New Zealand Economics Competition

Tuesday 2 July 2013

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, below where it appears, 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**.

1. If a nation is producing at a point on its production possibilities frontier, this means that

   (A)   it is using all of its resources efficiently

   (B)   it is using all of its technological knowledge efficiently

   (C)   it is at its full employment level of output

   (D)   all of the above.

2. The person usually credited with the theory of "comparative advantage" in international trade is

   (A)   Harry Ricardo who wrote *The Internal Combustion Engine* in 1923

   (B)   David Ricardo who wrote *On the Theory of Political Economy and Taxation* in 1821

   (C)   Milton Friedman who wrote *Capitalism and Freedom* in 1962

   (D)   Karl Marx who wrote *The Communist Manifesto* in 1848.

3. A likely reason behind the finding that citizens of richer countries tend to have fewer children is

   (A)   the diminishing marginal utility of children

   (B)   the higher opportunity cost of having children

   (C)   the increasing marginal utility of children

   (D)   that children are a luxury good.

4. Arabella consumes two goods and her marginal utility of each is equal to one divided by the amount consumed of that good. It follows that if the prices of the two goods are the same

   (A)   the goods will be consumed in equal amounts

   (B)   the marginal utility of a good will be equal to one divided by the price of that good

   (C)   the amount consumed of each good depends only on its price

   (D)   all of the above.

5.   Equilibrium price is a price that

(A)   will tend to rise because of a surplus

(B)   is associated with excess demand

(C)   equates the amount supplied with the amount demanded

(D)   is equal to the equilibrium quantity.

6.   Recent studies have suggested that eating fresh salmon is good for the heart. There have also been recent increases in the supply of salmon due to better "farming" techniques. Considering both these facts, what may we conclude about the price and quantity of salmon at the new equilibrium compared to the original situation?

(A)   Both the price and quantity traded will be higher

(B)   Price will be higher but the quantity traded will fall

(C)   Neither price nor quantity traded will change

(D)   The quantity sold will be higher but the effect on price is ambiguous.

7.   Which of the following situations is most consistent with the observation that the price of a good has fallen but the quantity transacted remained unchanged?

(A)   the supply curve has shifted to the right and the demand curve is perfectly inelastic

(B)   the demand curve has shifted to the right and the supply curve is perfectly inelastic

(C)   the demand curve has shifted to the left and the supply curve is perfectly elastic

(D)   the supply curve has shifted to the left and the demand curve is perfectly elastic.

8. If the price elasticity of demand for a good is −2.0, then a 10% increase in price would result in a

    (A) 20% increase in the quantity demanded

    (B) 20% decrease in the quantity demanded

    (C) 5% decrease in the quantity demanded

    (D) 5% increase in the quantity demanded.

9. Suppose the cross price elasticity of demand for two goods is +1.5 (i.e. positive). This would mean that the two goods are

    (A) normal goods

    (B) complementary goods

    (C) substitute goods

    (D) unrelated goods.

10. A luxury good is a good whose income elasticity of demand is

    (A) between zero and 1 in absolute value

    (B) greater than 1 in absolute value

    (C) zero

    (D) infinite.

11. For which of these is demand likely to be the **most** price elastic?

    (A) Banana flavoured chocolate ice cream

    (B) All chocolate ice creams

    (C) All flavours of ice creams

    (D) All desserts.

12. Perfectly competitive markets are characterised by the fact that each firm

   (A)   is very small relative to the size of the entire market

   (B)   is a price taker

   (C)   sells identical products

   (D)   all of the above.

13. A firm in a perfectly competitive market has short run average total cost (ATC) of $10 at 30 units of output, and this is the level of output where ATC is at a minimum. The price of output per unit is given as $P. It is reasonable to conclude from this that, in the short run,

   (A)   the firm should produce more than 30 units of output if P>10 only if fixed costs are zero

   (B)   the firm should produce 30 units of output regardless of P only if variable costs are at least as large as fixed costs

   (C)   the firm should produce less than 30 units of output if P<30 only if fixed costs are covered, and otherwise should shut down.

   (D)   none of the above.

14. A distinctive feature of monopolistically competitive markets is

   (A)   product differentiation

   (B)   homogeneous products

   (C)   existence of a few buyers

   (D)   existence of a few sellers.

15. In the long run, economic profits in a monopolistically competitive market

   (A)   will be larger than in the short run

   (B)   will be smaller than in the short run

   (C)   are zero

   (D)   will cause increasing homogeneity of products.

16. A monopoly sells one less unit of a good it produces for every $1 increase in the price per unit, up to a maximum price of $20 per unit. Its marginal cost is $10 per unit at all levels of output. Fixed costs are zero. The monopoly's optimal selling price is

    (A) $5 per unit, at 15 units of output

    (B) $10 per unit, at 10 units of output

    (C) $15 per unit, at 5 units of output

    (D) $20 per unit, at zero units of output.

17. In which of the following market structures will price equal both minimum average total cost and marginal cost in the long run?

    (A)   Perfect competition

    (B)   Monopolistic competition

    (C)   Oligopoly

    (D)   Both (A) and (B) above.

18. Successful price discrimination requires

    (A)   competitive markets and the availability of many substitutes

    (B)   at least two different markets and the ability to prevent arbitrage between the two

    (C)   competitive markets with product differentiation

    (D)   none of the above.

19. Which of the following most closely resembles a public good?

    (A)   Spinach

    (B)   An ipod

    (C)   An internal combustion engine

    (D)   The sewerage system.

20. The emissions trading scheme, as currently implemented in New Zealand, is intended to

   (A)   raise tax revenue for the government

   (B)   correct for externalities in production

   (C)   make environmentalists more insufferable

   (D)   increase imports into New Zealand.

21. Gross Domestic Product (GDP) is the sum of the market value of the

   (A)   intermediate goods produced over a specified period of time

   (B)   services produced over a specified period of time

   (C)   normal goods produced over a specified period of time

   (D)   final goods and services produced over a specified period of time.

22. If the price index for 2010 is 100, and for 2011 the price index is 126, then what is the inflation rate for that time period?

   (A)   5%

   (B)   6%

   (C)   26%

   (D)   -26% (minus).

23. Which of the following is **NOT** a factor of production?

   (A)   Output

   (B)   Capital

   (C)   Labour

   (D)   All of the above.

24. Which of the following is **NOT** "capital" as economists understand the term?

   (A)   An industrial robot

   (B)   An office building

   (C)   Money

   (D)   A business software package.

25. Which of the following is a reason for the Aggregate Demand Curve to slope downward?

   (A)   The level of real wealth changes

   (B)   The interest rate changes

   (C)   The exchange rate changes

   (D)   All of the above.

26. If an economy experiences no change in aggregate demand and aggregate supply shifts to the right, then the result will be

   (A)   a decrease in unemployment and deflation

   (B)   a decrease in unemployment and inflation

   (C)   an increase in unemployment and inflation

   (D)   the levels of both unemployment and inflation will remain unchanged.

27. The term "crowding out" refers to the fact that

   (A)   persistent government deficits tend to push up interest rates which in turn discourages private investment

   (B)   slow transit times on Auckland's motorways at 5pm weekdays

   (C)   a shortage of elevators in government buildings

   (D)   if interest rates are low then people will lend to overseas borrowers.

28. Which of the following is **NOT** a consequence of an increase in the New Zealand government budget deficit?

   (A)   New Zealand interest rates rise

   (B)   The New Zealand dollar depreciates

   (C)   It becomes more attractive for foreigners to lend money to New Zealanders

   (D)   All of the above.

29. The present Minister of Finance for New Zealand is

   (A)   Bill Cosby

   (B)   Bill Clinton

   (C)   Bill English

   (D)   Bill Smith.

30. At the end of 2012, the New Zealand dollar (NZD) could purchase 0.8200 US dollars (USD). If the NZD appreciated 1% relative to the USD in June 2013, then how many USD could the NZD buy in June 2013?

   (A)   0.8282

   (B)   0.8300

   (C)   0.8119

   (D)   0.8100.

31. If the New Zealand dollar appreciates relative to the Japanese Yen then New Zealand exports to Japan will

    (A) rise and Japanese exports to New Zealand fall

    (B) rise and Japanese exports to New Zealand will rise

    (C) fall and Japanese exports to New Zealand will rise

    (D) remain unchanged and Japanese exports to New Zealand will fall.

32. If purchasing power parity holds, then the value of the

    (A) real exchange rate is equal to one

    (B) nominal exchange rate is equal to one

    (C) real exchange rate is equal to zero

    (D) nominal exchange rate is equal to zero.

33. Other things being equal, an expansionary monetary policy would

    (A) cause a contraction in fiscal policy

    (B) reduce the price level

    (C) shift the aggregate demand curve to the right

    (D) shift the aggregate demand curve to the left.

34. An increase in technology would cause the aggregate supply curves to

    (A) shift to the left

    (B) remain unchanged

    (C) become horizontal

    (D) shift to the right.

35. New Zealand is an example of an economy that is

    (A) large and relatively closed

    (B) small and relatively open

    (C) market based

    (D) Both (B) and (C).

36. Monetary policy in New Zealand is mainly concerned with

    (A) managing the exchange rate

    (B) maintaining price stability

    (C) making housing affordable

    (D) balancing the government's accounts.

37. A person who is neither holding a job nor searching for a job is

    (A) counted in the labour force as a discouraged worker

    (B) totally unable to claim financial assistance of any type

    (C) not counted in the labour force

    (D) none of the above.

38. Unemployment in industries where workers have skills that have become obsolete is called

    (A) voluntary unemployment

    (B) frictional unemployment

    (C) seasonal unemployment

    (D) structural unemployment.

39. Generally, in New Zealand, the highest rates of unemployment are found amongst which group?

   (A) Young Polynesian males

   (B) Young European males

   (C) Those of the "baby boom" generation (approximately 45 – 65 years of age).

   (D) Unemployment is evenly spread across all sectors of society.

40. The scarcity of resources problem necessarily requires

   (A) government to allocate all resources among all alternative uses

   (B) people to reduce their living standards

   (C) people to make choices

   (D) none of the above.

Thank you for participating in the 2013 New Zealand Economics Competition

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