

Candidates' Performance

Paper 1

Candidates' performance on this paper was generally good, although there was still room for improvement. The mean score of this paper is 25 out of 40 questions. The following questions deserve special attention.

Q.9 Refer to the following table showing the production costs of a price-taking firm.

Total output (units)	2	3	4	5	6
Marginal cost (\$)	4	6	8	10	12
Average variable cost (\$)	3	4	5	6	7
Fixed cost (\$)	1	1	1	1	1

If the product price is \$6,

- A. the firm will produce 5 units of output to maximize its profit. (16%)
- *B. the maximum profit the firm can make is \$5. (39%)
- C. the average variable cost is \$5 when the firm maximizes its profit. (22%)
- D. the minimum total cost of the firm is \$13. (23%)

Candidates should improve their ability of analysing cost schedules and calculating the profit-maximizing output and the resulting profit.

Q.10 Refer to the table below.

	Factory A	Factory B
Number of workers employed	60	10
Total number of working hours	2 000	5 000
Total output (units)	12 000	20 000

Which of the following is a possible reason for the difference between the labour productivity of Factory A and Factory B?

- A. Factory B provides more training for its workers. (22%)
- B. More machines are used in Factory B. (28%)
- C. The working environment in Factory A is poorer. (12%)
- *D. Factory A pays its workers at piece rate while Factory B pays at time rate. (38%)

Many candidates were not able to realize that the total number of working hours, not the number of workers employed, should be considered when the average labour productivity is calculated.

Q.31 In an open economy, the government expenditure is equal to tax revenue and the value of exports is equal to the value of imports. If there is an increase in private consumption expenditure, the government will have _____ and there will be _____.

- A. a budget deficit ... a trade deficit (17%)
- B. a budget deficit ... a trade surplus (10%)
- *C. a budget surplus ... a trade deficit (40%)
- D. a budget surplus ... a trade surplus (33%)

This is a question which tests the effect of an exogenous change in a component of aggregate demand on the government and external accounts. Candidates should integrate the theory of national income determination with their knowledge of government budget and balance of trade when attempting this kind of questions. A change in aggregate output will result in a change in tax revenue and value of imports, while the government expenditure and value of exports do not directly depend on aggregate output.

Q.39

Date	Exchange Rate
September 2010	HK\$10 = 1 Euro
July 2011	HK\$11.3 = 1 Euro

The above change in the exchange rate between HK\$ and the Euro will result in

- A. a drop in the number of tourists from Europe to Hong Kong. (4%)
- B. a drop in the price (in terms of HK\$) of imports from Europe. (8%)
- *C. a drop in the total value (in terms of the Euro) of imports from Europe. (37%)
- D. a drop in the exchange rate of the US dollar against the Euro. (51%)

Many candidates failed to recognise that the appreciation of the Euro against USD will result in an appreciation of the Euro against HKD but the reverse will not be correct. A better understanding of the linked exchange rate system is needed.

Paper 2

Section A

Q. number	Performance in General
1	Excellent. Most candidates were able to give good reasons, with some citing relevant real-life examples to support their answers.
2	Excellent. Most candidates were able to give an accurate definition of the law of diminishing marginal product, and to point out that there is no fixed factor in the case provided.
3(a) & 3(b)	Good. While most candidates were able to identify the type of expansion, some of them misspelt the key terms. Some mistook conglomerate expansion for expansion to different stages of production. Most candidates showed a good understanding of the motives behind such expansion. Common mistakes included confusion between spreading risk and reducing risk, and wrong argument about enlargement of market share.
4(a)	Excellent.
4(b)	Poor. Many candidates did not realize an increase in the standard tax rate has no effect on the poor as the tax only applies to the high-income group. Some provided a comparison between the rich and the poor of their tax payments as percentage of their incomes, which was irrelevant to this question.

Q. number	Performance in General
5(a)	Fair. Though a majority of candidates correctly pointed out that the price control cannot ensure that the lower-income group will get what they plan to purchase, the reasons given were not well-explained. Many mentioned shortage but failed to relate the details of the case to non-price competition. Some did not understand that 'no illegal transaction' means 'no black market'.
5(b)	Satisfactory. Many candidates were able to identify tourist-related expenses as an export of services. Some used 'balance of invisible trade' and 'invisible trade' interchangeably, which resulted in confusing answers. Some mistook purchase of local goods by tourists for export of goods.
5(c)	Poor. Some candidates misinterpreted lowering the price ceiling as a relaxation of price control and the resulting increase in price, thus yielding an incorrect analysis. Among those who understood the gist of the question, some failed to correctly indicate the deadweight loss graphically.
6(a)	Good. A small number of candidates mistook an increase in welfare payments (e.g., unemployment benefits) or an increase in government burden for a loss to society.
6(b)	Excellent.
7	Fair. Some failed to elaborate on why gold is a good form of money by making reference to the functions of money.
8	Poor. Most candidates made one of the following mistakes: <ul style="list-style-type: none"> - failed to state their stance clearly; - missed the key word 'necessarily'; - mistook depreciation for a drop in the price of imports; - confused the decrease in price resulting from a movement along the demand curve with that from a reduction in demand.
9(a)	Good. A minority of candidates misinterpreted the given data as output per work-hour. Some forgot to specify the unit of watches.
9(b)	Fair. Although almost all candidates were able to explain which country would export shirts, many of them failed to state the principle of comparative advantage precisely.
9(c)	Poor. Some candidates were not able to specify the units correctly. Some others incorrectly included the domestic opportunity costs in the range or confused the symbols > and <.

Section B

Q. number	Performance in General
10(a)(i)	Excellent. A small number of candidates wrongly regarded transfer payments as part of government expenditure and thus included them in the calculation of GDP.
10(a)(ii)	Good. Some candidates failed to realize the difference in the returns between shares and bonds.
10(b)	Poor. Some candidates showed an inadequate understanding of the two concepts of equity. Some others missed the key words 'to improve equity', thus providing irrelevant discussion or wrongly focusing their discussion on the disincentive effects of transfer payments in general.

Q. number	Performance in General
10(c)	Satisfactory. Many candidates were able to predict the change in price and output levels using the AS-AD model. Some failed to explain that the increase in AD is due to the increase in consumption as a result of higher disposable income, while some others forgot to label P as the price level. A small number of candidates confused the (macro) AS-AD model with (the micro) supply-and-demand analysis in their verbal explanation and/or graphical analysis.
11(a)	Good. The only common mistake was stating their answers in terms of 'price' rather than the 'general price level'.
11(b)	Satisfactory. Some candidates missed the key word 'necessarily'. Some others failed to recognize the difference between a change in the general price level and a change in the inflation rate, thus giving a wrong comparison between the percentage increase in nominal income and the percentage increase in the inflation rate.
11(c)	Fair. Many candidates could relate the cost of holding cash to the return of ibonds, but they were unable to point out precisely that the cost is the 'nominal' interest return. Some used interest and interest rate interchangeably, creating confusion in their answers.
11(d)	Fair. Some candidates failed to use purchasing power and real values to explain the effect of ibonds. Other common mistakes included overlooking the positive relationship between inflation and the interest return of ibonds and failure to address the question from the perspective of ibond-holders.
12(a)	Excellent. A minority of candidates misspelt the term 'oligopoly', while some imprecisely stated that there are only a few sellers in the market of oligopoly.
12(b)	Good. Many candidates were able to compare the features of the two types of limited companies and to state the pros and cons. Some gave vague statements like listed companies have to provide information for the public, and failed to specify the requirement to release accounting/financial information to the public. Some did not state whether the point given is an advantage or disadvantage of being a private limited company.
12(c)(i)	Satisfactory. Some candidates interpreted the overheating as an initial excess-demand situation. Instead of considering the market for private housing, some wrongly analyzed the market for public housing or the entire (i.e., private plus public) housing market. Labeling of the demand-supply diagram was sometimes incomplete or inaccurate, and a small number of candidates confused the demand-supply diagram with an AS-AD diagram.
12(c)(ii)	Fair. Many candidates failed to indicate whether the mortgage interest rate should increase or decrease. Some misinterpreted the mortgage interest rate as a newly introduced market interest rate or as a tax on mortgage. Some mixed up the cost of buying private housing with the cost of borrowing.
13(a)	Excellent.
13(b)	Good. The most common mistake was the careless missing of units. A minority of candidates failed to provide steps in their calculation. Some mistook the maximum possible amount of deposits for $\$(2\,000\text{ million} \times 1/20\%)$.
13(c)	Fair. Many candidates did not calculate the excess reserves before using the maximum credit-creation formula, resulting in a wrong calculation.
13(d)	Good. Most candidates were able to point out that an increase in money supply will lead to an increase in the price level, but failed to compare their percentage changes. Some put forth assumptions such as 'no excess reserves' and 'no cash leakage', which were irrelevant to the question. Some mistook the quantity theory of money for the $MV=PY$ equation itself.

Section C

Q. number	Popularity	Performance in General
14(a)	62%	Good. A small number of candidates failed to mention the sale of the same good produced at the same cost in the definition.
14(b)		Satisfactory. Some candidates were not familiar with the conditions for price discrimination.
14(c)(i)(ii)		Fair. Some candidates had difficulty in explaining their stance: why such a case would constitute price discrimination.
14(d)(1)(2)		Good. Many candidates were able to correctly state the kind of anti-competitive behaviour and to correctly judge whether it was a horizontal or vertical agreement.
14(e)		Good. Most candidates showed a good understanding of the potential harms to consumers of the anti-competitive behaviour.
15(a)(i)(ii)	38%	Good. Many candidates were able to make reference to the given diagram to state the comparative advantage and the possibility of mutually beneficial trade.
15(b)		Satisfactory. Some candidates were not aware that the gain should be a per-unit gain, thus yielding incorrect answers.
15(c)(i)(ii)		Fair. Many candidates failed to state their stance clearly. Some failed to use figures to justify their arguments.
15(d)(i)(ii)		Fair. Many candidates showed a good understanding of the Human Development Index. Some candidates missed the key words 'after trade' and thus gave examples of improving HDI in a general context.

General comments and recommendations

1. Some candidates lack a thorough understanding of basic economic concepts and principles, especially when applying them to hypothetical situations and real-life situations. Candidates should have a thorough understanding of basic definitions and concepts and be able to use them to solve problems. They should also strengthen their analytical skill instead of simply regurgitating concepts and theories learnt.
2. Some candidates do not always read the questions carefully. Candidates should devote special attention to assumptions and conditions laid down in the questions to avoid giving incorrect answers.
3. Some candidates have difficulty in presenting their answers in a precise way. Candidates should equip themselves with better language ability as well as graphical skills.
4. Some candidates lack awareness of current economic issues in daily life. Candidates should pay more attention to economic news.

Acknowledgements

Material from the following publications/web-sites has been used in question papers in this volume:

Census and statistics department

Statistical Table
http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index.jsp?subjectID=9&tableID=193

City Mayors

Western Europe has the most egalitarian cities in the world
 Tann vom Hove, 19 November 2008
<http://www.citymayors.com/habitat/habitat08-equality.html>

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