

PRACTICE PAPER
ECONOMICS PAPER 2
Question-Answer Book

(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

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Section A (50 marks)

1. Peter borrowed a book from Mary and he promised to return the book with a bookmark to her a month later at her request. Explain why the bookmark could be regarded as “interest” to both Peter and Mary. (4 marks)

2. A Chinese car manufacturer acquired a Swedish car manufacturer in 2010. Explain which type of integration was involved in this case and state **THREE** possible motives for this type of integration. (5 marks)

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3. The earthquake in Japan greatly damaged the production facilities of memory products like Secure Digital (SD) cards. As a result, the prices of these products rose. With the aid of a diagram, explain under what condition the total expenditure of Japanese consumers on the memory products would fall. (7 marks)

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4. (a) What is “deadweight loss”? (2 marks)

(b)

A teacher said, “An effective price ceiling may increase the consumer surplus.”
His student replied, “If this is the case, the price ceiling may enhance economic efficiency!”

(i) Do you agree with the teacher? Illustrate your answer in Figure 1. (3 marks)

(ii) Do you agree with the student? Explain your answer with the aid of Figure 2. (5 marks)

Figure 1

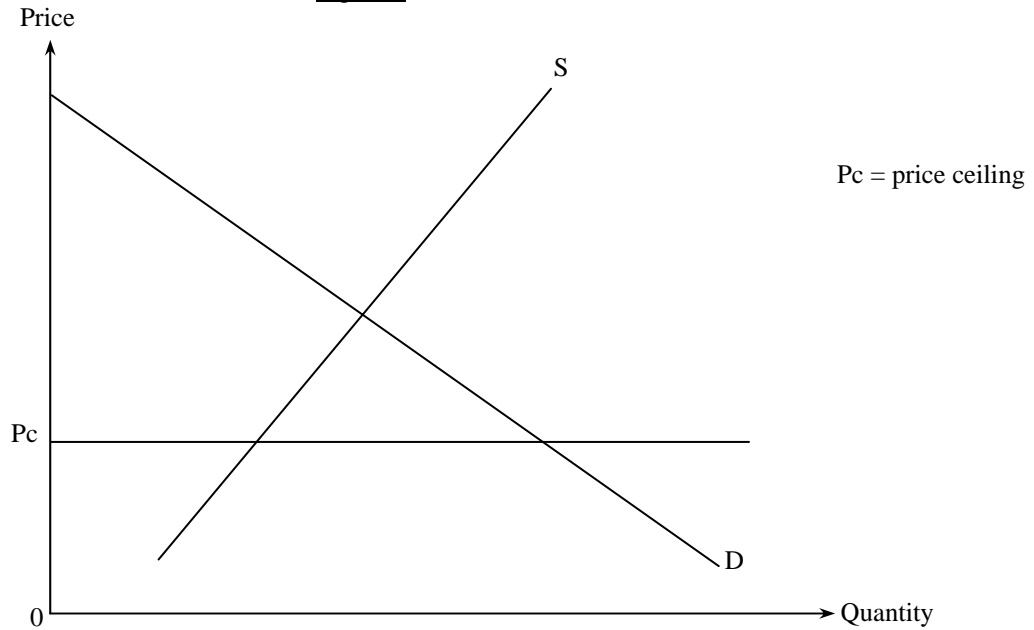
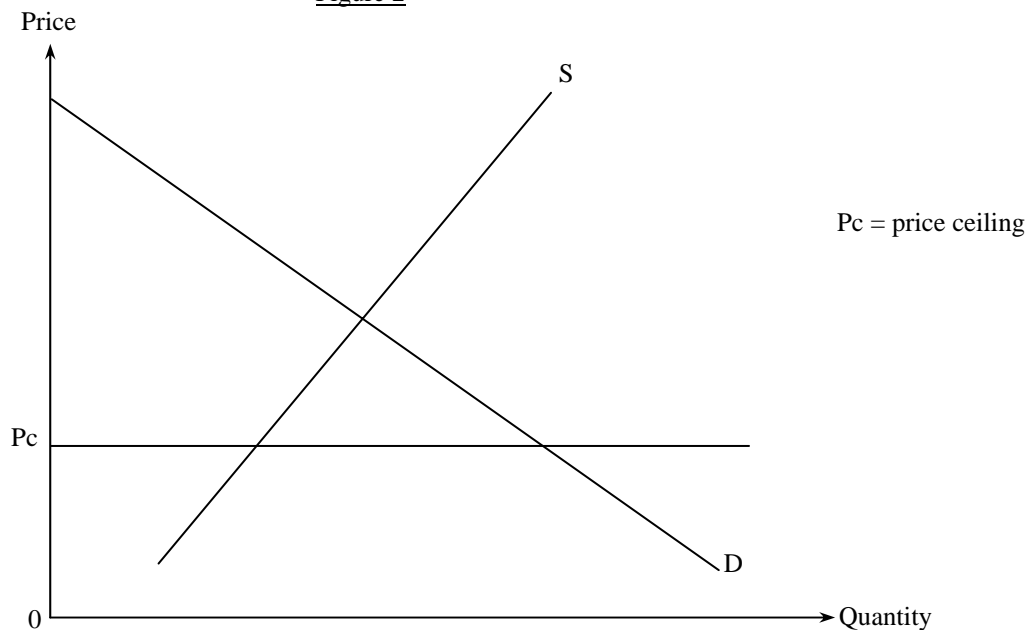


Figure 2



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5. Mr. Richardson, a British civil engineer, has worked for a large Hong Kong construction company for the past few years. He is earning an annual income of HK\$800 000 and he remits part of his income to his family in Britain. Is Mr. Richardson's income counted in HK's gross domestic product (GDP)? Explain your answer. (3 marks)

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6. The following is a news report about Economy A.

Skilled construction workers are in great demand after the launch of the construction project of a new high-speed railway system. A government official has announced the introduction of a labour importation scheme to meet the need for skilled workers.

Suppose the imported workers do not replace any of the domestic workers. Explain how the unemployment rate will be affected by the scheme. (4 marks)

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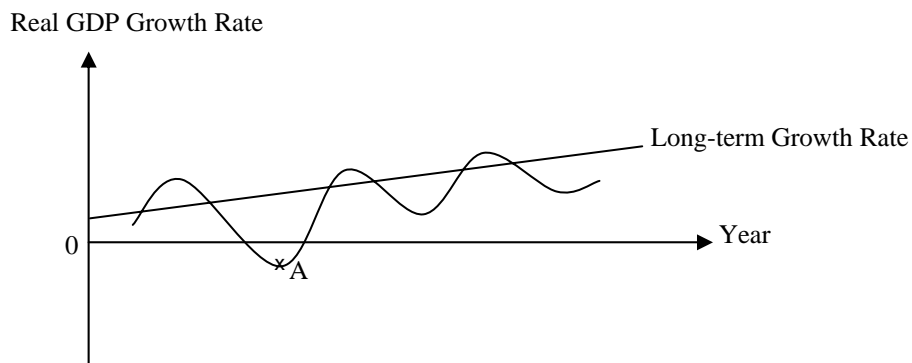
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7. Refer to the business cycle shown in Figure 3. Identify the phase which point A is in. Apart from the information about the real gross domestic product (GDP) growth rate in this phase, give **THREE** general economic phenomena which occur in this phase. (4 marks)

Figure 3



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8. Demand deposits can be regarded as money. Explain which **TWO** functions of money they can perform. (4 marks)

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9. Country A and Country B possess the same amount of resources. While Country A uses half of its resources in producing food and half in producing computers, Country B uses one-third of its resources in producing food and two-thirds in producing computers. Their total output in a year is shown below.

	Food (units)	Computers (units)
Country A	100	50
Country B	200	100

Explain whether Country B has

- (a) an absolute advantage; and
- (b) a comparative advantage

in producing food.

(6 marks)

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10. Suppose the US dollar depreciates against the Euro. Under the linked exchange rate system, how will the following items be affected?

- (a) The total number of Hong Kong tourists travelling to European countries
- (b) The prices (in Euro) of Hong Kong toys exported to Europe
- (c) The total expenditure (in Hong Kong dollar) of Hong Kong on imported European automobiles

(3 marks)

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END OF SECTION A

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Section B (54 marks)

11. The prices of textbooks for senior secondary education have increased sharply because textbook publishers have to publish new textbooks for the new curriculum.
- (a) The production of textbooks involves various experts, including authors, editors, graphic designers, etc. What economic principle is illustrated? Give **THREE** reasons to explain why this principle can raise labour productivity. (4 marks)
 - (b) Explain whether the knowledge in the textbooks is a public good. (3 marks)
 - (c) In Hong Kong, to which type of market structure do the publishers belong? State **TWO** features of this type of market structure. (3 marks)
 - (d) Under the School Textbook Assistance Scheme (STAS), needy students are granted subsidies to cover the costs of textbooks and miscellaneous school-related expenses. Explain how STAS can enhance equity in Hong Kong society. (4 marks)

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12. In November 2010, the animated version of the Riverside Scene at the Qingming Festival (電子動態版清明上河圖) was exhibited in Hong Kong. 600 000 tickets were sold at \$10 each through the URBTIX outlets and the Internet. Tickets were sold out within a short period of time. Many citizens complained that they could not purchase any tickets.

- (a) (i) Illustrate the above phenomenon in a demand-supply diagram. (3 marks)
- (ii) Suggest **TWO** measures which would help relieve the above problem. Illustrate your answers in **TWO** separate diagrams. (6 marks)
- (b) Some people paid \$200 to buy a ticket from touts (黃牛黨).
 - (i) State the function of price in the above case. (1 mark)
 - (ii) “The government should raise the ticket price so as to kick out touts.” Evaluate this proposal. (4 marks)

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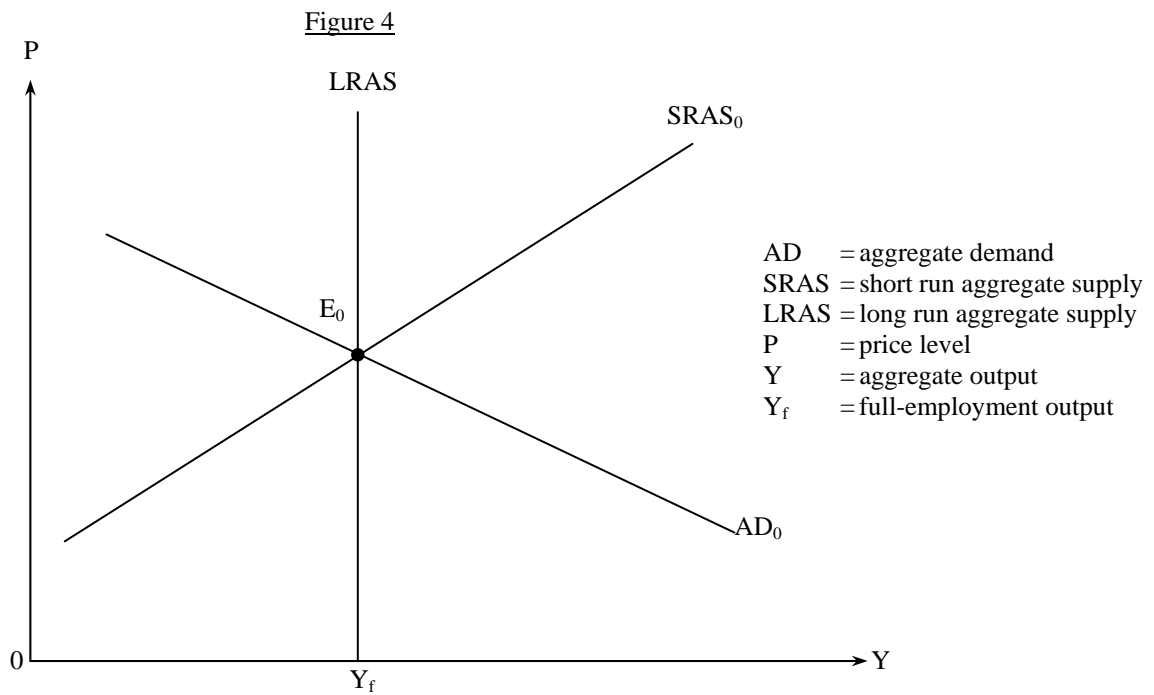
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13. Figure 4 shows the aggregate supply and aggregate demand curves of an economy.



Suppose the initial equilibrium is at E₀.

- (a) Why is the short run aggregate supply curve upward-sloping? (3 marks)
- (b) Suppose the economy suffers from a bursting of the assets bubble so that asset prices fall drastically. With the aid of Figure 4, explain how the short run equilibrium output and price levels of the economy will change. (6 marks)
- (c) With the aid of Figure 4, explain how market forces will help restore the output level to Y_f. (5 marks)

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14. The following table shows the balance sheet of the banking system of an economy:

Assets (\$ million)		Liabilities (\$ million)	
Reserves	1 000	Deposits	4 000
Loans	3 000		

Suppose the public in this economy always holds \$500 million cash and the banking system never holds excess reserves.

- (a) Calculate the monetary base and money supply of the economy. (2 marks)
- (b) Suppose the central bank lowers the minimum reserve ratio of the banking system by 5%.
 - (i) Explain whether the monetary base of the economy changes. (2 marks)
 - (ii) Calculate the new money supply. Show your working. (4 marks)
- (c) According to the quantity theory of money, explain how the above change in money supply affects the general price level in the long run. (4 marks)

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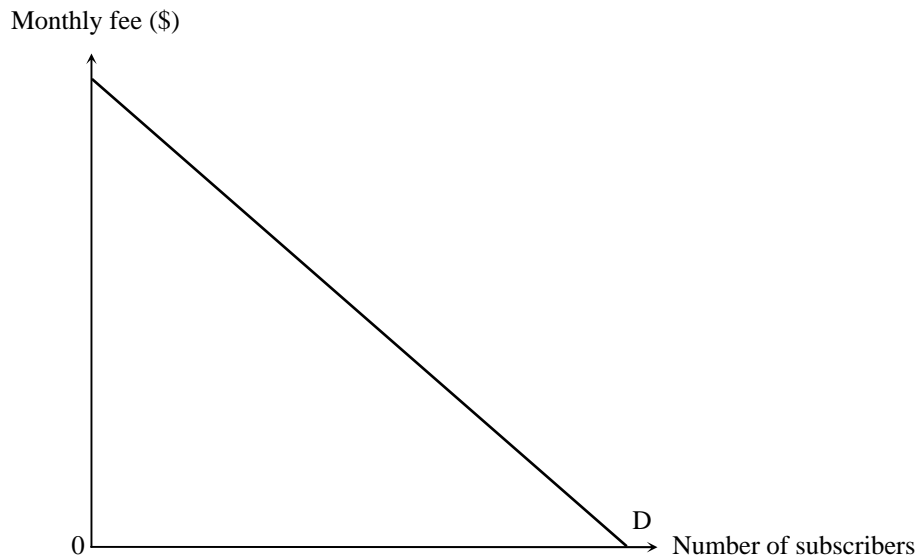
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Section C (16 marks) Answer any **ONE** question.

15. A pay TV channel spent a huge sum of money on purchasing exclusive rights to the broadcasting of an international sports event for one season.

- (a) Suppose the expense on the purchase of exclusive broadcasting rights was the only cost for the pay TV channel in providing the broadcast service. Figure 5 shows the market demand for the subscription to the sports programme.

Figure 5



- (i) With the aid of Figure 5, explain how the pay TV channel would set a price to maximize its profit under a uniform price arrangement. (5 marks)
- (ii) “The price charged for the programme would result in economic inefficiency.” Do you agree? Explain. (3 marks)
- (b) Suppose during the period of promoting the programme subscription, the pay TV channel offered discounts only to new subscribers but not to the existing ones.
- (i) Explain whether the above practice constituted price discrimination. (4 marks)
- (ii) Other free-to-air broadcasters were not permitted to broadcast the event. This arrangement was criticized for the lack of competition. Suggest **TWO** reasons to justify the introduction of a competition policy. (4 marks)

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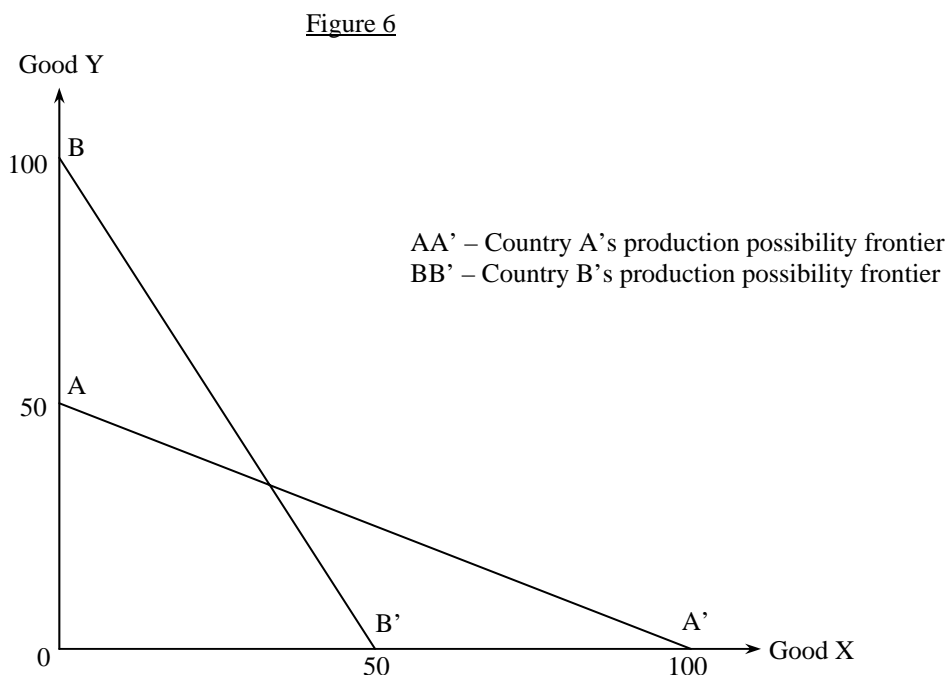
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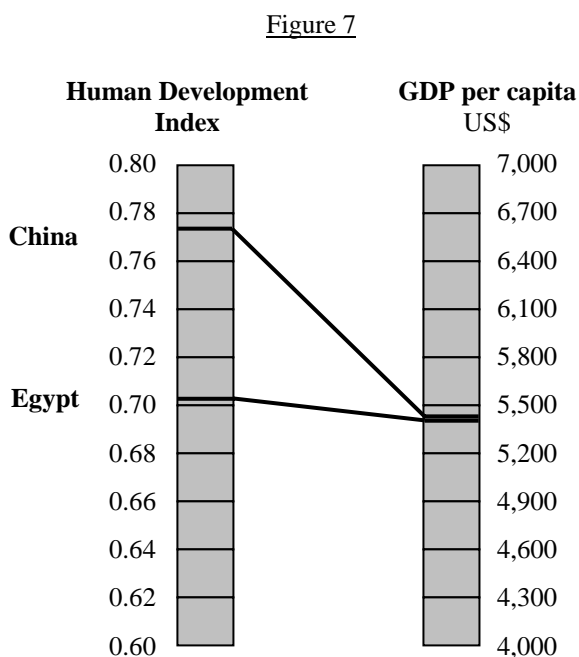
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16. (a) Figure 6 shows the production possibility frontiers of Country A and Country B.



- (i) Explain whether Country A has an absolute advantage in producing Good X. (2 marks)
 - (ii) Suppose both countries engage in complete specialization according to their comparative advantages. Given the terms of trade is $1X = 1Y$, draw on Figure 6 the production points and consumption possibility frontiers of Country A and Country B. (4 marks)
 - (iii) Based on your answer in (ii), explain whether both countries can gain from trade. (2 marks)
- (b) Figure 7 shows the Human Development Index and GDP per capita of China and Egypt in 2009.



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(i) Suggest **TWO** reasons to explain why China has a significantly higher Human Development Index despite having a similar GDP per capita to Egypt. (4 marks)

(ii) The GDP per capita of China increased sharply in the last decade. Explain with **TWO** reasons why the increase in the GDP per capita may overstate the improvement of general living standard. (4 marks)

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END OF PAPER

Sources of materials used in this paper will be acknowledged in the *Hong Kong Diploma of Secondary Education Examination Practice Papers* published by the Hong Kong Examinations and Assessment Authority at a later stage.

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Supplementary Answer Sheet

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鳴謝 Acknowledgements

本專輯的試題曾引用下列刊物 / 網站的資料：

Material from the following publications/web-sites has been used in question papers in this volume:

United Nations Human Development Reports
Development Programme http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_CHN.html

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