

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2014

ECONOMICS PAPER 1

8.30 am – 9.30 am (1 hour)

INSTRUCTIONS

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
2. When told to open this book, you should check that all the questions are there. Look for the words '**END OF PAPER**' after the last question.
3. All questions carry equal marks.
4. **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
5. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
6. No marks will be deducted for wrong answers.

Not to be taken away before the
end of the examination session

There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. A famous football team, Manchester United, visited Hong Kong for a friendly match. The day before the match, the team found the pitch in the Hong Kong Stadium had been damaged by prolonged rain and it considered cancelling the match. The opportunity cost for Manchester United to continue playing in such a poor pitch would _____ because _____.
 - A. increase there was a higher chance for the players to get injured
 - B. increase the team was likely to have poor performance
 - C. remain unchanged the expense on the visit to Hong Kong had already been paid
 - D. remain unchanged the players spent the same amount of time in Hong Kong

2. Which of the following do(es) **NOT** exist in a barter economy?
 - (1) inflation
 - (2) interest
 - (3) comparative advantage
 - A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. An economic good
 - A. is a good with its demand greater than its supply.
 - B. brings us more satisfaction than a free good.
 - C. is a good whose quantity available cannot satisfy human wants at zero price.
 - D. cannot be found free of charge in any economy.

4. Mei Ho House (美荷樓), a public housing block built in the 1950s, was recently graded as a historic building in Hong Kong. The building was then turned into a hostel which provides double rooms, family rooms and disabled rooms. The above case is related to the _____ question(s) in Economics.
 - A. “how to produce”
 - B. “for whom to produce”
 - C. “what to produce” and “how to produce”
 - D. “what to produce” and “for whom to produce”

5. The following table shows a production plan of a firm which employs two factors only, namely labour and machinery.

| Labour (unit) | Machinery (unit) | Total product (unit) |
|---------------|------------------|----------------------|
| 1 | 4 | 100 |
| 2 | 4 | 120 |
| 3 | 4 | 150 |
| 4 | 4 | 170 |
| 5 | 4 | 165 |

The marginal product of labour will start to diminish when the _____ unit of labour is put to work.

- A. second
 - B. third
 - C. fourth
 - D. fifth
6. The following table shows the cost-output relationship of a price taker.

| Output (unit) | Total cost (\$) |
|---------------|-----------------|
| 1 | 20 |
| 2 | 45 |
| 3 | 75 |
| 4 | 110 |
| 5 | 150 |

Given that the profit maximizing output of the firm is 3 units. If the fixed cost increases by \$ 5, the price of the good and the output will be _____ and _____ respectively.

- A. \$ 25 2 units
 - B. \$ 30 2 units
 - C. \$ 30 3 units
 - D. \$ 75 3 units
7. A public limited company plans to issue new bonds for expansion. For the existing shareholders, which of the following is an advantage of issuing bonds instead of shares?
- A. The accounts of the company need not be disclosed to the public.
 - B. They have priority in getting back their capital if the company liquidates.
 - C. The interest paid to the bondholders is lower than the dividend paid to the shareholders.
 - D. Their power of control over the company will not be diluted.

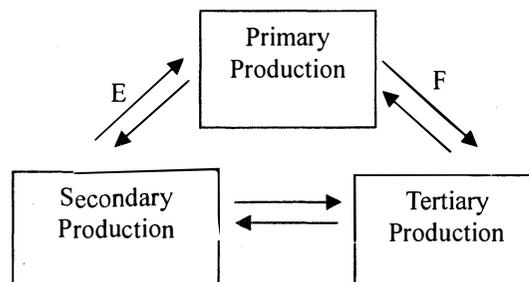
8. Which of the following statements about partnership and sole proprietorship is correct?

- A. Partnership has better continuity than sole proprietorship.
- B. Partnership has less flexibility in decision making than sole proprietorship.
- C. Partnership has more capital than sole proprietorship.
- D. Partnership enjoys more economies of scale than sole proprietorship.

9. Which of the following will increase the labour supply of an economy?

- A. More firms allow male employees to take paternity leave.
- B. More companies offer free transport to employees working overtime.
- C. Universities provide more full-time associate degree programmes for secondary school graduates.
- D. The government adopts maximum working hours for the civil servants.

10. The following graph shows the relationship of the three stages of production. What do E and F stand for respectively?

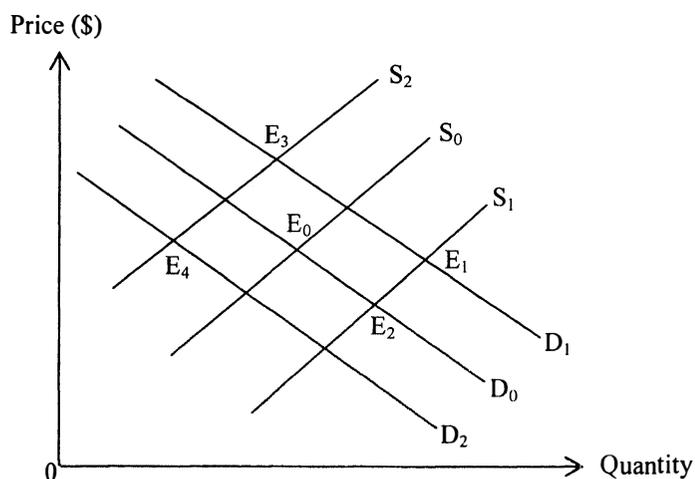


- A. consumer goods; raw materials
- B. producer goods; services
- C. raw materials; services
- D. producer goods; raw materials

11. Which of the following would most likely increase the occupational mobility of labour in an economy?

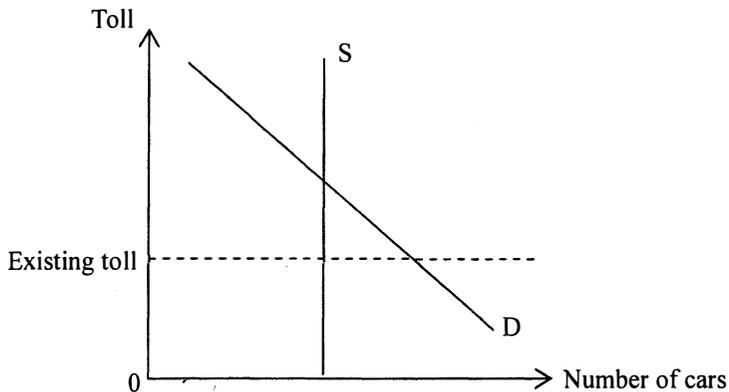
- A. The labour unions have stronger bargaining power for the welfare of their members.
- B. The labour department provides tuition fee rebates for participants of retraining programmes.
- C. The transport network is improved by the extension of highways.
- D. The government stops granting funding for an online data system about job vacancies.

12. In which of the following pairs does the demand for the first good create a derived demand for the second one?
- Aviation service and pilots
 - West Rail Line train service and Light Rail train service
 - Blu-ray discs and Blu-ray disc players
 - Hong Kong Disneyland and Ocean Park Hong Kong
13. Which of the following would reduce the elasticity of demand for the transport service of the Airport Express?
- There are more airport bus routes to different districts.
 - Vans are not allowed to pick up passengers at the airport.
 - The fare of the Airport Express is raised.
 - The maintenance cost of the Airport Express trains increases.
14. Suppose the equilibrium point of the cosmetic surgery market in Hong Kong is originally at E_0 . If people become open-minded to cosmetic surgery while more regulations are imposed on the cosmetic surgery industry, the new equilibrium point will be at _____.



- E_1
- E_2
- E_3
- E_4

15. Refer to the following supply-demand diagram for the Cross-Harbour Tunnel.



The government proposed to raise the toll for the Cross-Harbour Tunnel so as to lessen the traffic congestion during rush hours. Suppose the maximum vehicular volume of the tunnel is fixed. Which of the following statements are correct?

- (1) The demand for the service of the Cross-Harbour Tunnel will decrease.
- (2) The total revenue of the Cross-Harbour Tunnel will increase.
- (3) The deadweight loss caused by traffic congestion will decrease.
- (4) The opportunity cost of the drivers using the tunnel will increase.

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

16. Refer to the following demand and supply schedules of a good.

| Price | \$1 | \$2 | \$3 | \$4 | \$5 |
|--------------------------|-----|-----|-----|-----|-----|
| Quantity demanded (unit) | 120 | 100 | 80 | 75 | 60 |
| Quantity supplied (unit) | 60 | 75 | 80 | 100 | 120 |

According to the above information, we can conclude that

- A. the total sales revenue would be \$200 when the price is \$2.
- B. there would be a shortage of 25 units when the government imposes a price floor at \$4.
- C. when a per unit subsidy of \$2 was granted to the seller, the total revenue (including the subsidy) would increase by \$160.
- D. when a per unit subsidy of \$2 was granted to the seller, the equilibrium price would drop to \$1.

17. The table below shows the distribution of market share of supermarkets in Hong Kong in 2012.

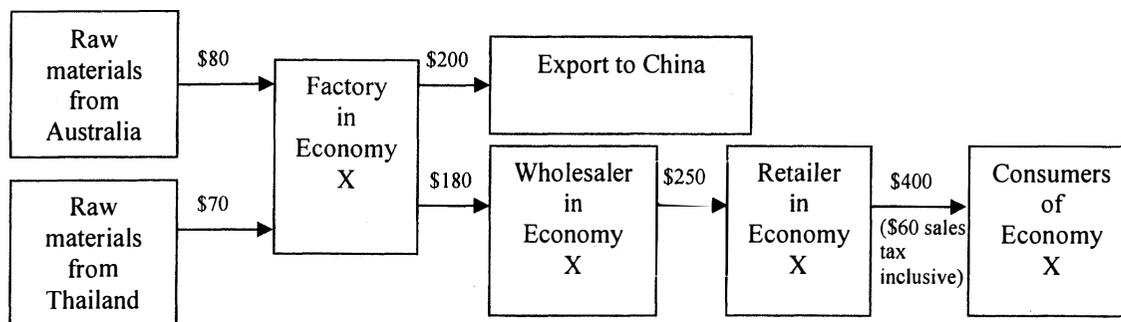
| Name | Market share (%) |
|-----------|------------------|
| Wellcome | 39.8 |
| Parknshop | 33.1 |
| Vanguard | 7.8 |
| Others | 19.3 |
| Total | 100 |

From the above table, we can conclude that the market of supermarkets in Hong Kong is an example of _____ because _____.

- A. oligopoly sellers are interdependent in their marketing strategies
 - B. oligopoly a few major sellers are in control of the total sales of the market
 - C. monopolistic competition sellers can affect the market price as their products are heterogeneous from the consumers' viewpoint
 - D. monopolistic competition there are many sellers adopting non-price competition in the market
18. Korean pop singers are becoming more popular in Hong Kong. To these singers, which of the following are their private benefits?
- (1) the rise in royalties from the sales of their albums
 - (2) the rise in sales revenue of Korean-designed fashion
 - (3) the rise in the number of tourists visiting Korea
 - (4) the rise in revenue shared from their concerts held in Hong Kong
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only
19. Which of the following are ways to lessen the problem of divergence between private and social costs in Hong Kong?
- (1) to collect a sewage charge
 - (2) to collect a university tuition fee
 - (3) to collect a charge on electricity
 - (4) to collect a levy on plastic bags
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only

20. Which of the following policies can reduce the Gini coefficient based on post-tax post-social transfer monthly household income in Hong Kong?
- A. to raise the standard tax rate on salaries tax
 - B. to reduce the marginal tax rate on salaries tax
 - C. to reduce the amount of Comprehensive Social Security Assistance Schemes (綜合社會保障援助計劃)
 - D. to grant an equal sum of money to the Mandatory Provident Fund accounts of every employee
21. Which of the following are results of the government lowering an effective price ceiling on a good?
- (1) a reduction in the producer surplus
 - (2) an increase in excess demand
 - (3) an increase in the total sales revenue if the demand is elastic
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
22. The imposition of a per-unit sales tax on cosmetics will
- A. reduce the total expenditure on cosmetics.
 - B. reduce the total sales revenue (net-of-the-tax).
 - C. increase the total social surplus in the cosmetics market.
 - D. increase the producer surplus in the cosmetics market.
23. Suppose the supply curves of cars and petrol are upward-sloping. If the government imposes an effective quota on the production of cars,
- A. the total social surplus in the car market will increase.
 - B. the producer surplus in the car market will decrease.
 - C. the total social surplus in the petrol market will decrease.
 - D. the consumer surplus in the petrol market will increase.

24. The following diagram shows a production chain of a good in Economy X:



What is the contribution of the production chain to the Gross Domestic Product (GDP) at market price of Economy X?

- A. \$340
- B. \$390
- C. \$450
- D. \$600

25.

| Year | Year-on-year percentage change in nominal GDP | Year-on-year percentage change in nominal government spending |
|------|---|---|
| 2011 | 9.0 | 12.0 |
| 2012 | 5.5 | 6.0 |

Based on the above information, which of the following statements are correct?

- (1) The size of the public sector in the economy increased in 2012.
 - (2) Both the nominal GDP and the nominal government spending dropped in 2012.
 - (3) A drop in both the real GDP and the real government spending was possible in 2012.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

26. Suppose a closed economy produces food and clothing only. The output of Year 1 and Year 2 are as follows:

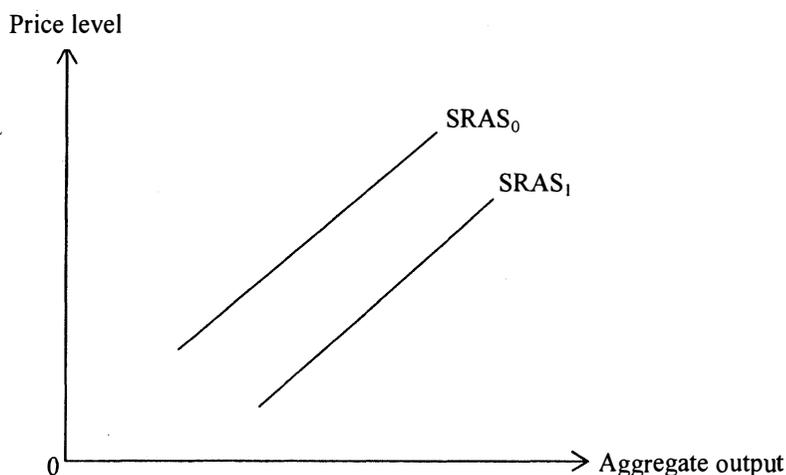
| Year | Quantity of food (unit) | Unit price of food (\$) | Quantity of clothing (unit) | Unit price of clothing (\$) |
|------|-------------------------|-------------------------|-----------------------------|-----------------------------|
| 1 | 44 | 5 | 25 | 10 |
| 2 | 36 | 6 | 22 | 9 |

Which of the following statements about the economy are correct?

- (1) The nominal GDP in Year 1 is higher than that in Year 2.
- (2) The real GDP in Year 1 is higher than that in Year 2.
- (3) The cost of living in Year 1 is higher than that in Year 2.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

27.



Refer to the above diagram. Which of the following would most likely lead to the shift of the short run aggregate supply curve from SRAS₀ to SRAS₁?

- A. to relax the quota for foreign domestic helpers
- B. to reduce the subsidy in research and development
- C. to increase the profits tax rate
- D. to increase the number of places in tertiary education

28. The Old Age Living Allowance (長者生活津貼) introduced by the Hong Kong government increases the _____ in GDP and results in a _____ shift of the aggregate demand curve.

- A. government consumption expenditure rightward
- B. government consumption expenditure leftward
- C. private consumption expenditure rightward
- D. private consumption expenditure leftward

29. If there is a decrease in national income of a major trading partner of an economy, the employment of the economy will _____ and the price level will _____ in the short run.
- A. increase increase
 B. increase decrease
 C. decrease increase
 D. decrease decrease

30. Refer to the following balance sheet of a banking system.

| Assets (\$ million) | | Liabilities (\$ million) | |
|---------------------|-----|--------------------------|-------|
| Reserves | 400 | Deposits | 1 200 |
| Loans | 800 | | |

Suppose the required reserve ratio is 25%. If all banks loan out their excess reserves, which of the following statements about the above banking system is correct?

- A. The amount of reserves held by the banks will decrease.
 B. The maximum banking multiplier will increase.
 C. The money supply will remain unchanged.
 D. The maximum possible increase in loans will be the same as the maximum possible increase in deposits.
31. Maggie plans to deposit \$500 000 in a financial institution in Hong Kong for two months. Which of the following institutions can accept this deposit?
- (1) licensed banks
 (2) restricted licence banks
 (3) deposit-taking companies
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
32. The nominal interest rate of a one-year bond and the expected inflation rate are 8% and 3% respectively. If the actual inflation rate is 6%, then the actual real interest rate is _____ and the actual rate of return of holding cash is _____.
- A. 2% -6%
 B. 2% -8%
 C. 5% -6%
 D. 5% -8%

33. Study the following information about an economy.

| | |
|--|---------------|
| Monetary base | \$500 billion |
| The coins and notes circulated in the public | \$300 billion |
| Required reserve ratio | 20% |

If all the banks are fully loaned up, the amount of deposits will be _____.

- A. \$1 000 billion
- B. \$1 500 billion
- C. \$2 500 billion
- D. \$4 000 billion

34. Deflationary (output) gap

- A. will be widened when there is a depreciation of the domestic currency.
- B. will be eliminated by a rightward shift of the aggregate demand curve when the market adjusts from short run equilibrium to long run equilibrium.
- C. will result in a downward pressure on the prices of inputs.
- D. will exist if the aggregate demand falls short of the short run aggregate supply.

35. Which of the following policies can the government introduce to reduce the price and unemployment levels at the same time?

- A. to raise the discount rates
- B. to raise the subsidies to small and medium-sized enterprises
- C. to raise the salaries tax rate
- D. to raise the expenditure on social welfare

36. The government plans to impose a new tax under which the tax payment drops when taxable income drops. Which of the following statements about the new tax is correct?

- A. The tax is regressive as the tax rate increases when the taxable income drops.
- B. The tax is proportional as the taxable income and the tax payment are positively related.
- C. The tax cannot be progressive as the tax rate increases when the tax payment drops.
- D. The tax can be progressive, proportional or regressive.

37. Suppose the velocity of circulation of money remains constant. If a central bank reduces money supply by 10%,

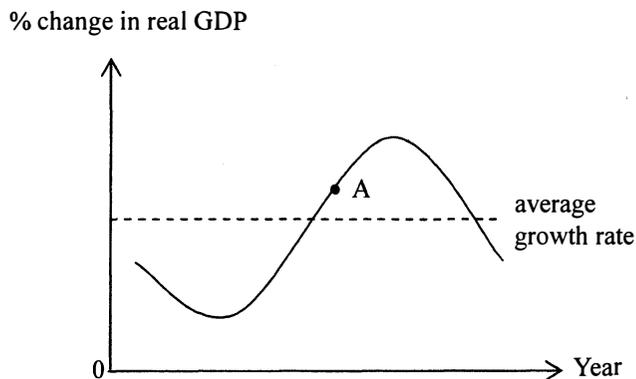
- A. the price level will decrease by 10%.
- B. real output will decrease by 10%.
- C. nominal output may decrease by less than 10%.
- D. real output may decrease by less than 10%.

38. Which of the following government policies will lead to an increase in the aggregate output of a country in the long run?

- (1) to tighten regulations on environmental protection
- (2) to grant an amnesty(特赦) to illegal immigrants
- (3) to ban the importation of foreign domestic helpers
- (4) to build more international schools for attracting expatriates to work in the country

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

39. In the diagram below, A is situated in a certain phase of the business cycle.



At Point A, there will be an increase in _____ in the economy.

- (1) the labour employment level
- (2) the general price level
- (3) the sales of firms
- (4) transfer payments

- A. (1) and (2) only
- B. (3) and (4) only
- C. (1), (2) and (3) only
- D. (1), (2), (3) and (4)

40. Which of the following statements about inflation is/are correct?

- (1) Inflation occurs when the government handouts a large sum of cash to every citizen in a certain year.
- (2) Inflation redistributes wealth from lenders to debtors if it is anticipated.
- (3) People prefer holding real assets to cash under expected inflation.

- A. (1) only
- B. (2) only
- C. (3) only
- D. (1), (2) and (3)

41. The following table shows the number of man-hours required by Country A and Country B in the production of Good X and Good Y.

| | 1 unit of Good X | 1 unit of Good Y |
|-----------|------------------|------------------|
| Country A | 10 units | 25 units |
| Country B | 5 units | 15 units |

Trade is mutually beneficial between Country A and Country B when the terms of trade is _____

- A. $1 X = 0.35Y$
B. $1 X = 0.4Y$
C. $1 X = 1.25Y$
D. $1 X = 2.75Y$
42. Suppose South Korean Won depreciates against the US Dollar. Under the linked exchange rate system of Hong Kong, which of the following would be results of the above change in the exchange rate?
- (1) The volume of imported goods from South Korea to Hong Kong would increase.
(2) The price of exported goods from Hong Kong to South Korea in terms of HK dollar would increase.
(3) The number of tourists from South Korea to Hong Kong would decrease.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
43. Which of the following is included in the calculation of the balance of Hong Kong's current account?
- A. A mainland investor purchases a house in Hong Kong.
B. A Hong Kong investor buys shares issued by a mainland listed company.
C. A mainland resident buys an air ticket to Hong Kong from a mainland airline.
D. A Hong Kong resident buys a life insurance policy from a mainland insurance company.

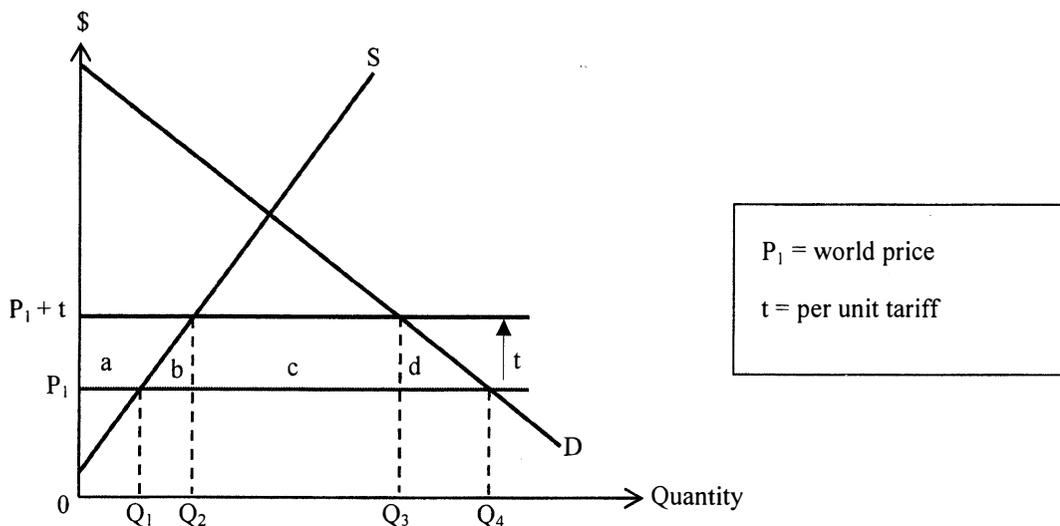
44. The following table shows the data about Country A.

| | Petroleum (unit) | and | Rubber (unit) |
|--|---------------------|-----|------------------|
| Total output with no international trade | 60 | and | 90 |
| Total output with specialization and international trade | 0 | and | 210 |
| Total consumption with international trade | 90 | and | 120 |

Which of the following statements about Country A is correct?

- A. Country A has both absolute advantage and comparative advantage in producing rubber.
- B. The gain from trade of exporting 1 unit of rubber is 1 unit of petroleum.
- C. The opportunity cost of producing 1 unit of rubber(R) is $\frac{2}{3}$ units of petroleum(P) and the terms of trade is $1R = \frac{3}{4}P$.
- D. Country A can benefit from trading with Country B, whose opportunity cost of producing 1 unit of rubber is 2 units of petroleum.

45. The following diagram shows the imposition of an import tariff on a good in a small open economy.



After the imposition of the tariff, which of the following statements about the good in this economy is **INCORRECT**?

- A. The volume of imports is $(Q_3 - Q_2)$ units.
- B. The domestic consumption is Q_3 units.
- C. The increase in producer surplus of the domestic producers is area a.
- D. The total amount of tariff is the sum of areas b, c and d.

END OF PAPER

Sources of materials used in this paper will be acknowledged in the *Examination Report and Question Papers* published by the Hong Kong Examinations and Assessment Authority at a later stage.