

NEW ZEALAND ECONOMICS COMPETITION

Tuesday, 18th August 2009

Instructions:

1. **Do not open this question booklet** until instructed to.
2. You have **fifty (50) minutes** to answer all **forty (40) questions**.
3. **Pencils and erasers only** are permitted at your desk.
4. Read all instructions on the Response Sheet provided.
5. **One (1) mark** will be awarded for each correct response.
6. Avoid guessing, as **one quarter ($\frac{1}{4}$) of a mark will be deducted** for each incorrect answer.
7. Choose the most correct option to the question and **completely fill the corresponding box** on the Response Sheet. Use **PENCIL only**.
8. Please make sure you complete **your name** and **fill in the circles for each letter** **CORRECTLY** on the Response Sheet. Any mistakes you make will appear on your certificate.
(If you have a hyphen or an apostrophe in your name please leave the corresponding column of circles blank.)

1. For the theory of utility, it is assumed that marginal utility
 - (a) increases as consumption of a good increases
 - (b) remains constant as consumption of a good increases
 - (c) diminishes as consumption of a good increases
 - (d) becomes negative as consumption of a good decreases

2. Which of the following is true for a consumer in equilibrium?
 - (a) The marginal utility of the last dollar spent on each good is equal
 - (b) The total utility for each good consumed is equal
 - (c) The total utility for each good consumed is zero
 - (d) Total utility must decrease at an increasing rate

3. In recent months the price of fresh salmon has *fallen* and the quantity sold has *risen*. Which of the following events is consistent with this observation?
 - (a) Consumers have acquired a renewed taste for fresh salmon
 - (b) The price of meat rose
 - (c) The price of meat fell
 - (d) Fresh salmon catches have gone up in recent months

4. If the percentage change in quantity demanded for a good is less than the percentage change in price, then demand for the good is
 - (a) inelastic
 - (b) elastic
 - (c) unit elastic
 - (d) inferior

5. If a 15% increase in income results in a 30% fall in the demand for a good, then other things equal, this good is
 - (a) a complementary good
 - (b) a substitute good
 - (c) a normal good
 - (d) an inferior good

6. Collected data indicated that 12 units of product X were sold at \$1 per unit. At a price of \$0.90 it was found that 15 units of product X were sold. We may conclude
 - (a) product X is a complementary good
 - (b) the demand for product X is price elastic
 - (c) the demand for product X is price inelastic
 - (d) product X is an inferior good

7. When two goods are substitutes, the cross price elasticity of demand is
 - (a) positive
 - (b) zero
 - (c) negative
 - (d) unity

8. The addition to total output arising from employing one more worker is
 - (a) average product
 - (b) total product
 - (c) marginal product
 - (d) average marginal product

9. When marginal product is higher than average product
 - (a) marginal product is negative
 - (b) average product is increasing
 - (c) average product is at a maximum
 - (d) average product is decreasing

10. The addition to total variable cost when one more unit of output is produced is
 - (a) marginal cost
 - (b) total cost
 - (c) fixed cost
 - (d) none of the above

11. If a firm is currently producing no output, then total cost equals
 - (a) zero
 - (b) total variable cost
 - (c) marginal cost
 - (d) total fixed cost

12. Which of the following describes the relationship between average variable cost (AVC) and marginal cost (MC)?
 - (a) MC intersects AVC at its lowest point
 - (b) MC must always lie above AVC
 - (c) MC must always lie below AVC
 - (d) AVC and MC must always rise together as output increases

13. When a firm is experiencing diseconomies of scale, its long run total cost curve is
 - (a) parallel to the horizontal axis
 - (b) decreasing at a decreasing rate
 - (c) increasing
 - (d) decreasing at an increasing rate

14. For a firm, if marginal revenue is less than marginal cost, then
 - (a) the firm is making an economic profit
 - (b) the firm is breaking even
 - (c) the firm should reduce its output to increase profit
 - (d) each successive unit produced will raise total profits

15. A firm will shut down in the short run if
- (a) total revenue is greater than total cost
 - (b) total cost is greater than total revenue
 - (c) total revenue is less than total variable costs
 - (d) it incurs an economic loss
16. A market characterised by easy entry and exit, many sellers and differentiated products is
- (a) natural monopoly
 - (b) oligopoly
 - (c) perfectly competitive
 - (d) monopolistic competition
17. Suppose a perfectly competitive market is in long run equilibrium. The market demand curve then shifts to the right. After a short run adjustment to the new equilibrium
- (a) market supply will have shifted to the left
 - (b) market price will be higher and quantity of output will be greater than originally
 - (c) market price will be lower and quantity of output will be greater than originally
 - (d) market price will be higher and quantity of output will be lower than originally

18. For a monopolist, when demand is price elastic, marginal revenue is
- (a) negative and total revenue is falling
 - (b) positive and total revenue is rising
 - (c) zero, with total revenue at a maximum
 - (d) positive and total revenue is falling
19. If the production of a good results in high air pollution then
- (a) not enough resources are allocated to the production of the good
 - (b) a tax on the product reduces market efficiency because the product demand curve shifts to the right
 - (c) market efficiency is improved if a tax on the pollution shifts the product supply curve to the left
 - (d) none of the above
20. Externalities occur when
- (a) a product is produced at the least cost per unit
 - (b) there is a difference between the private costs and the social costs of producing a good
 - (c) there are no spill-over costs or benefits associated with production
 - (d) the costs of producing the good are private costs

21. In a perfectly competitive market, positive economic profits would, in the long run
- (a) persist
 - (b) disappear due to increases in costs
 - (c) disappear because the supply curve has shifted to the right
 - (d) disappear due to economies of scale
22. An increase in real interest rates in New Zealand (NZ)
- (a) encourages both NZ and foreign residents to buy NZ assets
 - (b) discourages both NZ and foreign residents from buying NZ assets
 - (c) encourages NZ residents to buy NZ assets but discourages foreign residents from buying NZ assets
 - (d) discourages NZ residents from buying NZ assets but encourages foreign residents to buy NZ assets
23. If the marginal revenue is zero, then
- (a) total revenue is zero
 - (b) average revenue is zero
 - (c) total revenue is at a maximum
 - (d) average revenue is at a maximum

24. Unemployed resources for an economy can
- (a) cause the production possibilities frontier to shift inward
 - (b) be shown as a point inside a production possibilities frontier
 - (c) cause the slope of the production possibilities frontier to change
 - (d) none of the above
25. Assume the marginal propensity to consume is 0.6 and national income increases by 6 billion dollars. The change in consumer expenditure will be
- (a) a decrease of \$60 billion
 - (b) a decrease of \$10 billion
 - (c) an increase of \$3.6 billion
 - (d) an increase of \$10 billion
26. Suppose that firms produce more than they sell. In a circular flow model what is the most likely outcome?
- (a) A shortage of goods occurs
 - (b) An increase in the general price level
 - (c) An increase in firms' unplanned inventories
 - (d) An increase in national income

27. In economics, the term investment means the purchase of
- (a) new capital goods
 - (b) a government bond
 - (c) a valuable antique
 - (d) both (a) and (b) above
28. An increase in the interest rate causes investment to
- (a) fall and the exchange rate to appreciate
 - (b) fall and the exchange rate to depreciate
 - (c) remain unchanged as the exchange rate depreciates to offset the rise in interest rates
 - (d) none of the above
29. Which of the following types of employment does NOT exist at the natural rate of unemployment?
- (a) Job search unemployment
 - (b) Cyclical unemployment
 - (c) Structural unemployment
 - (d) All of the above

30. Crowding-out is a consequence of
- (a) an expansionary fiscal policy that increases interest rates and reduces planned investment
 - (b) a rise in planned investment that increases government spending
 - (c) planned saving exceeding planned investment
 - (d) falling real interest rates
31. Suppose that in an economy, aggregate demand remains fixed but aggregate supply shifts to the left. Which of the following will occur?
- (a) Inflation and a fall in unemployment
 - (b) Deflation and a fall in unemployment
 - (c) Inflation and a rise in unemployment
 - (d) Deflation and a rise in unemployment
32. Adverse supply shocks to an economy will result in
- (a) over employment
 - (b) unemployment
 - (c) cost push inflation
 - (d) both (b) and (c) above

33. The most important difference between aggregate supply in the short run and aggregate supply in the long run is determined by whether or not
- (a) fiscal policy has changed over the time period
 - (b) monetary policy has changed over the time period
 - (c) people have fully adapted to changes in the price level
 - (d) all of the above
34. In New Zealand, the most important instrument used in reducing inflation is
- (a) open market operations
 - (b) “jaw boning”
 - (c) the reserve ratio requirements of the trading banks
 - (d) the Official Cash Rate
35. Which of the following outcomes would indicate to observers that the Reserve Bank of New Zealand was following a “tight” monetary policy?
- (a) An increase in the money supply
 - (b) A fall in interest rates
 - (c) A rise in interest rates
 - (d) Both (a) and (c) above

36. Which of the following would cause the aggregate demand curve to shift to the left?
- (a) An increase in government purchases
 - (b) A decrease in stock prices
 - (c) Consumers and firms become more optimistic about the future.
 - (d) An increase in the price level
37. According to the Ricardian model of free trade, if a global free trade agreement was to be implemented,
- (a) each nation should specialise in areas in which it has a comparative advantage
 - (b) global production, or world GDP (Gross Domestic Product), should decrease
 - (c) unemployment would necessarily rise
 - (d) both (a) and (b) above
38. The quantity theory of money states that
- (a) long run changes in velocity are useful indicators of changes in the money stock
 - (b) long run changes in the money stock are useful predictors of changes in nominal GDP (Gross Domestic Product)
 - (c) short run changes in the price level necessarily cause changes in real output
 - (d) none of the above

39. If the government of Denmark implemented a policy that reduced national saving, the real exchange rate of Denmark's currency would
- (a) depreciate and Danish net exports would rise
 - (b) depreciate and Danish net exports would fall
 - (c) appreciate and Danish net exports would rise
 - (d) appreciate and Danish net exports would fall
40. If the New Zealand dollar is overvalued in foreign exchange markets then it will
- (a) buy less in foreign countries than it will buy at home
 - (b) appreciate in value
 - (c) fall below its equilibrium value in foreign exchange markets
 - (d) buy more in foreign countries than it will buy at home

**Thank you for participating in the
2009 New Zealand Economics Competition**