

2006 NATIONAL ECONOMICS CHALLENGE
NCEE/Goldman Sachs Foundation

National Round I: Microeconomics
David Ricardo Division

1. Which of the following would cause an **outward-shift** of a country's **production possibilities** curve?
 - A. A decrease in unemployment.
 - B. A decrease in natural resource prices.
 - C. An increase in consumer demand.
 - D. An increase in immigration.
 - E. Negative net investment.

2. Consider the table below in answering this question.

<u>Number of Workers</u>	<u>Output</u>	<u>Highest Price at which all output can be sold</u>
1	10	\$10
2	19	9
3	27	8
4	34	7
5	40	6

If the **wage rate for workers is \$20**, how many workers would a profit-maximizing firm facing these conditions hire?

- A. 1 B. 2 C. 3 D. 4 E. 5
3. Recently as the **price of oil rose** dramatically, the **price of natural gas also increased**. This can best be explained by saying that oil and natural gas are:
 - A. complementary goods and so the higher price of oil increased the demand for natural gas.
 - B. complementary goods and so the higher price of oil decreased the supply of natural gas.
 - C. substitute goods and so the higher price of oil decreased the supply of natural gas.
 - D. substitute goods and so the higher price of oil decreased the demand for natural gas.
 - E. substitute goods and so the higher price of oil increased the demand for natural gas.

4. If the production of a good **creates sizable external costs**, economic theory suggests that **to attain efficient results** the government should do which of the following?
 - A. Not intervene with the private production of the good.
 - B. Take over the production of the good.
 - C. Prohibit the production of the good.
 - D. Subsidize the production of the good.
 - E. Tax or regulate the production of the good.

5. Each of the following contributes to **income inequality** **except** for which one?
 - A. Differences in the amounts and quality of education and training.
 - B. Discrimination based on gender or race.
 - C. Differences in resource ownership (wealth).
 - D. Differences in mental, physical, and aesthetic talents.
 - E. Progressive income taxes.

6. The **supply curve** for a good would **shift to the left** if which of the following occurred?
 - A. A decrease in the prices of the resources used to produce the good.
 - B. A technological advance in the production of the good.
 - C. A decrease in the amount of subsidies paid to produce the good.
 - D. An increase in the number of foreign-produced units of this good allowed into the country.
 - E. An increase in the number of sellers of this good.

7. In **monopolistic competition** (or polyopoly) which of the following is **false**?
 - A. Firms tend to earn zero economic profits in the long run.
 - B. Firms are price searchers as opposed to price takers.
 - C. Location can be a differentiating characteristic of the products produced.
 - D. A variety of similar products is produced.
 - E. Firms are efficient in production.

8. Suppose a firm can **sell one unit of good X at \$40** and it can sell **one additional unit for every \$1 reduction** in price. If it costs a constant **\$35** to produce each unit of this good, how many units should the firm produce to **maximize its profits**?
- A. 2 units.
 - B. 3 units.
 - C. 4 units.
 - D. 5 units.
 - E. 6 units.
9. If the **price** of a competitive industry's output is **lower than the per unit cost** of producing it, which of following is true?
- A. Firms will begin leaving and the price will rise.
 - B. Firms are earning economic profits.
 - C. Firms could still be earning normal profits.
 - D. Firms will all cease production.
 - E. Firms will collude to establish a higher price.
10. With an **effective price ceiling** the _____ curve determines the actual quantity exchanged in the market, while with an **effective price floor** the _____ curve determines it.
- A. demand; demand.
 - B. demand; supply.
 - C. supply; demand.
 - D. supply; supply.
11. At a **price of \$4** a firm is able to sell **100 units** of its product. At a **price of \$5** it is able to sell **X** units. If the demand for its product is **elastic**, then which of the following is the **largest number of units that X could be**?
- A. 39.
 - B. 59.
 - C. 79.
 - D. 99.
 - E. 199.
12. Which of the following is **not** an income payment for the use of a **productive resource**?
- A. Wages.
 - B. Rent.
 - C. Interest.
 - D. Normal profits.
 - E. Economic profits.

13. Which of the following would cause a **decrease** in the **demand for labor** (workers)?
- A. An increase in wage rates.
 - B. A decrease in the supply of labor.
 - C. A decrease in the price of the output produced by workers.
 - D. An increase in worker productivity.
 - E. An increase in immigration.
14. At the profit-maximizing output level in the short run a firm finds that its **price is lower than its average variable cost**. This firm should do which of the following?
- A. Shut down.
 - B. Increase its price.
 - C. Decrease its price.
 - D. Increase its output.
 - E. Decrease its output.
15. Consider the following data about good A:

<u>Year</u>	<u>Price</u>	<u>Quantity Sold</u>
2004	\$10	40,000
2005	\$20	80,000

- Given the data above, which of the following must be **true**?
- A. The demand for Good A violates the "law of demand."
 - B. The demand for Good A increased from 2004 to 2005.
 - C. The demand for Good A decreased from 2004 to 2005.
 - D. The supply of Good A increased from 2004 to 2005.
 - E. The supply of Good A decreased from 2004 to 2005.

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National Round II: Macroeconomics
David Ricardo Division

1. If in some year **nominal interest rates** are **less** than the **rate of inflation**, then which of the following is true?
 - A. The amount of money demanded exceeds the amount of money supplied.
 - B. The amount of money supplied exceeds the amount of money demanded.
 - C. Real interest rates would exceed nominal interest rates.
 - D. Real interest rates would be negative.
 - E. Real interest rates would be positive.

2. Which of the following is **not** a component of the **demand for loanable funds**?
 - A. Households' desire to purchase houses and cars.
 - B. The government's need to finance the public debt.
 - C. Businesses' desire to buy capital goods.
 - D. Foreigners' desire to acquire goods and capital.
 - E. Commercial bank's desire to grant loans.

3. Why is the **short-run aggregate supply** curve is **upward-sloping**?
 - A. The interest rate effect.
 - B. The net export effect.
 - C. Higher price levels create incentives to expand output when resource prices remain constant.
 - D. Higher price levels create an expectation among producers of still higher price levels.
 - E. Nominal wages and other input prices are variable.

4. A **tight monetary policy** does what to each of the following?

	<u>Investment Spending</u>	<u>Aggregate Demand</u>	<u>Equilibrium Price Level</u>
A.	Decrease	Decrease	Decrease
B.	Decrease	Increase	Decrease
C.	Decrease	Decrease	Increase
D.	Increase	Increase	Decrease
E.	Increase	Increase	Increase

5. The **Federal Reserve buying government securities** is expected to lead to which of the following?
- A higher federal funds rate.
 - A higher prime lending rate.
 - A slower growth in the money supply.
 - A greater amount of investment spending.
 - An appreciation of the U.S. dollar.
6. In a simple economy, three goods are produced: **100 apples, 20 shirts, and 2 bales of cotton (which are used to produce the 20 shirts)**. If the price of apples is **\$2**, the price of shirts is **\$8**, and the price of cotton is **\$20** per bale, what is the **nominal gross domestic product** of this economy?
- \$320.
 - \$360.
 - \$380.
 - \$400.
 - \$440.
7. Which of the following set of policies would be consistent in fighting **inflation**?

	<u>Government Tax Rates</u>	<u>Open Market Operations</u>	<u>Immigration Restrictions</u>
A.	Increase	Buy bonds	Relax
B.	Increase	Sell bonds	Increase
C.	Increase	Sell bonds	Relax
D.	Decrease	Buy bonds	Increase
E.	Decrease	Buy bonds	Relax

8. If **nominal GDP in 2004 was \$5.0 trillion** and **nominal GDP in 2005 was \$5.6**, while the **GDP price deflator rose by 8%** between 2004 and 2005, which of the following is **true**?
- Output decreased by 2%.
 - Output decreased by 4%.
 - Output increased by 4%.
 - Real GDP fell between 2004 and 2005.
 - Real GDP was the same in 2004 and 2005.
9. The federal government does **not** use **fiscal policy** to do which of the following?
- Redistribute income.
 - Provide public goods.
 - Adjust aggregate demand.
 - Fight inflation.
 - Change interest rates.

10. Which of the following is characteristic of a **downturn in the business cycle**?
- A. Rising unemployment.
 - B. Rising prices.
 - C. Rising production.
 - D. Rising interest rates.
 - E. Rising demand for money.
11. Which of the following would shift the **aggregate demand curve** for an economy to the **left**?
- A. Expansionary fiscal policy.
 - B. Expansionary monetary policy.
 - C. A depreciation in the economy's currency.
 - D. A general fall in stock market prices.
 - E. A rise in the price of imported resources.
12. Which of the following policies would **increase aggregate spending** but **not increase the size of government** in the process?
- A. Increase government spending and leave tax rates unchanged.
 - B. Decrease tax rates and leave government spending unchanged.
 - C. Increase tax rates and leave government spending unchanged.
 - D. Increase government spending and taxes by the same amount.
 - E. Decrease government spending and taxes by the same amount.
13. Suppose prices are **rising at a rate of 10%** per year, the **unemployment rate is 4.5%**, and **inventories have fallen** to a ten-year low. Which of the following would be a reasonable **fiscal** policy response?
- A. A tax cut.
 - B. A decrease in interest rates.
 - C. A decrease in government spending.
 - D. A reduction in the growth of the money supply.
 - E. An increase in government deficits.

14. An **increase** in which of the following would likely result in a **lower price level and a higher real GDP**?
- A. Consumer spending.
 - B. Interest rates.
 - C. Real wage rates.
 - D. Money supply.
 - E. Labor productivity.
15. A commercial bank **sells \$40,000** worth of its government securities to the Federal Reserve. If the **required reserve ratio is 10%**, how much does this change the **bank's ability to grant loans**?
- A. It increases by \$4000.
 - B. It increases by \$36,000.
 - C. It increases by \$40,000.
 - D. It decreases by \$36,000.
 - E. It decreases by \$4000.

2006 NATIONAL ECONOMICS CHALLENGE
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National Round III: International and Current Events
David Ricardo Division

1. Alpha and Beta both produce rugs and shirts under constant cost conditions. The table below shows the amount of rugs and shirts that can be produced in one day by one worker.

	<u>Alpha</u>	<u>Beta</u>
Rugs	10	15
Shirts	20	60

Which of the following would **not** be feasible **terms of trade** between Alpha and Beta?

- A. 1 rug for $2\frac{1}{2}$ shirts.
 - B. 1 rug for 3 shirts.
 - C. 1 rug for $3\frac{3}{4}$ shirts.
 - D. 1 shirt for one-fifth of a rug.
 - E. 1 shirt for one-third of a rug.
2. An **increase in U.S. demand** for foreign goods, services, and assets leads to which of the following?
- A. An increase in the supply of U.S. dollars.
 - B. A decrease in the supply of U.S. dollars.
 - C. An increase in the demand for U.S. dollars.
 - D. An increase in the supply of foreign currencies.
 - E. A decrease in the demand for foreign currencies.
3. If the **Japanese yen becomes weaker** relative to the U.S. dollar, which of the following is **true**?
- A. It is good news for Japanese exporters.
 - B. It helps to close the U.S. trade deficit with Japan.
 - C. It takes less yen to buy a U.S. dollar.
 - D. It is a good time for Japanese to go to Hawaii.
 - E. It reduces the amount of trade between Japan and the United States.

4. In a controversial 2005 ruling (*Kelo v. New London*) the Supreme Court upheld the right of local governments to force private property owners to sell their property (**right of eminent domain**) for what "public use"?
 - A. Parks.
 - B. Highways.
 - C. Cellular phone towers.
 - D. Private economic development.
 - E. Electricity transmission lines.

5. Which of the following is **true** about a **limit on the amount of sugar** that can be imported into the U.S.?
 - A. It is an example of a tariff.
 - B. It lowers the price of sugar in the U.S.
 - C. It harms U.S. sugar-beet producers.
 - D. It harms U.S. candy producers.
 - E. It would be a violation of U.S. anti-trust laws.

6. An **economic expansion in the U.S.** would likely do which of the following?
 - A. Decrease U.S. imports and increase GDP in Japan.
 - B. Increase U.S. imports and increase GDP in Japan.
 - C. Reduce the U.S. trade deficit and increase GDP in Japan.
 - D. Reduce the U.S. trade deficit and decrease GDP in Japan.
 - E. Decrease the demand for foreign currencies.

7. If a country's **imports of goods are greater than its exports of goods** in a given year, then the country has which of the following?
 - A. Balance of payments deficit.
 - B. Balance of trade surplus.
 - C. Balance of trade deficit.
 - D. Positive balance in its current account.
 - E. Negative balance in its current account.

8. An **increase** in which of the following would most likely **improve** the economic position of a non-oil-producing, less-developed debtor country?
 - A. World oil prices.
 - B. World-wide interest rates.
 - C. World-wide tariffs and quotas.
 - D. The population growth of the country.
 - E. The growth rate of developed countries.

9. Pedro and Joe are the two best passers and blockers on their high school football team. **Pedro is a little better than Joe when it comes to passing, but he is a lot better than Joe when it comes to blocking.** If the coach wants to make the best use of these two players, who should play quarterback (the passer)?
- A. Pedro because he is clearly the best player.
 - B. Pedro because he has an absolute advantage in passing.
 - C. Pedro because he has a comparative advantage in passing.
 - D. Joe because he has an absolute advantage in passing.
 - E. Joe because he has a comparative advantage in passing.
10. In terms of government provision of goods and services (measured by **government taxes as a percentage of the country's GDP**), which of the following countries has the **strongest socialist** tendencies?
- A. Canada.
 - B. South Korea.
 - C. Finland.
 - D. Great Britain.
 - E. Japan.
11. If a country decides to **increase its tariffs** on foreign goods, which of the following might be an **objective** it is trying to achieve?
- A. Increased exports.
 - B. Greater efficiency in its domestic production.
 - C. Greater profitability for import-competing firms.
 - D. Increased production possibilities.
 - E. Increased consumption possibilities.
12. **Quotas** are considered a **greater threat to competition than tariffs** because of which of the following?
- A. Quotas generate no revenue for the government.
 - B. Tariffs are voluntary and quotas are not.
 - C. Quotas preclude additional imports at any price.
 - D. Quotas lower the quantity sold, while tariffs do not.
 - E. Quotas raise prices, while tariffs do not.

13. As **U.S. interest rates increase** relative to those in the rest of the world, this is expected to result in which of the following?
- A. A stronger U.S. dollar.
 - B. Improved conditions for U.S. exporters.
 - C. A decrease in the flow of capital into the U.S.
 - D. Increase investment spending by firms in the U.S.
 - E. Smaller U.S. trade deficits.
14. The preliminary **real GDP increase for the first quarter of 2006** and **unemployment rate for February 2006** (the month right in the middle of that quarter) have what interesting relationship?
- A. They add up to exactly zero.
 - B. They add up to exactly 10.
 - C. They are exactly the same.
 - D. The real GDP increase is exactly half the unemployment rate.
 - E. The real GDP increase is exactly twice the unemployment rate.
15. If a country chooses to **specialize and trade**, which of the following is expected?
- A. Fewer domestic jobs.
 - B. Lower prices for goods.
 - C. Decreased resource availability.
 - D. Decreased dependence on other countries.
 - E. Decreased quantity and quality of goods.

2006 NATIONAL ECONOMICS CHALLENGE
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National Round IV: Quiz Bowl
David Ricardo Division

1. A merger between a personal computer manufacturer and a micro chip producer would be an example of what kind of merger?
(vertical)

2. Recently the Federal Reserve has communicated changes in its monetary policy by announcing changes in its target for what?
(federal funds rate)

3. What is the current target rate for the federal funds rate?
(5.00%)

4. Positive, negative, or normative--what kind of economic principle is the "law of demand"?
(positive)

6. Rising inventories of a particular good would suggest that its price is where relative to its equilibrium level?
(above)

7. The board of directors of a corporation are chosen or elected by whom?
(the stockholders of the corporation)

8. Officially, what is the name of a U.S. dollar bill?
(Federal Reserve note)

9. Sunshine, sunscreen, or sunflower seeds--which is a public good?
(sunshine)
10. False advertising and the misrepresentation of products were made illegal by what 1938 Act?
(Wheeler-Lea)
11. Alternating periods of economic growth and contraction are called what?
(the business cycle)
12. If the average tax rate falls as income rises, the tax structure is what?
(regressive)
13. Shifts in aggregate demand are to changes in spending as shifts in aggregate supply are to changes in what?
(resource productivity/resource availability)
14. A bank's reserve account at the Fed, the checking deposits of its customers, or loans to its customers--which is a liability of a commercial bank?
(checking deposits of its customers)
15. The long-run equilibrium price in both perfectly-competitive and monopolistically-competitive industries is equal to what?
(the average cost of production)
16. The existence of economic losses in a competitive industry is eliminated by a rising price caused by what?
(the exit of firms/decrease in supply)
17. If a company is engaging in debt financing it is raising funds by selling what?
(bonds/corporate bonds)

18. As their income rises people tend to buy more restaurant meals making such meals what kind of good?
(normal)
19. What influential liberal economist and author of "The Affluent Society" died at the age of 97 last month?
(John Kenneth Galbraith)
20. If a worker's hours are cut so that she goes from working full time to only working part time, what happens to the unemployment rate?
(nothing/no change)
21. In the circular flow model of an economy, goods and resources flow in one direction while what flows in the opposite direction?
(money)
22. A movement of which market curve in what direction would lead to an increase in the equilibrium price and a decrease in the equilibrium quantity?
(supply; left/decrease)
23. Whose portrait appears on a U.S. dime?
(Franklin Roosevelt/FDR)
24. Which is worth the most today--one U.S. penny, one Japanese yen, or one Mexican peso?
(one Mexican peso)
25. What is the current corporate income tax rate?
(35%)
26. Retail clothing, restaurant, or breakfast cereal--which industry has the highest 4-firm concentration ratio?
(breakfast cereal)

27. Property rights with respect to the use of a product's name are called what?
(trademarks)
28. On May 1st, what South American country, following the lead of Venezuela, nationalized its oil and natural gas production?
(Bolivia)
29. If one worker can produce 10 gadgets, give a number of gadgets two workers can produce if production is subject to positive, but diminishing marginal product.
(any number greater than 10, but less than 20)
30. An increase in the size of the federal government's budget deficit is expected to do what to real interest rates and the amount of investment spending?
(increase real interest rate; decrease investment spending)

Tie-breaking question (if necessary):

Is an appreciation of the U.S. dollar the likely result of an increase or decrease in U.S. demand for foreign goods and foreign assets?
(decrease)