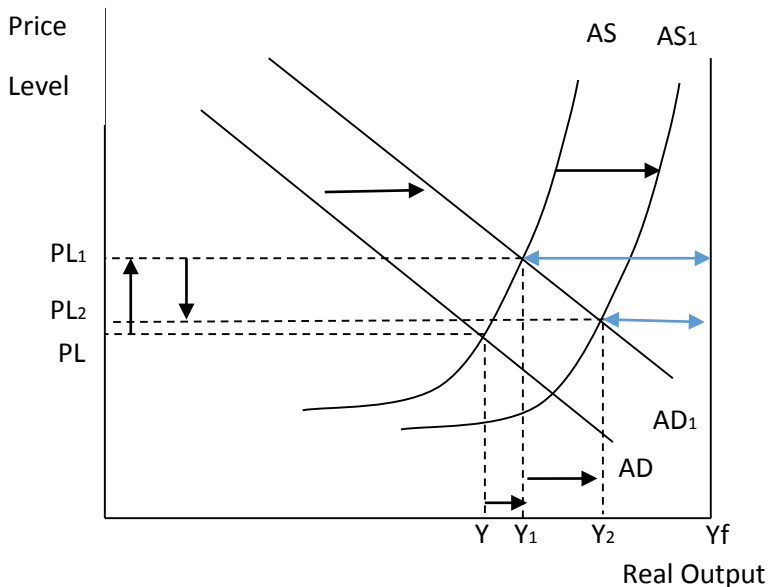


Sustainable economic growth is large growth that ensures that the use of resources and the environment today does not damage prospects for use by future generations i.e. can be continued long into the future without negative effects further in time. Significant growth relates to closing the gap between NZ and Australia. 17

Policy 1: The first policy is to subsidise fees for specific courses, which have been selected by the government as needing skilled and/or retrained workers. This will increase (G), therefore shifting AD to the right to AD1.



The objective of this policy is to get people in NZ to gain specific qualifications/skills for areas of work that are experiencing staff shortages. This policy will reduce the amount of unemployed, as retrained and upskilled beneficiaries gain qualifications for job vacancies, and are available to go straight into work. This is shown on the model by the eventual shift closer to 'Y full'. This will help government transfers to decrease as the numbers of previously unemployed decreases. Therefore, there will be a double shift in price levels, going down as AD shifts to AD1 and the AS curve shifts right from AS

to AS1. This will mean price level stays constant, however due to the AD shift there will be an increase in economic growth and when the AS growth kicks in there will be significant economic growth. 18

Policy 2: Involves the government refunding some tax/giving tax credits to higher earning firms once they have invested money into research & development (R&D). The money is only refunded to the firms once the R&D has been completed. This will create demand-side growth, because this will increase (G), therefore shifting AD to the right to AD1.

This will increase firms' productivity if the R&D is successful, thus decreasing their costs of production, and... 20

The increase in productivity will cause a shift in the AS curve to the right to AS1. This will increase the firm's profit, therefore Real GDP and economic growth will occur seen as Y moving to Y2 and unemployment decreases from Y1-Yf to Y2-Yf. 18

Policy 3: Keep the Kiwisaver scheme going so that as well as people saving their money, both firms and the government will invest into this scheme shown in the graph above by the shift in the AD curve to AD1 as the government is spending more money due to this scheme, because... 20

This will lower current consumption and give firms more money to spend on capital goods, because... This is shown in the model above by the shift from AS to AS1. This will create both supply-side and demand-side growth, by.... 20

Combined flow-on effects on Inflation:

1. As shown on the AS/AD model inflation (price level) will increase from PL to PL1, with more qualified and skilled workers, productivity would improve so AS will increase and then price level reduces from PL1 to PL2. 18

2. There is some demand-side growth, hence there is some inflation from PL to PL1, but this is inflation only in the short term. Successful R&D will improve productivity; hence, production becomes less expensive so prices can go down from PL1 to PL2. In the long term the inflation will be countered due to the AS growth making this a sustainable policy to use.

3. There would have been a short period of inflation when this policy is first started. Now there will be disinflation as we are well into this policy, due to...

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However, this inflation will only occur in the short term as the supply-side growth in the same policy will lower the inflation (disinflation) over a longer term effectively 'undoing' the small amount of inflation created by the demand-side growth when the policy was first introduced, because...

Overall, disinflation will occur in the long term, as there is supply-side growth. However, there will be a small amount of inflation in the short term at first when the policy package is introduced. This is due to there being some demand-side inflation, due to...

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Combined flow-on effects on Employment:

In all three policies, the levels of unemployment decrease, increasing levels of employment closer to 'Y full', by...

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Summary:

Therefore, these policies would achieve significant growth shown by the large amount of supply-side growth. This is the best option, as it does not increase inflation as demand-side growth does.

These policies will achieve significant economic growth as there will be a multiplier effect such as when R&D is successful and other firms will have to set up to produce this new good/service/technology. This will cause an increase in employment to fill the new jobs created, but these firms will also need raw materials which could be purchased locally thus creating an increase in local demand.

Hence, some induced spending will occur as local firms would be receiving more income and there will be an increase in local employment. There would be both supply-side and demand-side growth so the growth will be a lot faster than if there was only one type of growth.

Therefore, the policies do not need any extra policies, as there is already a multiplier effect for growth, which will achieve significant growth. The policies don't need any additional policies to combat the effects of inflation as despite there being a small increase in inflation in the short term, the supply-side growth will counter that and in the long term there will be deflation (negative inflation).

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The policies achieve sustainable growth by...

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