2013-DSE ECON

PAPER 2

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2013

ECONOMICS PAPER 2Question-Answer Book

10.15 am – 12.15 pm (2 hours) This paper must be answered in English

INSTRUCTIONS

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

Please stick the barcode label here.) .
Candidate Number							



Answers written in the margins will not be marked

Section A (50 marks)

3. (a) (b)	What is the relationship between nominal interest rate and real interest rate? "When there is actual deflation, the nominal interest rate will be lower than the real int	(2 marks)
	you agree? Explain.	(3 marks)

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		Food (units)		Smartphones (units)	
Cou	ıntry A	30	OR	40	
Cou	untry B	40	OR	80	
(a)	Explain wh	ich country has a comp	parative advantage i	n the production of smartpho	nes. (3 ma
(b)	Suppose the have mutua	e transportation cost pully beneficial trade bet	er unit of smartpho ween these two cou	nes traded is 0.2 units of foc ntries? Explain.	d. Is it possib (3 ma

		Debit (\$ million)	Credit (\$ million)
Expo	ort of goods		35
	ort of goods	50	
	ort of services		47
	ort of services	27	
	tal inflow		70
	tal outflow	85	
	ign exchange and reserves assets		10
Tota	<u> </u>	162	162
(a) (b)	Calculate the current account balance of "Country A has a balance of payment reserves in that year." Explain whether	s surplus because there is a	n increase in foreign

Sable 1	Gini C	oefficient
	2006	2011
Construction	0.362	0.385
Financing, insurance, real estate and outsiness services	0.544	0.548
According to Table 1, which occup TWO possible reasons that account able 2 shows the employment distribution	for such a difference in inc	come inequality.
able 2		tion by Industry Section
_	2006	2011
Construction	8.0%	7.7%
Financing, insurance, real estate and business services	17.0%	19.2%
able 3 shows the Gini coefficients of Hong	g Kong in the years 2006 a	nd 2011.
able 3	2006	2011
Gini Coefficient	0.533	0.537
How may the data given in Tables 1 Kong as reflected in Table 3?	l and 2 help explain the ch	<u> </u>
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Suppose a government is facing a budget deficit. Some politicians have proposed that the should raise the income tax rate to reduce the budget deficit. Evaluate their proposal.	government (4 marks)
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	Suppose a government is facing a budget deficit. Some politicians have proposed that the should raise the income tax rate to reduce the budget deficit. Evaluate their proposal.

'. 		ollowing is an extract from a local newspaper article.
	Adju	MTR Corporation raised the railway fares by 5.4% in 2012. This increase was based on the Fare stment Mechanism set by the government. To respond to the discontent of the public over the fare ase, the Corporation introduced a concessionary measure "Ride 10 Get 1 Free".
ı	(a)	With the aid of a diagram, explain under what condition the total expenditure of passengers on th MTR will increase because of the rise in fare. (5 marks
((b)	Under the "Ride 10 Get 1 Free" scheme, with 10 fare-paying journeys on the MTR from Monday to Friday in the same week, passengers could get a single journey ticket for free. Is the free journey free good? Explain. (2 marks
((c)	It was observed that there were queues of passengers redeeming the free tickets at customer service counters in MTR stations. Suppose the waiting time is the same for these passengers, is the cost of redeeming the free tickets necessarily the same to these passengers? Explain. (3 marks)
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10. 1	nere are cooks, waiters, managers and receptionists working in restaurants.
(2	What economic principle is illustrated by the above phenomenon? List THREE reasons why the principle can increase labour productivity. (4 marks)
(1	The following is a job advertisement for a manager in a restaurant.
	Manager
	Working hours: 12:00 noon – 10:00 p.m. 6 days a week Salary: \$15 000 per month + performance-related bonus
	(i) From the viewpoint of the restaurant owner, explain ONE advantage of the above payment method over time rate. (2 marks)
	(ii) From the viewpoint of the manager, explain ONE advantage of the above payment method over a profit-sharing scheme. (2 marks)
(0	restaurant owners claim that they are unable to employ enough workers for their restaurants at the minimum wage rate. With the aid of a demand-supply diagram, explain why the above phenomenon may arise. (9 marks)
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	Assets (\$n			es (\$million)		
Rese	rves	40	0 Deposits	2 000		
Loan	ıs	1 60	0			
The p	ublic holds \$	1 000 million	cash and all banks	are fully loaned up.		
(a)	Calculate th	ne monetary b	pase and the money	supply in the econo	my. Show your v	vorkings. (4
(b)	If the requi		ratio is adjusted to	25%, calculate the	new money sup	ply in the ec (2
(c)				regate-supply diagraratio on output and the		
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	END OF SECTION B	
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Section C (1	6 marks) Answer any ONE question.
Elective 1 13. (a)	Figure 2 shows the demand curve faced by a monopolist. The monopolist has a constant average cost of production. With the aid of Figure 2, explain why simple monopoly pricing may lead to economic inefficiency. (7 marks)
	Price (\$)
	P ₀
	D
	Quantity $ \begin{array}{c} Q_0 \\ \hline Figure 2 \end{array} $
(b)	A retailer offers discounts to tourists who are able to present their travel documents at the cashier. Does this practice constitute price discrimination? Explain. (3 marks)
(c)	Name the anti-competitive behaviour that each of the following cases may constitute and explain how such behaviour restrains competition. (4 marks)
	(i) An instant noodle supplier does not supply its product to a local retailer because the retailer refuses to comply with the recommended price set by the supplier.
	(ii) One of the major bus companies reduces its fares to a level below its cost of production.
(d)	Explain ONE concern when introducing a competition policy. (2 marks)

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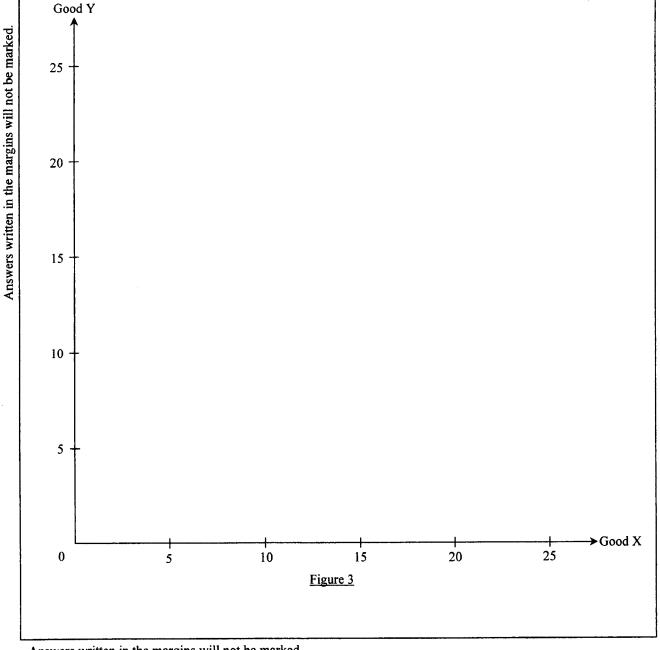
Elective 2

- Country A requires 1 unit of labour to produce a unit of Good X and 2.5 units of labour to produce a 14. (a) unit of Good Y. Suppose labour is the only resource required for production. Country A is endowed with 10 units of labour and the terms of trade is 1X = 1Y.
 - Explain which good Country A will import. (i)
 - Construct the production possibilities frontier and consumption possibilities frontier of (ii) Country A in Figure 3.

(4 marks)

Suppose the labour force of Country A increases by 10 units.

(iii) Will the direction of trade be affected? Will Country A be better off as a result? Explain your answers with the aid of Figure 3. (6 marks)



(b)	Refer to the following is questions.	nformation about Hong Kong	g and Japan in 2011 and answer the	followi
		Human Development Index (HDI) rank	Gross National Income per capita MINUS HDI rank	ank
	Japan	12	11	
	Hong Kong	13	-4	
	(i) Which place had a	higher Gross National Incom	e per capita in 2011? Show your work	ings.
	(ii) State TWO possib	le reasons why Japan had a hi	gher HDI rank than Hong Kong in 20	11.
	(iii) Suggest ONE gove	ernment policy that could raise		(6 mark
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Supplementary Answer Sheet

Question No.

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