

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2022

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 information of the COVID-19 vaccination programme.

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

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

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

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

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

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

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

3. Tommy is planning for his future after his S.6 graduation. He has several options and his order of preference is as follows.

- First option: Being a barista in a café
- Second option: Being a trainee in digital marketing
- Third option: Being a junior fireman

Which of the following factors would **LEAST** likely affect the cost-benefit analysis for Tommy's career choice?

- A. Coffee culture becomes more popular.
- B. More companies expand their digital marketing departments.
- C. The remuneration of junior firemen worsens.
- D. Safety measures of fire-fighting are improved drastically.

4. The Government purchased the broadcasting rights of the Tokyo 2020 Olympic Games. This enabled all Hong Kong people to watch the events for free. The Olympic Games broadcast is a _____ because _____.
- public good the Government paid for the broadcasting rights
 - private good one individual's consumption reduces its amount available to others
 - free good more is not preferred
 - consumer good it can directly satisfy human wants
5. Which of the following is a possible reason for turning a firm from a sole proprietorship to a partnership?
- The firm can get more profit.
 - The firm can enjoy a wider scope of specialisation.
 - The firm will become an independent legal entity.
 - Business risk will be reduced as all partners have unlimited liability.
6. The Walt Disney Company (華特迪士尼公司) expanded its business to provide video streaming service, Disney+.



Which of the following are most likely the motives behind the expansion?

- to spread risk by service diversification
 - to extend its brand name to other products
 - to enjoy economies of scale
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
7. The following table shows the input, output and cost relationships of a firm. The only inputs required for production are labour and capital.

Labour (units)	Capital (units)	Total product (units)	Total cost of production
1	1	20	\$150
2	1	50	\$200
3	1	70	\$250
4	1	80	\$300

Based on the above table, we can conclude that

- the firm enjoys economies of scale.
- the optimal scale of production is 70 units.
- the average product of labour is at the highest when the quantity of labour is 2 units.
- the law of diminishing marginal returns does not apply to the firm.

8. The _____ of labour in Hong Kong will increase if _____.
- A. occupational mobility a professional labour union tightens the requirements for entering the industry
 - B. occupational mobility the Government waives the examination for foreign-trained doctors to work in Hong Kong
 - C. geographical mobility Tuen Ma Line connecting Tuen Mun and Ma On Shan is open
 - D. geographical mobility the Government reduces the travel subsidy to the low-income group

9. In the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong is an international financial and transportation centre; Macao is a leisure and tourism centre; Guangzhou is an international commercial centre.

This is an example of _____ division of labour because _____.

- A. simple each city has its own comparative advantage
 - B. simple each city engages in different production stages
 - C. regional multiple cities cooperate to build the Greater Bay Area
 - D. regional each city has its own specialty of production
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

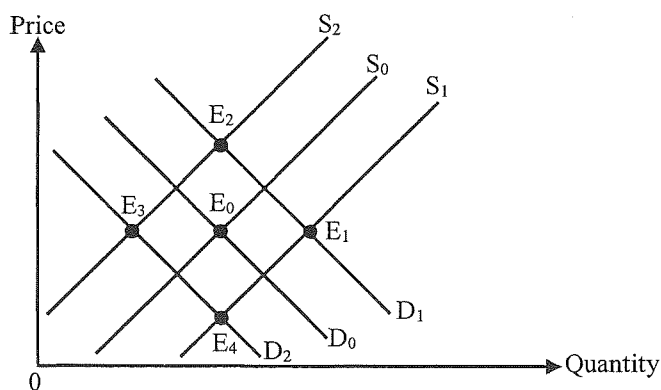
11. Winnie operates a café in Sham Shui Po. To maximise her profit, Winnie will produce more output if
- water charges for commercial use fall.
 - business registration fee falls.
 - the monthly rental payment of the café rises.
 - the wage rate of part-time waiters increases.

12. The following table shows the total expenditure of Mary and Peter on soft drinks.

Unit price (\$)	Consumer's total expenditure (\$)	
	Mary	Peter
1	20	60
2	40	60
3	60	60
4	80	60

Mary's elasticity of demand for soft drinks is _____ while Peter's elasticity of demand for soft drinks is _____ (without regard to the negative sign).

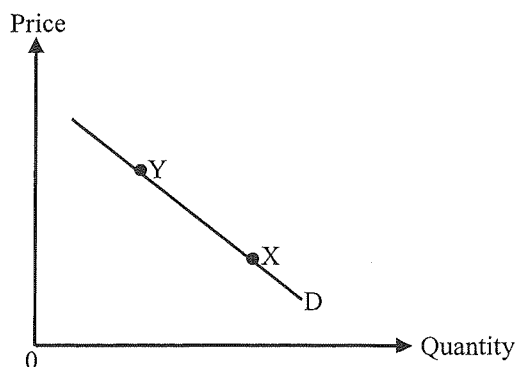
- between zero and one equal to zero
 - between zero and one equal to one
 - equal to zero equal to zero
 - equal to zero equal to one
13. The diagram below shows the demand and supply curves of webcams. The initial equilibrium point is E_0 .



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 _____.

- E_1
- E_2
- E_3
- E_4

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.

15. The following table shows the market supply schedule of a good.

Unit price (\$)	Quantity supplied (units)
2	22
3	26
4	30
5	34
6	38
7	42

Suppose the original equilibrium price is \$5. If the government imposes a per-unit tax of \$2 on the good, the market price will rise to \$6. Which of the following statements are correct?

- (1) The ratio of buyers' tax burden to sellers' tax burden will be 1:1.
- (2) The total tax revenue will be \$76.
- (3) The total revenue net of tax will decrease by \$50.

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

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

Unit price (\$)	7	8	9	10	11	12	13
Quantity demanded (units)	700	600	500	400	300	200	100
Quantity supplied (units)	250	300	350	400	450	500	550

If the government increases the price floor from \$9 to \$11, the total expenditure on Good X will _____.

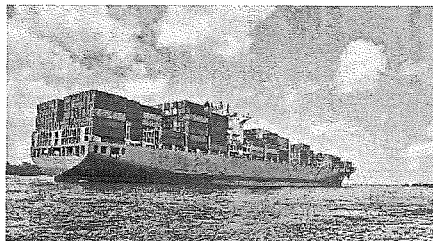
- A. become \$3 300
- B. become \$4 950
- C. increase by \$150
- D. increase by \$950

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.

19. Clothing retail market can be classified as monopolistic competition. Which of the following statements about clothing retail market are correct?

- (1) The retailers engage in both price and non-price competitions.
- (2) There are a few dominant sellers in the market.
- (3) There is imperfect information about the quality of clothing in the market.
- (4) The entry and exit of retailers are restricted.

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

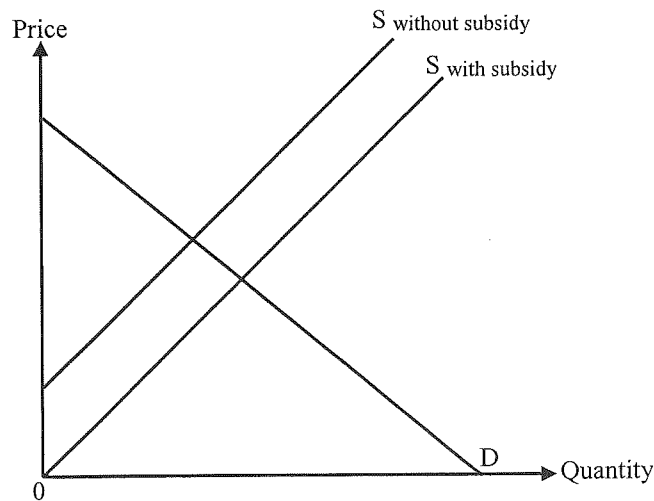
20. The following table shows the marginal benefit schedule of a consumer for avocados.

Quantity (units)	1	2	3	4	5	6
Marginal benefit (\$)	8	7	6	5	4	3

When the price of avocados increases from \$5 to \$6, the consumer surplus will _____.

- A. increase by \$1
- B. increase by \$3
- C. decrease by \$1
- D. decrease by \$3

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

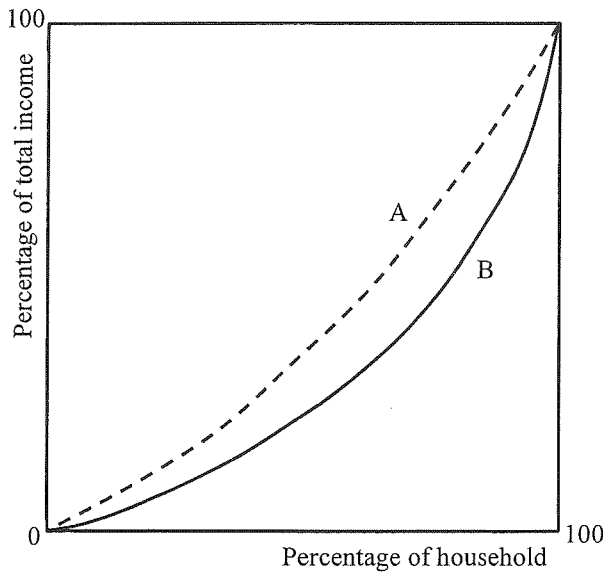


If the government cancels the per-unit subsidy on Good X, it will lead to a decrease in _____.

- (1) quantity transacted
 - (2) consumer surplus
 - (3) deadweight loss
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

22. Which of the following will most likely be the positive external effect of the opening of the full Tuen Ma Line of MTR?
- The travel time is shortened for MTR passengers.
 - The business of restaurants near the stations of MTR Tuen Ma Line rises.
 - The problem of noise pollution worsens.
 - The income of minibus drivers drops.

23. Refer to the following Lorenz curves of a country.



- based on pre-tax pre-social transfer income
- based on post-tax post-social transfer income

Based on the above information, which of the following statements about the country is/are correct?

- The tax system is progressive.
 - Social transfer helps equalise outcome.
 - The income inequality problem becomes more serious after the government's redistribution of income.
- (1) only
 - (2) only
 - (3) only
 - (1) and (2) only

24. Study the following data of an economy.

Components	\$ million
Private consumption expenditure	500
Gross domestic fixed capital formation	260
Decrease in stock	120
Government consumption expenditure	470
Total exports of goods	380
Re-exports of goods	140
Total imports of goods	220
Net exports of services	730
Depreciation	90
Indirect taxes	75

The gross domestic product (GDP) at factor cost is \$ _____ million.

- A. 1 925
- B. 2 065
- C. 2 075
- D. 2 165

25. The following table shows some data of a country.

Year	Growth rate	
	2019	2020
Nominal GDP	0.3%	-5.5%
Price level	2.0%	0.6%
Population	0.5%	-1.2%

Which of the following statements is correct?

- A. Real GDP in 2020 increased.
- B. Per capita nominal GDP in 2020 increased.
- C. There was deflation in 2020.
- D. The growth rate of real GDP in 2020 was smaller than that in 2019.

26. Many workers in Country A emigrated to other countries. All the job vacancies resulting from the emigration were filled by unemployed people. As a result, the unemployment rate of Country A

- A. would increase
- B. would decrease
- C. would remain unchanged
- D. cannot be determined

27. Which of the following would be deducted from the GDP of Hong Kong to calculate the gross national income (GNI) of Hong Kong?
- A. the salary received by a Hong Kong professor who worked in a university in Japan on a permanent contract
 - B. the dividend earned by a Filipino billionaire from his holding of shares of a Hong Kong company
 - C. the salary received by an Indonesian domestic worker who worked for a Hong Kong family for two years
 - D. the rental income earned from a residential property in the United Kingdom owned by a Hong Kong resident

28. Which of the following will result in a leftward shift of the short run aggregate supply curve?
- A. The general price level falls.
 - B. The stock market becomes more volatile.
 - C. There is a decrease in birth rate.
 - D. The transportation cost of raw materials rises.

29. A country relaxed its immigration requirements to attract foreigners to work, live and study there. It is estimated that 200 000 foreigners will be settling there this year. Which of the following statements about the relaxation of immigration requirements is correct?

- (1) The aggregate demand of the country will rise.
- (2) The labour productivity of the country will rise.
- (3) The short run aggregate supply of the country will rise.

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

30. The balance sheet of a banking system is as follows.

Assets (\$ million)		Liabilities (\$ million)	
Reserves	500	Deposits	2000
Loans	1500		

The required reserve ratio is 20% and the public does not hold cash initially.

Suppose a customer withdraws \$200 million from his bank account and holds it as cash. If all banks do not hold any excess reserves, the amount of money supply is _____ after the process of credit creation/contraction has been completed.

- A. \$1200 million
- B. \$1400 million
- C. \$1500 million
- D. \$1700 million

31. David plans to deposit \$1 million to a financial institution in Hong Kong as savings deposit. Which of the following types of institution can receive this amount of savings deposit?

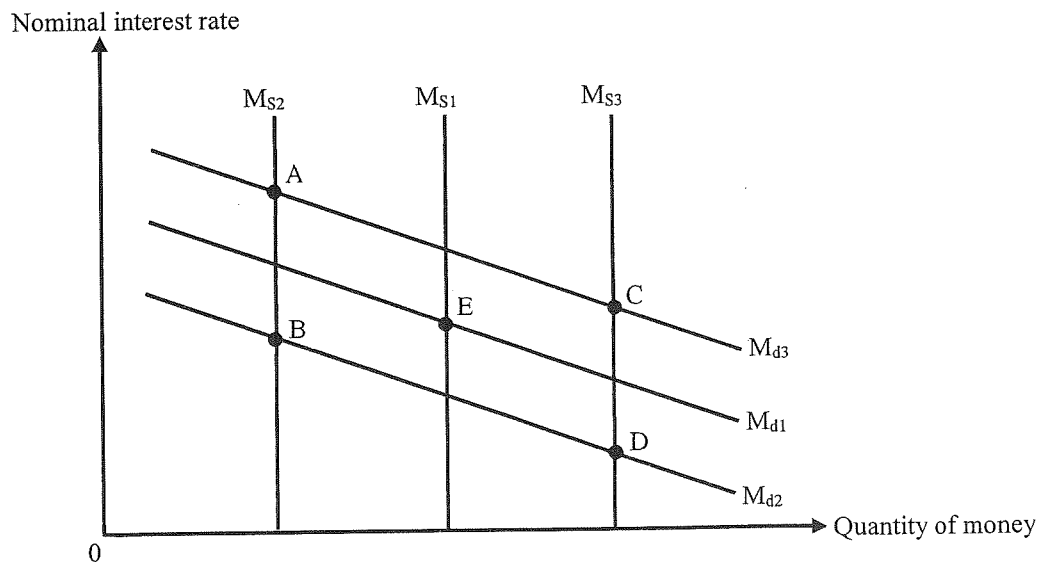
- (1) a licensed bank
- (2) a restricted licence bank
- (3) a deposit-taking company

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

32. Suppose the central bank requires the commercial banks to keep all deposits as reserves. Which of the following statements is **INCORRECT**?

- A. The monetary base will be equal to the money supply.
- B. The required reserve ratio will be equal to one.
- C. The maximum banking multiplier will be equal to zero.
- D. The money creation ability of the banking system will be smaller than that of a fractional reserve banking system.

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



Suppose most of the employers in the economy change the payment of salaries from monthly to bi-weekly. At the same time, the commercial banks tend to hold more excess reserves. The new equilibrium point will be at _____.

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

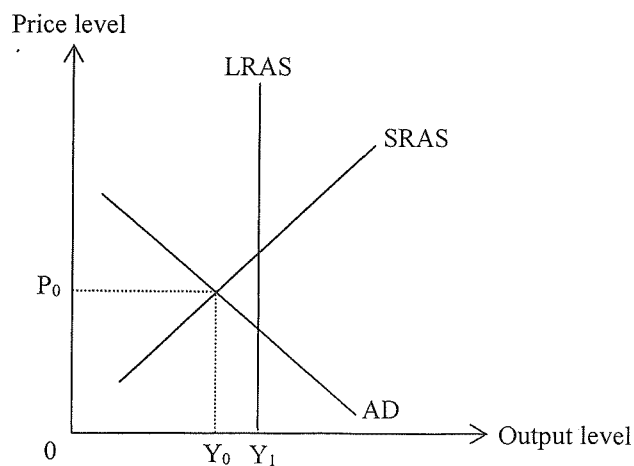
34. The following table shows the monetary base and money supply of a country.

Date	Monetary base (\$ billion)	Money supply (\$ billion)
1 January 2020	150	500
1 January 2021	150	800

Which of the following could explain the above data?

- (1) The central bank bought bonds from the public in 2020.
(2) The central bank increased the discount rate in 2020.
(3) The central bank lowered the required reserve ratio in 2020.
- A. (3) only
B. (1) and (2) only
C. (1) and (3) only
D. (2) and (3) only
35. The nominal interest rate on a one-year deposit is 1% and the inflation rate is 3%. The cost of holding cash is _____ and the real rate of return of holding cash is _____.
- A. 1% -3%
B. 1% -2%
C. 3% -3%
D. 3% -2%
36. Which of the following will widen the deflationary (output) gap of a country?
- A. Its trading partners experience an economic recovery.
B. Credit cards are more widely used.
C. There is a decrease in transfer payment.
D. The central bank prints more money.
37. Which of the following may lead to a rise in aggregate output and an improvement in equity in Hong Kong at the same time?
- (1) a charity fund donating HK\$10 billion to set up non-governmental organisations in order to provide services for the underprivileged
(2) a cash payout of HK\$10 000 to each permanent resident aged 18 or above by the Government
(3) a 1% reduction in the standard tax rate of salaries tax
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

38. Study the following diagram.



The initial output level of the economy is Y_0 . Suppose scientists have invented a new oil-refining technology. In the long run,

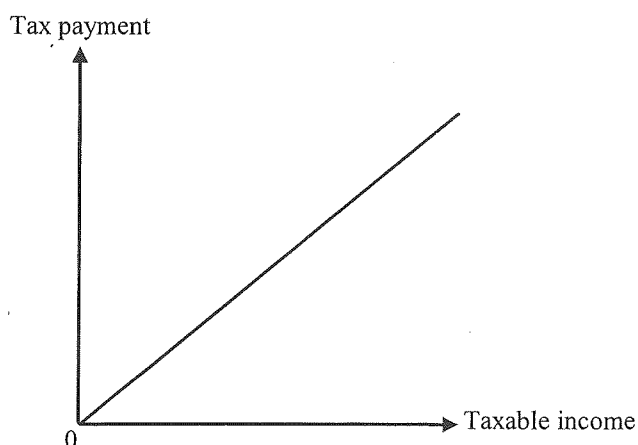
- (1) the price level will be lower than P_0 .
- (2) the output level will be higher than Y_1 .
- (3) the aggregate demand curve will shift to the right to attain equilibrium.

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

39. If there is unexpected inflation, which of the following persons will lose?

- A. a consumer who used credit cards to buy goods
- B. an employer who signed fixed nominal wage contracts with his employees
- C. a holder of certificate of deposits
- D. an investor of bonds with the rate of return adjusted according to the inflation rate

40. 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. It is in line with the equality principle put forth by Adam Smith.
 - B. There is no tax allowance for the tax.
 - C. Tax rate increases as taxable income increases.
 - D. The tax system narrows the income gap between the rich and the poor.
41. Which of the following results **CANNOT** be a negative number?
- A. total exports *minus* total imports
 - B. money supply (M2) *minus* money supply (M1)
 - C. factor income received from abroad *minus* factor income paid abroad
 - D. GDP at market price *minus* GDP at factor cost
42. An international movie director came to Hong Kong to shoot a Hollywood movie for three weeks. Which of the following would be included in the calculation of Hong Kong's current account balance?
- (1) She stayed in a hotel in Tsim Sha Tsui.
 - (2) She bought souvenirs in a shopping mall in Central.
 - (3) She sold the copyright of the movie to a Hong Kong movie distributor.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

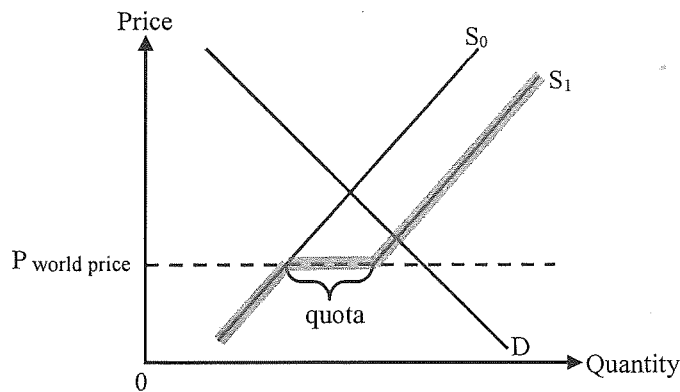
43. The following table shows the production and consumption data in Country A, which only produces and consumes clothing (C) and food (F).

	Clothing (units)	Food (units)
Total production WITHOUT trade	10	60
Total production with specialisation	60	0
Total consumption with trade	20	120

The terms of trade is _____.

- A. $1C = 2F$
- B. $1C = 3F$
- C. $1C = 5F$
- D. $1C = 6F$

44. The diagram below is about a small open economy imposing an import quota on Good X.



If the world price of Good X drops,

- A. the quota will become ineffective.
- B. the quantity of Good X produced domestically will decrease.
- C. the quantity of Good X consumed domestically will increase.
- D. the domestic price of Good X will remain unchanged.

45. Which of the following statements about the Linked Exchange Rate System of Hong Kong is correct?
- A. The public can sell their Hong Kong dollars to the Hong Kong Monetary Authority in exchange for US dollars at the market exchange rate.
 - B. The public can sell their Hong Kong dollars to the three note-issuing banks in exchange for US dollars at the linked exchange rate.
 - C. An appreciation of Hong Kong dollar against Japanese yen would lead to an appreciation of US dollar against Japanese yen.
 - D. An appreciation of US dollar against Japanese yen would lead to an appreciation of Hong Kong dollar against Japanese yen.

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.