1. Which of the following is a source of a shift in the market demand curve?

(A) An increase in consumer income

(B) A successful advertising campaign

(C) A decrease in population size

(D) All of the above are sources of shifts in the market demand curve

2. Suppose that demand is perfectly inelastic and the supply curve shifts up to the left. Then:

(A) Price and quantity will increase

(B) Price will increase, but quantity will remain constant

(C) Quantity will increase, but price will remain constant

(D) Neither price nor quantity will increase

3. A price ceiling set above the equilibrium price will:

(A) create a shortage

(B) have no effect

(C) increase the price

(D) create a surplus

4. Which of the following are true statements concerning the price elasticity of demand?

(A) The slope of the demand curve necessarily equals the price elasticity of demand

(B) If total revenue rises as price increases, then demand is inelastic

(C) Demand becomes more price inelastic in the long run

(D) Both answer (b) and (c) are correct

5. A curve showing different combinations of two products that give a consumer the same satisfaction is called:

(A) a paradox

(B) an indifference curve

(C) a contract curve

(D) a production possibility curve

6. As an individual consumer's income increases, that consumer's:

(A) indifference curve shifts to the right

(B) budget line shifts to the right

(C) budget line shifts to the left

(D) indifference curve shifts to the left

7. Indifference analysis indicates that consumer equilibrium occurs:

(A) where the budget line is tangent to the indifference curve

(B) at any point along the budget line

(C) at any point along the indifference curve

(D) at the point of origin of the budget line

8. When the price of a product falls:

(A) both the income and substitution effects will normally cause a consumer to purchase more

(B) only the income effect will cause a consumer to purchase less

(C) only the substitution effect will induce a consumer to purchase more

(D) only the income effect will induce a consumer to purchase more

9. If marginal utility becomes negative, then total utility:

(A) cannot be determined

(B) must be zero

(C) decreases

(D) increases at a decreasing rate

10. If a product exhibits elastic demand:

(A) it is a necessity

(B) there are few good substitutes for the product

(C) the price elasticity of demand is greater than 1 in absolute value

(D) there is little time for consumers to adjust to a price change

11. In the short run:

(A) all production costs are fixed

(B) all production inputs are variable

(C) a firm will not experience diminishing returns

(D) they are both variable and fixed costs of production

12. Total Cost minus Total fixed cost equals:

(A) Total variable cost

(B) Average variable cost

(C) Marginal cost

(D) Average fixed cost

13. Marginal cost:

(A) Equals total cost minus total variable costs

(B) Equals the change in variable cost at the marginal unit

(C) Intersects both the average variable and total cost curves at their minimum points.

(D) Both answer (b) and answer (c) above are correct

14. When marginal product is below average product, then:

(A) Average product must be decreasing

(B) Average product must be increasing

(C) Marginal product must be increasing

(D) Marginal product is at a maximum

15. Diminishing returns may result from:

(A) increases in the number of workers added to a fixed input of capital stock

(B) increases in total costs caused by diseconomies of scale

(C) an increase in fixed costs

(D) all of the above are correct

16. If a firm's marginal revenue is greater than marginal cost, then:

(A) each added unit of output will reduce profits

(B) more output will increase total profits

(C) the firm is maximising profit

(D) the firm should reduce output

17. In the short run, a firm attempting to minimise losses:

(A) must leave the industry

(B) will produce as long as total revenue exceeds total variable cost

(C) will produce as long as total revenue exceeds total fixed costs

(D) will produce as long as marginal costs exceed marginal revenue

18. The demand curve that perfectly competitive firms face:

(A) is the same as the market demand curve for the entire industry

(B) is perfectly inelastic

(C) is infinitely elastic

(D) has a price elasticity of 1 at its midpoint

19. To maximise profi the perfectly competitive fi m will produce that output at which:

(A) total revenue equals total cost

(B) demand equals marginal revenue

(C) the difference between price and marginal cost is at its greatest

(D) the difference between total revenue and total costs is at its greatest

20. The perfectly competitive firm's short run supply curve is:

(A) the marginal cost curve above the average fixed cost curve

(B) the entire marginal cost curve

(C) the marginal cost curve above minimum AVC curve

(D) the marginal cost curve above the average total cost curve

21. A purely competitive firm can exert no control over price because:

(A) the firm's demand curve is horizontal

(B) there are few substitutes for the product

(C) the firms marginal revenue curve is horizontal

(D) the firm's production is insignificant relative to industry production.

22. The profit maximising condition, MC = MR applies to:

(A) A firm in perfect competition

(B) A monopolist

(C) A firm in monopolistic competition

(D) All of the above firms

23. Which one of the following characteristics is NOT shared by the market structures of monopolistic competition and perfect competition?

(A) Zero economic profit in the long run

(B) Many buyers and sellers

(C) Identical products

(D) Freedom of entry and exit

24. "Interdependence" means that:

(A) Pricing actions of market rivals are of no consequence to a single firm

(B) Each firm in the market makes differentiated products

(C) A single firm will consider the reactions of relatively few rivals when deciding upon a course of action

(D) The demand curves of the firm and the market are identical

25. When managers of several firms meet to discuss how to improve their mutual wellbeing, the result is called:

(A) Price leadership

(B) Collusion

(C) Rule of thumb pricing

(D) Game theory

26. The difference between private costs and social costs of the production of a good is called:

(A) Diseconomies of scale

(B) Derived demand

(C) An externality

(D) Economic profit

27. If the production of a product or service involves substantial beneficial externalities, the government can improve efficiency by:

(A) imposing a corrective tax to correct for an over allocation of the good

(B) providing a subsidy to correct for an under allocation of the good

(C) providing a subsidy to correct for the over allocation of a good.

(D) doing nothing and allowing the market economy to correct itself

28. The owner of a business decided to discount the price of her products by 15%. As a result, sales revenue increased by 20%. Based on this finding we may conclude:

(A) Inelastic demand exists for these goods

(B) Elastic demand exists for these goods

(C) Elastic supply exists for these goods

(D) Inelastic supply exists for these goods

29. Which of the following is NOT a characteristic of public goods:

(A) Excludability

(B) Non-rivalry

(C) Free rider problem

(D) All the above are characteristics of public goods

30. The effect of a carbon tax of $50 per tonne of CO_2 emissions on the steel industry would be to:

(A) shift the supply curve to the left and cause a contraction in supply

(B) shift the supply curve to the left and cause a contraction in demand

(C) shift the demand curve to the left and cause a contraction in demand

(D) shift both the demand and supply curves to the right, either raising or lowering the price of steel, depending on the relative sizes of the shifts for both curves.

31. The Minister of Finance for New Zealand is:

(A) Bill Birch

(B) Bill Shakespeare

(C) Bill English

(D) Bill Clinton

32. Which of the following is NOT an example of an automatic stabiliser?

(A) progressive income tax rates

(B) teachers' salaries

(C) welfare payments

(D) all of the above are examples of automatic stabilisers

33. Assume $1 billion of "new" money enters the banking system. The trading banks' prudential reserve ratio is 1:7. As a result the final change in the money supply will be:

(A) an increase of $1 billion

(B) a decrease of $1 billion

(C) an increase of $7 billion

(D) a decrease of $7 billion

34. The demand for money will fall if:

(A) Real incomes rise

(B) Real interest rates rise

(C) The price level rises

(D) Real interest rates fall

35. Which of the following statements regarding Real Gross Domestic Product (GDP) is FALSE?

(A) Real GDP does not include the costs associated with negative externalities

(B) Real GDP includes the value of "Do–it-yourself" activities

(C) Real GDP is adjusted for changes in the Aggregate Price Level

(D) Real GDP excludes income earned overseas by New Zealand Residents

36. An increase in the money supply would cause:

(A) interest rates to fall and investment spending to rise

(B) interest rates to fall and investment spending to fall

(C) interest rates to rise and investment to fall

(D) interest rates to rise and investment to rise.

37. What would be the effect of an increase in net capital inflow on the New Zealand economy?

(A) an increase in supply of the New Zealand dollar and an appreciation of the currency

(B) a decrease in supply of the New Zealand dollar and a depreciation of the currency

(C) an increase in demand for the New Zealand dollar and an appreciation of the currency

(D) a decrease in demand for the New Zealand dollar and a depreciation of the New Zealand currency.

38. A person had an income of $40000 last year and paid $10000 in tax. This year the same person earned $80000 and paid $20000 in tax. This person's marginal tax rate is:

(A) Progressive

(B) Proportional

(C) Regressive

(D) Zero

39. Assume that net exports rise by $1 billion. Explain why equilibrium real GDP might rise by more than $1 billion:

(A) an increase in net exports appreciates the dollar, causing a further increase in net exports

(B) an increase in net exports raises tax revenues which increases Government spending

(C) an increase in net exports increases income causing an increase in induced consumption

(D) an increase in net exports causes an increase in the money supply

40. A market economy is most likely to be associated with:

(A) The welfare state

(B) Capitalism

(C) Socialism

(D) Collectivism