

2005 NATIONAL ECONOMICS CHALLENGE
NCEE/Goldman Sachs Foundation

National Round IV: Quiz Bowl
Adam Smith Division

1. What word precedes each of the following words to form an economic concept--gain, stock, flight, account, and good? **(Capital)**

2. If the marginal revenue of the last unit sold by a profit-maximizing monopoly is \$4, give a possible price at which it was sold. **(Any price above \$4)**

3. What do the letters GATT stand for? **(General Agreement on Tariffs and Trade)**

4. What country is the world's largest debtor nation? **(United States)**

5. A bank's reserves are the sum of its vault cash and what else? **(Its deposits at the Federal Reserve)**

6. If the average cost of producing four gadgets is \$6 and the marginal cost of a fifth gadget is \$1, what is the average cost of producing five gadgets? **(\$5)**

7. Large price reductions in the short run that are intended to drive out competitors are

referred to as what kind of pricing?
(Predatory)

8. Besides a country's exports and imports, give an example of another transaction that would be included in a country's current account.
(Investment income from/to abroad, transfers from/to abroad)
9. What is the largest asset on a Federal Reserve Bank's balance sheet? **(Government securities)**
10. A weakening of a country's currency tends to do what to its net exports? **(Increases them)**
11. While monetary policy can be very effective in reducing aggregate demand, it can be less effective in increasing it. This is often described as the difference between pulling and pushing on a what? **(String)**
12. A linear supply curve which crosses through the origin has a price elasticity at every price equal to what? **(One)**
13. At a firm's profit-maximizing output level, what is marginal profit equal to? **(Zero)**
14. The balanced-budget multiplier indicates that equal increases in government spending and taxes by \$20 billion will do what to the equilibrium level of GDP? **(Increase it by \$20 billion)**

15. A structural deficit is said to exist when the government runs a budget deficit when what else is true? **(The economy is at full employment)**
16. In national income accounts corporate profits are the sum of dividends, retained earnings, and what? **(Corporate income taxes)**
17. If the marginal propensity to consume in an economy is $\frac{2}{3}$ and investment spending increases by \$2 billion, the equilibrium level of GDP will do what? **(Increase by \$6 billion)**
18. The wealth or real balances effect refers to the tendency of people to do what when the value of their assets rise? **(Increase their consumption/spending)**
19. Unplanned investment typically shows up as increases or decreases in what? **(Inventories)**
20. The official reserves of the Federal Reserve are in the form of what? **(Foreign currencies)**
21. If the long-run average cost of producing a good is \$20 at all output levels, what is the long-run marginal cost of the 20th unit?
(\$20)
22. Roughly what fraction of the public debt is

held by the U.S Treasury, federal agencies and the Federal Reserve? **(1/2)**

23. Advocates of "functional finance" believe the federal government's budget should be used to do what? **(Stabilize the economy)**
24. Cars, clothing, or chemicals--which would be the best example of a labor-intensive commodity? **(Clothing)**
25. What plays essentially the same role in labor markets that economic profits play in product markets? **(Wage differentials/differences)**
26. Occupational licensing has the same effect on a given occupation's wages and employment as what kind of unionism? **(Exclusive)**
27. What past economist is famous for advocating a single tax on land? **(Henry George)**
28. Besides the "Roaring 20's," what other decade in the 20th century is also associated with a "roaring" economy? **(1990's)**
29. A negative externality would exist if marginal social costs were greater than what? **(Marginal private costs)**
30. In the absence of trade, a country's

consumption possibilities are the same as its
what? (**Production possibilities**)

Tie-breaking question (if necessary):

At income levels above \$100,000 are current Social
Security payroll taxes proportional or regressive?
(**Regressive**)

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David Ricardo Division

1. Recently the prime lending rate has been how much higher than the federal funds target rate? **(3%/300 basis points)**

2. What two effects are usually used to explain why consumers buy more of a good as its price falls (and vice versa)? **(Income and substitution effects)**

3. What general assumption do economists usually make about the amount of satisfaction people get from additional units of the same good? **(It diminishes)**

4. The output approach to measuring Gross Domestic Product considers total expenditures while the input approach considers what? **(Total income generated)**

5. If planned investment in a closed economy is \$70 billion while actual saving is \$65 billion, then actual investment in equilibrium would be how much? **(\$65 billion)**

6. Does a decrease in demand initially lead to a market shortage, surplus, or deficit? **(Surplus)**

7. To the nearest tenth of a percent, the U.S. unemployment rate has been holding steady at what rate? **(5.2%)**
8. If output increases by 4% while productivity increases by 3%, what is the percentage change in employment? **(Increasing by 1%)**
9. What act first made monopolizing an industry with an intent to restrain trade illegal?
(Sherman Act)
10. A tax placed on a good does what to its equilibrium price and quantity? **(Increases the price and reduces the quantity)**
11. The "Old Age, Survivors, Disability, and Health Insurance Plan" is better known as what? **(Social Security)**
12. A coincidence of wants is necessary to make trades in what kind of exchange system?
(Barter/direct exchange/swapping)
13. In terms of 2004 Gross Domestic Product, rank the European Union, the United States, and Japan from the largest to the smallest.
(U.S., E.U., Japan)
14. Besides an increase in its resources, name something that would allow a country to produce beyond its production possibilities

curve in the future. (**Higher resource productivity/technological improvements**)

15. The Full Employment and Balanced Growth Act of 1978 established what specific goal for the rate of economic growth? (**4%**)

16. What two items are excluded from the CPI basket of goods when looking at the core CPI? (**Food, energy**)

17. A floating exchange system is called "dirty" when who is allowed to intervene in the exchange markets? (**Central banks**)

18. The "bottom" line for businesses is their profits, while the "top" line is their what? (**Total revenues/sales/earnings**)

19. Deficit spending to support the war on terrorism tends to work against the attainment of what major economic goal? (**Price stability/low inflation**)

20. Following conservative thought, Alan Greenspan recently advocated changing from a federal tax system based on taxing income to one based on taxing what? (**Consumption/spending/sales**)

21. What decade of the 20th century is most closely associated with stagflation? (**70's**)

22. Accounting, economic, or normal--which type of profits is actually a cost of production?
(Normal)
23. The Council of Economic Advisors gives economic advice to whom? **(President of the U.S.)**
24. If disposable income rises by \$20 billion and the marginal propensity to consume is 0.8, how much would saving rise? **(\$4 billion)**
25. Black markets are usually associated with government-imposed price what? **(Ceilings)**
26. If the cross-elasticity of demand between two goods is positive, the two goods are called what? **(Substitutes/substitute goods)**
27. What two sectors are absent in a private, closed economy? **(Government and foreign)**
28. If nominal wages rose by 2% while the price level rose by 3%, real wages have done what?
(Fallen by 1%)
29. If the exchange rate between U.S. dollars and Japanese yen was \$1 = 100 yen, then one yen would be equivalent in value to what U.S. coin? **(Penny)**

30. What would be the price of a good that is not scarce? **(Zero)**

Tie-breaking question (if necessary):

Is inflation more likely to result from an increase in aggregate demand or aggregate supply?

(Aggregate demand)