lowering taxes the government is increasing disposable income, which will result in an increase in (C).</i></p>

<p>increase AD. This will increase the real GDP, and increase the DL so unemployment decreases. Increasing GDP results in an increased use of resources. This may lead to resource depletion. Increased emissions may also result in more pollution.</p> <p>The policies result in an increase in AD. This will increase the real GDP. This will result in an increased use of resources so we would have a bigger ecological footprint, and resources will be depleted more quickly, so the demand side economic growth policies are not very sustainable longer term.</p> <p>Because these policies increase AD to AD1, there will also be an increase in price level and an increase in inflation, but there will also be an increase in employment as Y shifts to Y1 and moves us closer to full employment.</p> <p>See Appendix A for examples of economic models.</p>	<p>unemployment decreases as we move closer to YF. Because this policy results in a double shift of the AS/AD curves, PL will stay about the same level or even slightly decrease, easing inflationary pressure.</p> <p>This will result in an increased use of resources as more production needs more inputs so there would be a bigger ecological footprint (a measure of the land required per person to provide sufficient resources for the GDP per capita.) The production processes also typically emits pollutants into the environment, such as carbon dioxide into the air or pollutants from the processes into our waterways.</p> <p>However, the government will receive more tax revenue from PAYE and company tax due to increased employment and economic growth. They could use some of this revenue to have in place protective measures like the RMA and ETS and give local councils more power to deal with producers who pollute our waterways to avoid these negative impacts on the environment, and take care not to diminish the prospects of future persons to enjoy levels of consumption, wealth, utility, or welfare comparable to those enjoyed by the present population.</p> <p>See Appendix A for examples of economic models.</p>	<p>Increased government spending (G) results in increased government expenditure on goods and services. Both of these result in an increase in AD to AD1 (shift right) and PL to PL1 and Y to Y1. The spending on new infrastructure, such as roads and ports, will lower production costs for transport, which will result in an increase in AS to AS1 (shift right) and PL1 to PL2 and Y1 to Y2. Because both curves shift, the PL will remain about the same or slightly decrease from its previous equilibrium point, therefore easing the inflationary pressure caused by the demand side policies, so there is no need of an additional policy to minimise negative flow-on effects on inflation.</p> <p>The increase in Real GDP means we shift closer to YF and more DL due to increased consumption (C) and government spending (G), so the employment rate increases. This means there is also no need for an additional policy to minimise negative flow-on effects on employment.</p> <p>Reducing “red-tape” requirements for building consents and other regulations will also reduce compliance costs. This will increase AS due to reduced costs of production. If this leads to more investment it will also increase AD to AD1, and if this (I) is in R&amp;D this could also lead to improved productivity due to better technology and a shift of the AS to AS1. The overall result of both these shifts is to increase Real GDP Y to Y2, resulting in economic growth, increased employment and lower PL so some deflation. This is the main advantage of supply side policies as they can achieve economic growth with little or no inflationary pressure; although prolonged deflation is not good either so a balance of demand and supply side policies that</p>
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Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the Achievement Standard.