



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

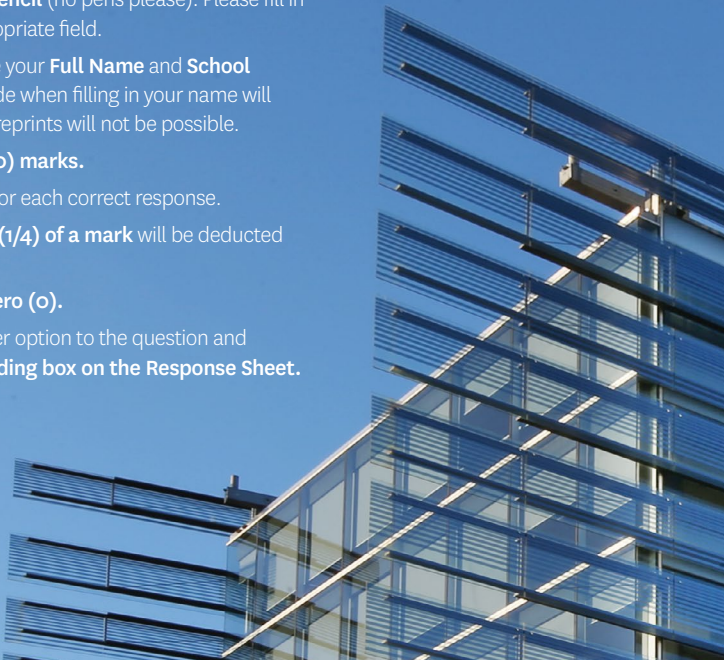
BUSINESS SCHOOL
DEPARTMENT OF ECONOMICS

2019 New Zealand Economics Competition

Tuesday 18 June 2019 (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 Gender 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 in 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. Economics is primarily the study of _____.
 - (A) the problems related to the existence and evolution of society
 - (B) the state, nation, government and politics and policies of governments
 - (C) how individuals and organizations choose to allocate scarce resources and how these choices affect society
 - (D) the mental functions and behavior of individuals and groups

2. A firm's objective behind charging different prices for the same good in different countries is to enhance _____.
 - (A) its profits
 - (B) corporate image
 - (C) its market power
 - (D) goodwill

3. Which of the following is NOT a required characteristic of a market?
 - (A) Rules and arrangements for trading
 - (B) Trade or exchange of a good or service
 - (C) Government setting the price of the good or service
 - (D) A collection of economic agents (e.g., buyers and sellers)

4. Jenny likes chocolates. One day, a friend offers her a chocolate bar and she is extremely happy on receiving it. As the day progresses, many other people also buy her chocolate. As she gets more and more chocolates, her excitement on receiving each bar is seen to gradually lessen. Which economic principle is reflected in this example?
 - (A) The concept of diminishing marginal benefit
 - (B) Aggregation of demand behavior
 - (C) The Law of Increasing Willingness to Pay
 - (D) The Law of Equi-Marginal Utility

5. In a perfectly competitive market, an individual seller cannot change the price of his product. This is because _____.
- (A) she always earns positive profits
 - (B) changing the price in this type of market is against the law
 - (C) she sells only a small fraction of the total amount of this product in the market
 - (D) the price is already the optimal choice for her
6. In a perfectly competitive market, if market price is lower than the average total cost of production, _____.
- (A) existing firms will leave the market
 - (B) all existing firms will earn zero economic profits
 - (C) new firms will enter the market
 - (D) all existing firms will earn positive economic profits
7. Consider a market where the demand curve is downward sloping and the supply is upward sloping (so they are neither vertical nor horizontal). If the consumers' willingness to pay for the hundredth unit is \$7.00 and the seller's willingness to accept for the hundredth unit is \$10.00, then the equilibrium _____.
- (A) quantity is more than 100 units
 - (B) price is less than \$7.00
 - (C) price is more than \$10.00
 - (D) quantity is less than 100 units
8. Which of the following activities is most likely to give rise to a positive externality?
- (A) Jogging every morning
 - (B) Buying a pair of gloves
 - (C) Consuming organic products
 - (D) Getting a flu vaccination

9. Smoking increases the risk of lung infections not only for active smokers but also for other people inhaling the smoke passively. Which of the following will help reduce smoking?
- (A) A tobacco tax
 - (B) Health insurance
 - (C) A tobacco subsidy
 - (D) Life insurance
10. The incentive for new firms to enter a perfectly competitive market is primarily the _____.
- (A) large number of buyers in the market
 - (B) existence of a large number of firms in the market
 - (C) high level of government intervention in the market
 - (D) positive profits earned by the existing firms in the market
11. The local community in a town has arranged for a fireworks show in a park located in the center of town. The cost of the ticket to watch the show is \$5. However, only 40 percent of the tickets are sold, as spectators can watch the show without entering the park. This is an example of _____.
- (A) the tragedy of the commons
 - (B) the paradox of plenty
 - (C) the paradox of thrift
 - (D) the free-rider problem
12. A profit-maximizing monopolistic competitor continues production until _____.
- (A) marginal revenue exceeds marginal cost
 - (B) marginal revenue equals average revenue
 - (C) marginal revenue exceeds average revenue
 - (D) marginal revenue equals marginal cost

13. Betsy enters a roadside cafeteria and orders a medium-sized cappuccino and a chicken burger. She hands over \$5 at the cash counter and collects the food. In this example, money serves the function of _____.
- (A) a medium of exchange
 - (B) a means of deferred payment
 - (C) a store of value
 - (D) a measure of inflation
14. The concept of the invisible hand suggests that _____.
- (A) equilibrium in a competitive market is determined independent of demand and supply
 - (B) the price mechanism allocates resources only to the people with high income in the country
 - (C) individuals working for self-interest will eventually maximize the well-being of society
 - (D) government intervention is necessary to rectify market imperfections
15. Which of the following statements explains why monopolies weaken the functioning of the invisible hand?
- (A) The quantity produced by a monopoly is too low.
 - (B) A monopoly is a price-taker.
 - (C) A monopolist faces a flat demand curve.
 - (D) A monopolist sets the price of its good equal to marginal costs.

16. If existing firms start to quit from the U.S. coal industry and new firms start to enter into the US solar panel industry, we would expect _____.
- (A) wages to fall in the U.S. coal industry but remain constant in the solar panel industry
 - (B) wages to fall in the U.S. coal industry and to rise in the solar panel industry only if the government imposes a wage ceiling in the solar panel industry
 - (C) wages to fall in both the U.S. coal and steel industries
 - (D) wages to fall in the U.S. coal industry and to rise in the solar panel industry
17. Citizens can safely conduct their economic activities when government _____.
- (A) plays no role in the economy
 - (B) determines the allocation of society's resources
 - (C) forcefully competes with other organizations for economic control
 - (D) provides law and order as well as enforces property rights
18. If a firm hires a worker by paying her a wage lower than the value of the worker's marginal product, it implies that _____.
- (A) the firm should reduce its employee strength to maximize profits
 - (B) the firm is making an optimum decision
 - (C) the firm should hire more workers to increase profits
 - (D) the firm is earning zero economic profit

19. The productivity of workers in an economy will be high if the economy has -----.
- (A) a large working age population
 - (B) a small physical capital stock
 - (C) high levels of human capital
 - (D) a negative rate of inflation
20. In France and Spain, a Big Mac costs 1 euro. Yet the standard of living is higher in -----.
- (A) France if all other goods also cost the same in Spain and France but the income per capital is higher in France
 - (B) Spain if a Big Mac is only a small part of people's consumption and Spain's income per capital is higher
 - (C) Spain if all other goods are cheaper in Spain than in France
 - (D) France if its exchange rate is higher
21. In Swaziland, the nominal GDP growth rate is 5 percent and the inflation rate is 7 percent. The real GDP growth rate in Swaziland is approximately -----.
- (A) 35 percent
 - (B) 12 percent
 - (C) 2 percent
 - (D) -2 percent
22. A retired worker receives a pension that is not indexed to inflation. Which of the following will happen if the rate of inflation rises?
- (A) The retiree's purchasing power will increase.
 - (B) The retiree's purchasing power will fall.
 - (C) The shareholders of the firm she worked in will lose.
 - (D) The retiree will be better off.

23. The price of making a telephone call has fallen dramatically over the past 100 years. This is best explained by improvements in what?
- (A) Education
 - (B) Human Capital
 - (C) Technology
 - (D) Physical capital
24. Which of the following statements is true?
- (A) As an economy experiences a recession, the rate of unemployment is expected to decrease.
 - (B) The unemployment rate in a country is not correlated with the level of economic activity in the country.
 - (C) As an economy experiences a boom, the rate of unemployment is expected to decrease.
 - (D) The unemployment rate in a country always remains constant.
25. Cross-country interactions produced by international trade can facilitate the transfer of _____.
- (A) exponential growth
 - (B) income inequality
 - (C) technology
 - (D) poverty
26. If the government of a country does not intervene in the foreign exchange market, then the country is said to have a _____.
- (A) fixed exchange rate system
 - (B) nominal exchange rate system
 - (C) flexible exchange rate system
 - (D) managed exchanged rate system

27. An undervalued domestic currency _____.
- (A) makes imports less expensive for domestic consumers
 - (B) benefits all the economic agents in the country
 - (C) makes imports more expensive for domestic consumers
 - (D) harms all the economic agents in the country
28. Diet Coke _____ considered a product in a monopoly market, because _____.
- (A) is; it has only one producer: the CocaCola Company
 - (B) is; the CocaCola company has market power
 - (C) is not; it has many substitutes
 - (D) is not; because it is produced in factories around the world
29. A musician was guaranteed by the government that no one else could replicate or sell her music CDs. This is an example of a _____.
- (A) copyright
 - (B) trademark
 - (C) brand
 - (D) patent
30. A producer is said to have a comparative advantage in the production of a good when the producer _____ compared to other producers.
- (A) charges a higher price for the good
 - (B) can produce more units of the good per hour
 - (C) has a higher sunk cost
 - (D) has a lower opportunity cost

31. Which of the following can be a source of a country's comparative advantage?
- (A) The level of unemployment in the country
 - (B) Domestic demand for goods produced abroad
 - (C) Education and experience of the workforce in the country
 - (D) The rate of inflation in the domestic economy
32. Which of the following statements is true of international trade?
- (A) It allows countries to explore their respective comparative advantage.
 - (B) It creates supply bottlenecks.
 - (C) It discourages workers from specializing in production.
 - (D) It leads to an inefficient allocation of resources.
33. A _____ occurs when a country's exports exceed its imports.
- (A) trade surplus
 - (B) trade deficit
 - (C) budget surplus
 - (D) fiscal deficit
34. Which of the following correctly identifies an argument against globalization?
- (A) Globalization leads to an exploitation of developed countries.
 - (B) Globalization can lead to a loss of indigenous culture and tradition.
 - (C) Globalization works against free trade.
 - (D) Globalization limits the bundle of goods and services available in smaller countries.

35. Which of the following statements is NOT true of free trade?
- (A) Free trade always makes each individual better off.
 - (B) Free trade leads to a maximization of world output.
 - (C) Free trade encourages countries to specialize in production.
 - (D) Free trade maximizes world living standards.
36. What can be the consequences of trade protectionism?
- (A) It increases prices for domestic consumers and lowers social surplus.
 - (B) It increases prices for domestic consumers and also increases social surplus.
 - (C) It lowers prices for domestic consumers and increases social surplus.
 - (D) It lowers prices for domestic consumers and also reduces social surplus.
37. Which of the following is an example of discretionary fiscal policy during a recession?
- (A) An increase in tax rates to increase revenue
 - (B) A decrease in transfer payments to unemployed workers
 - (C) A decrease in money supply to lower the official cash rate
 - (D) A temporary tax cut to boost consumption
38. If the government of a country adopts contractionary monetary policy, _____.
- (A) its currency will neither depreciate nor appreciate
 - (B) its currency will initially appreciate then depreciate
 - (C) its currency will appreciate
 - (D) its currency will depreciate

39. Beth has moved into a new house. Most people living in her neighborhood go for a jog early in the morning. Although Beth had always been a late riser, she has started getting up early for a jog after moving into her new house. This is an example of _____.
- (A) moral hazard
 - (B) a peer effect
 - (C) a negative externality
 - (D) adverse selection
40. The Harvard experiment in the mid-1990s found that private health insurance was expensive because _____.
- (A) healthier people demanded more extensive healthcare coverage
 - (B) unhealthy people demanded less extensive healthcare coverage
 - (C) poorer people wanted more free healthcare
 - (D) healthier people opted out of expensive healthcare coverage

Thank you for participating in the 2019 New Zealand Economics Competition.



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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
Web: www.econ.auckland.ac.nz



www.business.auckland.ac.nz