

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. If a command economy turns into a market-oriented economy,
 - (1) the income distribution of the economy will be more uneven.
 - (2) more resources will be allocated by price mechanism.
 - (3) people will have private property rights over all resources.
 - A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1), (2) and (3)

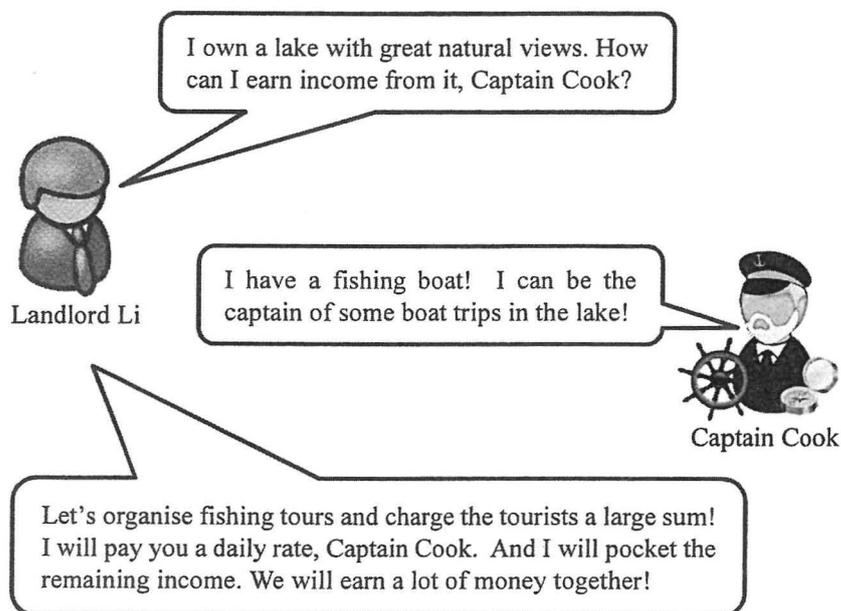
2. In Lunar New Year, tourists reserve tables in waterfront restaurants to enjoy firework display. The firework display is a _____ because _____.
 - A. public good the government pays for the firework display
 - B. public good one individual's consumption will not reduce its availability to others
 - C. private good private firms have to use resources to produce the firework display
 - D. private good the seats in waterfront restaurants are excludable in consumption

3. Which of the following may exist in a barter economy?
 - (1) specialisation
 - (2) inflation
 - (3) interest
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

4. Some small investors prefer debentures to shares. Which of the following is a possible reason for that?
 - A. The return of debentures is generally higher than that of shares.
 - B. The price of shares may rise while that of debentures is fixed.
 - C. Shareholders need to spend time managing the company but debenture holders do not.
 - D. Companies have obligation to redeem debentures but they have no such obligation for shares.

5. If a public limited company in Hong Kong gets listed on the stock exchange,
- A. it will face a higher profits tax rate.
 - B. it can no longer keep its accounting information confidential.
 - C. its shareholders will enjoy higher liquidity of their assets.
 - D. it will enjoy economies of scale.

6. Refer to the following dialogue.



Given the return of land is rent, the return of labour is wage, the return of capital is interest while the return of entrepreneur is profit. The income earned by Captain Cook consists of _____ while the remaining income earned by Landlord Li consists of _____.

- A. wage.....profit
 - B. interestrent and profit
 - C. wage and interest.....rent
 - D. wage and interestrent and profit
7. Tai On Building (太安樓) in eastern Hong Kong Island is well-known as a 'foodie paradise'. A variety of street snacks such as cart noodles, egg waffles, dumplings and mango mochi are sold by numerous small vendors. Customers from different districts fill their stomachs at Tai On Building.

Based on the above information, street snack vendors at Tai On Building can _____.

- A. enjoy internal economies of scale
- B. enjoy external economies of scale
- C. suffer internal diseconomies of scale
- D. suffer external diseconomies of scale

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

Machinery (units)	Labour (units)	Average product of labour (units)
4	1	20
4	2	21
4	3	22
4	4	X

If the above data illustrate the law of diminishing marginal returns, the value of X _____.

- A. can be 23
 B. can be smaller than 22
 C. must be larger than 22
 D. must be smaller than 22
9. Refer to the following table about the cost-output relationship of a profit-maximising firm.

Quantity (units)	1	2	3	4	5
Average cost (\$)	5	6	7	8	9

If the average cost of every unit of output decreases by \$1 and the market price is \$8,

- A. the minimum cost of production is \$18.
 B. the profit maximising output is 3 units.
 C. the maximum profit is \$10.
 D. the marginal cost of every unit of output will remain unchanged.
10. Alfred booked a room in a resort hotel. Later he found that Betty had booked a room in the same hotel at a lower price. Which of the following are possible reasons for such a price difference?
- (1) Alfred's booking was non-refundable while Betty's booking was with free cancellation.
 (2) Alfred booked the room in a weekend while Betty booked the room in a weekday.
 (3) Alfred booked the room with sea view while Betty booked the room with street view.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
11. When the price of Australia's red wine decreases from \$70 to \$50, the quantity demanded increases from 100 units to 122 units. What is the arc elasticity of demand for Australia's red wine within the above price range?
- A. 0.59
 B. 0.77
 C. 1.30
 D. 1.68

12. When the market supply curve of a good is derived, which of the following is/are assumed to be constant?

- (1) the market price of the good
- (2) the prices of factors of production of the good
- (3) the expected future price of the good

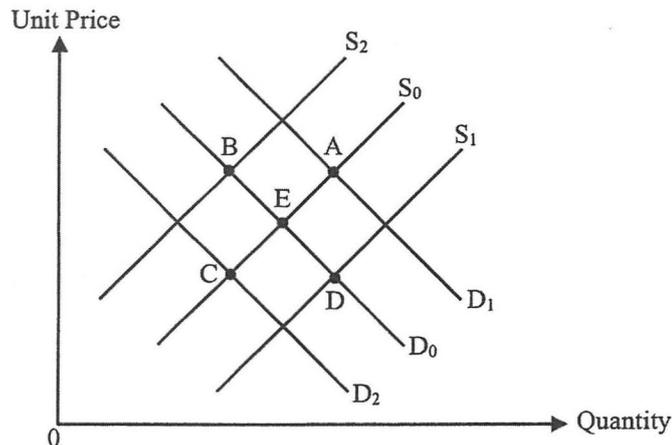
- A. (1) only
- B. (2) only
- C. (3) only
- D. (2) and (3) only

13. In recent years, the rise in demand for private cars in China has attracted Volkswagen, a German car manufacturer, to set up car manufacturing factories in China.

The above case illustrates the _____ function of price because _____.

- A. rationing private cars are sold to the highest-valued users in China
- B. rationing fewer buyers are willing to buy private cars in Germany
- C. allocative the supply of private cars falls in Germany
- D. allocative more resources are allocated to the production of private cars in China

14. Refer to the following supply-demand diagram for Good Y.



Suppose Good Y is an inferior good and the initial market equilibrium point is E. If there is a fall in the average income level of consumers, the new market equilibrium point will be _____.

- A. A
- B. B
- C. C
- D. D

15. The following table shows the demand and supply schedules of a good.

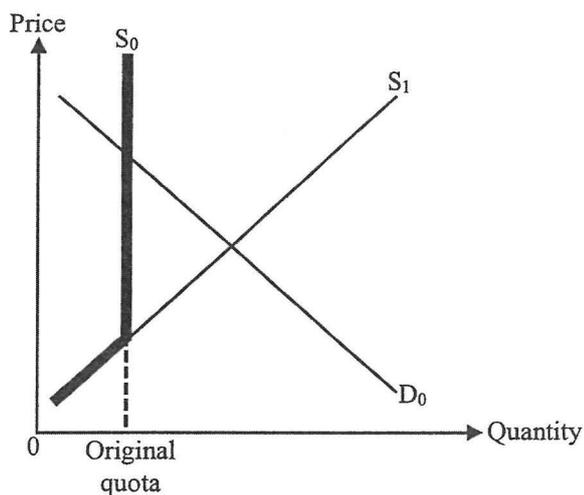
Price (\$)	Quantity demanded (units)	Quantity supplied (units)
20	70	40
22	60	45
24	50	50
26	40	55
28	30	60

If the government provides a \$6 per-unit subsidy for the producers of the good, the total subsidy provided by the government will be _____ and the ratio of consumers' share to producers' share of the subsidy will be _____.

- A. \$300 1:1
- B. \$300 1:2
- C. \$360 1:1
- D. \$360 1:2

16. Refer to the following supply-demand diagram for the exported Chinese rare earth minerals.

Exported rare earth minerals



If China abolished the quota on the export of rare earth minerals,

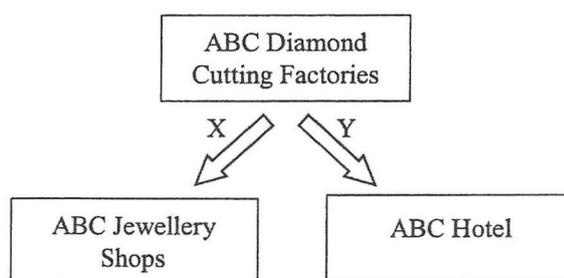
- (1) the export price of the rare earth minerals would drop.
- (2) the export quantity of the rare earth minerals would rise.
- (3) the total exchange value of the exported rare earth minerals would drop.

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

17. A non-profit organisation supports the increase in cigarette tax. The organisation reveals that every 10% increase in cigarette prices reduces the total cigarette quantity transacted by 4%. Which of the following statements about cigarette tax is **INCORRECT**?

- A. Law of demand is illustrated in the above case.
- B. The total expenditure on cigarette will increase after the increase of the cigarette tax.
- C. The increase in cigarette tax may lead to a greater income inequality.
- D. The cigarette tax could help reduce the problem of under-production of cigarette.

18. ABC Diamond Cutting Factories expand its business as follows:



To ABC Diamond Cutting Factories, the types of expansion shown by X and Y are _____ expansion and _____ expansion respectively.

- A. backward conglomerate
- B. backward lateral
- C. forward conglomerate
- D. forward lateral

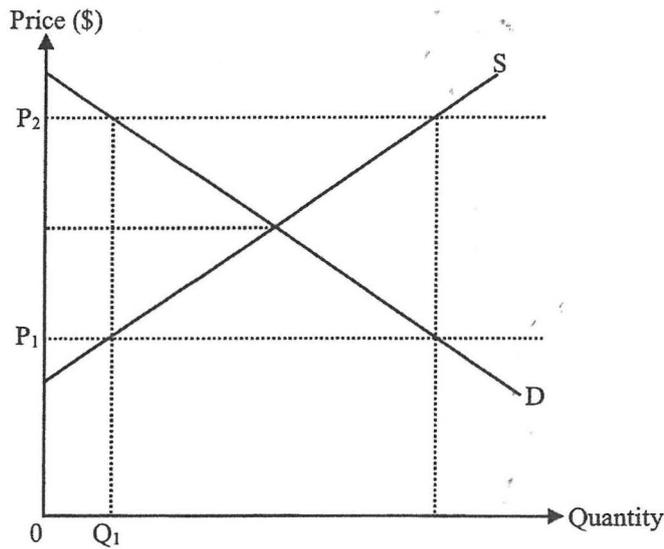
19. Study the following news extract.

In the last decade, the rent of residential units in Berlin was doubled due to continuous increase in demand. To deal with the problem, the Berlin government imposed a 'Rent Frozen Bill' under which the rent of residential units was not allowed to increase for at least 5 years.

Suppose a similar bill is implemented in Hong Kong. Which of the following statements is correct?

- A. The Gini coefficient will increase.
- B. The property tax revenue of the government will increase.
- C. There will be a deadweight loss if the demand for residential units keeps on increasing.
- D. The property owners will have higher incentives to renovate their flats.

20. Refer to the following supply-demand diagram for Good X.



If the price floor of Good X changes from P_1 to P_2 ,

- A. producer surplus will increase.
- B. quantity transacted of Good X will remain at Q_1 .
- C. deadweight loss will increase.
- D. excess demand of Good X will change to excess supply.

21.



The White Moose Café

May 5 at 1:31 AM · ✨

****SCREAMING CHILD TAX****

For the benefit of both staff and customers alike, we have taken the decision to impose a tax on children who scream. If we notice that your child is screaming, an automatic 15% surcharge will be applied to your bill. For every further screaming child you have in your group, an additional 10% will be added.

We trust you understand our position.

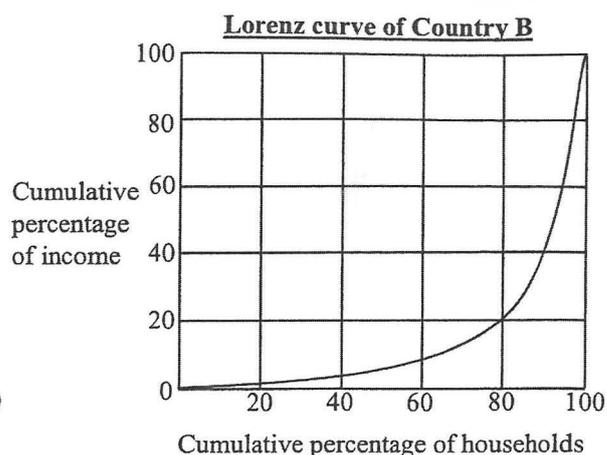
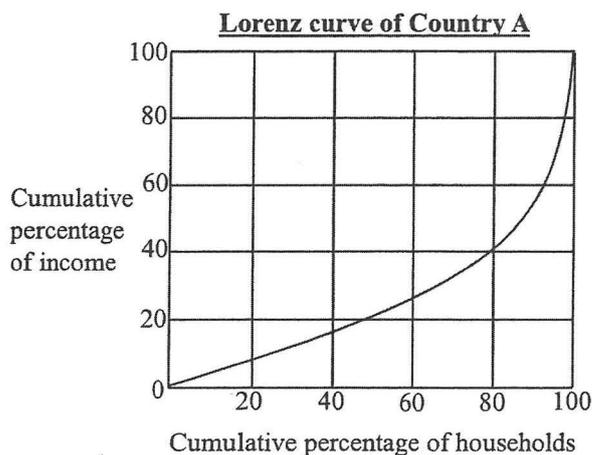
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1.4K Comments 533 Shares

With reference to the above information, which of the following statements is correct?

- A. Children screaming in the café results in negative externality and all cafés should introduce similar policy to restore efficiency.
- B. The extra charge on screaming children increases the marginal private cost of the groups with screaming children.
- C. The 'screaming child tax' is a government solution to the divergence between private and social costs.
- D. The 'screaming child tax' is a kind of discrimination and should not be imposed.

22. Study the following two Lorenz curves.



Compared with Country B,

- A. the Gini coefficient of Country A is larger.
- B. Country A has a higher standard of living.
- C. the top 20% of households in Country A have less total income.
- D. Country A has a more even income distribution.

23. The following table shows the data of average annual income earned by women and men according to their age in 2018.

Age	Average annual income of women (HK\$)	Average annual income of men (HK\$)
20 - 29	122 000	121 000
50 - 59	482 000	645 000

Which of the following may explain the phenomena shown by the above data?

- (1) Women tend to leave the job market earlier than men for taking care of the family, leading to fewer women to take up senior positions in companies.
- (2) Sex discrimination in labour market exists in the older generations.
- (3) Accumulation of human capital contributes to the difference in income between different age groups.

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

24. The following table shows the employment data of Hong Kong from April to June in 2019.

	Number of persons ('000)
Population	7 524
Aged 15 or above	6 590
Employed persons	3 871
Unemployed persons	114
Underemployed persons	41

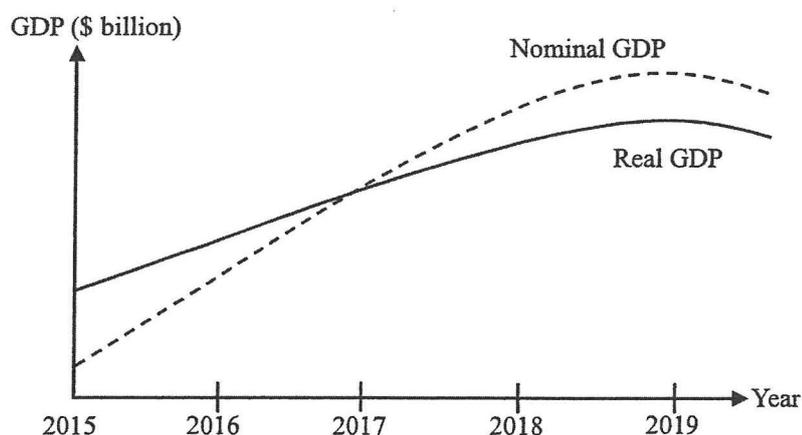
According to the above data, the underemployment rate is _____.

- A. 0.55%
- B. 0.62%
- C. 1.03%
- D. 1.06%

25. Which of the following should be deducted from the gross domestic product of Hong Kong to calculate the gross national income of Hong Kong?

- A. the fee paid by a Hong Kong football club to a Japanese football team for an exhibition match in Hong Kong
- B. the rent earned by a Hong Kong property developer from its residential property in Japan
- C. the capital gain earned by a Japanese insurance corporation from its financial investment in Hong Kong
- D. the dividend paid by a listed company in Japan to a Hong Kong resident

26. The following diagram shows the gross domestic product (GDP) of Country A.

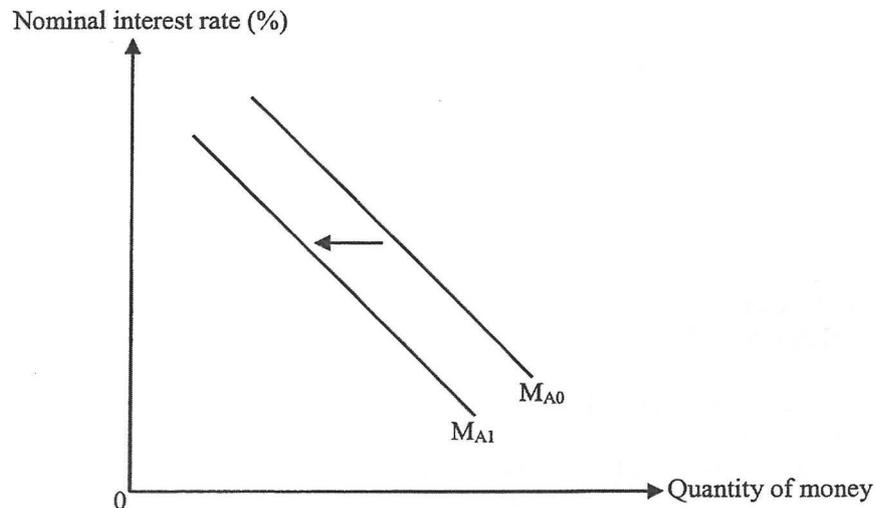


Which of the following statements about Country A is correct?

- A. The price level increased between 2016 and 2018.
- B. Deflation occurred before 2017.
- C. The actual inflation rate was equal to the expected inflation rate in 2017.
- D. The nominal GDP has been increasing since 2016.

27. Which of the following is a reason for a leftward shift of the short run aggregate supply curve in a country?
- A. There is a continuous increase in price level.
 - B. The largest market of the country's exports suffers from an economic recession.
 - C. More citizens emigrate to foreign countries.
 - D. The wages of labour slowly adjust downward due to institutional factors.

28. The following diagram shows the asset demand for money of an economy.



Which of the following will cause the above change in asset demand for money?

- A. The nominal interest rate increases.
 - B. There is a contraction of monetary base.
 - C. The use of electronic wallets such as Alipay (支付宝) becomes more popular.
 - D. The expected rate of return of holding bonds increases.
29. The legal tender in Hong Kong held by licensed banks is included in _____.
- (1) monetary base
 - (2) money supply M2
 - (3) money supply M3
- A. (1) only
 - B. (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

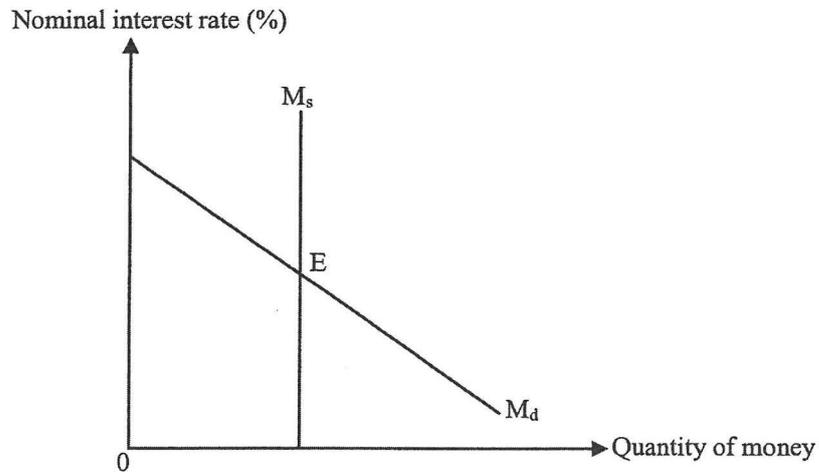
30. Refer to the following information about an economy. Suppose all banks do not hold any excess reserves.

	\$ million
Currency in public circulation	10
Monetary base	30
Money supply	110

If the public deposits all the cash into the banking system,

- A. the actual banking multiplier will be 4.
- B. the maximum amount of loans will be \$120 million.
- C. the maximum amount of deposits will be \$140 million.
- D. the new money supply will be \$160 million.

31. The following diagram indicates the money supply curve (M_s) and money demand curve (M_d) of a certain economy. Suppose the initial equilibrium point is at E.

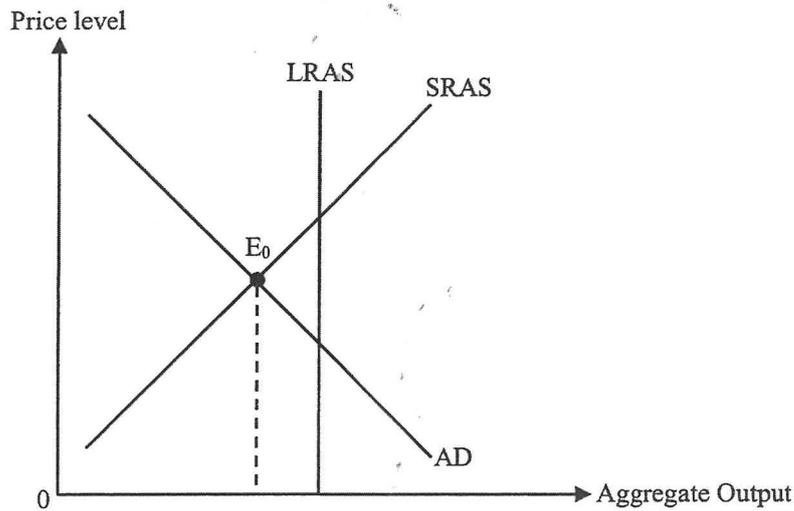


If the income of the public increases and the central bank sells government bonds to the public, the interest rate _____ and the quantity of money _____.

- A. will decrease will increase
- B. will increase may increase or decrease
- C. may increase or decrease will decrease
- D. will increase will decrease

32. Which of the following is a contractionary monetary policy?
- A. an increase in the discount rate
 - B. an increase in the salaries tax rate
 - C. a decrease in the required reserve ratio
 - D. a decrease in the quota for migration
33. Which of the following will increase the actual banking multiplier?
- A. The public tends to hold more cash.
 - B. The use of credit card becomes more popular.
 - C. The central bank increases the required reserve ratio.
 - D. The interest rate of bank deposit decreases.
34. When there is unexpected inflation, which of the following persons will gain?
- A. a landlord who adjusts his rental according to the price index
 - B. a creditor who has loaned out a sum of money at a floating interest rate
 - C. an employer who signs a fixed nominal wage contract with his employees
 - D. a retired civil servant who receives a fixed monthly pension
35. Which of the following policies would offset the effect of an increase in the willingness to invest on the price level?
- (1) an increase in profits tax rate
 - (2) an increase in transfer payment
 - (3) a decrease in tax allowance
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

36. The diagram below shows the aggregate demand curve, the short run aggregate supply curve and the long run aggregate supply curve of an economy.



Suppose the economy initially operates at E_0 and the total import value equals to the total export value. If the government decreases the amount of social security assistance for the elderly, in the short run, the deflationary (output) gap will become _____ and there will be a _____.

- A. narrower trade surplus
 B. narrower trade deficit
 C. wider trade surplus
 D. wider trade deficit
37. An economist said, 'The continuous fall in stock prices in our country has already affected the consumption expenditure as well as the money demand. We should implement a policy to relieve the effects on the output level and the interest rate.' Which of the following policies can stabilise the output level and the interest rate in the country at the same time in the short run?
 (Assume the interest rate is mainly affected by the asset demand for money in this case.)
- A. The government increases cash subsidy to the poor.
 B. The government gives tariff exemption to the imports of goods.
 C. The central bank instructs the commercial banks to tighten the requirement of personal loans.
 D. The central bank buys government bonds from the public.
38. In 2019, the Japanese government increases the general sales tax rate on most of the goods and services from 8% to 10%. As a result,
- (1) income inequality will be higher.
 (2) the fiscal deficit will be eliminated.
 (3) the invisible trade deficit will decrease.
- A. (1) only
 B. (2) only
 C. (3) only
 D. (1), (2) and (3)

39. The following is an extract of the mission of the Inland Revenue Department.

<p>Our Mission</p> <p>We are committed to</p> <ul style="list-style-type: none">- collecting revenue efficiently and cost-effectively- enabling staff to acquire the necessary knowledge, skills and attitude so that they can contribute their best to the achievement of our vision
--

The above mission is in line with the _____ principle of taxation put forward by Adam Smith.

- A. equality
- B. certainty
- C. convenience
- D. economy

40. Mr. Chan runs a factory in mainland China and earns a huge profit. Recently he has bought a flat and a second hand electric car in Hong Kong, and received dividends from his shares of HSBC.

According to the above information, which type(s) of tax does he need to pay to the Hong Kong government?

- (1) Property tax
 - (2) Stamp duty
 - (3) Profits tax
 - (4) First registration tax
- A. (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (1), (3) and (4) only

41. In the case **WITHOUT** tax exemption, John needs to pay \$15 000 and Mary needs to pay \$35 000 as income tax.

Suppose the government proposes the following income tax exemption measures:

	Amount of tax exemption
Measure I	75% of income tax, maximum \$30 000
Measure II	100% of income tax, maximum \$20 000

John will prefer _____ while Mary will prefer _____.

- A. measure I measure I
- B. measure I measure II
- C. measure II measure I
- D. measure II measure II

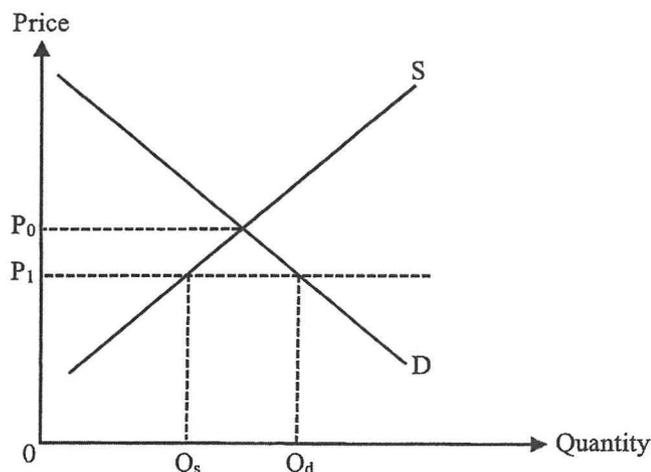
42. The following table shows the amounts of consumption on two goods in Country A and Country B before international trade. Assume both countries use one unit of resources on producing Good X and one unit of resources on producing Good Y.

	Consumption before trade (units)	
	Good X	Good Y
Country A	100	and 25
Country B	80	and 40

If Country A and Country B completely specialise their production and trade with each other, the total output of both countries will increase by _____ units of Good X and _____ units of Good Y.

- A. 15 15
- B. 15 20
- C. 20 15
- D. 20 20

43. The diagram below shows the market situation of Good X in a small open economy.



P_0 is the price before trade and P_1 is the price after trade. Which of the following statements about Good X are correct after the economy opens up for international trade?

- (1) The total expenditure on Good X of domestic consumers would be $P_1 \times Q_d$.
- (2) The value of domestically produced Good X would be $P_1 \times Q_s$.
- (3) The shortage of Good X would be $Q_d - Q_s$.

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

44. The following table shows the change in the exchange rate of Euro against the US dollar.

Date	Exchange rate
22 September 2018	1 EUR = US\$ 1.176
22 August 2019	1 EUR = US\$ 1.109

The above change in the exchange rate will lead to a decrease in

- A. the number of European tourists visiting the US.
 - B. the volume of goods exported from Europe to the US.
 - C. the total value of US exports to Europe (in terms of Euro).
 - D. the total value of European exports to the US (in term of the US dollar).
45. Under the linked exchange rate system of Hong Kong, which of the following statements is correct?
- A. The money supply M1 of Hong Kong has to be fully backed up by the US dollar.
 - B. Hong Kong's export volume will increase when the US dollar depreciates against other currencies.
 - C. The market exchange rate of the HK dollar relative to the US dollar is fixed.
 - D. Hong Kong citizens can sell 1 USD to the three note-issuing banks for 7.8 HKD.

END OF PAPER

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