

## i Instructions

Instructions:


- You have **fifty (50) minutes** to answer all **fifty (50) questions**. No additional time is allowed.
- **One (1) mark** will be awarded for each correct response
- Unanswered or wrongly answered questions score **zero (0) marks**

### 1 Sunk Cost

The company you manage has invested 5 million dollars in the development of a new product, but it is not yet fully developed. In a recent meeting, your sales staff stated that the introduction of rival products has reduced the expected sales of your new product to 3 million dollars.

If it costs 1 million dollars to complete its development, what is the maximum amount you should pay to complete its development?

**Select one alternative:**

- \$4 million
- \$3 million 
- \$5 million
- There is not enough information

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Maximum marks: 1

## 2 Production Possibility Frontier

What does the production possibility frontier (PPF) illustrate?

**Select one alternative:**

- The efficient production of a good if all the inputs are used at their maximum
- The maximum possible output combinations of two goods that can be produced with available resources
- The relationship between the prices of two goods
- The minimum resources needed to produce a fixed amount of two goods

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Maximum marks: 1

## 3 Menu Costs

In economics, what is meant by 'menu costs'?

**Select one alternative:**

- The expenses incurred from purchasing food supplies
- The administrative costs associated with hiring new staff
- The costs related to changing prices on products
- The investment required to start a new restaurant

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Maximum marks: 1

## 4 Profits

Lisa left her teaching job, where she made \$60,000 per year, to start a band. In her first year as a band member, she earns a profit of \$50,000. As a band member, Lisa earns

**Select one alternative:**

- a supernormal profit
- an economic profit
- an accounting profit
- a normal profit



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Maximum marks: 1

## 5 Tax Rate

John currently earns \$50,000 a year and has a marginal tax rate (MTR) of 25% and an average tax rate (ATR) of 20%. If John receives a raise of \$5,000, what will be his additional take-home pay, assuming this raise does not change his tax bracket?

**Select one alternative:**

- \$3,750
- \$4,000
- \$53,750
- \$54,000



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Maximum marks: 1

## 6 Positive and Normative Economics

Which of the following are examples of "Positive Economics" and which are examples of "Normative Economics"?

Please match the values:

|   | Positive Economics      | Normative Economics     |
|---|-------------------------|-------------------------|
| The government should implement a carbon tax to reduce greenhouse gas emissions and combat climate change | <input type="radio"/>   | <input type="radio"/> ✓ |
| People deemed to be more physically attractive on average earn higher wages                               | <input type="radio"/> ✓ | <input type="radio"/>   |

Maximum marks: 1

## 7 Finance

What is the primary use of the Rule of 72 in finance?

Select one alternative:

- To calculate the interest rate needed to double an investment in a given number of years
- To determine the number of years it will take for inflation to halve the value of money
- To estimate how long it will take for an investment to double at a given annual rate of ✓ %
- To calculate the total return on investment after 72 months

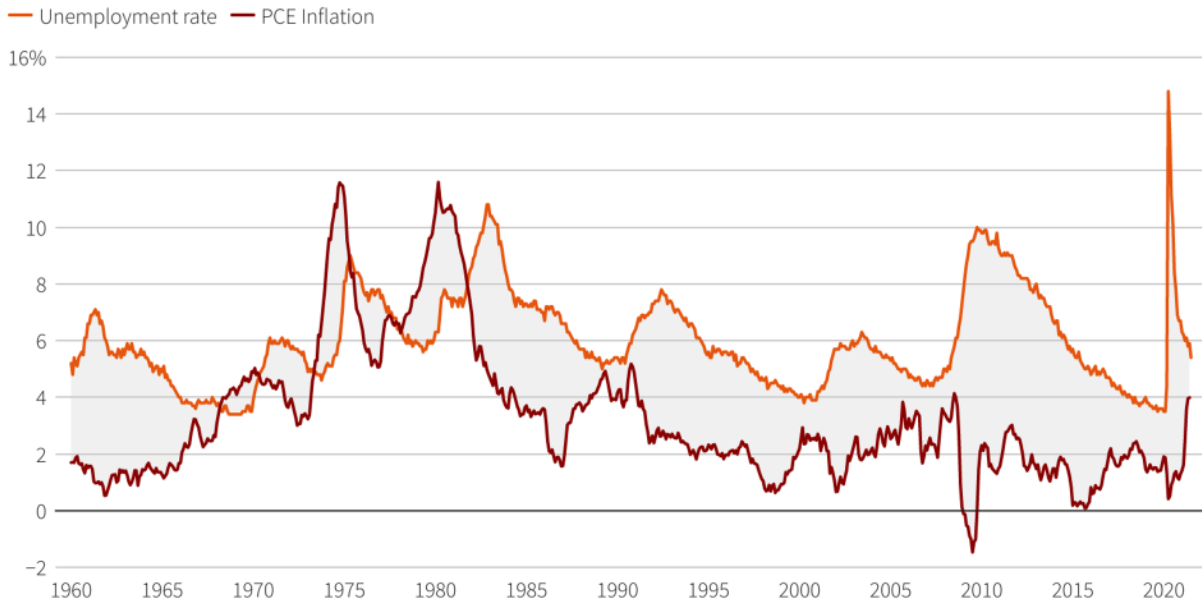
Maximum marks: 1

## 8 Stagflation 2

Based on the chart below, in which of the following years was there stagflation?

### Inflation and unemployment

Beginning in the 1990s, inflation has been well contained, letting the Fed conclude it could take more risks to drive unemployment lower. The pandemic, and rising prices triggered by it, may challenge that idea.



Source: Bureau of Labor Statistics, U.S. Bureau of Economic Analysis

Select one alternative:

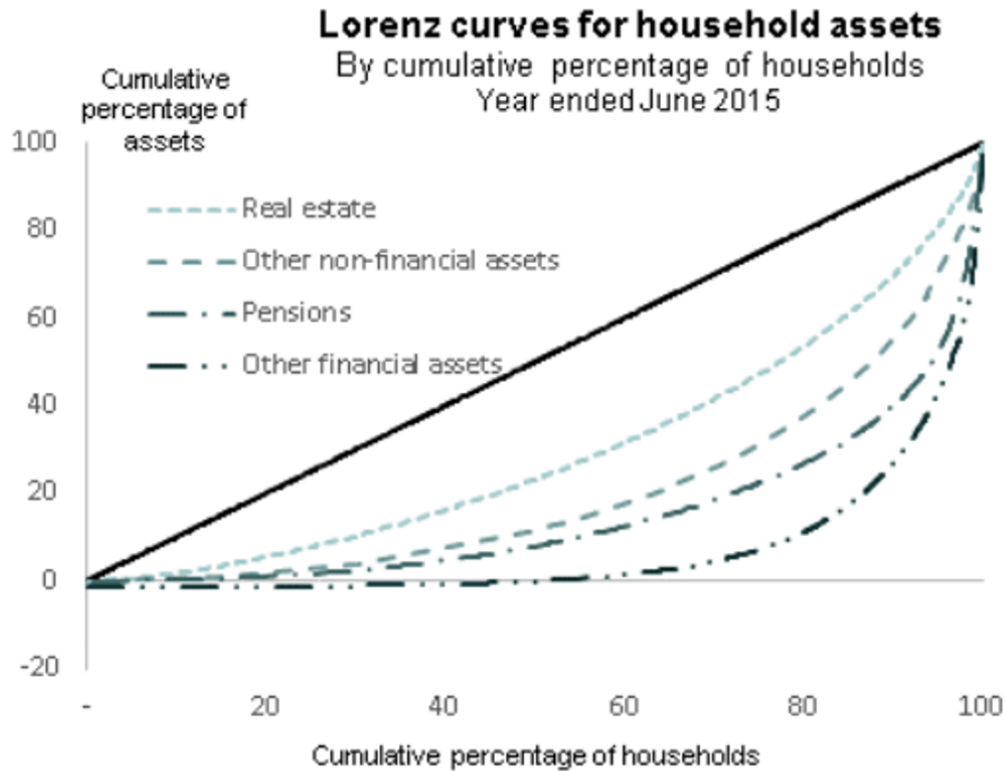
- 2010
- 2020
- 1960
- 1975



Maximum marks: 1

## 9 Gini Coefficient

Based on the Lorenz curves below, which of the following household assets has the lowest Gini coefficient?



Source: Statistics New Zealand

Select one alternative:

- Other financial assets
- Pensions
- Other non-financial assets
- Real estate



Maximum marks: 1

## 10 Inflation

Indicate whether the following statements are True or False:

Hyperinflation is typically caused by moderate levels of money supply growth

Select one alternative:

True

False



The Phillips curve suggests a short-run trade-off between unemployment and inflation

Select an alternative

False

True



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Maximum marks: 1

## 11 Price Floor

Which of the following is an example of a price floor?

Select one alternative:

Discount pricing in retail

Minimum wage

A cap on gasoline prices

Rent control



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Maximum marks: 1

## 12 Market Structure

Which of the following is a characteristic of monopolistic competition?

**Select one alternative:**

- Many firms selling identical products
- Only a few firms control the market
- Many firms selling differentiated products
- A single firm dominates the market



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Maximum marks: 1

## 13 Macroeconomics

What role do automatic stabilizers play in the economy?

**Select one alternative:**

- They automatically adjust spending and taxes to smooth out economic fluctuations
- They control the money supply without government intervention
- They automatically adjust tax rates to control inflation
- They regulate the stock market to prevent crashes

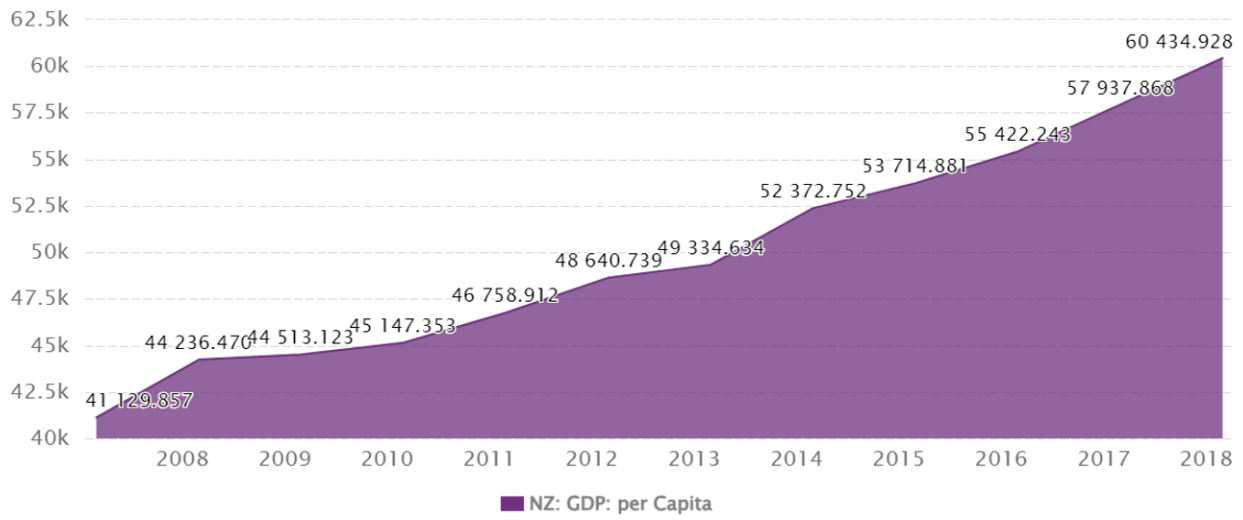
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Maximum marks: 1



## 14 GDP Growth

Based on the chart below, what is the compounded annual growth rate of GDP per capita between 2014 and 2017?



Select one alternative:

- less than 2%
- between 4% and 6%
- more than 6%
- between 2% and 4%



Maximum marks: 1

## 15 Macroeconomic Policy

Which policy tool is used by the government to decrease inflation?

**Select one alternative:**

- Subsidies to families
- Open market operations
- Import quotas
- Expansive Fiscal policy



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Maximum marks: 1

## 16 Leakage

Which of the following is considered a leakage in the circular flow of income?

**Select one alternative:**

- Savings
- Government spending
- Consumption
- Investment



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Maximum marks: 1

## 17 Real and Nominal GDP

What is the difference between nominal GDP and real GDP?

**Select one alternative:**

- Nominal GDP is adjusted for inflation, whereas real GDP measures economic performance based on current prices
- Nominal GDP measures a country's economic performance based on current prices, whereas real GDP is adjusted for inflation
- Nominal GDP does not include imports and exports, while real GDP includes imports and exports
- Nominal GDP includes only the private sector, while real GDP includes both the private and public sectors

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Maximum marks: 1

## 18 Costs

Alex, formerly an investment banker earning \$600,000 annually, made a bold decision to leave his job and establish his own tutoring company. When assessing the economic profit of his consulting venture, the \$600,000 he gave up is considered an integral part of his tutoring company's

**Select one alternative:**

- opportunity cost
- implicit cost
- explicit cost
- total revenue

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Maximum marks: 1

## 19 Price Ceiling

What does a price ceiling aim to achieve?

**Select one alternative:**

- Reduce government intervention in the market
- Make goods more affordable for consumers by setting a maximum price
- Prevent prices from falling below a certain level
- Increase the profits of producers



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Maximum marks: 1

## 20 Moral Hazard

Which of the following is an example of moral hazard?

**Select one alternative:**

- A consumer decides to buy a product because it is on sale
- A company increases production in response to a rise in market demand
- A bank offers loans with less scrutiny after receiving a government bailout
- An investor diversifies their portfolio to minimize risk



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Maximum marks: 1

## 21 Miscellaneous

What does Baumol's cost disease theory explain?

**Select one alternative:**

- The decrease in agricultural output despite technological advancement
- The economic impact of epidemics on supply chains
- The inflationary effect of high healthcare costs
- The rising cost of products in industries with low productivity growth despite wage increases ✓

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Maximum marks: 1

## 22 Elasticity

If the elasticity of taxable income is 0.5, then a 10% increase in the tax rate will:

**Select one alternative:**

- Have no effect on the taxable income
- Increase government revenue by 5%
- Decrease the taxable income by 5% ✓
- Increase the taxable income by 5%

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Maximum marks: 1

## 23 Comparative Advantage

What is 'comparative advantage' in international trade?

Select one alternative:

- The ability of a country to produce a good at a higher quality than another country
- The ability of a country to produce a good at a lower opportunity cost than another country
- The ability of a country to produce a good at a lower cost than another country
- The ability of a country to produce a good with less labor than another country

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Maximum marks: 1

## 24 Demand Curve

What represents a movement along the demand curve?

Select one alternative:

- A change in consumers' income
- A change in consumer tastes
- A change in the price of the good itself
- A change in the price of a substitute good

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Maximum marks: 1

## 25 Tax System

Which of the following statements is true about a progressive tax system?

**Select one alternative:**

- The average tax rate decreases as income increases
- The marginal tax rate increases as income increases
- The average and marginal tax rates are the same at all income levels
- The marginal tax rate is constant regardless of income level

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Maximum marks: 1

## 26 Economic Theory

Which economic theory emphasizes the importance of total spending in the economy and its effects on output and inflation?

**Select one alternative:**

- Supply-side economics
- Classical economics
- Keynesian economics
- Monetarism

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Maximum marks: 1

## 27 Type of Goods

What is a 'Giffen Good'?

**Select one alternative:**

- An inferior good with an elastic demand
- A luxury item that becomes more desirable as it becomes more expensive
- A product whose demand increases as the price increases, contradicting the law of demand
- A good that has perfect substitutes in the market

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Maximum marks: 1

## 28 Optimal Choice

Alex and Taylor are best friends who share a passion for music and movies. Taylor equally enjoys going to one concert and going to the theatre twice. Alex is solely concerned with Taylor's satisfaction. He sets aside \$10 monthly for their entertainment.

If a ticket to a concert and a theatre cost \$1 each what is Alex's optimal choice?

**Select one alternative:**

- Five tickets for the theater and five tickets for the concert
- Ten tickets for the theater, no tickets for the concert
- More information is required
- Ten tickets for the concert, no tickets for the theatre.

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Maximum marks: 1



## 29 Law of Diminishing Marginal Returns

What is the law of diminishing marginal returns?

Select one alternative:

- Decreasing the use of one factor of production will increase the total output
- Increasing the use of all factors of production equally will increase output at a decreasing rate
- Adding more of one factor of production, while holding others constant, will eventually yield lower additional output ✓
- The marginal cost of production decreases as output increases

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Maximum marks: 1

## 30 Signalling Theory

Which of the following scenarios is an example of the signaling theory in action?

Select one alternative:

- A company requires a college degree for a job to ensure the employee has picked up the necessary skills for the job
- An employer prefers candidates with graduate degrees because it indicates the ability to commit to long-term goals ✓
- A student pursues higher education to gain specific skills necessary for a technical job
- A vocational training program is developed to directly improve the practical skills of workers

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Maximum marks: 1

### 31 Reservation Wage

What is the 'reservation wage'?

Select one alternative:

- The average wage within a particular industry
- The lowest wage rate at which a worker would be willing to accept a particular type of job ✓
- The minimum wage set by government regulation
- The wage at which an employee's income tax rate changes

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Maximum marks: 1

### 32 Stagflation

What is stagflation?

Select one alternative:

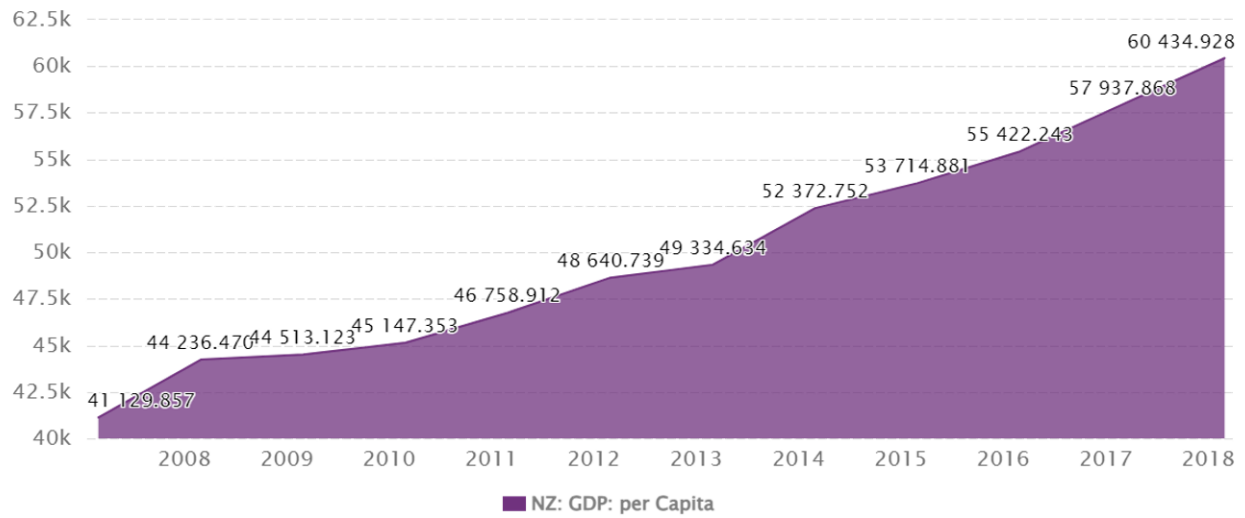
- High inflation and high unemployment occurring simultaneously ✓
- A period of stagnant economic growth and declining prices
- Rapid economic growth accompanied by high inflation
- A stagnation in technological innovation leading to economic downturn

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Maximum marks: 1

### 33 GDP growth

Based on the chart below, what was the percentage change in GDP per capita between 2010 and 2018?



Select one alternative:

- between 20% and 25%
- more than 30%
- between 25% and 30%
- less than 20%



Maximum marks: 1

## 34 Market Structure

Indicate whether the following statements are True or False:

Monopolistic competition is not observed in competitive markets

Select an alternative

False



True

Marginal revenue equals marginal cost at the profit-maximizing level of output for a monopoly

Select one alternative:

False

True



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Maximum marks: 1

## 35 Marginal Product of Labour

Suppose the market wage in a perfectly competitive bread-baking industry is \$15 per hour, and the firm sells its loaves of bread for \$3 each. Based on this information, the firm should continue hiring workers until the marginal product of labor equals:

Select one alternative:

10 loaves of bread per hour

5 loaves of bread per hour



20 loaves of bread per hour

15 loaves of bread per hour

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Maximum marks: 1

## 36 Monetary Policy

What is the primary goal of monetary policy?

Select one alternative:

- To regulate the stock market
- To control the money supply and interest rates
- To manage government spending and taxation
- To ensure balanced international trade



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Maximum marks: 1

## 37 Unemployment

What is frictional unemployment?

Select one alternative:

- Unemployment due to workers voluntarily leaving their job to find better pay or improved working conditions
- Unemployment caused by the time delay between jobs when workers are searching for new positions
- Unemployment that results directly from declines in the economy's overall demand
- Unemployment that results from industrial reorganization, typically involving technological change

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Maximum marks: 1

### 38 Econometrics

What does multicollinearity refer to in econometrics?

Select one alternative:

- When two or more predictor variables are closely correlated with each other ✓
- When no linear relationship exists between the independent variables and the dependent variable
- When the variance of the error terms is constant
- When all variables in a model are statistically significant

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Maximum marks: 1

### 39 Price Fixing

In a country the demand for cars ( $X$ ) at a price  $P$  is given by:  $X_d = 6,000 - 6P$ . The supply of cars is given by the following equation:  $X_s = 4P$

The authority, annoyed by prices it considers extremely high, sets the price of this market at \$300. Determine the deadweight loss (DWL).

Select one alternative:

- 600,000
- 100,000
- 300,000 ✓
- 200,000

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Maximum marks: 1

## 40 Consumer Surplus

Mike buys a smartphone for \$300 and gains a consumer surplus of \$50. What was Mike's willingness to pay for the smartphone?

Select one alternative:

- \$400
- \$250
- \$350
- \$300



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Maximum marks: 1

## 41 Unemployment

What primarily characterises structural unemployment?

Select one alternative:

- It is caused by short-term cyclical changes in the economy
- It results from temporary transitions made by workers between jobs
- It occurs due to a mismatch between the skills of the unemployed and the skills needed for the available jobs
- It is caused by seasonal variations in employment

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Maximum marks: 1

## 42 Present Value

What is the present value of \$15,000 to be received after 2 years if the annual discount rate is 4%?

Select one alternative:

- \$15,000
- \$14,423
- \$14,000
- \$13,868



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Maximum marks: 1

## 43 Tax Rate

John currently earns \$50,000 a year and has a marginal tax rate (MTR) of 25% and an average tax rate (ATR) of 20%. How much in income taxes does he pay annually to the government?

Select one alternative:

- \$10,000
- \$12,500
- \$7,500
- \$15,000



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Maximum marks: 1



#### 44 Pigouvian tax

Which of the following is an example of a Pigouvian tax?

**Select one alternative:**

- A tax on carbon emissions intended to reduce environmental harm
- A tax reduction on investment income to encourage more savings
- A sales tax applied uniformly to all products to raise government revenue
- A tax levied on imported goods to protect domestic industries

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Maximum marks: 1

#### 45 Macroeconomics

How does a decrease in interest rates typically affect the economy?

**Select one alternative:**

- It encourages saving over investment
- It discourages both saving and investment
- It has no significant effect on investment or saving
- It encourages investment by making borrowing cheaper

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Maximum marks: 1

## 46 Unemployment Rate

What does the unemployment rate measure?

**Select one alternative:**

- The percentage of the total labor force that is employed over the percentage that is unemployed
- The percentage of the total labor force that is unemployed but actively seeking employment and willing to work
- The percentage of the total population that is not working
- The percentage of the total population that is unemployed

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Maximum marks: 1

## 47 Market Structure

**Indicate whether the following statements are True or False:**

In a perfectly competitive market, individual firms can influence the market price of their product

**Select one alternative:**

- True
- False

In an oligopoly, firms always compete on price rather than quantities

**Select an alternative**

- True
- False

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Maximum marks: 1

**48 Future Value**

Alice and Bob each invest \$3,000 in a savings account at different interest rates. Alice's account grows at an annual rate of 5%, while Bob's grows at 8%. What will be the difference between the future values of Bob's and Alice's accounts after 4 years?

**Select one alternative:**

\$263

\$435



\$579

\$306

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Maximum marks: 1

## 49 Absolute and Comparative Advantage

Adrian and Scot spend most of their day studying. But in their leisure time, they relax in the kitchen by making flan and pizzas. Adrian takes 3 hours to prepare a flan and 2 hours to knead a pizza. Scot takes 7 hours to prepare a flan and 4 hours to knead a pizza.

Who has the absolute advantage in pizza production? And the comparative advantage?

Select one alternative:

- Scot has an absolute advantage and Adrian has a comparative advantage
- Adrian has an absolute advantage and Scot has a comparative advantage
- Adrian has an absolute and comparative advantage
- Scot has an absolute and comparative advantage

What is the highest (relative) price at which pizza can be exchanged to produce a mutually advantageous situation? And the lowest?

Select one alternative

- Highest price is 0.16 flans, and the lowest is 0.14 flans
- No information about the price since there is no money in this economy
- Highest price is 0.66 flans, and the lowest is 0.57 flans
- Highest price is 0.33 flans, and the lowest is 0.28 flans

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Maximum marks: 2