Introduction:

The specific policy objectives are to reduce the unemployment level from 6.2% in 2013 to 4.5% in the next two years, and to increase real growth (RGDP) from 2.5% in 2013 to 4% in the next two years. Some of the growth in nominal GDP can often be attributed to demand-pull or cost-push inflation. Therefore, the combination of government policies needs to be able to achieve real growth and employment while minimising any negative impacts on inflation and the balance of payments (current account). 5

Primary policy 1: Investing in Infrastructure, expansionary fiscal policy - Rebuilding Christchurch

Primary policy 2: Investing in Infrastructure, expansionary fiscal policy - Improving transport systems

Primary policy 3: Investing in new technology for the agricultural sector, expansionary fiscal policy

Secondary policy 4: Subsidise more scholarships for technology university students 7

[Student explained the four policies above in detail, presenting accurately labelled models, and integrated the language of the AS/AD and Labour market models into the explanations of the short-term direct impacts and long-term flow-on effects of the policies].

Summary:

Therefore, overall, through this mix of three primary policies and single secondary policy we can increase Real GDP and improve employment levels in New Zealand.

All four policies will improve employment by improving productivity, shifting the AS curve right in the long term (improving infrastructure, investing in agricultural technology, subsidising scholarships) and by shifts right of the AD curve in the short term (improving transport systems, rebuilding Christchurch, and the other two mentioned above).

Graphs 1 and 4 prove that the shifts right of the AD and AS curves increase GDP from Y1 to Y2 and therefore increase employment. As proved by graph 2, DL increases from DL1 to DL2 because firms have to hire more workers to produce more goods and services (derived demand), and wage costs rise from W1 to W2. 6

The policies 1-3 will cause the price level to rise as the shift AD right (as proved by graph 1, AD shifts from AD1 to AD2, price level rises from PL1 to PL2) in the short term. However, the policies also reduce inflation, because eventually the shifts right of AS cause price level to drop, as proved by graph 4, as AS1 shifts to AS2, PL drops from PL1 to PL2 in the long term.

I estimate therefore that between them the effects of one should balance the effects of the others. 8

Almost all of the polices have positive effects on the balance of payments (exports-imports), as they increase AS, which both lowers price levels and increases Real GDP making our goods more attractive to consumers both in NZ and overseas.
Allowing us to have more goods to export as proven on graph 5 as price decreases from P1 to P2, quantity demanded increases from Q1 to Q2 and therefore improve our exports to imports ratio. 6

The exception to this is the rebuilding Christchurch policy, which increases demand-pull inflation due to increased consumption and wage costs rise, creating an inflationary spiral. Therefore, this can have a negative effect on the attractiveness of our goods and services to price motivated consumers both here and overseas.
However, rebuilding Christchurch shifts AD right so increases our GDP and employment levels, as well as improving overall national morale, which is why I continue to advocate it as a viable economic policy.