

**Sustainable Development:** Sustainable development requires that actions taken at the present do not inhibit prospects of future generations to enjoy the level of consumption, wealth, utility or welfare compared to those enjoyed by the present population.

**Significant Economic Growth:** Significant economic growth is achieved when the policy introduced has a multiplier effect on the economy. This means that growth in one section of the economy will have flow on effects, which result in even more growth effects for this section of the economy.

For example, if firms benefited from an increase in export receipts and so increased production, they would pay more wages out to their workers (households). This increase in disposable income (HDI) of the households will lead to increased consumer spending which will lead to firm's further increasing production. This further increase in production is the multiplier effect.

**Policy 1:** Subsidisation of tertiary education is an expansionary fiscal policy. The NZ government should invest in certain areas of tertiary education. This will create a more skilled workforce, as students who go to university and see selected courses are now cheaper, are more likely to stick to it until they graduate. The areas that should be subsidised are science, information technology (IT), and agriculture. This is because science and IT are changing the world that we live in, and agriculture is part of NZ's biggest industries. As these industries can reward you with a sizable income return e.g. science = cancer research, technology experts = web designers/game designers/content creators/system architects, and agriculture = dairy technology/genetic engineering/pest control.

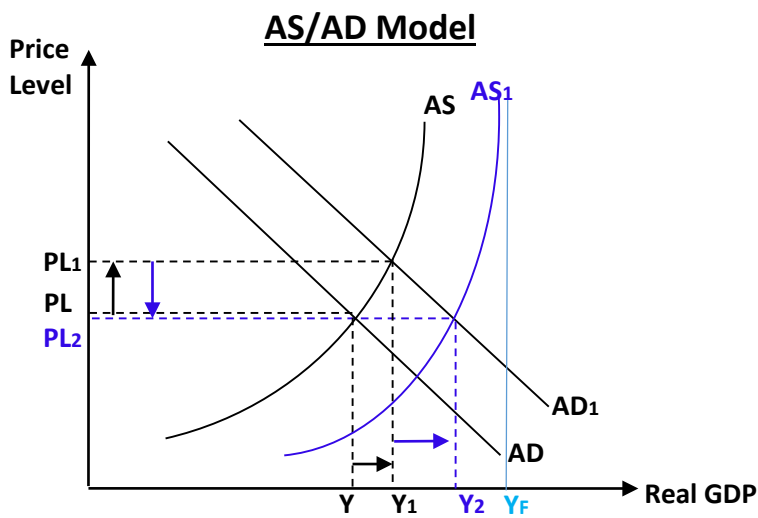
The workers' demand for goods and services will increase overall so consumption spending will increase (C), increasing AD because (C) is a component of AD, the AD curve has shifted to the right to AD1 as seen on the model. If there is an increase in demand for milk/milk products, dairy farmers' income will increase. This may result in an increase in firms supplying more spa pools (this is called induced spending). An indirect expenditure flowing on from a farmer's increase in dairy production could be a purchase of more fertiliser products for the farmer's pastures.

A way for the government to get maximum benefits out of this is to lay down some guidelines for the subsidised courses. One recommendation is making students who benefit from the cheaper, subsidised courses stay and work in NZ for five years after graduating. This will mean the income that they earn will be spent in the NZ economy. Additionally, if they quit the course or go overseas earlier they have to pay the cost of the course back to the government. The graph shows that because demand for products has increased, prices have risen. This will increase our inflation rate (PL-PL1), creating demand-pull inflation. However, real output has increased (Y-Y1), so more jobs will be created to cater for the needs of the economy, moving us closer to Yf and significant economic growth.

**Policy 2:** Lowering company tax is a supply-side fiscal policy. A low company tax policy in NZ could attract overseas investors to start new firms, and our higher skilled workforce would make the decision to invest here easier. However, we would need to put in place some requirements like employing a certain number of New Zealanders. The AS curve would shift right to AS1 because costs of production have decreased and the extra employment (spending) is seen as a shift along the AD1 curve to the new intersection of AD1 and AS1.

Inflation has been counter-balanced, because the increase in AD from Policy 1 pushed up prices, but Policy 2 shifts the AS curve, therefore price level decreases from PL1 to PL2, easing cost-push inflation and real output has increased further from Y1 to Y2, moving closer to full employment (Yfull) and more economic growth.

**Policy 3:** Subsidisation of research and development (R&D) is a supply-side fiscal policy, as the government would help firms by subsidising a certain percentage of firms' R&D costs. If firms are willing to invest \$10,000 dollars in R&D, the government will provide an extra 10%, investing \$1,000 dollars into approved research and development areas. If a firm is willing to invest more, then proportionally the amount of subsidy received by firms will increase.



As firms now have more incentive to invest in R&D this will shift the AS curve to the right to AS1, as they develop more efficient ways to use their resources and faster ways to produce. This will push down prices on the world market and our NZ exports (e.g. dairy products) will become more competitive. This will mean we will sell more and have higher incomes. This is why AD shifts to the right, AD1, the increase in income will flow through to the rest of the economy. More luxury goods will be demanded, as a higher disposable income has occurred and consumption increases. This double shift on the graph again counter-balances

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the inflation rate, because increased AD pushes up prices, and increased AS decreases prices (PL-PL1-PL2). This means it has no substantial effect on prices in general on the NZ market.

**Combined policies flow-on effects on Inflation:** Subsidisation of tertiary education has shifted AD to the right; this increases prices and therefore creates some demand-pull inflation. However, the other two policies show no increase or a decrease in inflation, because the policies result in a double shift or a shift of the AS curve to the right, so the only real thing that has happened is real output has increased, shifted right from Y to Y2, so this means we have successfully achieved economic growth.

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**Combined policies flow-on effects on Employment:** All three policies create more jobs in NZ and decrease unemployment. Increased AD is causing firms to hire more workers so they can cater for consumers increased spending and for producing our exports, AD shifts to AD1.

Increased aggregate supply is creating the need for more workers due to new technology (policy 3) as the machines need skilled people to operate them with the shift right of AS to AS1, and both shifts has increased real output from Y to Y2, and this reduces unemployment, moving our economy closer to full employment (Yfull).

**Summary:** The policies have achieved significant economic growth, because our newly skilled workforce and lower company tax rate have increased our households' disposable income.

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This means net social welfare will increase, and stay that way as they keep on earning more income. The new jobs create employees with income they can now spend on goods and services. The owners /employers who benefit from this consumer spending will be able to increase their spending so this cycle will continually repeat itself.

Overall, the government will also cover its costs from the policies; this is because they will benefit from an increase in the income PAYE tax, and more GST from consumers buying more goods and services. If the government decided to adopt this policy package, they would benefit from it for many years to come. It will help close the income gap between NZ and Australia, which has been a target they are trying to reach.

They achieve sustainable economic growth as well, because of the R&D policy...

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**Example of an explanation of why for policy 1:** the increase in AD is due to an increase in (G), and an increase in skills/training could lead to an increase in AS longer term, due to improved productivity of labour.

**Example of further explanation of how the policies counteract any negative impact on inflation:**

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Using the example above for policy 1 of improved productivity of labour, which could create a double shift of the AD and AS curves for policy 1. Therefore, two policies have double shifts, which means overall price level remains relatively constant, so minimising the impact of the growth policies on inflation and easing any demand-side inflationary pressure from increases in (G) and (C).