

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2023

**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. Mr Cheung bought restaurant premises 2 years ago for \$5 000 000 and sells 'two-dish-rice' meal boxes at the premises. Recently, his monthly profit has decreased from \$30 000 to \$10 000 due to the opening of new restaurants nearby. A businessman offers to rent Mr Cheung's restaurant premises for a monthly rental of \$15 000.

Which of the following would be included in Mr Cheung's opportunity cost of continuing to operate his 'two-dish-rice' business at the premises?

- A. the \$5 000 000 purchase price of the restaurant premises
  - B. the \$10 000 monthly profit
  - C. the \$15 000 monthly rental
  - D. the \$20 000 drop in monthly profit
2. Jacky, a Secondary 6 student in Hong Kong, is going to travel to Korea for his graduation trip. Which of the following will decrease his cost of having the graduation trip to Korea?
- A. Hong Kong dollar appreciates against South Korean Won. ✓
  - B. The return flight from Korea to Hong Kong is delayed. ✗
  - C. The number of confirmed cases of COVID-19 in Korea has increased drastically. ✗
  - D. The services of the hotel in Korea are better than his expectation. ✗

3. A band in Hong Kong adopted a real-name registration system for the sale of its concert tickets. These tickets were not transferable so that the chance of ticket scalping (炒賣) was reduced.

Which of the following statements about the above real-name registration system is/are correct?

- (1) It is a mechanism to tackle the problem of 'what to produce'.
  - (2) The private property rights over the tickets would be weakened under the system. ✓
  - (3) Non-price competition would not be involved in the allocation of the tickets under the system.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (1), (2) and (3)

4. Which of the following is a normative statement / are normative statements?

- (1) Launching consumption voucher schemes will lead to inflation.
- (2) Promoting tourism is the most appropriate way to stimulate economic growth. ✓
- (3) The government should continue to attract Mainland enterprises to invest in Hong Kong.

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

5. Which of the following statements about the classification of goods is correct?

- A. Musical instruments used by street performers are public goods because the music performed with these instruments can be enjoyed concurrently by many people. ✓
- B. Textbooks are private goods because the marginal cost of producing an additional unit of textbooks is positive. ✗
- C. Artworks exhibited in the Hong Kong Palace Museum (香港故宫文化博物館) are consumer goods because costs are involved in their production. ✗
- D. Popular free online videos for learning English are economic goods because their quantities are not enough to satisfy human wants.

6. Which of the following would raise both the labour supply and average labour productivity of an economy?

- A. The government raises the amount of unemployment benefits. ✗
- B. Free education is extended to university programmes. ✗
- C. More firms install advanced production equipment.
- D. The quota of an immigration scheme of highly skilled individuals is increased.

7. The occupational mobility of labour of an economy will decrease if

- A. transport subsidies are provided to workers who live in remote districts. ✗
- B. more jobs require specialised skills.
- C. the statutory retirement age is raised from 65 to 70.
- D. more job retraining courses are provided by the government free of charge.

8. Refer to the following information about Firm A and Firm B in Hong Kong.

	Firm A	Firm B
Number of owners	3	50
Issuing shares to the public	Impossible	Possible
Disclosure of financial information to the public	Not necessary	Necessary

List

Based on the above information, we can conclude that

- A. Firm B raises more capital than Firm A. ?
- B. owners of both firms are required to obtain consent from other owners when transferring their ownership. ✓
- C. Firm A may enjoy a lower profits tax rate than Firm B.
- D. Firm B is an independent legal entity while Firm A is not. ?

9. The following table shows the data of a price-taking garment factory. The fixed cost of the factory is \$10.

Output (units)	Total cost (\$)	TVC	MC
6	48	38	—
7	63	53	15
<input checked="" type="radio"/> 8	80	70	17
<input checked="" type="radio"/> 9	99 101	89	19
10	120	110	21
11	143	133	23

Suppose the market price of garments rises from \$17 to \$19, and the fixed cost of the factory rises by \$2. As a result, the profit-maximising output of the factory would ↑ 1 while its profit would ↑ 7.

- A. remain unchanged ..... increase to \$56
- B. remain unchanged ..... increase to \$70
- C. increase by 1 unit ..... increase to \$70
- D. increase by 1 unit ..... increase to \$82

10. Which of the following is INCONSISTENT with the law of demand?

- A. When a theme park reduces its ticket price, visitors stay in the theme park for longer hours on average. ✓
- B. Both the price and quantity transacted of private housing units decrease when people expect an increase in mortgage interest rates. ✓
- C. Compared with customers living close to supermarkets, customers living far away from supermarkets tend to buy more items in each visit to supermarkets. ✓
- D. If the Hong Kong Government shortens the quarantine period for incoming arrivals, the number of tourists visiting Hong Kong would increase.

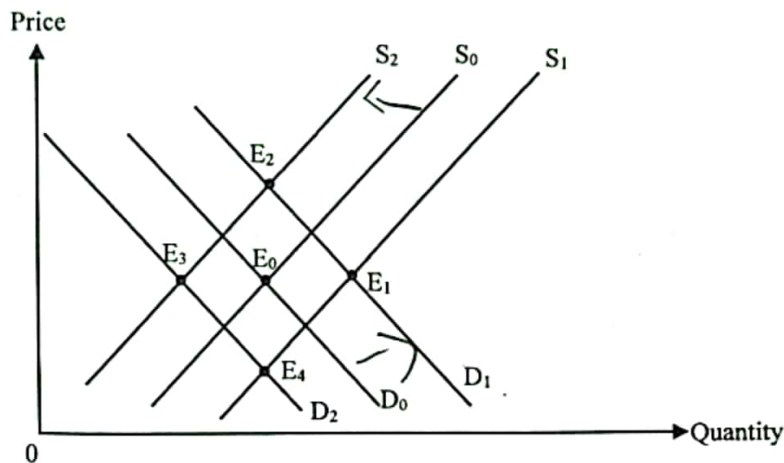
11. When Good X and Good Y are in \_\_\_\_\_, a decrease in the price of Good X will lead to \_\_\_\_\_.

- (1) competitive demand ..... a decrease in the price of Good Y ✓  
 (2) joint demand ..... a decrease in the producer surplus in the market of Good Y X  
 (3) competitive supply ..... an increase in the consumer surplus in the market of Good Y  
 (4) joint supply ..... a decrease in consumers' total expenditure on Good Y

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

*PKL*  
*(3) S<sub>y</sub> ↓ & Q<sub>dx</sub> ↓ & Q<sub>dy</sub> ↓*

12. The diagram below shows the supply and demand curves of electric vehicles. The original equilibrium point is E<sub>0</sub>.



Suppose there is an increase in the cost of producing electric vehicles. At the same time, the decreasing number of car accidents involving electric vehicles increases consumers' confidence in electric vehicles. As a result, the new equilibrium point will be at \_\_\_\_\_.

- A. E<sub>1</sub>  
 B. E<sub>2</sub>  
 C. E<sub>3</sub>  
 D. E<sub>4</sub>

13. Semiconductor chips are key components for producing smartphones.

Due to a global shortage of semiconductor chips, the quantity of smartphones sold has changed by 10% whereas the price of smartphones has increased by 20%. Which of the following best explains the above changes in the price and quantity sold of smartphones?

- A. Smartphones have no close substitutes. X  
 B. Smartphone manufacturers have excess capacity in production.  
 C. Consumers' expenditure on smartphones takes up a large proportion of their total expenditure.  
 D. The workers for producing smartphones cannot be easily recruited.

14. Suppose the demand curve of face masks is a downward-sloping straight line. When the price of face masks falls from \$5 to \$4, consumers' total expenditure on face masks remains unchanged. If the price of face masks falls further from \$4 to \$3, consumers' total expenditure on face masks

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



15. The initial equilibrium price of pineapples is \$5. Suppose the government imposes a per unit tax of \$4 on pineapples. If the elasticity of demand for pineapples is \_\_\_\_\_ than their elasticity of supply, the new equilibrium price can be \_\_\_\_\_.

- (1) higher ... \$6  
 (2) higher ... \$8  
 (3) lower ... \$7  
 (4) lower ... \$8
- A. (1) and (3) only  
 B. (1) and (4) only  
 C. (2) and (3) only  
 D. (2) and (4) only

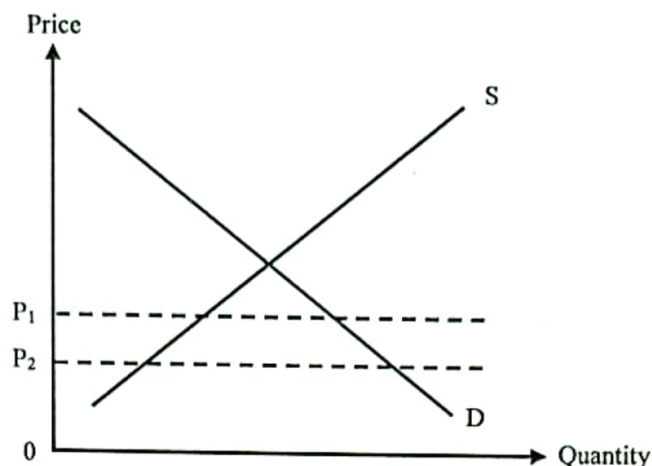
16. Refer to the following market demand and supply schedules of Good X.

Unit price (\$)	10	15	20	25	30	35
Quantity demanded (units)	140	120	100	80	60	40
Quantity supplied (units)	80	80	80	80	80	80

Which of the following statements about the market of Good X is correct?

- A. If a price ceiling is set at \$10, the quantity transacted of Good X will be 140 units.  
 B. If a production quota is set at 40 units, the price and quantity transacted of Good X will remain unchanged.  
 C. If a per-unit subsidy of \$5 is provided, the equilibrium price of Good X will decrease to \$20.  
 D. If a per-unit tax of \$5 is imposed, the net-of-tax revenue of Good X will decrease to \$1 600.

17. The following diagram shows the supply and demand curves of a good.



Suppose the government changes the price floor from  $P_1$  to  $P_2$ . Which of the following statements is/are correct?

- (1) The marginal benefit of the last unit of the good will decrease. ~~X~~
- (2) There will be an increase in the excess demand for the good.
- (3) Consumers' total expenditure on the good will decrease.
- (4) The quantity transacted of the good will remain unchanged. ✓

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

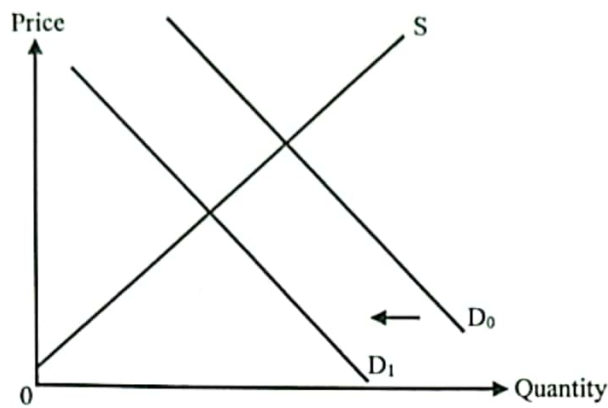
18. The table below shows the distribution of market share of Mandatory Provident Fund (強制性公積金) trustees in Hong Kong in 2021.

Mandatory Provident Fund trustee	Market share
Manulife	25.8%
HSBC	18.6%
Sun Life	10.4%
AIA	9.1%
Others	36.1%

Based on the above information, we can conclude that the above market is an example of \_\_\_\_\_ because \_\_\_\_\_.

- A. oligopoly ..... sellers are interdependent in their marketing strategies
- B. oligopoly ..... there are a few dominant sellers in the market
- C. monopolistic competition ..... there are many sellers in the market
- D. monopolistic competition ..... services provided by different sellers are heterogeneous

19. Refer to the following diagram about the market of local vegetables in an economy.



The shift of the demand curve from  $D_0$  to  $D_1$  \_\_\_\_\_.

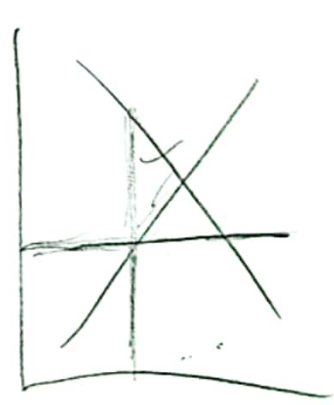
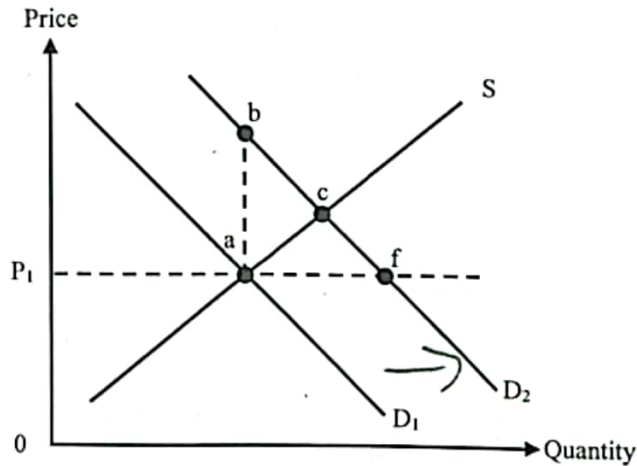
- A. can be caused by an increase in the price of local vegetables
- B. will raise the marginal cost of the last unit of local vegetables
- C. will lead to economic inefficiency
- D. can be caused by a decrease in the sales tax on imported vegetables

20. The provision of a per-unit production subsidy on a good will lead to \_\_\_\_\_.

- A. a fall in the producer surplus of the good
- B. a rise in consumers' total expenditure on the good
- C. a rise in the total social surplus of the good
- D. a rise in the total revenue including the subsidy of the good



21. The following diagram shows the supply and demand curves of Good Z.



Suppose a price ceiling is set at  $P_1$ . When the demand for Good Z increases from  $D_1$  to  $D_2$ , there is \_\_\_\_\_ and the deadweight loss is \_\_\_\_\_.

- A. over-production ..... area abc
- B. over-production ..... area acf
- C. under-production ..... area abc
- D. under-production ..... area acf



22. Plastic straws are a major source of plastic waste. Most plastic straws would break into smaller particles, releasing chemicals which threaten the environment.

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

- A. The use of plastic straws results in negative externality, and the quantity of plastic straws used is below the efficient level.
- B. To maximise total social surplus, governments around the world should completely ban the use of plastic straws.
- C. Charging a lump-sum tax on the businesses that provide plastic straws to customers must restore efficiency in the market of plastic straws.
- D. Granting a per-unit subsidy to the producers of environmentally-friendly paper straws tends to reduce the deadweight loss in the market of plastic straws.

23. Study the following data about an economy.

	2016	2021
Gini coefficient based on post-tax post-social transfer household income	0.398	0.407

Which of the following are possible explanations for the above change from 2016 to 2021?

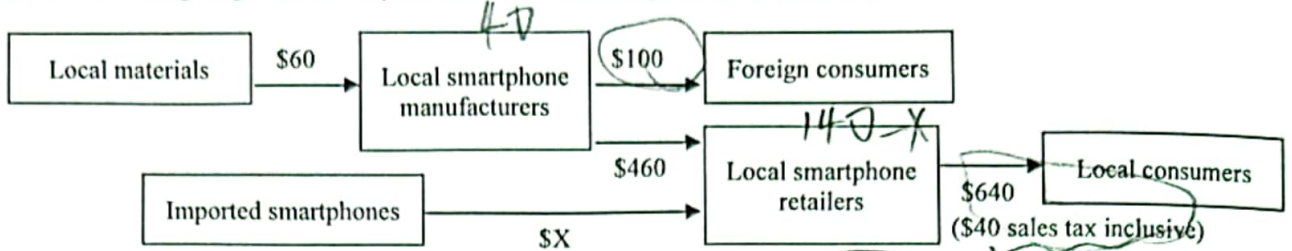
- (1) The progressive tax system changed to a regressive one. ✓
- (2) The tax bands of the progressive salaries tax are widened. ✓
- (3) The transfer payments provided to the low-income households increased. X

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

24. Which of the following would be included in the calculation of Hong Kong's gross domestic product (GDP)?

- A. the value of a second-hand bicycle purchased by a student X
- B. the commission earned by a broker from transactions of shares for his clients X
- C. the capital gain earned by a household from reselling a residential property X
- D. the allowance under the Comprehensive Social Security Assistance Scheme received by the needy X

25. The following diagram shows a production chain of smartphones in an economy.



If the contribution of the above production chain to the economy's GDP at factor cost is \$560, the value of X is \_\_\_\_\_.

- A. 40
- B. 80
- C. 140
- D. 180

40

26. The following table shows some data of an economy in a certain year.

Factor income from abroad	\$14 billion
Factor income paid abroad	\$98 billion
Direct taxes	\$95 billion
Indirect taxes	\$23 billion
Production subsidies	\$57 billion
GDP deflator	117

Which of the following statements about the economy are correct?

- (1) The GDP is higher than the gross national income (GNI). ✓
- (2) The GDP at factor cost is higher than the GDP at market price. ✓
- (3) The nominal GDP is higher than the real GDP. ✓

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

27. Study the following data of a country.

LS: 4655 / 4385

Year	2020	2021
Unemployed population (million)	176.9	175.4
Unemployment rate (%)	3.8	4.0

Which of the following best explains the above changes of the country from 2020 to 2021?

- A. More people look for jobs. X
- B. More employed persons emigrate to other countries. ✓
- C. The government raises the effective minimum wage rate. X
- D. The government raises the amount of unemployment benefits. X

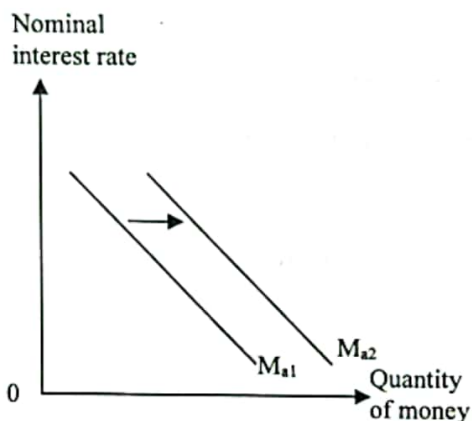
28. Suppose there is a fall in the national income of a country's major trading partner. Which of the following would offset its effect on the aggregate output of the country?

- A. The government increases the amount of tax rebate on salaries tax.
- B. The government imposes stricter quarantine requirements for inbound travellers.
- C. Firms become pessimistic about the economic prospect of the country.
- D. Landlords raise the rent of their office and retail premises.

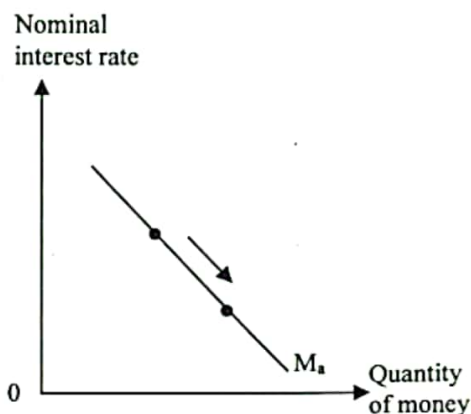
29. Suppose the stock market becomes more volatile. Which of the following diagrams best illustrates the effect of the above change on the money market?

$M_a$  = asset demand for money  
 $M_t$  = transaction demand for money

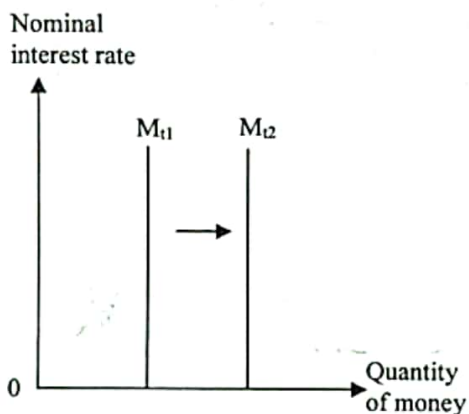
A.



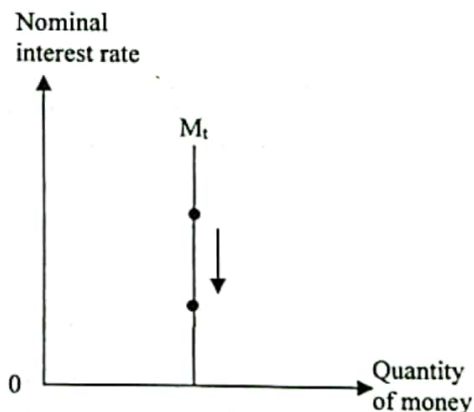
B.



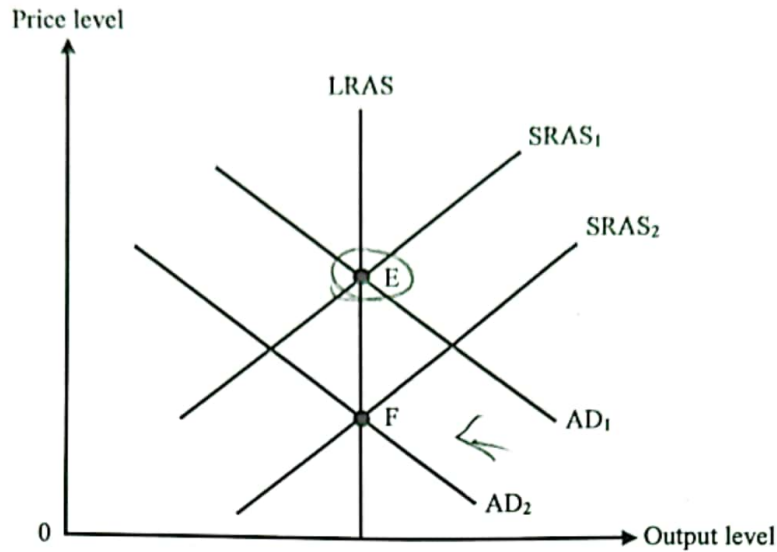
C.



D.



30. The diagram below shows the aggregate demand (AD) curves, the short run aggregate supply (SRAS) curves and the long run aggregate supply (LRAS) curve of an economy. The economy initially operates at point E.



Which of the following will result in a change in the long run equilibrium point from E to F?

- A. Households' desire to save increases.  
 B. Prices of factor inputs decrease. X  
 C. The government offers more retraining programmes to workers. X  
 D. The required reserve ratio decreases. X

AD ↓

31. Which of the following is a function of the Hong Kong Monetary Authority?

- A. providing loans to licensed banks and the public X  
 B. managing foreign exchange reserves  
 C. determining the market interest rates  
 D. collecting taxes for the government X

32. Which of the following will lead to an increase in monetary base?

- A. The central bank raises the discount rate X  
 B. The central bank reduces the required reserve ratio. X  
 C. The central bank buys government bonds from the public. ✓  
 D. The central bank replaces some of the paper banknotes in circulation with polymer banknotes.

CP ↑ R

33. Carmen withdraws HK\$600 000 from her savings deposits with a licensed bank in Hong Kong. She puts one-third of the amount into her current account and remits the remaining amount overseas.

What will be the immediate effects of the above actions on the Hong Kong dollar money supply?

- (1) M1 increases by HK\$200 000. ✓  
 (2) M2 decreases by HK\$600 000. ✗  
 (3) M3 decreases by HK\$400 000. ✓

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

34. Refer to the following balance sheet of a banking system which has excess reserves of \$125 million

Assets (\$ million)		Liabilities (\$ million)	
Reserves	500	Deposits	1 500
Loans	1 000		

$RRR = 0.25$

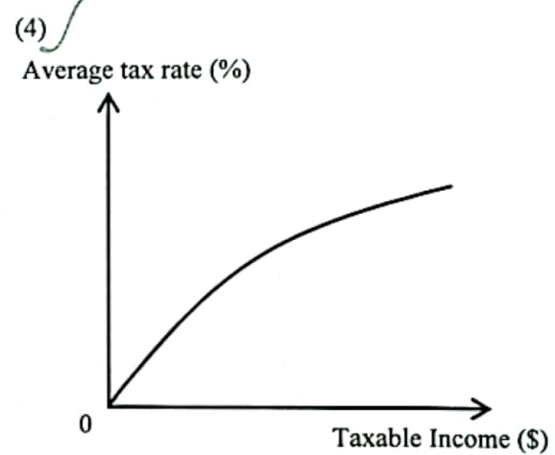
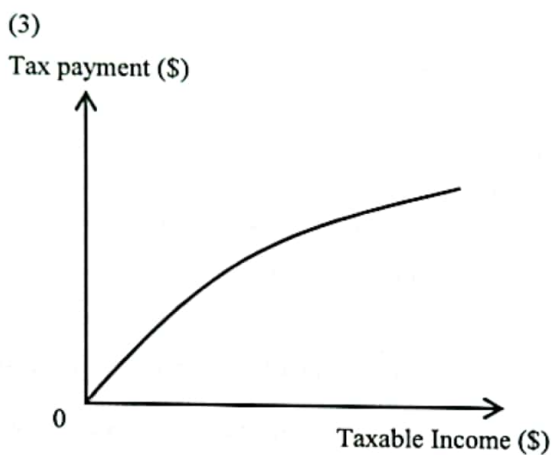
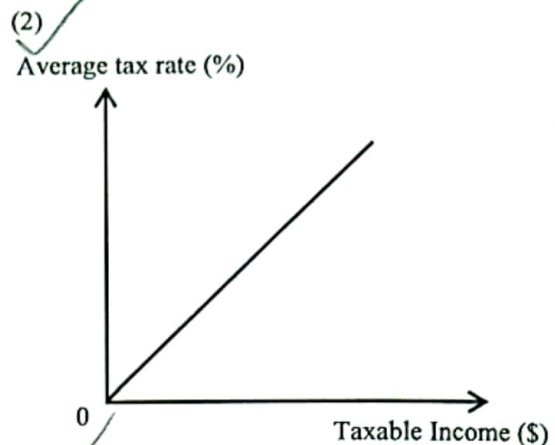
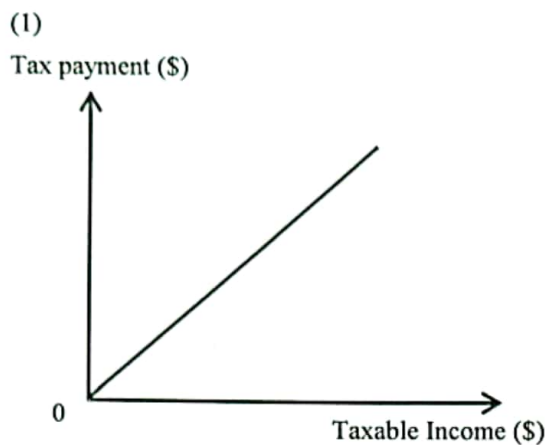
Which of the following statements about the above banking system is correct?

- A. The actual banking multiplier is 4. ✗  
 B. If the banking system loans out all the excess reserves, the amount of reserves will decrease after the deposit creation process is completed. ✗  
 C. If the banking system loans out all the excess reserves, the maximum possible increase in loans will be \$500 million. ✓  
 D. If the public withdraws \$125 million from the banking system and holds it as cash, the amount of excess reserves will decrease to zero immediately. ✗
35. Bobby lives in his newly bought property in Wan Chai. He gains \$100 000 from trading shares in the stock market of Hong Kong.

Based on the above information, Bobby needs to pay \_\_\_\_\_ to the Hong Kong Government.

- (1) capital gains tax ✗  
 (2) property tax ✓  
 (3) rates ✓  
 (4) stamp duty ✓
- A. (1) and (3) only  
 B. (2) and (4) only  
 C. (3) and (4) only  
 D. (1), (2) and (3) only

36. Which of the following diagrams describe a progressive tax?



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

37. According to the classical quantity theory of money, if the money supply of an economy increases by 8%, \_\_\_\_\_.

- A. the government's income tax revenue will increase by 8%
- B. the nominal output will increase by 8%
- C. the real output will increase by 8%
- D. the price level may increase by less than 8%

38. The table below shows the Composite Consumer Price Index of Hong Kong.

Year	Composite Consumer Price Index
2020	99.9
2021	101.4

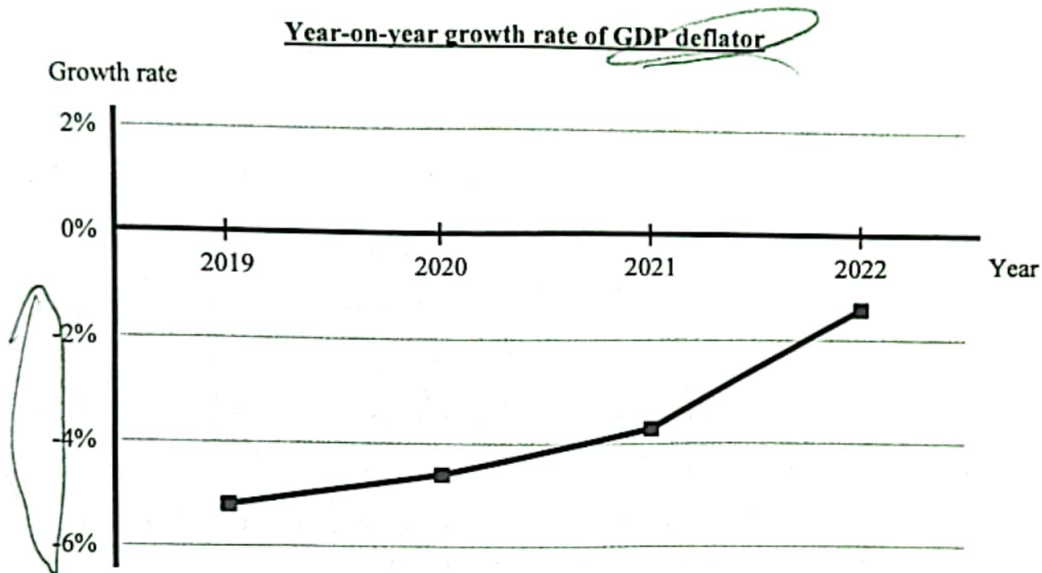
$1.5\% = i$

Suppose people did not expect any change in the price level from 2020 to 2021. Which of the following persons would gain when the above change in price level occurred?

the gain

- A. a lender who provided a one-year loan to an enterprise at a fixed interest rate in 2020
- B. an employee whose salary in 2021 was adjusted according to the inflation rate
- C. a student who paid a fixed tuition fee in both 2020 and 2021
- D. an elderly who held time deposits in a bank from 2020 to 2021

39. The following chart shows the changes in the GDP deflator of a country.



Based on the above chart, which of the following statements about the country during the above period are correct?

- (1) The purchasing power of money increased. ✓
- (2) The nominal GDP growth rate was lower than the real GDP growth rate. ✓
- (3) The cost of living increased. ✓

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

40. Which of the following would result in a rise in the price level of an economy and a fall in its employment level at the same time? SMA ✓

- A. The government reduces the profits tax rate. X
- B. The economy's currency appreciates against the currencies of its trading partners.
- C. The government increases its spending on research and development.
- D. The prices of imported raw materials increase.



41. Which of the following are examples of an expansionary fiscal policy?

- (1) increasing the child allowance of salaries tax ✓
- (2) launching a consumption voucher scheme ✓
- (3) lowering required reserve ratio X

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

42. The following table shows the amount of apples or peaches that Country A and Country B can produce with one unit of resources.

	Apples (units)	Peaches (units)
Country A	100 (0.8P) Or	80 (1.25A)
Country B	180 (0.5P) Or	90 (2A)

According to the above table, which of the following statements are correct?

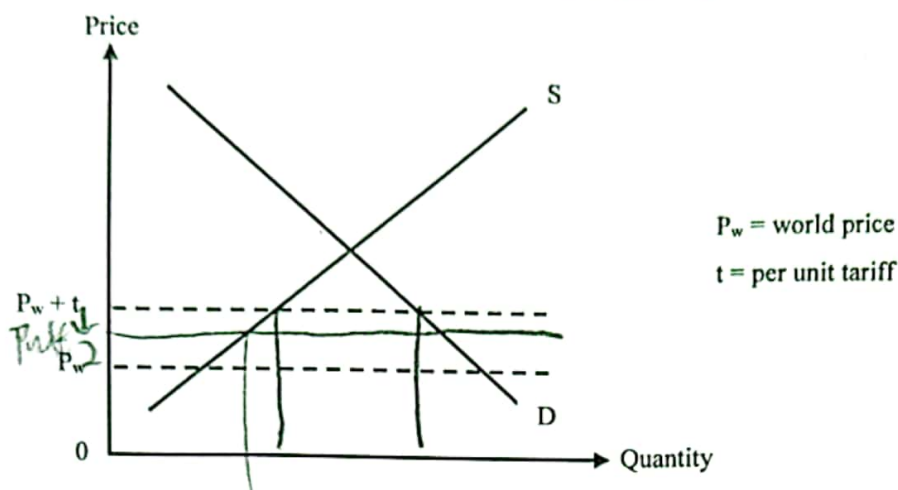
- (1) The opportunity cost of producing 1 unit of apples is 0.8 units of peaches in Country A. ✓
- (2) Country B has an absolute advantage in producing apples. ✓
- (3) A mutually beneficial terms of trade can be 1 unit of apples = 0.7 units of peaches. ✓

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

$$0.5^P < 1A < 0.8^P$$



43. The diagram below shows the market of Good X in a small open economy. The economy has imposed a per unit tariff on Good X.



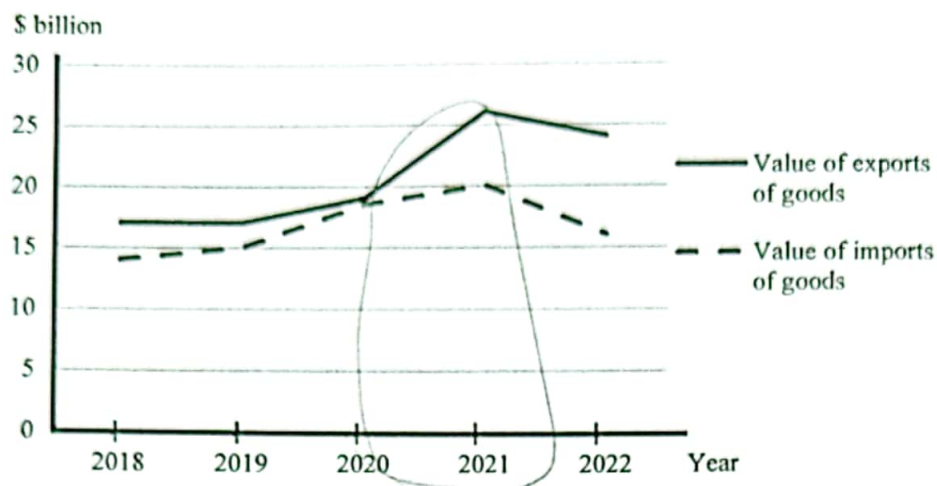
If the world price of Good X decreases, \_\_\_\_\_.

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

44. Which of the following is included in the calculation of the balance of Hong Kong's current account?

- A. A Mainland billionaire spends HK\$20 billion building a shopping mall in Hong Kong.
- B. A Japanese resident buys an air ticket to Hong Kong from an airline company in Japan.
- C. A Hong Kong resident receives interest from US Government bonds.
- D. A Hong Kong investor buys shares issued by a German listed company.

45. The figure below shows the values of a country's exports and imports of goods from 2018 to 2022.



From year \_\_\_\_\_ to year \_\_\_\_\_, the country had an increase in the value of imports of goods and an increase in visible trade surplus at the same time.

- A. 2018 ..... 2019
- B. 2019 ..... 2020
- C. 2020 ..... 2021
- D. 2021 ..... 2022

**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.