Economics Report

Policy – Building more highways and improving NZ roads.

<u>Short Run:</u>

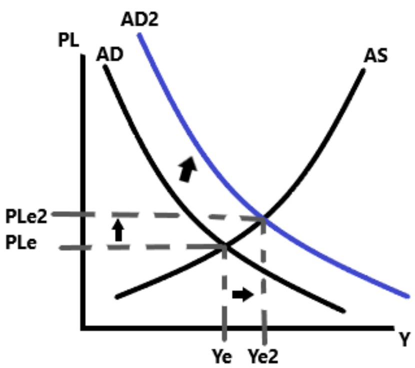
Fiscal Policy » Government decisions on spending and revenue. Government Spending increases.

GDP is a measure of Growth

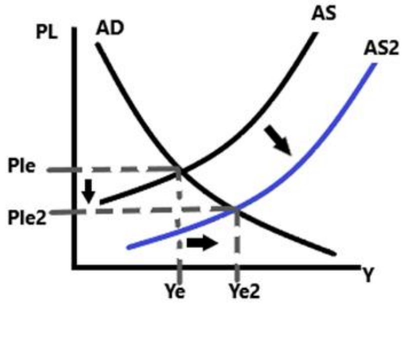
GDP = Y = AD = C + I + G + (X – M)

Aggregate Demand is the demand of all goods and services produced in an economy within a year. An increase in AD is caused by C – Government Spending as the government is spending more to increase expressways and highways for people to have easier access to places without traffic being the biggest problem in NZ. This will initially cause AD to increase from AD to AD2 as government spending will increase because of the cost of construction, workers, and materials that are needed.

In the short run, new highways and expressways will increase employment as construction of the roads will be needed, an increase in household incomes will mean an increase in consumption as incomes for workers will increase also an increase in roading firm profits as the money will need to go to a company for them to work. This means that AD will increase from AD to AD2. The impact on inflation is that cost inflation will increase in civil construction which will be a result of the governments decisions to spend more funding on building roads also an impact on employment inflation as more workers are needed to start and complete the roads as fast as possible. **Y** increases so **Growth** increases. There is an increase in **Employment** and an increase in **Inflation**.



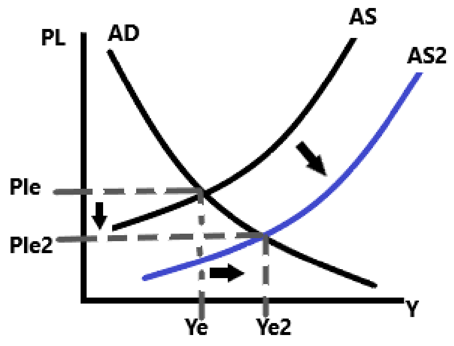
In the long run, efficiency will increase as congestion will decrease because people will be spread out onto roads that benefit them more conveniently, productivity will increase, cost of production will decrease, both production and employment will increase – will be less inflationary. This means AS increases from AS to AS2 as the cost of production decreases. There is an increase in **Efficiency** and a decrease in the **Cost of Production**



Long term impact – Increase in Aggregate Supply

Increase in Productivity + decrease in Production Costs.

An increase in Productivity and a decrease in Production Cost is caused by an increase, or a shift to the right, in AS.



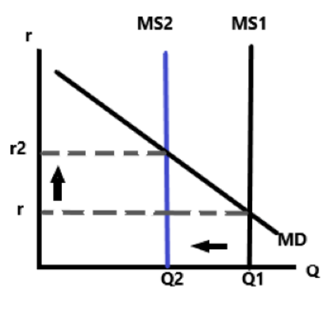
Nominal Wages are likely to rise in response to worker efforts to increase or maintain standards of living. An increase in Nominal Wages cause a cost pull inflation. Productivity is rising through improved transportation and the falling of production cost. Any factor that can cause a chance in the production costs for a large number of firms such as improved roading, decreases in the cost of electricity, etc. This means AS increases from AS to AS2 as the cost of production decreases. Y increases from Ye to Ye2 and PL increases from PLe to PLe2.

Initial impact on inflation

The price stability is currently defined as keeping the rate if inflation is between 1% and 3% which was measured by the CPI. Price stability is considered to be one of the most important things to try and stop the negative effects of inflation including inflationary expectations, making it easier for business planning and confidence, helping the products of New Zealand to remain competitive, and to help make it more likely for firms to make investments.

NZ inflation influence

Using the two main methods, the OCR (Official Cash Rate) and the OMO (Open Market Operations), the RBNZ has the influence of inflation in New Zealand. The Official Cash Rate is the interest rate that is set by the Real Bank of New Zealand (RBNZ).

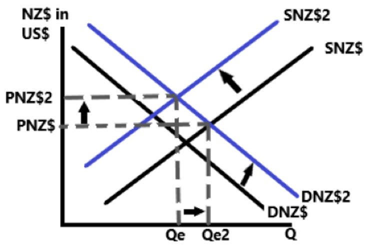


As there is an increase in the OCR, it causes a decrease in the Moral Suasion. Moral Suasion (MS) can also be referred to by some as *jawboning* or ‘open mouth operations’. Moral Suasions are where the Real Bank of New Zealand tries to “talk down” the economic activity in New Zealand. They do this to hope reducing consumer spending and investment which will reduce inflationary pressures. Often they do this by threating to increase the Official Cash Rate.

The impact on increasing the OCR in other areas

The OCR is the midpoint of all the interest rate banks have to pay if they need to borrow money from the Real Bank of New Zealand and the rate of interest they receive if they have money in their settlement accounts.

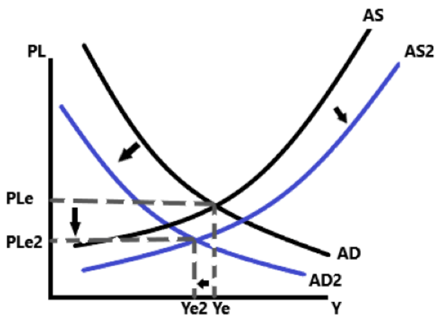
Official Cash Rate will increase, wholesale interest rates will increase also, and retail interest rates will increase as well so there will be an increase in savings, a decrease in borrowing which will lead to a decrease in consumption and a decrease also in investment. The value of the New Zealand dollar will increase.



Increasing demand and decreasing the supply of the New Zealand dollar will cause Aggregate Demand to increase by an increase in government spending.

The appreciation of the New Zealand dollar is caused by things such as other countries currencies depreciating, interest rates in new Zealand increasing, more demands of the New Zealand dollar, etc. If the New Zealand dollar appreciates then there will be a decrease in the cost of imported raw materials. Cost of production of firms will decrease and so there will be an increase in their output. This causes Aggregate Supply to increase which will also cause an increase in output.

This causes exports (X) to decrease, imports (M) to increase, and net exports (X-M) to decrease. These cause an increase in Aggregate Supply and a decrease in Aggregate Demand.

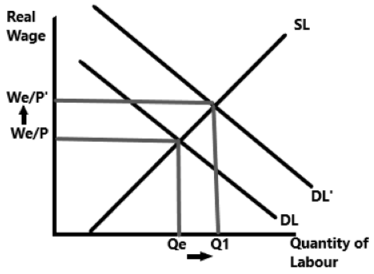


Increasing in Selling Reserve Bank Bills/OCR will cause AD to decrease form AD to AD2 which will cause the rate in inflation to decrease which will cause the reducing in the rate of inflation from PLe to PLe2.

The negative impacts of this happening are the decreasing of exports (X) as the products of New Zealand become more expensive, there will be an increase in the rate of unemployment, growth will decrease, investment will decrease meaning not replacing the old capital and no new capital, and inequality has a change of increasing.

Policy – Increasing the retirement age from 65 to 70.

Fiscal Policy » Market for Labor.

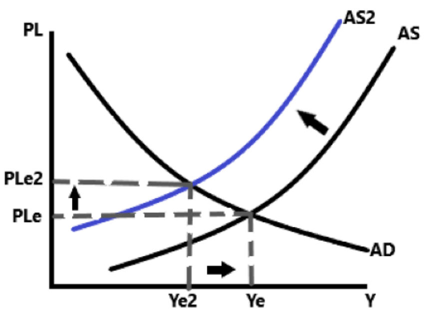


GDP is a measure of Growth

GDP = Y = AD = C + I + G + (X – M)

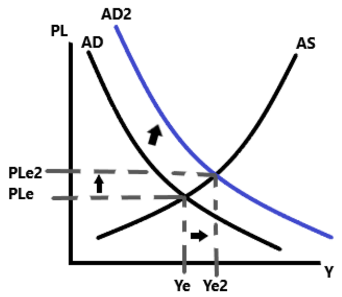
Aggregate Demand is the demand of all goods and services produced in an economy within a year. An increase in AD is caused by C – Government Spending as the government is spending more in wages as workers work longer which also leads to employment increasing. This will initially cause DL to increase from DL to DL' as government spending will increase because more people will be employed for a longer period of time as people will retire later on. As DL increases, it also causes inflation to increase which can be bad for growth.

Not only has output increased, but so has prices. If prices were to increase then it is most likely that employees will begin to demand higher wages to compensate for prices increasing and the loss of the employees purchasing power. This is likely to cause an increase in demand for wages and so there may be an increase in wages, which will cause cost of production to increase, causing a shift in AS to the left.

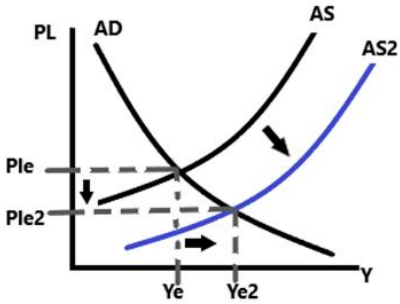


Nominal wages increasing will add to the production costs for firms. This causes Aggregate Supply to shift to the left which will cause a decrease in output as produces reduce production due to rising costs but can cause inflation to increase which can lead to an inflationary spiral.

In the short run, more people will be working for longer and retiring at an older age which will cause government spending towards the retired to decrease slightly but the government spending will then go towards wages for those who are not retired, there will also be an increase in household incomes will mean an increase in consumption as incomes for workers will increase also an increase in wages as more people work longer years so more wages will be hanged out. This means that AD will increase from AD to AD2. The impact on inflation is that cost inflation will increase in products being produced less as the supply of resources are increasing because of the working age. **Y** increases so **Growth** increases. There is an increase in **Employment** and an increase in **Inflation**.



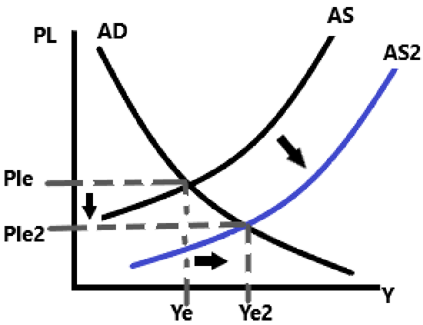
In the long run, efficiency will increase as more people will be working in an area speeding up the process with more people involved, the use of resources will increase as more people will mean more things needed to keep them busy working on projects, productivity will also increase as people will be working more often on multiple things, cost of production will decrease, both production and employment will increase – will be less inflationary. This means AS increases from AS to AS2 as the cost of production decreases. There is an increase in **Efficiency** and a decrease in the **Cost of Production**



Long term impact – Increase in Aggregate Supply

Increase in Productivity + decrease in Production Costs.

An increase in Productivity and a decrease in Production Cost is caused by an increase, or a shift to the right, in AS.



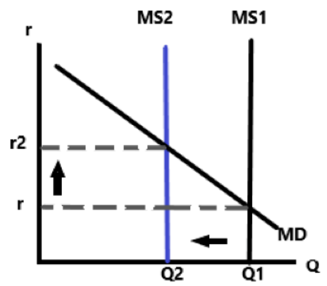
It is likely for nominal wages to increase as there will be more people working more hours and commonly overtime. An increase in Nominal Wages cause a cost pull inflation. Productivity is rising through more employees and the falling of production cost. This means AS increases from AS to AS2 as the cost of production decreases. Y increases from Ye to Ye2 and PL increases from PLe to PLe2.

Initial impact on inflation

The price stability is currently defined as keeping the rate if inflation is between 1% and 3% which was measured by the CPI. Price stability is considered to be one of the most important things to try and stop the negative effects of inflation including inflationary expectations, making it easier for business planning and confidence, helping the products of New Zealand to remain competitive, and to help make it more likely for firms to make investments.

NZ inflation influence

Using the two main methods, the OCR (Official Cash Rate) and the OMO (Open Market Operations), the RBNZ has the influence of inflation in New Zealand. The Official Cash Rate is the interest rate that is set by the Real Bank of New Zealand (RBNZ).

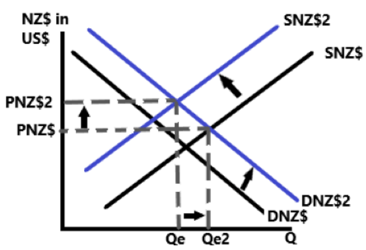


As there is an increase in the OCR, it causes a decrease in the Moral Suasion. Moral Suasion (MS) can also be referred to by some as *jawboning* or ‘open mouth operations’. Moral Suasions are where the Real Bank of New Zealand tries to “talk down” the economic activity in New Zealand. They do this to hope reducing consumer spending and investment which will reduce inflationary pressures. Often they do this by threating to increase the Official Cash Rate.

The impact on increasing the OCR in other areas

The OCR is the midpoint of all the interest rate banks have to pay if they need to borrow money from the Real Bank of New Zealand and the rate of interest they receive if they have money in their settlement accounts.

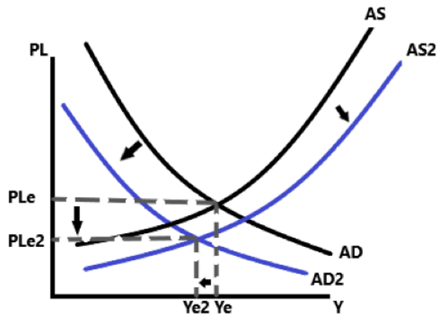
Official Cash Rate will increase, wholesale interest rates will increase also, and retail interest rates will increase as well so there will be an increase in savings, a decrease in borrowing which will lead to a decrease in consumption and a decrease also in investment. The value of the New Zealand dollar will increase.



Increasing demand and decreasing the supply of the New Zealand dollar will cause Aggregate Demand to increase by an increase in government spending.

The appreciation of the New Zealand dollar is caused by things such as other countries' currencies depreciating, interest rates in new Zealand increasing, more demands of the New Zealand dollar, etc. If the New Zealand dollar appreciates then there will be a decrease in the cost of imported raw materials. Cost of production of firms will decrease and so there will be an increase in their output. This causes Aggregate Supply to increase which will also cause an increase in output.

This causes exports (X) to decrease, imports (M) to increase, and net exports (X-M) to decrease. These cause an increase in Aggregate Supply and a decrease in Aggregate Demand.

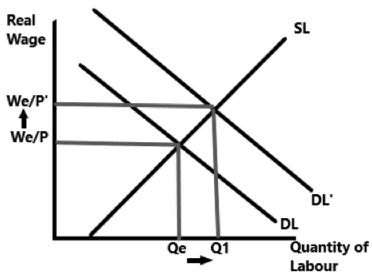


Increasing in Selling Reserve Bank Bills/OCR will cause AD to decrease form AD to AD2 which will cause the rate in inflation to decrease which will cause the reducing in the rate of inflation from PLe to PLe2.

The negative impacts of this happening are the decreasing of exports (X) as the products of New Zealand become more expensive, there will be an increase in the rate of unemployment, growth will decrease, investment will decrease meaning not replacing the old capital and no new capital, and inequality has a change of increasing.

Policy – Immigration

Fiscal Policy » Market for Labor.

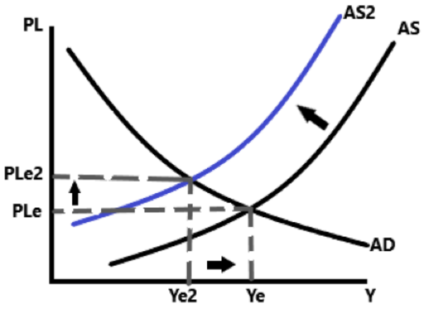


GDP is a measure of Growth

GDP = Y = AD = C + I + G + (X – M)

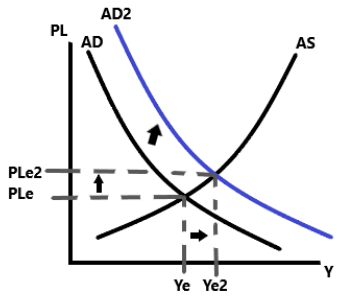
Aggregate Demand is the demand of all goods and services produced in an economy within a year. An increase in AD is caused by C – Government Spending as the government is spending more in wages and housing as more people will be immigrating to New Zealand needing jobs and housing which also leads to employment increasing and unemployment decreasing. This will initially cause DL to increase from DL to DL' as government spending will increase because more people will be needing housing and wages to survive in our country. As DL increases, it also causes inflation to increase which can be bad for growth.

Not only has output increased, but so has prices. If prices were to increase then it is most likely that employees will begin to demand higher wages to compensate for prices increasing and the loss of the employees purchasing power. This is likely to cause an increase in demand for wages and so there may be an increase in wages, which will cause cost of production to increase, causing a shift in AS to the left.

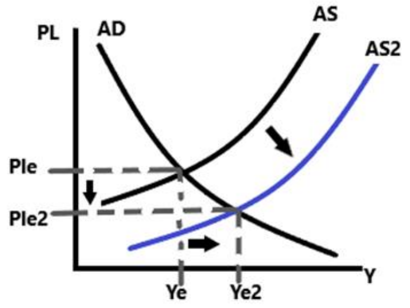


Nominal wages increasing will add to the production costs for firms. This causes Aggregate Supply to shift to the left which will cause a decrease in output as produces reduce production due to rising costs but can cause inflation to increase which can lead to an inflationary spiral.

In the short run, more people will be moving into New Zealand and be searching for jobs and housing which will cause government spending to increase on housing. There will also be an increase in household incomes will mean an increase in consumption as incomes for workers will increase also an increase in wages as more are working and employed. This means that AD will increase from AD to AD2. The impact on inflation is that cost inflation will increase in products being produced more as the supply of resources are increasing because of people coming into New Zealand more resources and employers are needed. **Y** increases so **Growth** increases. There is an increase in **Employment** and an increase in **Inflation**.



In the long run, efficiency will increase as more people will be working and less people jobless and homeless on the streets, the use of resources will increase, productivity will also increase as people will be working to survive, cost of production will decrease, both production and employment will increase – will be less inflationary. This means AS increases from AS to AS2 as the cost of production decreases. There is an increase in **Efficiency** and a decrease in the **Cost of Production**



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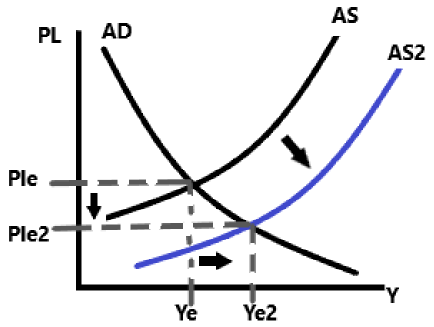

It is likely for nominal wages to increase as there will be more people working, more businesses are likely to develop which will call unemployment to decrease. An increase in Nominal Wages cause a cost pull inflation. Productivity is rising through more employees and the falling of production cost. This means AS increases from AS to AS2 as the cost of production decreases. Y increases from Ye to Ye2 and PL increases from PLe to PLe2.

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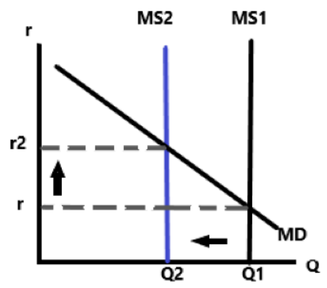

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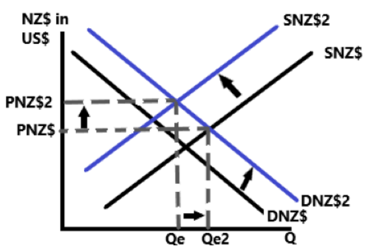

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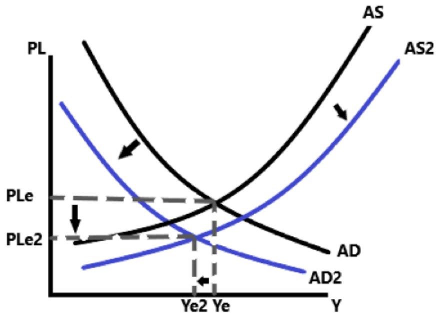

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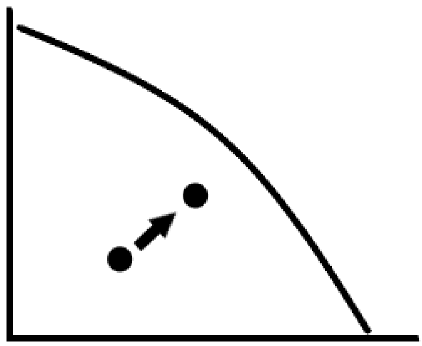
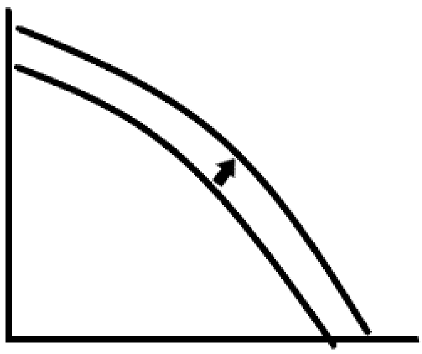
Impact on PPF

Short Run



Long Run



The PPF diagram is a diagram that shows the productive capacity of an economy given a fixed amount of technology and resources.

A movement inside the PPF shows an increase in employment or output as shown on the PPF to the left. A movement from the inside of the curve that is to a point closer to the PPF will show an increase in output and the use of resources which leads to an increase in employment and a decrease in unemployment. For an increase in output, there will be a movement inside the curve from the end of the arrow to the point which is showing an increase in employment and a decrease in unemployment.

A shift of the PPF shows an increase in productive capacity as shown on the PPF to the right. A shift of the PPF could be caused by an increase in new capital, investment to human capital, immigration, new technology causing productivity to increase also, resources, etc. This will all cause productive capacity to increase causing the curve to shift outwards. For a shift of the PPF curve, it will cause a shift from the curve at the bottom of the arrow to the point showing an increase in productive capacity.