Instructions

1. Do not open this booklet until instructed by your teacher
2. You have **50 minutes** to answer all **40 questions**
3. Pencils, erasers and calculators only
4. Read all instructions on the Response Sheet provided
5. Mark your answers using **pencil only** on the Response Sheet
6. All questions are of equal value
7. Choose the **most correct** option to the question and FILL IN the corresponding oval on the Response Sheet
8. **One mark** (1) will be awarded for each correct response
9. Avoid random guessing, as **one quarter** (1/4) of a mark will be deducted for each incorrect answer
10. Please make sure you FILL IN the ovals on the Response Sheet correctly and completely for your name. Any mistakes you make will appear on your certificate.
1. Which of the following is a possible explanation for this outward shift in the Production Possibility Frontier (PPF)?

![Production Possibility Frontier (PPF)](image)

a) Resources becoming more scarce  
b) The application of new production technology  
c) An increase in the imports of both trucks and ships  
d) None of the above

2. In the five-sector circular flow of income model, what is the value of government expenditure if: Savings = 100, Imports = 180, Exports = 200, Taxes = 70, Investment = 95

   a) 115  
   b) 645  
   c) 95  
   d) 55

3. The Balance of Payments is a record over a period of time of:

   a) A country’s overseas transactions  
   b) A country’s overseas merchandise trade balance  
   c) A country’s domestic or internal transactions  
   d) A government’s budget surplus or deficit

4. If the demand for a good is perfectly price elastic, the equilibrium price will be:

   a) Zero  
   b) Determined entirely by the demand curve  
   c) Determined entirely by the supply curve  
   d) Infinite

5. Which of the following provides the best measure of a country’s standard of living?

   a) Aggregate Gross Domestic Product (GDP)  
   b) Consumer Price Index  
   c) Per capita GDP  
   d) Labour Force Participation Rate
6. If a government is running a budget deficit and there is an unexpected decrease in the level of economic activity, which of the following is most likely to occur?
   a) There will be an increase in tax revenue and a smaller budget deficit
   b) There will be an increase in tax revenue and a larger budget deficit
   c) There will be a decrease in tax revenue and a smaller budget deficit
   d) There will be a decrease in tax revenue and a larger budget deficit

7. Which economist wrote the "Wealth of Nations"?
   a) Adam Smith
   b) Karl Marx
   c) John Maynard Keynes
   d) Milton Friedman

8. The value of the New Zealand dollar is:
   a) Tied to the Australian dollar
   b) Tied to a trade-weighted basket of other currencies
   c) Pegged by the New Zealand Reserve Bank
   d) Allowed to float against other currencies

9. The best argument against raising the minimum wage is that it will result in:
   a) An increase in job vacancies for unskilled workers
   b) A deterioration in our terms of trade
   c) Lower employment levels for teenagers
   d) Lower standards of living for all workers

10. A market would be described as a monopoly if:
    a) There are a large number of buyers and sellers and price competition exists
    b) There are a large number of sellers who attempt to differentiate their products
    c) There are a few companies which collude to set the market price
    d) There is a single firm which sets the market price

11. Which of the following is the best example of goods that are perfect complements:
    a) Left and right shoes
    b) Computers and printers
    c) Potatoes and rice
    d) Butter and margarine
12. If automobile pollution creates a negative externality in New Zealand, which of the following statements is true?

a) Individuals derive no personal benefit from automobile transportation
b) If the government taxes petrol consumption, then from a social perspective there will be too few cars on our roads
c) Society derives some benefits from petrol consumption that don’t accrue to individual drivers
d) Society bears some costs of petrol consumption that aren’t borne by individual drivers

13. Which of the following is not primarily a trade-related organisation?

a) WTO
b) APEC
c) NATO
d) NAFTA

14. If goods are exported to a country at a lower price than the cost of producing it, what is this practice called?

a) Overcrowding
b) Dumping
c) Free trade
d) Monopolistic competition

15. Which of the following is the best definition of the official unemployment rate in New Zealand?

a) It’s the proportion of the working-age population receiving the Unemployment Benefit
b) It’s the proportion of the labour force not working
c) It’s the proportion of the labour force actively seeking and available for work
d) It’s the proportion of the working-age population actively seeking and available for work

16. If the inflation rate is 3% and the mortgage interest rate is 8%, then the real mortgage interest rate is closest to:

a) 3%
b) 5%
c) 8%
d) 13%
17. John Nash’s most significant contribution to economics was:
   a) The theory of monopsony in input markets
   b) Game theory
   c) Rational expectations
   d) The theory of externalities

18. Which of the following is generally considered to be evidence of an economic recession?
   a) Two consecutive quarters of a decline in average stock market prices
   b) Two consecutive quarters of a rise in the unemployment rate
   c) Two consecutive quarters of negative nominal GDP growth
   d) Two consecutive quarters of negative real GDP growth

19. Who is the current governor of the Reserve Bank of New Zealand?
   a) Alan Bollard
   b) Michael Cullen
   c) John Whitehead
   d) John Key

20. The annual inflation rate in New Zealand from the Consumer Price Index (CPI) to December 2006 was closest to:
   a) 1.5%
   b) 2.6%
   c) 4.3%
   d) 6.8%

21. The inflation target for the Reserve Bank of New Zealand is to keep:
   a) CPI inflation at 0% each year
   b) CPI inflation between -2% and 2% each year
   c) CPI inflation between 1% and 3% over the medium term
   d) CPI inflation between 0% and 5% over the medium term

22. Which of the following will shift the demand curve for air travel?
   a) An increase in air fares
   b) A change in consumer preferences for air travel
   c) A decrease in the price of jet fuel
   d) All of the above
23. The marginal cost of production is:
   a) So small as to be economically insignificant
   b) Total cost divided by total output
   c) The additional cost of producing another unit of output
   d) Total fixed cost divided by total output

24. Automatic stabilizers:
   a) Refer to different time lags between the impacts of fiscal and monetary policies
   b) Refer to government policies that reduce the sensitivity of the economy to shocks
   c) Cannot be altered by changing government policies
   d) All of the above

25. A rising value of the New Zealand dollar will likely:
   a) Increase the imports of capital goods into New Zealand
   b) Reduce agricultural exports from New Zealand
   c) Put downward pressure on consumer inflation in New Zealand
   d) All of the above

26. Suppose a second international airport was constructed in Auckland. This resulted in a substantial number of large aircraft flying over the city, leading to a number of complaints from residents about the noise. This noise is an example of:
   a) A positive externality
   b) A negative externality
   c) A public good
   d) A trade-off between inflation and unemployment

27. What ‘economic law’ is described in the statement below:

   “If one factor of production increases, all other input factors held constant, then at some point, the resulting increases in output will become smaller”

   a) The law of economic returns
   b) The law of proportional returns
   c) The law of diminishing returns
   d) The law of falling costs
28. The primary role for the International Monetary Fund (IMF) is to:
   a) Assist developing countries with infrastructure projects and alleviating poverty
   b) Maintain stability in world financial markets and promote international monetary cooperation
   c) Resolve trade disputes between nations and promote free trade and reductions in trade barriers between nations
   d) Reduce the need for currency exchange arrangements by adopting a Gold Standard

29. The crowding out effect occurs when:
   a) Government deficits result in a contraction in private investment spending
   b) Imports reduce domestic production
   c) Higher interest rates reduce mortgage borrowing
   d) Private savings forces consumption spending to contract

30. Which of the following will likely increase the demand for labour in the airline industry?
   a) An increase in the number of business people flying internationally
   b) An increase in the number of people interested in working in the airline industry
   c) The use of Internet Check-in services that allow passengers to avoid check-in procedures at the airport
   d) All of the above

31. The graphs below show Average Total Cost (ATC) curves for four firms, indicating how ATC changes as output increases. Assuming that average variable cost increases for all firms, which of the firms has the highest fixed costs? (Assume the scales on the axes are identical for all graphs.)

   a) Firm A
   b) Firm B
   c) Firm C
   d) Firm D
32. From which country does Ecoland import the most?

![Trade Balance By Country with Ecoland](image)

- Country 8
- Country 7
- Country 6
- Country 5
- Country 4
- Country 3
- Country 2
- Country 1

a) Country 7
b) Country 5
c) Country 3
d) Not enough information is given

33. In the event of a recession, which type of unemployment will increase the most?

- Natural unemployment
- Structural unemployment
- Cyclical unemployment
- Seasonal unemployment

34. Economic theory suggests that when a firm is incurring a loss in the short run it should:

- Shut down immediately
- Keep operating as long as its revenue can cover its variable costs
- Keep operating as long as its revenue can cover its fixed costs
- Keep operating regardless of its revenue and costs

35. Which statement best characterises the New Zealand income tax system in 2006?

- It is a regressive tax system with marginal tax rates that decline in three stages to reach 39% at personal incomes above $60,000
- It is a flat tax system with a constant marginal tax rate for personal income of 39%
- It is a progressive tax system with marginal tax rates that increase in three stages to reach 39% at personal incomes above $60,000
- It is a progressive tax system with marginal tax rates that increase in ten stages to reach 49% at personal income above $150,000
36. Which level of output is consistent with a firm’s goal of maximising profit?

![Graph showing Costs & Revenue with Points A, B, C, D]

a) A  
b) B  
c) C  
d) D

37. An inferior good in economics is one where:

a) The demand curve for that good slopes upward  
b) An increase in income will decrease the demand for that good  
c) Where consumer preferences are irrational  
d) The equilibrium price will not equate quantity demanded with quantity supplied

38. Which of the following best characterises the economic history of New Zealand since 2000?

a) Real GDP has been growing steadily with relatively low unemployment rates and large government budget surpluses  
b) Real GDP has been growing steadily with relatively high unemployment rates and large government budget surpluses  
c) Real GDP has been growing steadily with relatively low unemployment rates and large government budget deficits  
d) Real GDP has been declining steadily with relatively high unemployment rates and large government budget deficits
39. Say a country's personal income tax system permits taxpayers to earn $10,000 before incurring any personal income tax. For incomes in excess of $10,000 a 50% marginal tax rate applies. Which of the following is true?
1. A taxpayer earning $30,000 pays $10,000 in income tax.
2. For taxpayers who earn more than $10,000, the proportion of income tax paid increases with income.
3. A taxpayers who increases his income from $25,000 to $26,000 will have to pay an additional $500 in income tax.

   a) Statements 1 is true  
b) Statements 2 is true  
c) Statements 2 and 3 are true  
d) Statements 1, 2 and 3 are true

40. For a given price change, which of the following demand curves has the highest price elasticity of demand? (Assume the initial price is $P_0$ and both demand curves are linear with the same slope).

![Demand Curves](image)

   a) A  
b) B  
c) Both A and B have the same elasticity  
d) Not enough information is given

- End of Paper -
About the Competitions
The Australian Economics and Business Studies Competitions is a non-profit organisation based at the University of New South Wales. One of its aims is to promote the study of Commerce and Economics by running such projects as the Economics Competition and the Business Studies Competition. The organisation and its activities are run entirely by students on a voluntary basis with the generous support of the University of New South Wales in Australia and the University of Auckland in New Zealand, and our principal sponsor, PricewaterhouseCoopers.

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