

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

1. Which of the following about economic goods is correct?
 - A. Economic goods may not be scarce.
 - B. People compete for economic goods.
 - C. People prefer economic goods to free goods.
 - D. People compete for both economic goods and free goods.

2. During the Hong Kong Computers and Communications Festival, the organisers distribute USB flash drives to the participants as gifts. To the organisers, these USB flash drives are _____,
 - (1) economic goods
 - (2) producer goods
 - (3) consumer goods
 - A. (2) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (1) and (3) only

3. Mr. Ng, a Hong Kong citizen, is going to travel to Tokyo for leisure. Which of the following will decrease his cost of having the trip?
 - A. A typhoon is approaching Tokyo right before his trip.
 - B. His boss is going to treat all the staff to a free buffet during his leave.
 - C. The scenery in Tokyo is better than he expected.
 - D. Japanese Yen depreciates against other currencies.

4. Which of the following statements about interest are correct?
 - (1) Interest is the compensation for deferring consumption.
 - (2) Interest exists because people are impatient to wait.
 - (3) Interest exists in a barter economy.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

5. Marlene had bought a cookery book from a bookstore. Her friend, Kitman, said to her, “You have private property rights to this cookery book.” Which of the following rights would Marlene have after the purchase of the book?

- (1) To follow the recipes in the book in preparing a dinner for Kitman
- (2) To scan and upload the whole book to her blog
- (3) To leave the book on the bookshelf without reading it
- (4) To lend the book to Kitman and ask for a dinner in return

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

Study the following information and answer Questions 6 and 7:

A school is a production unit which provides educational services. The following are people and objects that are usually found at a school:

- (1) the school building
- (2) teachers
- (3) students
- (4) private cars owned by teachers
- (5) sanitisers (洗手液) in the toilets

6. Which of the above items are capital of the school?

- A. (1) and (4) only
- B. (1) and (5) only
- C. (2) and (3) only
- D. (1), (4) and (5) only

7. In the long run, which of the above items are variable factors of production of the school?

- A. (1) and (5) only
- B. (1), (2) and (5) only
- C. (2), (3) and (4) only
- D. (1), (2), (3), (4) and (5)

8. The labour supply of a country will increase if

- A. more training is provided for the existing labour force.
- B. the legal minimum working age is lowered from 16 to 15.
- C. foreign direct investment increases.
- D. the government increases the salaries tax rate.

9. Which of the following is the most mobile in terms of occupational mobility?

- A. a professional basketball player
- B. a licensed plumber (水喉匠)
- C. a graduate trainee in a law firm
- D. a clerk in an accounting firm

10. Which of the following is most likely to be paid on a piece-rate basis?

- A. a newspaper columnist
- B. a primary school teacher
- C. a fireman
- D. a bus driver

11. Hong Kong Television Network Limited (HKTV) has launched an online shopping platform “HKTV Mall”. This expansion

- (1) helps spread business risk.
- (2) ensures a higher profit for the company.
- (3) extends its brand name to other markets.

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

12. The following table shows the cost-output relationship of a price-taker.

Output (unit)	Average cost (\$)
2	20
3	21
4	22
5	23
6	24
7	25

Suppose the market price is \$25. What are the profit-maximising output and profit respectively?

- A. 4 units and \$0
- B. 4 units and \$12
- C. 7 units and \$0
- D. 7 units and \$12

13. Which of the following situations would lead to an increase in the demand for private housing?

- A. The price of private housing decreases.
- B. The supply of public housing increases.
- C. People expect the interest rate for mortgage loans to increase later.
- D. People expect the price of private housing to increase later.

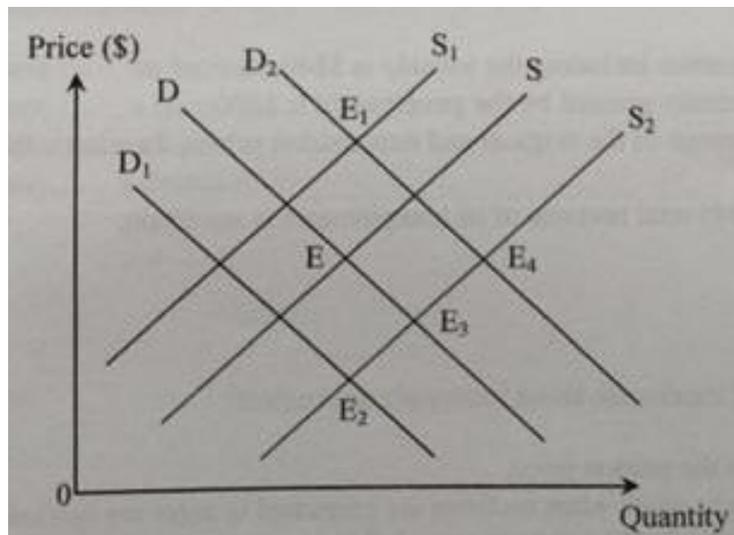
14. The demand for _____ can be regarded as a derived demand for _____.

- A. coffee beans ... coffee
- B. selfie sticks (自拍桿) digital cameras
- C. chicken wings chicken legs
- D. newspapers printing paper

15. A decrease in the cost of producing Good X results in a 5% and 10% change in its price and quantity transacted respectively. Which of the following best explains the above changes?

- A. Good X is a durable good.
- B. There are no close substitutes for Good X.
- C. Firms producing Good X have excess capacity in production.
- D. The factors of production for Good X are not easily available.

16. The diagram below shows the supply and demand curves of taxi services in Hong Kong. The original equilibrium is at E.



New apps for smartphone such as “Uber” have been developed that enable some private car owners to provide the general public with personalised point-to-point transport service. At the same time, the fuel price has decreased significantly. The new equilibrium point will be at _____.

- A. E₁
- B. E₂
- C. E₃
- D. E₄

17. The demand for construction workers in Hong Kong will increase if

- A. the legal procedures for urban re-development are simplified.
- B. wage rates of construction workers decrease.
- C. the government provides more allowances for training programmes for the construction industry.
- D. there are fewer job opportunities in the construction industry in Macau.

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

- A. When the government imposes an ad valorem tax (i.e. the tax is a certain percent of the price) on red wine, the ratio of high-quality red wine to low-quality red wine sold remains unchanged.
- B. A larger quantity of expensive fruits is sold in a faraway market than a market near the farm.
- C. Price of residential flat and quantity transacted are positively related during an economic boom.
- D. An increase in the monthly rental of parking spaces will lead to a decrease in the average quality of vehicles that use the parking spaces.

19. Refer to the following demand and supply schedules of a good.

Price (\$)	40	50	60	70	80	90
Quantity demanded (units)	14	12	10	8	6	4
Quantity supplied (units)	6	8	10	12	14	16

Which of the following statements is correct when the government provides a per unit subsidy of \$20 on the good?

- A. The total revenue including the subsidy is \$840.
- B. The total subsidy granted by the government is \$200.
- C. Within the range of the original and new market prices, the elasticity of demand is smaller than one.
- D. The change in total revenue of its complements is uncertain.

20. Which of the following statements about monopoly are correct?

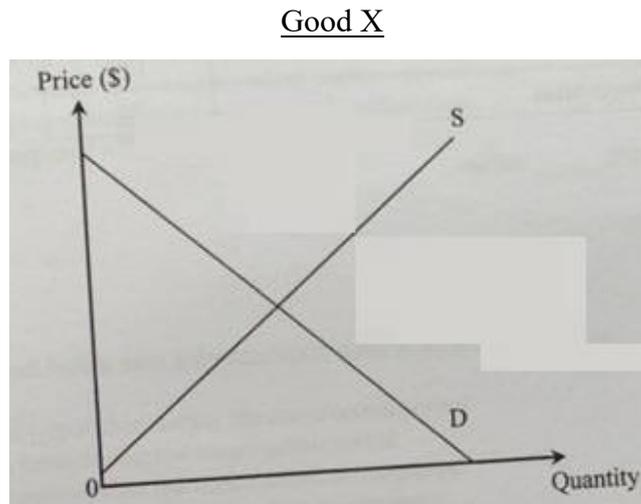
- (1) A monopolist sets the market price.
- (2) A natural monopoly arises when no firms are permitted to enter the market.
- (3) There are substitutes for the products provided by a monopolist.

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

21. In which of the following situations is efficiency attained?

- A. Total social benefit is equal to total social cost.
- B. Producer surplus is equal to consumer surplus.
- C. The difference between marginal social benefit and marginal social cost is zero.
- D. The consumer surplus of all consumers in the market is maximised.

22. The following diagram shows the supply and demand curves of Good X.



Good X and Good Y are in competitive supply. A rise in the demand for good Y will lead to _____ in the consumer surplus and _____ in the producer surplus in the market of Good X.

(Assume the supply and demand curves of Good X shift in a parallel manner.)

- A. an increase ... an increase
- B. an increase ... a decrease
- C. a decrease ... an increase
- D. a decrease ... a decrease

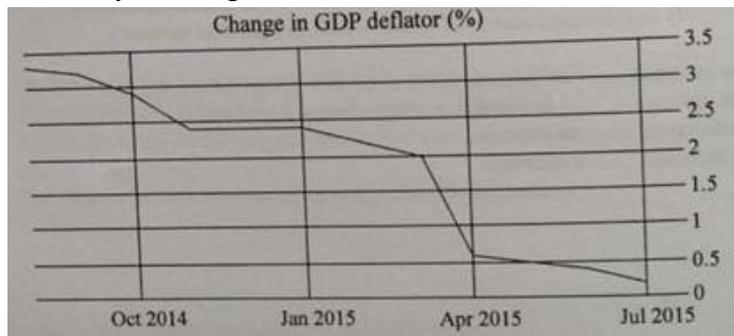
23. Consider the following Gross Domestic Product (GDP) data about a country:

GDP components	Million (\$)
Private consumption expenditure	380
Government consumption expenditure	450
Gross domestic fixed capital formation	230
Decrease in stock	50
Subsidies	30
Depreciation	40
Total exports	130
Total imports	170
Direct taxes	30

The GDP at factor cost is \$ _____ million.

- A. 960
- B. 970
- C. 1 000
- D. 1 100

24. Study the diagram below.



The diagram shows that during the period from October 2014 to July 2015,

- A. The nominal GDP was falling.
- B. The purchasing power of money was increasing.
- C. The growth rate of real GDP was higher than that of nominal GDP.
- D. The nominal interest rate was higher than the realised real interest rate.

25. Which of the following will reduce the unemployment rate of a country?

- A. Some university graduates join the labour force.
- B. Some factories move to a neighbouring country with lower labour cost.
- C. Some unemployed workers give up seeking jobs.
- D. The government increases unemployment benefits.

26. The aggregate demand of a country will drop if

- A. The price level of the country rises.
- B. The currency of its major trading partner appreciates.
- C. The government spending on social welfare rises.
- D. The required reserve ratio rises.

27. The government builds new infrastructures, there will be an increase in

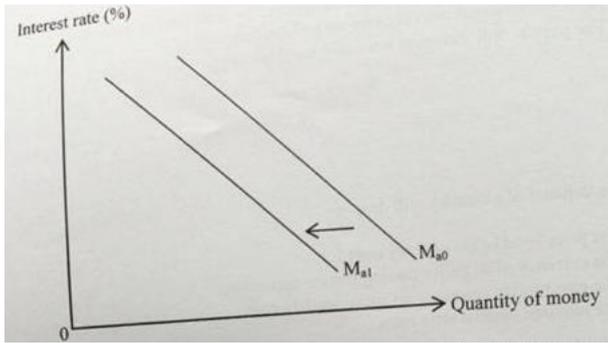
- (1) employed population during the construction period.
- (2) the price level during the construction period.
- (3) potential output after the construction is completed.
- (4) the price level after the construction is completed.

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

28. The ‘multiple entry permit’ (一簽多行) for the permanent Shenzhen residents to visit Hong Kong has been replaced by a ‘one trip per week cap’ (一簽一行). This would reduce Hong Kong’s _____ and _____.

- A. Aggregate demand output level in the long run
- B. Aggregate demand price level in the long run
- C. Short-run aggregate supply output level in the short run
- D. Long-run aggregate supply output level in the long run

29. Refer to the following diagram.



Which of the following will lead to the above change in the asset demand for money curve?

- A. The stock market becomes less volatile.
- B. The general price level is expected to fall.
- C. The central bank raises the discount rate.
- D. There is a fall in disposable income of households.

30. Refer to the following diagram.



Ken read the above advertisement and bought a new mobile phone by instalments. In this payment, which of the following functions did money perform?

- (1) store of value
- (2) unit of account
- (3) standard of deferred payment

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

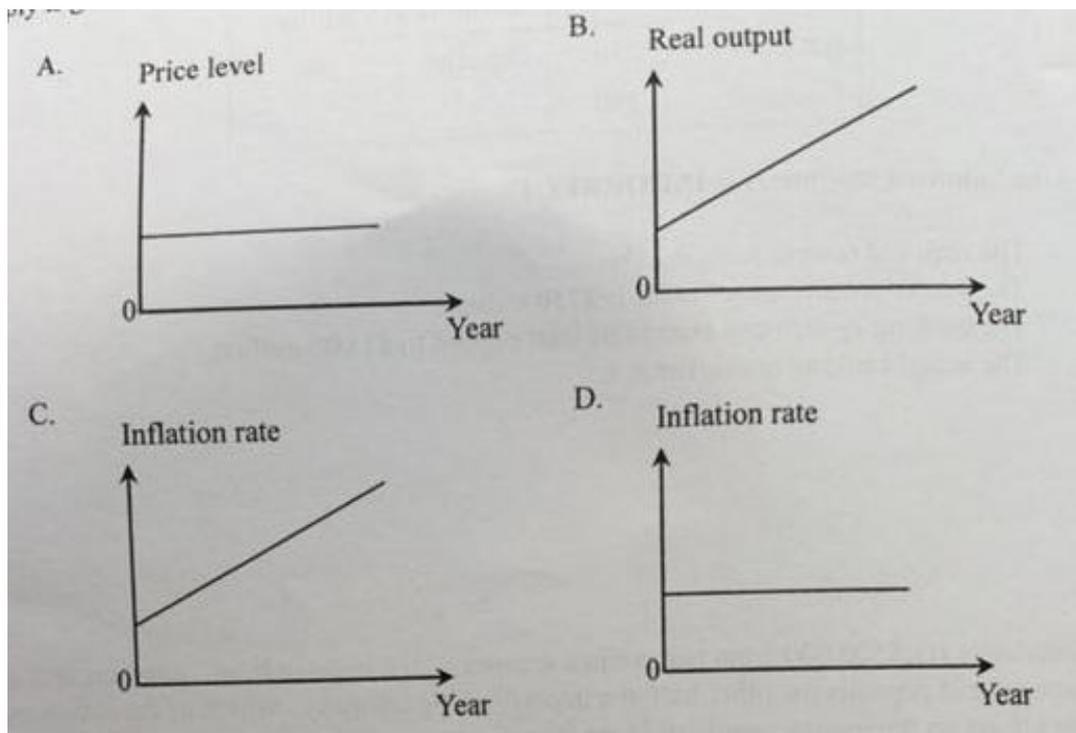
31. Refer to the following balance sheet of a banking system. Its excess reserve is \$125 million.

Assets (\$ million)		Liabilities (\$ million)	
Reserves	250	Deposits	500
Loans	250		

Which of the following statements is **INCORRECT**?

- A. The required reserve ratio is 25%.
 - B. The maximum amount of loans is \$750 million.
 - C. The banking system can expand its total deposit to \$1 000 million.
 - D. The actual banking multiplier is 4.
32. Winnie withdraws HK\$500 000 from her savings account with a licensed bank. She puts half of it into her current account and deposits the other half at a deposit-taking company. Which of the following shows the immediate effects on the money supply of Hong Kong?
- A. M1 increases and M2 decreases.
 - B. M1 increases and M3 decreases.
 - C. Both M1 and M2 decrease.
 - D. Both M2 and M3 decrease.
33. In a fractional reserve banking system, the actual deposit created is often below the maximum possible deposit created. The gap between these two amounts will be narrowed when
- A. the popularity of electronic payment increases.
 - B. the central bank tightens the restrictions imposed on mortgage loans from banks.
 - C. the central bank buys bonds from the public.
 - D. the central bank reduces the legal reserve ratio for banks.

34. According to the classical quantity theory of money, which of the following diagrams is correct when money supply is growing at a constant percentage each year?



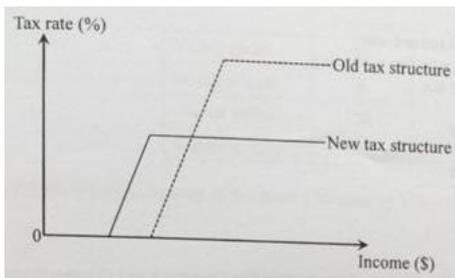
35. Mr Lam earns \$1 000 000 as a mobile app designer of an IT firm in Hong Kong. Also, he earns a \$50 000 dividend by holding shares issued by a local company. He buys a second-hand racing car and flies to the Maldives to spend his vacation through the Hong Kong International Airport.

Based on the above information, Mr Lam needs to pay _____ to the Hong Kong government.

- (1) salaries tax
- (2) dividend tax
- (3) first registration tax
- (4) air passenger departure tax

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

36. The following diagram shows the changes in the salaries tax structure of an economy.



Compared to the old tax structure, the new tax structure will _____.

- A. result in a more even income distribution
- B. reduce the work incentive of all workers
- C. broaden the tax base
- D. lead to an increase in total tax revenue

37. Which of the following people will gain in times of unexpected deflation?

- (1) Holders of i-bonds issued by the Hong Kong Government
- (2) Flat owners repaying floating rate mortgage loans
- (3) Pensioners receiving fixed pensions

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

38. If the government simultaneously increases its expenditure and income tax by the same amount, the effect on the aggregate output is _____.

- A. contractionary
- B. neutral
- C. expansionary
- D. indeterminate

39. Suppose Country A initially operates at the full-employment equilibrium and the fiscal budget of the government is balanced. In the short run, an economy recovery of Country A's trading partners will result in _____ and _____ of Country A.

- A. an inflationary (output) gap ... a fiscal surplus
- B. an inflationary (output) gap ... a fiscal deficit
- C. a deflationary (output) gap ... a fiscal surplus
- D. a deflationary (output) gap ... a fiscal deficit

40. Under which of the following situations may a fiscal deficit and a trade deficit be eliminated at the same time?

- (1) a decrease in nominal interest rate
 - (2) a depreciation of the economy's currency
 - (3) an increase in income tax
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

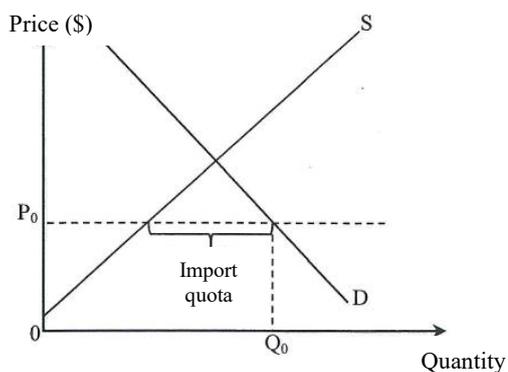
41. The following table shows the amount of toys or cars that Country A and Country B can produce with the same amount of resources.

	Toys	or	Cars
Country A	50	or	80
Country B	20	or	60

The transportation cost for 1 unit of toy is 0.4 units of car and it is borne by the importing country. Which of the following is the mutually beneficial terms of trade between Country A and Country B?

- A. 1 unit of toy = 1.6 units of car
- B. 1 unit of toy = 2 units of car
- C. 1 unit of toy = 2.6 units of car
- D. 1 unit of toy = 3 units of car

42. Refer to the following supply-demand diagram about Good X in a small country.



The country has imposed an import quota on Good X and the price and quantity transacted are P_0 and Q_0 respectively. If the demand for Good X in the country increases,

- (1) the import volume will increase.
 - (2) the price of Good X in the country will increase.
 - (3) the quantity sold of Good X in the country will increase.
- 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 information about the balance of payments of a country:

	\$ million
Visible trade	20
Invisible trade	X
Capital inflow	70
Capital outflow	50

Suppose the foreign exchange reserves of the country increase by \$30 million. What is the value of X?

- A. -70
- B. -10
- C. +10
- D. +70

44. Suppose the countries in a certain region are competitors of exporting goods to the U.S.. The currencies of the countries in the region except that of Country X depreciates against the US dollar. As a result, the volume of Country X's exports to the U.S. will

- A. decrease.
- B. increase.
- C. remain constant.
- D. be indeterminate.

45.

Date	Exchange Rate
15 February 2015	US\$1 = € 0.8773
15 August 2015	US\$1 = € 0.8965

Under the linked exchange rate system of Hong Kong, the above change in the exchange rate of Euro (€) to the US dollar would lead to _____.

- A. an increase in the number of European tourists to Hong Kong
- B. an increase in the total value (in terms of Hong Kong dollar) of European exports to Hong Kong
- C. a decrease in the volume of Hong Kong exports to the U.S.
- D. a decrease in the total value (in terms of Hong Kong dollar) of Hong Kong exports to Europe

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.