

# New Zealand Economics Competition

Tuesday 23 June 2015




## Instructions:

1. **Do not open this question booklet until instructed to do so.**
2. You have **50 minutes** to answer all **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 **Student ID** number on the Response Sheet **in the appropriate boxes and blackening the corresponding circles below each digit using only pencil** (no pens please). Your Student ID will be given to you by your teacher.
6. Please make sure you complete your **full name** and **school CORRECTLY** on the Response Sheet.
7. **One mark** will be awarded for each correct response. **Unanswered** questions and **incorrect** responses **score zero**.
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**  
Te Whare Wānanga o Tamaki Makaurau  
NEW ZEALAND



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1. Economics is best defined as:
    - (A) Prices and quantities
    - (B) Inflation and interest rates
    - (C) How people make choices under conditions of uncertainty and the results of such choices
    - (D) Wages and incomes
  
  2. The opportunity cost of an activity is:
    - (A) The actual monetary cost of undertaking that activity
    - (B) The cost or value of the next best alternative foregone
    - (C) The minimum amount you are willing to accept in order to not undertake the activity
    - (D) Not well defined because you do not know all the opportunities that might be available
  
  3. Which of the following short run cost curves decline continuously?
    - (A) Average total cost
    - (B) Average variable cost
    - (C) Average fixed cost
    - (D) Marginal cost
  
  4. If average cost is at a minimum, then:
    - (A) It is equal to marginal cost
    - (B) Total cost is at a minimum
    - (C) Profit is at a maximum
    - (D) All of the above are true

5. A firm spends \$400 to produce 20 units of output and spends \$880 to produce 40 units of output. Which statement is true?
- (A) The firm's average cost curve lies above its marginal cost curve somewhere between  $Q=20$  and  $Q=40$
  - (B) The firm's average cost curve lies below its marginal cost curve somewhere between  $Q=20$  and  $Q=40$
  - (C) The firm's average cost and marginal cost curves cross between  $Q=20$  and  $Q=40$
  - (D) None of the above statements is true
6. Decreasing returns to scale occur when a doubling of all inputs:
- (A) More than doubles output
  - (B) Less than doubles output
  - (C) Exactly doubles output
  - (D) Less than doubles the price of the inputs
7. The average total cost to produce 100 biscuits is \$0.25 per biscuit. The marginal cost is constant at \$0.10 per biscuit. The total cost to produce 100 biscuits is:
- (A) \$10
  - (B) \$15
  - (C) \$25
  - (D) Indeterminate
8. Using the information from question 7 above, the total cost of producing 50 biscuits is:
- (A) \$25
  - (B) \$50
  - (C) \$20
  - (D) Indeterminate

9. With reference to question 7 above, the average total cost over the output range of 50 to 100 biscuits is:
- (A) Less than average fixed cost
  - (B) Rising
  - (C) Constant
  - (D) Falling
10. Which of the following would lead to an increase in the market price for a good?
- (A) An increase in supply
  - (B) A decrease in demand
  - (C) A shortage of the good in the absence of price controls
  - (D) A surplus of the good in the absence of price controls
11. A binding price ceiling will make it necessary to:
- (A) Supply more of the product
  - (B) Find a way of rationing the product because there will be a shortage
  - (C) Find a way of disposing of the resulting surplus
  - (D) None of the above
12. Suppose there is an increase in the equilibrium quantity of goods traded, but the equilibrium price remains the same. Which of the below best fits this description?
- (A) An increase in demand and no change in supply
  - (B) An increase in supply and a decrease in demand
  - (C) An increase in demand and an increase in supply
  - (D) An increase in supply and a decrease in demand

13. Demand is more price elastic if there are:
- (A) Close substitutes and a shorter time frame
  - (B) Close substitutes and a longer time frame
  - (C) No close substitutes and a shorter time frame
  - (D) No close substitutes and a longer time frame
14. Total revenue in the market will fall if:
- (A) Price rises on the elastic portion of the demand curve
  - (B) Price falls on the elastic portion of the demand curve
  - (C) Price rises on the inelastic portion of the demand curve
  - (D) The demand curve is positively sloped
15. Good A has an income elasticity of demand of +1.5 and a cross price elasticity of demand with good B of +0.5. This indicates good A is a(n) - \_\_\_\_\_ good and goods A and B are \_\_\_\_\_ .
- (A) Normal; complements
  - (B) Inferior; complements
  - (C) Normal, substitutes
  - (D) Inferior; substitutes
16. Joe's farming operation sells wheat to a wholesaler. The wheat market is considered to be perfectly competitive. Accordingly Joe:
- (A) Is unable to choose the quantity of wheat he may wish to sell
  - (B) Has no fixed costs of production
  - (C) Is unable to earn an economic profit
  - (D) Cannot choose the price at which to sell his wheat

17. A monopolistically competitive market is one where:
- (A) One firm has achieved dominance through acquisition and merger
  - (B) There are many sellers but entry costs are high
  - (C) Many firms sell similar products but entry costs are low
  - (D) Limited demand forces a monopolist to charge a price equal to the competitive price
18. In the long run, a firm in monopolistic competition will produce at a point where the slope of the average cost curve is:
- (A) Negative
  - (B) Positive
  - (C) Zero
  - (D) Equal to the slope of the marginal cost curve
19. Which of the following is a source of monopoly power?
- (A) Exclusive control over a key natural resource
  - (B) Economies of scale extending over the full range of demand
  - (C) A patent over the production process
  - (D) All of the above
20. A monopolist creates a deadweight loss because the monopoly:
- (A) Sets a price that is too low
  - (B) Produces more than the efficient quantity
  - (C) Produces less than the efficient quantity
  - (D) Fails to maximise profit



21. With price discrimination, a monopoly:
- (A) Produces less than it would if it did not price discriminate
  - (B) Converts consumer surplus into deadweight loss
  - (C) Converts producer surplus into economic profit
  - (D) Converts consumer surplus into economic profit
22. Unlike other forms of competition an oligopolist:
- (A) Does not need to take account of its costs
  - (B) Must consider the actions of its competitors in pricing decisions
  - (C) Will produce at price equal to average cost in the long run
  - (D) All of the above
23. A production possibilities curve with a constant slope indicates:
- (A) Constant opportunity costs as more and more of one good is produced
  - (B) Increasing opportunity costs as more of the good represented on the horizontal axis is produced
  - (C) Decreasing opportunity costs as more of the good represented on the horizontal axis is produced
  - (D) That more is better than less
24. When a production possibilities frontier shifts outward, it is demonstrating the concept of:
- (A) Trade offs
  - (B) Efficiency
  - (C) Economic growth
  - (D) Increasing input prices



25. According to economic theory, trade among nations is ultimately based on:
- (A) Absolute advantage
  - (B) Comparative advantage
  - (C) Historical linkages
  - (D) Exploitation of less developed countries by technologically advanced nations
26. 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) An increase in purchases of domestic production by foreign countries
  - (D) All of the above
27. In 2001 Alice took a job at a salary of \$25,000. In 2015 she was earning a salary of \$90,000. If the price index in 2001 was 500 and the price index in 2015 was 1800, what is Alice's 2015 salary in 2001 dollars?
- (A) \$25,000
  - (B) \$32,400
  - (C) \$37,500
  - (D) Price inflation renders such a comparison meaningless
28. The development of money as a medium of exchange has facilitated trade because:
- (A) Holding money makes people feel wealthier, encouraging spending
  - (B) Money is backed by tangible reserves such as gold
  - (C) A medium of exchange eliminates the double coincidence of wants problem
  - (D) All of the above

29. To increase the money supply, the Reserve Bank could:
- (A) Increase reserve requirements
  - (B) Decrease the OCR
  - (C) Sell government bonds
  - (D) None of the above
30. In an open economy, if the quantity of loanable funds supplied is greater than the quantity demanded then:
- (A) The interest rate will rise and the real exchange rate will rise
  - (B) The interest rate will fall and the real exchange rate will rise
  - (C) The interest rate will rise and the real interest rate will fall
  - (D) The interest rate will fall and the real exchange rate will fall
31. Which one of the following would NOT increase the opportunity cost of holding money?
- (A) A fall in real interest rates
  - (B) A rise in real interest rates
  - (C) A rise in the expected inflation rate
  - (D) A rise in the rate of government borrowing
32. If the exchange rate changes from 80 yen per dollar to 85 yen per dollar, the dollar has:
- (A) Appreciated and so \$1 buys more Japanese goods
  - (B) Appreciated and so \$1 buys less Japanese goods
  - (C) Depreciated and so \$1 buys more Japanese goods
  - (D) Depreciated and so \$1 buys fewer Japanese goods

33. The balance of trade is:
- (A) The volume of imports minus the volume of exports
  - (B) The value of exports minus the value of imports
  - (C) Must sum to zero
  - (D) The value of exports minus the sum of the value of imports and net capital outflow
34. The poorest nations are typically characterised by all of the following EXCEPT:
- (A) High literacy rates
  - (B) High birth rates
  - (C) Limited availability of capital
  - (D) Low per capita incomes
35. Assuming Ricardian equivalence holds, if taxes are increased, then:
- (A) Economic growth must accelerate
  - (B) Private saving must increase
  - (C) Private saving must decrease
  - (D) Private saving must remain unchanged
36. At the full employment level of output:
- (A) Unemployment is zero
  - (B) There is no cyclical unemployment
  - (C) There is no frictional unemployment
  - (D) All unemployment is voluntary

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37. Why does a deficit increase during a recession?
- (A) Tax revenue declines and government expenditure declines
  - (B) Tax revenue declines and government expenditure increases
  - (C) Tax revenue increases and government expenditure declines
  - (D) Tax revenue increases and government expenditure increases
38. Suppose an increase in the deficit has caused the governmental demand for loans to increase by more than the supply of loanable funds. Which of the following will be the most likely effect?
- (A) Lower interest rates
  - (B) Higher bond prices
  - (C) A smaller capital stock for future generations
  - (D) All of the above
39. Under a floating exchange rate regime, if the domestic currency of a nation rises in value against other currencies then that country's central bank will:
- (A) Increase the supply of assets denominated in its own currency
  - (B) Decrease the supply of assets denominated in its own currency
  - (C) Start selling its own currency on foreign exchange markets
  - (D) Do nothing
40. Over the past decade, income distribution in New Zealand has:
- (A) Remained unchanged
  - (B) Become less equal
  - (C) Become more equal
  - (D) Is impossible to determine due to data unavailability
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**Thank you for participating in the 2015 New Zealand Economics Competition.**





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