

Candidates' Performance

Paper 1

Candidates' performance was generally satisfactory. The mean score of this paper is 28 out of 45 (i.e., 62%). The following questions deserve special attention.

Q.5 The schedule below shows the marginal cost of a firm in a perfectly competitive market.

Output (units)	3	4	5	6	7	8	9
Marginal cost (\$)	5	5.5	6	6.5	7	8	9.5

Suppose the rental of the machine hired, a fixed cost, increases by \$2 while the marginal cost for each unit of the output is reduced by \$0.5. As a result, the profit-maximising output of the firm _____ while the profit of the firm _____.

- A. increases ... decreases (12%)
- *B. increases ... may increase or decrease (41%)
- C. decreases ... decreases (19%)
- D. decreases ... may increase or decrease (28%)

This question tests the concept of costs and the profit-maximising condition of a price taker. Weaker candidates were unable to see that the rise in fixed cost and the fall in marginal cost have opposite effects on profit, so the overall effect is ambiguous. Among the brighter candidates who were able to correctly deduce the combined effect of cost changes on profit, some failed to realise that only the change in marginal cost affects output while a change in fixed cost does not.

Q.10 Which of the following will result in a rise in the total revenue of chicken farms?

- A. The price of chicken feed falls. (12%)
- B. The government reduces the profits tax rate on chicken farms. (32%)
- C. The effective quota on the sale of chickens is increased. (24%)
- *D. The government reduces the subsidy for the producers of pork. (32%)

This question tests candidates' ability to apply their knowledge about supply and demand. Many failed to realise that only a rise in demand would definitely result in an increase in total revenue. Any factors altering supply would have an uncertain effect on total revenue, depending on the price-elasticity of demand. Some candidates also confused a rise in total revenue with a rise in profit, which might have led them to choosing B as their answer.

Q.34 Which of the following are indirect taxes in Hong Kong?

- (1) property tax
- (2) rates on property
- (3) stamp duty on transfer of stock
- (4) general sales tax

- A. (1) and (2) only (5%)
- *B. (2) and (3) only (20%)
- C. (1), (3) and (4) only (19%)
- D. (2), (3) and (4) only (56%)

This question is about taxation in Hong Kong. While most candidates knew that general sales tax is one form of indirect taxes, only better candidates realised that Hong Kong does not have such a tax. Candidates who paid attention to recent developments in the Hong Kong economy would have been well aware of the current debate on whether we should introduce a general sales tax as a means of broadening the tax base and generating more stable tax revenue, and its potential side effects on output.

Q.44 The following table shows some information about the balance of payments of Country A.

Items	\$ million
Balance on goods	-1 200
Balance on services	700
Net factor income from abroad	200
Net current transfer	-100
Increase in reserve assets	180

According to the above data, which of the following statements are correct?

- (1) The current account deficit is \$400 million.
- (2) Country A's GDP is smaller than its gross national product.
- (3) The balance of payments surplus is \$180 million.

- A. (1) and (2) only (38%)
- B. (1) and (3) only (25%)
- C. (2) and (3) only (18%)
- *D. (1), (2) and (3) (19%)

The question is a test of understanding of balance of payments(BOP). Many candidates were confused about the relation between the BOP and the change in reserve assets in the official reserve account (ORA). When the BOP is in surplus, there is an increase in reserve assets. This increase is recorded in the ORA as a debit item, so as to make the total amount of credit equal to the total amount of debit in the BOP.

Paper 2

Section A

Q. number	Performance in General
1(a)(i)	Excellent. Most candidates showed a good understanding of free good.
1(a)(ii)	Satisfactory. Many candidates failed to realise that free online access of MOOC implies that nobody is excluded from the consumption of such courses. Some candidates only stated the term "non-rival," but missed the key idea of "non-rivalry or concurrent usage" in consumption.
1(b)	Satisfactory. The majority of candidates were able to point out that the full cost (including both monetary and non-monetary cost) should be considered. Some of them were unable to give a proper comparison between the non-monetary cost borne by a person taking MOOC and the full cost borne by a person taking a paid on-campus course. A few candidates confused the concepts of value and cost: they wrongly regarded the lack of opportunity to interact with lecturers and classmates as part of the non-monetary cost of MOOC.
2(a)	Good. A minority of candidates wrongly interpreted the types of production as "types of factors of production" or "types of market structure," and therefore gave irrelevant answers.
2(b)	Fair. While most candidates were able to state the benefits of locating retail stores in Mong Kok, many failed to provide the external factors that lead to a reduction in average cost or to explain how agglomeration helps reduce costs for firms. Instead, they gave reasons related to internal economies of scale.
3	Satisfactory. Many candidates were able to illustrate diagrammatically and explain verbally the reduction in deadweight loss when an effective quota is increased. However, some were unable to provide a proper explanation for the reduction in deadweight loss (i.e., narrowing the gap between marginal benefit and marginal cost, or reducing the level of under-production). A minority of candidates represented the change in quota mistakenly as a leftward shift in the supply curve and gave a wrong discussion accordingly.
4(a)	Poor. Some candidates confused the functions of price with those of money.
4(b)	Good. A few candidates confused competitive supply with competitive demand (substitutes).
5	Fair. Contrary to what is stated in the question, some candidates assumed partial or no job replacement in the Hong Kong labour market as some workers moved to Macau. However, those who managed to provide logically consistent explanations were still given full credit. The following were common mistakes: <ul style="list-style-type: none"> – failure to realise that the unemployment rate is defined in percentage terms; – mistaking the constant number of job positions for constant number of unemployed persons; – skipping the comparison between the percentage decrease in the unemployed population and that in the labour force.
6(a)(i)	Excellent.
6(a)(ii)	Good. Most candidates were able to add the cash in public circulation to the deposit to calculate the money supply.
6(b)	Satisfactory. The most common mistake was to use the formula for money supply to calculate the monetary base.
6(c)	Satisfactory. Some candidates did not sum the cash in public circulation and the new amount of deposits to get the new money supply.

Q. number	Performance in General
7(a)	Good. A minority of candidates misinterpreted the word "ALL" as both countries having the same amount of resources, and thus gave an incorrect comparison.
7(b)	Satisfactory. Most candidates were able to use the information in the table to calculate the opportunity costs for both countries and to find the gains from trade. However, some candidates only calculated the per unit gain instead of the total gain. A very small number of candidates used their knowledge learned in elective 2 to answer the question. It should be noted that, instead of writing their answers (e.g., the opportunity costs of the two countries) properly in the designated space, some candidates simply scribbled them immediately next to the table in the question without explanations, making it difficult for markers to give any credit to such rough work.
8	Satisfactory. The majority of candidates managed to provide an evaluation of the policy proposals in terms of equality and aggregate output. Some common mistakes were as follows: <ul style="list-style-type: none"> - failure to analyse "equality" effects of the policies on "equality" in the sense of equalising opportunities and equalising incomes; - providing a discussion of the pros and cons of the two proposals without using the given criteria (i.e., equality and output); - stating the policy effects on such macroeconomic variables as consumption, investment, and government expenditure without relating them to the change in AD / SRAS / LRAS; - inaccurate use of terms like "real" output, "aggregate" output, and "potential" output.

Section B

Q. number	Performance in General
9(a)	Excellent.
9(b)	Good. Most candidates were able to identify the type of expansion and give a correct explanation.
9(c)	Good. Many candidates gave well-reasoned explanations for the lower price charged by McCafe. A minority overlooked keywords in the question and only offered such reasons for the price difference as costs and/or qualities without actually comparing the cost/quality difference between Starbucks and McCafe.
9(d)	Poor. Many candidates were under the misconception that the destroyed meat should be counted in GDP because it was bought by McDonald's and should thus be included in its investment, or that it involves production and should thus be counted even if it is destroyed eventually. Those who were able to get their stands correct failed, however, to provide satisfactory explanations. Some regarded the expired meat as stock or non-final goods. Others stated that the values of these destroyed products were included in GDP when they were initially produced, so they should not be counted again or else they would be being counted twice.
10(a)(i)	Fair. Most candidates were able to point out that GDP would increase as production activities were involved in this case. However, some missed such keywords as "current" or "resident producing unit" in their answers. A minority of candidates either confused "resident" with "resident producing unit" or thought that both the coach's salary and the revenue from the course should be counted in GDP.
10(a)(ii)	Satisfactory. Many candidates were able to state the relation between GDP and GNP and to identify the coach's income as factor income from abroad.

Q. number	Performance in General
10(b)	Good. A few candidates did not analyse the problem from the perspective of the employer. Others only gave a term or a short phrase as answer without elaboration or application to the question.
10(c)	Good. A minority of candidates failed to indicate which kind of labour mobility (occupational or geographical) they were talking about.
11(a)(i)	Good. Most candidates were able to describe correctly the relation between the percentage change in direct tax revenue and the percentage change in nominal GDP, though only a small number of candidates compared their changes.
11(a)(ii)	Fair. Common mistakes included: <ul style="list-style-type: none"> - repeating the answers of 11(a)(i) without trying to explain the reasons behind the trend they had identified; - explaining why nominal GDP increased or decreased in particular years without explaining how these changes related to direct tax revenue; - arguing that a rise in direct tax revenue implies a rise in income, which would in turn result in an increase in consumption, investment, and thus GDP.
11(b)	Satisfactory. A minority of candidates wrongly gave some existing indirect tax (e.g., general rates and stamp duties) as their answers. Some failed to apply the concept of tax base to offer a proper explanation. Instead, they limited themselves to discussing the properties of indirect taxes, which were irrelevant to this question.
11(c)	Fair. The following mistakes were common: <ul style="list-style-type: none"> - neglecting the word "justify" and providing arguments <i>against</i> the statement; - over-emphasising the opportunity for the smokers to turn to the black market for cigarettes, while ignoring that the question only concerns duty-paid cigarettes; - mistaking "effectiveness" for "efficiency."
11(d)	Fair. Although most candidates were able to apply the supply- demand model to this somewhat complicated case, some failed to provide a comprehensive analysis. Common mistakes included: <ul style="list-style-type: none"> - missing the keyword "duty-not-paid" and wrongly focusing the discussion on duty-paid cigarettes; - overlooking the effect of the rise in tobacco duty on the demand for duty-not-paid cigarettes; - mis-locating the new equilibrium point despite correct specification of the shifts in demand and supply curves.
12(a)	Excellent. A minority of candidates mistakenly thought that, with fewer tourists coming to Hong Kong, the export of goods would fall.
12(b)	Excellent. Most candidates were able to explain how a decrease in net export would lead to a fall in AD and its resulting output effects. A few candidates mistakenly thought that, as fewer tourists came to Hong Kong, less goods and services would be produced, so SRAS would drop.
12(c)	Satisfactory. Some candidates were unable to explain the adjustment in a logical and systematic way without the aid of a diagram.

12(d)	Satisfactory. The majority of candidates were able to state the negative external effects that would arise from overloading. However, only a few candidates were able to relate the increased travel time to the time cost and the higher marginal social cost. Many only stated the inefficiency condition as “MB not equal to MC,” without specifying that “MSC > MSB” in this particular case.
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Section C

Q. number	Popularity	Performance in General
13(a)	56%	Good. In their discussions, a minority of candidates mis-specified the “marginal cost = marginal revenue” condition as “marginal cost = marginal benefit” for profit maximisation.
13(b)		Good. A few candidates were able to state the inequality between marginal benefit and marginal cost, but failed to show it in Figure 3.
13(c) (i)(ii)		Fair. Some candidates did not realise that lump sum tax is a fixed cost. Others thought that a rise in fixed cost would result in a rise in marginal cost.
13(d)		Good. Most candidates were able to identify it as a case of price discrimination. However, some of them failed to give full justification; they either provided a term (e.g. third degree price discrimination) without elaboration or tried to analyse the case using an incomplete definition of price discrimination.
13(e)		Fair. Some candidates mistook the takeover for “exclusive dealing”. A few candidates confused vertical backward integration with forward integration.
13(f)		Satisfactory. A small number of candidates failed to state whether their arguments concerning beneficiaries apply to consumers only or to the society as a whole.
14(a)	44%	Good. Most candidates correctly stated that the country would not produce at point N. However, a small number did not mention the correct reason.
14(b)		Good. Some failed to give exact numbers to support their answers.
14(c)		Satisfactory. Most candidates were able to indicate the post-trade production point. Many candidates realised the new CPF should be tangent to the PPF, but many did not seem to understand that the CPF should also be parallel to the world price line. Some candidates presented an answer with complete specialisation. This is common in a constant-cost case but rare in an increasing-cost case.
14(d)		Fair. While many candidates were able to point out that the country can increase its consumption of both X and Y, some of them failed to indicate the possible consumption point(s) in the diagram.
14(c)(i)(ii)		Good. A common mistake in part (i) was a failure to link international trade to the increase in life expectancy and/or years of schooling, resulting in the rise in HDI.

General comments and recommendations

1. Some candidates lack a thorough understanding of basic economic concepts and principles, and thus have difficulty in applying them to solve hypothetical or real-life problems. Candidates should strengthen their analytical skills instead of simply regurgitating concepts and theories.
2. Some candidates do not read all the questions carefully. Candidates should devote special attention to the assumptions and conditions laid down in the questions so as to avoid giving irrelevant answers.
3. Some candidates provided convoluted answers. Candidates should equip themselves with better language abilities as well as graphical skills, and present their answers in a clear and precise way.
4. Some candidates were unaware of current economic issues. Candidates should pay more attention to economic news.
5. Some candidates showed a weakness when extracting information from tables and graphs as well as when drawing well-labelled diagrams. Candidates should pay special attention to the headings, labels, and axes as they are essential to our understanding of the data presented therein.