Public Assessment

HKDSE Econ 2014 live paper
Nov 2014
Live papers

- Paper 1:
  - On compulsory part of the curriculum
  - Answer all questions
  - 45 multiple choice questions
  - Account for 30% of the subject marks (without SBA)
  - 60 minutes

*In 2014, total number of MCQ = 45*
Live papers

- Paper 2 section A:
  - On compulsory part of the curriculum
  - Short questions
  - All questions are compulsory
  - 8 short questions
  - 50 marks
  - Account for 30% of the subject marks (without SBA)
Live papers

- Paper 2 section B:
  - On compulsory part of the curriculum
  - Structured/essay-type questions
  - All questions are compulsory
  - 4 structured questions
  - 54 marks
  - Account for 31% of the subject marks (without SBA)
Live papers

- Paper 2 section C:
  - On elective part of the curriculum
  - Structured/essay-type questions
  - Attempt questions on ONE elective only
  - 2 structured questions
  - 16 marks each
  - Account for 9% of the subject marks (without SBA)
  - In 2014 Exam: Total time is 2 hours 15 mins
Paper 1

- Number of sat: 19827
- Overall mean score: 28.6 out of 45 question = 63.6%

*last year (62.5%), mean score consistent across 3 years
A famous football team, Manchester United, visited Hong Kong for a friendly match. The day before the match, the team found the pitch in the Hong Kong Stadium had been damaged by prolonged rain and it considered cancelling the match. The opportunity cost for Manchester United to continue playing in such a poor pitch would __________ because __________.

A. increase …… there was a higher chance for the players to get injured (32%)
B. increase …… the team was likely to have poor performance (4%)
C. remain unchanged …… the expense on the visit to Hong Kong had already been paid (23%)
D. remain unchanged …… the players spent the same amount of time in Hong Kong (41%)
The Old Age Living Allowance (長者生活津貼) introduced by the Hong Kong government increases the __________ in GDP and results in a __________ shift of the aggregate demand curve.

A. government consumption expenditure ...... rightward (46%)
B. government consumption expenditure ...... leftward (5%)
C. private consumption expenditure ...... rightward (48%)
D. private consumption expenditure ...... leftward (1%)
Deflationary (output) gap

A. will be widened when there is a depreciation of the domestic currency. (9%)

B. will be eliminated by a rightward shift of the aggregate demand curve when the market adjusts from short run equilibrium to long run equilibrium. (31%)

C. will result in a downward pressure on the prices of inputs. (42%)

D. will exist if the aggregate demand falls short of the short run aggregate supply. (18%)
Paper 1 Q43

Which of the following is included in the calculation of the balance of Hong Kong’s current account?

A. A mainland investor purchases a house in Hong Kong. (39%)
B. A Hong Kong investor buys shares issued by a mainland listed company. (11%)
C. A mainland resident buys an air ticket to Hong Kong from a mainland airline. (12%)
D. A Hong Kong resident buys a life insurance policy from a mainland insurance company. (38%)
The following table shows the data about Country A.

<table>
<thead>
<tr>
<th></th>
<th>Petroleum (unit)</th>
<th>Rubber (unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total output with no international trade</td>
<td>60 and 90</td>
<td></td>
</tr>
<tr>
<td>Total output with specialization and international trade</td>
<td>0 and 210</td>
<td></td>
</tr>
<tr>
<td>Total consumption with international trade</td>
<td>90 and 120</td>
<td></td>
</tr>
</tbody>
</table>

Which of the following statements about Country A is correct?

A. Country A has both absolute advantage and comparative advantage in producing rubber. (10%)

B. The gain from trade of exporting 1 unit of rubber is 1 unit of petroleum. (20%)

C. The opportunity cost of producing 1 unit of rubber (R) is 2/3 units of petroleum (P) and the terms of trade is 1R=3/4 P. (31%)

D. Country A can benefit from trading with Country B, whose opportunity cost of producing 1 unit of rubber is 2 units of petroleum. (39%)
Paper 1 Comments

- Time: 45 MCQs in 60 mins
  ➔ Still sufficient time?
- Candidates are weaker in
  - Data interpretation
  - Application formula for calculation
  - Integration of topics
  - Marcoeconomics
Paper 2

- Number of sat: 19784
- Overall mean score in 2014: 57%
- Overall mean score in 2013: 50%
Paper 2 Marking

- Onscreen Marking System (OSM)
- Scanned images
- Markers mark in Assessment Centres: FH, SPK, LK, TW, TH, ST, SS, TKO
- Section A1, A2, B1, B2, C1, C2
- Each Marker marking 16-27 marks ➔ 800 to 1000 script
- Increase reliability
Welcome the Assistant Examiners to comment on the candidates performance by Section:

- Section A1: (Q1, 2, 3, 5)
- Section A2: (Q4, 6, 7, 8)
- Section B1: (Q9, 12)
- Section B2: (Q10-11)
- Section C: (Q13-14)
Yes. It is because the reduction in the starting salary of administrative officers would only decrease the value of her’s chosen option without affecting her highest valued option forgone. (2 marks)

(b) No. Government provision of unemployment benefits may increase the value of Serine’s 3rd option to a level higher than that of the 2nd option. So the cost of choosing to work as an administrative officer may now change from the value of the 2nd option (i.e., to work in an accounting firm as a trainee) to that of the 3rd option (i.e., to continue to seek a job without taking up any job and simply enjoying the unemployment benefit). (3 marks)
(a) Entrepreneurship as he bears business risk and makes business decisions. (2 marks)

(b) Cost of buying the accessories, or wages of part-time workers as expenses on these items would vary (increase) with the output of Ah Wing’s shop. (2 marks)

(c) Monopolistic competition (1 mark)
Reasons:
- many sellers / no dominant sellers
- sellers selling heterogeneous products
- free entry into the market
- any other relevant point
(@1 Max 2)
Verbal elaboration: The ineffective price floor ($P_a$) becomes an effective price floor ($P_b$). At the new quantity (where the horizontal $P_b$-line intersects the demand curve $D$), marginal benefit (maximum willingness-to-pay) is higher than marginal cost and there exists a deadweight loss.

Indicate on the diagram:
Correct $P_0$ $Q_0$
Correct $P_1$ $Q_1$
Correct position of deadweight loss (DL)
(6 marks)
Paper 2 marking schemes: Q3
Paper 2 marking schemes: Q5

(a) The inflation rate in 2013: \(\frac{126-120}{120} \times 100\% = 5\%.\) (1 marks)

(b) Differences:
- CPI only includes consumer goods while GDP deflator includes both consumer goods and producer goods.  
- CPI calculates a fixed basket of goods and the weighting will be revised every 5 years while GDP deflator has variable baskets of goods for each year (any one, max 2 marks)

(c) Kitman would gain because the unexpected inflation would lower the real value (purchasing power) of the loan repayment (2 marks)
Marlene would lose because, given the 15% rate of actual nominal return and the 5% rate of actual inflation, her actual real rate of return equals 10% (= 15%−5%), which falls short of her expected real rate of return (12%). (3 marks)
Paper 2 marking schemes: Q4

(a) Vertical backward expansion because, by starting Fai Lok Institute, Tai Fai Lok Group has expanded its operation vertically backward to the previous stage of production to control directly the supply of factor inputs (chefs and managers) to its original (food) business (2 marks)

(b) Advantages:
- More steady supply of factor inputs such as chefs and managers
- Better use of the brand name
- Program can be tailor-made for those graduates from the Institute who are hired to work in the Group’s restaurant, so as to shorten their training time
- Any other relevant point (@2, max 4 marks)
Paper 2 marking schemes: Q6

(a) No, because, according to the source principle, income not derived from HK would not be taxed by the HK government. (2 marks)

(b) Direct tax, because the tax burden cannot be shifted by these tax-payers to someone else. (2 marks)
(a) Side effects of the contractionary fiscal policy:
- negative output effect (fall in GDP) due to a reduction in government expenditure and thus aggregate demand
- negative output effect (fall in GDP) due to a rise in sales/income tax, which would lower consumption/investment demand and thus aggregate demand
- Negative (disincentive) effect on labour supply and thus on employment (and output) as a result of higher income taxes
- Any other relevant point (@2, max: 4)
Advantages:
- An increase in money supply would lower the interest rate and raise investment, leading to an increase in real output in the short run (given upward-sloping aggregate supply). Given idle resources in the economy, more labour (and/or capital) would be used to produce the bigger output, implying an increase in employment or decrease in unemployment. (Contractionary fiscal policy would not result in an increase in GDP and employment.)

Disadvantages:
- In the long run (with vertical aggregate supply), an increase in money supply would not create any effect on output and employment. But if the fiscal deficits grow so fast that the money supply has to be increased at a higher rate that of real output, high inflation would even arise. (Contractionary fiscal policy would not result in inflation.)

(@2, max: 4)
(a) In Country A, the opportunity cost in producing 1 unit of watches (W) = 4 units of Paper (P).
In Country B, the opportunity cost in producing 1 unit of watches (W) = 2 units of Paper(P).
Country B will specialize in producing watches and export watches as the opportunity cost of producing watches is lower there than in Country A. (3 marks)

(b) The terms of trade is 1W=2.5P. Per unit of watches imported, Country A will gain 1.5 P (= 4P – 2.5P). (3 marks)
(a) The condition is that the elasticity of demand for the good is smaller than the elasticity of supply. 
Indicate on the diagram:
- Parallel upward shift of supply curve due to the per unit tax
- Price increases and quantity drops
- Correct positions of buyers’ tax burden and sellers’ tax burden
- Buyers’ burden > sellers’ burden
(5 marks)

(b) Indicate on the diagram
reduction in consumer surplus : buyers’ burden + area a (1 marks)
Paper 2 marking schemes: Q9

[Diagram of a market for soft drinks showing the effect of a tax on the demand and supply curves, with the buyers' burden and sellers' burden highlighted.]
Law of demand: when the price of a good increases, the quantity demanded of the good decreases, vice versa, ceteris paribus. Here the unit of measurement to which the tax applies is “bottle,” rather than volume (e.g., in litres), of soft drinks. When the same amount of tax is added to each unit (bottle), then -- per volume of liquid contained -- larger-bottle soft drinks would become cheaper than the small-bottle ones. The relative price of larger-bottle soft drinks (in terms of small-bottle ones) thus drops. The law of demand then implies that people would buy more larger-bottle soft drinks relative to small-bottle ones, so the proportion of larger-bottle soft drinks sold in the market would increase. (5 marks)
(a) Monetary base = cash in public circulation + reserves held by commercial banks. The monetary base increases because the commercial banks have more reserves. (3 marks)

(b) Credit creation process:
When the central bank purchases bonds from commercial banks, more cash is injected to the commercial banks as reserves and there would be excess reserves in the banking system. The banks would lend out the excess reserves. And the bank loans will be re-deposited into the banking system. The process will go on and on (until the actual reserves are equal to required reserves). (3 marks)

No. The monetary base will remain unchanged as the sum of cash in public circulation and reserves in the banking system will not be affected by the credit creation process. (2 marks)
(c) Verbal elaboration:
The purchase of government bonds increases money supply resulting in a drop in the interest rate. Investment / consumption expenditure increases and aggregate demand increases. In the short run, the output and price levels increases. (5 marks)

Indicate on the diagram:
- AD curve shifts
- Higher price level to the right
- Higher output
(3 marks)
Paper 2 marking schemes: Q12
(a)  (i) A declining birth rate implies a slower growth in the size of
the work force and possibly a shrinking working population in
the future. As fewer workers are there to pay taxes, future tax
revenue may be reduced. (2 marks)
(ii) A rising old-age dependency ratio implies higher percentage
of the elderly in the population. The elderly may have lower (or
even zero) income and greater needs for medical services.
They may thus require more government support in terms of
social welfare and public health, implying an increase in public
expenditure on such programs. (2 marks)

(b) Relaxation of one-child policy would likely result in a rise in the
birth rate, implying a bigger work force and a bigger aggregate
supply and output in the future (3 marks)
(c) Public limited company / listed company. (1 marks)

(d) (i) In a partnership, any given owner cannot transfer his/her shares of ownership without the consent of other partners while in a public limited company, the shares are freely transferable.
(ii) A partnership does not have independent legal status while a public limited company has an independent legal status. (4 marks)

(e) People expected the birth rate to rise, resulting in an expected increase in future demand for the baby products. So Goodbaby International was expected to earn bigger profits and to distribute more dividends per share to its shareholders in the future. The expected increase in future dividends would raise the demand for the company’s shares and thus its stock price as soon as people expect changes in the old-child policy. (4 marks)
(a) **Verbal elaboration:**
Japanese Yen depreciated against Hong Kong dollar. As the price of Japanese automobiles does not change, the automobiles become cheaper in terms of HKD and Hong Kong importers will buy more Japanese automobiles. The demand for Japanese automobiles by HK people increases. Quantity transacted increases. Therefore, total export value of Japanese automobiles increases. (4 marks)

**Indicate on the diagram:**
- Demand curve shifts to the right
- A higher quantity transacted
- Gain in total value (3 marks)
Paper 2 marking schemes: Q11
(b) - Not all factor inputs used to produce Japanese cars originated from Japan. e.g., some of the parts or raw materials were imported.
- Some Japanese cars sold in 2013 were not produced in the same year. e.g., some of them came from the inventory.
(@2, max 4)
Paper 2 marking schemes: Q13

(a) Verbal elaboration:
The profit-maximizing output for a monopolist is determined by the equality between its marginal cost and marginal revenue. (1 mark)

Indicate on the diagram:
- Correct marginal revenue curve
- Correct $Q_m$ and $P_m$
(2 marks)
Paper 2 marking schemes: Q13
(b) Verbal elaboration:
Under perfect competition, output is determined by the equality between marginal cost and marginal willingness-to-pay. The opening of the market will result in a drop in price and a rise in quantity. (3 marks)
Indicate on the diagram:
- Correct $Q_c$ and $P_c$ (1 marks)

(c) No, as all consumers are entitled to the same discounts (pricing practice) and there is no market segmentation.
OR
Yes, as consumers buying different quantities (“pounds”) of beef would end up paying different “average prices” (price per pound) for the same beef produced at the same cost.
Paper 2 marking schemes: Q13

(d) (i) Exclusive dealing. It forecloses third-party access to its distribution network. (2 marks)
(ii) Price fixing. Through such collusive action, they can drive the small retailers out of the market (2 marks)

(e) - Introducing more sellers may improve efficiency via competition
- Consumers can enjoy lower price and higher quantity and quality of live cattle products
- Any other relevant point
(@2: max 2)
(a) The marginal (and average) costs of production for Good X and Good Y are constant (and do not increase with the quantities of X or Y). So the opportunity cost of X in terms of Y, which is the slope of the PPF, is constant. (2 marks)

(b) (i) Country B can produce 8 units of Good X by using all of its resources. Given the amount of resources owned by Country A doubles that of Country B, Country A can only produce 5 (= 10/2) units of X by using the same amount of resources as B. So Country A does not have absolute advantage in producing X. (3 marks)
(ii) In Country A, the opportunity cost of producing one unit of X is (10/10) = 1Y. In Country B, the opportunity cost of producing one unit of X is (16/8) = 2Y. So Country A has comparative advantage in producing Good X. (2 marks)
(c) Indicate on the diagram:
(i) production point of Country A: (10,0)
(ii) CPF of Country A: a straight line with X-intercept equals 10 and Y-intercept equals 15
(iii) consumption point of Country A: (6, 6)

(d) Policies:
- tax allowance for further education (or education subsidy)
- teaching grants to universities for more degree programmes
- more immigration quota for experts and professionals
- any other relevant point
Paper 2 marking schemes: Q14

Figure 4

- Consumption point $A$: (6, 6)
- Production point $A$: (10, 0)
- PPF$_B$
- CPF$_A$
- PPF$_A$
Paper 2

General reminder:
- Please don’t use *colour* to indicate the areas in the diagram
- Don’t successively use symbols in the answer.
- Express the answer in a comprehensible way: rough work not written in the designated spaces will NOT be marked.
Paper 2 Q13 and Q14

- Balance of knowledge and analysis
- Special attention to the level of difficulty: fairness
- Choose either elective on spot
- Chinese: Q13(61%), Q14(39%)
- English: Q13(45%), Q14(55%)

Mean Q13: 8.333
Mean Q14: 8.067
Paper 2 Overall comments

- Time allocation
- Simply regurgitating concepts and theories (but not precise enough)
- Read questions carelessly
- Poor presentation
  ➔ Graphs and handwriting
- Lack awareness of current economic issues
Grading - paper marks and subject marks

- **Raw mark** of Paper 1 (max mark): 45
- **Raw mark** of Paper 2 (max mark): 124
- **Adjusted mark**: Marks awarded by markers are adjusted, if necessary, to rectify lenient, strict or erratic marking.
- **Weighted paper mark**: Marks of different papers are converted to the same comparable scale, taking into account the spread of marks in different papers and the published paper weightings, before they are combined to form the **subject mark**.
Grading - Grading procedures

http://www.hkeaa.edu.hk/tc/hkdse/The_Reporting_System/

1. Sample scripts selection
2. Standardisation
3. Post-marking exercise:
The grading panel will discuss and suggest a provisional grading recommendation (including preliminary cut score range) on each paper through expert judgment base on:
Grading – Post-marking exercise

- The level descriptors
- The standards of 2012 and 2013 DSE (library scripts)
- Marked-live scripts, selected according to the total marks
- Feedback from markers on the level of difficulty of papers
- Inter-paper correlations, the mean and standard deviation of the current year’s papers
- Paper mark cumulative distributions
- Performance samples from the HKDSE SRR information Packages
Grading – Panel of judges grading meeting

- preliminary cut score range
- Samples scripts around the cut score range
- Group ability index:
  - constructed per level
  - An index for each level based on the number of candidates in this group (this subject) achieving that particular level in the four core subjects
  - depends on the correlation of the subject and EACH of the 4 core subjects
Grading – Panel of judges grading meeting

Panel of judges considers:
• preliminary cut score range
• Samples scripts around the cut score range
• Group ability index (GAI) as reference

→ Recommendation for the cut score for the subject

• The panel of judges plays a very important and independent role in setting a cut score for each level based on the actual performance of candidates
Grading – Internal meeting and Public Examinations Board meeting

• Internal meeting: A senior management team led by Secretary General of the Authority will meet to review the recommendations of individual subject panels.
• PEB meeting: The recommendations of the internal meeting will be reviewed at the PEB meeting and the final cut scores of all HKDSE subjects must be endorsed at this meeting.
Grading – Determination of level 5** and 5*

- Statistically determined
- The highest 10% (approximately) of level 5 candidates will be awarded 5**
- The next highest-achieving 30% (approximately) of level 5 candidates will be awarded 5*
Grading: Standard Maintenance

• Standard of the level 1, 2, 3, 4, 5 should be maintained across years
• the cutting scores NOT constant: the cutting scores depends on level of difficulty of the papers and the actual performance of the candidates
• It is possible that a level 2 candidate perform better in one particular question than a level 5 candidate: the level represents the overall performance
Sample scripts

• Samples scripts for the level 1,2,3,4,5
• Chinese version and English version
• Samples with comments
• Additional samples