

1. Refer to the following information of the COVID-19 vaccination programme.

- All residents are eligible for joining the programme free-of-charge.
- The government has set up vaccination centres in some government buildings and deployed civil servants to work in these centres.

The above information is related to the _____ question(s) in Economics.

- (1) 'what to produce'
 (2) 'how to produce'
 (3) 'for whom to produce'

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

2. Sony launched the 'PlayStation 5' game console. As it was popular among game players, long queues were found outside the shops after the official release.

Which of the following would increase the opportunity cost of buying a 'PlayStation 5' console?

- A. The resale value of 'PlayStation 5' increased due to its shortage.
 B. Retailers provided online purchase service to eliminate the queues outside the shops.
 C. With the same price, its competitor launched a new game console featuring better performance than 'PlayStation 5'.
 D. The government issued electronic consumption coupons, which can be used to purchase game consoles.

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)

10

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)

SECTION 1: BASIC CONCEPTS

1.1 SCARCITY, ECONOMIC GOODS & FREE GOODS

Multiple Choice Questions

1991/CE/11/01

Owing to the problem of scarcity in a society, we have to

- (1) impose price controls
- (2) make choices
- (3) adopt a planned economic system
- (4) compete against one another

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

1994/CE/11/01

'Even though Japan is one of the richest economies in the world, it still has to face the problem of scarcity.' The statement is

- A. false, because scarcity only exists in developing countries.
B. false, because Japan has a high gross product (GNP).
C. true, because what the Japanese have cannot satisfy all their wants.
D. True, because Japan's income is unevenly distributed.

1995/CE/11/01

It was reported that many people queued for two days in order to get the monthly parking ticket for a certain car park. This phenomenon implies

- (1) scarcity in parking spaces.
- (2) the existence of competition.
- (3) shortage of parking spaces.

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

1995/CE/11/02

Scarcity exists

- A. because there is more than one person in the world.
B. if at least one person's wants are not fully satisfied.
C. because resources are not evenly distributed.
D. if the market price is kept below the equilibrium level.

1997/CE/11/01

Which of the following statements about scarcity is true?

- A. Once a choice is made, the problem of scarcity is solved.
B. A good is scarce if not everyone has it.
C. Scarcity means unlimited human wants.
D. Both rich people and poor people face the problem of scarcity.

1998/CE/11/54

Which of the following statements about choice is **INCORRECT**?

- A. People have to choose in order to avoid competition.
B. People have to choose if there is scarcity.
C. People choose the option with the least cost.
D. People choose the most preferred option.

1999/CE/11/01

The existence of scarcity implies that

- A. the economy is a planned economy
B. there is competition for the good
C. effective price control is imposed on the good
D. wealth is not evenly distributed

2004/CE/11/01

The existence of scarcity implies that

- A. resources will be allocated by the price mechanism.
B. all markets are perfectly competitive.
C. the quantity supplied of all goods is fixed.
D. people need to pay for what they want.

2005/CE/11/01

The existence of scarcity implies that

- A. there is no such thing as free goods.
B. human wants are unlimited.
C. each and every economic good has a positive money price.
D. there is a cost in obtaining some goods.

2009/CE/11/01

Which one of the following statements about scarcity is correct?

- A. A good is scarce when only a small quantity of it is available.
B. A good is scarce when people want to have more of it.
C. There is no scarcity in a planned economy.
D. The problem of scarcity can be solved by adjusting prices.

1990/CE/11/02

A free good is a good which

- A. nobody wants.
B. is provided by the government free of charge.
C. is not scarce.
D. is plentiful in supply.

1990/CE/11/25

Which of the following statements is correct?

- A. Scarcity exists only in poor countries.
- B. If there were plenty of rainwater in Hong Kong, the cost of the domestic water supply would be zero.
- C. The 9 years free education provided by the Hong Kong government is a scarce good.
- D. Economics is concerned with how free goods are distributed.

1991/CE/11/03

Which of the following are economic goods?

- (1) social welfare provided by the government
 - (2) gifts from parents
 - (3) flowers in a garden
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

1991/CE/11/55

Scarcity of commodity X will NOT occur when

- A. there is a great supply of it
- B. nobody wants it
- C. it is free of charge
- D. only one person wants it

1992/CE/11/01

A scarce resource has the following characteristic:

- A. Its supply is fixed.
- B. It is difficult to find.
- C. It is in great demand.
- D. It has a price on the market.

1992/CE/11/02

To society, used aluminium Coca-Cola cans are _____ because _____.

- A. free goods nobody wants them
- B. free goods there are plenty of them
- C. economic goods they have alternative uses
- D. economic goods they were produced from scarce resources

1993/CE/11/16

In Nathan Road one day, samples of a new brand of shampoo were given away free to passers-by. Within an hour, and available samples were gone. These free samples are _____ because _____.

- A. free goods they are free of charge
- B. free goods they are used for advertising purposes
- C. economic goods the passers-by want them
- D. economic goods they are limited in supply relative to people's wants

1994/CE/11/02

In a lottery, Peter wins a transferable air ticket to Japan. Which of the following statements is correct?

- A. The ticket is a free good.
- B. Peter will not lose anything if he loses the ticket.
- C. The opportunity cost to Peter of using the ticket is zero.
- D. The opportunity cost to Peter of using the ticket increases if the price of ticket increases.

1995/CE/11/03

To a society, used paper for recycling is _____ because _____.

- A. a free good it is free of charge
- B. a free good it has no alternative uses
- C. an economic good more than one people want it
- D. an economic good people prefer to have more of it

1996/CE/11/55

Which of the following is NOT true about a free good?

- A. Nobody wants to have more of it.
- B. Its price is zero.
- C. It is unlimited in supply.
- D. It has use value.

1997/CE/11/12

Read the following advertisement

<p style="text-align: center;">HOTEL ABC FREE BUFFET DINNER Buy two buffet dinners and get one free! (From Monday to Thursday) \$200 for one person \$400 for two persons plus a friend</p>

The free buffet dinner is

- A. a free good because the quantity supplied is greater than the quantity demanded.
- B. a free good because it is free of charge.
- C. an economic good because more of the food is preferred to less of it.
- D. an economic good because non-price competition is involved.

1998/CE/11/01

If a good is scarce,

- A. only a small quantity is available.
- B. its price will increase.
- C. its quantity supplied is smaller than its quantity demanded at all prices.
- D. more of it is preferred.

1998/CE/II/02

Which of the following statements about goods are correct?

- (1) Free goods are free of charge
 - (2) Natural resources are free goods.
 - (3) Inputs are economic goods.
 - (4) Outputs are economic goods.
- A. (1) and (2) only
B. (1) and (4) only
C. (2) and (3) only
D. (3) and (4) only

2000/CE/II/01

Good X is a 'free good' when

- A. there is no opportunity cost involved in using it.
B. its quantity supplied is greater than what consumers are willing to purchase in the market.
C. nobody wants more of it.
D. its supply is so abundant that consumers place no value on it.

2001/CE/II/47

Which of the following is **NOT** classified as 'economic good'?

- A. a company's stock whose price has been falling for two months
B. the votes for the candidates in Legislative Council election
C. stray and homeless dogs in the streets
D. used paper collected for recycling

2002/CE/II/01

In which of the following situations would ice in the North Pole be regarded as a free good?

- A. The ice is a gift of nature.
B. More of the ice is not preferred.
C. The price of the ice is zero.
D. The quantity demanded of ice is smaller than the quantity supplied at a price greater than zero.

2002/CE/II/02

Nowadays, many people download their favourite songs and pictures through the Internet without paying any fee. To society, these songs and pictures are

- A. free goods because there are plenty of songs and pictures on the Internet.
B. free goods because their original owners have not received any payments.
C. economic goods because the cost involved in using the Internet is negligible.
D. economic goods because there are costs involved in producing these songs and pictures.

2003/CE/II/01

In some poor countries in Africa, people do not have enough food and have to eat rats. They have to dig into the ground in order to find these rats. The rats in the above case are

- A. not an economic good because rats are harmful to people.
B. an economic good because more of them is preferred.
C. a free good because there is no cost of producing rats.
D. an economic good because rats can satisfy human wants.

2004/CE/II/03

Good X is an economic good if

- A. more than one person needs it.
B. more of it is preferred.
C. it can satisfy human wants.
D. it is limited in supply.

2005/CE/II/02

Upon successful application for a credit card from a bank, Miss Chan obtains a digital versatile disc (DVD) player as a free gift. These free gifts are

- A. free goods, because successful applicants like Miss Chan have no cost to pay.
B. free goods, because the quantity supplied is larger than the quantity demanded.
C. economic goods, because more of these goods are preferred to less.
D. economic goods, because the quantity available is limited.

2006/CE/II/03

Every July of the Lunar calendar, many charity organizations distribute packs of rice to people free of charge. Those who spend a lot of time queuing up for this rice are mostly elderly people.

These packs of charity rice are economic goods because

- A. the quantity of this rice is limited.
B. rice can satisfy people's wants.
C. the wants for this rice are unlimited.
D. people want more of this rice.

2007/CE/II/01

A good is a free good if

- A. it is rare or it can be found easily.
B. there is enough of it available free of charge for everyone who wants it.
C. there is enough of it available for everybody who pays the market price for it.
D. no one owns it.

2008/CE/II/01

From the viewpoint of society,

- A. people will not compete for free goods.
B. money price is the only criterion of competition for scarce goods.
C. resources with alternative uses are scarce.
D. there is no scarcity in a barter economy.

2009/CE/II/01

Free goods

- A. are unlimited in supply.
B. are goods for which people will not pay a price to get more.
C. can be found only in a planned economy but not in a market economy.
D. exist only in theory but not in the real world.

2014/DSE/1/03
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.

2016/DSE/1/01
Which of the following statements about economic goods is correct?

- A. Economic goods may not be scarce.
- B. People compete for economic goods.
- C. People prefer economic goods to free goods.
- D. People compete for both economic goods and free goods.

Short & Structured Questions

1991/CE/1/2(c)(iii)
Define 'free good'. Give an example of oxygen when it is regarded as a free good and another example when it is not. (6 marks)

1994/CE/1/1
The Kowloon-Canton Railway Corporation provides a free shuttle-bus service (接駁巴士服務) at some train stations. Explain whether this service is a 'free good' to society or not. (4 marks)

2000/CE/1/1
Statement 1: Ice is a free good.
Statement 2: Ice is an economic good.
Explain one situation in which statement 1 is correct and another situation in which statement 2 is correct. (4 marks)

2002/CE/1/1
Some job vacancies publications are distributed to people free of charge in MTR stations. Explain whether these publications are free goods in society. (3 marks)

2004/CE/1/1
Hong Kong citizens could use public swimming pools free of charge on Sundays in July of 2003. Explain whether the above service was a free good to society. (3 marks)

2012/DSE/1/1
A good which is free-of-charge is a free good. Do you agree? Explain. (3 marks)

2013/DSE/1/9(b)
The following is an extract from a local newspaper article.
The MTR Corporation raised the railway fares by 5.4% in 2012. This increase was based on the Fare Adjustment Mechanism set by the government. To respond to the discontent of the public over the fare increase, the Corporation introduced a concessionary measure "Ride 10 Get 1 Free".

Under the "Ride 10 Get 1 Free" scheme, with 10 fare-paying journeys on the MTR from Monday to Friday in the same week, passengers could get a single journey ticket for free. Is the free journey a free good? Explain. (2 marks)

2015/DSE/1(a)(i)
More and more famous universities offer "massive open online courses" (MOOC) to students from various backgrounds for systematic learning.

Most of the teaching materials in MOOC can be accessed online by anyone free of charge. Explain whether these materials are free goods. (2 marks)

2020/DSE/1/1
A free good must be free of charge. Do you agree? Explain your answer. (3 marks)

MARKING SCHEME

1991/CE/II/01 D	2005/CE/II/01 D	1993/CE/II/16 D	2001/CE/II/47 C	2008/CE/II/01 A (63%)
1994/CE/II/01 C	2009/CE/II/01 B	1994/CE/II/02 D	2002/CE/II/01 B (60%)	2009/CE/II/01 B (81%)
1995/CE/II/01 D	1990/CE/II/02 C	1995/CE/II/03 D	2002/CE/II/02 D (84%)	2014/DSE/I/03 C (59%)
1995/CE/II/02 B (deleted)	1990/CE/II/25 C	1996/CE/II/55 C	2003/CE/II/01 B (52%)	2016/DSE/I/01 B (74%)
1997/CE/II/01 D	1991/CE/II/03 D	1997/CE/II/12 C	2004/CE/II/03 B (70%)	
1998/CE/II/54 A	1991/CE/II/55 B	1998/CE/II/01 D	2005/CE/II/02 C (68%)	
1999/CE/II/01 B	1992/CE/II/01 D	1998/CE/II/02 B	2006/CE/II/03 D (72%)	
2004/CE/II/01 D	1992/CE/II/02 X	2000/CE/II/01 C	2007/CE/II/01 B (77%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1991/CE/II/2(c)(iii)

The supply is so abundant that it satisfies all human wants for it.

OR

No one is willing to incur a cost getting it.

(2)

The case of a free good: e.g. oxygen for normal breathing

(2)

The case of an economic good: e.g. concentrated oxygen

(2)

1994/CE/I/1

Not a free good, because

resources used in providing the bus service have alternative uses; there are costs of using the resources in providing the bus service.

(1)

OR

more of the bus service is preferred to less.

(3)

2000/CE/I/1

E.g. The ice-field in the Polar regions is a free good, because

the quantity available is sufficient to satisfy all our wants for it / no sacrifice of resources of the economy is involved

(1)

(1)

E.g. Ice cubes in a glass of soft drink are economic goods, because

the quantity available is insufficient to satisfy all our wants for it / one has to pay a cost to obtain it

(1)

(1)

2002/CE/II/1

Not free goods because

the resources used to produce them have alternative uses / there is a cost to society of producing them / the quantity available is insufficient to satisfy all our wants for them

(1)

(2)

2004/CE/II/1

No, because

its quantity available is insufficient to satisfy our wants / more of it is preferred

(1)

OR

resources used to provide the service had alternative uses / there is opportunity cost of providing the service

(2)

2012/DSE/II/1

No, because

the good may be produced from scarce resource which have alternative uses.

(1)

OR

more of the good may still be preferred.

(2)

2013/DSE/II/9(b)

No, because

the provision of MTR service involves the use of scarce resources having alternative uses.

(1)

(1)

2015/DSE/I(a)(i)

No, because

it has positive marginal cost of production;

(1)

OR

it is produced from scarce resources, which have alternative uses.

(1)

2020/DSE/II/1

Yes. As the quantity available of free good is able to satisfy all human wants. No one is willing to pay a price to obtain it. (3 marks)

1.2 OPPORTUNITY COST

Multiple Choice Questions

1990/CE/II/01

Tommy was asked to choose one birthday present from the following three things: a model spaceship, a walkman and a jacket. He liked the model spaceship the most and the walkman second. What would be his opportunity cost if he chose the model spaceship?

- A. a walkman
- B. a walkman and a jacket
- C. the price of a model spaceship
- D. no opportunity cost since it was a present

1991/CE/II/02

Susan is choosing between two jobs: being a teacher and being a singer. If she chooses to be a singer, her opportunity cost will include

- A. the income from being a teacher.
- B. the income from being a singer.
- C. the tuition fee she paid for her training as a teacher.
- D. the tuition fee she paid for her training as a singer.

1992/CE/II/03

Which of the following are opportunity costs of attending school?

- (1) school fees
- (2) income forgone
- (3) poor examination results
- (4) expenditure on dinners

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

1993/CE/II/02

Mr. Wong could spend two hours at a concert or tutoring a student at \$60 per hour. He could use the time on painting instead and earn a total of \$150. If the price of the concert ticket is \$300, what is the opportunity cost of his choice of going to the concert?

- A. \$150
- B. \$300
- C. \$420
- D. \$450

1994/CE/II/03

Mr. Lee owns a photographic studio. Previously he received \$30 000 per month by letting it out. He now does not let the studio, but, instead he uses the premises for his own business. He also employs a model at \$10 000 per month.

What is Mr. Lee's opportunity cost of using the studio by himself?

- A. \$10 000 per month
- B. \$20 000 per month
- C. \$30 000 per month
- D. \$40 000 per month

1994/CE/II/14

Mrs Wong retired last year. Since then she has been helping to do the housework in her daughter's house and receiving no money in payment for it. The daughter works as an accountant in her own accounting firm. Which of the following statements is correct?

- A. Although Mrs Wong receives no money in payment, her service is counted in the national income.
- B. As Mrs Wong receives no money in payment, she is not classified as a producer.
- C. To the daughter, the opportunity cost of working as an accountant is lower than that of staying at home just doing her housework.
- D. To avoid double counting, the daughter's profits from her firm are not counted in the national income.

1995/CE/II/05

Fanny can choose among three different jobs. Her choice of preference is as follows:

First priority:	being a teacher in School X
Second priority:	being a secretary in Company Y
Third priority:	being a sales representative in Firm Z

Assuming her choice of preference remains unchanged, which of the following will increase Fanny's opportunity cost of being a teacher in School X?

- A. The students in School X are becoming more naughty.
- B. Company Y requires its secretaries to work longer hours.
- C. Company Y decides to increase the salaries of its secretaries
- D. Firm Z decides to increase the bonuses for its sales representatives.

1996/CE/II/01

John lives in his own apartment which is worth \$1 million. He can sell the apartment and put the money in a bank at an interest rate of 5% per year. He can also rent out the apartment at \$5 000 a month. What is the opportunity cost to John if he decides to live in the apartment?

- A. \$1 million
- B. \$50 000 a year
- C. \$5 000 a month
- D. There is no opportunity cost because he lives in his own apartment

Answer Questions 2 and 3 by referring to the following information:

Max Department Store has launched a promotion campaign. For every purchase of \$1000, customers are given a coupon to exchange for the following gifts:

Number of Coupons	Gifts
10	1 camera
20	1 TV set
30	1 air ticket

1997/CE/II/02

John has accumulated 30 coupons. What is the opportunity cost to John if he uses them to exchange for one air ticket?

- A. a TV set
- B. \$30 000
- C. a camera and a TV set
- D. a camera, a TV set and \$30 000

1997/CE/II/03

Later, John finds that he has to queue up to exchange his coupons for gifts. The queue shows that

- A. these gifts are truly free of charge.
- B. there is a shortage of gifts for all the customers.
- C. the promotion campaign is successful and there is an increase in the demand for the company's products.
- D. customers has an extra cost to obtain the gift.

1997/CE/II/49

Before the sale of a big residential estate, many elderly people queued up outside the site office for potential buyers. This implies that

- A. the value of the flats to these elderly people was higher than to young people.
- B. the price of the flats was above the equilibrium level because there was a shortage.
- C. the opportunity cost of the queuing time of these elderly people was lower than that of the potential buyers.
- D. the opportunity cost of the queuing time of these elderly people was zero because they did not have a job.

1998/CE/II/50

May is considering accepting one of the following job offers: (1) a clerk in an import-export firm, and (2) a salesgirl in a department store. Which of the following changes will NOT affect her opportunity cost of choosing to work as a clerk?

- A. The import-export firm increases its staff's welfare.
- B. The department store offers a higher salary.
- C. There is a third offer paying a higher salary than the original two offers.
- D. The department store announces that their business will terminate one year later.

1999/CE/II/50

Peter invites Jason to play tennis in the afternoon. Jason will NOT have opportunity cost if

- A. Peter pays the fee for him.
- B. He has nothing more worthwhile to do in the afternoon.
- C. He likes playing tennis with Peter.
- D. None of the above is a correct answer.

2000/CE/II/02

Chan and Wong take a journey to City X separately. They can go there either by Plane or by train. The plane takes 2 hours while the train takes 10 hours. The air ticket costs \$1 000 while the train fare is \$200. During the journey to City X, the foregone earning of Chan is \$200 per hour and that of Wong is \$80 per hour.

For the journey to City X, Chan would take the _____ and Wong would take the _____.

- A. train train
- B. train plane
- C. plane train
- D. plane plane

2000/CE/II/53

Which of the following is NOT an opportunity cost of constructing Disneyland in Hong Kong?

- A. The alternative use of the site
- B. The amount of capital invested
- C. The pollution created by the construction work
- D. The entrance fee of Disneyland.

2001/CE/II/01

Which of the following will change the cost to an individual of attending a concert?

- A. He is an hour late for the concert due to traffic congestion.
- B. His view is blocked by the audience in front of him.
- C. The singer performs badly.
- D. The concert overruns by an hour.

2002/CE/II/04

Which of the following would affect the cost of constructing the West Rail?

- A. an increase in the damage to the natural environment along the railway caused by the construction
- B. an increase in the wages of the maintenance staff for the operation of the train service
- C. a decrease in the profit from providing the train service
- D. a decrease in the revenue of the bus company operating a bus service along the railway

2003/CE/II/02

Peter is an F.5 graduate who could not get a study place in F.6. Which of the following may lower the cost of repeating F.5 for Peter?

- A. The tuition fee for study in F.5 increases.
- B. The tuition fee for study in F.6 decreases.
- C. The wage rate for F.5 graduates decreases.
- D. Peter's new F.5 English teacher teaches badly.

2003/CE/11/03

Medical doctors seldom change their occupation. Which of the following can explain this phenomenon?

- A. They have spent much time and effort in getting their professional licence.
- B. They have incurred high costs in accumulating the skills and knowledge required for the profession.
- C. For medical doctors, changing occupation has a high cost.
- D. Being medical doctors has a high cost.

2004/CE/11/02

Which of the following statements about the concept of opportunity cost is correct?

- A. Opportunity cost still exists even when there are no choices.
- B. Opportunity cost does not exist in a planned economy.
- C. When the value of an option decreases, the opportunity cost of choosing that option does not change.
- D. When the value of the highest-valued option increases, the opportunity cost of choosing that option will decrease.

2005/CE/11/03

David is choosing between two ways of spending his summer vacation: to take a summer job or to join an exchange programme to the United Kingdom. Which of the following will increase his opportunity cost of taking the summer job?

- A. The fee for the exchange programme increases.
- B. The summer job pays a higher salary.
- C. A valuable course is **added to the exchange** programme.
- D. Less training for the summer job is provided.

2006/CE/11/02

Every July of the Lunar calendar, many charity organizations distribute packs of rice to people free of charge. Those who spend a lot of time queuing up for this rice are mostly elderly people.

In the above case, the elderly rather than the young people would spend time queuing up for these packs of charity rice because

- A. it is a tradition to queue up for this rice.
- B. the elderly prefer rice to other kinds of food.
- C. the elderly are poorer than the young people.
- D. the elderly value their best choice of other activities less than that of the young people.

2007/CE/11/02

A resident of Mainland China is choosing between a tour to Hong Kong and a tour to Macau organized by a travel agent. His opportunity cost of choosing to visit Hong Kong will increase if

- A. the food provided during his trip in Hong Kong is poorer than expected.
- B. he is abandoned on the streets in Hong Kong by the tour guide.
- C. newly developed tourist attractions in Macau make it more enjoyable to visit Macau.
- D. the rental of hotel accommodation in Macau increases.

2008/CE/11/02

Which of the following could raise the cost of drug abuse?

- A. The price of drugs increases.
- B. The government imposes heavier punishments on drug abuse.
- C. Drug abuse causes greater damage to one's health.
- D. All of the above are correct.

2009/CE/11/02

Which of the following situations will increase the opportunity cost to Form 7 graduates of receiving a university education?

- (1) The university undergraduate programme increases from 3 years to 4 years.
- (2) The wage rate of Form 7 graduates increases.
- (3) The academic performance of university graduates generally declines.

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

2010/CE/11/02

Julie is choosing between Hong Kong and the US to complete her university education. Her opportunity cost of studying in the US will increase when

- A. the number of scholarships offered by the universities in the US increases.
- B. the tuition fee of the universities in Hong Kong increases.
- C. the university graduates of Hong Kong become less competitive in the job market than those of the US
- D. the standard of professional training programs offered by the universities in Hong Kong improves.

PP/DSE/1/02

Mr. Chan spent \$5 000 on buying a new mobile phone which can be sold for \$7 000 in the second-hand market. Mr. Chan's cost of keeping the mobile phone is _____.

- A. \$0
- B. \$2 000
- C. \$5 000
- D. \$7 000

2012/DSE/1/02

Mr Kwok plans to purchase a new racing car from a German automobile manufacturer and drive the car in Hong Kong. In which of the following situations will the cost of purchasing the racing car increase?

- A. The first registration fee increases.
- B. The price of gasoline increases.
- C. The Euro depreciates against the Hong Kong dollar.
- D. The racing car performs poorly.

2013/DSE/1/02

Jeremy is going to watch a tennis match in which Li Na (李娜), a Grand Slam (大滿貫) winner, will play. Which of the following will increase the cost to Jeremy of watching the tennis match?

- A. He is 30 minutes late for the match due to traffic congestion.
- B. His view is blocked by the spectators in front of him.
- C. Due to a rainstorm, the match is extended by an hour.
- D. Li Na is injured and does not show up for the match.

2014/DSE/I/01

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

2015/DSE/I/02

David can choose to take the MTR or a bus to Yuen Long. Suppose the required travel time and the fares of both options are the same in a normal situation. Which of the following will result in an increase in the opportunity cost of travelling to Yuen Long by MTR?

- A. The air-conditioner on the bus is out of order.
- B. The traffic jam makes the bus trip 15 minutes longer.
- C. A signalling problem causes the travel time of the MTR to increase by 15 minutes.
- D. David feels annoyed about the news broadcast in the MTR train.

2016/DSE/I/03

Mr Ng, a Hong Kong citizen, is going to travel to Tokyo for leisure. Which of the following will decrease his cost of having the trip?

- A. A typhoon is approaching Tokyo right before his trip.
- B. His boss is going to treat all the staff to a free buffet during his leave.
- C. The scenery in Tokyo is better than he expected.
- D. Japanese Yen depreciates against other currencies.

2017/DSE/I/04

Which of the following would be the loss(es) of delaying the completion of a new railway to an economy?

- (1) the travel time of passengers that would have been saved by the new railway during the period of delay
- (2) the damage to the corporate image of the railway constructor for the delay
- (3) the nuisance to the shops and residents nearby during the period of delay

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

2018/DSE/I/03

John a Secondary 6 graduate, is considering studying a programme either in Hong Kong or the Mainland. Which of the following situations would lower his opportunity cost of studying the programme in Hong Kong?

- (1) His tuition fee of the first year will be waived if he studies the programme in Hong Kong.
- (2) The graduates of the Mainland programme have better job prospects.
- (3) The qualification of the Mainland programme may not be recognised in Hong Kong.

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

2019/DSE/I/03

Mr Lo spent \$60 000 on buying a second hand car three years ago. Suppose he can resell the car at \$2000. Alternatively, he needs to spend \$5 000 on repairing the car before he can continue to use it. What is his cost of continuing to use the car?

- A. \$2 000
- B. \$5 000
- C. \$7 000
- D. \$60 000

2020/DSE/I/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)

2021/DSE/I/03

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)

2021/DSE/I/04

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 reopened 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.

Short & Structured Questions

1990/CE/1/(a)(i)

Mrs Wong is a lawyer and is also good at doing housework, but she employs a Filipino maid to do her housework. In terms of opportunity cost, explain why Mrs. Wong employs a Filipino maid instead of being a full-time housewife. (5 marks)

1990/CE/1/4/(c)(i)

The U.S.A. imposes quotas on garments imported from Hong Kong. The Hong Kong government allocates the quotas free of charge to some firms. These quotas are transferable at market prices.

Suppose Mr Lee's company obtains quotas from the government. Explain whether the opportunity cost to this company of using these quotas for exports is zero. (4 marks)

1990/CE/1/5/(c)(i)

The government has announced a \$127 billion project for building a new airport at Chek Lap Kok and improving the harbour facilities.

An economist argues that the cost of this project to society is higher than \$127 billion. Give **TWO** reasons to support his argument. (4 marks)

1991/CE/1/2(a)

(i) Define 'opportunity cost' and 'occupational mobility'. (4 marks)

(ii) In terms of cost, explain why medical doctors in Hong Kong seldom change their occupation. (5 marks)

1993/CE/1/5(a)

Mr. Chan owns a flat in Mongkok. The following is his order of preference of ways to use his flat:

First choice: live in his flat
Second choice: rent it to a tenant
Third choice: leave it vacant

In terms of opportunity cost, explain whether the costs of the second and third choices are the same for Mr. Chan. (4 marks)

1995/CE/1/10(a)(i)

Study the following piece of news reported in the USA:

A local singer has volunteered to perform two identical shows and the sales receipt of the concert tickets will be donated to the Rwanda refugees in Africa for their food and medical supply expenses

(I) Define opportunity cost. (2 marks)

(II) Explain with an example why the singer had an opportunity cost in performing the shows. (2 marks)

(III) List **TWO** possible benefits to the singer arising from the performance. (2 marks)

1996/CE/1/1

John has 2 options as to how to spend an afternoon: he can either go to a concert or go to a karaoke lounge with his friends. Explain whether John's opportunity cost of going to the karaoke lounge would change if

(a) the concert was very boring. (2 marks)

(b) the service of the karaoke lounge was very poor. (2 marks)

1997/CE/1/1(b)

Suppose Mr. A runs his restaurant in his own premises. Explain with an example when Mr. A's opportunity cost of using the premises for the restaurant business would increase. (3 marks)

1998/CE/1/1

David can choose to study in one of three streams in Form 4. His order of preference is shown below:

First preference: Arts stream
Second preference: Business stream
Third preference: Science stream

(a) Define opportunity cost. (2 marks)

(b) Suppose the business stream is now not offered in David's school. Explain how David's opportunity cost of choosing the Arts stream would change. (3 marks)

1999/CE/1/1

David wants to spend \$8 to buy a pack of sandwiches or a bowl of noodles from an unlicensed hawkker. Explain the effect on David's opportunity cost of buying the sandwiches if a cockroach is found inside the noodle soup. (3 marks)

2000/CE/1/10(b)(ii)

Suppose Bank X of economy A takes over Bank Y of economy B by buying up its controlling share worth \$5 million.

(I) Define opportunity cost. (2 marks)

(II) Assume Bank X does not know that Bank Y has a huge amount of hidden debt. Explain whether this would affect the opportunity cost of the takeover to Bank X. (3 marks)

2001/CE/1/10(d)

Paul's order of preference of using his money is shown below:

First preference: purchase of gold coins
Second preference: savings in banks
Third preference: investment in stocks

Suppose an interest tax is imposed on bank deposits. Explain whether Paul's opportunity cost of purchasing gold coins would change. (4 marks)

2002/CE/1/10(c)

Suppose some large banks reduce their deposit interest rates while some small banks increase their deposit interest rates. Use the concept of opportunity cost to explain how this would affect the flow of deposits between the above two types of banks. (4 marks)

2004/CE/1/2

Mr Chan and Mr Lee are secondary school teachers. They earn the same salary of \$30 000 a month

(a) Define opportunity cost. (2 marks)

(b) Explain whether Mr Chan's and Mr Lee's opportunity cost of being a teacher would *definitely* be the same. (2 marks)

(c) Explain whether the opportunity cost of quitting their jobs as teachers would *definitely* be the same. (3 marks)

2005/CE/I/9

- (b) (ii) Explain how an increase in traffic congestion in the Cross Harbour Tunnel would affect the opportunity cost to its users of crossing the harbour. (2 marks)
- (c) Explain whether the opportunity cost of crossing the harbour would *definitely* be the same to every user of the Cross Harbour Tunnel when there is traffic congestion. (3 marks)

2006/CE/I/2

Steven is choosing between studying law or medicine at a university to pave way for his future career. Explain whether his cost of choosing to study law at a university would be affected if

- (a) the expected salary of jobs in the legal services sector falls. (2 marks)
- (b) the expected salary of jobs in the medical services sector falls. (2 marks)

2007/CE/I/10(c)

A large number of departing passengers were delayed at the airport in Hong Kong during a typhoon. Suppose they were delayed 24 hours on average.

- (i) Explain whether their opportunity cost of that visit to Hong Kong would have changed as a result of the delay. (2 marks)
- (ii) During that 24 hours, passengers were either waiting in the airport or had free hotel accommodation arranged for them. Explain whether your answer in (c)(i) depends on which situation they were in. (2 marks)

2008/CE/I/9(b)(i)

The stock market of an economy is overheated. Many people withdraw money from their bank deposits to buy shares.

Two measures are suggested to cool down the overheated stock market. Explain, respectively, whether the opportunity cost of choosing to invest in shares instead of depositing money with banks would change when

- (1) the deposit interest rate of banks is raised.
- (2) the government imposes a tax on the capital gains from trading of shares. (6 marks)

2009/CE/I/1

Last summer, Mary and John each bought a \$20 Olympic memorial banknote. Each of them had to pay \$138 and queue up for a whole day for the purchase.

- (a) Define opportunity cost. (2 marks)
- (b) "Mary's opportunity cost of purchasing the Olympic memorial banknote would be the same as John's." Explain whether this statement is *definitely* correct. (2 marks)

2010/CE/I/11(c)

As the interest earnings from depositing money with banks are close to zero, some investors choose between investment in shares and investment in property.

- (i) Explain with an example when the opportunity cost of choosing to invest in shares would increase. (3 marks)
- (ii) Explain whether the opportunity cost of choosing to invest in shares would change when the amount of dividends decreases. (2 marks)

2013/DSE/II/9(c)

The following is an extract from a local newspaper article.

The MTR Corporation raised the railway fares by 5.4% in 2012. This increase was based on the Fare Adjustment Mechanism set by the government. To respond to the discontent of the public over the fare increase, the Corporation introduced a concessionary measure "Ride 10 Get 1 Free".

It was observed that there were queues of passengers redeeming the free tickets at customer service counters in MTR station. Suppose the waiting time is the same for these passengers, is the cost of redeeming the free tickets *necessarily* the same to these passengers? Explain. (3 marks)

2014/DSE/II/1

Serine is a university graduate who is seeking a job. She has several options and her order of preference is shown below:

- First preference: to work for the government as an administrative officer
Second preference: to work in an accounting firm as a trainee
Third preference: to continue to seek a job without accepting any offers

Analyse whether Serine's opportunity cost of choosing to work as an administrative officer will *necessarily* remain unchanged if

- (a) the government reduces the starting salary of administrative officers. (2 marks)
- (b) the government provides unemployment benefits for all graduates seeking jobs. (3 marks)

2015/DSE/II/1(b)

More and more famous universities offer "massive open online courses" (MOOC) to students from various backgrounds for systematic learning.

Some people prefer to take free MOOC while others prefer to take paid courses conducted on the university campus. If the courses are with the same contents and number of teaching hours, will the cost for a person to take a free MOOC be *necessarily* lower than the cost for another person to take a paid on-campus course? Explain. (3 marks)

2016/DSE/II/1

Apple Inc. launches a new model of smartphone. In order to buy the new model, some people spend hours in trying to login the website of Apple Inc. If the resale value of the new model falls, the opportunity cost of buying the new model through the website of Apple Inc. will decrease. Do you agree? Explain your answer. (3 marks)

2017/DSE/II/1

Serine is working in the Hong Kong branch of a multinational firm. She is considering the next step in her career. She has several options and her order of preference is as follows:

- | | |
|----------------|---|
| First option: | to work in a firm located in South Korea |
| Second option: | to switch to a local firm without overtime work |
| Third option: | to stay in the current firm |

Explain whether the opportunity cost of *switching to the local firm without overtime work* will *necessarily* remain unchanged

- (a) if the military threat from North Korea to South Korea becomes more intense. (2 marks)
- (b) if she wants to enjoy more leisure time. (3 marks)

2018/DSE/II/1

Although air ticket fares and hotel rates are usually higher during holiday periods, many people still travel abroad. Explain, in terms of opportunity cost, why it is *not necessarily* more expensive for travellers to travel abroad during holiday periods than non-holiday periods. (3 marks)

A country considers acquiring more land by reclamation for building residential flats. Explain whether the opportunity cost of land reclamation will change if

- (a) the maximum height of the buildings on the reclaimed land is limited to two storeys due to technical reasons. (2 marks)
- (b) there is a shortage of the materials for land reclamation. (3 marks)

MARKING SCHEME

1990/CE/11/01 A	1996/CE/11/01 C	2000/CE/11/53 A	2006/CE/11/02 D (82%)	2013/DSE/1/02 C (74%)
1991/CE/11/02 A	1997/CE/11/02 C	2001/CE/11/01 D	2007/CE/11/02 C (78%)	2014/DSE/1/01 A (32%)
1992/CE/11/03 A	1997/CE/11/03 D	2002/CE/11/04 A (61%)	2008/CE/11/02 D (58%)	2015/DSE/1/02 C (63%)
1993/CE/11/02 D	1997/CE/11/49 C	2003/CE/11/02 C (56%)	2009/CE/11/02 A (63%)	2016/DSE/1/03 D (76%)
1994/CE/11/03 C	1998/CE/11/50 A	2003/CE/11/03 C (52%)	2010/CE/11/02 D (78%)	2017/DSE/1/04 D (44%)
1994/CE/11/14 C	1999/CE/11/50 D	2004/CE/11/02 C (67%)	PP/DSE/1/02 D	2018/DSE/1/03 B (80%)
1995/CE/11/05 C	2000/CE/11/02 C	2005/CE/11/03 C (68%)	2012/DSE/1/02 A (62%)	2019/DSE/1/03 C
2020/DSE/1/10 D	2021/DSE/1/03 A	2021/DSE/1/04 C		

1990/CE/1/(a)(i)

The value of employing a Filipino maid (best alternative use of Mrs Wong's time, e.g. income earned by a lawyer) is larger than the cost of so doing (e.g. payment to the maid). (5)

1990/CE/1/4/(c)(i)

No, because (1)
alternatively Mr Lee can sell these quotas in the market and make money, i.e. the opportunity cost is the sum of money thus forsaken. (3)

1990/CE/1/5/(c)(i)

The following items have not been included in the \$127 billion:

- pollution arising from construction
- loss incurred by private individuals adversely affected by construction
- permanent loss of a countryside view in Lantau
- strain on resources bidding up factor cost to other sectors
- the sacrifice of more valuable alternative projects

(2@, max: 4)

(Mark the **FIRST TWO** points only.)

1991/CE/1/2/(a)

- (i) Opportunity cost is the highest-valued option or the best alternative that has to be forgone. (2)
Occupational mobility is the ease with which a factor moves from one occupation / trade / industry to another. (2)
- (ii) In changing occupation, the opportunity cost of a doctor (in terms of income forgone) can be very high. (2)
The value of taking up a new occupation (i.e. a doctor's earnings in another job) is usually lower than the cost of so doing (i.e. income, satisfaction and social status etc. from being a doctor). (2)

- 1993/CE/1/5(a)
The cost of the second choice is to give up the first choice. (1)
The cost of the third choice is to give up the first choice. (1)
∴ Both had the same highest-valued option forgone. (2)
(Remark: mere mention of the definition of opportunity cost - max: 1 mark)
- 1995/CE/1/10(a)(i)
(I) Opportunity cost is the highest-valued option forgone. (2)
(II) Her services, time, or other resources used in the performance had alternative uses (1)
e.g. income forgone from other jobs. (1)
(III) - prestige / increased no. of fans / more popular
- experience gained
- enjoyment in performing the shows (1@, max: 2)
(Mark the **FIRST TWO** points only.)
- 1996/CE/1/1
(a) The cost decreased / changed, because (1)
the value of the concert (which is the highest-valued option forgone) is lowered / changed. (1)
(b) No change, because (1)
enjoyment in the karaoke lounge is not an option forgone.
OR
the value of the concert (which is the highest-valued option forgone) has not changed. (1)
- 1997/CE/1/11(b)
The value of the highest-valued option forgone increases. (1)
e.g. the market rental of the premises increases. (2)
- 1998/CE/1/1
(a) It is the highest-valued option forgone. (2)
(b) Since the science stream is less preferred than the business stream, a change from the option of the business stream to the option of the science stream would lower the opportunity cost. (3)
- 1999/CE/1/1
Cost decreases, because (1)
value of the noodle (the highest-valued alternative) ↓ (2)
- 2000/CE/1/10(b)(ii)
(I) Opportunity cost is the highest-valued option forgone. (2)
(II) No, because (1)
the shares of Bank Y bought by Bank X is the chosen option, not the highest-valued option forgone.
OR
the hidden debt only reduces the value of the lake over. (2)
- 2001/CE/1/10(d)
The opportunity cost of gold coin purchase is the value of savings in banks. e.g. the interest return on savings in banks. (2)
A tax on interest reduces / changes the value of savings in banks, (1)
which means the opportunity cost of gold coin purchased is lowered / has changed. (1)

- 2002/CE/1/10(c)
The cost of depositing money with one bank is the deposit interest that can be earned from other banks (2)
∴ to deposit money into those large (small) banks has a higher (lower) cost (1)
∴ there will be a flow of deposits from those large banks to those small banks. (1)
(Remark: Mere mentioning of the definition of cost without other elaboration - **NO** marks)
- 2004/CE/1/2
(a) Opportunity cost is the highest-valued option forgone. (2)
(b) Not necessarily, because (1)
their highest-valued option forgone may not be the same. E.g., they may give up different jobs.
(c) Not necessarily, because (1)
though their monthly salary forgone (= \$30 000) are the same, their teaching-related non-pecuniary returns and other monetary returns may not be the same. (2)
(In other words, the value of the same job to them may be different.)
- 2005/CE/1/9
(b) (ii) The opportunity cost increases, because (1)
need to spend more time which has alternative uses (i.e. time cost increases).
OR
fuel cost increases. (1)
(c) No, because (1)
the highest-valued alternative use of the time may be different for different tunnel users. (2)
- 2006/CE/1/2
(a) Not affected because (1)
it only affects the value of studying law at a university but not the opportunity cost which is the value of studying medicine at a university. (1)
(b) Affected / decreased because (1)
the value of the highest-valued option forgone, i.e., the value of studying medicine at a university, decreases / changes. (1)
- 2007/CE/1/10(c)
(i) Yes, because (1)
their time cost of visiting Hong Kong would have changed (increased). (1)
(ii) No, because (1)
their time cost had not changed / it only affects the value of staying 24 more hours in Hong Kong. (1)
- 2008/CE/1/9(b)(i)
The opportunity cost is the value of depositing money with banks, i.e. the interest returns from bank deposits. (2)
(1) Yes because (1)
the interest return from bank deposits increases. (1)
(2) No because (1)
the tax affects the value of stock market investments but not the cost. (1)
- 2009/CE/1/1
(a) Opportunity cost is the highest-valued option forgone. (2)
(b) No, because (1)
their alternative use of time may not be the same. (1)

- 2010/CE/1/1(c)
(i) The opportunity cost is the return from investment in property, e.g., rental income or increase in the value of property. If the rental income rises or the value of property increases, the opportunity cost increases. (3)
- (ii) No, because it only affects the value of investing in shares but not the cost. (1)
(1)
- 2013/DSE/II/9(c)
No, because people have different alternative uses of time, their time costs will not be the same. (1)
(2)
- 2014/DSE/II/1
(a) Yes, because the reduction in the starting salary of administrative officers would only decrease the value of Serine's chosen option without affecting her highest valued option forgone. (1)
(1)
- (b) No, because government provision of unemployment benefits may increase the value of Serine's 3rd option to a level higher than that of the 2nd option, the cost of choosing to work as an administrative officer may now change from the value of the 2nd option to that of the 3rd option. (1)
(1)
- 2015/DSE/II/1(b)
No, because the time cost of a person taking MOOC may be higher than the time cost of another person taking on campus course plus the course fee. (1)
- OR**
the former person (MOOC student) may have to spend extra time to access / download the course materials and to communicate with the course instructor or teaching assistant;
- OR**
the former person may also have to pay for internet connection in order to access the course materials. (2)
- 2016/DSE/II/1
The full cost of buying the new model includes the price of new model (monetary cost) plus the value of time spent logging in the website. (1)
- The resale value of the new model is not a forgone option so the cost of buying the new model does not change when such value falls.
- OR**
The drop in resale value will lower the (speculators') demand - hence, excess demand - for the new model, reducing the time spent logging in the website and thus the time cost of buying the new model. The cost of buying the new model falls. (2)
- 2017/DSE/II/1
(a) No, because the value of the highest-valued option forgone (i.e., the first option) would drop. (1)
(1)
- (b) No, because the working time in South Korea may be quite long, so that the first option would become less preferred. (1)
(1)
- 2018/DSE/II/1
Full cost = monetary cost + time cost (1)
During holiday periods, although the monetary cost of travelling abroad (including air ticket fares and hotel expenses) is usually higher than that during non-holiday periods, the time cost (e.g., income foregone) may be a lot lower. (1)
If the time-cost saved outweighs the extra monetary cost, then in terms of full cost travelling abroad during holiday periods would be less expensive. (1)

2019/DSE/II/1

- (a) The opportunity cost will remain unchanged. It is because the height limitation only reduces the value of the reclaimed land but does not affect the highest valued option forgone. (2)
- (b) The government needs to spend extra money/resources to compete for the raw materials in the case of shortage so monetary/non-monetary cost will increase and the full cost will increase. (3)

Marks
(2)

(3)

1.3 ECONOMIC SYSTEMS

Multiple Choice Questions

1995/CE/II/20

The Housing Authority is considering whether it should raise the income limits of families for the application of public housing. What basic economic problem(s) is/are involved in this consideration?

- A. What to produce?
- B. How to produce?
- C. For whom to produce?
- D. What and for whom to produce?

2006/CE/II/01

Since the opening of Hong Kong Disneyland, some people have suggested a reduction of the ticket price. This suggestion is related to the _____ question(s) in Economics.

- A. 'what to produce'
- B. 'how to produce'
- C. 'for whom to produce'
- D. 'what, how and for whom to produce'

2009/CE/II/03

A large number of pregnant mainland women give birth to babies in Hong Kong's public hospitals. Some people have suggested imposing an additional surcharge on these women so as to reduce the number of them in Hong Kong's public hospitals.

The above suggestion concerning the service of the public hospitals in Hong Kong is the _____ question in Economics.

- A. 'how to produce'
- B. 'for whom to produce'
- C. 'what to produce'
- D. 'how and for whom to produce'

2010/CE/II/03

Which of the following illustrates the 'For whom to produce' question in Economics?

- A. Local manufacturers set up factories in Guangdong to lower production costs.
- B. The local government is developing cruise tourism in Hong Kong and the Asia Pacific region.
- C. The Hong Kong Science Museum offers free admission to full-time students and senior citizens.
- D. More Hong Kong licensed banks are engaged in the issuance of Renminbi bonds.

2013/DSE/II/01

The Hong Kong government proposes to build new towns with residential flats and shopping malls in the North District. However, there are concerns about the ratio of public housing to private housing. Some people are also worried about the size of shopping malls, which may mainly serve mainland tourists.

The above case is related to the _____ question(s) in Economics.

- A. "for whom to produce"
- B. "what to produce" and "how to produce"
- C. "what to produce" and "for whom to produce"
- D. "how to produce" and "for whom to produce"

2014/DSE/II/04

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"

2017/DSE/II/01

The operator of a canteen in the government headquarters decides to sell sushi and not burgers anymore because the former can earn a higher profit. This is an example of using _____ to solve the problem of _____.

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

2018/DSE/II/02

The Chief Executive proposed to raise the recurrent education spending by \$5 billion. One of her proposals was to provide a \$30 000 subsidy to eligible secondary school graduates studying self-financing programmes. The above proposal 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'

1990/CE/II/03

Basic economic problems in a market economy are mainly solved by

- A. the government
- B. the price mechanism
- C. the entrepreneurs
- D. the consumers

1992/CE/II/05

In a market economy, the allocation of goods and services among consumers is basically determined by

- A. the preference of the government
- B. the preference of sellers
- C. the controlled prices
- D. the price mechanism

1993/CE/II/50

When a centrally-planned economy has changed and become a market economy,

- A. its government will make most economic decisions.
- B. its income distribution will be more even.
- C. private ownership of resources should have already been established.
- D. more shortages of goods and services will occur.

1994/CE/11/04

In the New Territories, an indigenous female resident (女性原居民) cannot inherit her father's property if her father dies without leaving a will. This is an example of resource allocation by

- A. government rationing.
- B. market mechanism.
- C. violence.
- D. social custom.

1994/CE/11/05

Hong Kong is considered to be a market economy because

- (1) it has a high per capita real gross domestic product (GDP).
 - (2) price is used as a means to allocate resources in Hong Kong.
 - (3) it has a system of low taxes.
 - (4) most of its resources are privately owned.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (4) only
 - D. (3) and (4) only

1996/CE/11/03

Hong Kong can be described as a capitalist economy because

- A. all problems of resource allocation are solved by the price mechanism.
- B. income is unevenly distributed.
- C. not all the public utilities are owned by the government.
- D. most resources are privately-owned.

1997/CE/11/04

Which of the following statements about market economy is correct?

- A. There is no non-price competition.
- B. Competition is perfect throughout the economy.
- C. The pattern of production reflects the preferences of consumers.
- D. All resources are privately owned and controlled.

1998/CE/11/03

As compared to a market economy, a planned economy

- A. has a less even income distribution.
- B. must have a lower inflation rate.
- C. must have a lower unemployment rate.
- D. has a smaller proportion of privately-owned resources

1999/CE/11/03

In a market-oriented economy,

- A. the living standard is higher than in a command economy.
- B. the unemployment rate is lower than in a command economy.
- C. resources are mostly allocated according to price signals.
- D. all infrastructure is privately owned.

1999/CE/11/37

The government acquired a large number of stocks and shares in the stock exchange market in 1998. Which of the following is correct?

- A. It will result in a loss of foreign exchange reserves.
- B. It will lead to a contraction of the money supply M3.
- C. It will stop the speculative activities in the stock market.
- D. It will mean a greater extent of government intervention in market mechanism.

2000/CE/11/04

Which of the following markets in Hong Kong rely heavily on price mechanism to solve the three basic economic problems?

- (1) Medical service
 - (2) Education
 - (3) Bank loans
 - (4) Electrical appliances
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only

2001/CE/11/02

Which of the following statements about a market economy is correct?

- A. All markets in the economy are perfectly competitive.
- B. Most resources in the economy are owned and controlled by individuals and private firms.
- C. Income is less evenly distributed in a market economy than in a command economy.
- D. The unemployment rate is higher in a market economy than in a command economy.

2002/CE/11/05

Which of the following are major determinants of the allocation of goods and services in a market economy?

- (1) the planning of government
 - (2) the costs of production
 - (3) the demand of consumers
 - (4) the controlled prices
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only

2003/CE/11/04

An economy is considered as a market economy when

- A. the profits tax rate is low.
- B. prices are used to allocate resources.
- C. there is competition in all industries.
- D. there are no restrictions on the entry and exit of firms to all markets.

2004/CE/II/04

Compared to a command economy, a market-oriented economy has

- A. a less even income distribution.
- B. keener competition for goods and services.
- C. more production guided by price signals.
- D. no problem of scarcity.

2005/CE/II/08

Which of the following statements is a correct description of a market-oriented economy?

- A. Most resources are privately owned.
- B. All economic problems are solved by the price mechanism.
- C. Income is less evenly distributed than in a command economy.
- D. There is no non-price competition.

2006/CE/II/04

In a market economy, which of the following are guided by price signals?

- (1) resource allocation
 - (2) production decisions
 - (3) consumption decisions
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2007/CE/II/03

Compared to a planned economy, a market economy must

- A. have a larger income gap between the rich and the poor.
- B. have higher inflationary pressure.
- C. have a higher unemployment rate.
- D. have a greater proportion of resources directed by the price mechanism.

2008/CE/II/03

An economy is considered as market-oriented when

- A. most of the markets are perfectly competitive.
- B. most of the resources are allocated by the price mechanism.
- C. most of the goods are economic goods.
- D. most of the public utilities are privately owned.

2009/CE/II/04

Which of the following statements about a market-oriented economy is correct?

- A. People who live in a market economy are richer than those in a planned economy.
- B. Most resources are used for producing consumer goods.
- C. Most markets are perfectly competitive.
- D. Most resources are privately owned.

2010/CE/II/05

In a market-oriented economy,

- A. most markets are perfectly competitive.
- B. most resources are allocated by prices.
- C. most production plans are made by the central authority.
- D. most firms produce consumer goods.

2015/DSE/1/03

Which of the following is a characteristic of a market economy?

- A. Income distribution is uneven in the economy.
- B. The government has no role in regulating business activities in the economy.
- C. Most factors of production in the economy are privately owned.
- D. There is only price competition in the economy.

2018/DSE/1/01

Which of the following statements about a planned economy is correct?

- A. The quantity of public goods in the economy is greater than that in a market-oriented economy.
- B. Most production activities are carried out by government officials.
- C. All resources are allocated by government commands.
- D. Competitions still exist in the economy.

Short & Structured Questions

1996/CE/1/10(d)

Country A is a planned economy and Country B is a market economy. Explain **TWO** differences between these two types of economic systems. (4 marks)

2019/DSE/1/02

Which of the following statements are related to the problem of 'for whom to produce'?

- (1) Only the elderly and eligible persons with disabilities can enjoy a concessionary fare of \$2 per trip under the Public Transport Fare Concession Scheme.
 - (2) Public rental housing (PRH) households whose family income exceeds 5 times the PRH income limits should vacate their PRH flats.
 - (3) The e-Sports & Music Festival moved from Hong Kong Convention and Exhibition Centre to Hong Kong Coliseum to house more fans from all over the world.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2020/DSE/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)

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'

Microeconomics by Topic
1. Basic Concepts

MARKING SCHEME

1995/CE/1/20 C	2018/DSE/1/02 D (81%)	1997/CE/1/04 C	2003/CE/1/04 B (62%)	2010/CE/1/05 B (79%)
2006/CE/1/01 C (54%)	1990/CE/1/03 B	1998/CE/1/03 D	2004/CE/1/04 C (55%)	2015/DSE/1/03 C (75%)
2009/CE/1/03 B (56%)	1992/CE/1/05 D	1999/CE/1/03 C	2005/CE/1/08 A (46%)	2018/DSE/1/01 D (59%)
2010/CE/1/03 C (84%)	1993/CE/1/50 C	1999/CE/1/37 D	2006/CE/1/04 D (58%)	2019/DSE/1/02 A
2013/DSE/1/01 C (76%)	1994/CE/1/04 D	2000/CE/1/04 D	2007/CE/1/03 D (80%)	2020/DSE/1/ D
2014/DSE/1/04 D (75%)	1994/CE/1/05 C	2001/CE/1/02 B	2008/CE/1/03 B (75%)	2021/DSE/1/02 B
2017/DSE/1/01 C (90%)	1996/CE/1/03 D	2002/CE/1/05 C (74%)	2009/CE/1/04 D (72%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1996/CE/1/10(d)

In Country A, most resources are allocated according to government plans and commands; in Country B, the allocation of most resources is guided by the market mechanism. (2)

In Country A, most resources are privately owned by individuals; in Country B, most resources are owned by the government. (2)

1.4 POSITIVE AND NORMATIVE STATEMENTS

1986/AL/II/01

Economics is a science because

- A. economic predictions are stated in the form of 'if A happens then B will necessarily follow'.
- B. of the widespread application of mathematical and statistical methods in economic research.
- C. (out of syllabus)
- D. it helps to improve society.

1986/AL/II/02

Economic theory is useful because

- A. (out of syllabus)
- B. it is always true.
- C. it can be rejected by evidence.
- D. it tells us what is right or wrong.

1987/AL/II/29

An economic theory is useful or testable if

- A. it is potentially refutable by facts.
- B. it is logically consistent.
- C. it is not always true.
- D. all of the above.

1998/AL/II/22 (modified)

Which of the following are refutable by facts?

- (1) The area of Victoria Park is greater than that of Kowloon Park.
- (2) Visitors should not litter in public area.
- (3) The quantity of vegetables supplied increases because more quantities are available for sale.
- (4) The price of vegetables increases because the cost of production rises.

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

2004/AL/II/03

A necessary condition for a theory to be useful in explaining behaviour is:

- A. that it is always true.
- B. that it must be conceivably false.
- C. that it is **rejected by facts some** of the time.
- D. that it is supported by facts most of the time.

2011/AL/II/03

Economics is a positive science because

- A. its theories contain testable implications.
- B. it yields predictions in the form of "if A then B".
- C. (out of syllabus)
- D. Both (A) and (B) are correct.

SP/DSE/1/03

A positive statement

- A. is always true.
- B. is refutable with facts.
- C. may contain a value judgment.
- D. may be the same as a normative statement if certain values are shared by many people.

2012/DSE/1/01

Which of the following statements are positive statements?

- (1) More workers will be employed on a part-time basis after the imposition of a minimum wage.
- (2) Less low skilled workers will be unemployed after the imposition of a minimum wage.
- (3) Meal times should be counted as working time in the calculation of a minimum wage.
- (4) The imposition of a minimum wage widens the income gap between the rich and the poor.

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

2015/DSE/1/01

Which of the following are positive statements?

- (1) Importation of labour from the mainland would result in a rise in job vacancies in Hong Kong.
- (2) It would be better to import labour from Guangdong province because they can speak Cantonese.
- (3) Productivity of labour from China is higher than that from other Southeast Asian countries.
- (4) Unemployment rate in Hong Kong would raise by 15% as a result of labour importation of 30 000 from the mainland.

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

2018/DSE/1/04

The following statements are adapted from the 2017-18 Budget Speech by the Financial Secretary of Hong Kong.

Statement (1): The global economy in 2016 recorded the slowest growth since the global financial crisis.

Statement (2): For 2016 as a whole, there was a growth of 1.9%, consistent with the 1% to 2% economic growth as forecast in last year's Budget.

Statement (3): While recognising the effect of market forces, the Government should play an active role as a facilitator by taking forward appropriate policies with good use of public resources.

Which of the above is a normative statement / are normative statements?

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

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

MARKING SCHEME

1986/AL/11/01 A	1987/AL/11/29 D	2004/AL/11/03 B (56%)	SP/DSE/1/03 B	2015/DSE/1/01 C (71%)
1986/AL/11/02 C	1998/AL/11/22 B (modified)	2011/AL/11/03 D (84%)	2012/DSE/1/01 D (67%)	2018/DSE/1/04 B (79%)
2021/DSE/1/01 C				

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1.5 COMPETITION AND DISCRIMINATION

Multiple Choice Questions

1986/AL/1/07

Which of the following is **NOT** a form of competition?

- A. racial discrimination
- B. waiting in line
- C. paying a price for a product
- D. breathing in a desert

1987/AL/1/06

Scarcity implies

- A. there is no such thing as a free good.
- B. competition is inevitable.
- C. a lack of proper planning.
- D. price is the only viable criterion for the allocation of resources.

1987/AL/1/10

Which of the following statements about economic good is **FALSE**?

- A. An economic good is a good for which the amount available is less than the amount people want at zero price.
- B. An economic good is a good that is subject to competition.
- C. An economic good is a good for which more of it is not preferred.
- D. None of the above.

1987/AL/1/18

Which one of the following statements about competition is **FALSE**?

- A. Waiting in line is a form of competition.
- B. The rules of competition define the criteria that determine who wins and who loses.
- C. Price is the main criterion of competition in a capitalist economy.
- D. There is no competition in a socialist economy because resource allocation is determined by the government.

1990/AL/1/18

The Open Learning Institute accepted only 3 000 students out of 60 000 applicants. Which of the following methods of allocating the places would be discriminatory?

- A. First come, first served.
- B. Raising the entrance requirements until only 3 000 applicants were eligible.
- C. Random selection by computer.
- D. All of the above.

1992/AL/1/05

Scarcity

- A. is implied by the existence of price.
- B. is the same as shortage.
- C. applies to all kinds of goods.
- D. All of the above.

1992/AL/1/09

Recently, some housing developers in Hong Kong have begun selling housing units by lottery. That is, at their asking price, there are too many buyers queuing up to buy the flats. So, in addition to the purchase price, a buyer must be a winner in the lottery. This implies

- A. competition for private flats is reduced since buyers no longer need to line up for days.
- B. efficiency is improved.
- C. a change in the form of competition.
- D. the Hong Kong government is imposing a control on the price of flats.

1993/AL/1/21

Scarcity

- A. is implied by the existence of price.
- B. implies competition in society.
- C. does not exist for a free good.
- D. All of the above.

1994/AL/1/02

Scarcity

- A. is the same as shortage.
- B. exists for all goods.
- C. can be eliminated by the price mechanism.
- D. implies competition and discrimination.

1995/AL/1/01

Which of the following statements about competition is correct?

- A. Competition is inevitable because there is no such thing as a free good.
- B. There is no competition in a centrally planned economy.
- C. All competitions are discriminative.
- D. Price is the only criterion of competition.

2001/AL/1/06

In a society, scarcity

- A. implies competition.
- B. implies discrimination.
- C. implies a willingness to sacrifice.
- D. All of the above.

2004/AL/1/02

Competition will **NOT** arise if

- A. all individual are identical.
- B. there is a monopoly in each and every market.
- C. there is no market.
- D. all goods are free goods.

2005/AL/I/03

Which one of the following pairings has terms that are closest in meaning?

- A. scarcity and shortage
- B. monopoly and competition
- C. private property and social cost
- D. competition and discrimination

2007/AL/I/03

Scarcity implies

- A. the market is the most efficient place for allocating resources.
- B. shortage if the market does not exist.
- C. the concept of equilibrium is essential.
- D. some people must be discriminated against in a society.

2007/AL/I/25

Non-price competition implies

- A. surplus.
- B. shortage.
- C. scarcity.
- D. monopoly.

2009/AL/I/01

Which of the following statements about scarcity and shortage is correct?

- A. Whenever there is shortage, there must be scarcity.
- B. In a one-man economy, there may be shortage.
- C. Whenever there is scarcity, there must be shortage.
- D. Scarcity necessarily implies competition.

2012/AL/I/03

A university hall accepts only 20 students out of 8 000 applicants. Which of the following methods of allocating the places would be discriminatory?

- A. selection based on the applicants' travelling time to the university
- B. ~~first-come-first-served~~
- C. random selection by computer
- D. All of the above

Short & Structured Questions

1991/AL/I/3

'Whenever there is scarcity, there is competition.' Defend this statement.

'Whenever there is competition, there is discrimination.' Defend this statement also.

(8 marks)

2012/DSE/II/5(a)

Country A has imposed an effective price ceiling on Good X. Suppose Country A eliminates all illegal transactions of Good X. Can this price control ensure all lower income buyers obtain the quantity of Good X they plan to purchase? Explain.

(4 marks)

MARKING SCHEME

1986/AL/I/07 D	1990/AL/I/18 D	1994/AL/I/02 D	2005/AL/I/03 D (81%)	2012/AL/I/03 D (86%)
1987/AL/I/06 B	1992/AL/I/05 A	1995/AL/I/01 C	2007/AL/I/03 D (88%)	
1987/AL/I/10 C	1992/AL/I/09 C	2001/AL/I/06 D	2007/AL/I/25 C (62%)	
1987/AL/I/18 D	1993/AL/I/21 D	2004/AL/I/02 D (86%)	2009/AL/I/01 A (49%)	

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1991/AL/I/3

A good is said to be scarce if, to an individual, more of it is preferred to less of it.

When more than one individuals in society want more of the same good, competition is implied.

With competition, some criterion is needed to determine who wins and who loses. For whatever criterion chosen, it will necessary be discriminatory in nature because different individuals will have different advantages in winning under the same **critereion**.

2012/DSE/II/5(a)

No, because

when there is excess demand / shortage, non-price competition, such as queuing, will emerge, and the new competitive criteria does not necessarily depend on income.

(1)

(3)

1.6 PROPERTY RIGHTS

Multiple Choice Questions

1988/AL/1/23

Under private property rights, the main criterion used to allocate resources is

- A. seniority.
- B. price.
- C. rank
- D. wealth

1990/AL/1/29

In an ocean which is **NOT** privately-owned, fish

- A. are a free good, because they are so abundant that more of them are not wanted.
- B. are not an economic good if the fishermen are not allowed by the government to compete among themselves.
- C. are a public good, because the fish are publicly-owned.
- D. are an economic good, because we are willing to sacrifice something in exchange for the fish.

1992/AL/1/24

If private ownership of a forest is abolished, and the forest is subject to common exploitation,

- A. the rate of depletion will remain unchanged.
- B. the trees will become a public good.
- C. the private cost of cutting trees will differ from the social cost.
- D. the trees will become a free good because they no longer have a price.

1994/AL/1/10

If the beach in Repulse Bay is privatized,

- A. the rate of utilization will remain unchanged.
- B. the rate of utilization will most likely be reduced.
- C. the beach will be cleaner than before.
- D. the poor will be deprived of the opportunity to use the beach.

1994/AL/1/18

The Home Ownership Scheme (HOS) usually attracts 10 times more applications than the number of flats available for sale. At present, selection is done randomly by computer, and the flats are not transferable within ten years of purchase. If new HOS flats are freely transferable.

- A. less applications would be expected.
- B. even more applications would be expected.
- C. the poor will sell their HOS flats to the rich.
- D. the rich will sell their HOS flats to the poor.

1994/AL/1/26

Which of the following is/are associated with private property rights?

- A. the right to use the property exclusively
- B. the exclusive right to enjoy income from the property
- C. the right to sell the property outright
- D. All of the above.

1995/AL/1/16

An apple tree subject to unrestrained common exploitation

- A. has no market value.
- B. will be harvested later.
- C. is a public good.
- D. has a positive price.

1997/AL/1/12

The Diaoyu Islands (釣魚台) issue shows that

- A. there is a cost in defining and enforcing property rights.
- B. exchange is impossible without private property rights.
- C. demonstrators pay a cost in exploitation of the common property.
- D. All of the above.

1997/AL/1/19

A common property

- A. has no market price.
- B. always implies allocative inefficiency.
- C. always has a zero consumer surplus.
- D. (out of syllabus)

2000/AL/1/28

A common property

- A. induces non-price competition.
- B. is a free good because it has no market price.
- C. is a good that can be consumed concurrently by more than one individual.
- D. is a good owned collectively by more than one individual.

2004/AL/1/26

Property rights arise whenever

- A. there is scarcity.
- B. there is a society.
- C. there is a society with scarcity.
- D. production is subject to the law of diminishing returns.

2010/AL/1/20

Which of the following statements about private property rights is correct?

- A. Private **property** rights may exist without a court of law.
- B. Private **property** rights may be protected by local customs.
- C. Private **property** rights are an essential preclude for market transactions.
- D. All of the above

2011/AL/1/02
Scarcity in society implies

- A. shortage.
- B. the emergence of private property rights.
- C. the existence of price.
- D. there is no such thing as a free good.

2011/AL/1/25

Which of the following statements about property rights is correct?

- A. Property rights arise only when resources are allocated through the price mechanism.
- B. Property rights arise whenever there is scarcity.
- C. Property rights arise when individuals in a society compete for resources.
- D. All of the above

2016/DSE/1/05

Marlene had bought a cookery book from a bookstore. Her friend, Kitman, said to her, "You have private property rights to this cookery book." Which of the following rights would Marlene have after the purchase of the book?

- (1) To follow the recipes in the book in preparing a dinner for Kitman
- (2) To scan and upload the whole book to her blog
- (3) To leave the book on the bookshelf without reading it
- (4) To lend the book to Kitman and ask for a dinner in return

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

2019/DSE/1/01

Refer to the following suggestion for tackling the housing problem.

The government should build a new type of housing, called Easy Living, for which the owners can lease their flats at a controlled rent. If the owners want to sell their flats, they can only sell them back to the government.

Compared with owning a private housing unit, _____ will be weakened for those owning an Easy Living housing unit.

- (1) the right to use
- (2) the right to receive income
- (3) the right to transfer

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

Short & Structured Questions

1993/AL/1/8

In Hong Kong, during the week before the Chinese New Year, many flower bazaars are organized by the government to let vendors sell their New Year commodities to the public. The government allocates the right to operate each stall by tender or bids and the right to operate a stall goes to the vendor who bids the highest price for it. The bidding is usually held a month in advance. Therefore, events that happen after the bidding which would affect the income from operating a stall would not be reflected in the bid. The right to operate a stall is not transferable.

If the right to operate a stall was transferable, would the government receive higher bids for the stalls? Explain. (10 marks)

2004/AL/1/7(b)

Many people go deer hunting. It is reported that among all the people who go deer hunting, less than 10 per cent of them (the superior hunters) get more than 90 per cent of the hunted deer, while the remaining 90 per cent or more of them (the inferior hunters) get less than 10 per cent, or each of them get hardly any deer. Assume for this question that all people who go deer hunting have the same time cost and that they enjoy hunting equally.

As property rights to the deer in the wild are not assigned to any individual or a group of individuals by law or by custom, are there any private property rights to the deer in the wild? Explain. (Hint: Imagining an extreme case where only one of the participants knows how to hunt.) (6 marks)

2013/DSE/1/2(a)

The Hong Kong government plans to introduce the "Hong Kong Property for Hong Kong Residents" policy. The flats built under the policy can only be sold to Hong Kong permanent residents within 30 years.

What are private property rights? Explain why the private property rights over the flats may be weakened under this policy. (4 marks)

MARKING SCHEME

1988/AL/I/23 B	1994/AL/I/10 B	1995/AL/I/16 A	2000/AL/I/28 A	2011/AL/I/02 C (51%)
1996/AL/I/29 D	1994/AL/I/18 C	1997/AL/I/12 D	2004/AL/I/26 C (78%)	2011/AL/I/25 C (56%)
1992/AL/I/24 C	1994/AL/I/26 D	1997/AL/I/19 A	2010/AL/I/20 D	2016/DSE/I/05 C (88%)

2019/DSE/I/01

C

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1993/AL/I/8

At the time of auction, the future is not certain. Events may happen which would affect the value of the bid. If the bid is transferable, a bid winner may transfer his rights to another operator if adverse events happen that are particularly harmful to him. Therefore, bidders are willing to offer higher bids in the case where the bid is transferable.

Even if no unexpected events were to follow, the bids may still be higher with transferable rights because the bidders must be aware at the time of the bidding that their decisions might be mistakes, given positive information costs.

2004/AL/I/7(b)

Yes, there are, property rights to the deer in the wild are delineated by the know-how or special skills of the less-than-10-percent superior hunters. This is just like a strong man occupying a piece of land without legal assignment will have an implicit claim to the land if no competitor can take it away or infringe upon his use rights.

2013/DSE/II/2(a)

Private property rights refer to the exclusive right to use, the exclusive right to receive income from, and the right to transfer a property owned by an individual. (3)

The private property rights over the flats under the scheme are weakened as the flat-owners' right of transferring their flats to non-residents is confined. (1)

1.7 INTEREST

1989/AL/I/20

'Interest will not exist without money.' This statement is

- A. true because interest is the premium of present over future money,
- B. true because in the loan market, we pay interest when we borrow.
- C. false because interest is the premium of present over future consumption.
- D. false because interest is a payment for liquidity.

1993/AL/I/28

'Interest exists even without money.' This statement is

- A. true because we pay interest when we borrow
- B. true because interest is the premium one pays for the earlier availability of goods.
- C. false because interest is a compensation for inflation.
- D. false because money is used in all societies

1998/AL/I/26

Which of the following statements about interest is true ?

- A. Interest will not exist without money.
- B. Interest is a price for the earlier availability of a good.
- C. If there is no inflation, the interest rate will be zero.
- D. (out of syllabus)

2003/AL/I/24

Which of the following statements about interest is correct?

- A. Interest is a premium received for postponing current consumption
- B. (out of syllabus)
- C. A more patient individual is willing to pay a higher interest rate for earlier consumption.
- D. If there is deflation, interest rate must be negative.

2006/AL/I/11

Interest exists in the absence of

- A. money.
- B. risks.
- C. a banking system.
- D. All of above.

2012/DSE/I/3

Which of the following statements about interest is correct?

- A. People will reduce current consumption when the interest rate drops.
- B. The interest rate will be zero if there is no inflation.
- C. Interest does not exist in a planned economy.
- D. Interest still exists without money.

2016/DSE/I/4

Which of the following statements about interest are correct?

- (1) Interest is the compensation for deferring consumption.
- (2) Interest exists because people are impatient to wait.
- (3) Interest exists in a barter economy.

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

2017/DSE/I/2

Which of the following statements about interest is correct?

- A. Without money, interest does not exist.
- B. Without inflation, interest does not exist.
- C. Without scarcity, interest does not exist.
- D. Interest is the compensation paid to the borrower for delayed consumption.

Short & Structured Questions

1992/AL/I/2

Interest is a price. Why is it a price? What is it a price of? (12 marks)

2004/AL/I/5

'Interest would not exist without money.' Do you agree? Explain. (8 marks)

PP/DSE/II/1

Peter borrowed a book from Mary and he promised to return the book with a bookmark to her a month later at her request. Explain why the bookmark could be regarded as "interest" to both Peter and Mary. (4 marks)

MARKING SCHEME

1989/AL/I/20 C	1998/AL/I/26 B	2006/AL/I/11 D (78%)	2016/DSE/I/4 D (45%)
1993/AL/I/28 B	2003/AL/I/24 A	2012/DSE/I/3 D (90%)	2017/DSE/I/2 C (53%)

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

1992/AL/I/2

Interest is a price because it is a sacrifice one must make to exchange for an economic good.

It is a price one pays for the earlier availability of goods or a price one pays for earlier over later consumption.

2004/AL/I/5

Disagree. Interest is the price of earlier availability of goods, and without money this price or premium still exists as long as a market (for borrowing and lending) exists. Hence it may be charged in a barter economy.

I loan you an apple, when you return it a year later, our agreement would be you return an apple plus a bite from another apple. That bite is interest. Money is not implied.

PP/DSE/II/1

To Peter: The bookmark was the price / premium he paid for the earlier availability of the book. (2)
To Mary: The bookmark was the compensation she received for deferring consumption. (2)