

# NEW ZEALAND ECONOMICS COMPETITION

**Tuesday, 23rd August 2011**

## **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. 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.)
6. **One (1) mark** will be awarded for each correct response.
7. Avoid guessing, as **one quarter (¼) of a mark will be deducted** for each incorrect answer, to discourage random guessing.
8. Choose the most correct answer option to the question and **completely fill the corresponding box** on the Response Sheet. Use **PENCIL only**.



**THE UNIVERSITY OF AUCKLAND**  
**BUSINESS SCHOOL**

**ECONOMICS**

1. Jill has to choose one of four alternatives, A, B, C or D. She is indifferent between B and C, and prefers either to D. The opportunity cost of choosing A is, for Jill:
  - (A) the value of B plus the value of C.
  - (B) the value of B or the value of C.
  - (C) the value of B minus the value of C.
  - (D) the value of B or the value of D.
  
2. Jack has paid \$10 for a non-refundable ticket to a netball game next Saturday. But since buying the ticket he finds that he can go to a party instead. He cannot go to both, and if he had known about the party he would not have bought the ticket. We can deduce:
  - (A) that Jack should go to the party because the \$10 spent on the ticket is a sunk cost (i.e., non-recoverable) and therefore irrelevant.
  - (B) that Jack should go to the netball because the benefit (to him) of it exceeds \$10 and going to the party costs \$0, which means the latter is less valuable than the former.
  - (C) only that the gross benefit of the netball game is greater than the gross benefit of going to the party, so we cannot say which he should choose.
  - (D) only that the net benefit of the netball game is less than the net benefit of going to the party so we cannot say which he should choose.
  
3. It is usually argued that demand curves slope downwards because:
  - (A) when the price of a good falls consumers' real income rises and the good becomes relatively less expensive.
  - (B) otherwise the law of demand will be violated.
  - (C) when price falls this means that the supply curve has

shifted downwards.

(D) consumers are indifferent to them at the margin.

4. When the price of a good is below the equilibrium price, then usually,

(A) quantity demanded is less than quantity supplied and quantity transacted is equal to quantity demanded.

(B) quantity supplied is less than quantity demanded and quantity transacted is equal to quantity demanded.

(C) quantity demanded is less than quantity supplied and quantity transacted is equal to quantity supplied.

(D) quantity supplied is less than quantity demanded and quantity transacted is equal to quantity supplied.

5. According to the 18th century economist Adam Smith: *"The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolising spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves."* In present day New Zealand the body which is most concerned with such prevention is the:

(A) Reserve Bank.

(B) Financial Markets Authority.

(C) Commerce Commission.

(D) Employers and Manufacturers Association.

6. For a downward sloping, straight line market demand curve, the price elasticity of demand:

- (A) is the same at all points, but may be less than, greater than, or equal to one.
  - (B) at a given price, does not change if there is a parallel shift in the demand curve.
  - (C) at a given point, reveals how total expenditure on the good varies with the good's price.
  - (D) None of the above.
7. Suppose a consumer buys two goods. The marginal utility of each good is diminishing and depends only on the amount consumed of that good. Suppose that the consumer buys 20 units of each good when the price of each good is \$10. If the prices of both goods rise to \$11 per unit (with income unchanged),
- (A) the amounts consumed of each good will fall by the same amount.
  - (B) the amounts consumed of each good will fall.
  - (C) the amounts consumed of both goods will fall only if the marginal utility of income is constant.
  - (D) we cannot rule out the possibility that the consumption of one of the goods will rise.
8. Consider a good with constant marginal costs and a linear, downward sloping market demand curve. Suppose the Government imposes a \$1 per unit tax on the producers of this good. Which of the following statements is correct?
- (A) If this market is monopolised, all of the tax increase will be passed on to consumers through an equal increase in the price.
  - (B) If this market is perfectly competitive, firms will absorb all of the tax increase – there will be no increase in the price paid by consumers.

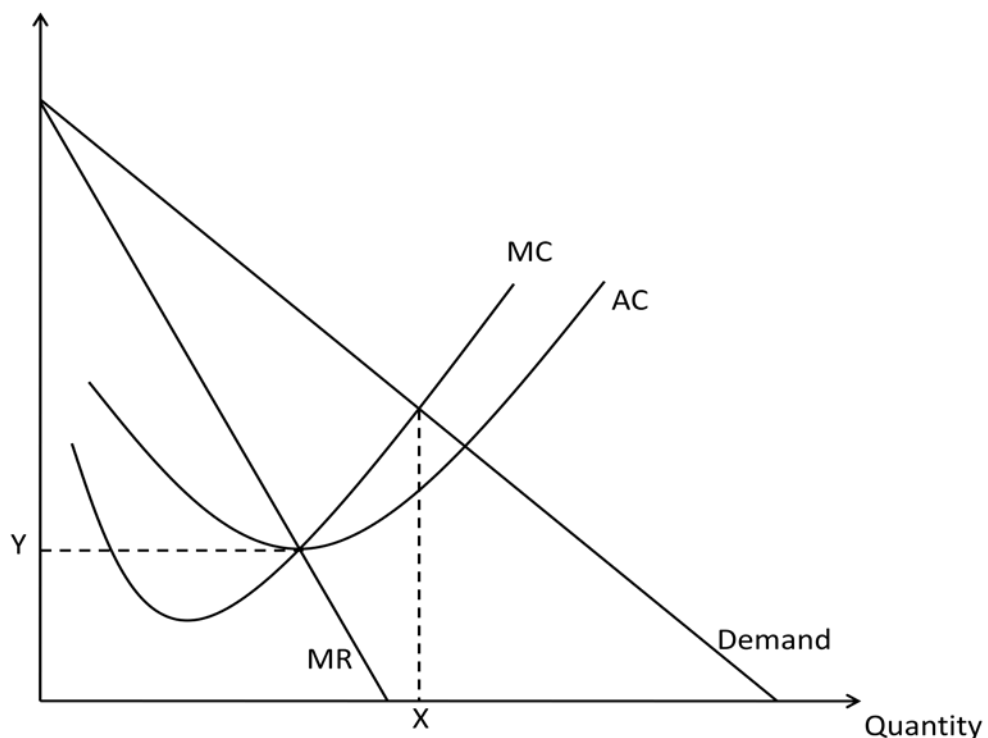
- (C) A monopolist will pass on less of the tax than a perfectly competitive market.
- (D) None of the claims above is correct.
9. You are an economic consultant to a monopoly firm. The monopolist asks you to estimate the elasticity of demand at its current price. Based on your investigations, you conclude that demand is inelastic (i.e., a small percentage increase in price will reduce the quantity demanded by a smaller percentage). A small increase in the monopolist's price will therefore:
- (A) reduce its total revenue.
- (B) increase its total costs.
- (C) increase its profit.
- (D) None of the above.
10. Consider a perfectly competitive market. Each firm has an identical cost structure, with a U-shaped long-run average cost curve. At current production levels, each firm's long-run marginal cost is \$5 and its long-run average cost is \$4. The long-run equilibrium price for this market is therefore:
- (A) above \$5.
- (B) \$5.
- (C) \$4.
- (D) less than \$4.
11. Which of the following companies is NOT currently listed on the New Zealand Stock Exchange?
- (A) Contact Energy.
- (B) NZX.
- (C) Genesis Energy.

(D) Telecom New Zealand.

12. Econ Ltd uses capital and labour to produce widgets. At its current level of production, its marginal product of capital is 1 and its marginal product of labour is 4. If capital costs \$2 per unit and labour costs \$6 per unit, then Econ Ltd:

- (A) is using too much labour.
- (B) should reduce its ratio of capital to labour.
- (C) is producing its current level of output at minimum cost.
- (D) is using too little capital.

13. The following figure illustrates the situation facing a typical firm in a monopolistically competitive industry. (Assume that all firms are identical.)



Which of the following statements is correct?

- (A) New firms will enter this industry over the long run.
- (B) Each existing firm will produce X units in the short run.

- (C) Market price will be \$Y in the short run.
  - (D) Market price will be \$Y in the long run.
14. MegaCorp has a technology which exhibits increasing returns to scale. It is currently producing 100 units at an average cost of \$5 per unit. If there is a contraction in demand for its product and its output falls to 50 units, then:
- (A) its average costs will rise.
  - (B) its average costs will fall.
  - (C) its average costs will stay the same.
  - (D) we don't have enough information to be certain of any of the above claims.
15. A monopolist imposes a deadweight loss on society:
- (A) when it perfectly price discriminates.
  - (B) by producing too little output.
  - (C) because it does not have an economic incentive to minimise costs.
  - (D) because it makes a profit.
16. The free market may fail to provide public goods because:
- (A) private firms cannot prevent people from using the good.
  - (B) the private costs of production are greater than the social costs of production.
  - (C) the goods and services are not demanded by consumers.
  - (D) the costs of production are zero, therefore private firms cannot determine what output level to produce to maximise profits.

17. Which of these statements is INCORRECT?
- (A) Social costs are private costs plus any external costs.
  - (B) Private benefits are received by the consumer of the good or service.
  - (C) Private costs are borne by the producer of the good or service.
  - (D) Social benefits are external benefits minus private benefits.
18. What does a market supply curve reflect?
- (A) External benefits of producing a good or service.
  - (B) External costs of producing a good or service.
  - (C) Social costs of producing a good or service.
  - (D) Private costs of producing a good or service.
19. If producers do not bear the external cost of pollution, then it is reasonable to expect that:
- (A) production is greater than the economically efficient level.
  - (B) production is below the economically efficient level.
  - (C) the economically efficient level of production is achieved.
  - (D) the market price is too high.
20. A used car market in which the market price is too low to attract high quality used cars, so only low quality used cars ('lemons') are offered for sale, illustrates:
- (A) a moral hazard problem.
  - (B) economic irrationality.
  - (C) that used cars are an inferior good.



- (D) an adverse selection problem.
21. Over time people have come to rely more on market-produced goods and less on goods that they produce for themselves. For example, people eat at restaurants relatively more and prepare their own meals at home relatively less. By itself this change would:
- (A) cause Gross Domestic Product (GDP) to fall over time.
  - (B) not affect GDP.
  - (C) cause GDP to rise over time.
  - (D) change GDP, but in an uncertain direction.
22. The data from the New Zealand economy show that national disposable income has been consistently less than national income. The above observation can be explained by:
- (A) the total tax revenue collected by the New Zealand government.
  - (B) a negative net foreign income.
  - (C) negative net exports.
  - (D) the foreign-aid given by New Zealand to other countries.
23. In New Zealand, until very recently, national saving had for some time exceeded household saving because:
- (A) the government ran a budget surplus.
  - (B) the government raised interest rates to promote national saving.
  - (C) the house price collapse significantly lowered household consumption.
  - (D) a large inflow of foreign savings increased national disposable income.

24. In an open economy, a low level of saving imposes a constraint on the level of investment if:
- (A) the government does not allow foreign ownership of domestic assets.
  - (B) government borrowing increases.
  - (C) the country's trade deficit increases.
  - (D) investors allocate their scarce resources primarily into the housing market.
25. A nation's standard of living is determined by:
- (A) its productivity.
  - (B) its gross domestic product.
  - (C) its national income.
  - (D) how much it has relative to other nations.
26. The world's three largest economies – as measured by nominal GDP (Gross Domestic Product) – are, in rank order:
- (A) United States, China, India.
  - (B) United States, Japan, Germany.
  - (C) China, United States, Japan.
  - (D) United States, China, Japan.
27. Other things being equal, relatively poor countries tend to grow faster than relatively rich countries because:
- (A) workers in countries with low incomes work more hours than workers in countries with high incomes.
  - (B) the capital stock in rich countries deteriorates at a higher

rate since they already have a lot of capital.

- (C) new capital adds more to production in a country that doesn't have much capital than in a country that already has a lot of capital.
  - (D) None of the above choices is correct.
28. In a world with two countries, A and B, two goods, and with labour the only factor of production, if Country A has an absolute advantage in both goods:
- (A) the most efficient arrangement is for Country A to export both goods to Country B.
  - (B) both countries can gain from trade.
  - (C) Country A can gain from trade but Country B cannot.
  - (D) Country B can gain from trade but country A cannot.
29. The current Director-General of the World Trade Organisation (WTO) is:
- (A) Mike Moore.
  - (B) Pascal Lamy.
  - (C) Dominique Strauss-Kahn.
  - (D) Tony Blair.
30. APEC (Asia Pacific Economic Cooperation):
- (A) includes China, Japan, India and New Zealand as members.
  - (B) includes the United States, China, Papua New Guinea and New Zealand as members.
  - (C) has a declared objective of achieving fixed exchange rates between all the countries of the Asia Pacific region.

- (D) will hold its leaders' meeting in New Zealand this year, during the Rugby World Cup.
31. The natural rate of unemployment is the:
- (A) unemployment rate that would prevail with zero inflation.
  - (B) rate associated with the highest possible level of GDP (Gross Domestic Product).
  - (C) difference between the long-run and short-run unemployment rates.
  - (D) long-term unemployment rate under a stable inflation rate regime.
32. If the actual unemployment rate is above the natural rate of unemployment, then we might expect:
- (A) an increase in the inflation rate.
  - (B) a decline in real wages.
  - (C) an increase in the natural rate of unemployment.
  - (D) a decline in potential GDP (Gross Domestic Product).
33. In macroeconomics, the model of aggregate demand and aggregate supply explains the relationship between:
- (A) the price and quantity traded of a particular good.
  - (B) unemployment and output.
  - (C) real GDP (Gross Domestic Product) and the price level.
  - (D) wages and employment.
34. The official cash rate (OCR) determines the interest rate that:
- (A) is received on savings account balances with the trading

banks.

- (B) the trading banks receive on their settlement cash balance with the Reserve Bank of New Zealand (RBNZ).
  - (C) a trading bank charges for lending cash to another bank.
  - (D) the RBNZ charges the government when it borrows money.
35. Which of the following is NOT a correct description of the European Union?
- (A) It is a monetary union.
  - (B) It is a fiscal union.
  - (C) It is a customs union.
  - (D) It has a number of supranational institutions.
36. Which of the following statements is NOT true?
- (A) Inflation reduces the purchasing power of most workers.
  - (B) Given the current New Zealand tax structure, inflation reduces the incentive to save.
  - (C) The inflation tax causes a deadweight loss because people waste scarce resources trying to avoid it.
  - (D) Countries with high rates of inflation usually also have volatile rates of inflation.
37. Which of the following is NOT a correct description of the current state of economic integration between Australia and New Zealand?
- (A) There is a customs union, with a common external tariff.
  - (B) There are no tariffs or quotas applied on trade in goods between the two countries.

- (C) Labour is able to move freely between the two countries.  
(D) There is an agreement on joint food standards.
38. If a country has business opportunities that are relatively attractive to other countries, we would expect it to have:
- (A) both positive net exports and positive net capital outflow.  
(B) both negative net exports and negative net capital outflow.  
(C) positive net exports and negative net capital outflow.  
(D) negative net exports and positive net capital outflow.
39. Which of the following, other things remaining the same, would necessarily raise the current account deficit?
- (A) A decline in saving and a decline in investment.  
(B) A rise in saving and a decline in investment.  
(C) A decline in saving and a rise in investment.  
(D) An increase in the value of the New Zealand dollar with no changes in saving or investment.
40. New Zealand's Finance Minister is:
- (A) Alan Bollard  
(B) John Whitehead  
(C) Bill English  
(D) Gerry Brownlee
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