

ECONOMICS PAPER 2
Question-Answer Book

10:15 am – 12:45 pm (2 hours 30 minutes)
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 two sections, A and B. Answer ALL questions in sections A and B.
- (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.

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Candidate Number



Section A (44 marks)

1. An electric car manufacturer took over a social media company.
- (a) Explain which type of expansion this was. (2 marks)
 - (b) Why did the electric car manufacturer choose to take over a social media company instead of taking over another electric car manufacturer? List **TWO** possible reasons. (2 marks)
 - (c) Some economists share their economic analyses on social media free of charge. Explain whether these economic analyses are free goods to society. (2 marks)

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2. Study the following news extract.

A postal company has decided to introduce its first digital employee, a smart chatbot (智能聊天机器人). The chatbot can answer commonly asked questions from customers, freeing up the customer services team to solve more complex queries.

- (a) Explain to which type of factor of production the chatbot belongs. (2 marks)
- (b) Which of the three basic economic problems is the decision of the company related to? Explain your answer. (2 marks)

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3. The table below shows the production data of a firm.

Machinery (units)	Labour (units)	Average output of labour (units)
12	10	10
12	11	12
12	12	15
12	13	17
12	14	16

- (a) Based on the above data, explain why machinery is a fixed factor. (1 mark)
- (b) Explain whether the law of diminishing marginal returns is illustrated by the above data. (3 marks)

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4. Smartphones of the same model are sold in different shops at different prices. Explain with **TWO** reasons why some customers buy the smartphones from shops selling at higher prices. (4 marks)

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5. Refer to the following conversation.

Teacher: If the marginal cost for producing each unit of a good increases, the total social surplus will decrease.

Student: Following your argument, the increase in marginal cost for each unit will lead to economic inefficiency.

(a) Illustrate the teacher's statement with a diagram. (2 marks)

(b) Explain whether you agree with the student's response. (2 marks)

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6. Study the following statistical data of Hong Kong.

Year	Labour Force (thousand persons)
2020	3 918.5
2021	3 870.4

'The above change in labour force necessarily implies a rise in the unemployment rate in 2021 in Hong Kong'.
Do you agree? Explain your answer. (4 marks)

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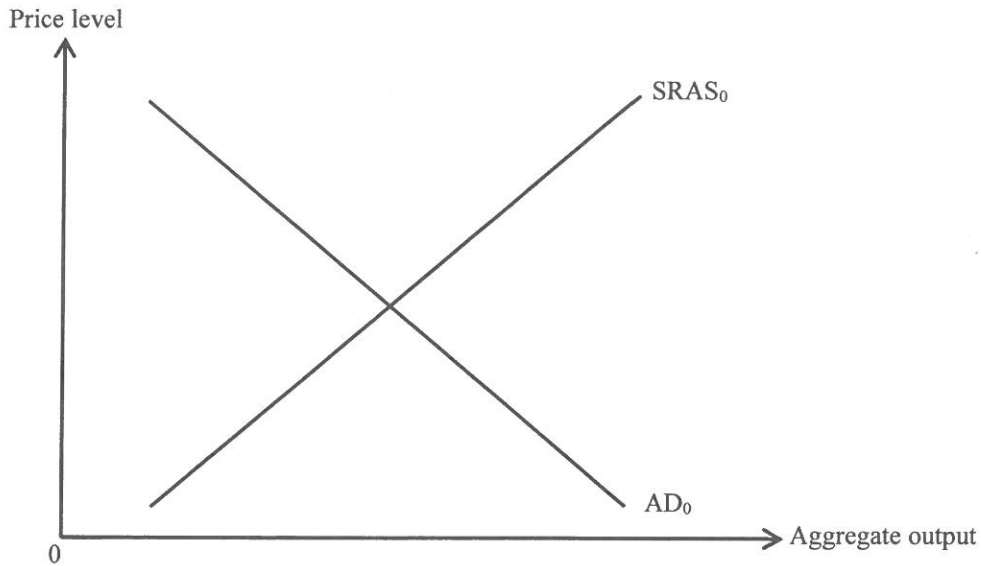
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7. There exists a deflationary (output) gap in a country.

- (a) Indicate the deflationary (output) gap in Figure 1. (1 mark)
- (b) To attract travellers, the government relaxes the quarantine requirements for inbound tourists. With the aid of Figure 1, explain how the deflationary (output) gap would be affected. (5 marks)

Figure 1



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8. The amount of resources in Country A is twice of that in Country B. Suppose both Country A and Country B use ALL their resources in production. Their maximum output is shown in the table below.

	Computers (units)		Rice (units)
Country A	800	Or	500
Country B	400	Or	300

- (a) Explain whether Country A has
- (i) an absolute advantage in producing computers.
 - (ii) a comparative advantage in producing computers.
- (5 marks)
- (b) Suppose the computer-importing country has to pay a transportation cost of 0.05 units of rice for each unit of computers imported. Find the range of terms of trade (for 1 unit of computers) that is mutually beneficial for both countries. (2 marks)

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9. Figure 2: Value of US dollar (in terms of Japanese yen)

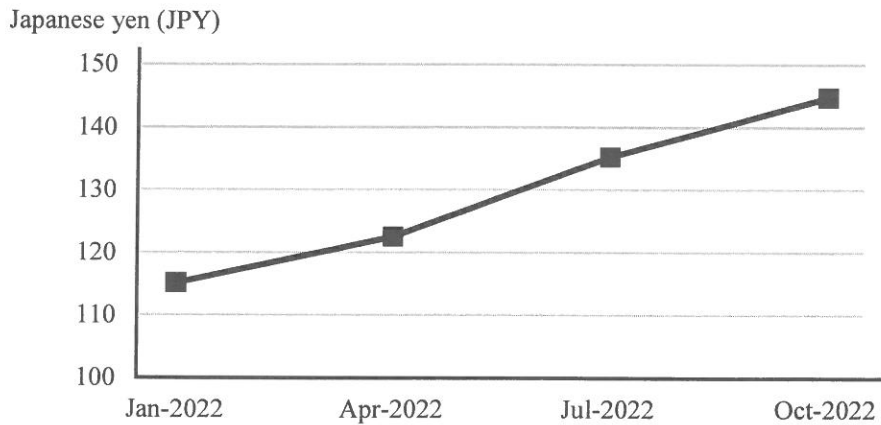
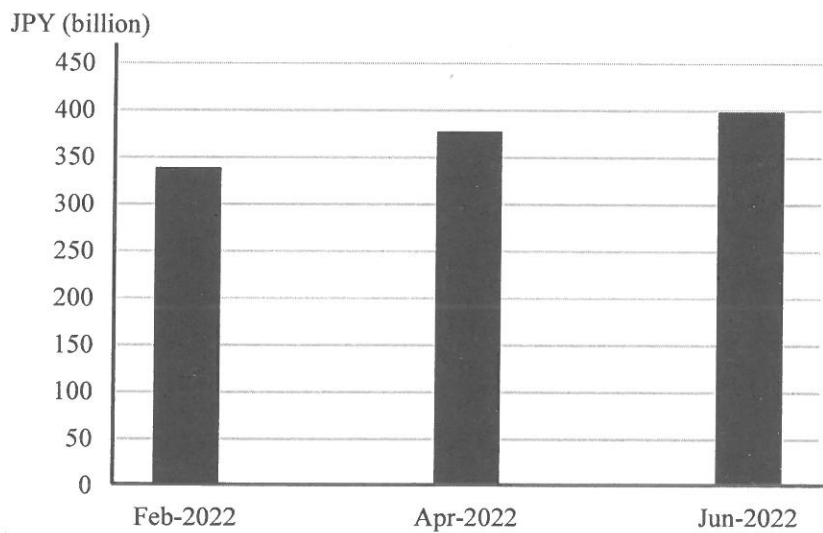


Figure 3: Total value of Hong Kong's imports from Japan (in terms of JPY)

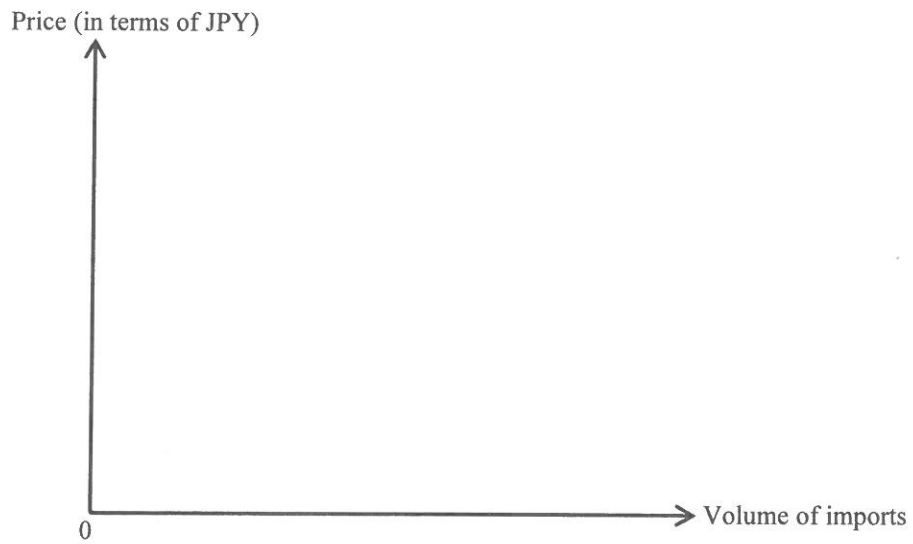


- (a) Refer to Figure 2. Under the Linked Exchange Rate System of Hong Kong, how would the exchange rate between JPY and Hong Kong dollar (HKD) change between January and October 2022? (1 mark)
- (b) 'The change in the total value of imports shown in Figure 3 could be explained by the change in exchange rate between JPY and HKD during the period.' With the aid of Figure 4, justify this statement. (For simplicity, assume that in terms of JPY, the price of Hong Kong's imports from Japan does not change.) (4 marks)

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Figure 4



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END OF SECTION A

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Section B (60 marks)

10. In 2022, the Hong Kong Financial Secretary announced the issuance of Silver Bonds for citizens aged 60 or above to subscribe. The nominal interest rate of the Silver Bonds is equal to the actual inflation rate in Hong Kong, subject to a minimum of 4%.
- (a) From the viewpoint of senior citizens, explain **ONE** advantage and **ONE** disadvantage of holding Silver Bonds over holding cash. (4 marks)
 - (b) Suppose the expected inflation rate is 4.5% and there turns out to be an actual deflation of 1%.
 - (i) Calculate the expected and the actual real rates of return on the Silver Bonds. (2 marks)
 - (ii) Based on your answer in (b)(i), explain whether holders of the Silver Bonds would gain or lose. (2 marks)
 - (c) Suppose a large number of senior citizens withdraw money from their bank accounts to purchase Silver Bonds.
 - (i) Describe the process of deposit creation/contraction which may result from the above withdrawal. (3 marks)
 - (ii) Explain with **ONE** reason why the above withdrawal does not necessarily lead to deposit creation/contraction in reality. (2 marks)
 - (d) The government issued \$45 billion worth of Silver Bonds in 2022. Explain whether this \$45 billion was included in the calculation of Hong Kong's GDP in 2022. (2 marks)
 - (e) The Financial Secretary is paid a fixed monthly salary. A teacher says, 'It is impossible to pay the Financial Secretary with a piece rate.' Justify the teacher's statement. (2 marks)

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11. In Hong Kong, fans of popular singers often complain that they are unable to buy concert tickets of their idols at the official prices.

- (a) Figure 5 shows the demand for and the supply of the concert tickets of a popular singer in Hong Kong. With the aid of Figure 5, explain the above phenomenon. (4 marks)

Some fans who are unable to purchase concert tickets through official channels would choose to buy tickets from touts (黃牛黨) at prices substantially higher than the official prices.

- (b) Which function of price is illustrated in the above situation? Explain your answer. (2 marks)

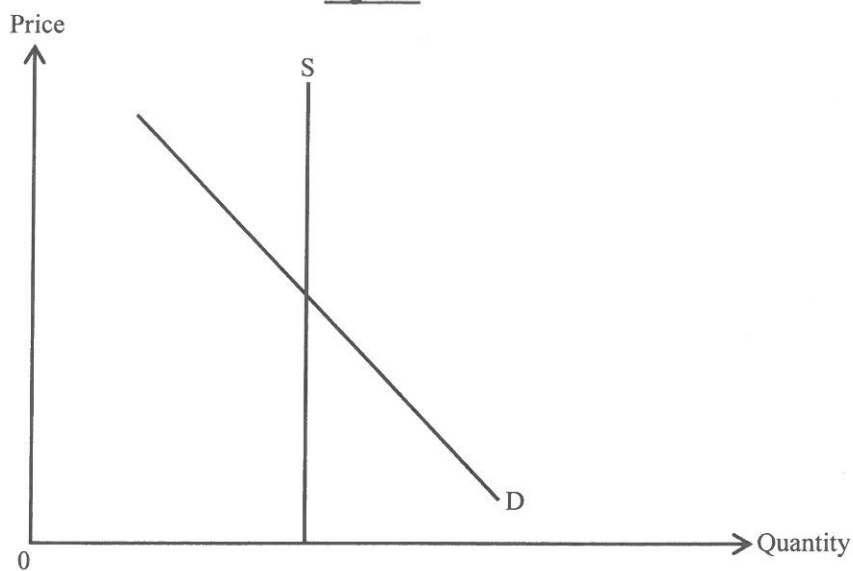
Below is an extract of some interviews about a concert.

a housewife 	I queued up at the official ticketing office for 10 hours as expected. I was finally able to buy a ticket!
a concert organiser 	Had we known that the fans were so supportive, we would have held more shows for the concert. This would help reduce the average cost per show.

- (c) Refer to the interview of the housewife. Explain, in terms of opportunity cost, why she chose to buy the concert ticket at the official ticketing office instead of buying from touts. (3 marks)
- (d) Refer to the interview of the concert organiser. Explain with **TWO** reasons why holding more shows for the same concert may help reduce the average cost per show. (4 marks)
- (e) It is observed that fans from overseas tend to buy higher-priced concert tickets when buying through the official channel. Based on the law of demand, explain this phenomenon. (2 marks)

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Figure 5



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12. Inflation is a concern in the US. Different causes of inflation have been suggested, including rising crude oil prices, expansionary monetary policy, and high import tariffs.

Source A: Prices of crude oil from May 2020 to May 2022



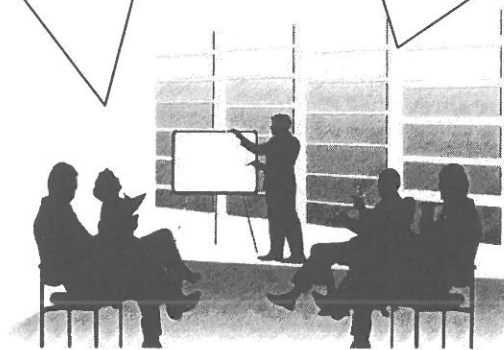
Source B: Some views about energy prices expressed by participants in a forum

A representative of manufacturers:

Changes in crude oil prices affect us a lot. Many of our products such as gasoline and plastics are made from crude oil.

A typical US citizen:

We need gasoline for our daily routines such as driving to work. Although we try very hard to reduce gasoline consumption, our bills for gasoline are still getting higher and higher.



Source C: Money supply in the US

	May 2020	May 2021
Money supply (USD Billion)	17 766.9	20 319.6

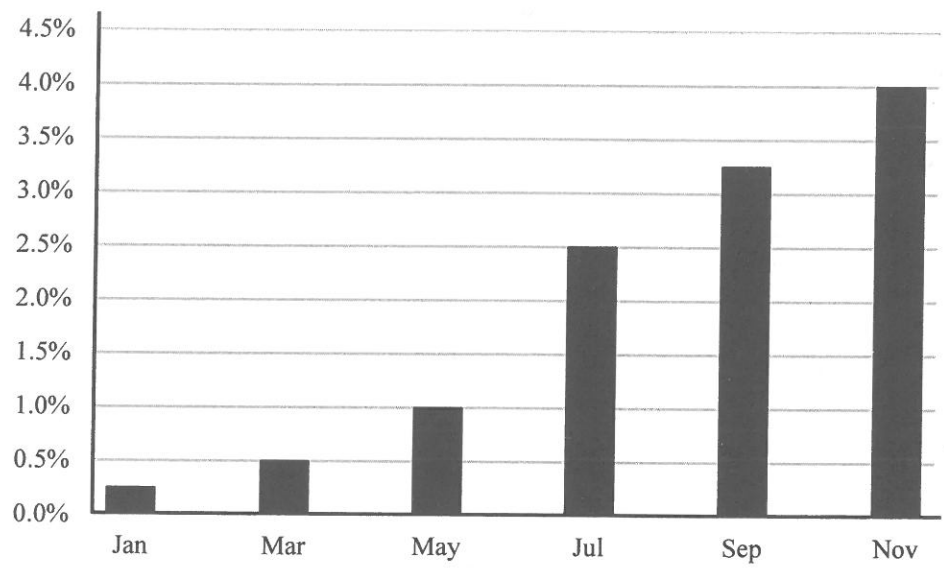
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Source D: Discount rate of the Federal Reserve* of the US from January to November 2022



* Federal Reserve is the central bank of the US.

Source E: Some comments on the US tariffs on Chinese imports

<p>A US producer</p> 	<p>We can no longer bear the costs of tariffs on raw materials imported from China without increasing our product prices.</p>
<p>An economist</p> 	<p>The tariffs cause the prices of imported consumer goods from China to rise. This puts a greater burden on low-income households than on high-income households.</p>

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- (a) Refer to Sources A and B.
 - (i) Explain how the change in crude oil prices shown in Source A affects gasoline prices. (3 marks)
 - (ii) With reference to your answer in (a)(i), explain why consumers' total expenditure on gasoline would increase. (3 marks)
- (b) Refer to Source C. According to the quantity theory of money, explain under what condition the change in money supply as shown in the source would result in an increase in the general price level in the short run. (3 marks)
- (c) Refer to Source D. How may the change in discount rate as shown in the source help relieve the pressure on rising price level? Without using a diagram, explain your answer in the light of aggregate supply and/or aggregate demand. (5 marks)

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For part (d), candidates are required to present their answers in an essay form. Criteria for marking will include the use of sources and economic theories, relevant content, logical presentation and clarity of expression.

- (d) Apart from adjusting the discount rate, two other strategies have been suggested to address the problem of inflation in the US.

Strategy 1	Raising the salaries tax rate for the high-income group
Strategy 2	Cancelling the tariffs on Chinese imports

With reference to Sources A to E and your own knowledge in Economics, discuss the effects of **EACH** strategy on the US economy in terms of

- price level,
- equity, and
- trade balance.

(14 marks)

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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.

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Supplementary Answer Sheet

Question No. _____

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