

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

1. Which of the following are positive statements?

- (1) Importation of labour from the mainland would result in a rise in job vacancies in Hong Kong.
- (2) It would be better to import labour from Guangdong province because they can speak Cantonese.
- (3) Productivity of labour from China is higher than that from other Southeast Asian countries.
- (4) Unemployment rate in Hong Kong would raise by 15% as a result of labour importation of 30 000 from the mainland.

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

2. David can choose to take the MTR or a bus to Yuen Long. Suppose the required travel time and the fares of both options are the same in a normal situation. Which of the following will result in an increase in the opportunity cost of travelling to Yuen Long by MTR?

- A. The air-conditioner on the bus is out of order.
- B. The traffic jam makes the bus trip 15 minutes longer.
- C. A signalling problem causes the travel time of the MTR to increase by 15 minutes.
- D. David feels annoyed about the news broadcast in the MTR train.

3. Which of the following is a characteristic of a market economy?

- A. Income distribution is uneven in the economy.
- B. The government has no role in regulating business activities in the economy.
- C. Most factors of production in the economy are privately owned.
- D. There is only price competition in the economy.

4. The _____ mobility of labour will decrease if _____.

- A. geographical ... the government introduces “city-bike rental scheme” in all train stations.
- B. geographical ... several big companies set up child care centres in their offices.
- C. occupational ... the travelling subsidy scheme provided by government is reduced due to a budget deficit
- D. occupational ... Licences are required by the government for more professions

5. The schedule below shows the marginal cost of a firm in a perfectly competitive market.

Output (units)	3	4	5	6	7	8	9
Marginal cost (\$)	5	5.5	6	6.5	7	8	9.5

Suppose the rental of the machine hired, a fixed cost, increased by \$2 while the marginal cost for each unit of the output is reduced by \$0.5. As a result, the profit-maximising output of the firm _____ while the profit of the firm _____.

- A. increases ... decreases
- B. increases ... may increase or decrease
- C. decreases ... decreases
- D. decreases ... may increase or decrease

6. Refer to the following table:

	Factory A	Factory B
Number of full-time workers	25	0
Number of part-time workers	0	50
Average working hours of full-time workers	8	0
Average working hours of part-time workers	0	6
Total output (units)	12 000	15 000

- A. Factory A uses time rate while Factory B uses piece rate to pay its workers.
 - B. Factory A provides more training for its workers.
 - C. The part-time workers employed by Factory B are more skilled.
 - D. Factory B uses more capital goods.
7. A firm has an independent legal entity but the owners cannot transfer their ownership without the consent of the other owners. When the owners want to expand the firm's business, they can _____.
- (1) Use the retained profit of the firm
 - (2) Issue shares to the public to raise capital
 - (3) Borrow from friends to raise capital
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. 759 Store, a local retailer of imported snacks, expands its business to sell cosmetics and skincare products. Which of the following is **LEAST** likely motive behind the expansion?
- A. To reduce competition
 - B. To enjoy economies of scale
 - C. To expand its brand name to other products
 - D. To spread risk by business diversification

9. The table below shows the total product of Firm A, which employs only capital and labour in production.

Labour (units)	Capital (units)	Total Product (units)
12	2	110
12	3	130
12	4	160
12	5	X

Which of the following statements about Firm A is correct?

- A. If the above data illustrate the law of diminishing marginal return, the value of X can be equal to 180.
- B. If the above data illustrate the law of diminishing marginal return, the value of X can be equal to 190.
- C. If the above data illustrate the law of diminishing marginal return, the value of X can be larger than 200.
- D. The law of diminishing marginal return does not apply to Firm A because capital is not a fixed factor.

10. Which of the following will result in a rise in the total revenue of chicken farms?

- A. The price of chicken feed falls.
- B. The government reduces the profits tax rate on chicken firms.
- C. The effective quota on the sale of chickens is increased.
- D. The government reduces the subsidy for the production of pork.

11. The table below shows the relationship between the price of and the total expenditure on ice-cream.

Unit price (\$)	5	6	7	8
Total expenditure (\$)	25	30	35	40

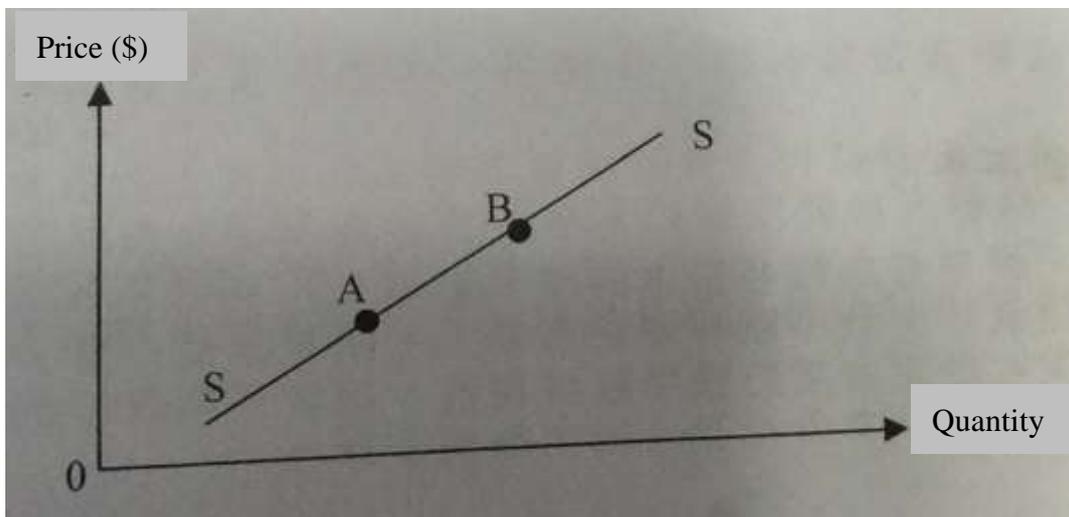
From the above table, we can conclude that the elasticity of demand for ice-cream is _____ (without regard to its negative sign)

- A. between zero and one
- B. equal to zero
- C. larger than one
- D. equal to one

12. The government provides a per-unit subsidy of \$10 on producing green products. The market price drops by \$6 as result. Which of the following statements about the green product market is/are correct?

- (1) The supply of green products is more elastic than their demand.
 - (2) Consumers enjoy more subsidy benefits than producers.
 - (3) The demand for green products increases.
- A. (2) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

13. Many people queued up for days the tickets to watch the show of Tsz-Wah, a famous artist performing stand-up comedy. Some people complained that they were unable to buy tickets even though they were willing to pay the ticket price set by the organiser. The above situation implies that
- Price was the only criterion for allocating the tickets.
 - The producer was not maximising its profit
 - A black market for the tickets might emerge.
 - There was an effective price ceiling in the ticket market.
14. Holding other factors constant, a rise in the price of Good X will lead to a fall in the total revenue of Good Y if
- Good X and Good Y are complements.
 - Good X and Good Y are substitutes.
 - Good X and Good Y are joint supply.
 - Good X and Good Y are competitive supply.
15. SS is the supply curve for smartphones. Which of the following reasons can best explain the change of the equilibrium position in the smartphone market from A to B?



- The retailers offer more free gifts for buying smartphones.
- The size of a tablet computer with a phone function is reduced.
- There are more smartphone producers in the market.
- The major network service providers increase the service charge at the same price.

16. Refer to the following table for the supply and demand schedule for a good.

Unit Price (\$)	4	5	6	7	8
Quantity demanded (units)	16	14	12	10	8
Quantity supplied (units)	14	14	14	14	14

The government imposes a \$2 per unit tax on the good. Which of the following statements about the good is correct?

- A. Sellers' revenue net of tax is \$70.
- B. The new market is \$6.
- C. The total tax revenue is \$28.
- D. The above information is insufficient to determine the tax burden on sellers.

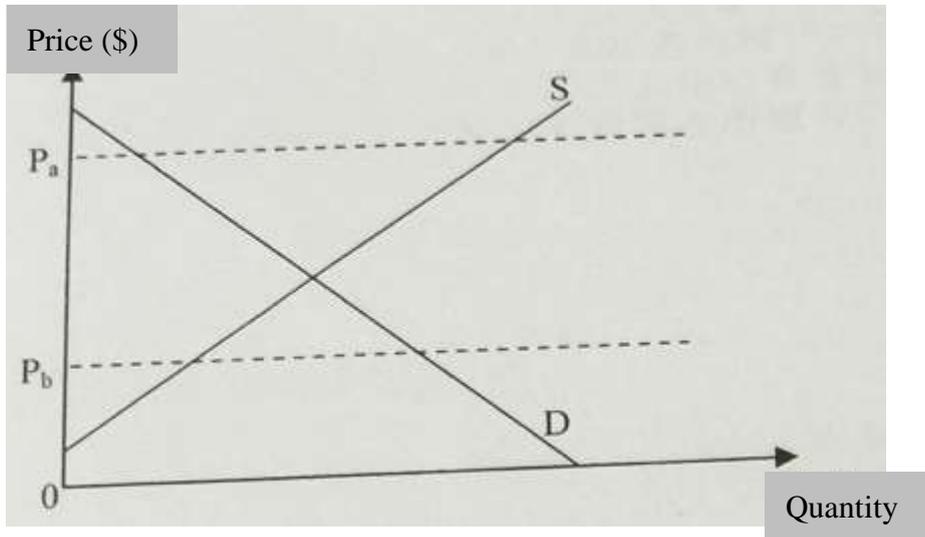
17. Which of the following is an example of the divergence between private and social benefits?

- A. A security guard watches live concerts when he is working in a concert hall.
- B. A tourist enjoys the music performed by a singer on the street and he does not pay for that.
- C. A resident living next to a karaoke lounge cannot fall asleep because of the noise.
- D. After the removal of the airport, the market value of the residential flats in that region increases.

18. Which of the following is **INCONSISTENT** with the law of demand?

- A. More high-quality Japanese grapes are imported to Hong Kong during Mid-Autumn Festival.
- B. An increase of the per unit tax on beer results in a fall in the quality of small-bottle beer sold in the market.
- C. After the introduction of the airport departure tax which is a fixed amount for any traveller, the average length of airplane journeys decreases.
- D. The birth rate increases when the income tax allowance for children increases.

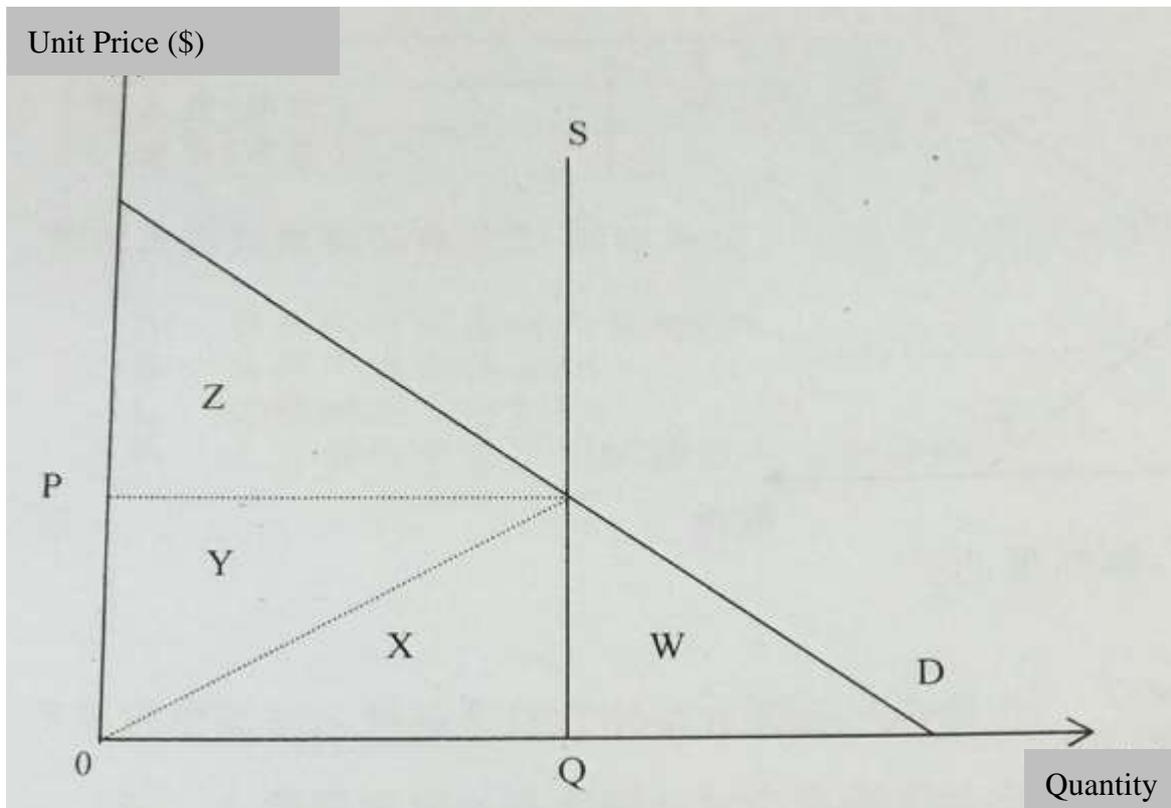
19. Refer to the following diagram.



If the government lowers the price ceiling from P_a to P_b ,

- A. The quantity transacted will increase.
 - B. The deadweight loss will decrease.
 - C. The producer surplus will decrease.
 - D. The consumer surplus will increase.
20. Which of the following statements about the theme park industry in Hong Kong is correct?
- A. Hong Kong Disneyland is a monopolist because its average cost of production drops when there are more tourists.
 - B. Hong Kong Disneyland guarantees a profit because it is protected by the government.
 - C. Hong Kong Disneyland and Ocean Park Hong Kong have no competition with each other as tourists may go to both theme parks.
 - D. Hong Kong Disneyland and Ocean Park Hong Kong are interdependent in their marketing strategies.
21. Suppose the post-tax Gini coefficient of an economy is larger than its pre-tax Gini coefficient. This implies that
- A. The government has increased the amount of transfer to the poor.
 - B. The tax system of the economy is likely to be regressive.
 - C. The problem of income inequality is worse than that in the previous year.
 - D. The government should reform the tax system.

22. Refer to the following diagram.



The maximum total social surplus is equal to _____.

- A. Area Z.
- B. Area (Y+Z)
- C. Area (W+X+Y)
- D. Area (X+Y+Z)

23. The following table shows the employment distribution in an economy.

Year	2010	2014
Primary	0.4%	0.4%
Secondary	23.6%	18.5%
Tertiary	76.0%	81.1%
Total	100%	100%

From the above table, we can conclude that from 2010 to 2014,

- A. The number of workers engaged in the primary sector remained constant.
- B. The overall employment rate was the same.
- C. The contribution of the tertiary sector to gross domestic product (GDP) increased.
- D. The relative importance of the secondary sector in terms of employment decreased.

24. Which of the following would be included in the calculation of Hong Kong's GDP for 2014?
- A. The old age allowance paid by the government in 2014.
 - B. The market value of a flat built in 2013 but sold in 2014.
 - C. The salary of a salesperson working in a shop selling second-hand handbags in 2014
 - D. The rental income from a property in Canada owned by a Hong Kong resident producing unit in 2014

25. Refer to the following table about an economy.

	Growth rate (relative to previous year) (%)	
	Year 1	Year 2
Nominal GDP	4	0
General price level	3	1
Population	-1	2

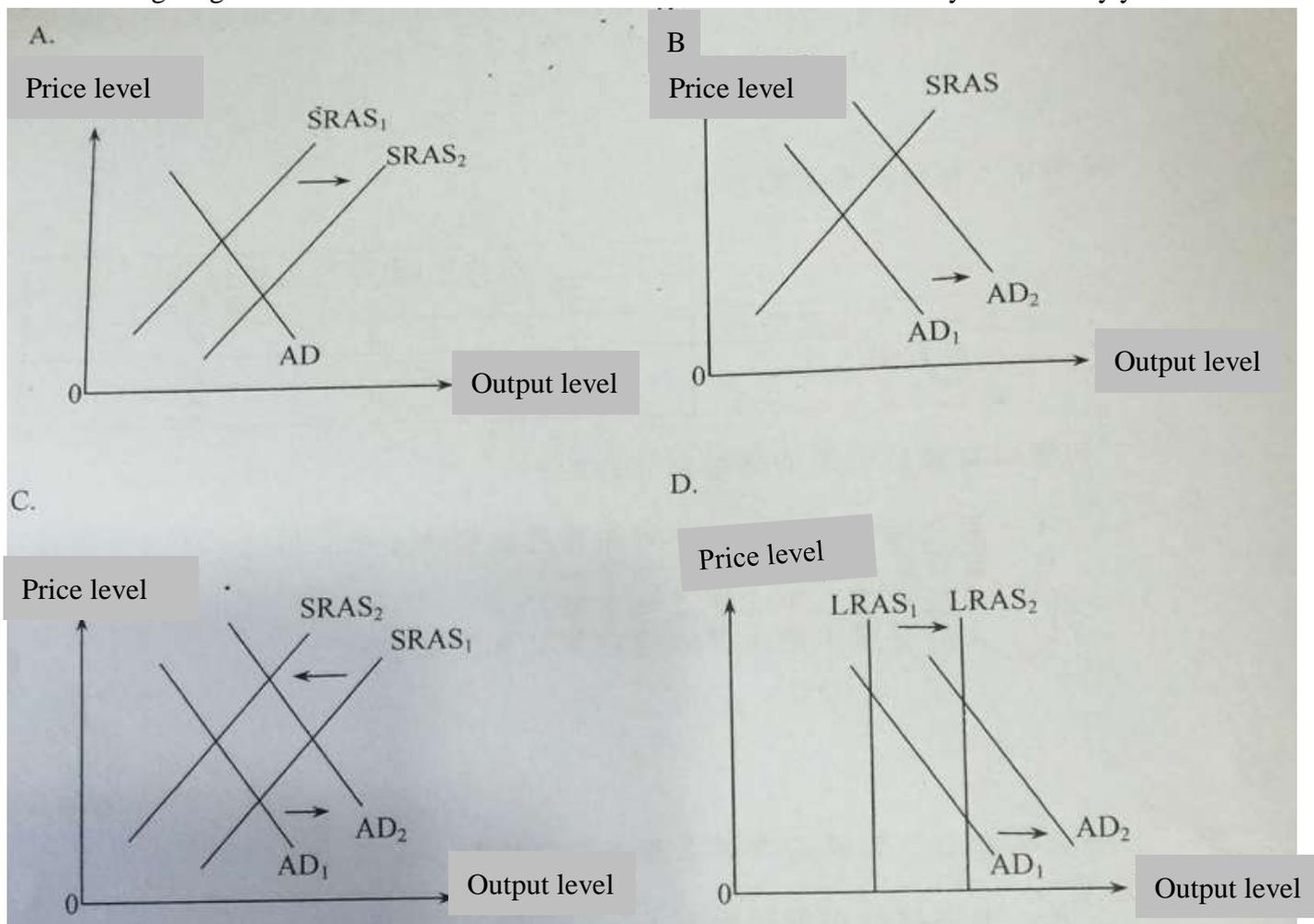
Which of the following statements about the economy is correct?

- A. The per capital nominal GDP in year 2 is the same as that in year 1.
- B. The real output increased in year 2.
- C. The general price level decreased in year 2.
- D. The per capita real GDP decreased in year 2.

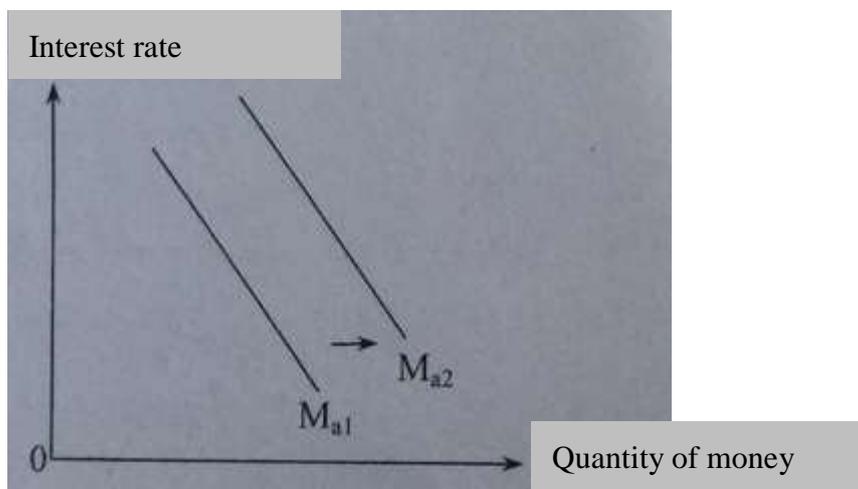
26. Which of the following will result in a rightward shift of the aggregate demand curve of a country?

- A. The central bank reduces the discount rate.
- B. The minimum wage rate is increased.
- C. The general price level decreases.
- D. Its trading partner suffer from an economic recession.

27. The government provides cash subsidies for new-born children from their birth to age 10. Which of the following diagrams best illustrates the effect of the subsidies on the economy after twenty years?



28. Refer to the following diagram.



The curve of asset demand for money will shift from M_{a1} to M_{a2} when

- A. The risk of investing in stock market increases.
- B. The interest rate decreases.
- C. The general price level rises.
- D. The government reduces the income tax rate.

29. Study the following balance sheet of a banking system. The required reserve ratio is 20%.

Assets (\$million)		Liabilities (\$million)	
Reserves	300	Deposits	1 000
Loans	700		

If the central bank issues newly printed banknotes worth \$200 million, the cash held by the non-bank public will increase by \$100 million and the money supply will increase by \$500 million. The total amount of excess reserves in the banking system will then be _____.

- A. \$100 million
- B. \$120 million
- C. \$280 million
- D. \$400 million

30. Which of the following transactions would increase the money supply (M2) of Hong Kong?

- A. Ms Chan transfers \$500 000 from her time deposit account in a restricted licence bank to her time deposit account in a licensed bank.
- B. Mr Lee transfers \$200 000 from his current account to his savings account in a licensed bank.
- C. Mr Man deposits \$100 000 cash into his savings account in a licensed bank.
- D. Ms Chung deposits \$600 000 cash into her time deposit account in a deposit-taking company.

31. If the nominal interest rate is 5% and the expected inflation rate is 3%, the cost of holding money is _____, the nominal return of holding money is _____ and the expected real interest rate is _____.

- A. 5% -3% 2%
- B. 5% 0% 2%
- C. 8% -3% 3%
- D. 8% 0% 3%

32. The monetary base increases when

- A. The commercial banks hold less excess reserves.
- B. The commercial banks buy government bonds from the public.
- C. The central bank buys government bonds from the public.
- D. The central bank increases the discount rate.

33. The quantity theory of money implies that
- A. An increase in money supply will lead to a rise in price level when real output is falling.
 - B. The economy is always at the full employment output level.
 - C. An increase in money supply will lead to a decrease in the velocity of circulation of money when real output is kept constant.
 - D. An increase in money supply will lead to a same-proportional increase in real output.

34. Which of the following are indirect taxes in Hong Kong?

- (1) Property tax
- (2) Rates on property
- (3) Stamp duty on transfer of stock
- (4) General sales tax

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

35. Refer to the following news extract.

Yu'e Bao (餘額寶) is a new online investment fund introduced by Alibaba. Much of the popularity of Yu'e Bao has come from its ability to give customers the convenience of a demand deposit --- meaning they can withdraw their funds whenever they like --- but with returns well above what a bank could offer. It recently advertised an annualised return of 5.25%, but that level has on occasion risen to above 7% since the fund was set up. By contrast, banks offer 3.3% as interest for a one-year fixed deposit and close to nothing on savings deposits.

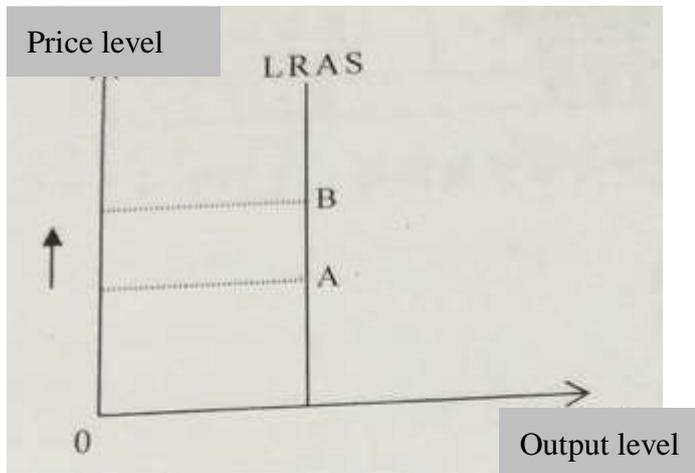
Yu'e Bao is a better _____ as compared with bank deposits because _____.

- A. Unit of account ... it provides a homogeneous means of payment.
- B. Unit of account ... it can facilitate people's buying and selling of goods and services.
- C. Store of value ... it allows customers to have higher purchasing power in the future.
- D. Store of value ... the customers can keep their unused funds in Yu'e Bao.

36. When unanticipated deflation occurs, which of the following people will lose?

- A. People paying a fixed amount of rental payment.
- B. People receiving interest from their saving deposits.
- C. People repaying a mortgage loan at a floating interest rate.
- D. People working under a fixed nominal wage contract.

37. Refer to the following aggregate supply diagram.



When the economy moves from point A to point B, which of the following will **NOT** change?

- (1) Real output
- (2) Nominal output
- (3) Potential output

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

38. Initially an economy operates at the long-run equilibrium. Which of the following will lead to a deflationary (output) gap in the economy?

- A. The government increases the salaries tax rate.
- B. The government reduces the profits tax rate.
- C. The government invests in the construction of a cross-border express rail link.
- D. The central bank reduces the required reserve ratio.

39. In an economy with severe inflation and income inequality, the government can lower the price level and reduce the income gap by

- A. Increasing the environmental tax on handling household sewage.
- B. Increasing the salaries tax and its progressivity.
- C. Reducing its spending on social welfare.
- D. Reducing the personal allowance of the salaries tax.

40. Assume the labour input requirements for the production of computers and toys in Japan and Hong Kong are as follows:

	1 unit of computers	1 unit of toys
Japan	2 man hours	6 man hours
Hong Kong	4 man hours	8 man hours

Suppose there is no transportation cost. Which of the following can be the terms of trade so that trade is mutually beneficial to Japan and Hong Kong?

- A. 1 unit of computers exchanges for 0.4 units of toys
- B. 1 unit of computers exchanges for 0.5 units of toys
- C. 1 unit of computers exchanges for 1 unit of toys
- D. 1 unit of computers exchanges for 2.5 units of toys

41. A country has an absolute advantage in producing good X. Which of the following statements about the country is correct?

- A. The country can produce a greater amount of good X than another good with the same amount of resources.
- B. The country has a comparative advantage in producing good X.
- C. The country has an absolute disadvantage in producing another good.
- D. The country may import good X from the international market.

42. Under the linked exchange rate system of Hong Kong, which of the following statements is correct?

- A. The money supply (M1) of Hong Kong has to be fully backed by the US dollar.
- B. The market exchange rate of HK dollar to the US dollar is fixed at 1USD to 7.8 HKD by the Hong Kong Monetary Authority.
- C. Hong Kong's import volume will increase when US dollar appreciates against other currencies.
- D. A current account deficit in the US will lead to a current account deficit in Hong Kong.

43. A lecturer from the US has been working in Hong Kong for 10 years. Which of the following would be included in the calculation of Hong Kong's current account balance?

- (1) The money he gives to his wife in Hong Kong
- (2) The money he uses to buy shares listed in the US stock market
- (3) The money he donates to a charity organization in Africa
- (4) The money he spends on visiting his parents in the US

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

44. The following table shows some information about the balance of payments of Country A.

Items	\$ million
Balance on goods	-1 200
Balance on services	700
Net factor income from abroad	200
Net current transfer	-100
Increase in reserve assets	180

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

- (1) The current account deficit is \$400 million.
- (2) Country A's GDP is smaller than its gross national product.
- (3) The balance of payments surplus is \$180 million.

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

45. The supply curve of a certain good is upward-sloping in a small open economy. What is the main difference between imposing an effective import quota and a tariff on the good?

- A. Imposing an effective import quota will lower the volume of import while imposing a tariff will not.
- B. Imposing an effective import quota will result in a rise in consumer surplus while imposing a tariff may not.
- C. Imposing a tariff will raise the world price of the good while imposing an effective quota will not.
- D. Imposing a tariff will result in an increase in the government revenue while imposing an effective quota may not.

END OF PAPER

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