

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2021

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. Refer to the following statements made by Peter and Mary.

Peter: As a developed economy, Hong Kong's Gini coefficient is too high.
Mary: Hong Kong's Gini coefficient is the highest in Asia.

_____ statement is _____ because _____.

- A. Peter's ... positive ... most people agree with it
- B. Peter's ... normative ... it is inconsistent with the real world data
- C. Mary's ... positive ... it can be rejected by fact
- D. Mary's ... normative ... value judgment is involved in the statement

2. In response to the shortage in face mask market, the Government distributes free reusable CuMask to all Hong Kong citizens.

This is an example of using _____ to solve the problem of _____.

- A. government command ... 'how to produce'
- B. government command ... 'for whom to produce'
- C. market mechanism ... 'how to produce'
- D. market mechanism ... 'for whom to produce'

3. After graduating from secondary school, Paul considers whether to become a full-time Key Opinion Leader (KOL) in social media channels or to become an e-sports player.

Which of the following will lower Paul's cost of being a full-time KOL after his graduation?

- (1) Paul receives sponsored video equipment for KOL.
- (2) The e-sports team offers a lower basic salary to Paul.
- (3) The risk of social media channels being attacked by hackers increases.

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

4. Because of COVID-19, normal schooling was disrupted. Most schools used video communication software, such as Zoom and Google Meet, to conduct online lessons. Suppose the school campus was re-opened and face-to-face lessons were allowed.

Which of the following would be the **LEAST** important factor for teachers to choose between online lessons and face-to-face lessons?

- A. The risk of contracting COVID-19 for teachers is lower when they conduct online lessons.
- B. Teachers have no idea what their students are doing during online lessons because students may turn off their cameras.
- C. Teachers have already spent a lot of time learning how to use the video communication software to conduct online lessons.
- D. The eyesight of teachers may be worsened by the intensive use of the video communication software in conducting online lessons.

5.

	Factory A	Factory B
Number of workers employed	90	78
Working hours per worker/month	125	155
Total output/month	79 850	82 800
Percentage of output with quality below standard	37%	11%

Refer to the above table. Which of the following can best explain the difference in quality of the outputs between Factory A and Factory B?

- A. Factory A employs less labour service than Factory B.
 - B. Factory A practises a higher degree of division of labour than Factory B.
 - C. The degree of mechanisation of Factory A is higher than that of Factory B.
 - D. Factory A uses piece rate while Factory B uses time rate.
6. Li & Fung (Stock Code: 00494) announced a privatisation of its company, cancelling its listing status at the stock exchange in Hong Kong. Which of the following statements about Li & Fung is correct after the change?

- A. The firm can enjoy a lower profits tax rate.
- B. The firm can still issue shares to raise capital.
- C. The owners will become personally liable for legal charges against the firm.
- D. The firm will no longer exist when one of the owners goes bankrupt.

7. The salespersons in a luxury brand product shop are paid with the following arrangement.

Monthly salary:	HK\$12 000
Target bonus:	Bonus will be given when sales target is attained.

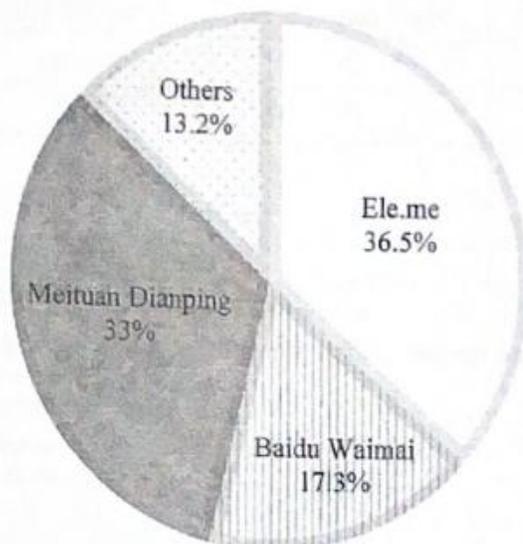
From the viewpoint of the shop, which of the following are possible reasons of the above arrangement instead of time rate only?

- (1) The salespersons' productivity will be higher.
- (2) The cost of monitoring service quality will be lower.
- (3) There is a possibility of earning a higher monthly salary.

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

Study the following diagram and answer Questions 8 and 9.

Market Shares (%) of China's Online Food Delivery Sector in 2017



Ele.me	餓了麼
Baidu Waimai	百度外賣
Meituan Dianping	美團點評

8. Ele.me acquired Baidu Waimai in 2017. Which of the following could be the motive(s) behind the acquisition?
- (1) to enjoy economies of scale
 - (2) to spread risk by business diversification
 - (3) to have a greater influence on the market price
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
9. Based on the information in the above diagram, we can conclude that the market structure of online food delivery sector in China in 2017 could be regarded as _____ because _____.
- A. monopolistic competition ... market information about the food delivery services was imperfect
 - B. monopolistic competition ... there were price and non-price competitions among the service providers
 - C. oligopoly ... service providers considered the reactions of other major providers in making decisions
 - D. oligopoly ... a few service providers had significantly larger market shares than others
10. Because of the outbreak of COVID-19, the government of a country announced a temporary ban of dine-in services in restaurants. Which of the following statements about restaurants under the temporary ban is correct?
- A. If the expected sales revenue generated from takeaway food exceeds the variable cost of running a restaurant, the restaurant will continue to operate.
 - B. With the extremely high cost of breaking the rental contract, the fixed rental will affect whether the owners continue to operate their restaurant.
 - C. A decrease in prices of takeaway food will necessarily decrease the sales revenue of the restaurants.
 - D. Unpopular restaurants will close down before popular ones.

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

Labour (units)	Machinery (units)	Total output (units)
1	2	10
2	2	25
3	2	45
4	2	Q_1
5	2	Q_2

Suppose the above data illustrates the law of diminishing marginal returns. Which of the following figures are consistent with the law?

- (1) $Q_1 = 60$; $Q_2 = 70$
 (2) $Q_1 = 40$; $Q_2 = 30$
 (3) $Q_1 = 65$; $Q_2 = 85$

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

12. The following table shows the cost-output relationship of a price-taking firm.

Quantity (units)	Average cost (\$)
1	5
2	4
3	4
4	4.5
5	6

Based on the above table, when the market price falls from \$6 to \$4, we can conclude that

- A. the firm starts to enjoy economies of scale.
 B. the total cost of the firm will decrease from \$30 to \$12.
 C. the profit of the firm will decrease by \$6.
 D. the quantity supplied will decrease from 5 units to 3 units.

13. The demand for _____ can be regarded as a derived demand for _____.

- A. mobile phones ... earphones
 B. laptops ... batteries
 C. music videos ... singers
 D. game programmers ... online games

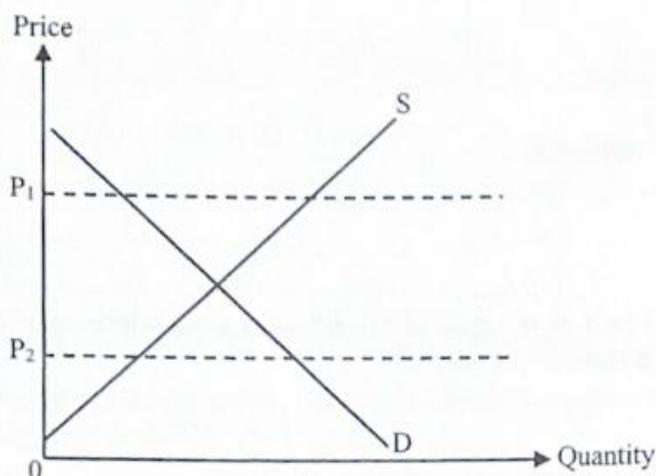
14. When Good X and Good Y are _____, a decrease in the supply of Good X will result in an increase in the _____ Good Y.
- substitutes ... supply of
 - substitutes ... quantity supplied of
 - complements ... demand for
 - complements ... quantity supplied of
15. When a per-unit sales tax is imposed on a good, which of the following combinations may result in the consumers' tax burden exceeding the producers' tax burden?
- elastic demand; elastic supply
 - elastic demand; inelastic supply
 - inelastic demand; elastic supply
 - inelastic demand; inelastic supply
- (2) only
 - (1) and (3) only
 - (2) and (4) only
 - (1), (3) and (4) only
16. Refer to the following demand-supply schedules of Good X.

Price (\$)	Quantity demanded (units)	Quantity supplied (units)
80	100	80
90	100	90
100	100	100
110	100	110
120	100	120
130	100	130

If a \$10 per-unit subsidy is provided to the producers of Good X,

- the total revenue including the subsidy will remain unchanged.
 - the subsidy benefit will be received entirely by the producers.
 - the total expenditure of consumers on Good X will reduce by \$1 000.
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)

17. Refer to the following demand-supply diagram of Good Y.



If the government lowers the price ceiling of Good Y from P_1 to P_2 ,

- A. the producer surplus will decrease.
- B. the consumer surplus will increase.
- C. the total social surplus will remain unchanged.
- D. the excess supply of Good Y will be eliminated.

18. Refer to the following news.

In order to reduce pollution, the government imposes a production tax on all kinds of motor vehicles (except electric vehicles).

As a result, the price of gasoline changes by 22% and its quantity transacted changes by 35%. Which of the following statements is correct?

- A. The demand for gasoline is elastic.
 - B. The demand for gasoline is inelastic.
 - C. The supply of gasoline is elastic.
 - D. The supply of gasoline is inelastic.
19. Since most schools deliver their lessons online, more students need to buy tablet computers. The marginal cost of the last unit of tablet computers will _____ and the producer surplus will _____.
- A. decrease ... increase
 - B. decrease ... decrease
 - C. increase ... increase
 - D. increase ... decrease

20. Initially a country imposes an effective quota on coffee bean production.

If now more people like to drink coffee, which of the following statements about coffee bean market are correct?

- (1) The total expenditure will increase.
- (2) The deadweight loss will increase.
- (3) The consumer surplus will increase.

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

21. Refer to the following policy proposals in Hong Kong.

Proposal (1):	providing a cash subsidy for those who have been on the waiting list for public housing over five years
Proposal (2):	raising the eligible age for the Elderly Comprehensive Social Security Assistance Scheme from 60 to 65
Proposal (3):	raising the standard tax rate of the salaries tax

Which of the above proposals will reduce the Gini coefficient based on post-tax post-social transfer monthly household income in Hong Kong?

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

22. The following table shows the information about two top-tier football leagues.

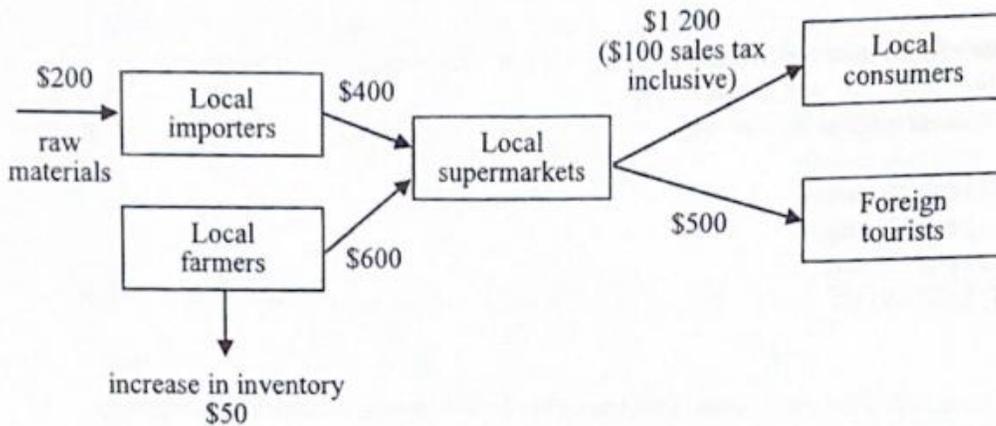
Football league	Average annual income of the players	
	Defensive players	Attacking players
England	£2 751 537	£3 839 875
Italy	£1 536 945	£2 625 975

Which of the following is/are possible reason(s) for the income differences among players?

- (1) The television broadcast revenue generated by the top-tier football league in England is higher than that in Italy.
- (2) The price level in England is higher than that in Italy.
- (3) The commercial values of attacking players are higher than those of defensive players since attacking players are more popular.

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

23. A production chain of Good X in an economy is shown below.



The contribution of the above production chain to the economy's gross domestic product at factor cost is _____.

- A. \$1 400
- B. \$1 450
- C. \$1 500
- D. \$1 550

24. Refer to the gross domestic product (GDP) data of an economy.

	Growth rate (relative to previous year)
Nominal GDP	0
Real GDP	-1.2%
Per-capita nominal GDP	-3.5%

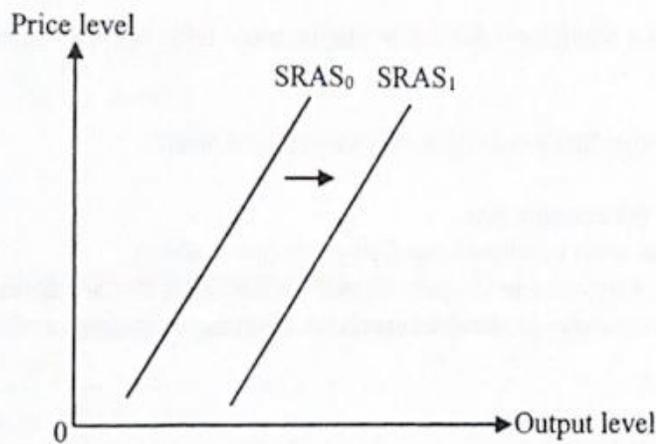
Compared to the previous year, the general price level has _____ and population has _____ in the economy in the current year.

- A. increased ... increased
- B. increased ... decreased
- C. decreased ... increased
- D. decreased ... decreased

25. Suppose the unemployment rate of an economy is 8%. Which of the following would increase the unemployment rate?
- (1) 15% of the new graduates could not find jobs successfully.
 - (2) Some employers closed down their local businesses and migrated to other countries.
 - (3) Some of the part-time workers lost their job due to automation of production.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

26. The per-capita real GDP of a country would understate the general living standard because
- A. it includes the value of non-consumption goods.
 - B. it does not consider the size of population.
 - C. it does not reflect the increasing crime rate in society.
 - D. it does not include all non-marketed goods.

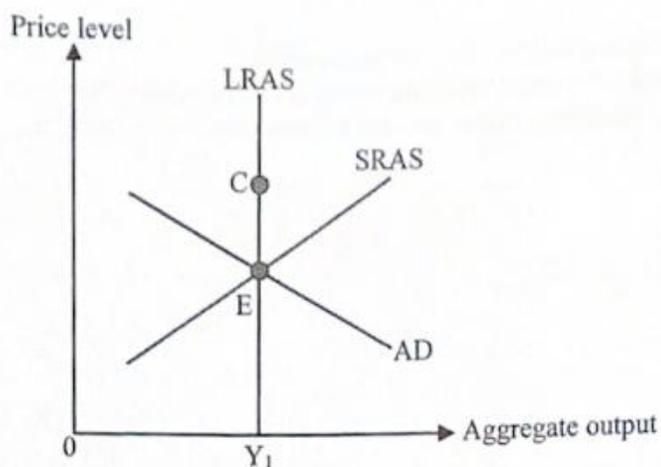
27.



Which of the following is a possible reason of the above shift of the short run aggregate supply curve?

- A. The cost of production increases due to an increase in global demand for oil.
- B. The profitability of firms increases with the rise in price level, since the difference between output prices and input prices increases.
- C. An increase in interest rate leads to an increase in cost of investment.
- D. The operation of labour market resumes to normal after a massive labour strike.

28. Study the following diagram.

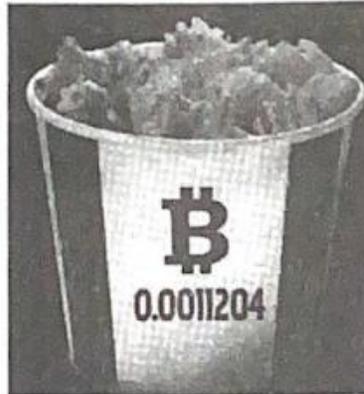


The initial equilibrium point of an oil importing country is at E. If the new long run equilibrium point is at C, which of the following is a possible reason for the change in the equilibrium point?

- A. There is an increase in oil prices.
 - B. There is a decrease in production subsidy.
 - C. The public tends to save less.
 - D. The government increases the salaries tax rate.
29. The outbreak of COVID-19 results in a significant decline in employment level and the volume of exports of a country.
- Which of the following policies can most likely relieve the above two problems?
- A. The central bank reduces the discount rate.
 - B. The government distributes cash to citizens aged 18 years old or above.
 - C. The government imposes 'employment support scheme' to industries that are adversely affected.
 - D. The country devalues its currency against the currencies of its major trading partners.

30. Study the following news extract about Bitcoin (比特幣).

In 2018, Kentucky Fried Chicken Canada launched 'Bitcoin Bucket'. The company set up a Facebook live feed, displaying the number of bitcoins needed to pay for the meal as in the picture below. The 'Bitcoin Bucket' could only be purchased online and would be delivered to the buyers' home later.



In the above case, Bitcoin performed as a _____.

- (1) medium of exchange
- (2) unit of account
- (3) standard of deferred payment

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

31. The table below shows the monetary data of a country.

Money supply	\$250 million
Legal tender held by public	\$50 million
Required reserve ratio	20%
Excess reserves	\$10 million

Which of the following statements are correct?

- (1) Monetary base is \$100 million.
- (2) Actual reserves are \$40 million.
- (3) The maximum amount of deposits after credit creation is \$250 million.

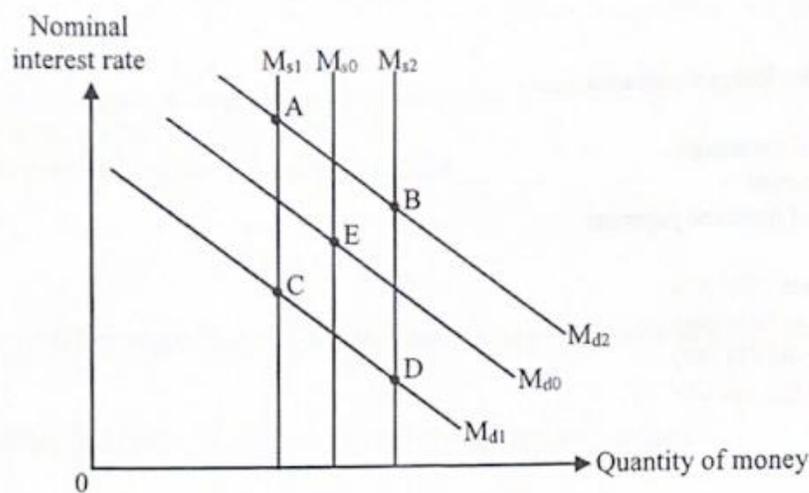
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

32. Jack wants to deposit \$400 000 for 5 months. Which of the following financial institutions in Hong Kong can accept his deposit?

- (1) a restricted licence bank
- (2) a virtual bank which is classified as a licensed bank
- (3) a deposit-taking company

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

33. The diagram below shows the money demand and money supply curves of an economy. The original equilibrium point is at E.



Suppose the stock market becomes more volatile. At the same time, the central bank decides to redeem government bonds from the public. The new equilibrium point will be at _____.

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

34. Suppose the actual inflation rate and the nominal interest rate are -1% and 3% respectively. Which of the following statements are correct?

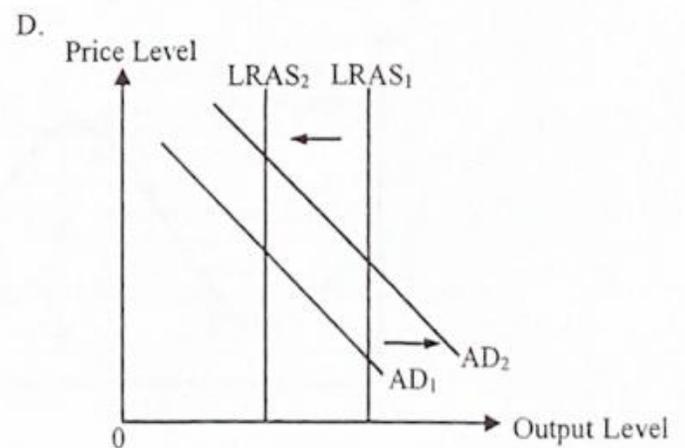
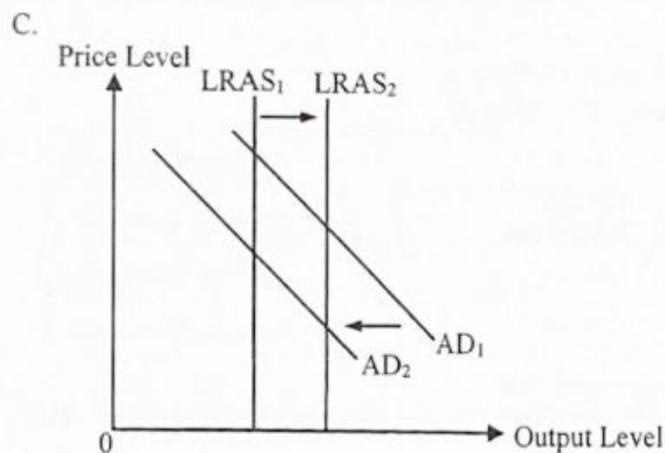
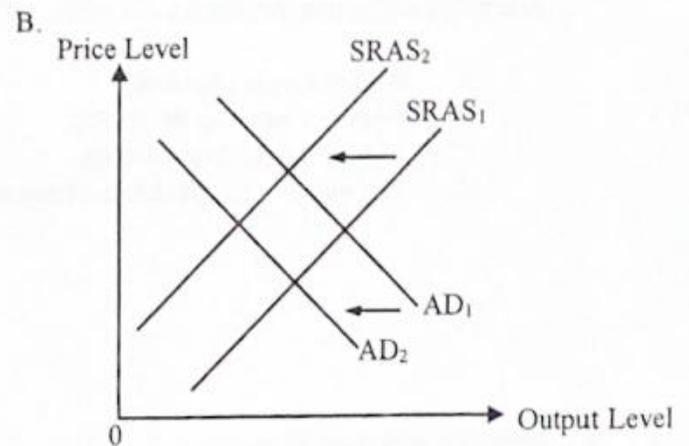
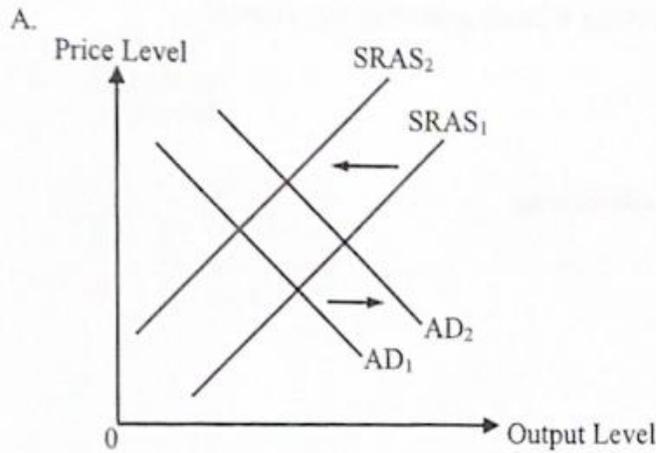
- (1) The cost of holding cash is 3%.
- (2) The expected real interest rate is higher than the nominal interest rate.
- (3) The actual real rate of return on holding cash is 1%.

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

35. Which of the following would offset the effect on aggregate output of an expansionary fiscal policy?
- The public held more cash.
 - The use of electronic wallets became more popular.
 - The interbank rate decreased.
 - The government increased quota on the importation of foreign domestic helpers.

36. Due to the COVID-19 outbreak, most of the flights were cancelled, leading to a significant drop in the number of tourists visiting Hong Kong. At the same time, many employees in Hong Kong were forced to take no pay leave.

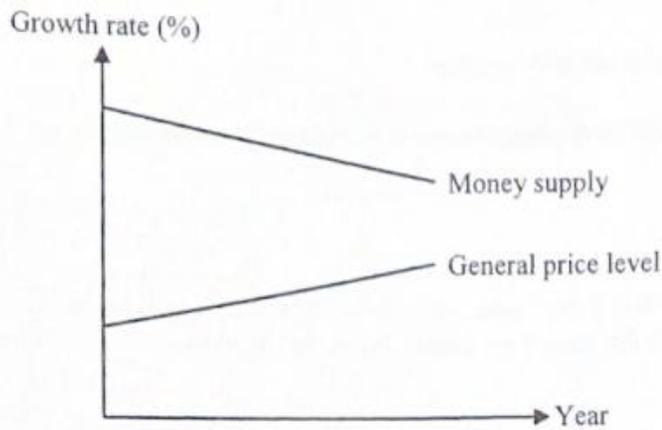
Which of the following diagrams can best describe the consequence of the above incidents?



37. Which of the following policies may narrow a deflationary (output) gap and reduce the budget deficit at the same time?

- an open market purchase of government bonds
- an increase in income tax allowance
- a reduction in transfer payment
- an increase in required reserve ratio

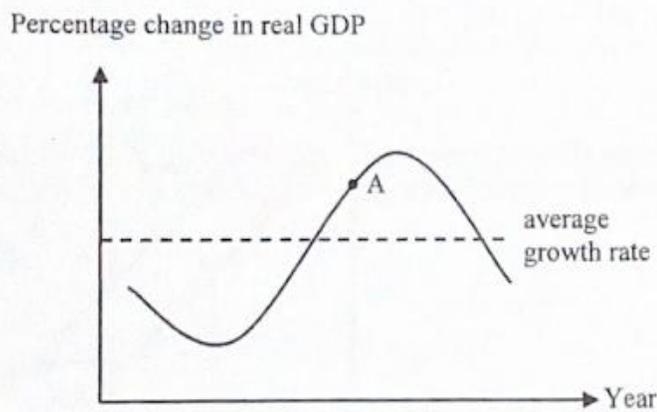
38. Study the following diagram.



According to the quantity theory of money, which of the following statements is correct?

- A. Real output is increasing.
- B. Nominal output is decreasing.
- C. Money supply is decreasing.
- D. The velocity of circulation of money is decreasing.

39. Study the following diagram.



Which of the following are the features of an economy when it is operating at point A?

- (1) Labour supply is increasing.
 - (2) Purchasing power of money is decreasing.
 - (3) Government expenditure is increasing.
 - (4) Business confidence of companies is increasing.
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only

40. Suppose a government finances its expenditure by collecting tax from the households and the amount of expenditure equals the amount of tax collected. The effect on aggregate demand will be _____.
- A. expansionary
 - B. contractionary
 - C. neutral
 - D. indeterminate

41. Mr Li is a major shareholder of a Hong Kong listed company which makes huge profits. He has sold some of his residential properties, and received rental income from some leased commercial buildings.

According to the above information, which types of tax does Mr Li need to pay to the Hong Kong government?

- (1) profits tax
- (2) stamp duty
- (3) property tax

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

42. Refer to the following statistical data about Hong Kong.

	2020 first quarter (year-on-year change)	2020 second quarter (year-on-year change)
Exports of goods	-9.7%	-2.5%
Exports of services	-37.5%	-47.5%
Imports of goods	-10.7%	-7.4%
Imports of services	-26.2%	-44.6%

Based on the above information, we can conclude that

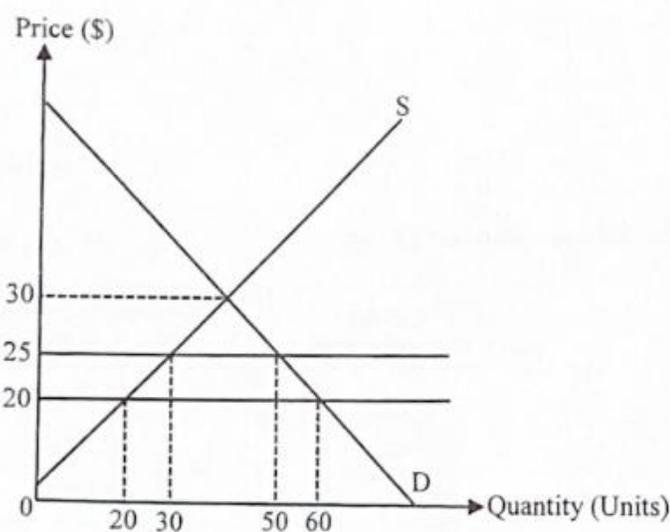
- A. Hong Kong had an invisible trade deficit in 2020 second quarter.
- B. Hong Kong's net exports in 2020 second quarter was lower than that in 2019 second quarter.
- C. Hong Kong's exports of goods in 2020 second quarter was lower than that in 2020 first quarter.
- D. Hong Kong's total imports of goods and services in 2020 second quarter was lower than that in 2019 second quarter.

43. Both Country A and Country B produce only toys and computers. The table below shows the amount of inputs required by Country A and Country B in the production of toys and computers.

	1 unit of toys	1 unit of computers
Country A	2	5
Country B	2	2

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

- A. Country A has an absolute advantage in the production of computers over Country B.
 B. Country B has no comparative advantage in producing any goods as its opportunity cost of producing toys equals that of producing computers.
 C. If a transportation cost of 1 unit of computers is required to trade 1 unit of toys, it is impossible to have mutually beneficial trade.
 D. It is impossible to have mutually beneficial trade as the two countries have equal productivity in producing toys.
44. Suppose the world price of soybeans is \$20. A small open economy imposes a per unit tariff of \$5 on imported soybeans. The diagram below shows the economy's supply and demand curves of soybeans.



Which of the following statements about soybeans is correct?

- A. The total revenue of domestic producers is \$400 after the imposition of tariff.
 B. The total import value inclusive of tariff is \$500.
 C. If the tariff is raised to \$15, this economy will become an exporter of soybeans.
 D. If the tariff is abolished, the total import value will be \$400.

45. Study the following table.

	Exchange rate
3 December 2019	HKD 1 = RMB 0.902
3 December 2020	HKD 1 = RMB 0.923

On 3 December 2019, Mr Chan exchanged a total of RMB 300 000 from Hong Kong dollar and deposited the sum to a bank as time deposits at an annual interest rate of 0.8%. Suppose he withdrew the sum on 3 December 2020 and exchanged it back to Hong Kong dollar.

From the above transactions, Mr Chan _____.

- A. lost about HK\$4 967
- B. lost about HK\$7 570
- C. gained about HK\$6 300
- D. gained about HK\$8 515

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.