

AEBSC Economics Competition 2017

Question 1

A common pool resource is what type of good?

- a. Pure public good
- b. Public good
- c. Private good
- d. Normal good

Answer: [B]

Public good as it faces the problem of overuse.

Question 2

Labour is a *derived demand*. What does this mean?

- a. Demand for labour comes from demand for the goods and services that are produced
- b. Demand for labour is related to the supply of labour
- c. Demand for labour is the derivative of the growth function
- d. Demand for labour comes from the supply of goods and services in an economy

Answer: [A]

Question 3

Many Australian industries were deregulated between 1983 and 2000 in an effort to:

- a. Reduce prices for consumers
- b. Foster competition
- c. Promote entrepreneurial incentive
- d. All of the above

Answer: [D]

Deregulation removes legal restrictions on the operation of markets with the purpose of increasing productivity, efficiency and international competitiveness.

Question 4

What is the formula for Aggregate Demand (AD)?

- a. $AD = \text{Income} + \text{Savings} + \text{Investment}$
- b. $AD = \text{Consumption} + \text{Investment} + \text{Government expenditure} + \text{Net exports}$
- c. $AD = \text{Savings} + \text{Taxation} + \text{Imports} = \text{Consumption} + \text{Government expenditure} + \text{Exports}$
- d. None of the above

Answer: [D]

Question 5

If the level of GDP is declining, the most likely stage of the business cycle is..

- a. Trough
- b. Contraction
- c. Recession
- d. b and c

Answer: [D]

Contraction and Recession are interchangeable terms

Question 6

Which of the following is NOT true about the Australian dollar (AUD)?

- a. AUD can be considered as a 'commodity' currency
- b. Australia uses a floating exchange rate system
- c. The Reserve Bank of Australia continues to 'peg' the AUD on a daily basis
- d. The crawling peg system was used before the floating of the AUD

Answer: [C]

The AUD was floated in 1983, which eliminated the need for the RBA to 'peg' the dollar every day. The value of the AUD tends to move with fluctuations in commodity prices.

Question 7

If two countries share a natural resource and one country decides to consume as much of the resource as possible, contrary to the common good of both countries, this is known as a(n):

- a. Competitive advantage
- b. Opportunity cost
- c. Liquidity trap
- d. Tragedy of the commons

Answer: [D]

The Tragedy of the Commons is where a natural resource is shared by individuals who take advantage of this resource and act contrary to the common good of all users.

Question 8

The European Union (EU) functions partially as a regional trade agreement and customs union. In 2019, the United Kingdom leaves the EU and seeks a trade deal with its members, but is rebuffed, as the EU members prefer to trade only with other members. What is this an example of?

- a. Trade regionalisation
- b. Mercantilism
- c. Trade war
- d. Multilateral trade

Answer: [A]

Trade regionalisation refers to the phenomenon that occurs when the members of a regional trade bloc preference trading partners within the bloc against those outside it. In this case, The European Union is a trade bloc, and its members prefer not to trade with the UK, which is not a member.

Question 9

The Reserve Bank of Australia (RBA) cut the cash rate four times from 2015-2017. Which of the following factors contributed to the RBA's decision?

- a. Falling commodity prices
- b. Low inflation
- c. Significant growth in labour costs
- d. a and b

Answer: [D]

Lower interest rates aimed to stimulate economic growth in response to declines in commodity prices and export income, as well as to prevent significantly-low inflation rates from being sustained. There has been subdued growth in labour costs.

Question 10

US President Donald Trump wants to seize US\$25 billion in remittances to Mexico to pay for his border wall. Assuming this is possible, how would this appear on Mexico's Balance of Payments?

- a. Credit to Capital and Financial Account
- b. Debit to Capital and Financial Account
- c. Credit to Net Secondary Income
- d. Debit to Net Secondary Income

Answer: [D]

Remittances are recorded as a credit on Net Secondary Income; seizing them, since income is flowing out of Mexico, would be recorded as a debit.

Question 11

Who is Australia's second largest two-way trading partner?

- a. China
- b. America
- c. Japan
- d. Britain

Answer: [C]

Question 12

An example of an indirect tax is:

- a. Wealth Tax
- b. Service Tax
- c. Capital Gains Tax
- d. Corporate Tax

Answer: [B]

A tax levied by the government on service providers on certain service transactions but is actually borne by consumers.

Question 13

The Production Possibility Frontier (PPF) is illustrative of a number of economic concepts such as:

- a. Economies of scale
- b. Scarcity
- c. Allocative efficiency
- d. All of the above

Answer: [D]

Each of these economic concepts is reflected in the PPF which is defined as a graphical representation of a variety of different combinations of goods with constant technology and resources.

Question 14

Germany receives an influx of approximately 200,000 refugees in 2017. What is the likely impact on Germany's economic equilibrium?

- a. Aggregate demand curve shifts left
- b. Aggregate demand curve shifts right
- c. Aggregate supply curve shifts left
- d. Aggregate supply curve shifts right

Answer: [B]

Aggregate demand is likely to increase owing to the large population increase in Germany; refugees will ultimately consume more goods and services.

Question 15

Which of the following countries has the highest Gini-Coefficient?

- a. Australia
- b. New Zealand
- c. USA
- d. Denmark

Answer: [C]

Question 16

Ethan voluntarily quits his job, as a physiotherapist, and returns to university to study economics. He graduates three years later and is now seeking a position in policy research. Ethan is currently:

- a. Cyclically unemployed
- b. Structurally unemployed
- c. Hidden unemployed
- d. Frictionally unemployed

Answer: [D]

The frictionally unemployed encompasses those unemployed workers who are moving between jobs in the short term

Question 17

In 2017, Venezuela has an estimated year-end 1,640 % inflation rate. Consumers have moved forward purchases in order to get cheaper prices, and workers are negotiating for wage raises from their employers. Which cause of inflation does this best represent?

- a. Cost push inflation
- b. Demand-pull inflation
- c. Imported inflation
- d. Inflationary expectations

Answer: [D]

Inflationary expectation is when the assumption of future inflation by consumers causes them to exacerbate it, by purchasing more goods and services sooner; also by seeking to increase their wages to compensate.

Question 18

Australia has a Current Account Deficit. According to the Pitchford thesis, this does not necessarily result in Australia having an external constraint. Why?

- a. Australia's liabilities are primarily held by the private sector
- b. Australia's liabilities are the result of mutually beneficial trades
- c. Australia's liabilities individually are financially sustainable, and thus are sustainable in aggregate
- d. All of the above

Answer: [D]

Question 19

Toyota closes Australia's last car manufacturing plant in Altona, laying off 4000 workers. What is the effect on the natural rate of unemployment in Australia?

- a. Increase, since the workers are structurally unemployed
- b. Increase, since the workers are frictionally unemployed
- c. Decrease, since structurally unemployed workers are not part of the natural rate of unemployment
- d. No change, since structurally unemployed workers are not part of the natural rate of unemployment

Answer: [A]

Question 20

In France in 2018, the government of President Benoit Hamon has introduced a *universal basic income* (a payment to all citizens of a living wage, regardless of income level). What is the likely impact on the French labour market equilibrium?

- a. A leftward shift in the supply curve, as the labour force participation rates declines
- b. A rightward shift in the supply curve outwards, as the labour force participation rate declines
- c. A leftward shift in the demand curve, as the universal basic income leads to less demand from business for workers
- d. A rightward shift in the demand curve, as the universal basic income boosts productivity

Answer: [A]

A universal basic income would reduce the incentive for people to work, as they could subsist on the UBI. As a result, the French labour participation rate would decline, leading to a leftward shift in the supply curve for labour.

Question 21

Which of the following is NOT an example of a positive externality?

- a. Education
- b. Excessive risk-taking
- c. Construction of a new bridge
- d. Walking to work

Answer: [B]

A positive externality represents a benefit to a third party from the consumption or production of a good. Consuming education allows individuals to increase their productivity, benefiting the rest of society. Construction of a new bridge creates new jobs. Walking to work minimizes pollution and traffic congestion. However, excessive risk-taking by banks or investors can ignite economic crises affecting people all around the world.

Question 22

Which of the following pairs of goods are characterized by: elastic demand and inelastic demand?

- a. Kit Kat chocolate and diamonds
- b. Shell Petrol and organic bread
- c. Salt and bus tickets
- d. Cigarettes and tap water

Answer: [A]

There are other types of chocolate you can buy besides Kit Kat's however there is no substitute for a diamond.

Question 23

Negative gearing is where:

- a. Interest is greater than income produced
- b. Interest is less than income produced
- c. Interest is equal to income produced
- d. None of the above

Answer: [A]

Negative Gearing is where you borrow money to invest this money into income producing assets and the interest expenses on this borrowed money are higher than the income received from the asset.

Question 24

Due to new voting restrictions, in 2020, only one person is allowed to vote for President of the United States. This voter has a choice between Donald Trump and Hillary Clinton. The voter knows that Trump's economic plan will increase the federal deficit by \$5.3 trillion, while Clinton's plan would reduce the deficit by \$1.3 trillion. What is the opportunity cost of electing Trump as President of the United States?

- a. \$6.6 trillion
- b. \$5.3 trillion
- c. \$1.3 trillion
- d. \$4 trillion

Answer: [A]

Opportunity cost is the value of the next best alternative. If the voter elects Trump as President, the opportunity cost is then the value of Clinton reducing the deficit – \$1.3 trillion – plus the value of Trump NOT adding to the deficit – \$5.3 trillion, resulting in a total cost of \$6.6 trillion.

Question 25

In 2019, the United Kingdom (UK) leaves the European Union (EU) and is forced to pay £50 billion to settle outstanding liabilities to the EU, such as pensions for British citizens working in the EU. How would this be recorded in the UK's balance of payments?

- a. Debit to Capital and Financial Accounts, as the payment is to settle liabilities.
- b. Debit to Current Account as the payment is a "transfer" to fund pensions.
- c. Credit to Capital and Financial Account
- d. Credit to Current Account

Answer: [A]

Since the European Union has already paid the pensions to the UK citizens living there, the £50 billion is the settling of a liability rather than a transfer to the citizens in the form of their pensions.

Question 26

A market has the following characteristics: multiple sellers, but one buyer, with no differentiation between products. This is a(n):

- a. Monopolistic competition
- b. Oligopoly
- c. Monopoly
- d. Monopsony

Answer: [D]**Question 27**

Consider the selected data shown for Australia.

Year	Change in Real GDP (%)	Change in CPI (%)
1	2.8	1
2	1.5	-0.5

Based on the above indicators, what actions should the central bank take in Year 2, holding all other factors constant?

- a. Lower the cash rate, as there is contracting real economic activity and deflation
- b. Lower the cash rate, as there is expanding real economic activity and deflation
- c. Raise the cash rate, as there is contracting real economic activity and inflation
- d. Raise the cash rate, as there is expanding real economic activity and inflation

Answer: [B]

The positive change in real GDP indicates expanding real economic activity, however the growth rate has slowed from years 1 to 2. The negative change in CPI indicates deflation. This makes an easing stance most appropriate, using a lower cash rate to stimulate aggregate demand.

Question 28

Which of the following could NOT have been a potential impact of the Trans-Pacific Partnership (TPP) Agreement?

- a. Trade liberalization through eliminating ALL tariffs in the region
- b. Creation of commonly-agreed trade rules to promote fair competition between state-owned enterprises and exporters
- c. No changes to Australia's intellectual property policies
- d. Inclusion of Investor State Dispute Settlement which poses a threat to national sovereignty

Answer: [A]

More than 98% of tariffs will be removed, however some industries such as agriculture and industrial goods would either reduce or eliminate tariffs over longer timeframes.

Question 29

During recessions what effect do Progressive Income Taxes have on the government budget deficit?

- a. Increases the size
- b. Decreases the size
- c. No effect on the size
- d. None of the above

Answer: [A]

During a recession many individuals will fall into lower tax brackets. This increases the size of the government budget deficit.

Question 30

What are some economic implications of Australia's ageing population over the next few decades, as outlined in the government's *Intergenerational Report 2015*?

- a. Rising budget deficits
- b. Higher participation rate
- c. Fall in health spending
- d. Both A and B

Answer: [A]

The Report estimates that the proportion of the population participating in the labour force will decline over the next 40 years. However, spending on health, aged care and pensions is predicted to rise, contributing to a growing budget deficit.

Use the following information to answer Questions 31 and 32:

Assume that two countries, Australia and Italy, can produce only wheat and beef, given the same level of resources. Each country has 150 million hours of labour resources.

The table below shows the hours of labour needed to produce each good for each country.

	<i>Australia</i>	<i>Italy</i>
<i>Wheat</i>	50	200
<i>Beef</i>	100	150

Question 31

In the production of beef, _____ has absolute advantage; and ---
_____ has comparative advantage.

- a. Australia; Italy
- b. Italy; Australia
- c. Australia; Australia
- d. Italy; Italy

Answer: [A]

As Australia can produce more beef than Italy, using the same amount of labour, it has absolute advantage.

However, the opportunity cost of producing beef is 2 units of wheat in Australia, and 0.75 units of wheat in Italy. Thus, Italy has comparative advantage in producing beef because it has the lower opportunity cost.

Question 32

If Australia does not engage in free trade, and needs to produce 2 million units of wheat for domestic consumption, how many units of beef will Australia produce?

- a. 4 million
- b. 2 million
- c. 1 million
- d. 0.5 million

Answer: [D]

To produce 2 million units of wheat, Australia will use $2 \text{ million} \times 50 \text{ hours} = 100 \text{ million hours}$ of labour. The remaining 50 million labour hours will be used to produce beef. Hence, beef output equals to 50 million divided by 100 = 0.5 million units.

Question 33

An example of a company outsourcing is:

- a. An American denim-clothing company opens its first franchise store in Japan
- b. A German automobile MNC sets up its own R&D facility in Sydney
- c. A software team in India creates new web designs for a Singaporean telecommunications company
- d. An Australian baby-formula company hires a Chinese distributor to sell the baby formula on to Chinese retailers

Answer: [C]

Outsourcing is a process of transferring tasks to be performed by foreign suppliers, rather than by the original company, often with the purpose of reducing costs.

Question 34

Which of the following indicators help policymakers to confirm long-term trends, rather than predict future changes in economic activity?

- a. Unemployment
- b. Consumer Confidence
- c. Bond yields
- d. Personal incomes

Answer: [A]

Lagging indicators tend to have a delayed response to changes in economic activity. One example of unemployment, as it takes time for firms to react to a recession by firing workers. Examples of leading indicators are consumer confidence, bond yields and personal incomes.

Question 35

Which of the following involves a monetary authority making decisions about the valuation of a nation's currency and in which country does this exchange rate system operate?

- a. Pegged exchange rate – Estonia
- b. Floating exchange rate - Norway
- c. Currency board – Hong Kong
- d. Crawling peg- Austria

Answer: [C]

Question 36

In a small shopping center, one hundred sandwiches need to be produced each day. There are only two shops that sell sandwiches. 'Cut sandwiches' and 'Alberto's sandwiches.' Each place decided to produce 50 sandwiches. Their prices are interdependent. What type of economy is this an example of?

- a. Monopoly
- b. Oligopoly
- c. Discriminating monopoly
- d. Perfect competition

Answer: [B]

An oligopoly is where there is a small group of firms that have control over an economy.

Question 37

China and the European Union are both steel producing economies. Since China produces surpluses of steel beyond domestic demand, it sells the excess steel in Europe at the price of €100 a tonne. The price of steel in Europe is €496 a tonne, while the price of steel in China is equivalent to €282 a tonne. The European Union decides to impose a tariff on steel equivalent to €396 a tonne. Is this an allowable tariff under World Trade Organisation (WTO) rules, and why?

- a. No, because the WTO bars tariffs of any kind
- b. Yes, because China is dumping steel in Europe and the World Trade Organisation allows anti-dumping measures to be taken
- c. No, the WTO allows some level of anti-dumping tariffs but the European Union's tariff is too high
- d. Yes, because the tariff rules only apply to trade between WTO members, and China is not a member

Answer: [B]

Dumping refers to exporting a product for a cheaper price than would be typical in one's home market. Under the World Trade Organisation rules, members are allowed to take measures to prevent dumping.

Question 38

Darcy boards a bus and observes that there are spare passenger seats. The bus can be considered as:

- a. Non-excludable
- b. Rival
- c. An impure public good
- d. A situation in which letting another person board has a marginal cost of greater than zero

Answer: [C]

The ferry is excludable as a price must be paid for access, and non-rival as there is zero marginal cost of allowing another person board a ferry that is not fully booked. Thus, the ferry is an impure good, as it is non-rivalrous and non-excludable to a certain extent.

Question 39

Which of the following is NOT a government tool of trade control?

- a. Introducing tariffs on imported manufactured goods
- b. Requiring that 100% of the component parts of automobiles be produced internationally
- c. Banning hormone-treated beef from another country, due to health concerns
- d. Administrative and customs delays

Answer: [B]

Options C and D are administrative policies and technical regulations, which are intended to control trade. Option A is certainly a protectionist method.

Question 40

The Reserve Bank of Australia has lowered the cash rate from 2.25% to 2%. Westpac and ANZ are weighing up whether pass on the rate cut; the decision will be made simultaneously by both banks. The following table shows the combination of strategies available, with outcomes stated in millions of dollars of profit.

	ANZ	
	Pass on rate cut	Does not pass on rate cut
Commonwealth Bank	200, 200	400, 100
	100, 400	300, 300

Assuming both banks are rational, what is the most likely outcome?

- a. Both ANZ and Commonwealth Bank pass on the rate cut
- b. Neither ANZ and Commonwealth Bank pass on the rate cut
- c. ANZ passes on the rate cut, but Commonwealth Bank does not
- d. ANZ does not pass on the rate cut, but Commonwealth Bank does

Answer: [A]