INSTRUCTIONS

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the ‘Time is up’ announcement.

2. When told to open this book, you should check that all the questions are there. Look for the words ‘END OF PAPER’ after the last question.

3. All questions carry equal marks.

4. ANSWER ALL QUESTIONS. You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.

5. You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.

6. No marks will be deducted for wrong answers.
There are 40 questions in this paper. Choose the **BEST** answer for each question.

1. In the absence of scarcity,
   (1) there will be no discrimination.
   (2) there will be no market price.
   (3) there will be no goods.
   
   A. (1) and (2) only
   B. (1) and (3) only
   C. (2) and (3) only
   D. (1), (2) and (3)

2. Mr. Chan spent $5 000 on buying a new mobile phone which can be sold for $7 000 in the second-hand market. Mr. Chan’s cost of keeping the mobile phone is __________.
   
   A. $0
   B. $2 000
   C. $5 000
   D. $7 000

3. Which of the following statements about interest are correct?
   (1) Interest is a premium received for postponing current consumption.
   (2) An interest rate does not exist in a barter economy.
   (3) A fall in the interest rate increases present consumption.
   
   A. (1) and (2) only
   B. (1) and (3) only
   C. (2) and (3) only
   D. (1), (2) and (3)

4. Which of the following descriptions about the relationship between the three types of production is correct?
   
   A. Primary production provides raw materials for the other types of production.
   B. Secondary production does not rely on tertiary production to produce finished goods.
   C. Tertiary production relies only on primary production.
   D. The three types of production are independent, and tertiary production is the most important.
5. The following table shows the monthly production of a firm with two inputs, machines and labour.

<table>
<thead>
<tr>
<th>Machines (Units)</th>
<th>Labour (Units)</th>
<th>Total product (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>32</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
<td>X</td>
</tr>
</tbody>
</table>

If the law of diminishing marginal returns applies to the firm, X

A. must be smaller than 42.
B. must be greater than 42.
C. can be equal to 42.
D. is equal to 52.

6. A worker is paid by the quantity he produced instead of receiving a monthly salary. Which of the following statements is INCORRECT?

A. The worker tends to produce more output.
B. The quality of the output tends to be lower.
C. The cost of monitoring the worker regarding shirking will be lower.
D. The income of the worker will increase.

7. Tommy and David have turned their firm from a partnership into a private limited company. Which of the following statements is correct?

A. They have a higher incentive to work as the profits tax rate is lower.
B. The firm can still exist even if one of the owners goes bankrupt.
C. The size of the firm will increase.
D. The financial conditions of the firm have to be disclosed to the public.

8. An increase in tobacco duty will lead to

A. a rise in government tax revenue from cigarettes.
B. a rise in smokers’ total expenditure on cigarettes.
C. a fall in the total market value of cigarettes.
D. a fall in cigarette retailers’ total revenue net of tax.

9. Suppose there is political unrest in the countries exporting crude oil. As a result, there is a 30% increase in the price of gasoline and a 15% change in the quantity transacted of gasoline. We can conclude that

A. the demand for gasoline is elastic.
B. the demand for gasoline is inelastic.
C. the supply of gasoline is elastic.
D. the supply of gasoline is inelastic.
10. In the following diagram, $E_0$ is the initial equilibrium of the market for printed books in Hong Kong.

![Graph showing supply and demand curves with equilibrium points $E_0$, $E_a$, and $E_b$.]

Suppose there is a trend to read electronic books and there is a rise in the price of printing paper. The new equilibrium point in the diagram will be ________.

A. $E_a$  
B. $E_b$  
C. $E_c$  
D. $E_d$

11. Refer to the following demand and supply schedules of good X.

<table>
<thead>
<tr>
<th>Unit price ($)</th>
<th>20</th>
<th>18</th>
<th>16</th>
<th>14</th>
<th>12</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity demanded (units)</td>
<td>500</td>
<td>550</td>
<td>600</td>
<td>650</td>
<td>700</td>
<td>750</td>
</tr>
<tr>
<td>Quantity supplied (units)</td>
<td>800</td>
<td>750</td>
<td>700</td>
<td>650</td>
<td>600</td>
<td>550</td>
</tr>
</tbody>
</table>

If the government lowers the quota from 700 units to 550 units,

A. the market price will drop by $2.
B. the market price will rise by $2.
C. the market price will rise by $4.
D. the market price will rise by $6.
12. The following table shows the total cost schedule of a price-taking firm which has a fixed cost equal to $20.

<table>
<thead>
<tr>
<th>Quantity (units)</th>
<th>Total cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>2</td>
<td>65</td>
</tr>
<tr>
<td>3</td>
<td>95</td>
</tr>
<tr>
<td>4</td>
<td>130</td>
</tr>
<tr>
<td>5</td>
<td>170</td>
</tr>
</tbody>
</table>

Suppose the market price is $35. At the profit-maximizing output level, the firm’s profit and total producer surplus are ________ and ________ respectively.

A. $10 … $10  
B. $10 … $30  
C. $30 … $10  
D. $30 … $30

13. Which of the following is INCONSISTENT with the law of demand?

A. An imposition of an import quota on garments will lead to an improvement in the average quality of imported garments.  
B. People who live in remote areas tend to buy better seats at concerts held in the town centre.  
C. An increase in unemployment allowance raises the unemployment rate.  
D. If an additional lump-sum charge is imposed per taxi trip, the number of short-distance trips will fall by a smaller percentage than the number of long-distance trips.

14. The following diagram shows the demand and supply curves of good X in a perfectly competitive market.

There is a shift in the demand curve for good X from D₁ to D₂. As a result,

A. firms enjoy more producer surplus.  
B. the marginal cost of producing the last unit decreases.  
C. the supply of good X increases.  
D. consumers enjoy less consumer surplus.
15. The following diagram shows the demand and supply curves of good X in a perfectly competitive market.

Suppose a price floor is set at $P_1$. As a result,

A. the deadweight loss is equal to area BEF.
B. the producer surplus is equal to area $P_1BC0$.
C. the consumer surplus is equal to area $AEPe$.
D. the total social surplus is equal to area $P_1BCG$.

16. Which of the following are features of a perfectly competitive market?

(1) The marginal revenue of each firm equals the market price.
(2) The sellers and buyers have perfect market information.
(3) The marginal cost schedule of a firm is the same as its supply schedule.

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

17. Economic efficiency is attained when

(1) total benefits to consumers are maximized.
(2) all potential gains are fully captured.
(3) marginal social benefits are equal to marginal social costs.

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
18. The following table shows the Gini coefficient of Economy A from Year 1 to Year 4.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.534</td>
</tr>
<tr>
<td>2</td>
<td>0.563</td>
</tr>
<tr>
<td>3</td>
<td>0.609</td>
</tr>
<tr>
<td>4</td>
<td>0.614</td>
</tr>
</tbody>
</table>

Based on the above information, which of the following statements is/are correct?

1) The income of high-income households increases while the income of low-income households decreases.
2) The income distribution becomes more uneven.
3) The general living standard declines.

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

19. Which of the following is the most likely effect of an effective minimum wage law?

A. Income distribution will become more even.
B. Total wage earnings of workers will rise.
C. The employed population will increase.
D. Non-price competition will emerge.

20. The following table shows the statistical data of an economy.

<table>
<thead>
<tr>
<th>Gross Domestic Product (GDP) components</th>
<th>Million ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption expenditure</td>
<td>400</td>
</tr>
<tr>
<td>Government consumption expenditure</td>
<td>250</td>
</tr>
<tr>
<td>Net domestic fixed capital formation</td>
<td>300</td>
</tr>
<tr>
<td>Decrease in stock</td>
<td>70</td>
</tr>
<tr>
<td>Subsidies</td>
<td>120</td>
</tr>
<tr>
<td>Capital consumption allowance</td>
<td>50</td>
</tr>
<tr>
<td>Net exports</td>
<td>300</td>
</tr>
<tr>
<td>Net income from abroad</td>
<td>80</td>
</tr>
<tr>
<td>Direct tax</td>
<td>100</td>
</tr>
</tbody>
</table>

The GDP at factor cost is $__________ million.

A. 1 250  
B. 1 270  
C. 1 350  
D. 1 490
21. If the value of the net external factor income flow (i.e. the net income from abroad) of an economy is negative, it implies that

A. the capital inflow to the economy is greater than the capital outflow from it.
B. the gross investment of the economy is smaller than the net investment.
C. the gross national product of the economy is less than the GDP.
D. the value of imports of the economy is greater than that of exports.

22. Over a given period, the GDP at current market prices of an economy increases by 15% and the rate of inflation decreases from 10% to 5%.

Based on the above information, the real GDP _________ and the general price level _________.

A. increases … rises
B. increases … falls
C. decreases … rises
D. decreases … falls

23. Refer to the following diagram.

Which of the following will cause a movement along the aggregate demand curve from point A to point B?

A. a drop in price level
B. a decrease in the interest rate
C. a reduction in salaries tax
D. a depreciation of domestic currency

24. A large number of oil fields have to be closed because of serious oil spill accidents. In the short run, the aggregate supply of an oil-importing country will _________ and its price level will _________.

A. increase … rise
B. increase … fall
C. decrease … rise
D. decrease … fall
25. Which of the following can explain a leftward shift of the money demand curve?
   A. a rise in the interest rate
   B. an increase in income of households
   C. a more widespread use of Octopus cards
   D. an increase in the required reserve ratio

26. The diagram below shows the money demand and money supply curves of an economy. The original equilibrium point is at E.

Suppose national income increases and the government carries out an open market purchase of bonds. The new equilibrium point will be at ________.
   A. A
   B. B
   C. C
   D. D

27. Suppose the balance sheet of a banking system is as follows.

<table>
<thead>
<tr>
<th>Assets($)</th>
<th>Liabilities($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>150</td>
</tr>
<tr>
<td>Loans</td>
<td>350</td>
</tr>
<tr>
<td>Deposits</td>
<td>500</td>
</tr>
</tbody>
</table>

The amount of excess reserves in the banking system is $50. Now, a customer withdraws $50 from his bank account. If the banking system is fully loaned up, the maximum amount of loans in the banking system is ________.
   A. $350
   B. $400
   C. $450
   D. $500
28. If Mr. Chan withdraws HK$500 000 from his account in a deposit-taking company and remits the sum to his relatives in Canada, Hong Kong’s money supply M2 will __________ and M3 will __________.
   A. decrease … decrease
   B. remain unchanged … remain unchanged
   C. decrease … remain unchanged
   D. remain unchanged … decrease

29. An asset which can be readily converted into cash at short notice without making a loss is regarded as a __________ asset.
   A. portable
   B. durable
   C. divisible
   D. liquid

30. The real value of money decreases when the __________ is rising.
   A. deflation rate
   B. general price level
   C. money demand
   D. nominal interest rate

31. Which of the following people will lose when unexpected inflation occurs?
   A. an individual holding time deposits in a bank
   B. a holder of government bonds with interest rates adjusted according to the inflation rate
   C. a flat owner repaying a fixed-rate mortgage loan
   D. a billionaire keeping all his wealth in the form of gold

32. Which of the following can help narrow a deflationary (output) gap?
   A. an increase in the required reserve ratio
   B. a sale of bonds by the central bank in the market
   C. an increase in government expenditure
   D. the abolishment of a tariff on imports

33. Which of the following statements about the classical quantity theory of money is INCORRECT?
   A. Both the velocity of circulation of money and the real output are assumed to be constant.
   B. Any change in money supply will lead to the same proportional change in nominal output.
   C. Deflation will occur when there is a continuous fall in money supply.
   D. Any change in price level will lead to the same proportional change in money supply.
34. An increase in __________ may offset the effect of an expansionary monetary policy on national income.

(1) people’s desire to hold money as an asset
(2) people’s desire to save
(3) transfer payments

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

35. When the nominal interest rate is higher than the real interest rate, the expected inflation rate must be __________.

A. positive  
B. negative  
C. rising  
D. falling

36. Which of the following is a direct and proportional tax in Hong Kong?

A. hotel accommodation tax  
B. profits tax  
C. salaries tax  
D. general rates

37. The Inland Revenue Department will inform every salaries tax payer of the amount of tax payable either by mail or by the etax account. This practice is in line with the __________ principle of taxation put forward by Adam Smith.

A. equity  
B. certainty  
C. convenience  
D. economy

38. If a small open economy reduces the tariff on an imported good,

A. both domestic production and consumption of the good will increase.  
B. both tariff revenue and import volume will decrease.  
C. the consumer surplus will increase while the producer surplus will decrease.  
D. the world price of the good will fall while the total social surplus will increase.
39. Assume both Country A and Country B produce and consume Good X and Good Y only. If Country A can produce a unit of Good X with less resources than Country B,

   (1) Country A has an absolute advantage in producing Good X.
   (2) Country A has a comparative advantage in producing Good X.
   (3) Country B has an absolute advantage in producing Good Y.
   (4) Country B has a comparative advantage in producing Good Y.

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

40. The following table shows the output per unit of resources in Country A and Country B.

<table>
<thead>
<tr>
<th>Tablet computers (Units)</th>
<th>Mobile phones (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>8</td>
</tr>
<tr>
<td>Country B</td>
<td>10</td>
</tr>
</tbody>
</table>

   If Country A exports 10 units of tablet computers to Country B in exchange for 25 units of mobile phones, the total gains from trade of Country A will be _____________unit(s) of mobile phones.

   A. 1
   B. 5
   C. 6.667
   D. 10

END OF PAPER
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.
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)
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)
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**

![Diagram 1]

**Figure 2**

![Diagram 2]
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)

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)
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

Real GDP Growth Rate

Long-term Growth Rate

Year

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

<table>
<thead>
<tr>
<th>Food (units)</th>
<th>Computers (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>100</td>
</tr>
<tr>
<td>Country B</td>
<td>200</td>
</tr>
</tbody>
</table>

Explain whether Country B has

(a) an absolute advantage; and

(b) a comparative advantage

in producing food. (6 marks)
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)

END OF SECTION A
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)
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)
13. Figure 4 shows the aggregate supply and aggregate demand curves of an economy.

Suppose the initial equilibrium is at $E_0$.

(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)

Answers written in the margins will not be marked.
14. The following table shows the balance sheet of the banking system of an economy:

<table>
<thead>
<tr>
<th>Assets ($ million)</th>
<th>Liabilities ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>1 000</td>
</tr>
<tr>
<td>Loans</td>
<td>3 000</td>
</tr>
<tr>
<td>Deposits</td>
<td>4 000</td>
</tr>
</tbody>
</table>

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)
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](image)

(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)
Answers written in the margins will not be marked.
16. (a) Figure 6 shows the production possibility frontiers of Country A and Country B.

Figure 6

AA’ – Country A’s production possibility frontier
BB’ – Country B’s production possibility frontier

(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.

Figure 7

<table>
<thead>
<tr>
<th>Human Development Index</th>
<th>GDP per capita US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
</tr>
<tr>
<td>0.80</td>
<td>7,000</td>
</tr>
<tr>
<td>0.78</td>
<td>6,700</td>
</tr>
<tr>
<td>0.76</td>
<td>6,400</td>
</tr>
<tr>
<td>0.74</td>
<td>6,100</td>
</tr>
<tr>
<td>0.72</td>
<td>5,800</td>
</tr>
<tr>
<td>0.70</td>
<td>5,500</td>
</tr>
<tr>
<td>0.68</td>
<td>5,200</td>
</tr>
<tr>
<td>0.66</td>
<td>4,900</td>
</tr>
<tr>
<td>0.64</td>
<td>4,600</td>
</tr>
<tr>
<td>0.62</td>
<td>4,300</td>
</tr>
</tbody>
</table>

Answers written in the margins will not be marked.
(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)

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.
Acknowledgements

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

The Authority is grateful to publishers/organisations for permission to include in the question papers material from their publications. We apologise for any infringement of copyright in respect of material printed in this volume, for which permission has not been obtained in time or for which the sources could not be traced.

Every effort has been made to trace copyright. However, in the event of any inadvertent infringement due to errors or omissions, copyright owners are invited to contact us so that we can come to a suitable arrangement.