

PwC New Zealand Economics Competition

2006 Question Paper Thursday, 18th May 2006

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. Choose the **most correct** option to the question and colour in the corresponding oval on the Response Sheet
8. **One mark** will be awarded for each correct response
9. Avoid random guessing, as **one quarter** of a mark will be deducted for each incorrect answer
10. 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
NEW SOUTH WALES



FACULTY OF COMMERCE
AND ECONOMICS

PRICEWATERHOUSECOOPERS 

1. What is the economic problem?
 - a) Resources are limited but wants are limited
 - b) Resources are unlimited but needs are limited
 - c) Resources are unlimited but wants are unlimited
 - d) Resources are limited but wants are unlimited

2. Who wrote the General Theory of Employment, Interest, and Money?
 - a) Adam Smith
 - b) Karl Marx
 - c) John Maynard Keynes
 - d) Dr Karl K

3. If $Y = C + I + G + X - M$, and if C increases, G increases and M decreases, what would be the expected effect on Y:
 - a) Y would increase
 - b) Y would decrease
 - c) Y would stay the same
 - d) This cannot be determined from the given information

4. Other things being equal, the supply of a good will increase if:
 - a) The price of the good increases
 - b) The price of the factors of production increases
 - c) The expected future price of the good decreases
 - d) The price of a substitute good increases

5. A decrease in the Overnight Cash Rate by the Reserve Bank of New Zealand:
 - a) Increases overall interest rates and increases aggregate demand.
 - b) Increases overall interest rates and decreases aggregate demand.
 - c) Decreases overall interest rates and increases aggregate demand.
 - d) Decreases overall interest rates and decreases aggregate demand.

6. Which of the following statements about the minimum wage in New Zealand is **true**?
 - a) The teenage and adult minimum wages have fallen steadily in purchasing power since 1999.
 - b) A lower minimum wage exists for teenagers aged 16 and 17, but the adult minimum wage now covers those aged 18 and above.
 - c) All minimum wages were abolished during the economic reforms in the 1980's.
 - d) There is only a single minimum wage in New Zealand, and it is set by legislation to be equal to the average wage in the country.

7. In open market operations, the Reserve Bank of New Zealand purchases Government Securities to:

- a) Increase the money supply and increase interest rates
- b) Decrease the money supply and increase interest rates
- c) Decrease the money supply and decrease interest rates
- d) Increase the money supply and decrease interest rates

8. If tertiary education has a 'positive externality' in New Zealand, which of the following statements is **true**?

- a) Society derives some of the benefits from an individual's tertiary study.
- b) Society bears some the costs of an individual's tertiary study.
- c) The individual derives none of the benefits of his or her tertiary study.
- d) If society pays for some of the costs of this education, then there will be too many students in tertiary education.

9. The farmers of Spudsville are lobbying the government of Spudsville to change tariffs placed on potatoes from 10% to 25%. In other words they are:

- a) Encouraging free trade
- b) Discouraging free trade
- c) Lobbying for lower quotas
- d) Trying to sell more potatoes overseas

10. Which of the following is an argument against free trade in the long run?

- a) The Principal of Comparative Advantage and Specialisation
- b) Change in composition of domestic production
- c) Change in distribution of benefits from trade
- d) Change in terms of trade

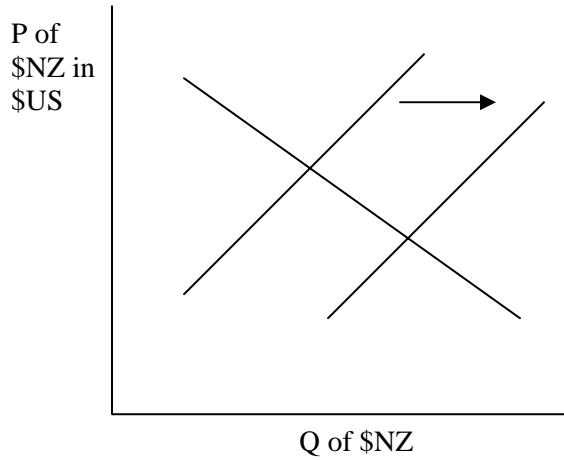
11. Which of the following would increase the level of protection for a domestic industry?

- a) Decrease the level of tariffs
- b) Decrease the level of subsidies for the industry
- c) Decrease the size of quotas on imports
- d) Decrease the use of embargoes

12. New Zealand's terms of trade would improve if:

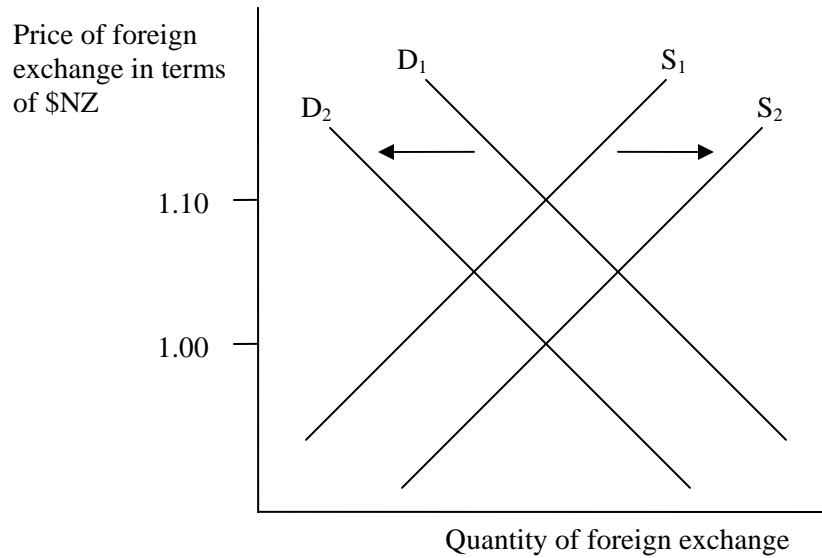
- a) The price of its exports fell
- b) The price of its imports fell
- c) The quantity of its exports rose
- d) The quantity of its imports rose

13. Which one of the following is likely to cause an increase in the supply of New Zealand Dollars from S1 to S2?



- a) More United States citizens visiting New Zealand
- b) A newly negotiated deal to increase exports of wool to the United States
- c) Cheaper airfares, which encourage more New Zealanders to holiday in the United States
- d) Increased subsidies to New Zealand's export industries

Question 14 refers to the following graph:



14. Assuming a floating exchange rate, the shift in demand for foreign exchange from D_1 to D_2 and supply of foreign exchange from S_1 to S_2 has led to:

- a) An appreciation of the \$NZ
- b) An increase in the supply of \$NZ
- c) A depreciation of the \$NZ
- d) A decrease in the demand for \$NZ

15. Which of the following statements about the Reserve Bank in New Zealand is **true**?

- a) Its primary responsibility is to keep the unemployment rate within a narrow band.
- b) Its primary responsibility is to keep the inflation rate within a narrow band.
- c) It is primarily responsible for conducting fiscal policy.
- d) Its operations are under the direct control of the Minister of Finance.

16. Which of the following is the biggest trading bloc in the world?

- a) WTO
- b) APEC
- c) EU
- d) NAFTA

17. Which international organisation is primarily concerned with the economic development of less economically developed countries?

- a) WTO
- b) IMF
- c) World Bank
- d) FIFA

18. At the natural rate of unemployment:

- a) There is no structural unemployment
- b) There is no cyclical unemployment
- c) There is no frictional unemployment
- d) There is no seasonal unemployment

19. The phenomenon known as "stagflation" occurs when:

- a) Inflation increases while unemployment decreases.
- b) Inflation decreases while unemployment increases.
- c) Both inflation and unemployment decrease
- d) Both inflation and unemployment increase

20. An increase in wages need not be inflationary if
- a) Prices rise by the same rate
 - b) Taxes fall by the same amount
 - c) Firms' profits increase by the same amount
 - d) Productivity increases at the same rate
21. If there is no hidden unemployment in the economy, which of the following will cause the labour market supply curve to shift to the right?
- a) Increase in wage rates
 - b) Decrease in labour mobility
 - c) An increase in economic activity within the economy
 - d) More attractive working conditions
22. What does the Crowding out effect refer to?
- a) The decrease in investment expenditure caused by expansionary fiscal policy
 - b) The decrease in interest rates caused by expansionary monetary policy
 - c) The increase in investment expenditure caused by expansionary fiscal policy
 - d) The decrease in interest rates cause by expansionary fiscal policy
23. Which of the following would be classified as Portfolio Investments? A foreign company
- a) Buys New Zealand exports
 - b) Lends money to New Zealand
 - c) Speculates in New Zealand dollars
 - d) Sets up a new business in New Zealand
24. Which of the following is not an example of microeconomic reform?
- a) Inflation targeting
 - b) Encouraging productivity growth
 - c) Increased trade protectionism policies
 - d) Lowering labour costs
25. Government economic policies are often subject to time lags. The time taken by fiscal policies to impact (after it has been implemented) is:
- a) Immediate
 - b) Subject to short term time lag (a few months)
 - c) Subject to medium term time lag (6-18 months)
 - d) Subject to long term time lag (up to 20 years)

26. What is the most significant result of a country's ageing population?
- a) Faster economic growth
 - b) Increased transfer payments
 - c) Lower domestic savings
 - d) Increase in the working age population
27. The GST is an example of a:
- a) Progressive tax
 - b) Direct tax
 - c) Proportional tax
 - d) Regressive tax
28. The Phillips curve was named after William (Bill) W. Phillips who was born in:
- a) United States
 - b) United Kingdom
 - c) Australia
 - d) New Zealand
29. Which of the following government policies will help New Zealand achieve external stability?
- a) Contractionary fiscal policy
 - b) Expansionary monetary policy
 - c) Increasing government debt
 - d) All of the above
30. Reducing tariffs in New Zealand during a period of high domestic inflation would:
- a) Worsen the current account deficit and increase foreign debt
 - b) Improve the current account deficit and boost domestic employment
 - c) Worsen the current account deficit and boost domestic employment
 - d) Improve the current account deficit and raise productivity levels in industry
31. Which of the following would be expected to result in an increase in New Zealand's Current Account Deficit?
- a) A reduction in Australia's savings rate
 - b) A reduction in Australia's net foreign debt
 - c) An increase in exports
 - d) A decrease in imports

32. Which of the following is a deficiency of Real GDP as a measure of national income?
- a) It only takes the private sector into account
 - b) It does not take domestic household production into account
 - c) It does not take inflation into account
 - d) It is not widely used by economists outside of Australia
33. Mat puts \$20 worth of petrol into his car each week. What can be deduced from this regarding his price elasticity of demand for petrol?
- a) It is relatively price elastic
 - b) It is relatively price inelastic
 - c) It has unit elasticity
 - d) More information is required
34. If beer and pretzels are 'complements' for an individual, then:
- a) An increase in the individual's income will increase the quantity demanded of both goods.
 - b) An increase in the individual's income will increase the quantity of beer demanded, but decrease the quantity of pretzels demanded.
 - c) An increase in the price of beer will reduce the demand for pretzels by the individual.
 - d) An increase in the price of beer will increase the demand for pretzels by the individual.
35. As of 2005, which country is the single largest exporter of crude oil in the world?
- a) United States
 - b) Iraq
 - c) Saudi Arabia
 - d) Russia
36. Michael can produce 50 kebabs or 100 chicken burgers, while Elly can produce 30 kebabs or 90 chicken burgers. Michael has an:
- a) Absolute advantage in the production of kebabs, but not chicken burgers, and has a comparative advantage in the production of kebabs.
 - b) Absolute advantage in the production of chicken burgers, but not kebabs, and has a comparative advantage in the production of chicken burgers
 - c) Absolute advantage in the production of kebabs and chicken burgers, as well as comparative advantage in the production of kebabs
 - d) Absolute advantage in the production of kebabs and chicken burgers, as well as comparative advantage in the production of kebabs and chicken burgers

37. Which of the following statements best characterises the economic history of New Zealand between 1999 and 2005?

- a) The unemployment rate rose as the government ran large budget deficits.
- b) The unemployment rate rose as the government ran large budget surpluses.
- c) The unemployment rate fell as the government ran large budget deficits.
- d) The unemployment rate fell as the government ran large budget surpluses.

38. If the Reserve Bank of New Zealand were to increase interest rates by 0.5%, which of the following would be unlikely to occur?

- a) The New Zealand exchange rate will appreciate against the Euro
- b) The number of personal loans taken out for cars will increase
- c) The rate of inflation in New Zealand will decrease
- d) International demand for New Zealand agricultural produce will decrease

39. Which of the following is an example of demand-pull inflation?

- a) The prices of household goods increases when consumers decide to purchase household goods in bulk in anticipation of price increases
- b) The prices of imported Brazilian beach thongs increases due to price increases in Brazil
- c) The prices in fast food restaurants increase due to an increase in the minimum wage rates
- d) The prices of soccer equipment increases due to a national rise in the popularity of soccer

40. If financial analysts are expecting the Reserve Bank of New Zealand to announce an increase in the cash rate, they would be most likely to:

- a) Sell NZD in the forex market and buy bonds in the securities market.
- b) Sell NZD in the forex market and sell bonds in the securities market.
- c) Buy NZD in the forex market and buy bonds in the securities market.
- d) Buy NZD in the forex market and sell bonds in the securities market.

- End of Paper -

About the PwC Economics and Business Studies Competitions

The Australian Economics and Business Competitions is a non-profit organisation based at the University of New South Wales. One of its aims is to promote the study of Commerce and Economics by running such projects as the Business Studies Competition and the Economics Competition. The organisation and its activities are run entirely by students on a voluntary basis with the generous support of the University and our principal sponsor, PricewaterhouseCoopers.

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- PricewaterhouseCoopers
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