

10. In 2021, Trial & Error (試當真), a Hong Kong YouTube channel, held its first live show. The following was the pricing arrangement of its tickets.

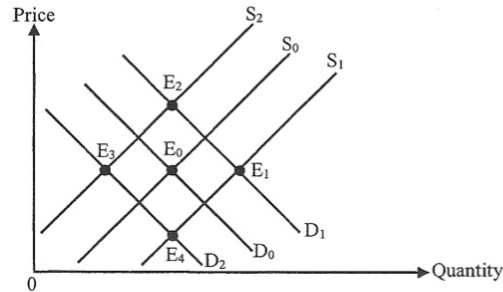
Ticket price adjusts daily at 10 am.

Date	Ticket price
9 August	\$10 000
10 August	\$5 000
11 August	\$2 000
...	...
31 August	\$20
1 September onwards	\$10

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

- A. allocative more resources can be allocated to the production of the show
- B. allocative the arrangement can guarantee a sell-out of the tickets
- C. rationing the tickets are sold to the highest-valued buyers
- D. rationing the tickets are distributed on a first-come, first-served basis

13. The diagram below shows the demand and supply curves of webcams. The initial equilibrium point is E_0 .

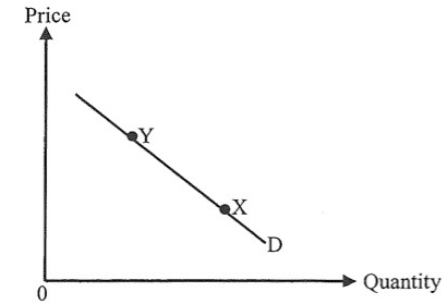


Suppose more firms replace face-to-face meetings with online meetings using video-conferencing software such as Zoom. At the same time, the price of lens used to produce webcams increases. As a result, the new equilibrium point will be _____.

- A. E_1
- B. E_2
- C. E_3
- D. E_4

2. There are two kinds of food deliverers: 'riders' delivering food by self-provided motorbikes and 'walkers' delivering food on foot. Why do 'riders' usually have a higher income per order than 'walkers'? Suggest **ONE** demand-side factor and **ONE** supply-side factor to explain your answer. (4 marks)

14. The following diagram shows the demand curve of private housing.



Which of the following can best explain the change in equilibrium position from X to Y?

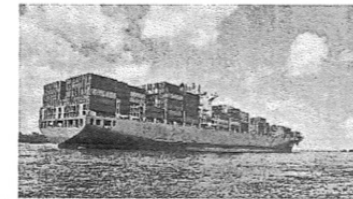
- A. The household income decreases.
- B. People expect a price drop in private housing.
- C. The wage rates of construction workers increase.
- D. The demand for commercial buildings decreases.

17. If the price of _____ increases, the supply of _____ will decrease.

- (1) flour bread
- (2) beef leather
- (3) cars gasoline
- (4) commercial buildings industrial buildings

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

18. Country A imports a huge amount of red wine every year via shipping.



Suppose the shipping cost of each container rises from \$250 to \$1000. What will be the effect of the increase in shipping cost on the red wine sold in Country A?

- A. More red wine will be imported.
- B. The total expenditure on high-quality red wine will drop by the same percentage as that on low-quality red wine.
- C. The proportion of low-quality red wine sold in the market will decrease.
- D. The average quality of red wine sold in the market will decrease.

SECTION 6: DEMAND AND SUPPLY (I)

6.1 THE LAW OF DEMAND

Multiple Choice Questions

1995/CE/II/06

Lane Crawford
50% discount on all items!

This method of sales promotion can be explained by

- A. the law of supply.
- B. economies of scale.
- C. the law of demand.
- D. the principle of comparative advantage.

1997/CE/II/07

Support the government raised the water charge in January 1997. What would be the result?

- A. a decrease in the demand for water
- B. a decrease in average household water consumption
- C. a decrease in the government revenue from the water charge
- D. a decrease in the cost of production of restaurants because they would use less water

2004/CE/II/08

Suppose an airline reduces the price of its air tickets. As a result,

- A. the demand for its air tickets will increase.
- B. the number of its passengers will increase.
- C. the supply of its aircraft service will increase.
- D. its sales revenue will increase.

2006/CE/II/49

In order to reduce the amount of household garbage disposed of, the government is planning to impose a household garbage disposal charge according to the amount of garbage disposed by each household.

Which of the following concepts can be used to explain the above policy?

- A. law of demand
- B. principle of comparative advantage
- C. diseconomies of scale
- D. law of diminishing marginal returns

2008/CE/II/06

Recently the stock market in Shanghai has become overheated. Compared with last year, the selling price of a financial magazine has increased from RMB¥5 to RMB¥8 while its sales volume has increased by 10%.

In the above case,

- A. the law of demand is violated.
- B. the demand curve of the magazine can still be downward sloping.
- C. the demand for the magazine is inelastic.
- D. the supply of the magazine is elastic.

2019/DSE/II/12

The table below shows the quantities of high-quality and average-quality Japanese fruits sold in Japan and Hong Kong. Assume the consumers' preferences on Japanese fruits are similar in both economies.

	Quantity of high-quality Japanese fruits sold (units)	Quantity of average-quality Japanese fruits sold (units)
Japan	50	200
Hong Kong	Q_1	Q_2

Suppose the cost of transporting both types of fruits from Japan to Hong Kong are the same. Which of the following figures is/are consistent with the law of demand?

- (1) $Q_1 = 30; Q_2 = 140$
- (2) $Q_1 = 40; Q_2 = 150$
- (3) $Q_1 = 45; Q_2 = 180$

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

2020/DSE/II/12

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

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

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

2020/DSE/II/17

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

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

2000/AL/I/08

Which of the following statements may be consistent with a downward sloping demand curve?

- A. Price and quantity transacted are observed to increase together.
- B. Price rises and quantity transacted falls.
- C. A student is not willing to give up anything for an additional distinction in one other subject.
- D. All of the above.

Short & Structured Questions

1995/CE/I/3

(a) State the law of demand. (2 marks)

(b) Point out the difference between 'quantity demanded' and 'quantity bought'. (2 marks)

1996/AL/I/7(a)

In Hong Kong, the number of supermarket outlets has grown from less than 50 in 1973 to 560 in 1993, and the range of products carried by a single large outlet reaches 8 000 items. This development contrasts sharply with the earlier period (say in the 1950's), when small grocery stores each carrying and specializing a few dozen items had been the popular practice.

How would you explain the growth of supermarkets as a result of a change in the wage rate of domestic servants? (3 marks)

1996/AL/I/8(a)

In Hong Kong, the number of children an average woman expects to bear in a lifetime has fallen from 4.5 in 1965 to around 1.3 in 1995.

A child may be regarded as a consumption good, for which a cost or a price must be paid. Considering a child as a consumption good, how would you explain the sharp fall in fertility rate? (5 marks)

2000/AL/I/6

Currently households pay rates (差餉) to cover the disposal charge for their garbage (rubbish) and the rates depend on the value of their flats. Will there be any change in the amount of garbage disposed of by each household if the disposal charge is calculated according to

- (a) the number of people per household instead?
- (b) the number of standard garbage bags used by each household instead? (8 marks)

2001/AL/I/3

If the market price of a haircut charged by barber shops rises during holidays because customers have more free time to get their hair cut, does this mean that to customers haircuts are really more expensive during holidays because of an increase in market demand? (7 marks)

MARKING SCHEME

1995/CE/I/06 C	2004/CE/II/08 B (55%)	2008/CE/II/06 B (24%)	2019/DSE/I/12 B	2020/DSE/I/17 D
1997/CE/II/07 B	2006/CE/II/49 A (70%)	2000/AL/I/08 D	2020/DSE/I/12 D	

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

1995/CE/I/3

(a) If the price of a good rises, its quantity demanded will decrease, (and vice versa,) ceteris paribus. (2)

(b) 'Quantity demanded' refers to consumers' plan, and does not imply what can be actually bought (in what quantity and at what price) in the market. (2)

1996/AL/I/7(a)

The time cost of shopping is reduced by the supermarket. With sharply rising wages of domestic servants, this reduction of shopping time worth more.

1996/AL/I/8(a)

The cost of raising children has risen significantly in Hong Kong because of the rising costs of domestic servants, the rising employment opportunity, for women, a general increase in the cost of time, and a sharp rise in housing rent. Hence the quantity of children demanded falls.

2000/AL/I/6

(a) No. For a given household size, the new charge will be a lump-sum fee, which will not vary with the amount of garbage disposed of. In other words, the marginal cost of disposing garbage remains unchanged.

(b) No, if all the garbage is filled into one big bag before and after the change.

However, if more than one bag are originally used, the number of garbage bags will drop, with each bag squeezed more tightly. Because there are limits as to how tight the bag can be squeezed, the amount of garbage will also drop.

2001/AL/I/3

The cost of time falls for customers taking haircuts during holidays. The price of a haircut is the price charged by a barber plus the time cost, so during holidays the full price of a haircut falls.

(Therefore, according to the law of demand, the number of customers going to barber shops during holidays is larger.)

6.2 RELATIVE PRICE AND THE LAW OF DEMAND

Multiple Choice Questions

1985/AL/1/06

In grocery stores, wine of types A and B are priced at \$60 and \$90 respectively. The same wines sell for \$90 and \$120 in restaurants. If grocery stores sell equal quantities of each, then restaurants will

- A. also sell equal quantities of each.
- B. sell more of type A than type B.
- C. sell more of type B than type A.
- D. sell only one type of wine.

1985/AL/1/29

Suppose the airport tax per passenger leaving Hong Kong is increased from \$100 to \$250. Which of the following is **FALSE**?

- A. The average length of airplane journeys tends to rise.
- B. The number of travellers will fall.
- C. The ticket prices of shorter flights will fall.
- D. The ticket prices of longer flights will rise.

1986/AL/1/26

'Dynasty' is a wine produced jointly by the French and the Chinese in China. As the finest table wine produced in China, it is served only in the finest restaurants in China. This is because

- A. only foreigners like French wine and they visit primarily the finer restaurants in China.
- B. the Chinese government prohibits the selling of this wine in poorer restaurants.
- C. the Chinese want to earn foreign currencies, and therefore the wine is sold only to foreigners, who visit primarily the finer restaurants.
- D. with more costly settings and services in the finer restaurants, good wine becomes relatively cheaper.

1989/AL/1/14

Sunkist oranges are regarded as the finest quality oranges produced in California. However, it is observed that a relatively small quantity of Sunkist oranges is sold in Los Angeles, but they are plentiful in Hong Kong. This phenomenon is explained by

- A. the fact that Hong Kong and Californian consumers have different preferences for oranges.
- B. the hypothesis that the demand curve for oranges is negatively sloped.
- C. the super-abundance of oranges in California.
- D. the fact that Sunkist oranges are advertised in Hong Kong.

1992/AL/1/08

According to the law of demand, if taxi drivers impose a \$5 additional charge per trip regardless of distance,

- A. the number of short distance trips will have a larger percentage fall than long distance trips.
- B. the number of short distance trips will have a smaller percentage fall than long distance trips.
- C. the number of short and long distance trips will both fall by the same percentage.
- D. the ratio of short to long distance trips will not change.

1994/AL/1/07

Country A imports two brands of garments, X and Y, from Country B. Brand X is of better quality and is higher priced. Now, a tariff rate of 10% is imposed on both X and Y. If there is no other source of supply of garments, we predict that

- A. the proportion of X in the total garments imported decreases.
- B. the proportion of X in the total garments imported increases.
- C. the proportion of X in the total garments imported remains unchanged.
- D. the total amount of garments imported remains unchanged.

1996/AL/1/12

Suppose the present airport tax is changed. Instead of a lump sum tax, an ad valorem tax on the airline ticket price is imposed. Which of the following must result from the change?

- A. an increase in the percentage of first class passengers
- B. a longer journey on average
- C. lower ticket prices (excluding tax) with poorer quality of service.
- D. None of the above is correct.

1997/AL/1/08

A per unit tax imposed on cigarettes will tend to generate which of the following effects?

- A. The quality of cigarettes will improve.
- B. The length of cigarettes will increase.
- C. Cigarettes will be sold by piece, not by package.
- D. Both A and B.

1997/AL/1/11

Which of the following is **NOT** implied by the law of demand?

- A. Relatively more high quality vegetables are sold in urban markets than in rural markets which are closer to the farms.
- B. An ad valorem tax on whisky leads to a greater drop in the sale of lower-priced whisky.
- C. People tend to eat more in buffet dinners than in ordinary dinners.
- D. The number of car accidents rises when the law requires the drivers to wear seat belts.

2000/AL/1/22

If a uniform per-unit tax on wine is removed, then

- A. the price of high-quality wine will decrease.
- B. the price of low-quality wine will decrease.
- C. the relative price of high-quality wine will increase.
- D. All of the above.

2001/AL/1/08

If the government changes the same lump-sum sale tax to each and every customer going to eat in restaurants,

- A. the price of food in restaurants will be reduced.
- B. a customer will eat less each time he goes to a restaurant and he will go less often.
- C. a customer will go to restaurants less often, but he will go to the higher-class restaurants.
- D. None of the above.

2001/AL/1/20

A unit sales tax imposed on cigarettes implies that

- A. the cigarettes produced will be longer.
- B. more smokers will buy cigarettes by the carton (條裝).
- C. the quantity of tobacco consumed will not be affected.
- D. the age distribution of smokers will not be affected.

2002/AL/1/15

The law of demand would be rejected if

- A. a larger quantity of cheap model motorbikes were sold near the place of manufacture than in a far away market.
- B. the ratio of the number of first class passengers to that of economy class passengers rose after the removal of the airport departure tax.
- C. the ratio of high-quality red wine sold to low-quality red wine sold remained unchanged after the imposition of an ad valorem tax.
- D. more mobile phones were sold during a promotion period when discounts were offered to customers.

2004/AL/1/21

There are two types of cars: luxury cars and ordinary cars. If a uniform lump-sum tax is imposed on the purchase of a new car,

- A. the proportion of luxury cars will increase.
- B. the proportion of ordinary cars will increase.
- C. the number of luxury cars will increase.
- D. the number of ordinary cars will increase.

2006/AL/1/08

Which of the following pairs of incidents is **INCONSISTENT** with the law of demand?

- A. Terrorist attacks in a country and a fall in the number of visitors to that country
- B. Heavier penalties for speeding and a reduced number of casualties in car accidents
- C. An imposition of quotas on garment exports and a fall in the quality of garments exported
- D. An invention of a new software program which tracks the illegal downloading of movies and an increase in the sales revenue of movie companies

2007/AL/1/08

Which of the following pairs of observations is inconsistent with the law of demand?

- A. an increase in unemployment benefits and an increase in the number of unemployed people.
- B. a sharp rise in the prices of dinners during Christmas Eve and a decrease in the number of people eating at home.
- C. an increase in the rental of parking spaces and a decrease in the average quality of vehicles.
- D. None of the above

2008/AL/1/09

Which of the following statements is **INCONSISTENT** with the law of demand?

- A. A restaurant charges one dollar for one cooked chicken.
- B. A publisher sells some books well below the original cost of production.
- C. A hotel charges lower room rates for travel agents.
- D. Foreign tourists tend to stay in cheaper hotels than local tourists.

2008/AL/1/16

Consider a unit tax as against an ad valorem tax imposed on cigarettes. Which of the following is correct?

- A. The unit tax tends to increase the length of the cigarettes produced.
- B. For the same amount of tax collected, the ad valorem tax tends to encourage more smuggling of cigarettes.
- C. The price elasticity of demand is easier to estimate with the ad valorem tax than the unit tax.
- D. The price elasticity of demand is easier to estimate with the unit tax than the ad valorem tax.

2009/AL/1/11

The law of demand predicts that

- A. if the demand for a good is inelastic, its quantity demanded will change by a smaller amount with a change in price.
- B. the birth rate increases when the income tax exemption for children increases.
- C. people tend to choose lower quality wine after the abolition of the ad valorem alcohol duty.
- D. the number of short distance trips will fall while the number of long distance trips will rise after a \$1 additional charge mile is imposed on taxi rides.

2010/AL/1/09

Which of the following statements is **NOT** implied by the law of demand?

- A. A relaxation of a garment quota leads to a decline in garment quality.
- B. A law which prohibits the advertising of products leads to improvements in product quality.
- C. An increase in the penalty on drunk driving leads to a reduction in the number of car accidents.
- D. A natural disaster in Taiwan leads to a fall in the number of tourists visiting Taiwan.

2011/AL/1/09

Which of the following is **NOT** implied by the law of demand?

- A. Customers tend to buy more items when there is a long waiting line at the cashier in a supermarket.
- B. Consumers tend to buy less lower-quality red wine after the abolition of the unit tax on red wine.
- C. Developers tend to build higher-quality housing units on a piece of land with a good view.
- D. Companies tend to spend more on entertaining clients when entertainment expenses are tax deductible.

2012/AL/1/08

A lump-sum airport tax has been replaced by an *ad valorem* (percentage) tax on air tickets. Which of the following will be a result of such a change?

- A. The total number of passengers may be unaffected.
- B. Travellers will have a longer journey on average.
- C. The airlines are indifferent as long as the tax payments under the two schemes are the same.
- D. The percentage of first-class passengers will rise.

2012/AL/1/09

Which of the following statements is **INCONSISTENT** with the law of demand?

- A. A unit tax on cigarettes tends to increase the length of the cigarettes produced.
- B. A regulation requiring compulsory use of seat belts tends to decrease the number of traffic accidents.
- C. Luxury cars are relatively more abundant in Hong Kong than in Europe.
- D. An increase in the unemployment benefit increases the unemployment rate.

2013/DSE/I/16

Which of the following is **INCONSISTENT** with the law of demand?

- A. When a higher per-unit import tariff is imposed, the quality of garment imports worsens.
- B. When a government reduces the unemployment benefit, the number of unemployed people drops.
- C. When political unrest in a country causes riots in its major cities, the number of tourists visiting the country drops.
- D. When people expect the price of the shares of a listed company to rise, the price of those shares rises.

2015/DSE/I/18

Which of the following is **INCONSISTENT** with the law of demand?

- A. More high-quality Japanese grapes are imported to Hong Kong during Mid-Autumn Festival.
- B. An increase of the per unit tax on beer results in a fall in the quantity of small-bottle beer sold in the market.
- C. After the introduction of the airport departure tax which is a fixed amount for any traveller, the average length of airplane journeys decreases.
- D. The birth rate increases when the income tax allowance for children increases.

2016/DSE/I/18

Which of the following is **INCONSISTENT** with the law of demand?

- A. When the government imposes an ad valorem tax (i.e. the tax is a certain percent of the price) on red wine, the ratio of high-quality red wine sold to low-quality red wine sold remains unchanged.
- B. A larger quantity of expensive fruits is sold in a faraway market than a market near the farm.
- C. Price of residential flat and quantity transacted are positively related during an economic boom.
- D. An increase in the monthly rental of parking spaces will lead to a decrease in the average quality of vehicles that use the parking spaces.

2017/DSE/I/13

Which of the following is **INCONSISTENT** with the law of demand?

- A. The abolishment of per unit import tariff on garment results in a rise in the quality of imported garments.
- B. Live fishes sold in a market near the fish farm have a higher price than frozen fishes sold in a faraway market.
- C. The ratio of high-quality white wine sold to total white wine sold remains unchanged when the government imposes an ad valorem tax on white wine.
- D. Developers tend to build higher-quality housing units on a piece of land with a good view.

2018/DSE/I/19

Which of the following statements is correct after the adjustment of taxi fare shown below?

Existing taxi fare	
First 2 kilometres:	\$20
Every subsequent 200 metres:	\$1.5

Adjusted taxi fare	
First 2 kilometres:	\$25
Every subsequent 200 metres:	\$1.5

- A. Passengers will take more long-distance taxi trips.
- B. The ratio of short-distance taxi trips taken to long-distance taxi trips taken will decrease.
- C. The total revenue received by taxi drivers will increase.
- D. The fixed cost of operating taxi service will increase.

Starting from the academic year 2017-18, the Hong Kong Government provides a subsidy of \$30 000 annually for students pursuing full-time, self-financed undergraduate programmes (自資學士學位課程) offered by local private educational institutions.

Which of the following are the possible effects of this subsidy scheme?

- (1) The unemployment rate will drop as labour force will increase.
- (2) The scheme helps equalise opportunities because students from low-income households will have a better chance to receive higher education.
- (3) The full employment output level will increase in the future because the average productivity increases after people receiving better education and training.

- 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/I/9

Consider a country which seeks to impose a significant tax on the import of automobiles. This country may (a) impose a uniform unit tax for each and every automobile imported, or (b) impose an ad valorem tax as a percentage of the market value of the automobile.

Suppose with either (a) or (b) the government would receive the same total tax revenue. Which of the two schemes would have a higher average quality of the automobiles imported? Explain. (10 marks)

1995/AL/I/6(c)

Suppose the Hong Kong government decides to limit the number of private cars to its present level. This is done by issuing to each existing vehicle a quota permit without which a vehicle will not be allowed to operate on the road. This quota permit is freely transferable (saleable) in the market. In order to drive a new car on the road, therefore, it is necessary to obtain a quota permit in the market.

Assuming the demand for private cars is rising, what will the effects of the quota system be upon the average quality of vehicles operating on the roads? Explain. (5 marks)

1998/AL/I/6

Beginning in the early 70's, countries in Asia have all been enforced to meet quota requirements when they export garments to the United States. This export quota is imposed on a unit basis, that is, the garments exported are counted by unit, not by their quality or market value.

For many years after the introduction of this system, the quotas held by Hong Kong garment manufacturers were freely transferable (saleable) at uncontrolled market prices; indeed, for many years Hong Kong was the only place in Asia which allowed a free market for quota transactions.

Use the law of demand to explain (a) why there had been a significant improvement in the quality of HongKong garments exported to the United States under the quota system; and (b) why this improvement in garment quality was far more significant in Hong Kong than in other Asian countries. (10 marks)

2010/AL/I/8(b)

The United States has imposed punitive tariffs on the importation of automobile tyres manufactured in China. The tariff rates are very high and are designed to be imposed in three successive years: 35 percent in the first year, 30 percent in the second year, and 25 percent in the third year.

If, instead of imposing the above import tariffs, the US government imposes a unit import tax on automobile tyres manufactured in China, would you expect the quality of the tyres exported from China to the US to improve, worsen or stay the same? Explain. (5 marks)

2014/DSE/II/9(c)

Many countries have considered imposing 'soft drink tax' for health reasons. Suppose a country decides to impose a per unit tax on the sellers for every bottle of soft drink sold in the market.

'As the amount of tax imposed on each bottle is the same irrespective of the bottle size, the proportion of larger-bottle soft drinks sold in the market will increase.' Explain this argument using the law of demand. (5 marks)

2016/DSE/II/13(b)(iii)

The airport corporation plans to build an additional runway. There are two proposals to finance the runway.

Proposal B: the airport corporation charges a lump-sum fee on every departing traveler

Discuss the effects of the two proposals on the average flight distance for departing travellers of Country H. (4 marks)

2021/DSE/II/2

Refer to the following taxi fare arrangement.

Original fare (whole day)	
First 2 kilometres	\$30
Every subsequent 200 metres	\$2

Suppose a late-night surcharge of \$20 will be added to the original fare on any taxi trips from 1:00 am to 5:59 am. How will this surcharge affect the average travel distance of taxi passengers during late-night? Explain. (4 marks)

MARKING SCHEME

1985/AL/I/06 C	1996/AL/I/12 D (deleted)	2002/AL/I/15 B	2009/AL/I/11 B (54%)	2015/DSE/I/18 C (53%)
1985/AL/I/29 C	1997/AL/I/08 D	2004/AL/I/21 A (78%)	2010/AL/I/09 B (64%)	2016/DSE/I/18 D (44%)
1986/AL/I/26 D	1997/AL/I/11 B	2006/AL/I/08 C (74%)	2011/AL/I/09 B (62%)	2017/DSE/I/13 A (46%)
1989/AL/I/14 B	2000/AL/I/22 D	2007/AL/I/08 C (43%)	2012/AL/I/08 A (55%)	2018/DSE/I/19 B (69%)
1992/AL/I/08 A	2001/AL/I/08 C	2008/AL/I/09 D (70%)	2012/AL/I/09 B (50%)	2019/DSE/I/20 C
1994/AL/I/07 C	2001/AL/I/20 A	2008/AL/I/16 A (80%)	2013/DSE/I/16 A (46%)	

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

1993/AL/I/9

The uniform unit tax will lead to the import of higher quality automobiles because the price of a higher quality automobile will fall relative to the price of a lower quality automobile. (With the ad valorem tax, however, the relative prices of high vs. low quality automobiles will remain the same.)

By the law of demand, the quantity of higher quality automobiles rises relative to that of lower quality automobiles.

1995/AL/I/6(c)

The average quality of vehicles operating on the roads will rise.

This is because with a positive price of quota, the prices of higher quality vehicles imported will fall relative to lower quality vehicles.

By the law of demand, the quantity of higher quality vehicles rises relative to that of lower quality vehicles.

1998/AL/I/6

(a) Because one unit of quota must be used for one unit of garment regardless of garment quality, and because the quota has a positive value, the price of higher quality garment fell relative to lower quality garments under the quota system. Hence according to the law of demand the quantity of higher quality garments demanded by the United States rose relative to that of lower quality garments.

(b) Because Hong Kong had long been the only place in Asia to allow a free market for quota transactions, the value of the quota was higher and therefore the relative price of higher quality garments fell further. (This explains why Hong Kong became the leading exporter of higher quality garments and why the quota system, designed to protect the garment industry in the U.S., ended up hurting that industry far more than without the quota system -- Hong Kong garments before the quota were generally of such low qualities that they competed with those produced in Mexico or the Philippines, but hardly competed with those produced in the U.S.)

2010/AL/I/8(b)

Exactly the same as shipping the good apples out with transportation cost added, because the unit import tax added will reduce the price of higher quality tyres relative to lower quality tyres.

2014/DSE/II/9(c)

Law of demand: when the price of a good increases, the quantity demanded of the good decreases, vice versa, ceteris paribus.

Here the unit of measurement to which the tax applies is 'bottle', rather than volume (e.g., in litres), of soft drinks. When the same amount of tax is added to each unit (bottle), then -- per volume of liquid contained -- larger-bottle soft drinks would become cheaper than the small-bottle ones.

The relative price of larger-bottle soft drinks (in terms of small-bottle ones) thus drops. The law of demand then implies that people would buy more larger-bottle soft drinks relative to small-bottle ones, so the proportion of larger-bottle soft drinks sold in the market would increase. (5)

2016/DSE/II/13(b)(iii)

A lump-sum fee charged on both long-distance and short distance travellers will result in a drop of the price of long-distance flight relative to short-distance flight. A higher proportion of travellers will thus take long-distance flights, increasing the average flight distance. (4)

2021/DSE/II/2

When a fixed lump-sum charge is added on a good, the relative price of the long-distance trips will decrease but the relative price of the short-distance trips will increase. The quantity demanded of long-distance trips will relatively increase while that of short-distance trips will relatively decrease, so the proportion of long-distance trips will increase. The average distance travelled increases.

6.3 DETERMINATION OF MARKET PRICE

Multiple Choice Questions

1995/CE/II/08

If the market price of a good is equal to its equilibrium price,

- (1) the sellers can sell all the quantity that they are willing to supply at that price.
- (2) there is no pressure for the price to change.
- (3) the sales revenue is maximized
- (4) consumers' want of the good is fully satisfied

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

2001/CE/II/04

'A rise in the price of a good will cause a decrease in demand for it and an increase in its supply.'
The above statement is

- A. correct because a change in price will change both demand and supply.
B. incorrect because a rise in price will only increase the supply.
C. incorrect because a rise in price will only decrease the demand.
D. incorrect because both demand and supply will not change as a result of change in price.

2013/DSE/II/10

Which of the following is assumed to be constant when the market demand curve of a good is derived?

- (1) the income of the consumers
- (2) the price of the good
- (3) prices of related goods
- (4) preference of the consumers

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

1992/CE/II/21

The increase in demand for container transportation will lead to an increase in demand for container truck drivers. This is an example of

- A. competitive demand.
B. joint demand.
C. derived demand.
D. excess demand.

1999/CE/II/05

In which of the following pairs does the demand for the first good create a derived demand for the second?

- A. Digital versatile disc (DVD) and laser disc (LD) player
B. Wood and mutton
C. Hardback book and printing paper
D. Electricity and light bulb

2000/CE/II/09

Which of the following is an example of joint demand?

- A. The courier service (送遞文件服務) of a local firm and the postal service of the government.
B. The Airport Express train service and the Tung Cheung Line train service
C. Magazines and printing paper
D. Floppy diskettes and floppy diskette drives

2009/CE/II/05

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

- A. beef leather
B. printing paper magazines
C. pop songs MP3 players
D. high definition digital receivers (高清電視機頂盒) TV sets

2014/DSE/II/12

In which of the following pairs does the demand for the first good create a derived demand for the second one?

- A. Aviation service and pilots
B. West Rail Line train service and Light Rail train service
C. Blu-ray discs and Blu-ray disc players
D. Hong Kong Disneyland and Ocean Park Hong Kong

2016/DSE/II/14

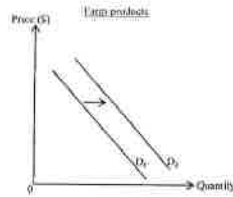
The demand for _____ can be regarded as a derived demand for _____.

- A. coffee beans coffee
B. selfie sticks (自拍杆) digital cameras
C. chicken wings chicken legs
D. newspapers printing paper

2016/DSE/II/17

The demand for construction workers in Hong Kong will increase if

- A. the legal procedures for urban re-development are simplified.
B. wage rates of construction workers decrease.
C. the government provides more allowances for training programmes for the construction industry.
D. there are fewer job opportunities in the construction industry in Macau.

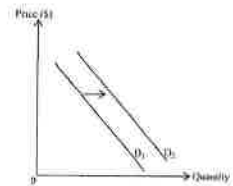


Refer to the above diagram. The price of farming tools will

- A. rise because farm products and farming tools are in joint demand.
- B. fall because farm products and farming tools are in joint demand.
- C. rise because demand for farm products creates a derived demand for farming tools.
- D. fall because demand for farm products creates a derived demand for farming tools.

1990/CE/II/17

Which of the following will cause the demand curve of ice cream to shift from D_1 to D_2 ?



- A. The cost of production of ice cream decreases.
- B. More and more children enjoy drinking soft drinks.
- C. The price of ice cream decreases.
- D. Children are given more pocket money.

1991/CE/II/24

Which of the following may cause the market demand for housing in Hong Kong to increase?

- A. There is an influx of immigrants.
- B. The interest rate has increased.
- C. More housing estates are built by the government.
- D. The selling price of flats has decreased.

1992/CE/II/22

Which of the following factors will cause a decrease in the demand for imported private cars?

- (1) The Organization of Petroleum Exporting Countries (OPEC) restricts the production of oil.
 - (2) An extension of the Mass Transit Railway to Kennedy Town is built.
 - (3) The price of imported private cars increases.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3) only

1992/CE/II/42

The Housing Authority has offered to sell rental flats in public housing to the present tenants. However, not many tenants have expressed a desire to buy the flats they are living in. Which of the following would make the tenants more willing to buy the flats?

- A. increasing the supply of flats in the private sector
- B. increasing the rents of public housing units
- C. increasing the interest rates on home mortgage loans
- D. increasing the quantity of Home Ownership Scheme flats allocated to tenants

1993/CE/II/18

In 1992, the lending ceiling (最高貸款額) on home mortgages in Hong Kong was reduced from 90% to 70% of the value of the property. This resulted in _____ residential property.

- A. a decrease in the demand for
- B. a decrease in the quantity demanded of
- C. an increase in the supply of
- D. an increase in the quantity supplied of

1994/CE/II/07

If the price of movie tickets increases and the rental of laser discs falls, then the equilibrium price of laser disc players

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

1994/CE/II/58

Which of the following situations will **NOT** lead to an increase in demand for private cars?

- A. The price of private cars decreases sharply.
- B. More people live in the remote areas in the New Territories.
- C. The fares for public transport increase.
- D. The government abolishes the gasoline tax.

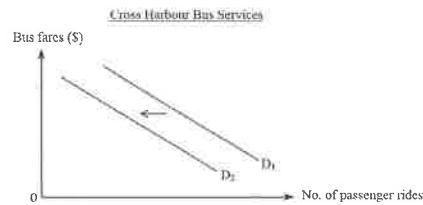
1996/CE/II/06

Suppose the price of compact discs decreases. The price of compact disc players will _____ and the demand for cassette tapes will _____.

- A. rise increase
- B. rise decrease
- C. fall increase
- D. fall decrease

2002/CE/II/07

Refer to the following diagram:



Which of the following would lead to the above change in demand from D_1 to D_2 ?

- A. an increase in the toll fee for taxis using the cross harbour tunnels
- B. an increase in the frequency of cross harbour bus services
- C. a fall in the wage rate of bus drivers
- D. a fall in the ticket price for Mass Transit Railway services

2003/CE/II/08

According to research evidence, one of the substances in beer has proved to be good for the healthy development of bones. This will lead to an increase in

- (1) the supply of beer.
- (2) the quantity transacted of beer.
- (3) the demand for beer.

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

2004/CE/II/05

Suppose a bill is passed that punishes the buyers of pirate compact discs (CDs). The price of pirate CDs would _____ and the quantity transacted would _____.

- A. increase increase
- B. increase decrease
- C. decrease increase
- D. decrease decrease

2005/CE/II/04

Suppose consumers of traditional eye-glasses gradually change to using contact lenses. As a result, the equilibrium price of traditional eye-glasses will _____ and the sales revenue of traditional eye-glass sellers will _____.

- A. rise increase
- B. rise decrease
- C. fall increase
- D. fall decrease

2006/CE/II/07

Nowadays, more schools in Hong Kong have implemented reading programs to develop students' reading habits. This would lead to an increase in

- A. both the demand for and the supply of books.
- B. both the demand for and the quantity supplied of books.
- C. both the supply and the quantity demanded of books.
- D. both the supply and the quantity supplied of books.

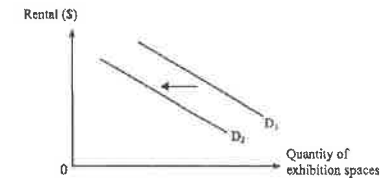
2007/CE/II/10

A possible cause of an increase in both the world market price and the quantity transacted of gasoline could be

- A. a warmer than usual weather during winter around the world.
- B. a rapid industrial development of newly developing countries.
- C. oil production cuts by the Organization of Petroleum Exporting Countries (OPEC).
- D. a decrease in the price of crude oil which is used to produce gasoline.

2008/CE/II/04

The following diagram shows the market of exhibition spaces in Hong Kong.



An increase in the _____ would lead to a shift of the demand curve from D_1 to D_2 in the diagram.

- A. rental of exhibition spaces in Hong Kong
- B. rental of exhibition spaces in Macau
- C. number of trade fairs held in Hong Kong
- D. exhibition spaces in Macau

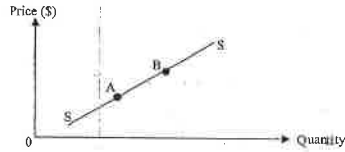
2010/CE/II/06

Suppose both the price and quantity transacted of imported rice decrease. This is likely to be caused by

- A. an increase in the transportation cost resulting from a higher fuel price.
- B. a change in taste from consuming rice to consuming noodles.
- C. a bad harvest of rice.
- D. an increase in the income of households given that rice is a normal good.

2015/DSE/II/15

SS is the supply curve for smartphones. Which of the following reasons can best explain the change of the equilibrium position in the smartphone market from A to B?



- A. The retailers offer more free gifts for buying smartphones.
- B. The size of a tablet computer with a phone function is reduced.
- C. There are more smartphone producers in the market.
- D. The major network service providers increase the service charge at the same price.

2016/DSE/II/13

Which of the following situations would lead to an increase in the demand for private housing?

- A. The price of private housing decreases.
- B. The supply of public housing increases.
- C. People expect the interest rate for mortgage loans to increase later.
- D. People expect the price of private housing to increase later.

2017/DSE/II/14

Which of the following situations would most likely lead to an increase in the demand for iPhone produced by Apple Inc.?

- A. A technological breakthrough in the battery industry reduces its production cost.
- B. People expect the next model of iPhone will have more innovative features.
- C. A model of Samsung smartphone is banned by many airlines.
- D. Apple Inc. reduces the selling price of iPhone.

1990/CE/II/17

Which of the following will cause a fall in the equilibrium price of petroleum in a country?

- A. The country imposes a quota on the imported oil.
- B. The cost of exploration for oil increases substantially.
- C. The country undergoes rapid industrialization.
- D. A cheap substitute for oil has been discovered.

1993/CE/II/57

The price of textbooks in Hong Kong has greatly increased in recent years. Which of the following is **NOT** a possible reason for this?

- A. more frequent revisions of textbooks
- B. more publishers publishing textbooks
- C. increasing wages and rents
- D. the photocopying of textbooks becoming more costly

1996/CE/II/04

The supply of secondary school teachers will increase if

- A. the government provides a subsidy for schools to employ more language teachers.
- B. the government increases the salary of teachers.
- C. the number of children eligible for secondary education increases
- D. the number of job vacancies in the business field decreases

1996/CE/II/56

An increase in the supply of leather which is used in the production of shoes will have the following effects **EXCEPT**

- A. an increase in the demand for shoes.
- B. an increase in the supply of shoes.
- C. an increase in the quantity demanded of leather.
- D. an increase in the quantity demanded of shoes.

1998/CE/II/09

Suppose the price of oranges increases and the quantity of oranges transacted decreases in H.K., this is likely caused by

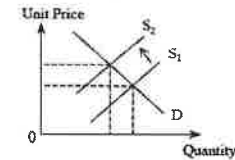
- (1) a rise in transportation cost.
- (2) a fall in the price of apples.
- (3) the fact that oranges have proved useful in reducing the chance of catching a cold.
- (4) a serious bad harvest of oranges in the U.S.A.

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

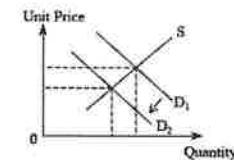
2000/CE/II/12

Which of the following diagrams shows the result of an improvement in the technology used in producing digital versatile disc (DVD) players?

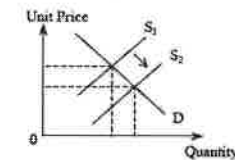
A. DVD Players



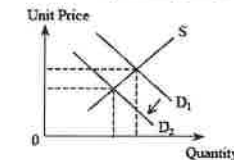
B. DVDs



C. Cinema Tickets



D. Video Compact Discs (VCDs)



2001/CE/II/03

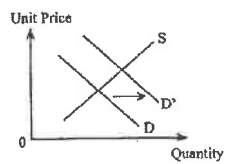
'Compared to last year, more watermelons were sold this summer and the price was lower.' This is because there was a (an) _____ in the _____ watermelons.

- A. increase demand for
- B. decrease demand for
- C. increase supply of
- D. decrease supply of

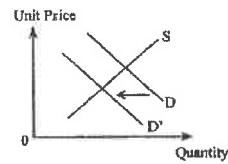
2001/CE/II/05

Which of the following diagrams shows the result of a significant increase in the annual licence fee for private cars?

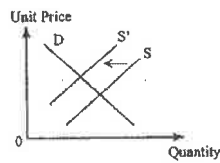
A. Public Transport Services



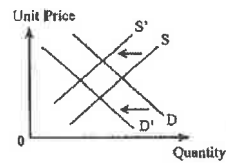
B. Public Transport Services



C. Private Cars



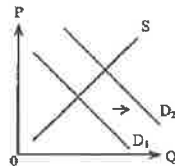
D. Private Cars



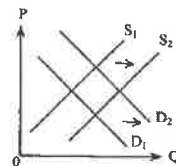
2003/CE/II/14

Which of the following diagrams shows the result of a significant reduction in the cost of storing and transporting chilled chicken from the mainland of China to Hong Kong?

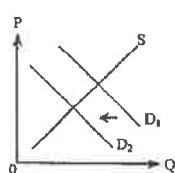
A. Chilled chicken



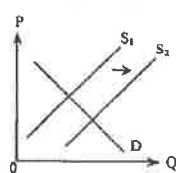
B. Chilled chicken



C. Fresh chicken

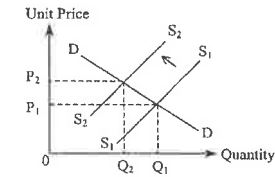


D. Fresh chicken



2004/CE/II/06

Suppose the Hong Kong government imposes a toll on highway users.



The above graph shows the effect of the above toll on the market of

- A. Mass Transit Railway (MTR) services.
- B. private motor cars.
- C. gasoline.
- D. school bus services.

2006/CE/II/06

An increase in the price of petroleum will lead to a decrease in

- A. the demand for petroleum.
- B. the demand for mini-bus services.
- C. the supply of mini-bus services.
- D. the supply of mini-bus drivers.

2006/CE/II/08

Which of the following would lead to a fall in price and an increase in quantity sold of imported Japanese television sets in Hong Kong?

- A. The transportation cost of goods from Japan to Hong Kong increases.
- B. An increasing number of lower-priced similar models of television sets are imported from Korea.
- C. The Japanese technology in producing television sets improves.
- D. The salaries tax rate in Hong Kong decreases.

2007/CE/II/05

Suppose the technology required to produce LCD TV sets (液晶電視機) advances. The price of LCD TV sets will _____ and the price of traditional CRT TV sets (傳統顯像管電影機) will _____.

- A. rise rise
- B. rise fall
- C. fall rise
- D. fall fall

2009/CE/II/06

An increase in the price of flour will lead to a decrease in

- A. the demand for flour.
- B. the supply of flour.
- C. the demand for bread.
- D. the supply of bread.

2013/DSE/11/12

A drop in the price for good X will lead to a drop in the price of good Y if

- (1) good X and good Y are substitutes
 - (2) good X and good Y are complements
 - (3) good X and good Y are in competitive supply.
 - (4) good X and good Y are in joint supply
- A. (1) and (3) only
B. (1) and (4) only
C. (2) and (3) only
D. (2) and (4) only

2015/DSE/11/14

Holding other factors constant, a rise in the price of Good X will lead to a fall in the total revenue of Good Y if

- A. Good X and Good Y are complements.
- B. Good X and Good Y are substitutes.
- C. Good X and Good Y are in joint supply.
- D. Good X and Good Y are in competitive supply.

2017/DSE/11/17

Suppose Good Y is an inferior good. When people's income rises and the production cost of Good Y increases, the equilibrium price of Good Y _____.

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

2018/DSE/11/20

The following table shows the number of new Tesla electric vehicle registered in Hong Kong.

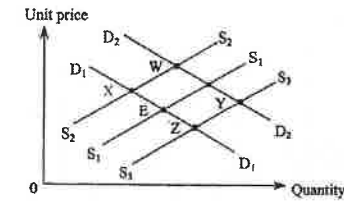
Month	Number of new Tesla electric vehicle registered in Hong Kong
December 2016	168
January 2017	168
February 2017	590
March 2017	2939

The Government announced in mid-February 2017 that the full exemption from first registration tax on electric vehicles would end on March 31, 2017.

Which of the following best explains the above data?

- A. The supply of electric vehicles increased because new technology reduced the production cost of battery used in electric vehicles.
- B. The supply of electric vehicles increased because of the exemption of first registration tax by the Government.
- C. The demand for electric vehicles increased because the Government built more charging stations in the city.
- D. The demand for electric vehicles increased because the buyers expected the cost of buying electric vehicles to go up in the future.

1991/CE/11/12

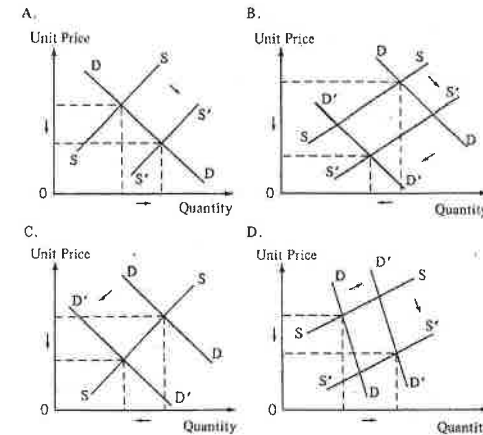


The above diagram shows the market for apples. E is the original equilibrium point. If there is an increase in the population and a good harvest of apples, the new equilibrium point will be

- A. X
- B. W
- C. Y
- D. Z

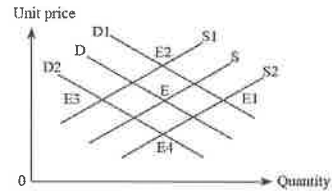
1993/CE/11/26

Technological breakthrough has reduced the production cost of calculators. At the same time, there have been less students sitting for the CE examinations and requiring for the use of calculators. Suppose these two factors have caused the price of calculators to fall. Which of the following graphs helps to illustrate the above situation?



2002/CE/11/09

The diagram below shows the supply and demand schedules of the market for airline tickets in Hong Kong. The original equilibrium point is at E.



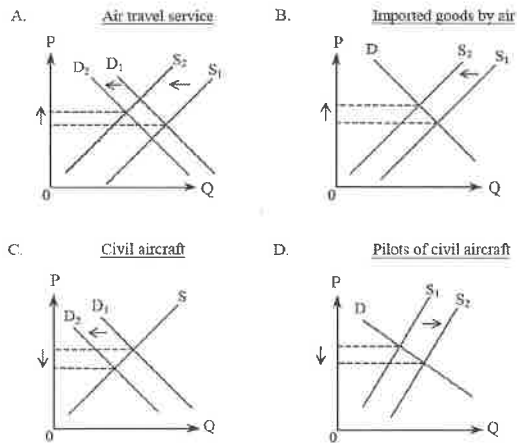
If, as a result of a terrorist attack, fewer people travel overseas and the insurance premium of airlines rises to a high level, the new equilibrium point will be at

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2002/CE/11/50

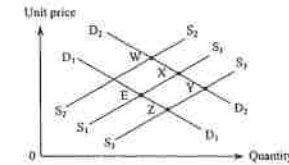
At the outbreak of war in the Middle East, civil aircraft which used to fly through the nearby air space had to fly longer routes in order to stay away from the war areas. Moreover, the risk of travelling by civil aircraft was also higher.

Which of the following diagrams about the effects of these changes is **INCORRECT**?



2004/CE/11/07

The following diagram shows the market supply and demand curves of face masks in Hong Kong. The original equilibrium point is E.

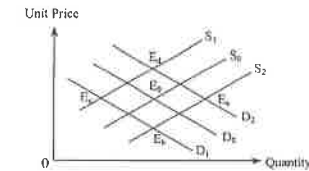


Suppose more people decide to wear face masks to prevent the spread of respiratory diseases and there is an increase in the number of face mask producers. As a result, the new equilibrium point would be

- A. W
- B. X
- C. Y
- D. Z

2005/CE/11/05

In the following graph, E₀ was the original equilibrium point of the seafood market in Hong Kong.

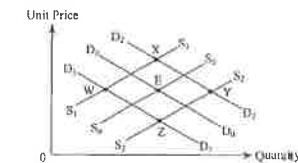


Last year a number of people were poisoned by seafood. At the same time, fishermen's harvest decreased. As a result, what would be the new equilibrium point in the graph?

- A. E_a
- B. E_b
- C. E_c
- D. E_d

2006/CE/11/05

The following diagram shows the private housing market. Point E is the original equilibrium point.

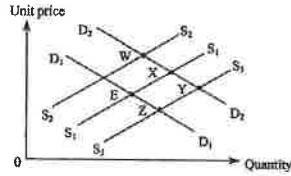


Suppose there is an increase in both the home mortgage loan interest rate and the labour cost of private house construction. The new equilibrium point in the diagram would be

- A. W
- B. X
- C. Y
- D. Z

2007/CE/II/04

The diagram below shows the supply and demand curves of hotel accommodation in Macao. The original equilibrium point is at E.

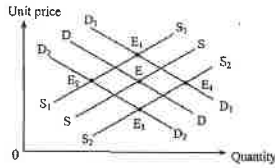


More and more hotels start operating in Macau and it is becoming more popular to visit the place. The New equilibrium point will be at _____

- A. W
- B. X
- C. Y
- D. Z

2008/CE/II/05

The diagram below shows the supply and demand curves of residential property in Hong Kong. The original equilibrium point is at E.

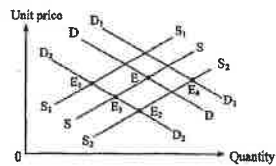


If the population of Hong Kong increases and the wage rate of local construction workers rises, the new equilibrium point will be at _____

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2009/CE/II/07

The diagram below shows the supply and demand curves of mainland China's milk powder products in Hong Kong. The original equilibrium point is at E.

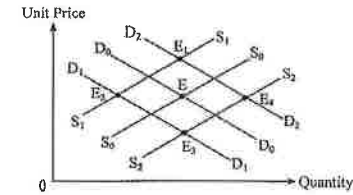


Some of these milk powder products were found to contain the harmful substance, melamine (三聚氰胺) and some mainland milk powder producers left the industry. One possible new equilibrium point of the above diagram is at _____

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2010/CE/II/08

The diagram below shows the supply and demand curves of swine flu vaccine in Hong Kong. The original equilibrium point is at E.

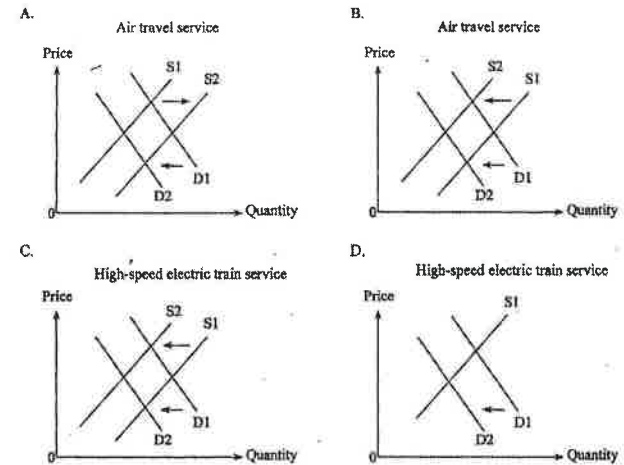


If the number of the swine flu vaccine manufacturers increases and the risk of being infected by swine flu increases, one possible new equilibrium point of the above diagram is at _____

- A. E₁
- B. E₂
- C. E₃
- D. E₄

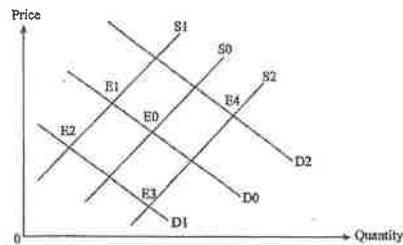
2012/DSE/II/13

A train accident seriously affects the confidence of travellers using a high-speed electric train service. At the same time, the airlines are facing the problem of rising fuel prices. Which of the following diagrams could represent a result of the above events?



2012/DSE/I/15

The following is the demand-supply diagram of a property market. E0 is the original equilibrium point.

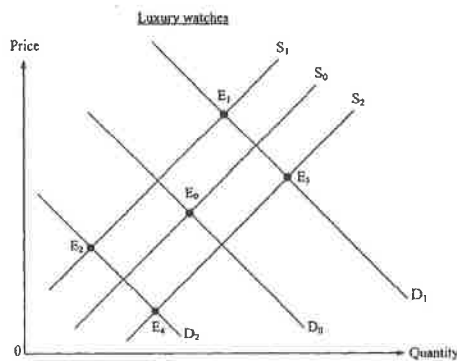


If the government increases the stamp duties levied on property buyers and tightens the controls on dumping of construction waste, the new equilibrium point in the property market will be _____.

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2013/DSE/I/11

Refer to the following demand-supply diagram showing the market of luxury watches in Hong Kong. The initial equilibrium point is E₀.

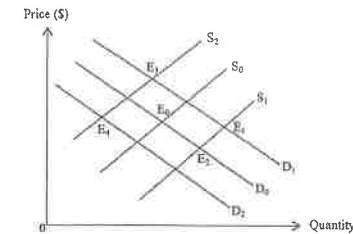


Suppose the rental of shopping premises in Hong Kong rises sharply and the economy in the mainland experiences a recession. The new equilibrium point will be _____.

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2014/DSE/I/14

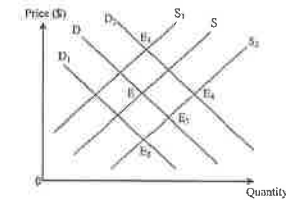
Suppose the equilibrium point of the cosmetic surgery market in Hong Kong is originally at E₀. If people become open-minded to cosmetic surgery while more regulations are imposed on the cosmetic surgery industry, the new equilibrium point will be at _____.



- A. E₁
- B. E₂
- C. E₃
- D. E₄

2016/DSE/I/16

The diagram below shows the supply and demand curves of taxi services in Hong Kong. The original equilibrium is at E.

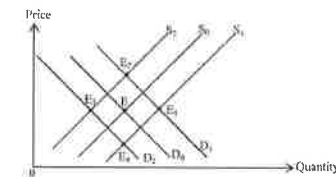


New apps for smartphone such as “Uber” have been developed that enable some private car owners to provide the general public with personalised point-to-point transport service. At the same time, the fuel price has decreased significantly. The new equilibrium point will be at _____.

- A. E₁
- B. E₂
- C. E₃
- D. E₄

2018/DSE/I/16

The diagram below shows the supply and demand curves of air-purifiers. The original equilibrium point is E.

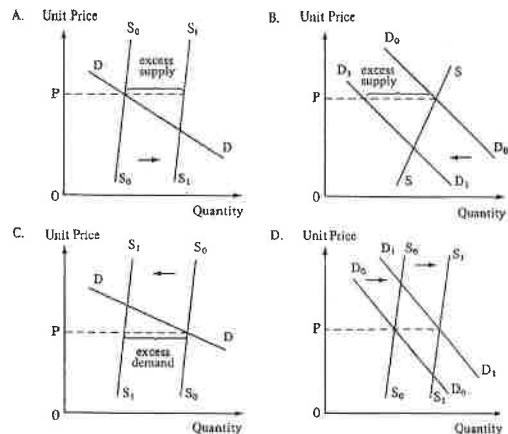


Suppose there is a technological advance in producing air-purifiers. At the same time, the average air pollution index has been increasing over the last decade. The new equilibrium point will be at _____.

- A. E₁
- B. E₂
- C. E₃
- D. E₄

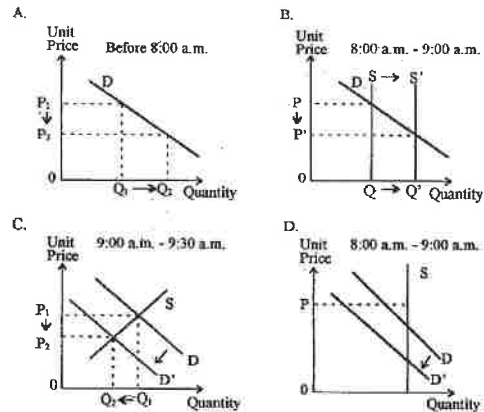
1992/CE/11/23

A large stock of corn is piling up because of a good harvest. Which of the following diagrams can explain this phenomenon?



1997/CE/11/06

The Mass Transit Railway Corporation (MTRC) encourages the adoption of a flexi-time office-hours scheme (彈性上班時間) to reduce the overcrowding of passengers during the rush hours. Hence, passengers using the Nathan Road Route before 8:00 a.m. and between 9:00 a.m. and 9:30 a.m. will have a discount on their MTR fares. Which of the following diagrams could be a result of such a measure of the MTRC?



2005/CE/11/06

It was reported that in late 2004, there were millions of unemployed people in the countryside of the Chinese mainland. On the other hand, the firms in the Pearl River delta faced a labour shortage problem.

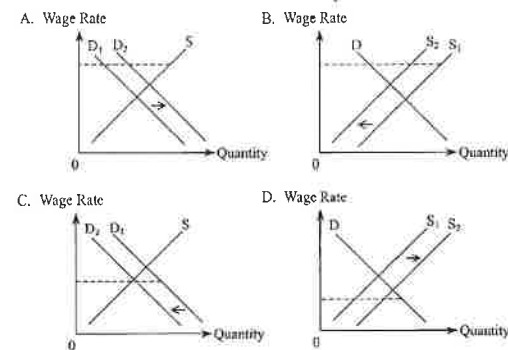
Which of the following would reduce unemployment in the countryside?

- (1) The social welfare benefit of workers in the Pearl River delta improves.
- (2) Labour wages in the Pearl River delta fall.
- (3) Firms in the Pearl River delta move to the countryside.

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

2005/CE/11/07

While many construction workers are unemployed in Hong Kong, there is a shortage of construction workers in Macau. Suppose a law is passed in Macau which allows the importation of construction workers from Hong Kong to Macau. Which of the following diagrams would best describe the effects of such a law on the labour market of construction workers in Macau?



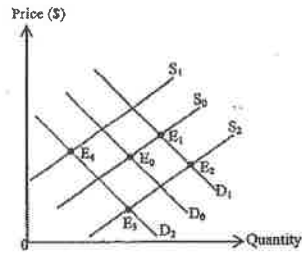
2018/DSE/II/15

The average waiting time for public housing is 4.7 years according to the data from the Housing Authority. Which of the following would lead to an increase in the waiting time for public housing in the long term?

- A. a financial aid offered to low-income families renting private residential flats
- B. a rise in the income limit of applying for public housing
- C. a relaxation of rules regulating the change of land use
- D. a provision of shared-housing units by a billionaire for the applicants of Comprehensive Social Security Assistance Scheme

2019/DSE/1/13

The following is the supply-demand diagram of e-sports equipment. The initial equilibrium point is E_0 .

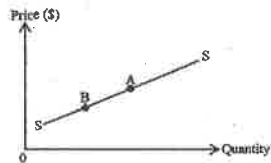


Suppose the government promotes e-sports by subsidising e-sports equipment manufacturers as well as the e-sports training programmes. The new equilibrium point will be _____.

- A. E_1
- B. E_2
- C. E_3
- D. E_4

2019/DSE/1/17

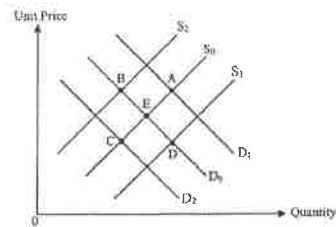
SS is the supply curve of electric vehicles. Which of the following reasons can best explain the change of the equilibrium position in the electric vehicle market from A to B ?



- A. All electric vehicle dealers provided a longer warranty period.
- B. The government removed the subsidies on buying electric vehicles.
- C. The gasoline suppliers greatly raised the price of gasoline.
- D. The cost of building charging stations drastically decreased.

2020/DSE/1/14

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



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

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

2021/DSE/1/13

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

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

2021/DSE/1/14

When Good X and Good Y are _____, a decrease in the supply of Good X will result in an increase in the _____ Good Y.

- A. substitutes ... supply of
- B. substitutes ... quantity supplied of
- C. complements ... demand for
- D. complements ... quantity supplied of

Short & Structured Questions

1991/CE/1/2(b)(i)

Suppose in Hong Kong the public medical service is perfectly inelastic in supply.

At present the public medical fee is set below the equilibrium level. Suppose the government raises the fee to the equilibrium level. With the aid of a diagram, explain what would happen to the following:

(i) the quantity of the public medical service demanded by the patients

(ii) the total revenue from the provision of the public medical service

(8 marks)

1993/CE/1/3(c)

During the rush hours, the number of passengers is greater than the maximum capacity of the MTR service. After a peak congestion fare (繁忙時間附加費) was added to the normal fare, there was less overcrowding of passengers during those hours. Explain this situation with the aid of a diagram.

(8 marks)

1995/CE/1/9(a)

The World Cup of 1994 was held in the USA. People from all over the world went to the US to watch the matches.

The final match was held in Los Angeles. The rental accommodation (出租住宿單位) in that city was fixed in supply. Due to the high demand, many disappointed football fans could not rent an accommodation unit because the rental price was not high enough.

(i) Draw a well-labelled supply-demand diagram to show the above situation.

(2 marks)

(ii) If the rental price had been raised to a level where the demand had met the fixed supply, how would the rental income of the accommodation owners be different from that in (a)(i)? Explain with the aid of a diagram.

(5 marks)

1999/CE/1/11(a)

Some people believe that the number of taxis on roads can never satisfy the demand and that a rise in taxi fares would increase the sales revenue of the taxi service.

Explain this viewpoint with the aid of a supply-demand diagram.

(8 marks)

1990/CE/1/4(b)

Suppose there is a fall in local people's desire for consumption and unsold stocks are piling up in the garment industry. Illustrate this situation with the aid of a diagram.

(6 marks)

2004/CE/1/10(a)

In 2003, SARS (severe acute respiratory syndrome) seriously affected Hong Kong's economy.

At the outbreak of SARS, airlines did not reduce air fares or the number of flights. As a result, there were a lot of empty seats on planes flying to Hong Kong. With the aid of a diagram, explain the above economic phenomenon, and explain how the total revenue of these airlines was affected.

(8 marks)

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

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

Explain the effects on

(I) the demand for

(II) the supply of

residential flats in and around Kowloon City after the removal of the airport to the new site.

(6 marks)

1991/CE/1/4(c)

Many construction companies in Hong Kong say that they are facing the problem of 'labour shortage'.

(i) What is meant by 'shortage' in economics? Illustrate with a diagram.

(5 marks)

(ii) Suppose the wage rate of construction workers remains unchanged. With the aid of separate diagrams, explain how

(I) a recession

(5 marks)

(II) the importation of construction workers

(5 marks)

would lessen the 'labour shortage' problem of the construction companies.

1992/CE/1/4(d)

Owing to the construction of the new airport, more companies have decided to redevelop their factories in Tsuen Wan into hotels and shopping centres.

(i) Explain the effect on **BOTH** the demand for and supply of hotels and shopping centres in Tsuen Wan in the coming few years.

(6 marks)

(ii) With the aid of a supply and demand diagram, explain why the prices of the properties in (d) (i) might still increase.

(6 marks)

1993/CE/1/4(b)(ii)

Suppose a large number of Japanese TV sets are smuggled from Hong Kong to China and sold for HK\$40 million.

With the aid of a diagram, explain how the equilibrium price of the TV sets in China will be affected.

(4 marks)

1995/CE/1/11(a)

After the completion of a new highway, the travelling time between Tin Shui Wai and Central will be much shortened. In addition, more land in Tin Shui Wai will be provided for building private housing.

Mr. Ip thinks that the prices of private housing in Tin Shui Wai will increase due to the combined effects of the above government policies. With the aid of a supply-demand diagram, explain the circumstance under which Mr. Ip would be right.

(7 marks)

1996/CE/1/12(a)

The manufacturing workers in Hong Kong are facing the problem of a rising unemployment rate. Assume that manufacturing workers are not willing to accept lower wage rates. With the aid of separate diagrams, explain how **EACH** of the following would lead to rising unemployment in the manufacturing sector.

(i) declining secondary production because of a structural change in the economy.

(5 marks)

(ii) importation of manufacturing workers.

(5 marks)

1997/CE/1/2

Workers in the manufacturing sector in Hong Kong have an unemployment problem. With the aid of a supply-demand diagram, explain **ONE** situation under which the number of unemployed manufacturing workers may decrease. (6 marks)

1997/CE/1/9(b)

Suppose the government builds a railway in northwest New Territories. With the aid of a diagram, explain the effect of this new railway on the total revenue of mini-buses operation on the same route. (6 marks)

1998/CE/1/9(c)

Mr. Wong employs some imported workers in the restaurant.

- (i) With the aid of a diagram, explain the effect of importation of workers on the equilibrium wage rate of restaurant workers in Hong Kong. (4 marks)
- (ii) Use the same diagram to illustrate the effect of importation of workers on the employment level of *local restaurant workers*. (3 marks)

1998/CE/1/10(b)

Suppose the government punishes both the sellers and buyers of illegal computer software. With the aid of separate diagrams, explain how this would affect the market price of

- (i) illegal computer software. (6 marks)
- (ii) legal computer software. (4 marks)

1999/CE/1/2

Study the following news report:

Last year people were afraid of eating poisonous seafood. Though the import volume of seafood decreased, its selling price remained the same.

Explain the phenomenon mentioned in the news report with the aid of a supply-demand diagram. (6 marks)

1999/CE/1/10(a)

There is a serious unemployment problem in Hong Kong.

- (i) Given a fixed wage rate, explain why a decrease in the profits tax rate may reduce unemployment. (3 marks)
- (ii) Draw a supply-demand diagram for the labour market in (a)(i). Explain, step by step, how the diagram is drawn. (6 marks)

2000/CE/1/2

David: 'When the price of chocolates increases, people will buy fewer chocolates.'
Amy: 'No, I don't think so. The price of chocolates has increased, but the quantity of chocolates bought has also increased.'

Explain, with the aid of separate diagrams, why both of them can be correct (7 marks)

2000/CE/1/9(b)(i)

Some petroleum companies complained that their business was affected because some drivers bought gasoline from smugglers who evaded import duties.

With the aid of a diagram, explain how the smuggling of gasoline would affect the sales revenue of petroleum companies. (7 marks)

2001/CE/1/10(c)(i)

Bank A raises capital by issuing shares to the public. The quantity and subscription price (認購價) of these shares are fixed and not all people who apply for these shares are successful in their application.

Explain the economic phenomenon described above with the aid of a diagram. Also indicate in the diagram the amount of capital raised. (7 marks)

2001/CE/1/11(d)

There is an excess supply of private housing at the price set by private housing developers. The government declares that the supply of housing under the Home Ownership Scheme will be reduced.

Suppose the price of private housing remains unchanged. With the aid of a diagram, explain how this new government housing policy would affect the sales revenue of private housing developers. (7 marks)

2002/CE/1/2

Suppose the Organization of Petroleum Exporting Countries cuts its oil production. At the same time, the demand for automobiles decreases.

With the aid of a diagram, explain under what condition the price of gasoline would increase. (7 marks)

2002/CE/1/10(b)

Suppose the banks decrease their interest rates on home mortgage loans. With the aid of a diagram, explain how this would affect the total expenditure on the purchase of private housing. (6 marks)

2002/CE/1/11(b)

There are student places not yet filled in Miss Wong's tutorial school. The school decides to launch an advertising campaign to recruit more students and to keep the tuition fee unchanged.

With the aid of a diagram, explain how a successful advertising campaign would fill all the places and increase the total revenue of the school. (7 marks)

2003/CE/1/1

A reporter wrote: '...The government has not allowed families with an income of more than \$21 000 a month to buy a living unit under the Home Ownership Scheme (HOS). Nevertheless, there are not enough living units under this scheme available for applicants.'

- (a) Use your knowledge of demand and supply to describe the HOS living units market. Illustrate your answer with the aid of a diagram.
- (b) If the income restriction on the applicants is lowered to \$18 000, explain the effect on the HOS living units market by using the diagram in (a). (7 marks)

2003/CE/1/10(b)

Suppose the price of paper falls drastically and the number of school children increases.

- (i) Explain why the supply of and the demand for textbooks would be affected by these changes.
- (ii) With the aid of a diagram, explain under what condition the price of textbooks would decrease. (8 marks)

2003/CE/1/1(d)

With the aid of a diagram, explain how the closing down of IT companies would affect the wage rate and employment level of the professionals in the IT industry. (6 marks)

2004/CE/1/3

Recently, digital cameras have become popular for taking photographs. With the aid of a diagram, explain how this would affect consumers' total expenditure on rolls of film. (6 marks)

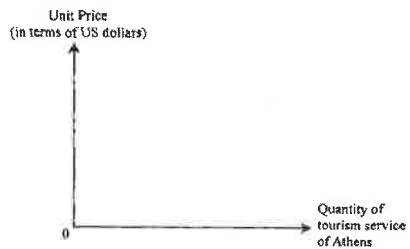
2005/CE/1/1

During the period of the 2004 Olympic Games, the tourism business of the host city Athens was not as good as expected. The causes were generally believed to be an appreciation of the euro and also that tourists were afraid of a terrorist attack.

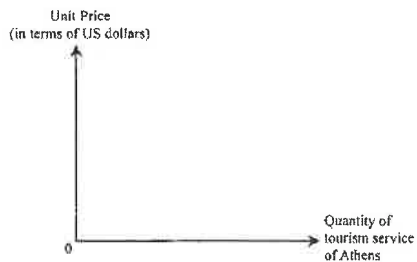
One of the above two causes would lead to a change in demand for, while the other would lead to a change in the quantity demanded of, the tourism service of Athens.

With the aid of the following two diagrams, explain separately the effect of each of the above two causes. (5 marks)

(i) The effect of an appreciation of the euro:



(ii) The effect of a fear of a terrorist attack:



2006/CE/1/9(a)

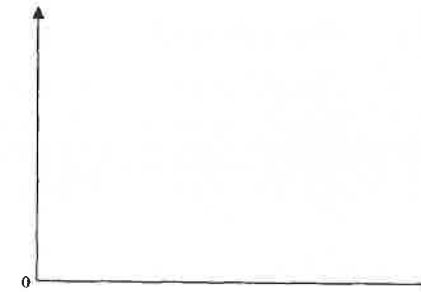
Each year, during the tourism peak season of the National Day golden week in October, a large number of tourists from Mainland China visit Hong Kong.

Many of these tourists stay at local 3-star hotels. Assume that the room charges of these hotel are the same at the same points in time.

- (i) Every September these hotels have vacant rooms. Draw a supply-demand diagram in Figure 2 for this situation. Explain your answer. (3 marks)
- (ii) As compared to September, these hotels have fewer vacant rooms during the National Day golden week in October even though they raise their room charges during this week.

Indicate the above changes in the supply-demand situation of these hotel rooms in Figure 2. Explain your answer. (6 marks)

Figure 2

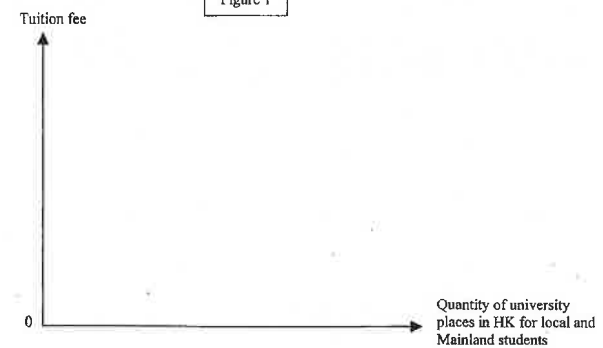


2007/CE/1/8(a)

The universities in Hong Kong do not only admit local students. Since last year, these universities have begun to admit a large number of top-quality Mainland students. Suppose all students pay the same tuition fees.

Because of competition from these Mainland students, the problem of shortage of university places in Hong Kong has worsened. Draw a supply-demand diagram in Figure 1 to illustrate the above change in the shortage. Explain your answer. (6 marks)

Figure 1



2008/CE/I/1

Rice is a staple food in Hong Kong. Refer to the following table.

Year	Total consumption of rice (ton) in Hong Kong
1980	355 310
1990	351 182
2000	322 223

During this period of time, the size of population of Hong Kong has increased. Explain **TWO** demand-side factors that would lead to the above change in rice consumption. (4 marks)

2010/CE/I/1

One month after the first phase implementation of an environmental levy on plastic shopping bags, an increase in the quantity sold of non-woven reusable bags (不織布袋), which are not subject to the levy, was reported.

Based on the above information, explain the change in the total revenue of non-woven reusable bags with the aid of a supply-demand diagram. (5 marks)

2010/CE/I/1(a)

The 2008 financial tsunami had a huge impact on Economy A.

Given a fixed wage rate, explain with the aid of a supply-demand diagram why a decline in the business of the financial sector due to the financial tsunami would increase unemployment in this sector. Also indicate in the diagram the loss in total wage earnings of the employees in this sector. (9 marks)

2012/DSE/II/12(c)

The local property market is considered to be overheated. The government has decided to re-introduce the Home Ownership Scheme in which eligible citizens can purchase a living unit under the scheme at a great discount.

- With the aid of a demand-supply diagram, explain how the re-introduction of the Home Ownership Scheme would cool down the private housing market. (5 marks)
- WITHOUT** the aid of a diagram, explain how the mortgage interest rate could be adjusted to cool down the private housing market. (3 marks)

2015/DSE/II/4(b)

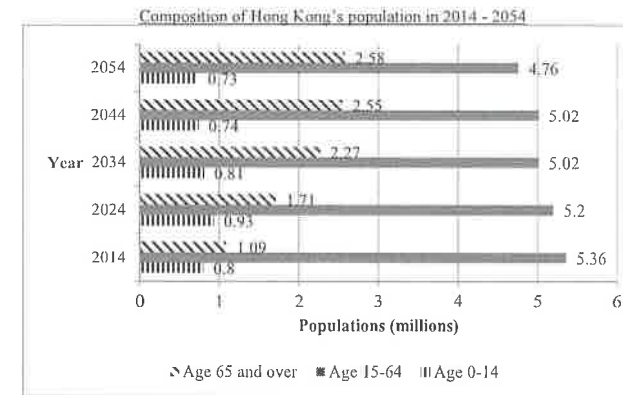
Read the following news extract.

The strong preference for small flats has pushed the prices of the flats under 400 square feet to a new high in the past few months. It is expected that more and more small flats will be available for sale in the coming future.

Explain how the supply of large flats would be affected by the strong preference for small flats. (2 marks)

2018/DSE/II/13(c)

The source below shows Hong Kong's population projection.



Susan is a local S6 graduate and is considering enrolling a programme in either primary education or nursing in Hong Kong. If future income is her major concern, which programme would you recommend to her? Explain your choice with reference to the above source. (4 marks)

MARKING SCHEME

1995/CE/II/08 A	1994/CE/II/07 B	1996/CE/II/04 D	1991/CE/II/12 C	2007/CE/II/04 C (79%)
2001/CE/II/04 D	1994/CE/II/58 A	1996/CE/II/56 A	1993/CE/II/26 B	2008/CE/II/05 A (56%)
2013/DSE/I/10 D (60%)	1996/CE/II/06 B	1998/CE/II/09 B	1994/CE/II/06 C	2009/CE/II/07 A (83%)
1992/CE/II/21 C	2002/CE/II/07 D (82%)	2000/CE/II/12 D	1995/CE/II/13 A	2010/CE/II/08 D (78%)
1999/CE/II/05 C	2003/CE/II/08 C (58%)	2001/CE/II/05 C	1996/CE/II/05 A	2012/DSE/I/13 D (78%)
2000/CE/II/09 C	2004/CE/II/05 D (60%)	2001/CE/II/05 A	1997/CE/II/05 B	2012/DSE/I/15 B (80%)
2009/CE/II/05 B (47%)	2005/CE/II/04 D (89%)	2003/CE/II/14 C (43%)	1998/CE/II/08 C	2013/DSE/I/11 B (87%)
2014/DSE/I/12 A (53%)	2006/CE/II/07 B (45%)	2004/CE/II/06 D (31%)	1998/CE/II/10 D	2014/DSE/I/14 C (84%)
2016/DSE/I/14 A (55%)	2007/CE/II/10 B (54%)	2006/CE/II/06 C (55%)	1999/CE/II/12 C	2016/DSE/I/16 B (71%)
2016/DSE/I/17 A (67%)	2008/CE/II/04 D (63%)	2006/CE/II/08 C (65%)	2000/CE/II/07 B	2018/DSE/I/16 A (82%)
2018/DSE/I/13 C (74%)	2010/CE/II/06 B (78%)	2007/CE/II/05 D (59%)	2001/CE/II/10 C	1992/CE/II/23 A
1990/CE/II/17 D	2015/DSE/I/15 A (58%)	2009/CE/II/06 D (60%)	2002/CE/II/09 C (72%)	1997/CE/II/06 A
1991/CE/II/24 A	2016/DSE/I/13 D (64%)	2013/DSE/I/12 A (25%)	2002/CE/II/50 D (51%)	2005/CE/II/06 B (77%)
1992/CE/II/22 A	2017/DSE/I/14 C (59%)	2015/DSE/I/14 A (69%)	2004/CE/II/07 C (79%)	2005/CE/II/07 D (70%)
1992/CE/II/42 B	1990/CE/II/17 D	2017/DSE/I/17 D (62%)	2005/CE/II/05 C (84%)	2018/DSE/I/15 B (47%)
1993/CE/II/18 A	1993/CE/II/57 B	2018/DSE/I/20 D (82%)	2006/CE/II/05 A (61%)	2019/DSE/I/13 B
2019/DSE/I/17 B	<i>Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.</i>			
2020/DSE/I/14 A	2021/DSE/I/13 D	2021/DSE/I/14 B		

1991/CE/II/2(b)(i)

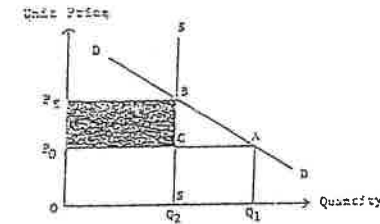
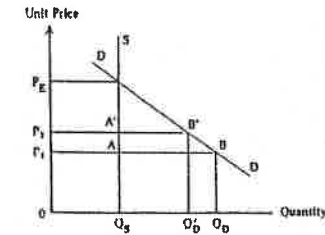


Diagram:

- $P_0 \uparrow$ to P_1 (equilibrium price) (1)
- $Q_1 \downarrow$ to Q_2 (1)
- shaded area = additional revenue (1)

- (i) According to the law of demand, the quantity demanded decrease. (1)
- (1)
- (ii) The total revenue increase (from area OQ_2CP_0 to area OQ_2BPE) because the fare is raised while the quantity remains unchanged. (3)

1993/CE/II/3(c)



P_E = equilibrium price
 P_1 = original price
 P_2 = new price

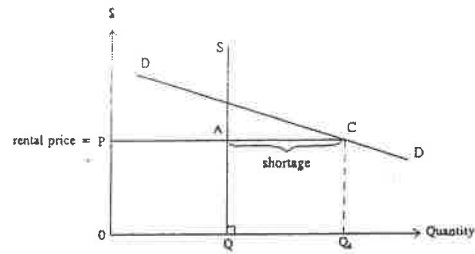
Correct graph:

- Vertical supply curve (1)
- AB = excess demand at P_1 (1)
- $A'B'$ = excess demand at P_2 (1)

Correct verbal explanation:

- The supply of MTR service is perfectly inelastic (at maximum capacity). (1)
- The initial fare (P_1) is set below the equilibrium level, so there is an excess demand. (2)
- The higher fare (P_2) is still below the equilibrium level, but the excess demand will become smaller. (2)

1995/CE/1/9(a)
(i)

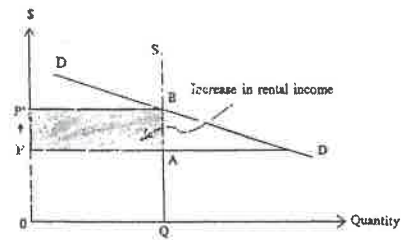


Candidates should indicate on the graph:

- a vertical supply curve
- the rental price P was below the equilibrium price / shortage of AC

(1)
(1)

(ii)



Candidates should indicate on the graph:

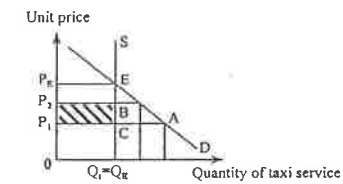
Correct indication of the rental income increase on the graph (i.e. area ABP'P).

Verbal elaboration:

- The price increases to the equilibrium price.
- There is no change in the quantity transacted.
- The rental income increases.

(2)
(1)
(1)
(1)

1999/CE/1/11(a)



Graph showing:

- $P_1 < P_E$
- $P_1 < P_2 < P_E$
- no change in Q_1
- total revenue increases from $P_1 \times Q_1$ to $P_2 \times Q_1$ / additional revenue is $P_1 P_2 BC$

(1)
(1)
(1)
(1)

Verbal explanation:

- At P_1 , there is an excess demand for taxi service.
- After a rise in taxi fares from P_1 to P_2 (still below equilibrium price), there is still an excess demand.
- The quantity transacted remains unchanged.
- The total revenue increases from $P_1 \times Q_1$ to $P_2 \times Q_1$.

(1)
(1)
(1)
(1)

1990/CE/1/4(b)

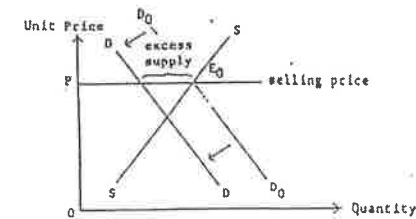


Diagram:

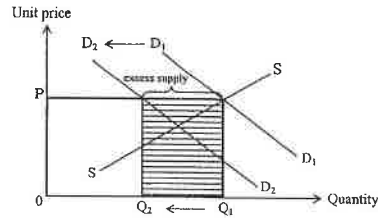
- demand curve shifts to the left
- P unchanged
- excess supply

(1)
(1)
(1)

Elaboration:

- The demand decreases (because of the fall in desire for consumption).
- There will be an excess supply at the original selling price P.

(1)
(2)



Indicate in the diagram:

- demand curve shifted to the left (1)
- P remained constant (1)
- Q decreased from Q_1 to Q_2 (1)
- excess supply (1)
- TR (= $P \times Q$) decreased from PQ_1 to PQ_2 / loss in revenue (1)

[Remark: The above analysis starts from an equilibrium position. One can also start from a situation with excess supply or excess demand where similar analysis still applies.]

Verbal explanation:

- (Due to the outbreak of SARS,) there is a decrease in demand for airlines services. (1)
- The quantity transacted decreased at the constant price. (1)
- Therefore, total revenue decreased. (1)

1990/CE/A/5(c)(ii)

- (I) The demand would probably increase, because the quality of living in Kowloon City will be improved (nuisances disturbances and danger caused by the old airport do not exist). (3)
- OR**
- The demand would probably decrease, because new airport spreads the population to Lantau and Western part of Kowloon and the N.T., the convenience of Kowloon City decreases. (3)
- (II) The supply would probably increase, because removal of height limit / reconstruction of buildings / increase in supply of land released from the old airport (3)

1991/CE/A/4(c)

(i)

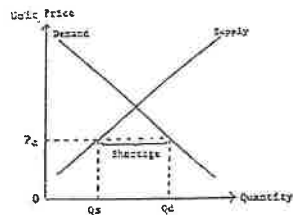


Diagram:

- P (lower than equilibrium) (1)
- shortage (1)

A shortage or excess demand arises when the price is below the equilibrium level. (1)
At such a price, the quantity demanded is larger than the quantity supplied and the difference between Q_d and Q_s , i.e., $Q_d - Q_s$, is a shortage. (2)

(ii) (I)

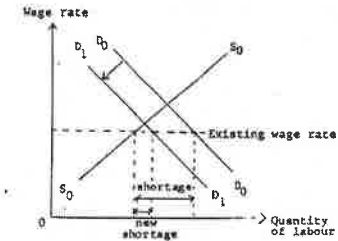


Diagram:

- demand curve shifts to the left (1)
- P unchanged (1)
- smaller shortage (1)

The (derived) demand for labour will fall if there is a recession. (1)
The excess demand will become smaller. (1)

(II)

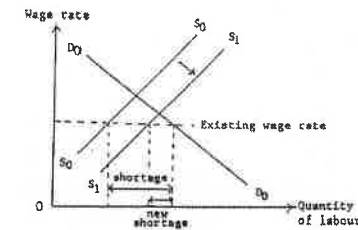


Diagram:

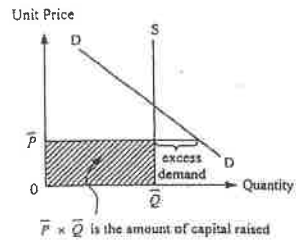
- supply curve shifts to the right (1)
- P unchanged (1)
- smaller shortage (1)

The supply of labour will increase if foreign workers are imported. (1)
The excess demand will become smaller. (1)

1992/CE/1/4(d)

- (i) The demand increases, because (Construction of the new airport will bring forth the following:)
more business and investment in Tsuen Wan \Rightarrow demand for shopping centres \uparrow (1)
- OR**
more confidence in the future of Hong Kong \Rightarrow people expect the value of these properties \uparrow (2)

The supply increase, because (1)
more and more factories there will be redeveloped into hotels and shopping centers (2)



Indicate in the graph:

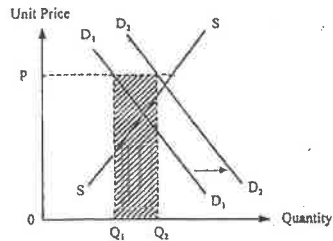
- a vertical supply curve
- the price is set below the equilibrium price
- excess demand
- amount of capital raised

- (1)
- (1)
- (1)
- (2)

Verbal explanation:

The selling price is fixed at a level below the equilibrium price, at which the quantity demanded is larger than the quantity supplied / there is an excess demand.

- (1)
- (1)



Indicate in the graph:

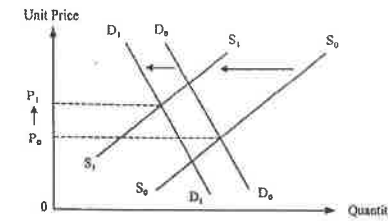
- fixed price P is set above the equilibrium price
- demand curve shifts to the right
- Shaded area = increase in sales revenue

- (1)
- (1)
- (1)

Verbal explanation:

The demand for private housing will increase, because public housing is a substitute.
(Given constant P,) the quantity transacted will increase, and the total revenue will increase.

- (1)
- (1)
- (2)



Indicate in the graph:

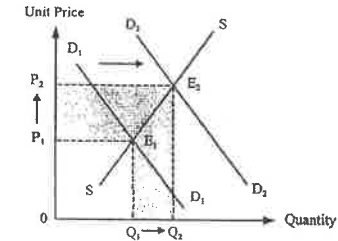
- supply curve shifts to the left
- demand curve shifts to the left
- correct indication of the increase in equilibrium price with the leftward shift of the supply curve > the leftward shift of the demand curve

- (1)
- (1)
- (1)

Verbal explanation:

There is a decrease in the supply of gasoline (because gasoline is an oil product).
There is a decrease in the demand for gasoline, because gasoline and automobiles are complementary goods.
The change in supply is greater than the change in demand.

- (1)
- (1)
- (1)
- (1)



Indicate in the graph:

- demand curve shifts to the right
- price ↑ and quantity transacted ↑
- change in total expenditure = $P_2Q_2 - P_1Q_2$

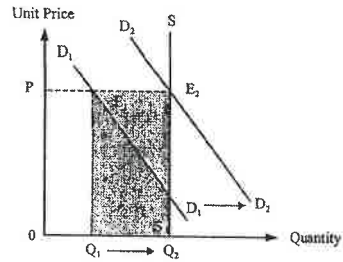
- (1)
- (1)
- (1)

Verbal explanation:

The demand increases (because the cost of borrowing is lowered).
Both the price and the quantity transacted increase.
Total expenditure increases.

- (1)
- (1)
- (1)

2002/CE/1/1(b)



Indicate in the graph:

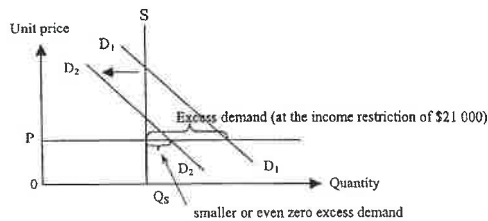
- tuition fee level $P >$ equilibrium price
- rightward shift of the demand curve
- D_1 shifts to D_2 or the right of D_2
- increase in total revenue = area $E_1E_2Q_2Q_1$

Verbal explanation:

The demand increases (because more students are attracted by the advertisement).
The quantity transacted increases.
The excess supply decreases from Q_1Q_2 to zero (i.e. disappeared).

- (1)
- (1)
- (1)
- (1)

2003/CE/1/1



(a) Indicate in the diagram:

- a constant price (P) below the equilibrium price
- excess demand at the income restriction of \$21 000 (demand is D_1)

Verbal explanation:

The fixed price is below the equilibrium price.
There is an excess demand at the beginning.

(b) Indicate in the diagram:

- demand curve shifts to the left
- resulting in a smaller excess demand or even no more excess demand

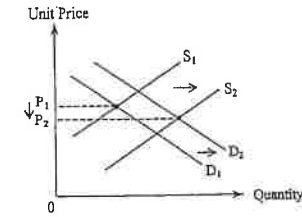
Verbal explanation:

The demand falls due to further income restriction.
(The excess demand will be smaller or even eliminated).

- (1)
- (1)
- (1)
- (1)

- (1)
- (1)

2003/CE/1/10(b)



- (i) The supply increases, because the cost of production (i.e. input price) decreases.
- The demand increases, because there is a larger number of buyers.
- (ii) Indicate in the diagram:
 - supply curve shifts to the right
 - demand curve shifts to the right
 - larger shift of the supply curve and a fall in price

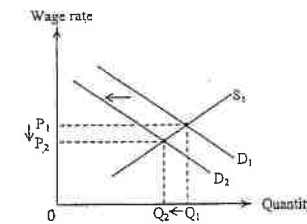
- (1)
- (1)
- (1)
- (1)
- (1)
- (1)
- (1)

Verbal elaboration:

The increase in supply is larger than the increase in demand.

(1)

2003/CE/1/11(d)



Indicate in the diagram:

- demand curve shifts to the left
- $P \downarrow$
- $Q \downarrow$

- (1)
- (1)
- (1)

Verbal elaboration:

The (derived) demand for labour decreases.
The wage rate decreases, and employment decreases

- (1)
- (1)
- (1)