

ECONOMICS PAPER 2
Question-Answer Book

10:15 am – 12:45 pm (2 hours 30 minutes)
This paper must be answered in English

INSTRUCTIONS

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1 and stick barcode labels in the spaces provided on Pages 1, 3, 5, 7, 9 and 11.
- (2) This paper consists of two sections, A and B. Answer ALL questions in sections A and B.
- (3) Write your answers in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (4) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string INSIDE this book.
- (5) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

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Candidate Number

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3. Refer to the following data about Country A.

Year	2019	2020
Per capita disposable income	\$15 000	\$20 000
Gini coefficient (based on household income)	0.51	0.56
Gini coefficient (based on household disposable income)	0.51	0.44

- (a) State **TWO** reasons to explain why the increase in per capita disposable income may lead to an over-estimation of the improvement in living standard of Country A. (2 marks)
- (b) Based on household disposable income, did income inequality of Country A improve or worsen in 2020? Suggest **ONE** policy which may have caused such a change. (2 marks)

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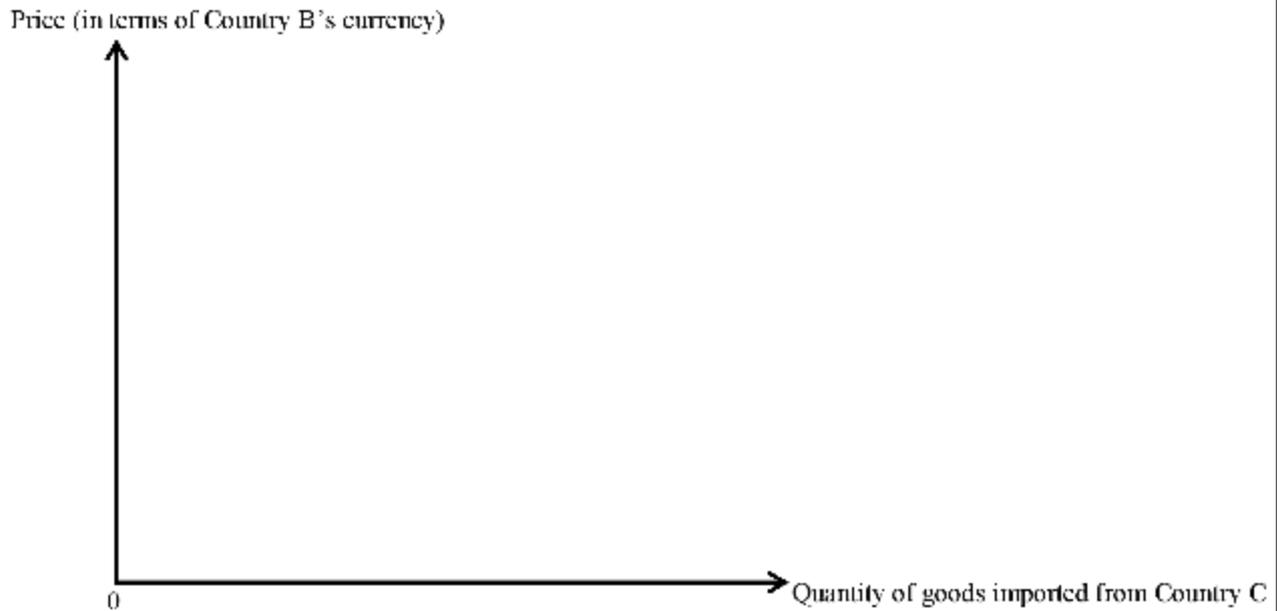
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4. Country B and Country C are two large open economies. Facing a huge visible trade deficit, Country B imposes a per-unit tariff on goods imported from Country C. Suppose Country B's demand for goods imported from Country C is elastic.
- (a) With the aid of Figure 1, explain how the tariff would affect the total expenditure of Country B on goods imported from Country C. (6 marks)
 - (b) "Devaluation of a country's currency against its trading partners' may have the same effect on imports as tariff." Use Country B as an example to justify this statement. (2 marks)
 - (c) Apart from the effect on the country's visible trade balance, explain ONE other effect of devaluation on its balance of payments. (2 marks)

Figure 1: Goods imported from Country C by Country B



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5. Country D introduced a short-term capital gains tax (STCGT) on property market.

Capital gains (\$)	STCGT rate (%)
10 000 or below	8
10 001 to 50 000	16
50 001 to 100 000	24
100 001 or above	32

STCGT is a tax on capital gains from the sale of a property held for less than 1 year.

A spokesman of the tax department said that a new computer system had been developed for STCGT. Although the system cost more than 1 billion dollars, it allowed tax payers to check and pay the amount of STCGT online easily.

- (a) Evaluate the new tax in terms of **TWO** principles of taxation put forward by Adam Smith. (4 marks)
- (b) 'The introduction of STCGT would not relieve the problem of rising property prices.' Explain whether this is a positive statement or a normative statement. (2 marks)

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6. (a) 'Deflation will occur if the amount of goods and services produced is growing faster than money supply.' Explain this statement in terms of the quantity theory of money. (4 marks)
- (b) 'If deflation is expected, the real interest rate will be higher than the nominal interest rate.' Why? (2 marks)

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7. In a two-country-two-good model, the outputs per unit of resources of both countries are as follows.

	Rice (units)		Toys (units)
Country E	10	OR	20
Country F	5	OR	15

- (a) Assume the terms of trade are that 1 unit of rice can be exchanged for 2.2 units of toys. Calculate the gains from trade of **EACH** country when trading 1 unit of rice. Show your workings. (4 marks)
- (b) With reference to your answer in part (a), defend the following statement. 'There is still a basis for trade even if a country has no absolute advantage in producing any goods.' (2 marks)

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8. The following table shows the balance sheet of a banking system.

Assets (\$ million)		Liabilities (\$ million)	
Reserves	1 000	Deposits	4 000
Loans	3 000		

The public initially holds \$1 000 million cash and the banks are fully loaned up.

- (a) Calculate the required reserve ratio. (1 mark)
- (b) Suppose the public only wants to hold \$400 million cash and deposits the remaining cash into the banks. Calculate the maximum change in money supply. Show your workings. (3 marks)

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END OF SECTION A

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Section B (60 marks)

9. The Mainland government introduced the Targeted Poverty Alleviation Campaign (精準扶貧政策) in 2014. After analysing the situations of people living in poverty, the government officials came up with tailor-made measures. The following are two examples of the campaign.

Example 1	A village in Yunnan province has beautiful natural landscape. The government of Yunnan province promoted the village to attract more travellers. Apart from farming, the villagers also set up hostels to serve travellers in order to earn more income.
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(a) Refer to Example 1.

(i) In which types of production did the villagers engage after the introduction of the campaign? Explain. (4 marks)

(ii) Explain how labour mobility of the villagers would be affected. (3 marks)

Example 2	The government provided funding and invited private firms to develop hydroelectric power plants in six provinces (such as Hubei and Jiangxi). Such development would help improve transportation, irrigation and flood prevention in the rural villages in these provinces.
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(b) Refer to Example 2. With the aid of a diagram, explain how aggregate output in these six provinces would be affected in the long run. (8 marks)

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10. The Olympic Games attract billions of international television viewers to watch the competitions among thousands of top athletes.

- (a) Some restaurants in shopping malls find their businesses increase sharply when the malls broadcast Olympic events. Explain how the broadcast of Olympic events may result in a divergence between private and social benefits. (3 marks)
- (b) Suppose the divergence in part (a) does exist. How can market mechanism help reduce this divergence? (2 marks)

Athletes compete in the Olympic Games with their support teams consisting of sport psychologists, physical therapists, nutritionists, etc.

- (c) Which economic principle is illustrated in the above practice? State TWO reasons why such a practice can increase labour productivity. (3 marks)

Some professional athletes receive a monthly salary and share a proportion of the prize money whenever they win in competitions.

- (d) Instead of paying the athletes a monthly rate only, explain why some employers of professional athletes use the above wage payment arrangement. (2 marks)

Whenever an athlete wins a gold medal in a certain sport, there will be the following phenomena: more people will start learning the sport. As a result, there will soon be long queues registering for courses in the sport.

- (e) With the aid of a demand-supply diagram, explain the above phenomena. (5 marks)

Professional athletes usually start their full-time training before graduating from secondary school and have to give up their studies.

- (f) Will the opportunity cost of being a professional athlete be affected if the average income of professional athletes increases? Explain. (2 marks)

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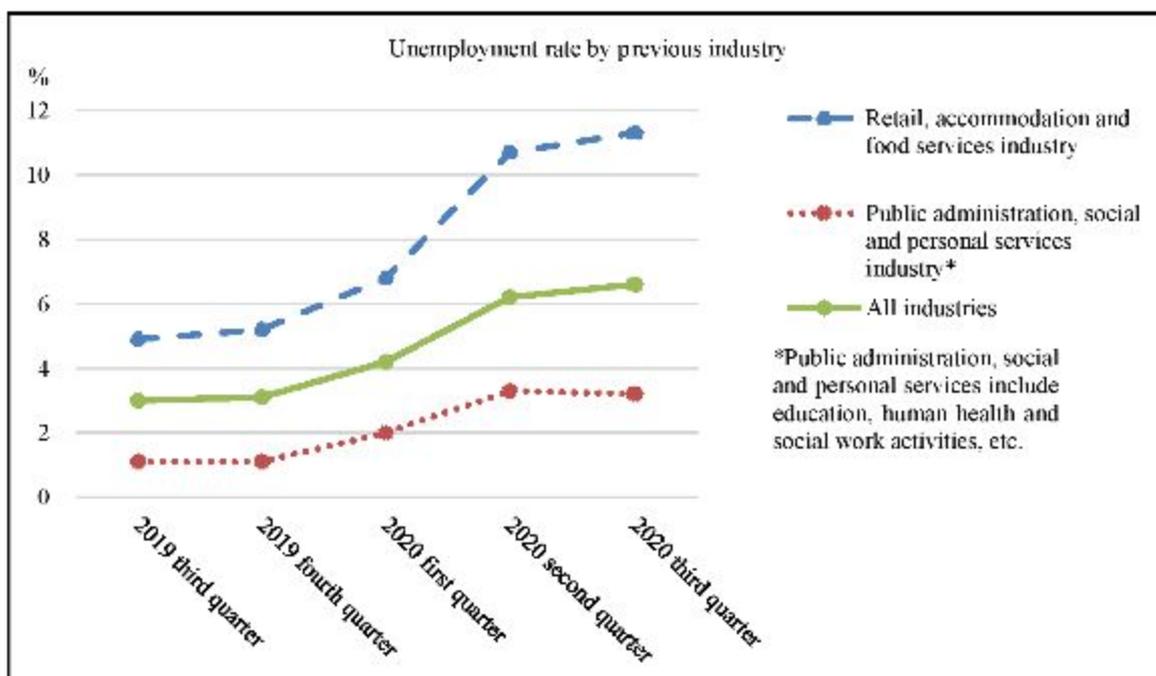
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11. The Government launched the Consumption Voucher Scheme in 2021 to relieve the impact of COVID-19 on the Hong Kong economy.

Source A: Statistical data about unemployment rate in Hong Kong



Source B: An extract of information about the Consumption Voucher Scheme

All Hong Kong permanent residents and new arrivals aged 18 or above, who comply with the 'residing in Hong Kong' requirement, could register to receive electronic consumption vouchers with a total value of \$5 000 by instalments.

Source C: Information about the four designated stored value facilities to receive the \$5 000 consumption vouchers by instalments

	AlipayHK	Octopus	Tap & Go	WeChat Pay HK
Public transportation with the above payment facilities installed	MTR, bus, mini bus and ferry	MTR, bus, mini bus and ferry	Bus and mini bus	None
Promotions to consumption voucher users	5 e-coupons	First 2 million registered customers enjoy \$18 of stored value	\$50 awarded when using virtual Tap & Go Unionpay card for the first transaction with an amount equal to or larger than \$50	e-coupons

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Source D: Some reminders for the Consumption Voucher Scheme

- Consumption vouchers cannot be used in transactions such as payments to the government (e.g. tax), public utilities (e.g. electricity charges), purchase of financial products (e.g. insurance), and direct purchase from merchants located outside Hong Kong.
- There are deadlines for using consumption vouchers.

Source E: Some views on the Consumption Voucher Scheme in Hong Kong

<p>A housewife</p> 	<p>I have spent more than \$5 000 as there are e-coupons from the stored value facility provider. A lot of promotions in large retail chains and malls have also tempted me to consume!</p>
<p>A former chef in a restaurant</p> 	<p>I have been laid off and have stayed home for months. No one knows when the travellers would be back. I hope that the Consumption Voucher Scheme will bring more local people to spend on food and beverage and the whole industry can survive the pandemic. Otherwise, many workers will be forced to leave the industry.</p>
<p>A doctor working in a public hospital</p> 	<p>Resources should be allocated to the medical sector, instead of giving everyone an equal amount under the Consumption Voucher Scheme. The public hospitals lacked space, manpower and equipment even before the pandemic. Start building new hospitals earlier so that more lives could be saved.</p>

- (a) Refer to Source A.
- In which phase of business cycle the Hong Kong economy most likely was? Apart from the change in unemployment rate, list **ONE** other economic phenomenon of this phase. (2 marks)
 - Why did the unemployment rate of retail, accommodation and food services industry increase faster than that of public administration, social and personal services industry during the pandemic? (2 marks)
- (b) Refer to Source B. Would the \$5 000 distributed under the Consumption Voucher Scheme be included in the calculation of government consumption expenditure? Explain your answer. (2 marks)
- (c) Based on the information given in Source C, explain with **TWO** reasons why the market of stored value facilities in Hong Kong is **NOT** perfectly competitive. (4 marks)
- (d) Refer to Source D. Some citizens claimed, 'I would rather receive \$5 000 cash instead of consumption vouchers.' In terms of functions of money, explain such a claim with **TWO** reasons. (4 marks)

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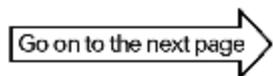
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END OF PAPER

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.

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Supplementary Answer Sheet

Question No. _____

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