

## **ECONOMICS**

### **ADVANCED LEVEL**

#### **AIMS AND OBJECTIVES**

The examination will seek to test candidates' analytic abilities. Candidates are expected to be able to recognize the merits and limitations of economic theory, and emphasis should be given to their ability to apply their knowledge of economic analysis to practical problems.

The objectives of the individual sections are as follows :

Section A aims mainly at testing candidates' ability to understand basic economic theories and their applications.

Section B aims mainly at testing candidates' understanding of concepts and theories.

Section C aims mainly at testing candidates' ability to apply economic theories.

#### **THE EXAMINATION**

The examination will consist of two equally weighted papers, each of 3 hours duration, and candidates are required to answer all questions.

Both Papers 1 and 2 will be divided into three sections : Section A will consist of multiple-choice questions; both Sections B and C will consist of short questions.

All sections will carry equal weight.

**THE SYLLABUS***Syllabus***Paper 1**

1. The scope of economic analysis

*Explanatory Notes*

- (i) Scarcity and the meaning of competition.
- (ii) Economics as an empirical science : basic postulates and methodology.
- (iii) The meaning of utility, wealth, and income, and the postulate of maximization.

2. The law of demand and the theorem of exchange

- (i) The basic properties of indifference curves, and the money income constant demand curve.
- (ii) The inverse relationship between price and quantity demanded.
- (iii) Use value, exchange value, and the concept of consumer's surplus.
- (iv) Market demand, the equi-marginal principle, and the gains from exchange.
- (v) The meaning of price as a criterion of allocation under competition.

3. Cost and supply

- (i) The concepts of cost, economic rent, and windfall profit (quasi-rent NOT required).
- (ii) The law of diminishing marginal productivity.
- (iii) Cost curves and supply curves (isoquant analysis NOT required).
- (iv) Resource allocation under price taking.
- (v) Monopoly pricing (price searching), including perfect and partial (third degree) price discrimination.

*Syllabus*

4. Government and economic organizations

5. The factor market

6. The problem of social cost

**Paper 2**

7. Income and employment

*Explanatory Notes*

(vi) A simple description of oligopoly and monopolistic competition.

(i) The nature of the firm : the organization of production with the presence of transaction costs.

(ii) Price controls and rent controls.

(iii) The implications of non-price allocation.

(iv) The incidence and implications of some common taxes.

(i) The demand for and supply of factors.

(ii) The determination of wages in price-takers' markets.

(iii) The determination of rents.

(iv) Present value and investment decisions.

(i) The meaning of economic efficiency and the Pareto condition.

(ii) Property rights and the divergence between private and social costs.

(i) A brief discussion of national income accounting.

(ii) An elementary Keynesian model of income determination.

(iii) The consumption function and its properties.

(iv) Factors affecting investment (the acceleration principle NOT required).

(v) The IS-LM model under given prices.

(vi) The meaning of unemployment.

(vii) Causes of unemployment, including the introduction of information or search theory.

*Syllabus*

## 8. Money

## 9. The price level

## 10. International trade and finance

*Explanatory Notes*

- (i) The nature and functions of money.
  - (ii) Transactions demand for and asset demand for money, and the Quantity Theory.
  - (iii) Measurements of monetary aggregates (various definitions of money supply).
  - (iv) The supply of money, and deposit creation by commercial banks under a fractional reserve system.
  - (v) A simple discussion of the effects of monetary and fiscal policies (with emphasis on income and employment).
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- (i) The concept of price level and the definition of inflation.
  - (ii) The causes and consequences of inflation.
  - (iii) Nominal and real rates of interest, and inflationary expectations.
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- (i) Gains from trade : the law of comparative advantage.
  - (ii) Protectionism versus free trade : an elementary graphical analysis of the effects of tariffs and quotas (optimal tariffs NOT required).
  - (iii) Balance-of-payments accounting and adjustments.
  - (iv) Exchange rates : a brief discussion of fixed rates, flexible rates, and the Hong Kong linked rate.