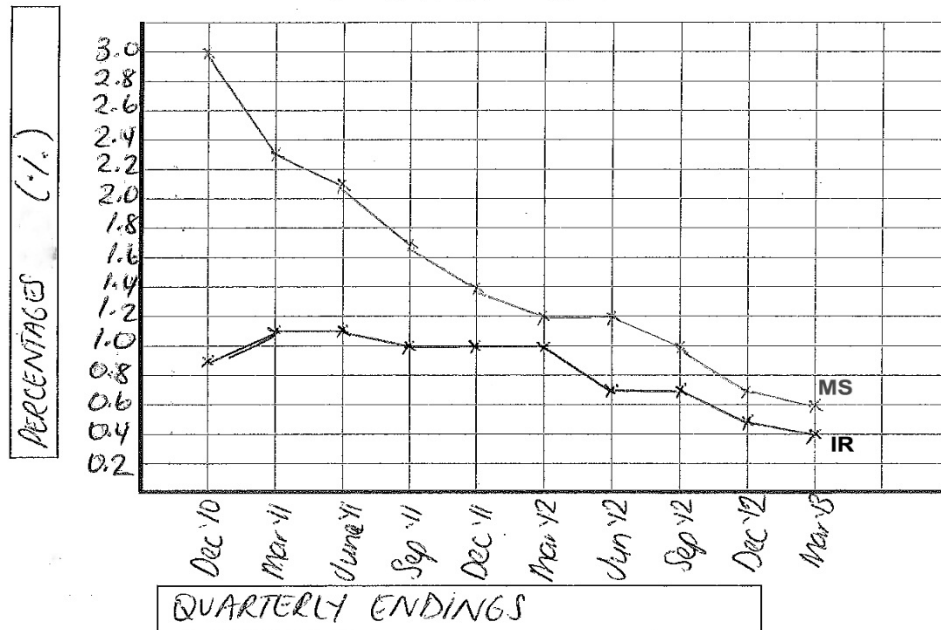


Student processed and presented inflation and unemployment statistical data.

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Graph 1: INFLATION RATE & PERCENTAGE CHANGE IN MONEY SUPPLY



Interpret the trends: On Graph 1 initially the inflation rate trends upwards in Dec 2010 from 0.9% to 1.1% in March 2011. The inflation rate remains the same for June 2011. After June 2011, the inflation rate trends downwards at each quarter to 0.4% in March 2013. The percentage change in money supply initially trends downwards from 3.0% in Dec 2010 to 1.2% in the quarter year of March 2012 and June 2012. After June 2012, the percentage change in money supply trends downwards to 1.0% in Sept 2012 and 0.6% in March 2013.

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Identify and explain the relationship: On the graph, the inflation rate and the percentage change in money supply shows a positive relationship between the two data sets as they both trend downwards. This can be represented by the Quantity Theory of Money, which uses the equation of exchange $MV=PQ$ to show that a decrease in the money supply (M) can also lead to a decrease in the rate of inflation, price level (P). Money supply (M) and price level (P) have the same effect on each other, leaving V and Q.

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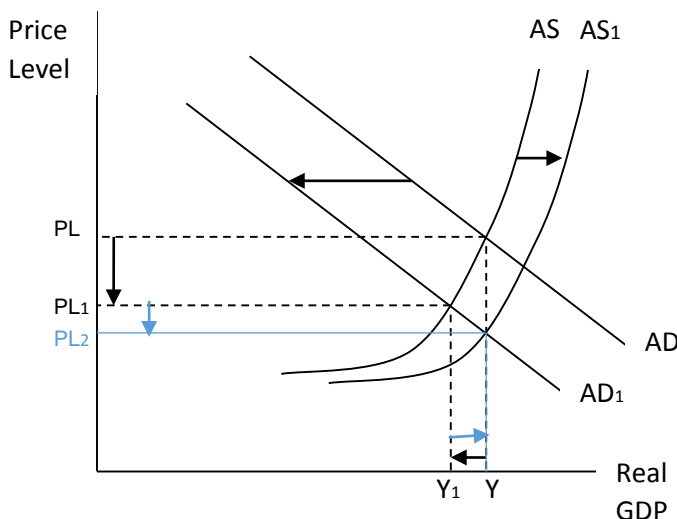
Interpret the trends: The exchange rate in Graph 2 trends upwards from 0.75 (\$NZ/\$US) in December 2010 up to 0.83 in Sept 2012. The exchange rate stays the same for Dec 2012. After Dec 2012, the exchange rate continues to trend upwards finishing at 0.84 (\$NZ/\$US) in March 2013.

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On Graph one initially the inflation rate trends upwards in Dec 2010 from 0.9% to 1.1% in March 2011. The inflation rate remains the same for June 2011. After June 2011, the inflation rate trends downwards at each quarter to 0.4% in March 2013.

Identify and explain the relationship: The exchange rate increases and the inflation rate decreases showing that there is a negative relationship between the two data sets. The \$NZ decreases, this leads to a decrease in export receipts (X) because foreign currency exporters earn in converts to less \$NZ, and a

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decrease in the \$NZ leads to an increase in import payments (M), because a stronger \$NZ can buy more imports. This leads to a decrease in $(X-M)$ which decreases AD because $(X-M)$ is a component of AD causing less demand-pull inflation. This can be seen on the AD/AS model (AD-AD1).

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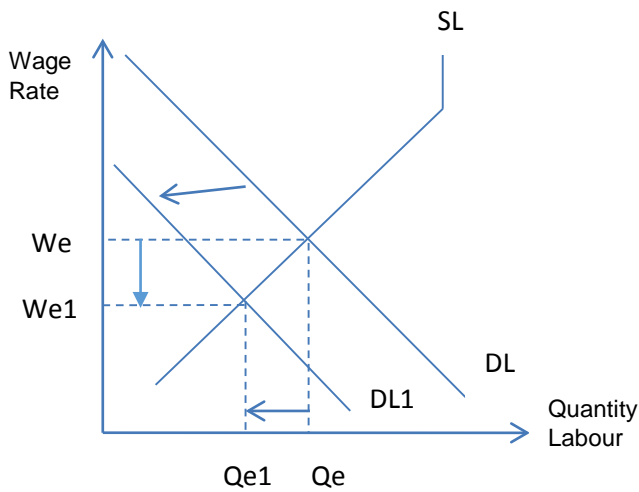
An increase in the \$NZ leads to a decrease in the cost of imported materials which leads to a decrease in COP leading to an increase in AS causing less cost-push inflation. This is seen on the AD/AS model (AS-AS1).

Interpret the trends: The unemployment rate in Graph 3 trends upwards starting at 5.2% in Dec 2010, to 7.8% in March 2013.

The percentage change in number of workers employed trends downwards from 1.4% in Dec 2010 to 1.1% in June 2011 and stays the same for Sept 2011. After Sept 2011, it trends downwards finishing at 0.3% in March 2013.

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Identify and explain the relationship: On Graph 3, the relationship between the two sets of data shows a negative relationship, the unemployment rate increases and the percentage change in number of workers employed decreases.



If there were less workers employed then there would be more unemployed individuals. A decrease in unemployment can cause the DL curve to move inwards, we can illustrate this on the Labour Market model by shifting the DL curve inwards showing a decrease in unemployment ($Qe - Qe1$) and a decrease in the wage rate ($We - We1$) and no involuntary unemployment.

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A decrease in unemployment can cause the AD curve to move inward showing a decrease in real GDP ($Y - Y1$) and a decrease in the price level ($PL - PL1$).

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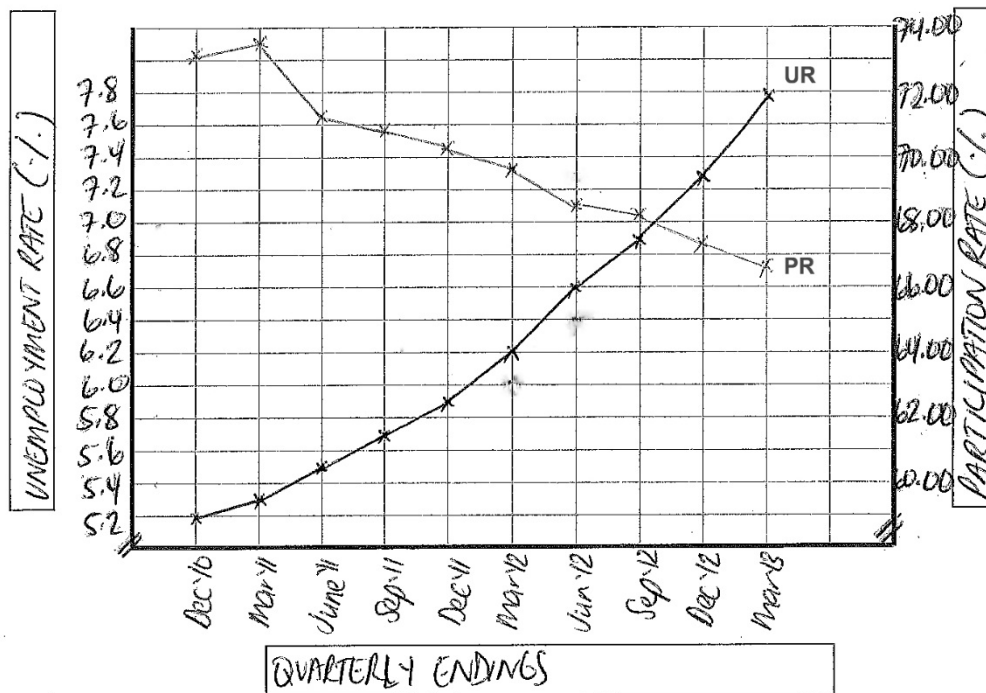
Interpret the trends: The unemployment rate in Graph 4 trends upwards starting at 5.2% in Dec 2010, to 7.8% in March 2013.

The participation rate trends upwards from Dec 2010 from 72.56% to 72.78% in March 2011. After March 2011, the participation rate trends downwards to 66.97% in March 2013.

The participation rate trends upwards from Dec 2010 from 72.56% to 72.78% in March 2011. After March 2011, the participation rate trends downwards to 66.97% in March 2013.

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Graph 4: UNEMPLOYMENT RATE & PARTICIPATION RATE



Identify and explain the relationship: This relationship shows that as the unemployment rate increases the participation rate decreases, indicating that there is a negative relationship between the two data sets.

If there were a higher unemployment rate then there would be less willingness in the population to join the labour force, which decreases the participation rate as individuals lose confidence in the labour force.

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Inter-relationships

Interpret the trends and explain the inter-relationships between the inflation data (graphs 1 and 2) and the unemployment data (graphs 3 and 4).

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The inflation rate trends upwards in Dec 2010 from 0.9% to 1.1% in March 2011. The inflation rate remains the same for June 2011. After June 2011, the inflation rate trends downwards at each quarter to 0.4% in March 2013. The unemployment rate trends upwards starting at 5.2% in Dec 2010, to 7.8% in March 2013.