Economics Olympiad

INTERNATIONAL FINAL ROUND EXAMINATION

TEST MICROECONOMICS - VERSION A

FIRST NAME:_____

LAST NAME:_____

COUNTRY:_____

Economics Olympiad

INTERNATIONAL FINAL ROUND 2026

Pre-Test Guide — Microeconomics

Please read this guide carefully before the test. It explains the test format, the answer sheet, and the rules of the competition.

BEFORE THE TEST

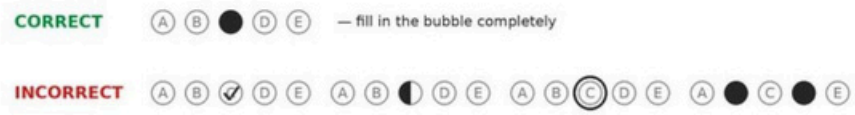
1. You are about to sit the Microeconomics test. Please read this guide carefully before you begin.
2. The testing documentation you have received consists of this Pre-Test Guide, the assignment, and one multiple-choice answer sheet.
3. Once the organisers instruct you to uncover your documents, fill in your **name, country, and Student ID** on the answer sheet. Your Student ID should have been provided to you by your National Organiser; if you have not received it, please raise your hand.
4. Switch off all electronic devices, including mobile phones and smartwatches, and store them away for the entire duration of the test.

TEST FORMAT AND SCORING

5. The test consists of **20 multiple-choice questions** and **2 open-ended questions**. It accounts for **40%** of your overall result at the International Final.
6. Each multiple-choice question has exactly one correct answer and is worth **2 points**.
7. Incorrect or unanswered questions score 0 points; no points are ever deducted. If more than one answer is marked in a multiple-choice question, the question is considered answered incorrectly.
8. The two open-ended questions are worth up to **40 points** in total.

HOW TO RECORD YOUR ANSWERS

9. To record an answer in the multiple-choice part, **fill in the corresponding bubble completely** on the answer sheet, as shown in the picture below.



10. If you wish to change an answer marked in pencil, erase the original mark completely. Answers marked in pen cannot be changed; mark them only once you are certain.
11. In the open-ended part, write each answer directly in the assignment, in the designated **ANSWER** field bearing the corresponding question number. Write legibly and in English.
12. Do not write anything on the answer sheet other than in the fields you are required to fill in, and keep the sheet clean and unfolded — a damaged sheet may not be readable by the scanning software.
13. You may make notes anywhere in the assignment, but such notes are not graded: in the multiple-choice part, only the answer sheet is graded, and in the open-ended part, only what you write in the **ANSWER** fields.

DURING THE TEST

14. You must comply with all instructions given by the organisers throughout the test.
15. The test lasts **90 minutes**. You may hand in your testing documentation before the time limit expires; however, you must then leave the hall immediately. Please note that this does not apply during the last 15 minutes, during which you cannot leave the room.
16. During the test, you may use only a **simple calculator, pens, and pencils**. One pencil has been provided to you by the organisers. All other equipment is prohibited. You must not share your equipment with other participants.
17. You must not communicate with other participants during the test, copy their answers, or prompt or otherwise assist them in any way.
18. You may not leave your seat before you have handed in your testing documentation. If you have a question or encounter a problem (e.g. illegible print or a damaged sheet), raise your hand and wait for a member of staff.
19. A serious violation of the rules will result in disqualification.

HANDING IN

20. When the time limit expires, stop writing immediately. Hand in the complete testing documentation, including the assignment containing your open-ended answers, and remain seated until everything has been collected.

Do not turn this page or uncover any of the documents beneath it until instructed to do so by the organisers!!!

Multiple Choice Question Exam - Version A

MCQ-specific instructions: Select the best answer for each question. This exam contains 20 multiple-choice questions; each correct answer is worth 2 points for a possible total of 40 points. Different questions use different currencies as indicated. All calculations should use the currency stated in the question.

1. In a market, demand is given by P=60-0.5Qd and supply by P=Qs-20. Assume the market is in equilibrium. The government imposes a tax of €12 per unit on producers. What is the price paid by consumers after the tax?

a. €28

b. €32.5

c. €37.3

d. €34

e. €31.7

2. A grocery store relabels its "20% fat" yogurt as "80% fat-free," while the product itself remains unchanged. Consumers perceive the relabelled yogurt as healthier. Which behavioural economics concept best explains this reaction?

a. Anchoring bias

b. Framing effect

c. Rational choice

d. Loss aversion

e. Herd behavior

3. In the market for electric vehicles (EVs), the following simultaneous changes occur: (1) the government introduces a tax credit of $5,000 per EV purchased, and (2) consumer income rises by 8%. Assuming EVs are a normal good and the supply of EVs is highly elastic (more elastic than demand), what is the most likely outcome for equilibrium price and quantity?

a. Price definitely increases; quantity change is ambiguous.

b. Quantity definitely increases; price change is ambiguous.

c. Both price and quantity increase, with the price increase being relatively smaller due to elastic supply.

d. Both price and quantity increase, with the price increase being relatively higher due to elastic supply.

e. Both price and quantity decrease.

4. Which best illustrates the concept of 'economic rent' in factor markets?

a. A construction firm pays its workers €5 more per hour than competing firms attracting them away from rival employers.

b. A landlord raises the monthly rent on a commercial property after the area becomes more popular with shoppers, reflecting the higher market rate for the location.

c. A government imposing a 30% tax on luxury goods, raising revenue and helping to pay down public debt.

d. A football player earns €20 million per year but would have played for €500,000 per year.

e. A doctor works overtime shifts at a hospital at double her normal hourly rate, which is the premium she requires before agreeing to take on the extra hours.

5. After taking out a comprehensive car insurance policy, a driver becomes less careful—parking in risky areas, skipping routine maintenance, and driving faster than before. Before the policy, the same driver was more cautious. Which concept does this illustrate?

a. Moral hazard

b. The principal-agent problem

c. Adverse selection

d. A negative externality

e. Regulatory failure

6. A profit-maximizing firm currently emits 10,000 tonnes of CO_2 per year. The government introduces a carbon tax of €40 per tonne. The firm can install abatement technology to reduce emissions by 4,000 tonnes at a total cost of €120,000. Should the firm install the technology? Provide a rationale.

a. No—the technology costs more than tax savings, so the firm should pay the full carbon tax.

b. Yes—the firm saves €160,000 in tax on the 4,000 reduced tonnes and, after paying €120,000 for the technology, makes €40,000 in net savings.

c. Yes—the firm avoids the entire €400,000 tax bill by installing the technology.

d. No—the technology costs €120,000, which is greater than the €40/tonne tax rate, so paying the tax is cheaper.

e. Yes—but the net saving is €280,000 since the government reimburses abatement costs.

7. In the steel market, the marginal private cost (MPC) of producing a ton of steel is MPC = 20 + 2Q. The marginal external cost (MEC) from pollution associated with steel production is MEC = 10. The marginal social benefit (demand) is P = 140 − 2Q. What is the socially optimal quantity of steel?

a. Q = 30

b. Q = 27.5

c. Q = 25

d. Q = 20

e. Q = 35

8. A firm with market power faces the demand curve: P=10−0.5Q Its marginal cost and average variable cost are both constant at $8 per unit and its fixed costs are $20. In the short run, what should the firm do to maximize profit?

a. Shut down because the price at the profit-maximizing output is below average total cost.

b. Produce Q=2 units, charge P=$9, and incur a loss of $18.

c. Produce Q = 4 units, where price equals marginal cost at $8.

d. Produce Q=2 units, charge P=$9, and earn a profit of $2.

e. Shut down because fixed costs make any production unprofitable.

9. An economics student wrote, "Global average surface temperature has risen since the pre-industrial era, and continued increases are projected under current emissions trends." Which of the following correctly classifies this statement?

a. Neither positive nor normative, because climate data cannot be verified.

b. Both positive and normative, because it blends fact and opinion equally.

c. A normative statement, because it implies climate policy should change.

d. A normative statement, because it recommends a course of action.

e. A positive statement, because it describes a measurable, testable claim.

10. A city's water supply is provided by a single company through an extensive pipe network. A potential entrant proposes constructing a second, competing pipe network across the same city. Why might an economist consider this duplication inefficient?

a. The incumbent (the current water company) already charges marginal-cost pricing.

b. Water demand is perfectly inelastic, so price changes do not affect quantity demanded.

c. The fixed costs of duplicating the pipe network outweigh the competitive benefits.

d. The government subsidizes the incumbent too heavily to remain viable without support.

e. Water is a luxury good with persistently low demand.

11. A lighthouse built along a coastline is primarily an example of a/an:

a. Merit good

b. Positive externality of consumption

c. Information asymmetry

d. Public good

e. Club good

12. A bakery currently employs 5 workers and produces 200 loaves per day. Keeping its other factors of production constant, it hires a 6th worker, and output rises to 220 loaves. When it hires a 7th, output rises to 232 loaves, and after it hires an eighth worker, it rises to 240 loaves. What does this pattern illustrate?

a. Economies of scale

b. Increasing marginal returns

c. Diminishing marginal returns

d. Diseconomies of scale

e. Constant returns to scale

13. A family-owned bakery earns enough profit to keep the owners comfortable and maintain stable employment for its workers. The owners deliberately avoid aggressive expansion. This best describes:

a. Sales revenue maximisation

b. Profit maximisation

c. Growth maximisation

d. Satisficing

e. Allocative efficiency

14. The government of Zorania proposes setting a rent ceiling in its capital city, Borania, which will lower rent significantly below market equilibrium rent. A landlord association challenges the policy. Which of the following long-run effects would best support the association's argument?

a. Low rents attract new developers, whose additional construction gradually eliminates the shortage.

b. The rent ceiling reduces the return on property investment, discouraging new construction and deepening the shortage over time.

c. Landlords maintain existing property quality, since maintenance costs are unaffected by the rent ceiling.

d. The rent ceiling has no long-run effect, because rental housing supply is perfectly inelastic.

e. Tenants and landlords negotiate side payments that fully restore the market equilibrium rent.

15. A regional airline sells seats on identical aircraft to two groups of passengers: business travelers, who pay $640 per ticket, and leisure travelers, who pay $180 per ticket. Both groups fly on the same flight and receive the same seat. Which of the following conditions is most essential for this pricing strategy to be profitable?

a. Both groups must face perfectly inelastic demand so the airline can charge above marginal cost to both.

b. The airline must operate in a perfectly competitive market so that price discrimination eliminates economic profit over time.

c. Leisure travelers must have less elastic demand than business travelers, enabling the airline to charge them the lower price.

d. Business travelers must have less elastic demand than leisure travelers, and resale of tickets between groups must not be possible.

e. The airline must charge each group a price equal to marginal cost to prevent deadweight loss.

16. When the price of a good rises from $4 to $6 per unit, weekly quantity demanded falls from 200 units to 120 units. Using the midpoint method, what is the price elasticity of demand, and what does this imply for the seller's total revenue?

a. −0.50; inelastic — a price increase raises total revenue because consumers reduce purchases proportionally less than the price rises.

b. −0.80; inelastic — a price increase raises total revenue because the percentage fall in quantity is smaller than the percentage rise in price.

c. −1.00; unit elastic — total revenue is unchanged because the percentage changes in price and quantity are equal.

d. −1.25; elastic — a price increase reduces total revenue because the percentage fall in quantity demanded exceeds the percentage rise in price.

e. −2.00; elastic — a price increase reduces total revenue because quantity demanded falls proportionally more than twice the percentage price rise.

17. A competitive firm is currently considering production at the positive output where P = MC. The firm's average total cost (ATC) is $22, and its average fixed cost (AFC) is $6. If the current market price for the good is $14, which of the following best describes the firm's optimal short-run decision and the economic reasoning behind it?

a. Continue producing because the price of $14 is greater than the average fixed cost of $6.

b. Continue producing to minimize losses because the price covers all variable costs and a portion of the fixed costs.

c. Shut down because the price of $14 is less than the average total cost of $22, meaning the firm is earning negative economic profit.

d. Shut down because the price of $14 is less than the average variable cost of $16.

e. Shut down because the firm cannot cover its fixed costs in the short run.

18. Country A and Country B form an agreement through which all tariffs between them are eliminated, but each country retains the right to set its own tariff rates on imports from non-member countries. What type of agreement is this?

a. Customs union

b. Free trade area

c. Common market

d. Economic union

e. Federation

19. Country Meridia's currency is depreciated by 15% relative to the currencies of its major trading partners. If import and export quantities adjust slowly because of existing contracts, what is the most likely short-run effect on the country's current account deficit?

a. The current account deficit initially widens because imported goods become more expensive in domestic currency before trade volumes adjust substantially.

b. The current account deficit immediately narrows because exports become cheaper for foreign buyers and export volumes rise at once.

c. The current account deficit remains unchanged because a currency depreciation affects only financial-account transactions.

d. The current account deficit immediately disappears because domestic consumers stop purchasing imported goods after the depreciation.

e. The current account deficit narrows initially because the domestic-currency value of imports falls when the currency depreciates.

20. Review the data on the quintile income shares for economies of countries A and B reported below. Identify the correct statement.

Quintiles (Quintiles, from lowest-income 20% to highest-income 20%)	**Country A**	**Country B**
Q1	**4%**	**3%**
Q2	**8%**	**6%**
Q3	**22%**	**12%**
Q4	**24%**	**16%**
Q5	**42%**	**63%**

a. A and B have equal Gini coefficients, indicating income is distributed equally across households in both countries.

b. B has a higher Gini coefficient because its lower unemployment rate results in greater income inequality.

c. It is impossible to compare these Gini coefficients because quintile income shares do not indicate relative income inequality.

d. A has a higher Gini coefficient, indicating a larger share of total income is concentrated among high-income households.

e. B has a higher Gini coefficient, indicating a larger share of total income is concentrated among high-income households.

Free-Response Question Exam

- This section consists of short answers and problem-solving questions. The question set for FRQ Scenario 1 set is worth 18 points, and for question set FRQ Scenario 2, the total is worth 22 points.
- Allocate your time wisely. Some questions may require more time to answer fully, so plan accordingly to ensure you can attempt all questions in this section.
- Read each question carefully before you begin your response. Ensure that you fully understand what is being asked before starting your answer.
- For questions that involve calculations, it is important to show all your work clearly.
- Partial credit may be awarded for correct methods, even if the final answer is incorrect.
- Use graphs and diagrams where applicable to illustrate your answers. Label all axes and curves clearly, and explain the significance of any shifts or changes depicted.
- Provide clear explanations and justifications for your answers. When asked to discuss or analyze, support your arguments with relevant economic theories, models, or data.
- Write legibly and ensure your answers are concise and to the point. Focus on the key aspects of the question and avoid unnecessary information.
- If time permits, review your answers before moving on to the next section. This will give you an opportunity to correct any errors or add any additional points.
- The last 5 pages of this test booklet have been provided for answers to the Free-Response Questions. Please make sure to label the exercises accordingly. For calculations, practice, or any other notes you may need to make during the exam, we suggest you designate and label some pages as “Work Pages” or “Scratch Pages”.

FRQ Scenario 1. Supermarket Oligopoly (Total: 18 points)

The Mergers and Monopolies Commission of the country of Tarauslia investigated the supermarket sector of the country, revealing that the market share of the supermarkets in the country changed considerably between 2014 and 2024.

Market share Percentage	2014	2024
The Duper Market	42	62
Eat and Drink	33	38
Fond Joe's	20	0
Little local	5	0
Total	100%	100%

Questions

a. Calculate the two-firm concentration ratio (CR_2) for 2014 and 2024. Show your calculations. (1 point)

b. Calculate the Herfindahl-Hirschman Index (HHI) for 2014 and 2024, then calculate the change in the HHI between the two years. Show your calculations. (2 points)

c. Using your answers from parts (a) and (b), explain how market concentration and market power changed between 2014 and 2024. (3 points)

d. Define contestability. If Tarauslia's supermarket industry were highly contestable in 2024, explain what this suggests about the ability of Duper Market and Eat and Drink to abuse their market power. (3 points)

Additional Information

The Mergers and Monopolies Commission concludes that Duper Market and Eat and Drink are colluding. The firms have increased prices by a much greater percentage than supermarkets in other countries facing similar production costs and market conditions.

Additional Questions

e. True or False: Firms in a collusive oligopoly maximize individual firm profits. Explain your answer. (1 point)

f. Draw a fully labelled diagram of a collusive oligopoly, indicating joint profit-maximizing price, output, and economic profit area. (4 points)

g. Recommend two policies the Mergers and Monopolies Commission could use to reduce the abuse of market power in this industry. Explain how each policy would improve competition and total welfare. (4 points)

FRQ Scenario 2. Lake Victoria Sustainability (Total: 22 points)

Lake Victoria is Africa's largest freshwater lake with a surface area of approximately 68,800 km^2. It is shared by the countries of Tanzania, Uganda, and Kenya. It is a significant hub for commercial fishing, especially for the species of Nile perch, a key export good, and tilapia, which is often consumed locally. Overall the annual catch in Lake Victoria has a market value of USD$1.1 billion. These commercial fishing activities sustain "millions of families, feeding communities, powering local communities".

Unfortunately, the lake is under increasing sustainability threats. Overfishing has led the Nile perch's catch volumes to fall by around 70% in the last two decades. Also, there is increased water pollution and biodiversity loss. Excessive and uncontrolled development along shoreline areas is also contributing to higher pollution levels and further reducing biodiversity in Lake Victoria.

Questions

a. Describe why Lake Victoria is classified as a common-access (common-pool) resource. (2 points)

b. Using an appropriate diagram, illustrate how overfishing of Nile perch creates a negative production externality. (4 points)

c. Identify one third party negatively affected by overfishing in Lake Victoria and describe how that party is harmed. (2 points)

d. Analyze why the free market fails to allocate Lake Victoria's fishery resources efficiently, providing two reasons. (4 points)

Additional Information

Tanzania controls about 50% of Lake Victoria. In January 2026, Tanzania's Minister for Livestock and Fisheries Dr. Bashiru Ally, announced that measures need to be taken to protect the lake's ecosystems. Specifically, he noted that a significant part of the overfishing is due to industrial operators. These are large capital-intensive firms using well equipped fishing boats capable of catching large volumes of fish. They are also accused of using illegal fishing practices due to weak monitoring.

Under the new policy, industrial fishing operators will no longer be allowed to operate in the areas of Lake Victoria controlled by Tanzania. Instead the fishing will be allowed for small-scale fishermen, who often use fishing boats and traditional fishing methods. The fish-processing industry will have to source (get) its fish from these small-scale operators.

Additional Questions

e. Using an appropriate diagram, illustrate how the proposed policy could reduce environmental degradation and improve the sustainability of Lake Victoria's fishery. Assume the policy effectively reduces total fishing and environmental damage for the purpose of this question. (4 points)

f. Assume you are an economic adviser to Tanzania's Ministry for Livestock and Fisheries. Recommend two conditions that must be met for the proposed policy to achieve its intended objectives and provide a rationale for each recommendation. (4 points)

g. Suggest one additional government policy that could improve the long-run sustainability of Lake Victoria's fishery and justify how it would address the market failure. (2 points)

Sources (adapted)

- Daily News Tanzania, Tanzania Moves to Rein in Industrial Fishing on Lake Victoria (January 13, 2026). Available at: https://dailynews.co.tz/tanzania-moves-to-rein-in-industrial-fishing-on-lake-victoria/
- Lake Victoria Fisheries Organisation, Nile Perch Fisheries Management Plan III (2021–2025). Available at: https://lvfo.org/sites/default/files/field/NILE%20PERCH%20FISHERIES%20MANAGEMENT%20PLAN%20III.pdf

Free-Response Question Exam - Answer Pages