

## ECONOMICS PAPER 1

8.30 am – 9.30 am (1 hour)

### INSTRUCTIONS

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
2. When told to open this book, you should check that all the questions are there. Look for the words '**END OF PAPER**' after the last question.
3. All questions carry equal marks.
4. **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
5. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
6. No marks will be deducted for wrong answers.

There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. Refer to the following suggestion for tackling the housing problem.

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

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

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

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

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

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

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

3. Mr Lo spent \$60 000 on buying a second hand car three years ago. Suppose he can resell the car at \$2000. Alternatively, he needs to spend \$5000 on repairing the car before he can continue to use it. What is his cost of continuing to use the car?

- A. \$2000
- B. \$5000
- C. \$7000
- D. \$60000

4. If the fixed cost of a price-taking firm decreases by \$200 and the marginal cost of each unit of output increases by \$10, the profit-maximising output will \_\_\_\_\_ and the profit \_\_\_\_\_.
- A. increase ..... will decrease
  - B. increase ..... may increase or decrease
  - C. decrease ..... will increase
  - D. decrease ..... may increase or decrease

5. The following table shows the production data of a firm. The only inputs required are capital and labour.

Capital (units)	Labour (units)	Total product (units)	Total cost of production (\$)
2	2	10	100
3	3	30	270
4	4	45	360
5	5	55	385

Based on the above table, we can conclude that

- A. the law of diminishing returns applies to the firm.
  - B. the total fixed cost is \$100.
  - C. the optimal scale is 45 units.
  - D. the firm enjoys economies of scale.
6. In the 2018-19 Budget, the Hong Kong Government raised the subsidy ceiling of the Continuing Education Fund from \$10 000 to \$20 000 per applicant to encourage members of the public to pursue further education.
- This policy will lead to a rise in \_\_\_\_\_ and \_\_\_\_\_ in the future.
- A. labour supply ..... geographical mobility
  - B. labour supply ..... occupational mobility
  - C. labour productivity ..... geographical mobility
  - D. labour productivity ..... occupational mobility

7. New World China Land Limited (Stock Code: 0917) announced privatisation of the company and cancelled its listing status at the Hong Kong Stock Exchange.

Which of the following are the possible advantages of the above change?

- (1) The company can choose not to disclose its financial accounts to the public.
- (2) The company can reduce the risk of being taken over.
- (3) The company can enjoy a lower profits tax rate.

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

8. Which of the following are capital of a cafe?

- (1) coffee machines
- (2) coffee beans
- (3) video game consoles brought by its customers for party
- (4) comic books which can be borrowed by its customers free of charge

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

9. A Hong Kong travel company offers package tours to Japan. It invested in building a hotel, which provides accommodation services to its tour members visiting Japan.

Which of the following is most likely the motive behind the expansion?

- A. to increase the market share
- B. to secure the supply of factor inputs
- C. to ensure a market outlet of its services
- D. to reduce competition

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

Total output (units)	Average cost (\$)
3	10
4	15
5	20
6	25
7	30

If the profit-maximising output is 6 units, the market price will be \_\_\_\_\_.

- A. \$5  
 B. \$25  
 C. \$30  
 D. \$50
11. Study the following news abstract.

A Dengue fever (登革熱) scare has hit Hong Kong after 19 people in the past week were confirmed to have contracted the virus locally. Dengue fever is transmitted to humans by *Aedes albopictus* (白紋伊蚊), a type of mosquito commonly found in Hong Kong.

Suppose the price and the quantity of mosquito repellents sold in Hong Kong changed by 5% and 120% respectively shortly after the release of the above news. This indicates that during that period and within the price range, there was an \_\_\_\_\_ the mosquito repellents in Hong Kong.

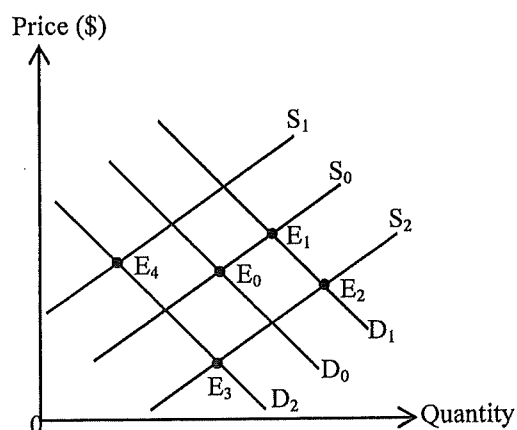
- A. elastic supply of  
 B. inelastic supply of  
 C. elastic demand for  
 D. inelastic demand for
12. The table below shows the quantities of high-quality and average-quality Japanese fruits sold in Japan and Hong Kong. Assume the consumers' preferences on Japanese fruits are similar in both economies.

	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

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.  $E_4$

14. Refer to the following market demand for imported soybeans in Country A.

Price (\$)	10	11	12	13	14
Quantity demanded (units)	700	600	500	400	300

When the government of Country A imposes a per-unit tariff of \$3 on imported soybeans, the equilibrium price of the imported soybeans increases from \$11 to \$13.

Which of the following statements are correct?

- (1) The total sales revenue (net-of-tariff) of the imported soybeans is \$4 000.
  - (2) The supply of the imported soybeans is more elastic than the demand for them.
  - (3) Within the range of the original and the new equilibrium prices, the elasticity of demand of the imported soybeans is smaller than one.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

15. A new private hospital, Gleneagles Hong Kong Hospital (GHK), opened in Wong Chuk Hang in early 2017. GHK offered a 50% salary rise to attract experienced nurses from public hospitals.

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

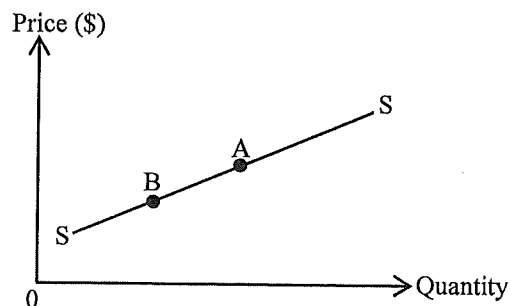
- A. The wage rates of experienced nurses in public hospitals would increase by more than 50% if the demand for nurses is elastic.
- B. The supply of experienced nurses in public hospitals would decrease.
- C. The elasticity of demand of public medical services would decrease.
- D. The waiting time for public medical services would remain unchanged.

16. Refer to the following supply and demand schedules of Good X.

Unit price (\$)	18	16	14	12	10	8	4
Quantity demanded (units)	100	150	200	250	300	350	400
Quantity supplied (units)	400	350	300	250	200	150	100

If the government increases the quota for Good X from 200 units to 350 units, the market price will \_\_\_\_\_.

- A. increase by \$2
  - B. increase by \$6
  - C. decrease by \$2
  - D. decrease by \$6
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?

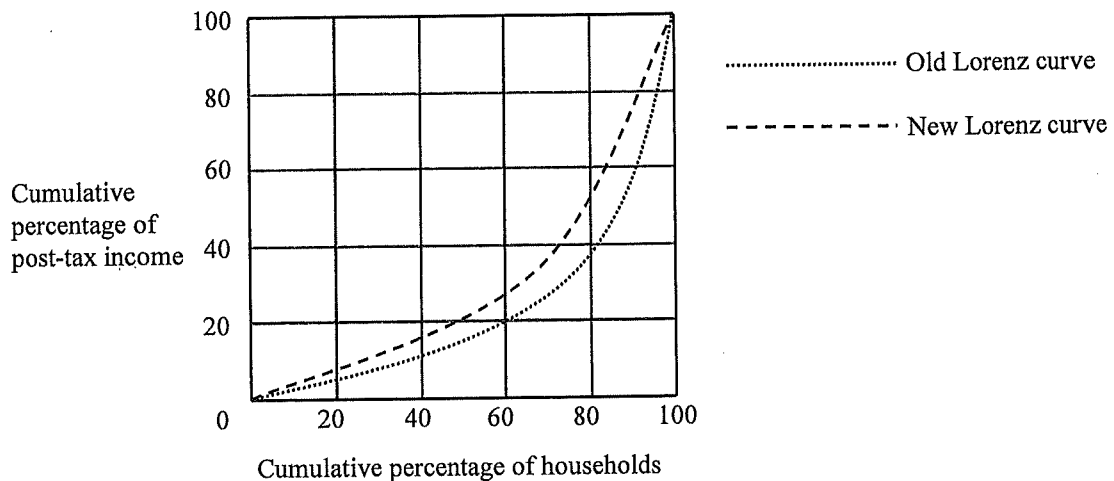


- A. All electric vehicle dealers provided a longer warranty period.
- B. The government removed the subsidies on buying electric vehicles.
- C. The gasoline suppliers greatly raised the price of gasoline.
- D. The cost of building charging stations drastically decreased.

18. Which of the following statements about a perfectly competitive market are correct?

- (1) Firms cannot survive if they ask a price higher than the market price.
  - (2) There is no entry barrier to the market.
  - (3) The profit-maximising condition of the firms is that price equals marginal cost.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

19.



Which of the following policies would result in the above change in the Lorenz curve in Hong Kong?

- A. lowering the profits tax rates
- B. reducing the salaries tax allowance
- C. increasing the progressivity of the salaries tax
- D. raising the air passenger departure tax

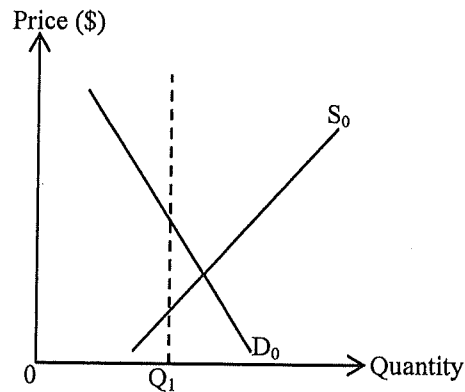
20. Starting from the academic year 2017-18, the Hong Kong Government provides a subsidy of \$30000 annually for students pursuing full-time, self-financed undergraduate programmes (自資學士學位課程) offered by local private educational institutions.

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)



21. Refer to the following supply-demand diagram of Good X.



If the government sets a quota at  $Q_1$ , then \_\_\_\_\_ will decrease.

- (1) total social surplus
- (2) total expenditure on Good X
- (3) consumer surplus
- (4) producer surplus

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

22. Suppose there is a bad harvest of flowers due to global warming. The marginal benefit of flowers will \_\_\_\_\_ and the total exchange value \_\_\_\_\_.

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

23. The following table shows the gross domestic product (GDP) data of an economy in a certain year.

Change in real GDP	-2.6%
Change in nominal GDP	-1.3%
Change in population size	-1.8%

According to the information above, we can conclude that in that year, the price level \_\_\_\_\_ and the per capita nominal GDP \_\_\_\_\_.

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

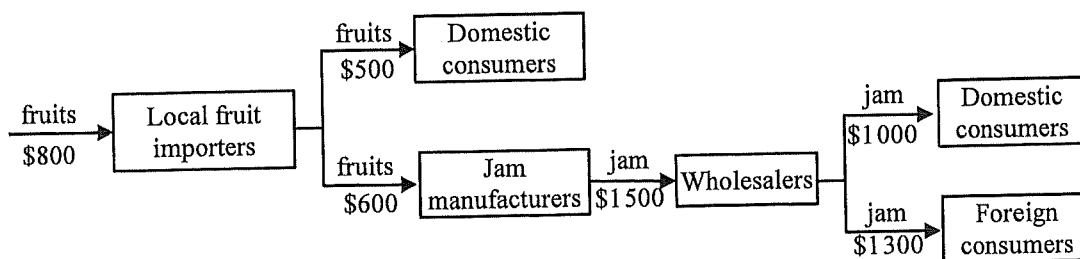
24. The following table shows the data of an economy.

Population aged 15 or above	6 500 000
Labour force participation rate*	60%
Employed population	3 780 000
Underemployed population	100 000

\*Labour force participation rate = proportion of labour force in population aged 15 or above

Based on the above data, the unemployment rate of the economy is \_\_\_\_\_.

- A. 1.85%
  - B. 3.08%
  - C. 3.38%
  - D. 5.64%
25. To calculate the gross national income of Hong Kong, which of the following should be added to the GDP of Hong Kong?
- A. the income earned by a Japanese chef who has worked in a Hong Kong restaurant for two months
  - B. the rental received by a Hong Kong resident from leasing his house in Japan to a Japanese
  - C. the salary earned by a Hong Kong resident from working as a secretary at the Hong Kong branch office of an Australian company
  - D. the money received from selling an apartment in Australia by a Hong Kong resident
26. Refer to the following production chain in Country A and answer the question.



Suppose the above production chain has included a subsidy of \$300 that is given to the jam manufacturers. What is the contribution of the above production chain to Country A's GDP at factor cost?

- A. \$1 700
- B. \$1 800
- C. \$2 000
- D. \$2 300

27. Country A is an oil-importing country. Which of the following will result in a rightward shift of its short-run aggregate supply curve?
- A. All oil-exporting countries decide to increase the daily production of oil.
  - B. Extreme cold weather sharply raises the consumption of oil for heating in Country A.
  - C. The government of Country A provides tax relief for research in new energy aiming to lessen the reliance on oil.
  - D. An earthquake destroys an oil refinery factory in Country A.

28. The following table shows the balance sheet of Country A's banking system. The money supply in Country A is \$2 800 and all banks do not hold excess reserves.

Assets (\$)		Liabilities (\$)	
Reserves	500	Deposits	2 500
Loans	2 000		

Suppose the public deposits \$200 cash into the banking system. Which of the following statements about the banking system is correct after the deposit creation process is completed?

- A. The deposits would increase by \$3 500.
  - B. The money supply would increase by \$1 000.
  - C. The monetary base would increase by \$200.
  - D. The loans will increase by \$800.
29. Which of the following is/are the function(s) of the Hong Kong Monetary Authority?
- (1) Managing the Exchange Fund
  - (2) Supervising the implementation of fiscal policy
  - (3) Determining Hong Kong's market interest rate
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (1), (2) and (3)

30. Refer to the following hypothetical case.

The currency of Country T, T-Dollar, has depreciated by 40 percent from the beginning of 2018 after the US announced a series of trade sanctions against Country T. As a result, some shops in Country T quoted prices in US Dollar instead of T-Dollar. Shops in black markets refused to accept T-Dollar. Some citizens bought foreign currencies to safeguard their assets.

Which functions of money of the T-Dollar were weakened?

- (1) medium of exchange
- (2) unit of account
- (3) store of value

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

31. When a Hong Kong citizen transfers \$500 000 from her time deposit account with a restricted licence bank to her savings account with a licensed bank,

- (1) money supply (M1) will increase.
- (2) money supply (M2) will increase.
- (3) money supply (M3) will increase.

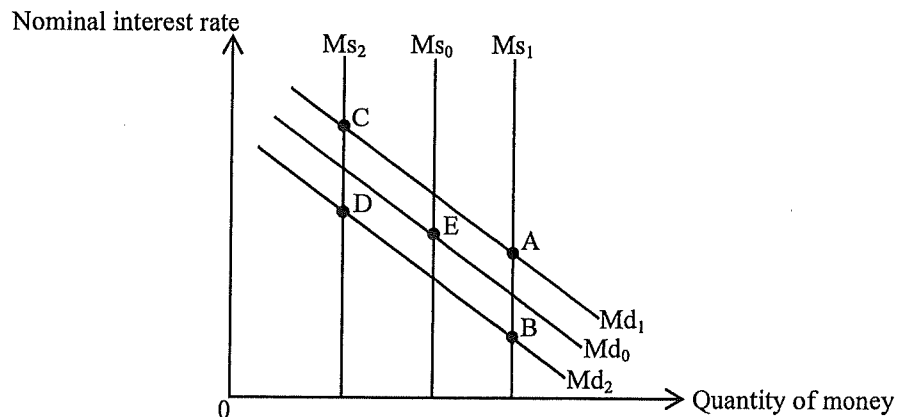
- A. (1) only
- B. (2) only
- C. (3) only
- D. (2) and (3) only

32. In times of inflation, suppose the nominal interest rate of a bond is higher than the expected inflation rate. If the actual inflation rate turns out to be higher than the expected inflation rate,

- (1) the actual inflation rate will be higher than the nominal interest rate of the bond.
- (2) the expected real rate of return of the bond will be greater than the actual real rate of return.
- (3) the actual real rate of return of the bond may be negative.
- (4) the real rate of return of holding cash will be higher than zero.

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

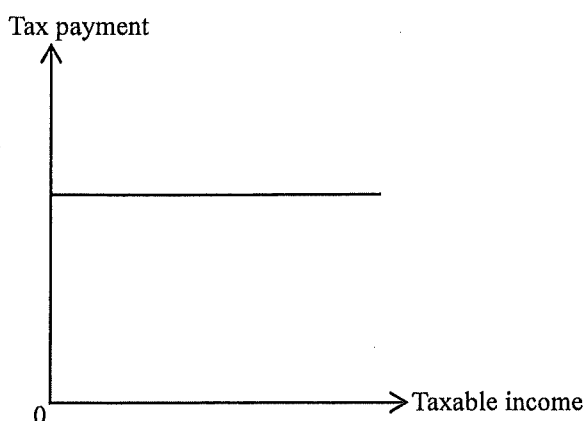
33. The diagram below shows the money supply and money demand curves of an economy. The original equilibrium point is at E.



Suppose electronic payments become more common, and the central bank increases the legal reserve ratio of the commercial banks. The new equilibrium point will be at \_\_\_\_\_.

- A. A  
 B. B  
 C. C  
 D. D
34. Both the wage rate and general price level increase by 8% in a certain year. If the government increases the salaries tax allowance by 5%,
- A. more people will fall into the tax net.  
 B. income distribution will become more even.  
 C. government's tax revenue will decrease.  
 D. people's real income after tax will increase.
35. Which of the following statements about quantity theory of money are correct?
- (1) If money supply is growing too fast relative to the supply of goods in the economy, inflation will occur.  
 (2) If money supply increases, nominal output will increase by the same percentage.  
 (3) If inflation rate is constant, real output will grow at the same percentage as money supply.
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

36. The following diagram shows the relationship between taxable income and tax payment in a tax system.



Which of the following statements about the above tax system is correct?

- A. The lower income group pays a smaller percentage of their taxable income as tax payment.
- B. It violates the tax principle of equity put forward by Adam Smith.
- C. It is a proportional tax.
- D. It leads to a more even income distribution.

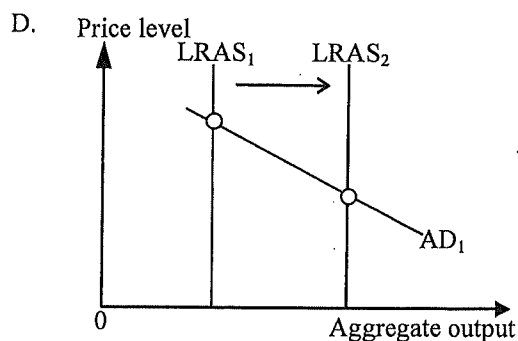
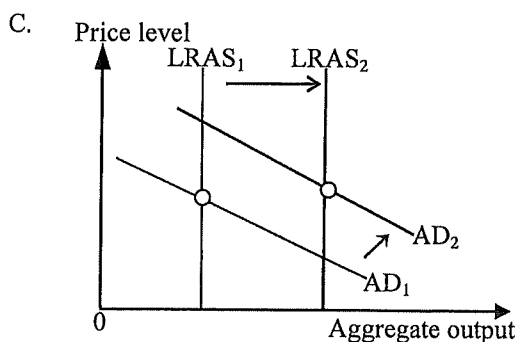
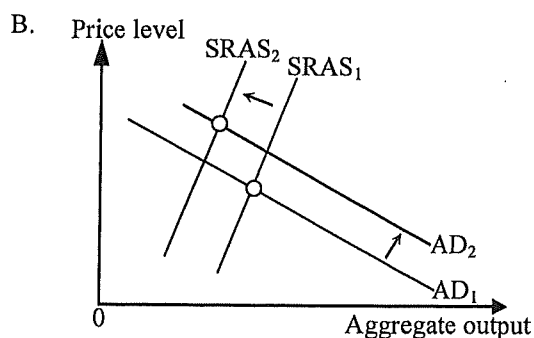
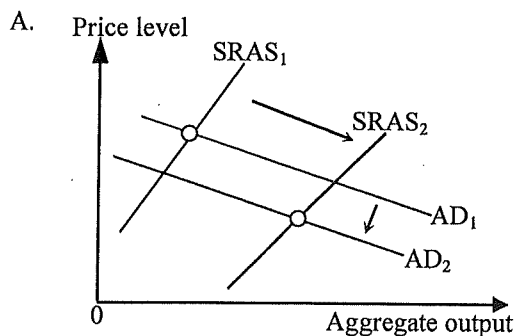
37. Under unexpected deflation, which of the following persons will lose?

- (1) Ms Mok holds a time deposit of one million dollars in a deposit taking company.
  - (2) Mr Lo receives interest from Silver Bond of which the rate of return is linked to the inflation, subject to a minimum return of 3%.
  - (3) Mr Chan signs a two-year contract with an online TV company to subscribe to its service by a fixed monthly payment.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (2) and (3) only

38. The government carried out the following two policies:

Policy one:	Reduce the profits tax rate for corporations with profit less than two million dollars.
Policy two:	Inject fifty billion dollars to develop innovation and technology.

Which of the following AD-AS diagrams could most likely show the effect on aggregate output caused by the above two policies?



39. Which of the following results can be a negative number?

- A. gross investment *minus* net investment
- B. total exports *minus* re-exports
- C. money supply (M3) *minus* money supply (M2)
- D. employed population *minus* unemployed population

40. Suppose an inflationary (output) gap and a fiscal surplus exist in an economy. Which of the following measures would help narrow the inflationary (output) gap and attain a balanced fiscal condition at the same time?

- A. reducing quota for inbound tourists
- B. raising income tax rate
- C. adopting a universal retirement protection scheme for all elderly aged 65 or above
- D. increasing government spending on infrastructure

41. Study the following table.

Policy I	Policy II	Policy III
<ul style="list-style-type: none"> <li>● an open market purchase of government bonds</li> <li>● a rise in the discount rate</li> </ul>	<ul style="list-style-type: none"> <li>● an open market purchase of government bonds</li> <li>● a rise in the salaries tax allowance</li> </ul>	<ul style="list-style-type: none"> <li>● a rise in the salaries tax allowance</li> <li>● a rise in the discount rate</li> </ul>

Which of the policies in the above table is/are expansionary?

- A. Policy I only
- B. Policy II only
- C. Policy III only
- D. Policy I and Policy III only

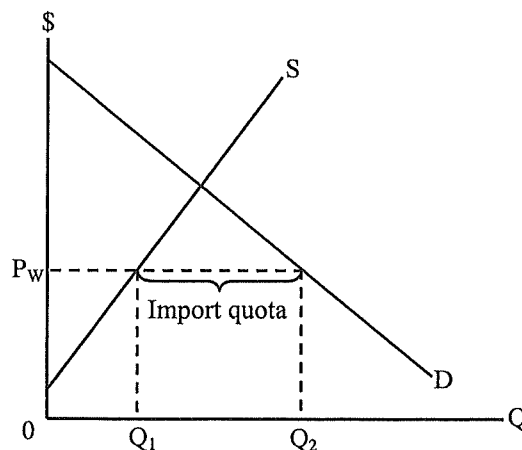
42. The following table shows the amount of goods that can be produced with 1 unit of resources in Country A and Country B respectively.

	Good X (units)	or	Good Y (units)
Country A	8		12
Country B	2		4

Suppose the transportation cost for 1 unit of Good X is 0.2 units of Good Y and it is borne by the exporting country. Which of the following is a mutually beneficial terms of trade between Country A and Country B?

- A. 1 unit of Good X = 1.3 units of Good Y
- B. 1 unit of Good X = 1.7 units of Good Y
- C. 1 unit of Good X = 1.8 units of Good Y
- D. 1 unit of Good X = 2.0 units of Good Y

43. The following is the supply-demand diagram of Good X in a small open economy.



Initially the economy imports Good X at the world price ( $P_w$ ) and the government imposes an import quota of  $(Q_2 - Q_1)$  units. Suppose the world price of Good X drops. Which of the following statements is correct?

- A. The domestic price of Good X will remain at  $P_w$ .
- B. The domestic price of Good X will fall.
- C. The domestic supply curve will shift to the right.
- D. The quantity of domestically produced Good X will increase.



44. A Hong Kong billionaire travelled to Russia to watch matches in the World Cup. Which of the following would be included in the calculation of Hong Kong's balance of payments?

- (1) He bought a travel insurance for his Russia trip from a Hong Kong agency.
- (2) He bought a jersey of the Russia national team in Moscow as a souvenir.
- (3) He invested in a Russian football club and became the major owner.

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

45. Study the prices of iPhone X in Hong Kong in terms of Hong Kong dollar (HKD) and in the Mainland in terms of Renminbi (RMB).

Hong Kong	The Mainland
HKD 8 588	RMB 8 316

Given the exchange rate of HKD 1 = RMB 0.875, which of the following statements is correct?

- A. Travellers tend to buy an iPhone X in the Mainland instead of in Hong Kong.
- B. RMB is under-valued as the price of an iPhone X in the Mainland is lower than that in Hong Kong.
- C. If the transportation cost is HKD 950, buying an iPhone X in Hong Kong and re-selling it in the Mainland will no longer gain.
- D. The potential gain from 'buy low, sell high' will disappear when the price of iPhone X in Hong Kong is higher than HKD 9 504.

**END OF PAPER**

Sources of materials used in this paper will be acknowledged in the *HKDSE Question Papers* booklet published by the Hong Kong Examinations and Assessment Authority at a later stage.