THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

2010 New Zealand Economics Competition

Tuesday 3 August 2010

Question booklet

Instructions:

1. **Do not open this question booklet until instructed to do so**.
2. You have fifty (50) minutes to answer all forty (40) questions. No additional time is allowed for reading.
3. Pencils and erasers only are permitted at your desk.
4. Read all instructions on the Response Sheet provided.
5. Please make sure you complete your name and fill in the circles for each letter CORRECTLY on the Response Sheet. (If you have a hyphen (-) or an apostrophe (') in your name please leave the corresponding column of circles blank.)
   Any mistakes you make will appear on your certificate.
6. Choose the most correct answer option to the question and completely fill the corresponding box on the Response Sheet. Use PENCIL only.
7. One (1) mark will be awarded for each correct answer.
8. Avoid guessing, as one quarter (¼) of a mark will be deducted for each incorrect answer.

1. The demand for patent leather shoes has risen, while the supply has fallen. At the new equilibrium:

   (A) the price of patent leather shoes will be higher and the quantity bought will be lower.

   (B) the price of patent leather shoes will be higher, but the quantity bought may be higher or lower.

   (C) the price of patent leather shoes will be higher and the quantity bought will be higher.

   (D) none of the above.

2. Freda consumes two goods, cosmetics and petrol. If the price of each good doubles and at the same time Freda's money income doubles, then we may say that Freda's budget line will:

   (A) swivel out so that the slope of the budget line halves.

   (B) swivel in so that the slope of the budget line doubles.

   (C) remain unchanged.

   (D) none of the above.

3. Alfonso's income increases. He spends the extra income on purchasing more potatoes for his evening meal. For Alfonso, potatoes are:

   (A) a normal good.

   (B) an inferior good.

   (C) a complementary good.

   (D) a Giffen good.

4. If the demand for good X rises when the price of good Y rises then we may say that goods X and Y are:

   (A) unrelated.

   (B) complements.

   (C) substitutes.

   (D) price inelastic.

5. Demand is likely to be most price inelastic under which of the following conditions?

   (A) There are no close substitutes and the time frame is short.

   (B) There are close substitutes and the time frame is long.

   (C) There are no close substitutes and the time frame is long.

   (D) The absolute value for the price elasticity of demand is greater than 1.

6. After you have purchased a loaf of bread:

   (A) the demand curve for bread shifts out slightly.

   (B) it would be irrational not to eat it.

   (C) the cost of the bread is sunk.

   (D) all of the above.

7. If a consumer with a given income is maximising her utility, then we can certainly conclude that:

   (A) the marginal utility from an additional unit of each good is zero.

   (B) the marginal utility from an additional unit of each good is the same.

   (C) the marginal utility from the last dollar spent is the same for each good.

   (D) the amount spent on each good is the same.

8. Anne consumes only mobile phones and cereal. Suppose that the price of mobile phones goes up (ceteris paribus). Anne is observed to reduce her mobile phone consumption and her marginal utility from mobile phones declines. We can conclude from this information that:

   (A) Anne's marginal utility from cereal has declined.

   (B) Anne's total utility has increased.

   (C) Anne's cereal consumption has increased.

   (D) Anne is irrational.

9. The demand curve faced by a monopolist is:

   (A) infinitely elastic.

   (B) infinitely inelastic.

   (C) its marginal revenue curve.

   (D) the market demand curve.

10. If marginal cost decreases, a monopolist will:

(A) reduce price and decrease quantity of output.

(B) reduce price and increase quantity of output.

(C) increase price and reduce quantity of output.

(D) increase price and increase quantity of output.

11. Which of the following is a public good?

(A) Milk.

(B) A television set.

(C) National defence.

(D) A night at the movies.

12. A shift to the right of a producer's supply of motor vehicles could indicate:

(A) an expectation of price rises for other goods that could be manufactured.

(B) a decline in the price of cars.

(C) a decline in technological expertise.

(D) a decline in the price of required inputs.

13. The principle of diminishing marginal returns to the variable inputs means that:

(A) the average cost curve must initially be decreasing.

(B) the supply curve is linear.

(C) the supply curve is non-linear.

(D) the average cost curve is eventually increasing.

14. If, at the current level of output for a firm, average cost (AC) is $6 and marginal cost (MC) is $5 then:

(A) there are decreasing returns to scale.

(B) since MC is less than AC, AC must be decreasing.

(C) since MC is less than AC, AC must be increasing.

(D) the MC curve will not intersect the AC curve at the AC curve's minimum point.

15. Perfectly competitive long run equilibrium exists where price:

(A) equals marginal cost.

(B) equals average variable cost.

(C) equals minimum average cost.

(D) all of the above.

16. In long run equilibrium in a monopolistically competitive industry:

(A) price equals marginal cost and profits are zero.

(B) price equals average cost and profits are positive.

(C) price is greater than marginal cost and profits are zero.

(D) price is greater than marginal cost and profits are positive.

17. Social costs will equal private costs if:

(A) the market mechanism leads to an efficient allocation of resources.

(B) the firm faces an upward sloping marginal cost curve.

(C) some of the costs of production are borne by third parties.

(D) all of the above.

18. Assume the production of a good imposes negative externalities. If the government forces producers to pay the external costs, then:

(A) the equilibrium quantity of the good will increase.

(B) the price of the good will decline.

(C) the equilibrium quantity of the good will stay the same.

(D) the equilibrium quantity of the good will decline.

19. An individual worker's supply of labour curve is usually assumed to:

    (A) be negatively sloped at all wage rates.

    (B) become negatively sloped at very high wage rates.

    (C) become positively sloped only at very high wage rates.

    (D) be negatively sloped at very low wage rates.

20. A firm that hires workers in a perfectly competitive labour market will:

    (A) have an upward sloping marginal factor cost curve if the firm sells in a perfectly competitive market.

    (B) hire fewer workers when it sells in competitive markets than when it sells in a monopolistic market.

    (C) hire more workers when it sells in competitive markets than when it sells in a monopolistic market.

    (D) prefer labour to capital.

21. Which of the following will bring about an outward shift in the production possibilities curve?

(A) An increase in the number of unemployed workers.

(B) An increase in the quality of labour resources.

(C) A reduction in unemployment.

(D) A decline in the formation of new capital.

22. Suppose that the consumer price index rises from 1000 to 2000. We may conclude:

(A) the real income of a person on a fixed nominal income has been cut in half.

(B) all prices in the economy have doubled.

(C) consumer incomes have doubled.

(D) all of the above.

23. Which of the following statements is correct?

(A) Potential real GDP (Gross Domestic Product) is always greater than equilibrium real GDP.

(B) The purchase of shares in the stock market is an example of investment spending.

(C) Real GDP is the total value, measured in base year prices, of all final goods and services produced in a country in one year.

(D) None of the above.

24. The simultaneous occurrence of high unemployment, high inflation and sluggish growth in real national income is known as:

(A) stagflation.

(B) contraction.

(C) expansion.

(D) recession.

25. A type of unemployment in which workers are in-between jobs or are searching for better jobs is called:

(A) cyclical.

(B) frictional.

(C) structural.

(D) involuntary.

26. Crowding out refers to the reduction in planned investment that occurs when:

(A) nominal interest rates decline.

(B) an increase in the transactions demand for money reduces real interest rates.

(C) an increase in planned expenditure leads to a rise in the real interest rate.

(D) wage rates fall making labour cheaper.

27. If nominal GDP fell while real GDP rose, which of the following must be true?

(A) Unemployment increased.

(B) Net exports were negative.

(C) Nominal interest rates rose by less than the rate of inflation.

(D) The inflation rate was negative.

28. New Zealand's Treasury Secretary is:

(A) John Whitehead.

(B) Alan Bollard.

(C) Don Brash.

(D) Bill English.

29. The difference between the value of a country's exports of goods and services and the value of its imports of goods and services is called:

(A) the balance of payments.

(B) the balance on capital account.

(C) the balance of trade.

(D) the official settlements balance.

30. As announced in the 2010 Budget, from 1 October 2010 the top marginal income tax rate will fall from 38% to:

    (A) 36%.

    (B) 33%.

    (C) 30%.

    (D) none of the above.

31. The natural rate of unemployment is the rate that:

    (A) occurs when there is only structural unemployment in the economy.

    (B) prevails in long run equilibrium.

    (C) appears when money illusion influences people's choices.

    (D) is a short run phenomenon.

32. If the actual unemployment rate is below the natural rate of unemployment then we might expect:

    (A) the rate of inflation to increase.

    (B) the Phillips curve to shift to the left.

    (C) a fall in the wage rate.

    (D) the natural rate of unemployment to fall.

33. Assume equilibrium GDP is $400 billion and potential GDP is $500 billion. According to the simple Keynesian model, if the marginal propensity to consume is 0.8, by how much should government spending be changed in order for equilibrium GDP to equal potential GDP?

(A) Increase by $100 billion.

(B) Increase by $20 billion.

(C) Increase by $80 billion.

(D) Decrease by $80 billion.

34. An increase in which of the following would cause an increase in aggregate supply?

(A) The wage rate.

(B) Labour productivity.

(C) Consumer spending.

(D) Interest rates.

35. Which of the following would cause the aggregate demand curve to shift to the right?

(A) An increase in real interest rates.

(B) An appreciation of the New Zealand dollar.

(C) A decrease in the money supply.

(D) An increase in purchases of domestic goods by the New Zealand government.

36. In a world with only two countries and only two final goods, it is impossible that:

(A) one country has a comparative advantage in producing both goods.

(B) one country has an absolute advantage in producing both goods.

(C) each country specialises in the production of one good.

(D) trade could benefit both countries.

37. An increase in which of the following would reduce the New Zealand trade deficit?

(A) The rate of inflation in other countries compared to New Zealand.

(B) New Zealand's interest rate compared to other countries.

(C) The New Zealand government’s budget deficit.

(D) The value of foreign currency relative to the New Zealand dollar.

38. Which of the following is included in the M1 definition of the money supply?

(A) Cheque deposits.

(B) Gold.

(C) Mutual funds (also known as Unit Trusts).

(D) All of the above.

39. In the short run, an increase in the money supply causes:

(A) interest rates to rise, investment spending to rise, and aggregate demand to rise.

(B) interest rates to fall, investment spending to rise, and aggregate demand to rise.

(C) interest rates to rise, investment spending to fall, and aggregate demand to fall.

(D) interest rates to fall, investment spending to fall, and aggregate demand to fall.

40. The demand for money will fall if:

(A) real GDP rises.

(B) nominal interest rates rise.

(C) the GDP deflator rises.

(D) the velocity of circulation of money falls.