Economics 2.6

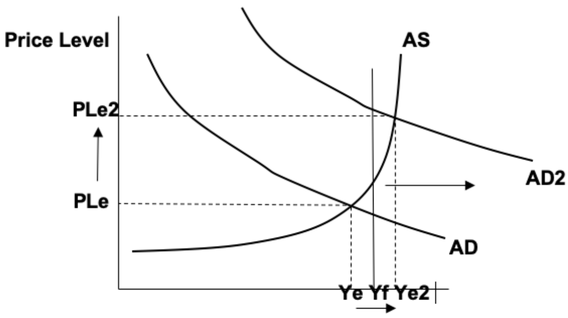
Sustainable Economic Growth:
Sustainable economic growth is a rate of growth (an increase in real output in an economy) which can be maintained without creating other significant economic problems. Economic growth leads to higher GDP per capita, more public and merit goods, and more employment. However, growth can also lead to pollution and congestion, balance of payments difficulties, and widening income gaps.

Policies to Promote Sustainable Growth:

1. Building more highways and improving New Zealand roads
2. Improving fibre connections
3. Increasing superannuation age from 65 to average life expectancy

Policy One: Building more highways and improving New Zealand roads

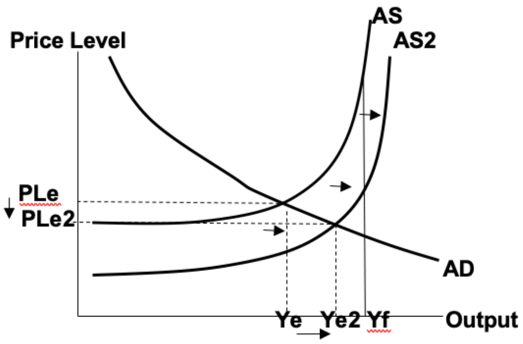
In the short term, building more highways and improving roads will increase Government spending. Using the equation AD = C+I+G+(X-M), an increase in Government Spending (G) will cause an increase in Aggregate Demand, creating Demand Pull Inflation. This policy will also create an increase in jobs, as workers are needed to build these roads. This lowers unemployment rate, and will increase Consumption (C) as more workers receive their wages. This helps to increase Aggregate Demand even further. Lots of resources are required to build roads, and this could help worsen environmental



conditions.

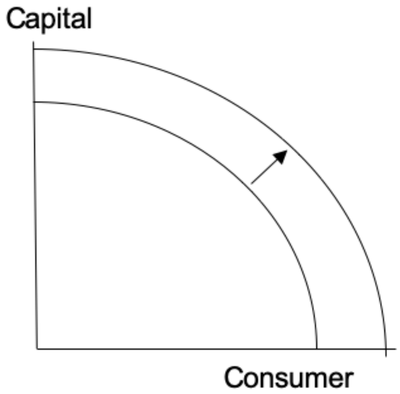
In the long term, new highways and improved roads will boost efficiency and productivity as it now takes less time and petrol to travel around, also saving money for producers.

This will cause an increase in Aggregate Supply. Productive capacity will also increase as

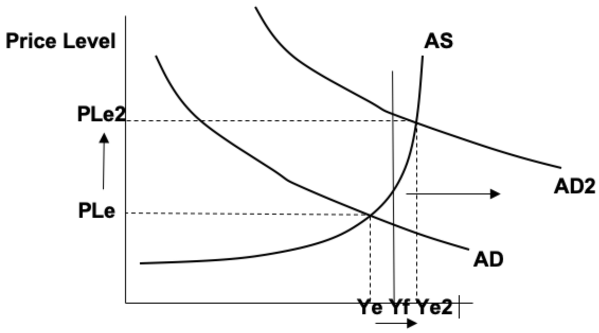


more output is now available.

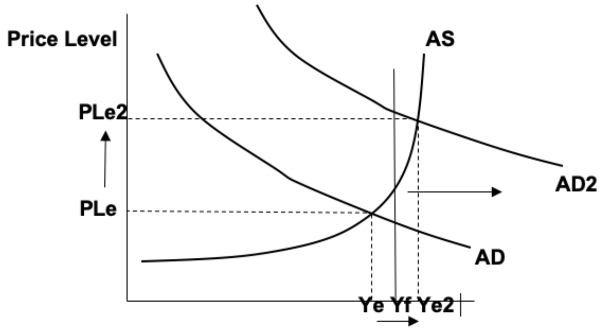
Policy Two: Improving fibre connections



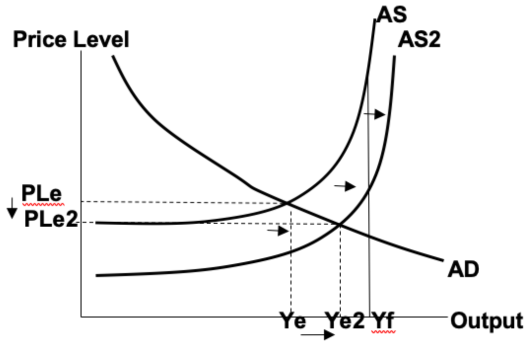
In the short term, improving fibre connections will ng
(currently, there is an investment of over $1.5 billi
causing an increase in Aggregate Demand which s
policy creates an increase in jobs, lowering unem
Consumption as workers receive their wages and
increased even further.



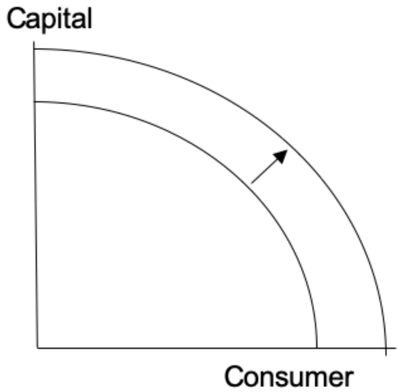
In the long term, better fibre connections will boost efficiency and productivity for both normal households and producers, as it now takes less time to access the Internet. This



will cause an increase in Aggregate Supply. Productive capacity will increase as more



output is now possible.

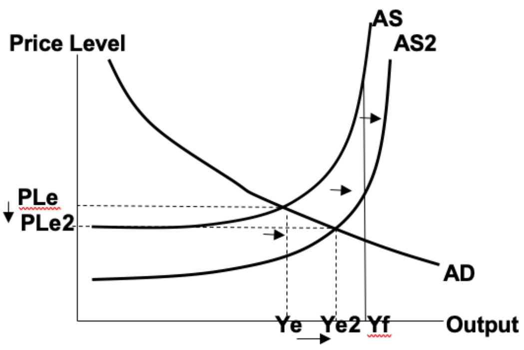


Policy Three: Increasing superannuation age frc

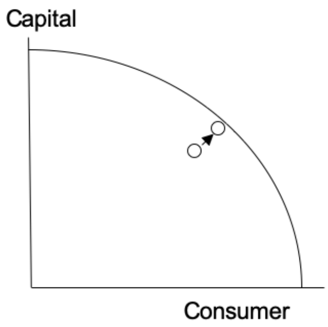
In the short term, increasing superannuation age to
years), allows the Government to shift funding to otl ɉ to
superannuation payments. There is now less incent now
increase as more money will be spent. With Govern e,
and the increase in Consumption, Aggregate Dema Pull
Inflation.

There is currently a budget of $15.4881 billion on superannuation in 2019/20, with the majority of recipients being under 80 (607,998 out of 781,438, around 77.8% of total recipients). By increasing superannuation age, the budget can decrease to around $3.5 billion.

In the long term, increasing superannuation age will increase the efficiency of businesses, as there is no need for training new employees. Without additional training time, businesses can carry out the same workload in less time. This will increase Aggregate



Supply.



Impacts of Economic Growth:

Due to the increases in Aggregate Demand, economic growth will be created. There are multiple benefits and negatives to this:

<u>Benefits:</u>

- Increased production
- Increased investment
- More jobs and more employment
- Higher incomes
- Increased savings
- Higher tax revenue for government
- More public goods and lower debt

<u>Negatives:</u>

- Resource depletion
- Increased pollution
- Pressure on environment
- Higher costs of compliance
- Greater stress
- Congestion

Impacts of Inflation:

In the short term for all three policies, Demand Pull Inflation is created. Inflation affects both firms and households.
During inflation, firms have difficulty creating plans, find borrowing expensive, are not rewarded for investment and experience less demand for exports. For households, saving is discouraged, borrowing and speculation is encouraged and income and wealth gaps widen.

Monetary Policies:

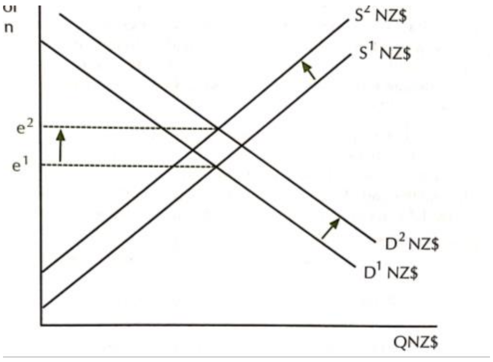
While in the long term, these policies will reduce inflation (due to an increase in Aggregate Supply), in the short term Demand Pull Inflation will be created. To control rising prices, New Zealand manipulates interest rates.

The Reserve Bank of New Zealand (RBNZ) creates monetary policies (action taken to influence interest rates through money supply) to influence economic activity and achieve price stability. There are a number of policy tools, including:

- The Official Cash Rate (OCR), which is the main monetary policy tool for the RBNZ, and is the interest rate set by the RBNZ.
- Open Market Operations (OMO), which is the buying and selling of government stock to influence the amount of money in circulation.
- Moral Suasion (Jawboning), where the RBNZ ‘talks down’ economic activity by threatening to increase the OCR.

If there are inflationary pressures (which will be created if the above policies are carried out) , the RBNZ will usually tighten monetary conditions by increasing the OCR, therefore increasing short-term interest rates and reducing the level of investment and consumer spending, and increasing savings. As a result, aggregate demand will decrease as well as inflationary pressure.

An increase in the OCR will also have an impact on the exchange rate. Overseas investors will be more likely to invest in New Zealand due to the higher interest rates. The demand for New Zealand dollars will increase from D1NZ$ to D2NZ$, causing an appreciation of the exchange rate. There will also be a decrease of the supply of the New Zealand dollar



from S1NZ$ to S2NZ$ as New Zealand investors keep more of their money.