

# New Zealand Economics Competition

## 2004 Question Paper Thursday, 20<sup>th</sup> May 2004

### Instructions:

1. Do not open this booklet until instructed by your teacher
2. You have **fifty minutes** to answer all **forty questions**
3. Pencils and erasers only are permitted
4. Read all instructions in the Response Sheet provided
5. Mark your answers using **pencil only** on the Response Sheet
6. All questions are of equal value
7. **One mark** will be awarded for each correct response
8. Avoid random guessing, as **one quarter** of a mark will be deducted for each incorrect answer
9. PLEASE MAKE SURE YOU FILL IN YOUR NAME CORRECTLY ON THE RESPONSE SHEET. ANY MISTAKES YOU MAKE WILL APPEAR ON YOUR CERTIFICATE



THE UNIVERSITY OF AUCKLAND  
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- 1 In economics, the cost of something is
  - (a) the dollars required to buy it
  - (b) always measured in units of time given up to obtain it
  - (c) what you give up to get it
  - (d) usually higher than people expect it to be
  
- 2 Scarcity exists when
  - (a) there is less than an infinite amount of a good
  - (b) society is able to meet the wants of every individual
  - (c) there is less of a good or resource available than people wish to have
  - (d) the government fails to produce goods
  
- 3 People make economic decisions by
  - (a) following tradition
  - (b) calculating dollar costs
  - (c) experience
  - (d) comparing costs and benefits
  
- 4 Prices direct economic activity in a market economy by
  - (a) influencing the actions of buyers and sellers
  - (b) reducing scarcity of the goods and services produced
  - (c) promoting equity
  - (d) eliminating the need for government intervention
  
- 5 Suppose a retailer has perishable items that will be given away if they are not sold before the Christmas holiday break. Each item costs the retailer \$2. On the last day before the holiday break, the retailer finds 2000 items are still unsold. The retailer should set a price
  - (a) above \$2
  - (b) equal to \$2
  - (c) that gives the greatest price per item sold
  - (d) that maximises total receipts
  
- 6 Ian has spent \$500 purchasing and repairing an old car. He expects to sell it for \$800. Unfortunately the car develops a further fault, which will cost an additional \$400 to rectify. He can sell the car as it is now for \$300.
  - (a) Ian should sell the car for \$300
  - (b) Ian should make the repair and then sell the car for \$800
  - (c) The options in (a) and (b) are equally desirable
  - (d) There is insufficient information to say which of (a) and (b) is better

- 7 An increase of 15% in the price of rubber leads to a decrease in revenue. Which of the following statements is correct?
- (a) Demand for rubber is inelastic
  - (b) Demand for rubber is elastic
  - (c) Supply of rubber is inelastic
  - (d) Supply of rubber is elastic
- 8 If the law of diminishing returns holds
- (a) the marginal product of each input is decreasing
  - (b) marginal cost decreases with output
  - (c) the production function is downward sloping
  - (d) all of the above
- 9 If labour is the only variable input, which of the following is true of the relationship between the marginal product of labour and the marginal cost of output?
- (a) Marginal cost is the inverse of marginal product
  - (b) Marginal cost equals the wage divided by the marginal product
  - (c) Marginal cost is constant when marginal product is subject to diminishing returns
  - (d) Marginal cost is upward sloping when marginal product is upward sloping
- 10 Total cost equals
- (a) the ratio of fixed to variable costs
  - (b) the product of fixed and variable costs
  - (c) the sum of fixed and variable costs
  - (d) none of the above
- 11 Increasing returns to scale means
- (a) the long run marginal cost curve is downward sloping
  - (b) the long run average cost curve is downward sloping
  - (c) firms should increase production in the long run
  - (d) both (a) and (b) above
- 12 In equilibrium, for a perfectly competitive firm,
- (a) price equals marginal revenue
  - (b) price equals average revenue per unit
  - (c) price equals marginal cost
  - (d) all of the above

- 13 For any firm, when average cost equals average revenue, it is always the case that
- (a) profit is zero
  - (b) marginal cost is equal to minimum of average cost
  - (c) profit is maximised
  - (d) marginal revenue is less than zero
- 14 Suppose that a perfectly competitive market with identical firms is initially in long run equilibrium. If the market demand curve shifts to the right, the price of the good in the new long run equilibrium will be
- (a) higher and each firm will produce more output
  - (b) higher and each firm will produce the same output
  - (c) the same and each firm will produce more output
  - (d) the same and each firm will produce the same output
- 15 A natural monopoly is most likely to occur when
- (a) average costs of production for a single firm are falling up to levels of output beyond those likely to emerge in the market
  - (b) supernormal profits are available to the first firm to enter a new market
  - (c) legal protection is afforded to a firm through patent licencing or copyright laws
  - (d) all of the above
- 16 A monopolist is producing at an output level of 10,000 units. If output was to rise to 12,000 units, total revenue would increase, marginal revenue would fall from \$2.00 to \$1.90 and marginal cost would rise from \$2.00 to \$2.10. To maximise profit the monopolist should:
- (a) increase output to 12000 units
  - (b) increase output to a range between 10000 and 12000 units
  - (c) leave output unchanged at 10000 units
  - (d) reduce output to a level below 10000 units
- 17 In monopolistic competition, in equilibrium
- (a) firms make zero economic profit
  - (b) marginal revenue equals marginal cost
  - (c) price is equal to average cost
  - (d) all of the above
- 18 When the products sold in an industry are differentiated, if one firm lowers its price
- (a) it will achieve total market share
  - (b) it will gain some increase in market share
  - (c) its market share will remain unchanged
  - (d) it will go out of business

- 19 When the social marginal cost of an activity is greater than its private marginal cost it should be
- (a) forbidden
  - (b) subsidised
  - (c) taxed
  - (d) ignored
- 20 The Coase Theorem states
- (a) that negative externalities should be subsidised
  - (b) that government should allocate resources when markets fail
  - (c) that assignment of property rights can solve externality problems
  - (d) all of the above
- 21 Which of the following statements about the Circular Flow Model of Income and Spending is correct?
- (a) Firms provide the factors of production to households
  - (b) Imports increase the flow of income
  - (c) Exports decrease the flow of income
  - (d) Households save and firms invest
- 22 Domestic saving must equal investment in
- (a) open economies only
  - (b) closed economies only
  - (c) both open and closed economies
  - (d) neither open or closed economies
- 23 A firm produces consumer goods and adds some to its inventory during the 3<sup>rd</sup> quarter of a year. At the end of the year the firm sells its inventory stock at its retail outlet. As a result of these actions, what components of real GDP change in the 4<sup>th</sup> quarter?
- (a) Only inventory investment has fallen
  - (b) No component of real GDP has changed
  - (c) Investment decreases and consumption has risen
  - (d) None of the above
- 24 A nation's GDP is \$10,000. Investment is \$2,000, government spending is \$2,000 and net exports are negative \$1,000. This means that
- (a) consumption equals \$7,000
  - (b) consumption equals \$5,000
  - (c) savings equals \$1,000
  - (d) there is an error in the National Accounts

- 25 Alan Bollard is the
- (a) Secretary of the Treasury
  - (b) Governor of the Reserve Bank of New Zealand
  - (c) Leader of the Opposition
  - (d) Minister of Finance
- 26 In the 16<sup>th</sup> and 17<sup>th</sup> centuries Spain imported large quantities of gold from the New World. This gold was used largely to finance consumption. We would predict that this large inflow of gold would
- (a) raise the price level, but decrease the value of gold in Spain
  - (b) raise both the price level and the value of gold in Spain
  - (c) lower both the price level and the value of gold in Spain
  - (d) lower the price level but increase the value of gold in Spain
- 27 When the price level increases the quantity of money
- (a) demanded decreases
  - (b) demanded increases
  - (c) supplied increases
  - (d) supplied decreases
- 28 If the reserve ratio is 5% and a bank receives a new deposit of \$500, this will
- (a) initially see its total reserves increase by \$500
  - (b) allow it to make a new loan of \$475
  - (c) increase its required reserves by \$25
  - (d) do all of the above
- 29 If the money supply curve shifts to the left
- (a) the equilibrium price level falls
  - (b) the equilibrium price level rises
  - (c) investment rises
  - (d) the demand for goods and services rises
- 30 Suppose the interest rate offered on savings deposits is 6 percent. The inflation rate is expected to be 2 percent. What is the real rate of interest?
- (a) 6 percent
  - (b) 2 percent
  - (c) 8 percent
  - (d) 4 percent

- 31 The aggregate demand curve will move to the right if
- (a) productivity decreases
  - (b) imports increase
  - (c) interest rates fall
  - (d) business confidence falls
- 32 If the short run aggregate supply curve shifts outwards
- (a) the price level and employment will increase
  - (b) the price level and employment will decrease
  - (c) real GDP and employment will increase
  - (d) any recessionary gap will increase in size
- 33 Most economists believe that a tradeoff between inflation and unemployment exists
- (a) only in the short run
  - (b) only in the long run
  - (c) in both the short and long run
  - (d) in neither the short nor long run
- 34 If the New Zealand real exchange rate appreciates, exports
- (a) and imports increase
  - (b) and imports decrease
  - (c) increase and imports decrease
  - (d) decrease and imports increase
- 35 Suppose the nominal exchange rate between the yen and the New Zealand dollar is 60 yen per New Zealand dollar, and the exchange rate between the Australian dollar and the New Zealand dollar is 0.80 Australian dollars per New Zealand dollar. How many yen would it take to buy an Australian dollar?
- (a) 48
  - (b) 75
  - (c) 0.48
  - (d) 0.75
- 36 If purchasing power parity holds, then the value of the
- (a) real exchange rate is equal to one
  - (b) nominal exchange rate is equal to one
  - (c) real exchange rate equals the nominal exchange rate
  - (d) real exchange rate is equal to the difference in inflation rates between countries

- 37 When a country's central bank allows the domestic money supply to increase, its
- (a) price level falls and its currency depreciates relative to other currencies
  - (b) price level falls and its currency appreciates relative to other currencies
  - (c) price level rises and its currency depreciates relative to other currencies
  - (d) price level rises and its currency appreciates relative to other currencies
- 38 Which of the following statements is true for an open economy with a trade surplus?
- (a) Business cycles within the economy will ensure the surplus is removed over time
  - (b) The trade surplus must be offset by negative net capital outflows
  - (c) The trade surplus implies that the country's national saving is greater than domestic investment
  - (d) All the above are incorrect
- 39 A limit placed on the quantity of a good produced abroad that can be purchased locally is called
- (a) a tariff
  - (b) an excise tax
  - (c) an arbitrage
  - (d) an import quota
- 40 In the long run the standard of living of a country depends primarily on
- (a) the fraction of real income saved
  - (b) the rate of productivity growth
  - (c) the rate of inflation
  - (d) none of the above

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Acknowledgments

The UNSW Commerce and Economics Society would like to acknowledge and thank the following organisations in providing support and input into the Competitions and, in particular, the development of the Competition questions.

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