

# High School Olympiad

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# ECONOMICS

**GRADE 12**

**Olympiad Paper**

**Round One**

**Marks: 30**

**Time: 1 hour**

**Date: 7 May 2025**



## Instructions

**Please take time to read the instructions carefully.**

**If the ANSWER SHEET is not COMPLETE and correct your answer sheet will be invalid.**

1. **NB! Please use a HB pencil or a black pen to complete the answer sheet.**  
**No highlighter or colours pens are allowed.**
2. The ANSWER SHEET consist of 3 sections. Accounting, Business Studies and Economics.  
Please select and answer the **correct** section/subject
3. There are 4 possible answers per question (A B C D)  
Only one answer is correct. Colour a circle completely.
4. Good luck!

**THE CIRCULAR FLOW**

1. Which of the following best describes the interaction between households and businesses in the circular flow model?
  - A Households provide businesses with goods and services, while businesses supply households with labour.
  - B Businesses provide income to the government, which is then distributed to households.
  - C Households supply businesses with factors of production, and businesses provide households with goods and services.
  - D Businesses and households operate independently, with no economic interaction.
2. How does an increase in government spending on subsidies for businesses affect the circular flow of income?
  - A It increases production and employment, leading to higher household incomes.
  - B It reduces household consumption by decreasing disposable income.
  - C It slows down the flow of money in the economy by reducing government expenditures.
  - D It causes a decrease in business investments, leading to lower economic activity.
3. The government implements a 10% tax cut for producers. What is the immediate impact on the circular flow of income?
  - A Decrease in business investment.
  - B Decrease in government revenue.
  - C Increase in business investment.
  - D Increase in government revenue.
4. If the government **increases subsidies** for local farmers, how will this impact the real and monetary flows in the economy?
  - A The real flow of agricultural products will decrease.
  - B The monetary flow to businesses will increase, resulting in higher production.
  - C The monetary flow from households to businesses will decrease.
  - D The real flow of money to the financial sector will increase.
5. How do injections affect the circular flow of income?
  - A It only affects businesses and not households.
  - B It does not impact employment or production.
  - C It decreases economic activity by reducing the flow of money.
  - D It increases the flow of money, boosting economic activity.

6. A government decides to increase its spending on infrastructure projects. According to the aggregate expenditure formula, how will this affect GDP?
- A GDP will decrease because government spending is a leakage.
  - B GDP will increase because government spending (G) is a component of total expenditure.
  - C GDP will remain unchanged because government spending does not affect the economy.
  - D GDP will decrease due to higher taxation.
7. A country's GDP is increasing, but its net exports (X - M) remain negative. What does this indicate?
- A The country is producing more domestically but relies on foreign goods.
  - B The government is not spending enough.
  - C The country has a trade surplus.
  - D There is no effect on GDP as net exports do not affect it.
8. A policymaker suggests increasing taxes to reduce government debt. How might this decision affect the total expenditure formula?
- A Consumption (C) and Investment (I) may decrease, lowering GDP.
  - B Government spending (G) will increase, boosting GDP.
  - C Net exports (X - M) will rise due to increased production.
  - D Business investment (I) will increase as firms benefit from higher taxes.
9. Which of the following factors **reduces** the size of the multiplier effect?
- A A higher marginal propensity to consume (MPC).
  - B A decrease in income tax rates.
  - C An increase in the marginal propensity to save (MPS).
  - D An increase in government spending.
10. If the marginal propensity to consume (MPC) is 0.8, what will the value of the multiplier be?
- A 1.25
  - B 5
  - C 0.8
  - D 8

11. If a government wants to maximise the multiplier effect, which combination of policies should it implement?
- A Increase savings and reduce government spending.
  - B Raise income tax and reduce transfer payments.
  - C Increase imports and decrease exports.
  - D Encourage consumer spending and lower interest rates.
12. Which of the following is included in the calculation of a country's gross domestic product (GDP)?
- A The value of household chores performed by family members.
  - B The sale of second-hand goods, such as used cars.
  - C The value of final goods and services produced within a country's borders.
  - D The transfer of money through social grants and pensions.
13. Calculate the GDP for Country X given the following GDP components:
- Household consumption: R1 500 billion
  - Gross fixed capital formation: R600 billion
  - Government Expenditure: R900 billion
  - Exports: R400 billion
  - Imports: R500 billion
- A R2 100 billion
  - B R2 900 billion
  - C R3 100 billion
  - D R3 900 billion

#### BUSINESS CYCLES

14. Which phase of the business cycle is characterised by increasing economic activity, rising GDP, and declining unemployment?
- A Recession
  - B Trough
  - C Expansion
  - D Contraction
15. What is the main difference between a recession and a depression in the business cycle?
- A A recession is longer than a depression.
  - B A recession is a short-term decline in economic activity, while a depression is a prolonged and severe downturn.
  - C A recession affects only one industry, while a depression affects the entire economy.
  - D A depression occurs during expansion, while a recession occurs during contraction.

16. A country experiences a high inflation rate, increasing wages, and high consumer spending. At the same time, businesses are operating at full capacity. In which phase of the business cycle is this country most likely?
- A Recession
  - B Trough
  - C Peak
  - D Contraction
17. A government is deciding whether to implement stimulus measures during an economic downturn. Which of the following factors should policymakers consider the MOST before deciding?
- A The impact of stimulus measures on inflation and national debt.
  - B The number of businesses that might close in the future.
  - C The average household income of all citizens.
  - D The economic policies of neighbouring countries.
18. Which of the following economic policies would be the most effective in promoting recovery if the economy is experiencing a prolonged recession?
- A Introduce a new tax on businesses to generate government revenue.
  - B Reduce the minimum wage to encourage more employment opportunities.
  - C Implement government-funded job training programs and infrastructure projects.
  - D Implement a freeze on all government spending to reduce the budget deficit.
19. Which of the following best differentiates a lagging indicator from a leading indicator?
- A Lagging indicators are always more accurate than leading indicators.
  - B Leading indicators predict future trends, while lagging indicators confirm past trends.
  - C Lagging indicators are more useful for predicting stock market fluctuations.
  - D Leading indicators measure economic performance, while lagging indicators do not.
20. A financial analyst is trying to assess the long-term effects of a recent recession. Which TWO lagging indicators should they examine?
- A Consumer sentiment and stock market index.
  - B Inflation rate and corporate profits.
  - C Retail sales and new housing permits.
  - D Interest rate forecasts and manufacturing orders.

**THE PUBLIC SECTOR**

21. If a government provides free street lighting in a city, what economic problem might arise?
- A Market failure due to lack of demand.
  - B The free rider problem, where people benefit without paying.
  - C Overuse leading to the depletion of resources.
  - D Increased taxation leading to private sector growth.
22. Suppose a town is experiencing a shortage of clean water, which is a collective good. What is the best policy solution to ensure its availability?
- A Limit water access to only those who can afford to pay.
  - B Remove government control and let market forces allocate water.
  - C Implement strict regulations on water usage and encourage conservation.
  - D Allow private companies to control water supply and set high prices.
23. A government is deciding whether to make access to a national park free or charge an entrance fee. What is the best argument for charging an entrance fee?
- A It ensures that only local citizens can enjoy the parks.
  - B It prevents the overuse and degradation of the natural environment.
  - C It maximises the number of visitors to the park.
  - D It allows the government to avoid spending on park maintenance.
24. Which of the following is an example of a **collective good**?
- A A public beach.
  - B A meal at a fast-food restaurant.
  - C A swimming pool at a private residence.
  - D A ticket to a rock concert.
25. Which of the following is the main reason governments privatise state-owned enterprises?
- A To prevent private investments in the economy.
  - B To create more job opportunities in the public sector.
  - C To improve efficiency and reduce government spending.
  - D To increase government control over industries.

**THE FOREIGN EXCHANGE MARKET**

26. What does the concept of **absolute advantage** refer to in economics?
- A A country's ability to produce goods using fewer resources than another country.
  - B A country's ability to trade without restrictions.
  - C A country's ability to produce goods at a lower opportunity cost than another country.
  - D A country's ability to produce more than any other country in the world.
27. What is the best definition of **economies of scale**?
- A A situation where total costs increase as production increases.
  - B A situation where the cost per unit decreases as production increases.
  - C A situation where firms produce fewer goods to save costs.
  - D A situation where employees are paid more due to increased productivity.
28. What does it indicate if a country's terms of trade improve?
- A The country is exporting more goods than before.
  - B The country can import more for the same value of exports.
  - C The country is experiencing a trade surplus.
  - D The country's exchange rate has depreciated.
29. The **direct exchange rate** is **1 USD = 18 ZAR**. What does this mean?
- A You need 1 ZAR to get 18 USD.
  - B You need 18 ZAR to get 1 USD.
  - C The exchange rate is favourable for the ZAR.
  - D The ZAR is stronger than the USD.
30. You are an economic advisor to a country facing a **balance of payments crisis** due to high imports and low exports. Propose the best policy option.
- A Revalue the currency to encourage domestic investment.
  - B Devalue the currency to make exports cheaper and imports more expensive.
  - C Adopt a floating exchange rate to let the market determine the currency value.
  - D Impose tariffs on imports to reduce the trade deficit.