THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL
Department of Economics

New Zealand Economics Competition

Tuesday 26 August 2008

Instructions:

1. Do not open this booklet until instructed to do so by your teacher.
2. You have **fifty minutes** to answer all **forty questions**.
3. Pencils and erasers only are permitted at your desk.
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 completely fill the corresponding box on the Response Sheet.
8. **One mark** will be awarded for each correct response.
9. Avoid guessing, as one quarter of a mark will be deducted for each incorrect answer.
10. Please **FILL IN YOUR NAME CORRECTLY in the boxes** on the Response Sheet. Any mistakes you make will appear on your certificate.

1. The demand curve for a good generally shows that its price and quantity are:
   a) independent of each other
   b) positively related
   c) negatively related
   d) likely to vary positively over time.

2. The concept of rationality in Economics means that individuals:
   a) make decisions that are in their own best interest
   b) make decisions that are consistent with widely-held social norms
   c) take actions that will always maximise their incomes
   d) All of the above.

3. In the model of consumer choice behaviour, a budget line (or constraint) for a consumer indicates:
   a) how quantity demanded must be less than or equal to quantity supplied for a good in the marketplace
   b) various combinations of two goods that provide a consumer with the same level of utility
   c) various combinations of two goods that can be purchased by a consumer with a given income
   d) various combinations of two goods that can be purchased by a consumer at different prices.

4. Assume a consumer spends all of her income and purchases a combination of goods X and Y so that the last dollars spent on both goods have the following ratios of marginal utility (MU) to price (P):

$$MU_X / P_X = 70 \qquad MU_Y / P_Y = 60$$

To maximise utility at this income level, this consumer should buy:

a) more of both X and Y

b) less of both X and Y

c) less of X and more of Y

d) more of X and less of Y.

5. The cross-price elasticity of demand for good X measures the change in the quantity of X demanded given a change in the:

a) price of X

b) price of another good Y

c) income of the consumer

d) extent of competition among producers in the market for X.

6. If 100 units of a good are offered for sale at a unit price of $10, while 400 units of the same good would be offered for sale at a unit price of $20, everything else held constant, we could conclude that the price elasticity of supply for this product is:

a) elastic

b) inelastic

c) infinitely elastic

d) perfectly inelastic.

7. In the short run:
   a) all production costs must be fixed
   b) all production inputs are variable in quantity
   c) a firm cannot experience diminishing returns to a factor of production
   d) there may be both fixed and variable costs of production.

8. The increase in total cost resulting from an increase in output of one unit is:
   a) total variable cost
   b) marginal cost
   c) average variable cost
   d) average fixed cost.

9. A firm's profit-maximising level of output in the short run occurs where:
   a) average revenue equals average cost
   b) total revenue is maximised
   c) marginal revenue equals marginal cost
   d) total variable costs are minimised.

10. A market characterised by many sellers, freedom of entry and exit, and differentiated products is:
    a) monopolistic competition
    b) a monopoly
    c) an oligopoly
    d) perfect competition.

11. In the long run, a perfectly competitive firm will:
    a) produce as long as total revenue exceeds total fixed costs
    b) exit the industry if earning a normal profit
    c) produce at an output level where total revenue is maximised
    d) produce at an output level where average total costs are at a minimum.

12. In a perfectly competitive market, the existence of short run economic profits would cause economic profits in the long run to:
    a) continue unchanged
    b) decline but remain positive indefinitely
    c) disappear because the market supply curve will shift to the right
    d) disappear because market costs will rise over time.

13. Suppose the market for a commodity is initially in equilibrium. If the supply curve shifts inward to the left and the market price is slow to react, which of the following scenarios will likely take place?
    a) A surplus (excess supply) will occur initially, and competitive forces will put upward pressure on the commodity's price.
    b) A shortage (excess demand) will occur initially, and competitive forces will put upward pressure on the commodity's price.
    c) A surplus (excess supply) will occur initially, and competitive forces will put downward pressure on the commodity's price.
    d) A shortage (excess demand) will occur initially, and competitive forces will put downward pressure on the commodity's price.

14. If the demand for a good is perfectly price inelastic, then which of the following statements is true?
    a) The position of the demand curve would determine the equilibrium quantity of the good produced.
    b) The position of the supply curve would determine the equilibrium quantity of the good produced.
    c) The equilibrium price of the good must be zero.
    d) The equilibrium quantity of the good produced must be zero.

15. The demand curve faced by a monopolist is always:
    a) perfectly elastic
    b) positively sloped
    c) identical to its marginal revenue curve
    d) the market demand curve.

16. A Lorenz Curve is used in an economy to measure the:
    a) tax burden on households
    b) trade-off between equity and efficiency
    c) extent of income equity
    d) extent of economic discrimination.

17. Externalities occur when:
    a) a good is produced at the lowest possible average cost
    b) there is a difference between the private and social cost of producing a good
    c) markets are unregulated
    d) agricultural products are exported through government-run trading organisations.

18. The Phillips Curve shows the possible short run trade-off between:
    a) long-term economic growth and equity
    b) inflation and government spending
    c) unemployment and immigration
    d) inflation and unemployment.

19. Which of the following actions would most likely shift the Production Possibilities Frontier (PPF) outward?
    a) Shifting production from one good to another.
    b) Employing idle resources.
    c) Improvements in technology.
    d) Lowering the mandatory age of retirement for workers.

20. Which of the following is the best example of a public good?
    a) Street lighting.
    b) A yacht.
    c) Oil production.
    d) A local sports betting facility.

21. To avoid double counting in the calculation of the final value of GDP (Gross Domestic Product) which of the following should be excluded?
    a) Net investment.
    b) Government purchases.
    c) The value of intermediate goods.
    d) Exports of final goods.

22. By definition, an economy experiences inflation when:
    a) the aggregate compensation to employees is rising
    b) the general price level is rising
    c) government spending is rising
    d) world oil prices are rising.

23. Which of the following is <u>not</u> considered as investment spending in New Zealand?
    a) Nissan building a factory in Invercargill.
    b) The purchase of a new home by a family in Auckland.
    c) The accumulation of inventory stock in a warehouse in Hamilton.
    d) The purchase of existing shares in a company in Christchurch.

24. If net investment equalled zero in New Zealand we could conclude that:
    a) net savings are zero
    b) imports equal exports
    c) any gross investment equals capital consumption allowance (or depreciation)
    d) no investment goods were produced domestically.

25. In which of the following situations is the real interest rate highest?
    a) Nominal interest rate is 12% and expected inflation rate is 6%.
    b) Nominal interest rate is 10% and expected inflation rate is 2%.
    c) Nominal interest rate is 16% and expected inflation rate is 10%.
    d) Nominal interest rate is 5% and expected inflation rate is –2%.

26. Assume exports and investment spending total $60 billion. Government purchases are $40 billion. Saving and net taxes total $90 billion. What would imports have to be for 'total leakages' to equal 'total injections' in the circular flow model?
    a) $10 billion.
    b) –$10 billion.
    c) $30 billion.
    d) –$30 billion.

27. The major responsibility for the Governor of the Reserve Bank of New Zealand is to:
    a) ensure that his or her signature appears on every banknote printed
    b) exercise prudent supervision over banks and other financial institutions
    c) maintain stability in the general price level
    d) smooth out fluctuations in aggregate economic activity.

28. The use of money as a medium of exchange reduces the need for:
    a) barter in the economy
    b) a commercial banking system
    c) commercial banks to hold reserves
    d) a stock exchange.

29. The money supply in New Zealand is backed by:
    a) gold
    b) government bonds
    c) foreign reserves
    d) the government's ability to regulate the money supply.

30. A rise in the Official Cash Rate (OCR) in New Zealand most likely implies:
    a) that other interest rates in the economy will increase
    b) the Governor of the Reserve Bank believes that a recession is imminent
    c) the savings rates will fall
    d) taxes will have to be increased to pay for increased government spending.

31. The official unemployment rate in New Zealand is best described by which of the following statements?
    a) The percentage of the population without a job
    b) The percentage of the labour force receiving a social welfare benefit and registering with the New Zealand Employment Service
    c) The percentage of the labour force without a job, and actively seeking and available for work
    d) The percentage of the population without a job, and actively seeking and available for work.

32. Recent rises in the price of oil will most likely cause:
    a) the aggregate demand curve and the short run aggregate supply curve to shift to the left
    b) the aggregate demand curve to shift to the right
    c) deflation in New Zealand
    d) a temporary increase in aggregate employment.

33. An aggregate supply curve that keeps real output at its initial level after a demand shock is most likely to be:
    a) negatively sloped
    b) positively sloped
    c) vertical
    d) horizontal.

34. Structural unemployment is caused by:
    a) recessions
    b) individuals opting for part-time employment
    c) social welfare policies that discourage beneficiaries from working or becoming self-employed
    d) mismatches between the skills of job seekers and the skills sought by employers.

35. Crowding out is the result of:
    a) excessive foreign investment in an economy
    b) falling real interest rates
    c) a rise in planned investment spending that reduces government spending
    d) expansionary fiscal policy that increases interest rates.

36. Suppose two countries produce two identical goods. It is impossible for one to:
    a) have an absolute advantage in both goods
    b) have a comparative advantage in both goods
    c) completely specialise in the production of the good that they export
    d) engage in international trade so that people in both countries are made better off.

37. In a system of floating exchange rates, an appreciation of the New Zealand dollar would likely cause:
    a) gold to flow out of New Zealand
    b) our imports to increase
    c) our exports to increase
    d) a surplus in the New Zealand Balance of Payments.

38. Purchasing-power parity says that the exchange rate between the currencies of any two countries:
    a) is stable only under a fixed exchange rate regime
    b) is managed by the buying and selling of foreign currencies by central banks in the two countries
    c) eventually adjusts to reflect the differences in the price levels in the two countries
    d) is volatile in the short run due to cyclical conditions in the two economies.

39. A limit on the quantity of a good that can be imported into a country is known as:
    a) a tariff
    b) a local resource consent
    c) an excise tax
    d) a quota.

40. Automatic stabilisers in macroeconomics:
    a) smooth out fluctuations in economic activity without requiring a deliberate change in government fiscal or monetary policy
    b) ensure that economic models return to equilibrium
    c) cannot be altered by the government
    d) smooth out fluctuations in economic activity as the result of a deliberate change in government fiscal or monetary policy.

Thank you for participating in the

2008 New Zealand Economics Competition