

TABLE OF CONTENTS

Level 1

Exemplar 1 Paper 2

Exemplar 2 Paper 2

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Section A (44 marks)

1. (a) Mary was the major shareholder of a private limited company which operated a restaurant chain. She planned to change the form of business ownership to a listed company. List **ONE** advantage and **ONE** disadvantage of the change. (2 marks)
- (b) After opening some new restaurants, Mary found that the average cost of production of her company had increased. Explain the change in average cost with **ONE** reason. (2 marks)

a) Advantage: Wider resources of holding company of the firm.

Disadvantages: The financial statement should be disclosed to public.

2. There are two kinds of food deliverers: 'riders' delivering food by self-provided motorbikes and 'walkers' delivering food on foot. Why do 'riders' usually have a higher income per order than 'walkers'? Suggest **ONE** demand-side factor and **ONE** supply-side factor to explain your answer. (4 marks)

'Riders' can deliver food by motorbikes, the time cost would be lower, 'walkers' deliver food on foot results in higher time cost, the demand of using 'riders' is larger than using the 'walkers' because of the difference in delivery time of 'riders' and 'walkers'. Also, 'riders' supply of food delivery is larger than 'walkers'.

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3. Refer to the following data about Country A.

| Year | 2019 | 2020 |
|---|----------|----------|
| Per capita disposable income | \$15 000 | \$20 000 |
| Gini coefficient (based on household income) | 0.51 | 0.56 |
| Gini coefficient (based on household disposable income) | 0.51 | 0.44 |

- (a) State **TWO** reasons to explain why the increase in per capita disposable income may lead to an over-estimation of the improvement in living standard of Country A. (2 marks)
- (b) Based on household disposable income, did income inequality of Country A improve or worsen in 2020? Suggest **ONE** policy which may have caused such a change. (2 marks)

a.

b) The income inequality of country A improve in 2020.

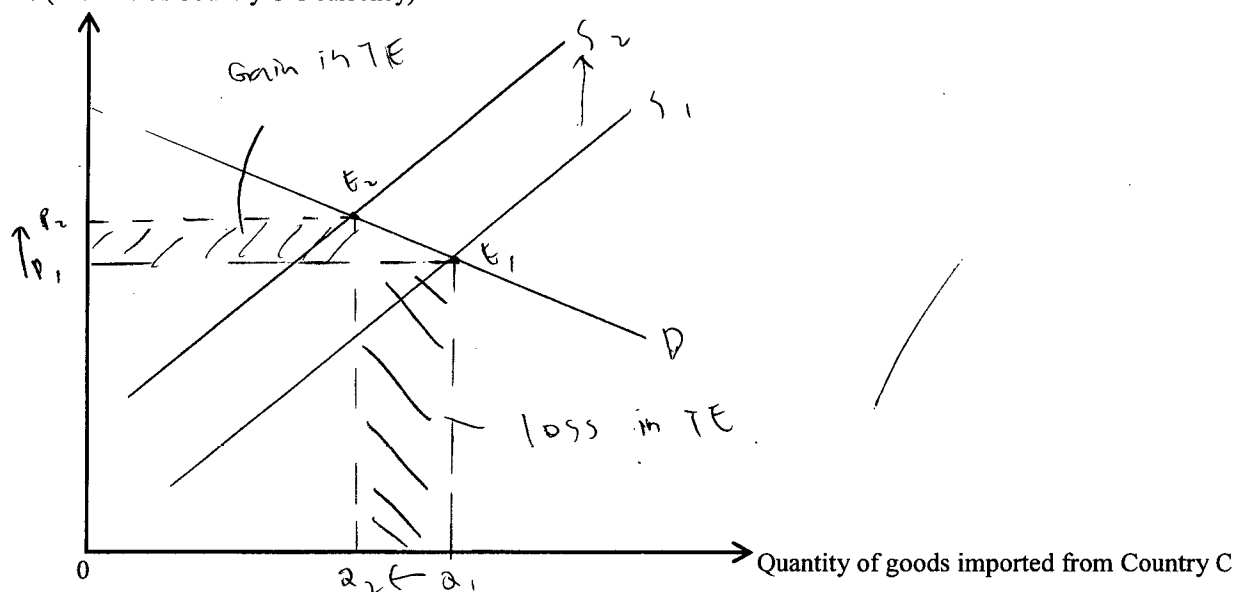
The government may distribute subsidies just for the lower income group but not higher income group to increase the disposable income of lower income group and hence they have more money.

4. Country B and Country C are two large open economies. Facing a huge visible trade deficit, Country B imposes a per-unit tariff on goods imported from Country C. Suppose Country B's demand for goods imported from Country C is elastic.

- With the aid of Figure 1, explain how the tariff would affect the total expenditure of Country B on goods imported from Country C. (6 marks)
- "Devaluation of a country's currency against its trading partners' may have the same effect on imports as tariff." Use Country B as an example to justify this statement. (2 marks)
- Apart from the effect on the country's visible trade balance, explain **ONE** other effect of devaluation on its balance of payments. (2 marks)

Figure 1: Goods imported from Country C by Country B

Price (in terms of Country B's currency)



Suppose country B imposes a per-unit tariff on goods imported from country C, the cost of production of goods will be increase, the supply will decrease, the supply curve will shift vertically upward by the amount of per-unit tariff. When the Country B's demand for goods imported from Country C is elastic,

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the equilibrium price will increase, and the
the equilibrium quantity will decrease. The gain in
Total expenditure ~~is~~ is smaller than the
loss in Total expenditure. Hence, the total
expenditure will decrease.

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equity.

5. Country D introduced a short-term capital gains tax (STCGT) on property market.

| Capital gains (\$) | STCGT rate (%) |
|--------------------|----------------|
| 10 000 or below | 8 |
| 10 001 to 50 000 | 16 |
| 50 001 to 100 000 | 24 |
| 100 001 or above | 32 |

STCGT is a tax on capital gains from the sale of a property held for less than 1 year.

A spokesman of the tax department said that a new computer system had been developed for STCGT. Although the system cost more than 1 billion dollars, it allowed tax payers to check and pay the amount of STCGT online easily.

- (a) Evaluate the new tax in terms of **TWO** principles of taxation put forward by Adam Smith. (4 marks)
- (b) 'The introduction of STCGT would not relieve the problem of rising property prices.' Explain whether this is a positive statement or a normative statement. (2 marks)

a1 Equity. The higher the capital gains, people should pay higher tax rates.

b1 Normative statement. ~~The~~ The claims do not have supportive evidence.

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6. (a) 'Deflation will occur if the amount of goods and services produced is growing faster than money supply.' Explain this statement in terms of the quantity theory of money. (4 marks)
- (b) 'If deflation is expected, the real interest rate will be higher than the nominal interest rate.' Why? (2 marks)

a,

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7. In a two-country-two-good model, the outputs per unit of resources of both countries are as follows.

| | Rice (units) | | Toys (units) |
|-----------|--------------|----|--------------|
| Country E | 10 | OR | 20 |
| Country F | 5 | OR | 15 |

- (a) Assume the terms of trade are that 1 unit of rice can be exchanged for 2.2 units of toys. Calculate the gains from trade of **EACH** country when trading 1 unit of rice. Show your workings. (4 marks)
- (b) With reference to your answer in part (a), defend the following statement. 'There is still a basis for trade even if a country has no absolute advantage in producing any goods.' (2 marks)

a/

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8. The following table shows the balance sheet of a banking system.

| Assets (\$ million) | | Liabilities (\$ million) | |
|---------------------|-------|--------------------------|-------|
| Reserves | 1 000 | Deposits | 4 000 |
| Loans | 3 000 | | |

The public initially holds \$1 000 million cash and the banks are fully loaned up.

- (a) Calculate the required reserve ratio. (1 mark)
- (b) Suppose the public only wants to hold \$400 million cash and deposits the remaining cash into the banks. Calculate the maximum change in money supply. Show your workings. (3 marks)

a) Required reserve ratio: $\frac{1000}{4000} \times 100\% = 25\%$

b) Immediate change: reserve = 1600, deposit = 4600
Loan = 3000

$$1600 \times \frac{1}{25\%} - 4600 = 1800$$

The maximum change: reserve = 1000, deposit = 4600
Loan = 1800.

The maximum change
in money supply = \$1000 + 400 = \$1400 //

END OF SECTION A

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Section B (60 marks)

9. The Mainland government introduced the Targeted Poverty Alleviation Campaign (精準扶貧政策) in 2014. After analysing the situations of people living in poverty, the government officials came up with tailor-made measures. The following are two examples of the campaign.

| | |
|-----------|--|
| Example 1 | A village in Yunnan province has beautiful natural landscape. The government of Yunnan province promoted the village to attract more travellers. Apart from farming, the villagers also set up hostels to serve travellers in order to earn more income. |
|-----------|--|

(a) Refer to Example 1.

- (i) In which types of production did the villagers engage after the introduction of the campaign? Explain. (4 marks)
- (ii) Explain how labour mobility of the villagers would be affected. (3 marks)

| | |
|-----------|---|
| Example 2 | The government provided funding and invited private firms to develop hydroelectric power plants in six provinces (such as Hubei and Jiangxi). Such development would help improve transportation, irrigation and flood prevention in the rural villages in these provinces. |
|-----------|---|

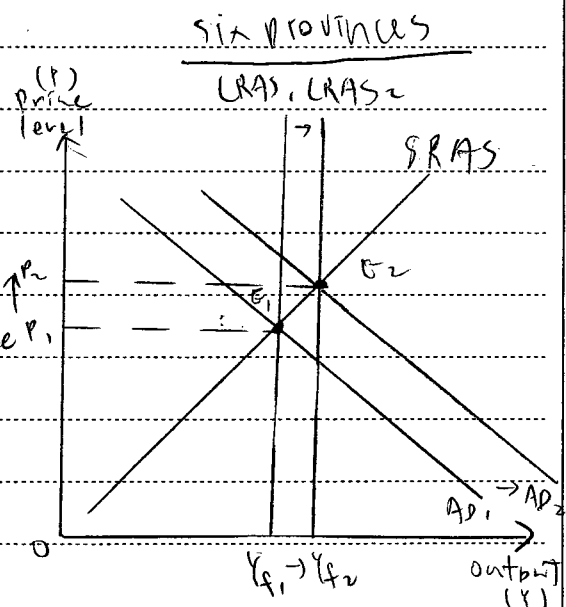
(b) Refer to Example 2. With the aid of a diagram, explain how aggregate output in these six provinces would be affected in the long run. (8 marks)

ai, Capital, People can set up hostels and farming on the landscape. They are human resources.

aii, Their occupational mobility may decrease lead to they have no time to change job and they need to promote the village and be the leader of hostels after setting it up.

In the long run,

b, when the government provided funding and invited private firm to develop hydroelectric plants, it will lead to the increase in government expenditure, and the aggregate demand will increase, the aggregate demand



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curve will shift to left. Also, the development can help develop the ^(from AD to AD₂) transportation, irrigation and flood prevention in the rural villages, it will affect the increase in technology in the villages, and lead to an increase in long run aggregate supply. The long run aggregate supply curve will shift leftward (from $LRAS_1$ to $LRAS_2$). Hence, the price level increase (from P_1 to P_2) and the aggregate output increase (from Y_1 to Y_2).

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10. The Olympic Games attract billions of international television viewers to watch the competitions among thousands of top athletes.

(a) Some restaurants in shopping malls find their businesses increase sharply when the malls broadcast Olympic events. Explain how the broadcast of Olympic events may result in a divergence between private and social benefits. (3 marks)

(b) Suppose the divergence in part (a) does exist. How can market mechanism help reduce this divergence? (2 marks)

Athletes compete in the Olympic Games with their support teams consisting of sport psychologists, physical therapists, nutritionists, etc.

(c) Which economic principle is illustrated in the above practice? State **TWO** reasons why such a practice can increase labour productivity. (3 marks)

Some professional athletes receive a monthly salary and share a proportion of the prize money whenever they win in competitions.

(d) Instead of paying the athletes a monthly rate only, explain why some employers of professional athletes use the above wage payment arrangement. (2 marks)

Whenever an athlete wins a gold medal in a certain sport, there will be the following phenomena: more people will start learning the sport. As a result, there will soon be long queues registering for courses in the sport.

(e) With the aid of a demand-supply diagram, explain the above phenomena. (5 marks)

Professional athletes usually start their full-time training before graduating from secondary school and have to give up their studies.

(f) Will the opportunity cost of being a professional athlete be affected if the average income of professional athletes increases? Explain. (2 marks)

a) ~~The~~ People who walking in the shopping mall can enjoy the broadcast of Olympic events for free. After watching the events, people may consume the restaurants in shopping malls to enjoy social benefits.

b) The market mechanism will adjust the gap between the private and social benefits.

c) The complex division of labour illustrated in the practice. Such practice may increase the athletes'

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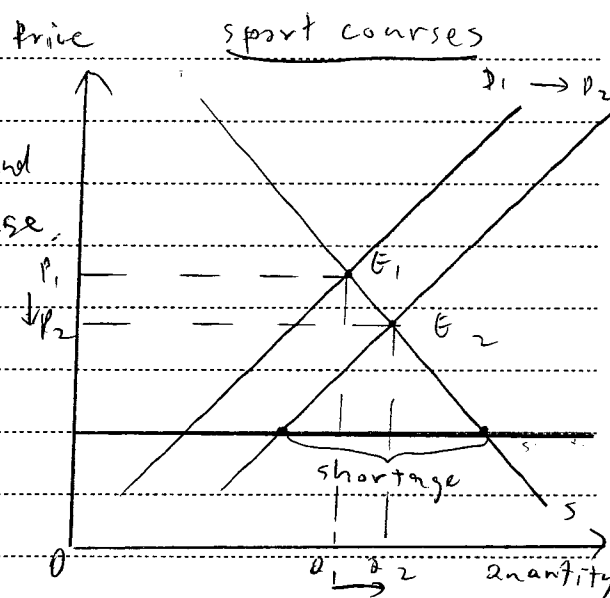
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health on physics and mental, to make them higher productivity to compete the olympic games.

Practice makes perfect. Keep training the athletes can increase their experience and skills in the competition.

d) The prize money can encourage the athletes to win the competitions. It is kind of the emissions.

e) When an athlete wins a gold medal in certain sport, the demand of learning sport will increase, the demand curve will shift to the left. If more people started to learn the sport, there will soon be long queues register for courses. Suppose the supply of sport course remains unchanged, there will be a shortage in sport courses. Hence, it will lead to the decrease in price and increase in quantity demanded.



f) If the average income of professional athletes increases, the opportunity cost of being a professional athlete will decrease.

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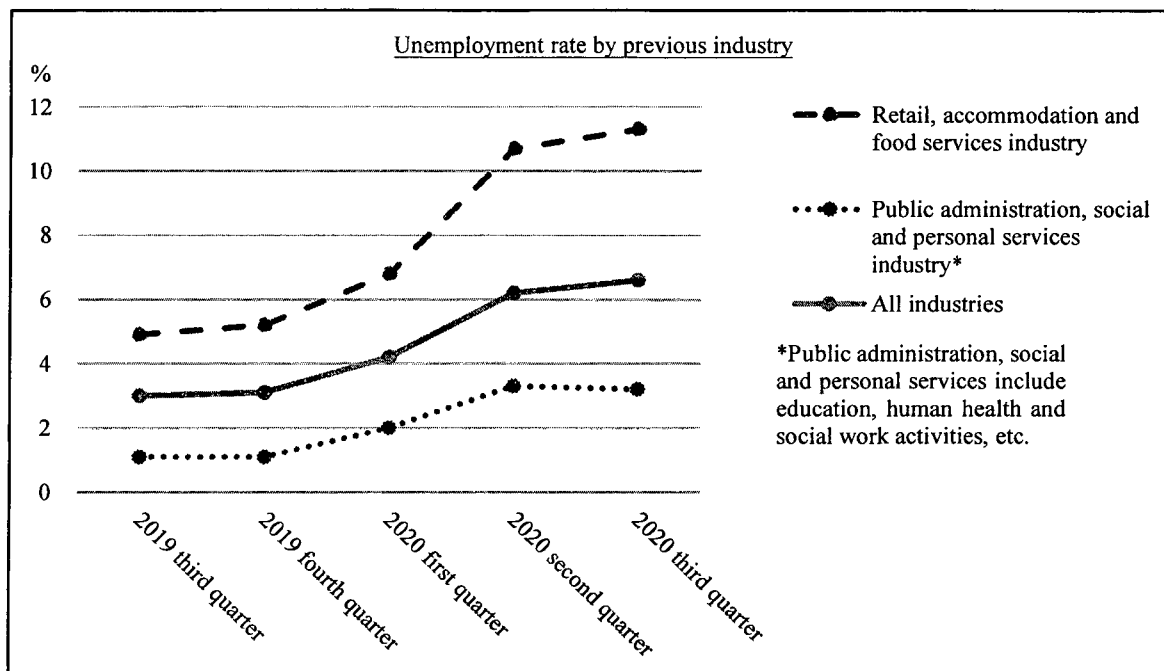
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11. The Government launched the Consumption Voucher Scheme in 2021 to relieve the impact of COVID-19 on the Hong Kong economy.





Source A: Statistical data about unemployment rate in Hong Kong



Source B: An extract of information about the Consumption Voucher Scheme

All Hong Kong permanent residents and new arrivals aged 18 or above, who comply with the 'residing in Hong Kong' requirement, could register to receive electronic consumption vouchers with a total value of \$5 000 by instalments.

Source C: Information about the four designated stored value facilities to receive the \$5 000 consumption vouchers by instalments




| | AlipayHK | Octopus | Tap & Go | WeChat Pay HK |
|---|---|---|--|--|
| |  AlipayHK |  八達通 Octopus |  |  WeChat Pay® |
| Public transportation with the above payment facilities installed | MTR, bus, mini bus and ferry | MTR, bus, mini bus and ferry | Bus and mini bus | None |
| Promotions to consumption voucher users | 5 e-coupons | First 2 million registered customers enjoy \$18 of stored value | \$50 awarded when using virtual Tap & Go Unionpay card for the first transaction with an amount equal to or larger than \$50 | e-coupons |

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Source D: Some reminders for the Consumption Voucher Scheme

- Consumption vouchers cannot be used in transactions such as payments to the government (e.g. tax), public utilities (e.g. electricity charges), purchase of financial products (e.g. insurance), and direct purchase from merchants located outside Hong Kong.
- There are deadlines for using consumption vouchers.

Source E: Some views on the Consumption Voucher Scheme in Hong Kong

| | |
|--|---|
| <p>A housewife</p>  | <p>I have spent more than \$5 000 as there are e-coupons from the stored value facility provider. A lot of promotions in large retail chains and malls have also tempted me to consume!</p> |
| <p>A former chef in a restaurant</p>  | <p>I have been laid off and have stayed home for months. No one knows when the travellers would be back. I hope that the Consumption Voucher Scheme will bring more local people to spend on food and beverage and the whole industry can survive the pandemic. Otherwise, many workers will be forced to leave the industry.</p> |
| <p>A doctor working in a public hospital</p>  | <p>Resources should be allocated to the medical sector, instead of giving everyone an equal amount under the Consumption Voucher Scheme. The public hospitals lacked space, manpower and equipment even before the pandemic. Start building new hospitals earlier so that more lives could be saved.</p> |

- (a) Refer to Source A.
- In which phase of business cycle the Hong Kong economy most likely was? Apart from the change in unemployment rate, list **ONE** other economic phenomenon of this phase. (2 marks)
 - Why did the unemployment rate of retail, accommodation and food services industry increase faster than that of public administration, social and personal services industry during the pandemic? (2 marks)
- (b) Refer to Source B. Would the \$5 000 distributed under the Consumption Voucher Scheme be included in the calculation of government consumption expenditure? Explain your answer. (2 marks)
- (c) Based on the information given in Source C, explain with **TWO** reasons why the market of stored value facilities in Hong Kong is **NOT** perfectly competitive. (4 marks)
- (d) Refer to Source D. Some citizens claimed, 'I would rather receive \$5 000 cash instead of consumption vouchers.' In terms of functions of money, explain such a claim with **TWO** reasons. (4 marks)

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For part (e), candidates are required to present their answers in essay form. Criteria for marking will include use of sources and economic theories, relevant content, logical presentation and clarity of expression.

- (e) Suppose the Government plans to spend another sum of money to cope with the pandemic. The following are two suggestions.

| | |
|----------|--|
| Scheme C | Distribute the sum of money using the same mechanism as the existing Consumption Voucher Scheme. |
| Scheme H | Spend the sum of money on building new hospitals and hiring additional medical staff. |

With reference to the above sources and your own knowledge in Economics, discuss which scheme the Government will prefer in order to achieve **EACH** of the following policy objectives respectively.

Objective 1: to relieve unemployment in an industry severely affected by the pandemic

Objective 2: to increase average labour productivity

Objective 3: to increase aggregate output (in the short run and/or in the long run)

(14 marks)

[Use a separate paragraph for comparing the effects of the two schemes under each policy objective.]

a) Recession.

During pandemic, the government engaged to stop the social activities such as stay in the restaurants for having meal, people might feel sick and prefer stay at home due to the serious pandemic in Hong Kong. Not many people still going out for shopping, it will affect the retail industry and food services industry.

b) Yes, The \$5000 distributed is provided by the government by using the government budget.

c) Each of the market of stored value facilities have different promotions to consumption voucher users so they can enjoys different residents. Different market of stored value facilities provided different function of using. In source C, Alipay HK, Octopus and Tap & Go can use in public transportation

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while WeChat Pay, HK is not available, so that it is not perfectly competitive.

d) Cash is more durable. The consumption vouchers got a decline, residents should be used within the required day. Cash can be storage in the bank account and with no limit of time using them.

Cash can be more flexible to use. Some of the payment is rejected by using the consumption vouchers such as payment to the government. It would be less convenience to use the consumption vouchers.

e) Scheme H can reach the objective to relieve unemployment in an industry severely affected by the pandemic. By building new hospitals and hiring additional medical staff, during the pandemic, more people may suffering the health problem. Some of them will worry about getting covid, they need to go to the hospital to see the doctor and get suitable medicine. It will lead to an increase in demand of medical services, if the government start to build up new hospital to increase the supply in medical services, and more staff need to be employed, and hence it can help relieve the problem of unemployment.

The objective of

Scheme C: If want to expand the consumption expenditure, it cannot reach the objective 1.

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Scheme C can reach the objective C to increase average labour productivity. Using the Consumption Voucher Scheme, can encourage residents to increase the private consumption expenditure and the investment expenditure. Resident can choose to use it ~~in~~ consuming the luxury and invested in some investment ~~like "six lucky draw"~~ like buying healthy food to make the body more healthy and labour can sleep well every night resulting in more incentive to work; to increase the labour productivity.

Scheme C can increase aggregate output in the short run. When government distribute the sum of money to resident, it can increase the private consumption expenditure. it will lead to an increase in aggregate demand, and hence the aggregate output will increase.

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END OF PAPER

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

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Supplementary Answer Sheet

Question No. _____

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Level 1

Exemplar 2 Paper 2

Section A (44 marks)

1. (a) Mary was the major shareholder of a private limited company which operated a restaurant chain. She planned to change the form of business ownership to a listed company. List **ONE** advantage and **ONE** disadvantage of the change. (2 marks)

- (b) After opening some new restaurants, Mary found that the average cost of production of her company had increased. Explain the change in average cost with **ONE** reason. (2 marks)

(a) The advantage is can let the public to buy the shares and the bonds of the company in order to raise capital.

The disadvantage is need to disclose the financial accounts to the public.

(b) Mary didn't enjoy the internal economies of scales, therefore she can not buy in bulk to obtain a larger discount, the average cost will increase.

(b) Mary use more money to promote her new restaurants, in order to let the residents to see and purchase in it. Therefore, the average cost will increase.

2. There are two kinds of food deliverers: 'riders' delivering food by self-provided motorbikes and 'walkers' delivering food on foot. Why do 'riders' usually have a higher income per order than 'walkers'? Suggest **ONE** demand-side factor and **ONE** supply-side factor to explain your answer. (4 marks)

From the supply-side factor, the reason why 'riders' will have higher income is because they can give out the food on time. The customers who buy food deliverers are willing to have their food on time, motorbikes are faster than people on foot, therefore it can have a higher income. and the motorbikes are payed by worker themselves.

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From the demand side, "riders" can have more stable quantity of food than "walker". "Riders" are able to keep the food warm by driving the faster speed of the motorbikes. It can satisfy the customers wants of food, therefore the income are higher.

3. Refer to the following data about Country A.

| Year | 2019 | 2020 |
|---|----------|----------|
| Per capita disposable income | \$15 000 | \$20 000 |
| Gini coefficient (based on household income) | 0.51 | 0.56 |
| Gini coefficient (based on household disposable income) | 0.51 | 0.44 |

- (a) State **TWO** reasons to explain why the increase in per capita disposable income may lead to an over-estimation of the improvement in living standard of Country A. (2 marks)
- (b) Based on household disposable income, did income inequality of Country A improve or worsen in 2020? Suggest **ONE** policy which may have caused such a change. (2 marks)

(a) Residents can use the disposable income for medical care.
Residents can have more money to satisfy their wants.

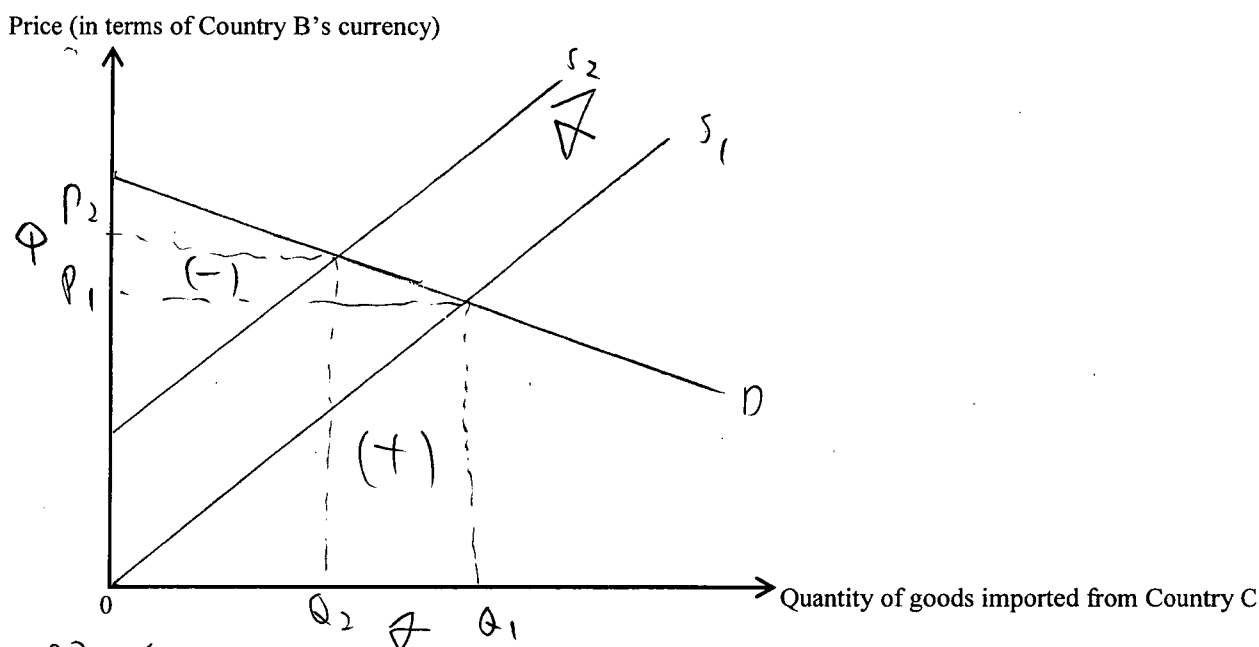
(b) Improve.
Government giving out taxes to household.

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4. Country B and Country C are two large open economies. Facing a huge visible trade deficit, Country B imposes a per-unit tariff on goods imported from Country C. Suppose Country B's demand for goods imported from Country C is elastic.

- With the aid of Figure 1, explain how the tariff would affect the total expenditure of Country B on goods imported from Country C. (6 marks)
- "Devaluation of a country's currency against its trading partners' may have the same effect on imports as tariff." Use Country B as an example to justify this statement. (2 marks)
- Apart from the effect on the country's visible trade balance, explain **ONE** other effect of devaluation on its balance of payments. (2 marks)

Figure 1: Goods imported from Country C by Country B



(a) Since, Country B have imposes a per unit tariff on good, the supply of the good will decrease from S_1 to S_2 . The percentage increase in price are lower than the percentage increase in quantity, therefore the total expenditure will increase.

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(b) Since the supply of country B decrease and the demand of ~~Country~~ country B to C is elastic, there may have the same effect.

(c) Living standard of the residents will decrease.

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5. Country D introduced a short-term capital gains tax (STCGT) on property market.

| Capital gains (\$) | STCGT rate (%) |
|--------------------|----------------|
| 10 000 or below | 8 |
| 10 001 to 50 000 | 16 |
| 50 001 to 100 000 | 24 |
| 100 001 or above | 32 |

STCGT is a tax on capital gains from the sale of a property held for less than 1 year.

A spokesman of the tax department said that a new computer system had been developed for STCGT. Although the system cost more than 1 billion dollars, it allowed tax payers to check and pay the amount of STCGT online easily.

- (a) Evaluate the new tax in terms of **TWO** principles of taxation put forward by Adam Smith. (4 marks)
- (b) 'The introduction of STCGT would not relieve the problem of rising property prices.' Explain whether this is a positive statement or a normative statement. (2 marks)

(a) Economy, it is because each STCGT rate are increasing due to the amount of money.

Equality, each gap of the STCGT rate are between 8 %, it will not increase or decrease at a wider range due to the amount of money.

(b) Positive statement,
It is because it has value of judgement.

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6. (a) 'Deflation will occur if the amount of goods and services produced is growing faster than money supply.' Explain this statement in terms of the quantity theory of money. (4 marks)
- (b) 'If deflation is expected, the real interest rate will be higher than the nominal interest rate.' Why? (2 marks)

(9) $QTM = MV = PY$

M = money stock

V = Velocity of circulation of money

P = general price level

Y = real output, assuming Y is constant.

If the money stock (M) and the velocity of circulation of money (V) grow faster, the quantity theory of money can't balance, therefore it will have deflation.

(b) nominal interest rate + interest rate = real interest rate.

If the deflation is expected, the interest rate will decrease, ~~the~~ the real interest rate will be higher than the nominal interest rate.

7. In a two-country-two-good model, the outputs per unit of resources of both countries are as follows.

| | Rice (units) | | Toys (units) |
|-----------|--------------|----|--------------|
| Country E | 10 | OR | 20 |
| Country F | 5 | OR | 15 |

- (a) Assume the terms of trade are that 1 unit of rice can be exchanged for 2.2 units of toys. Calculate the gains from trade of **EACH** country when trading 1 unit of rice. Show your workings. (4 marks)
- (b) With reference to your answer in part (a), defend the following statement. 'There is still a basis for trade even if a country has no absolute advantage in producing any goods.' (2 marks)

(a)

| | Rice | | Toys |
|-----------|-----------|----|---------------------|
| Country E | $1R = 2T$ | OR | $1T = \frac{1}{2}R$ |
| Country F | $1R = 3T$ | OR | $1T = \frac{1}{3}R$ |

The gain from trade of country E = $2.2T - 2T = 0.2T$

The gain from trade of country F = $3T - 2.2T = 0.8T$

(b) The statement are not correct, because country E have absolute advantage in both Rice and Toys.

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8. The following table shows the balance sheet of a banking system.

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|---------------------|-------|--------------------------|-------|
| Reserves | 1 000 | Deposits | 4 000 |
| Loans | 3 000 | | |

The public initially holds \$1 000 million cash and the banks are fully loaned up.

- (a) Calculate the required reserve ratio. (1 mark)
- (b) Suppose the public only wants to hold \$400 million cash and deposits the remaining cash into the banks. Calculate the maximum change in money supply. Show your workings. (3 marks)

(a) Required reserve ratio:

$$\frac{1000m}{4000m} \times 100\% = 25\%$$

(b) The old money supply = $1000m + 4000m = 5000$ millions.

$$\text{The new money supply} = 400 + \left(4000 \times \frac{1}{0.25} \right) = 6800 \text{ millions.}$$

$$\text{The change of money supply} = 6800m - 5000m = 1800 \text{ millions.}$$

END OF SECTION A

Answers written in the margins will not be marked.

Section B (60 marks)

9. The Mainland government introduced the Targeted Poverty Alleviation Campaign (精準扶貧政策) in 2014. After analysing the situations of people living in poverty, the government officials came up with tailor-made measures. The following are two examples of the campaign.

| | |
|-----------|--|
| Example 1 | A village in Yunnan province has beautiful natural landscape. The government of Yunnan province promoted the village to attract more travellers. Apart from farming, the villagers also set up hostels to serve travellers in order to earn more income. |
|-----------|--|

- (a) Refer to Example 1.
- (i) In which types of production did the villagers engage after the introduction of the campaign? Explain. (4 marks)
- (ii) Explain how labour mobility of the villagers would be affected. (3 marks)

| | |
|-----------|--|
| Example 2 | The government provided funding and invited private firms to develop hydroelectric power plants in six provinces (such as Hubei and Jiangxi). Such development would help improve <u>transportation, irrigation and flood prevention in the rural villages</u> in these provinces. |
|-----------|--|

- (b) Refer to Example 2. With the aid of a diagram, explain how aggregate output in these six provinces would be affected in the long run. ^{introduction of} (8 marks)

(a)(i) Capital, it is because the campaign can help them attract more travellers and spend money in the village.

Labour, it is because the villagers are required to help the village to promote the village.

(ii) The labour mobility will decrease.

It is because the villagers do not have enough skills to do other work instead of farming or provide hotel service, therefore they can't leave the village.

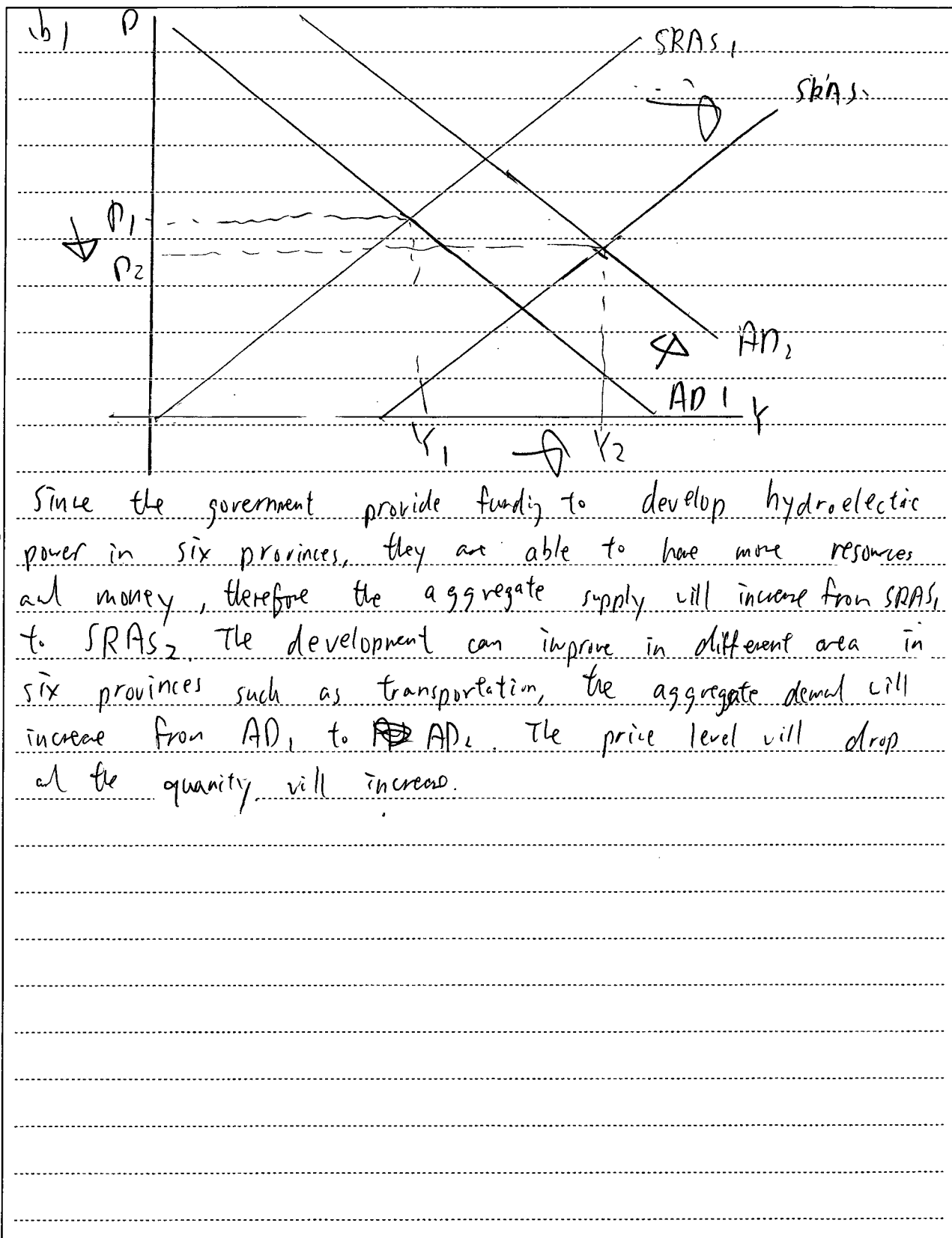
In addition, villagers are willing to stay at the village because they can earn more income by setting up hotel and the policy made by government.

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10. The Olympic Games attract billions of international television viewers to watch the competitions among thousands of top athletes.

- (a) Some restaurants in shopping malls find their businesses increase sharply when the malls broadcast Olympic events. Explain how the broadcast of Olympic events may result in a divergence between private and social benefits. (3 marks)
- (b) Suppose the divergence in part (a) does exist. How can market mechanism help reduce this divergence? (2 marks)

Athletes compete in the Olympic Games with their support teams consisting of sport psychologists, physical therapists, nutritionists, etc.

- (c) Which economic principle is illustrated in the above practice? State **TWO** reasons why such a practice can increase labour productivity. (3 marks)

Some professional athletes receive a monthly salary and share a proportion of the prize money whenever they win in competitions.

- (d) Instead of paying the athletes a monthly rate only, explain why some employers of professional athletes use the above wage payment arrangement. (2 marks)

Whenever an athlete wins a gold medal in a certain sport, there will be the following phenomena: more people will start learning the sport. As a result, there will soon be long queues registering for courses in the sport.

- (e) With the aid of a demand-supply diagram, explain the above phenomena. (5 marks)

Professional athletes usually start their full-time training before graduating from ^{study} secondary school and have to give up their studies.

- (f) Will the opportunity cost of being a professional athlete be affected if the average income of professional athletes increases? Explain. (2 marks)

10) private benefit + social benefit = extern benefit.
 Since, the Olympic game can attract many residents to watch the competition, and some important match residents are willing to go a mall to watch the big screen. The restaurant can have more customers, but the Olympic events do not give any compensation to them. Therefore, residents can watch the sport event in a wider screen and the restaurant can gain more customers, it will have divergence between private and social benefits.

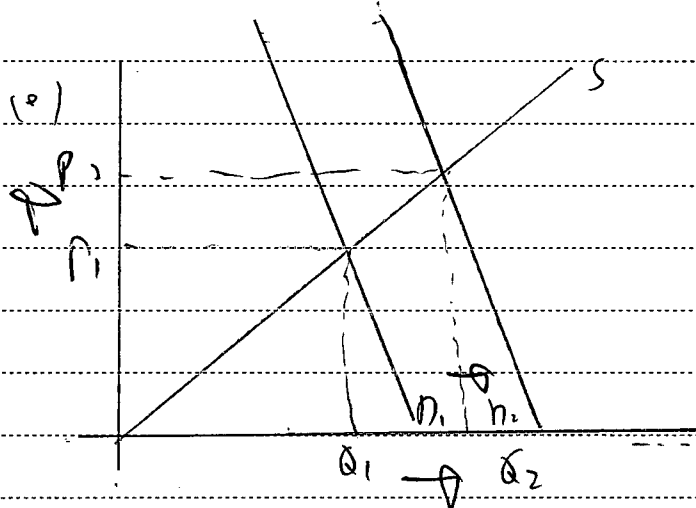
(b) Increase the rent of each restaurants, limit people to entry the mall.

(c) Division of labour.

Choose the right people to do the right job, for example physical therapists give out physical advice.

Save time in training, do not need to waste time in choosing right workers.

(d) Increase the athletes working incentive, it is because the prize money can share to them when they win any competitions. Therefore, the athletes will become more hard-working in order to earn more income.



After more people start to learn the sport which won the gold medal, the demand of learning the sport will increase from D_1 to D_2 . However, due to the learning place are limited, the demand will be inelastic and the price will increase from P_1 to P_2 and quantity will ~~increase~~ increase from Q_1 to Q_2 .

(f) The opportunity cost will decrease.

It is because the cost of being a professional athlete is study at secondary school. However, they can earn more income after they ~~are~~ become a athlete, earn more money than secondary school students, ~~so~~ therefore the opportunity cost will decrease.

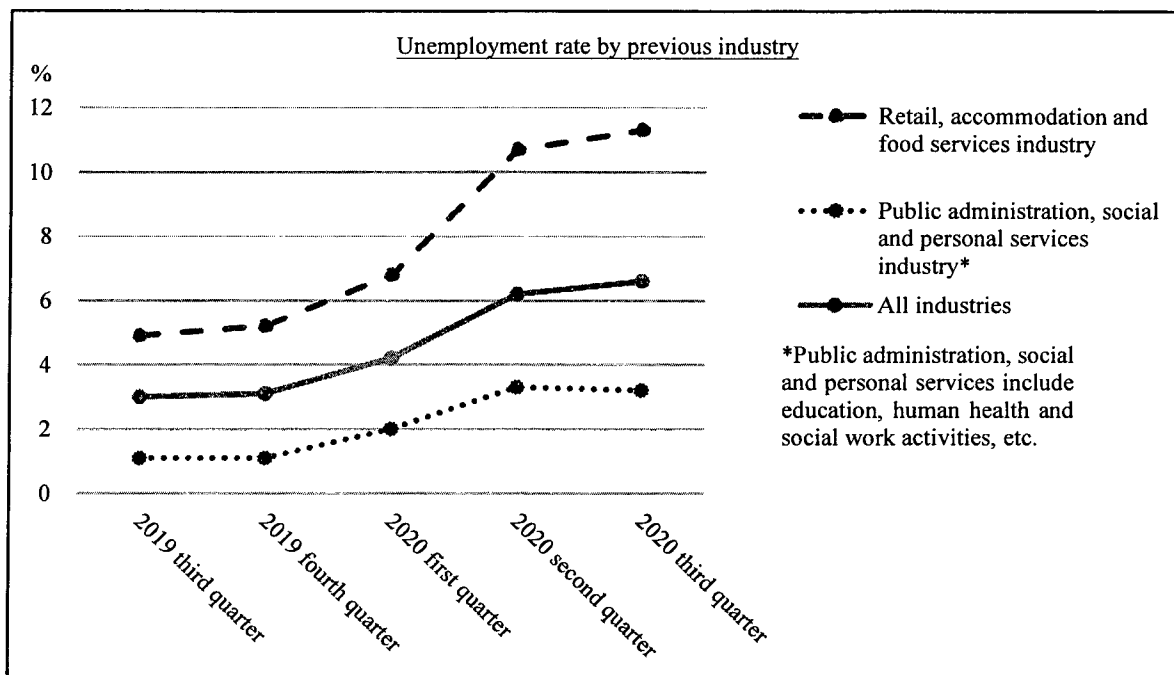
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11. The Government launched the Consumption Voucher Scheme in 2021 to relieve the impact of COVID-19 on the Hong Kong economy.





Source A: Statistical data about unemployment rate in Hong Kong



Source B: An extract of information about the Consumption Voucher Scheme

All Hong Kong permanent residents and new arrivals aged 18 or above, who comply with the 'residing in Hong Kong' requirement, could register to receive electronic consumption vouchers with a total value of \$5 000 by instalments.

Source C: Information about the four designated stored value facilities to receive the \$5 000 consumption vouchers by instalments




| | AlipayHK  AlipayHK | Octopus  八達通 Octopus | Tap & Go  | WeChat Pay HK  WeChat Pay [®] |
|---|---|--|--|---|
| Public transportation with the above payment facilities installed | MTR, bus, mini bus and ferry | MTR, bus, mini bus and ferry | Bus and mini bus | None |
| Promotions to consumption voucher users | 5 e-coupons | First 2 million registered customers enjoy \$18 of stored value | \$50 awarded when using virtual Tap & Go Unionpay card for the first transaction with an amount equal to or larger than \$50 | e-coupons |

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Source D: Some reminders for the Consumption Voucher Scheme

- Consumption vouchers cannot be used in transactions such as payments to the government (e.g. tax), public utilities (e.g. electricity charges), purchase of financial products (e.g. insurance), and direct purchase from merchants located outside Hong Kong.
- There are deadlines for using consumption vouchers.

Source E: Some views on the Consumption Voucher Scheme in Hong Kong

| | |
|--|--|
| <p>A housewife</p>  | <p>I have spent more than \$5 000 as there are e-coupons from the stored value facility provider. A lot of promotions in large retail chains and malls have also tempted me to consume!</p> |
| <p>A former chef in a restaurant</p>  | <p>I have been laid off and have stayed home for months. No one knows when the travellers would be back. I hope that the Consumption Voucher Scheme will bring more local people to spend on food and beverage and the whole industry can survive the pandemic. Otherwise, many workers will be forced to leave the industry.</p> |
| <p>A doctor working in a public hospital</p>  | <p>Resources should be allocated to the medical sector, instead of giving everyone an equal amount under the Consumption Voucher Scheme. The public hospitals lacked space, manpower and equipment even before the pandemic. Start building new hospitals earlier so that more lives could be saved.</p> <p><i>homogeneous</i></p> |

- (a) Refer to Source A.
- In which phase of business cycle the Hong Kong economy most likely was? Apart from the change in unemployment rate, list **ONE** other economic phenomenon of this phase. (2 marks)
 - Why did the unemployment rate of retail, accommodation and food services industry increase faster than that of public administration, social and personal services industry during the pandemic? (2 marks)
- (b) Refer to Source B. Would the \$5 000 distributed under the Consumption Voucher Scheme be included in the calculation of government consumption expenditure? Explain your answer. (2 marks)
- (c) Based on the information given in Source C, explain with **TWO** reasons why the market of stored value facilities in Hong Kong is **NOT** perfectly competitive. (4 marks)
- (d) Refer to Source D. Some citizens claimed, 'I would rather receive \$5 000 cash instead of consumption vouchers.' In terms of functions of money, explain such a claim with **TWO** reasons. (4 marks)

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For part (e), candidates are required to present their answers in essay form. Criteria for marking will include use of sources and economic theories, relevant content, logical presentation and clarity of expression.

- (e) Suppose the Government plans to spend another sum of money to cope with the pandemic. The following are two suggestions.

| | |
|----------|--|
| Scheme C | Distribute the sum of money using the same mechanism as the existing Consumption Voucher Scheme. |
| Scheme H | Spend the sum of money on building new hospitals and hiring additional medical staff. |

With reference to the above sources and your own knowledge in Economics, discuss which scheme the Government will prefer in order to achieve **EACH** of the following policy objectives respectively.

Objective 1: to relieve unemployment in an industry severely affected by the pandemic (✓)

Objective 2: to increase average labour productivity (✓)

Objective 3: to increase aggregate output (in the short run and/or in the long run) (✓, ✓)

(14 marks)

[Use a separate paragraph for comparing the effects of the two schemes under each policy objective.]

(a) (i) Recession,

The real GDP are decreasing.

(ii) It is because the industry need to pay the rent to run their industry. But the pandemic make the industry can't sell their product, as a result they can't earn income. Therefore the unemployment rate are higher.

(b) Yes,

because the \$5000 distributed are government expenditure.

(c) They don't have homogeneous product, all of the facilities product are different ~~but have different type of promotion~~

They do not have perfect information, the facilities have different type of promotion to users. and different way to use it.

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(d) First of all, store of value. If the citizens receive cash, they can save the money in bank and enjoy the interest rate of the bank.

Secondly, unit of account, some of the shop may do not have e-payment, but they accepted cash. Therefore, e-payment ~~are~~ are not generally accepted than cash.

(e) Objective 1

I think the government would prefer scheme 1 in Objective 1. Building hospital and hiring additional medical staff are able to create different working spot to employ workers. After they join as a member of building hospital or medical staff, the unemployment rate are able to relieve, the living standard and the output are also able to increase.

Objective 2

I think the government would prefer scheme C in Objective 2.

~~In scheme C, there are different specialization and division of labour. After residents joined the scheme of building hospital and medical staff,~~

Many residents do not working for more than one month, if there have consumption Voucher Scheme, residents are willing to purchase different product or enjoy different meals from restaurant. It can help different shop to start the business again, provide services and goods to residents. Therefore the average labour productivity are able to increase.

Objective 3

I think the government will prefer both scheme in Objective 3. In short run, Scheme C can allow residents to have spare money to satisfy their wants, they will purchase different products from oversea or HK. The aggregate output are able to increase due to purchasing by residents and working quality of workers.

In long run, building hospital can create different working spot for example doctors and nurses. Residents can have more choices when they are sick. It also help the old public hospitals can spread the risk to new ~~hospitals~~ hospitals. The aggregate output would increase in long run. It also ~~can~~ create stable and long term of working spot to residents, once the hospital are working.

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END OF PAPER

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

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Supplementary Answer Sheet

Question No. _____

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