



THE UNIVERSITY OF  
**AUCKLAND**  
Te Whare Wānanga o Tamaki Makaurau  
NEW ZEALAND

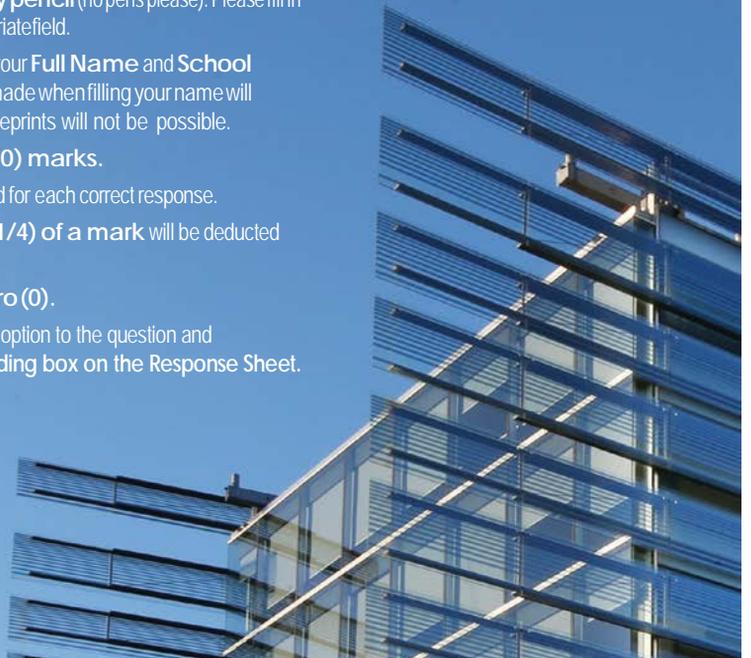
**BUSINESS SCHOOL**  
DEPARTMENT OF ECONOMICS

# 2018 New Zealand Economics Competition

Tuesday 19 June 2018 (morning)

## 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 fill in your **Full Name, School Year, and Sex** in the appropriate boxes and **blackening the corresponding circles below each digit using only pencil** (no pens please). Please fill in your School Name in the appropriate field.
6. Please make sure you complete your **Full Name** and **School CORRECTLY**. Any mistakes made when filling your name will appear on your certificate and reprints will not be possible.
7. Each student starts with **ten (10) marks**.
8. **One (1) mark** will be awarded for each correct response.
9. Avoid guessing, as one quarter (**1/4**) of a mark will be deducted for each incorrect answer.
10. Unanswered questions score **zero (0)**.
11. Choose the most correct answer option to the question and **completely fill the corresponding box on the Response Sheet. Use PENCIL only.**



1. Which of the following is not included in the decisions that each society must make?
- (A) What goods will be produced
  - (B) Who will produce goods
  - (C) What determines consumer preferences
  - (D) Who will consume the goods
2. Salma used to work as an investment banker, earning \$800,000 a year. She gave up her job to start her own consultancy. In calculating the economic profit of her consulting business, the \$800,000 she gave up is counted as part of the consultancy business'
- (A) total revenue
  - (B) opportunity cost
  - (C) explicit cost
  - (D) implicit cost
3. Anika pays \$100 for a watch. She receives a consumer surplus of \$25 on her purchase. Her willingness to pay for the watch is:
- (A) \$75
  - (B) \$50
  - (C) \$125
  - (D) \$100

Qu runs a firm that manufactures standard packs of A4-size paper. Suppose that the market for packs of A4-size paper is perfectly competitive. Use this information to answer Questions 4 – 6 below.

4. Qu will shut down his firm in the short run when:
- (A) price < average variable cost
  - (B) price < average total cost
  - (C) average revenue > marginal cost
  - (D) average revenue > average fixed cost

5. If Qu's firm receives \$1000 in total revenue and the price of one pack of A4-size paper is \$20, what is the firm's average revenue and how many packs were sold?
- (A) \$20 and 50
  - (B) \$10 and 100
  - (C) \$5 and 200
  - (D) \$20 and 100
6. If Qu chooses to increase his firm's level of output, its marginal revenue:
- (A) may increase or decrease
  - (B) increases if marginal revenue < average total cost
  - (C) is unchanged
  - (D) decreases if marginal revenue > average total cost
7. Markets are inefficient in the presence of negative externalities because:
- (A) marginal social cost exceeds marginal private cost and too much of the good is produced at the private market solution
  - (B) marginal social cost is less than marginal private cost and too little of the good is produced at the private market solution
  - (C) marginal social benefit exceeds marginal social cost and the price is too high at the private market solution
  - (D) None of the above are correct
8. Suppose that the market for peanuts is perfectly competitive and that reports on the positive health benefits of eating peanuts induce people to buy more peanuts. The short-run effect of this on the peanut industry will be:
- (A) higher price, greater output and larger profits
  - (B) higher price, smaller output and larger profits
  - (C) lower price, smaller output and smaller profits
  - (D) lower price, greater output and smaller profits

9. Which of the following might be considered a positive externality of consumption?
- (A) Less risk of childhood infectious diseases due to the immunisation of other children
  - (B) The effect of untreated chemical waste on a river
  - (C) The reduction in pain due to marijuana use in the treatment of certain cancer patients
  - (D) The existence of apprenticeship schemes
10. A firm with market power faces a downward sloping demand curve because:
- (A) selling more of the good requires a price cut
  - (B) marginal revenue must equal average revenue
  - (C) only pure monopolies face horizontal demand curves
  - (D) it is not maximising its profits
11. When the demand curve facing the firm slopes downward, marginal revenue is less than price:
- (A) because of the principle of diminishing returns
  - (B) in the short run, but not in the long run
  - (C) because as the quantity increases, the price must fall on all units
  - (D) because taxes must be paid
12. The only bottle store in a remote rural area of New Zealand is an example of:
- (A) a perfectly competitive firm
  - (B) a monopolistic firm
  - (C) an oligopolistic firm
  - (D) a monopolistically competitive firm

13. A firm finds that by producing and selling the last unit of its product, the marginal revenue it earns is \$15 and the marginal cost it incurs is \$14. In order to maximise profits, the firm should:
- (A) decrease its output if it is a perfectly competitive firm, but not necessarily if it is a monopolistic firm
  - (B) decrease its output if it is a monopolistic firm, but not necessarily if it is a perfectly competitive firm
  - (C) increase its output irrespective of the type of firm it is
  - (D) decrease its output irrespective of the type of firm it is
14. Which one of the following statements about a monopoly is true?
- (A) For a monopolistic firm, profit will be maximised where price = marginal revenue
  - (B) In the long run, a monopolist can earn only normal profits
  - (C) Price in the long run is not usually equal to minimum average total cost
  - (D) A monopolist will always make economic profit in the long run
15. Which of the following would we not associate with a natural monopoly?
- (A) Increasing average costs as the scale of operation increases
  - (B) Large fixed costs
  - (C) A large scale of operation
  - (D) The ability to influence market price
16. In oligopolistic markets:
- (A) collusive agreements will always exist
  - (B) there is a tension between self-interest and cooperative behavior
  - (C) collective profits are always lower under any cartel arrangement
  - (D) self-interest will produce the socially optimal outcome in quantity produced

17. Oligopoly is characterised by:
- (A) a single seller and only a few buyers
  - (B) complete independence in decision making
  - (C) easy entry into and exit out of the market
  - (D) a small number of large firms
18. A monopolistically competitive firm is like a perfectly competitive firm insofar as:
- (A) both face perfectly elastic demand
  - (B) both earn only normal profits in the long run
  - (C) both have marginal revenue curves that lie below their demand curves
  - (D) both incur no fixed costs
19. In the long run, a monopolistically competitive firm's:
- (A) average total cost equals the minimum average total cost
  - (B) average total cost exceeds the minimum average total cost
  - (C) average total cost is lower than the minimum average total cost
  - (D) marginal revenue exceeds marginal cost
20. A monopolistically competitive industry is characterised by:
- (A) differentiated products
  - (B) a downward sloping demand curve
  - (C) free entry and exit
  - (D) all of the above

21. Suppose that Ruth can cook one meal or complete two worksheets in one hour while Anthony can cook one meal or complete one worksheet in the same time. Which of the following is true?
- (A) Ruth has a comparative advantage in cooking meals
  - (B) Ruth has a comparative advantage in completing worksheets**
  - (C) Anthony has a comparative advantage in completing worksheets
  - (D) None of the above is correct
22. The Minister of Finance for New Zealand is:
- (A) Ben Smith
  - (B) Roger Douglas
  - (C) Grant Robertson**
  - (D) Steven Joyce
23. Who is responsible for managing the financial affairs of the New Zealand government?
- (A) The Treasury New Zealand**
  - (B) The Ministry of Foreign Affairs and Trade New Zealand
  - (C) The Reserve Bank of New Zealand
  - (D) The Ministry of Business, Innovation and Employment New Zealand
24. Which of the following is not included in New Zealand's GDP calculation?
- (A) Goods produced in New Zealand but sold overseas
  - (B) Consumer spending
  - (C) Government expenditure on schools
  - (D) Unpaid care work such as raising children and caring for the elderly**

25. If nominal GDP increases by 12% and prices rise by 10% then the Real GDP approximately:
- (A) decreases by 2%
  - (B) is unaffected
  - (C) increases by 2%
  - (D) is zero
26. A Floating Exchange rate is:
- (A) set by the Reserve Bank
  - (B) fixed for a short period
  - (C) set by supply and demand for each foreign currency
  - (D) decided by government
27. An appreciation in the New Zealand dollar relative to the US dollar will most likely lead to:
- (A) an increase in New Zealand's exports
  - (B) a decrease in New Zealand's exports
  - (C) a decrease in New Zealand's imports
  - (D) no effect on New Zealand's imports or exports
28. If the exchange rate for the New Zealand dollar was \$US0.50, how many New Zealand dollars would \$US5 buy?
- (A) \$NZ 10
  - (B) \$NZ 20
  - (C) \$NZ 2
  - (D) \$NZ 2.50

29. Which of the following is included in the aggregate demand for goods and services?
- (A) Consumption demand
  - (B) Investment demand
  - (C) Net exports
  - (D) All of the above**
30. Which of the following factors might cause a country's consumption to increase?
- (A) A fall in share prices
  - (B) A fall in interest rates**
  - (C) Expectations that the economy will soon go into a recession
  - (D) Households deciding to be thrifter
31. Why would firms invest to expand their business?
- (A) Interest rates are high and they feel confident about the future
  - (B) Because booms are followed by recessions
  - (C) Because government has increased taxation
  - (D) They feel confident about the future and interest rates are low**
32. Suppose that the New Zealand government passes immigration reform, which increases the number of immigrants arriving in New Zealand. This will potentially lead to:
- (A) a decrease in aggregate demand
  - (B) a decrease in aggregate supply
  - (C) an increase in aggregate supply**
  - (D) both (A) and (C) above

33. Which of the following will not cause a country's aggregate demand curve to shift left?
- (A) A reduction in government transfers
  - (B) An increase in income tax
  - (C) A reduction in exports
  - (D) An increase in the price level**
34. Which of the following shifts aggregate demand to the right?
- (A) A decrease in the money supply
  - (B) Technological progress that increases the profitability of capital goods**
  - (C) The repeal of an investment tax credit
  - (D) A decrease in the price level
35. Niko's income exceeds his expenditures. Niko is a:
- (A) saver who demands money from the financial system
  - (B) saver who supplies money to the financial system**
  - (C) borrower who demands money from the financial system
  - (D) borrower who supplies money to the financial system
36. If your salary increased by 6 percent and prices increased by 2 percent, your purchasing power rose by:
- (A) 4 percent**
  - (B) 4.8 percent
  - (C) 5.8 percent
  - (D) 8 percent

37. People will want to hold less money if the price level:
- (A) or the interest rate increases
  - (B) or the interest rate decreases
  - (C) increases or the interest rate decreases
  - (D) decreases or the interest rate increases
38. Which one of the following statements about a minimum wage mandated by the government that is above the market wage is false?
- (A) The minimum wage may have been introduced in an attempt to ensure a certain minimum standard of living for all workers
  - (B) With the imposition of the minimum wage, the supply curve of labour will shift outwards
  - (C) At the minimum wage, there is an excess supply of labour
  - (D) The imposition of the minimum wage may increase the employers' costs of production
39. A more equitable distribution of income between people is most likely to result from:
- (A) a move from a flat tax system to a progressive tax system
  - (B) a move from a flat tax system to a regressive tax system
  - (C) a reduction in welfare benefit payments
  - (D) an increase in Goods and Services Tax
40. A major effect of a contractionary monetary policy could be:
- (A) the aggregate supply curve would shift downwards to the right
  - (B) increased interest rates and investment
  - (C) costs to the firms would be decreased
  - (D) higher interest rates and reduced investment and consumption

Thank you for participating in the 2018 New Zealand Economics Competition.



THE UNIVERSITY OF  
**AUCKLAND**  
Te Whare Wānanga o Tāmaki Makaurau  
NEW ZEALAND

## **BUSINESS SCHOOL**

**DEPARTMENT OF ECONOMICS**

Sir Owen G Glenn Building  
12 Grafton Road  
Auckland  
Phone: 923 7186 (within Auckland)  
Phone: 0800 61 62 63 (outside Auckland)  
Phone: +64 9 373 7513 (overseas)  
Email: [econcomp@auckland.ac.nz](mailto:econcomp@auckland.ac.nz)  
Web: [www.econ.auckland.ac.nz](http://www.econ.auckland.ac.nz)



[www.business.auckland.ac.nz](http://www.business.auckland.ac.nz)