

## **TABLE OF CONTENTS**

Level 2

Exemplar 1 Paper 2

Exemplar 2 Paper 2

## Level 2

### Exemplar 1 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)

1a) The disadvantage is Mary need to disclose the financial information to the public. The advantage is it can buy bonds and shares in the listed company.

1b) There is an internal diseconomies of scale. As during the expansion of the economy, the company may exists communication problems. By solving the communication problems needs management cost to solve it. Hence, the average cost of the production increased.

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)

In demand, 'riders' can delivering food by motorbikes, the transportation cost by comparing to the walkers' will be faster. Hence, the use of time cost of the 'riders' is shorter than 'walkers'. ~~when the riders~~ The riders can deliver more food than the walkers. Hence,

Answers written in the margins will not be marked.

quan

the income earn by the 'riders' will be higher.

In supply, law of supply states that when the price increase, the quantity supplied will increase, ceteris paribus. Vice versa.

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) Per capita disposable income is calculate by the per capita units of population, but it might over state the living standard, as it does not calculate the leisure time of the people. When people have less leisure time, they are able to spend less, the real GDP might over-estimate the situation. The environmental problems is one of the concerned. When the environment is poor, people is less willing to go out, hence might over-estimate the living

Answers written in the margins will not be marked.

expenditure  $\nearrow$   
revenue

standard.

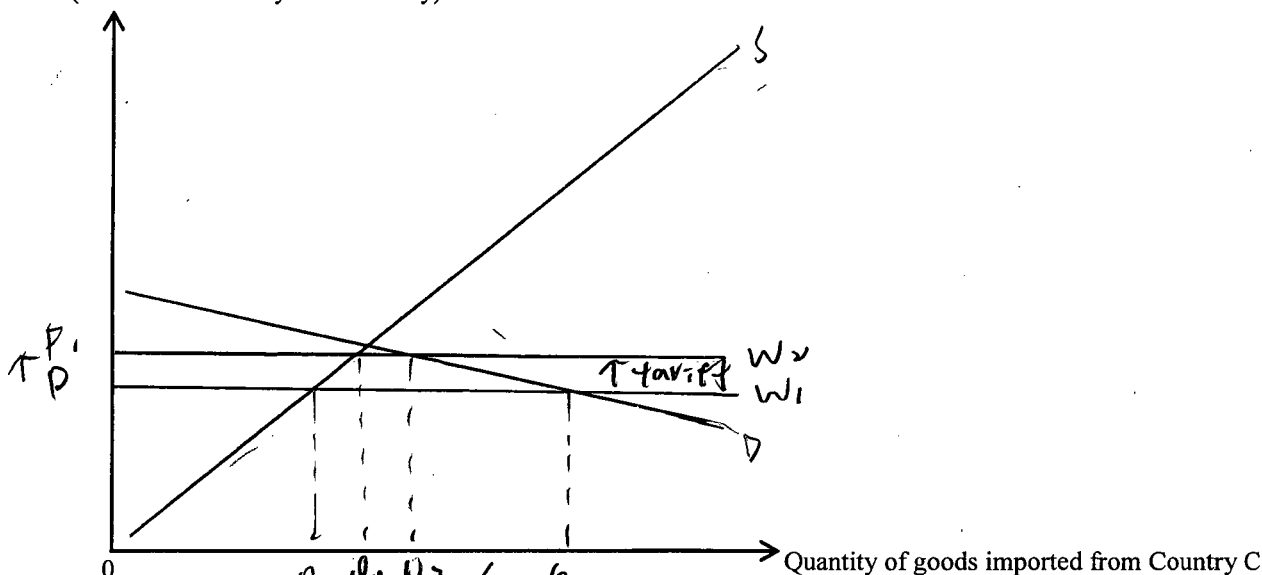
(b) The income inequality is being improved.  
The tax system may change from regressive tax system to progressive tax system.

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.

- (a) 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)
- (b) "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)
- (c) 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)



(a) When country C is elastic, there is an per-unit tariff is being imposed, the world price increase from  $W_1$  to  $W_2$ . While  $W_1$  the price increase from  $P$  to  $P_1$ , the value of imports becomes smaller.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

If decrease from  $(Q_1 - Q_2)$  into  $(Q_4 - Q_3)$ .  
The value of imports is being reduced.

b) When there is a devaluation of country's currency against its trading partners. ~~The price of the exports goods will relatively be cheaper.~~

c) The invisible trade would decrease.

Certainty  
Equity  
convenience  
Economics.

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) Convenience. As the system allowed the tax payers to check and pay the amount of STCGT online easily which is convenient for the customers. And, it implied the equity, as it states that the STCGT rate is proportion to the capital gains (e.g. if \$10 000 or below, 8% for the STCGT) for the people to pay.

(b) It is a positive statement. As it does not include value judgement and it is refutable by facts.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

$$MV = PY$$

↓

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) According to the quantity theory of money,  $MV = PY$ ,  $M$  is money supply,  $V$  is the velocity circulation of money,  $P$  is the price level, while  $Y$  is the real output while the  $V$  will remain constant at any time. When there is a deflation, it would affect the price level, which will decrease. When amount of goods and services produced is growing is faster than the money supply, the  $P$  and  $Y$  will still be equal to the  $M$ .

(b) The nominal interest rate = real interest rate + expected inflation rate.  
When there is a deflation, there is an unknown factor on the expected inflation rate. By comparing the real interest rate and the nominal interest rate. The nominal interest rate will be higher.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

$$2T = 10 \quad 3T$$

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	<del>10</del>	OR	<del>20</del>
Country F	5	OR	<del>15</del>

- (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) Let R be Rice and T be Toys

Opportunity cost	Rice (units)	Toys (units)
Country E	<del>2T</del>	0.5 T
Country F	3T	0.33 T

Country E specialises in producing rice, while country F specialises in producing toys, as they can produce goods at a lower opportunity cost than the other countries.

$$\text{Term of trade} = 1R = 2.2T$$

$$1T = 0.45R$$

$$\text{For Country E (export rice country)} = 2.2T - 2T$$

$$\text{It can gain} = 0.2T$$

$$\text{For Country F (import rice country)} = 3T - 2.2T$$

$$\text{It can save} = 0.8T$$

$\therefore$  Country E gain  $0.2T$  while country F save  $0.8T$ .

(b) yes. Absolute advantage means both of the country have the same amount of resources, one country can produce more units of goods than the other country.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



Mb

BF BP SP

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

Assets (\$ million)		Liabilities (\$ million)	
Reserves	1600 1000	Deposits	4000
Loans	3000		4600

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 reserves ratio

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

$$= 25\%$$

(b) After deposit \$600 million in the bank.

Assets (\$ million)		Liabilities (\$ million)	
Reserves	1600	Deposits	4600
Loans	3000		6400

$$\text{Max change in deposit} = \$400 \times \frac{1}{25\%}$$

$$= \$1600 \text{ million} \quad \text{①}$$

$$\text{Original money supply} = 1000 + 4600$$

$$= \$5600 \text{ million}$$

$$\text{Change in money supply} = 6400 - 5600$$

$$= \$800 \text{ million}$$

$$\text{Excess reserves} = 1600 - (4600 \times 25\%)$$

$$= \$450 \text{ million}$$

END OF SECTION A

$$\text{① Deposit} = 4600 + 1800 = \$6400 \text{ million.}$$

Answers written in the margins will not be marked.

Land  
capital  
entrep

metabol

ent

entrepreneur

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. AD
-----------	--

- (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)

Answers written in the margins will not be marked.

(a) (i) It includes capital. As the factor of production include man-made resources which the government of Yunnan province promoted the village to attract more travellers. Also, it also includes entrepreneurship. As the hostels to serve travellers to earn more income.

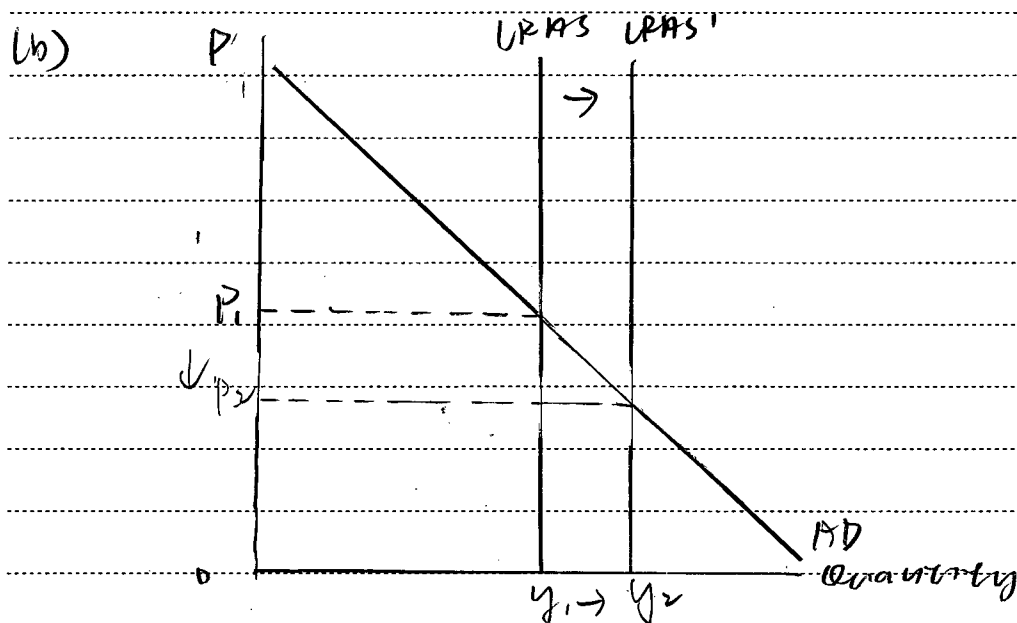
(ii) The labour mobility of the villagers decrease. As the labour mobility refers to the willingness and able of factor of production change from one occupation to another. From source A, the villagers set up hostels to serve travellers in order to earn

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

$$G + NX + I + P$$

more income. If villagers can earn more income, they are less willing to change to another occupation.



When the government provided funding and invited private firms to develop hydroelectric power, the long run aggregate supply would increase from LRAS to LRAS'. While, the price would decrease from  $P_1$  to  $P_2$  and the output would increase from  $Y_1$  to  $Y_2$ .

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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)

(5) There is a positive externality. As there is a benefit exist when the restaurant of the shopping malls increase sharply in their business; while the restaurant does not generate any cost; it has receive benefits. There is an external cost exists, The marginal social benefit is greater than the marginal private benefit. There is an under-production exists.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

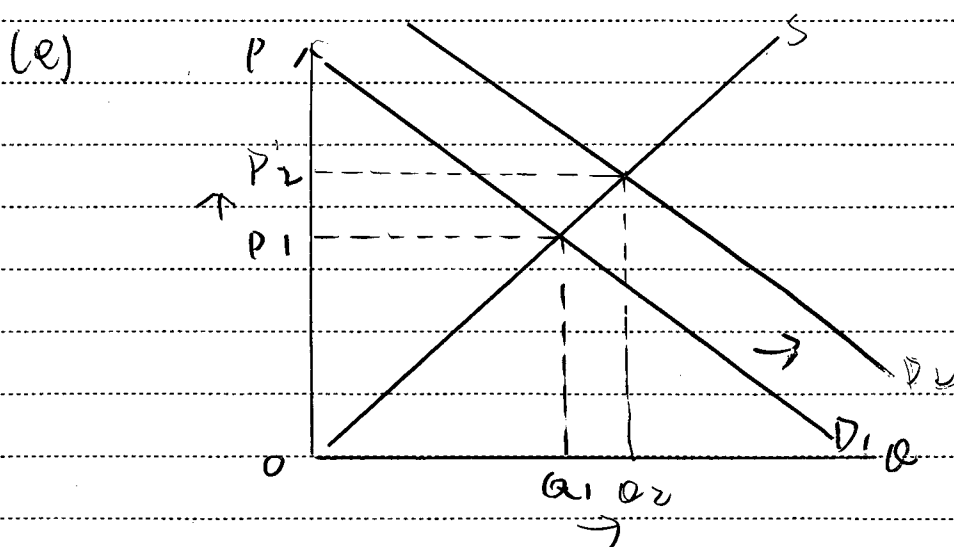
Answers written in the margins will not be marked.

m

(b) The market mechanism reduce the cost. When the marginal private cost is smaller than the marginal social cost.

(c) Division of labour. To commerce with, practise makes perfect. If the labour do the tasks everyday, they are able to do it more efficiently and the quality of goods might be better. This increase the labour productivity. And, chosen the right person to do the job, if the labour is good at that task, they can do it more efficiently, hence, the labour productivity will be increase.

(d) By receive a monthly salary and share a proportion of prize money, it can encourage the athletes to play the sport in stronger incentive.



(e) When there are more people learn the sport, the demand will increase. The demand increase from  $D_1$  to  $D_2$ . While, there will be a long queues registering for the courses, there is an excess demand, a shortage excess. The price will increase and the quantity demand will increase.

(f) Yes. The opportunity cost of being a professional athletes will increase. The opportunity cost refers to the highest-valued option forgone. Being a professional athletes can earn earn relatively more income than the not well-trained athletes.

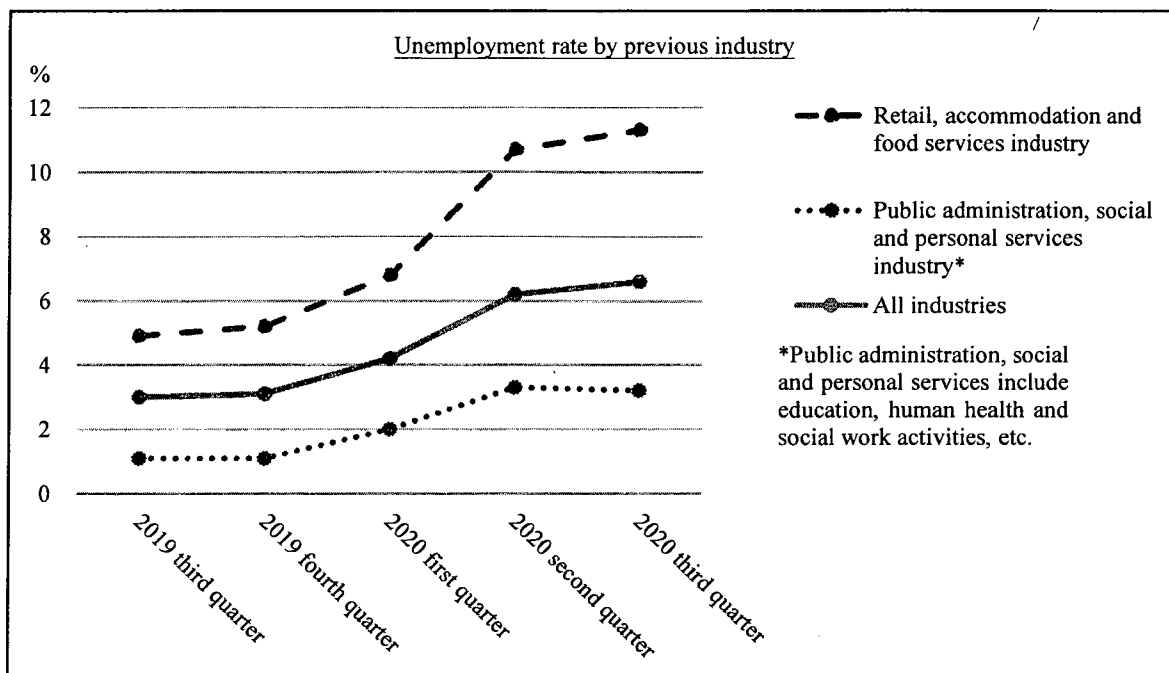
Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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 HK
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




Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



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) Recovery. The price level is increasing.

(ii) As retail, accommodation and food services, most of the shops are closed, there are less tourists and Hong Kong people are willing

to go out. Hence, without any revenue, the retail, ~~and~~ accommodation and

restaurant will be shut down. While, the education, human health and social

work activities, most of the people still

have lesson in online and more people care about their health. Hence, the

unemployment rate of retail, accommodation is growing faster.

(b) As the Consumption Voucher scheme is given by the government, it is the expenditure of the government. Hence, it (used by)

is included in the government consumption

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

expenditure.

(c) As there is a price competition. There are different platforms to receive the \$500 consumption vouchers for example Octopus, Tap & Go and Alipay HK etc. Besides, the goods are in homogeneous.

(d) As a medium of exchange. Since not all the shops accept consumption vouchers, it is not generally acceptable by all the shops. Besides, as a store of value, consumption vouchers cannot be store for a long period of time. Citizens need to use all the vouchers to purchase goods instead of storing it. (As it has a deadline in the vouchers.)

(e) There are two schemes below I would explain briefly.

To commence with, for Scheme C, it would distribute the sum of money using the same mechanism as the existing Consumption Voucher Scheme.

For objective 1, by distributing the vouchers, it can increase more <sup>local</sup> people to purchase the goods and services. According to source E, a former chef in a restaurant, he have been laid off and stayed home for months. The

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Consumption Voucher scheme will bring more local people to spend on food and beverage and the whole industry can survive the pandemic. When the people use the vouchers, the restaurant can earn more revenue. By earning the revenue, they are more able to continue their business, they do not need to fire the employee. This helps the industry and helps the employee do not have to be unemployed. This would help to reduce the unemployment in the industry during pandemic. For the second objective, it can increase the average labour productivity. The people are familiar with their industry jobs, they are able and willing to do the task more efficiently, hence, the average labour productivity will increase. For objective 3, it can increase the aggregate output in short run. According to source 6, the housewife spent more than \$2000 as there are e-coupons from the stored valued facility provider. A lot of promotions in a large retail chains and malls have also tempted to consume. When people the voucher is given, the disposable income of people will increase, people are more willing to purchase goods. Hence, the aggregate demand will increase.

Besides, the scheme M is the spend sum of money in building a new hospital and hiring additional medical staff. For objective 1, since the ~~with~~ when there is a new hospital build, the hospital need to hire doctors and nurse. People getting unemployment, can relieve the unemployment level of people. While for objective 2, when there is a need to hire medical staff, the productivity capacity of the industry will increase. Hence, there is a increase in the short run aggregate supply and long run aggregate supply. For objective 2, when the hospital is ~~can~~ safety and comfortable, employee can work more off.

Answers written in the margins will not be marked.

Handwriting practice area with horizontal lines.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

**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.

Answers written in the margins will not be marked.

# Supplementary Answer Sheet

Question No. \_\_\_\_\_

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



## Level 2

### 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) Advantage: They have a wider source capability  
Disadvantage: Greater risk to be taken over

b) She is enjoying the economies of scale.

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)

First, from the demand-side factor, because the 'riders' need pay the cost of entry because being 'riders' required a self-provided motorbikes while 'walkers' don't need any cost. service  
From the supply-side factor, the quality of 'riders' better than 'walkers', for example the delivery time.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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

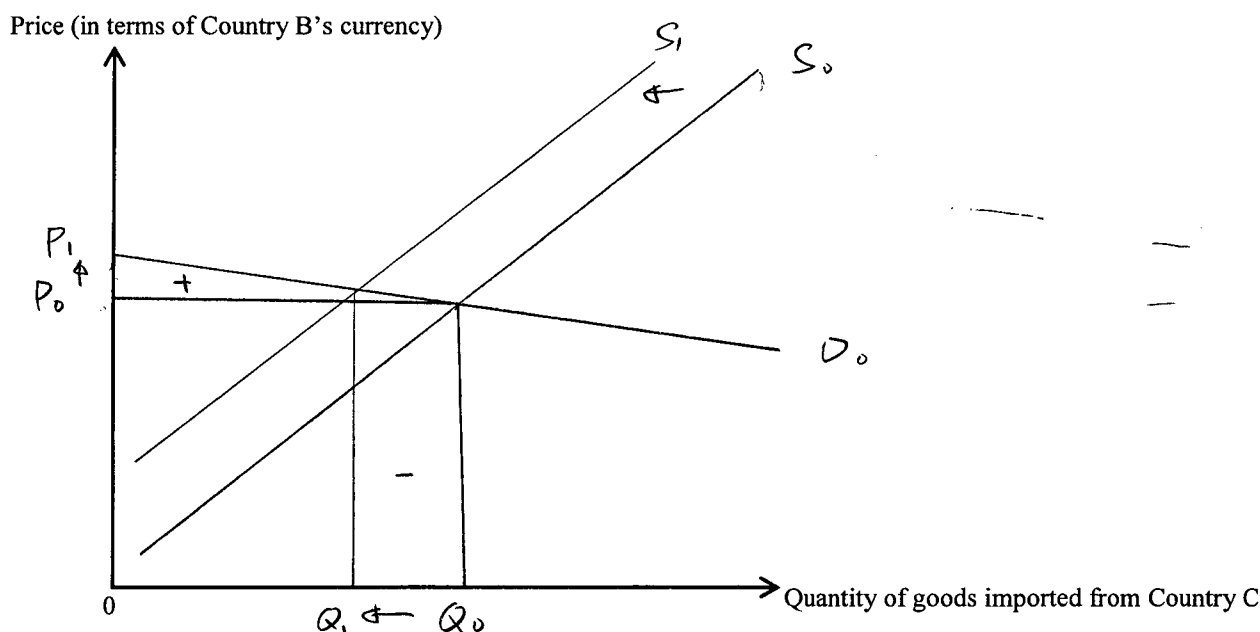
- (a) State **TWO** reasons to explain why the increase in per capita disposable income may lead to an over-estimation of the improvement in living standard of Country A. (2 marks)
- (b) Based on household disposable income, did income inequality of Country A improve or worsen in 2020? Suggest **ONE**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

a) Because disposable income only refer the income of them but not the price level. Also, the disposable income is average, but not calculate the different group of income.

b) Improved, the policy is adjust the proportion tax rate for example salary tax and the taxable income for poor have increase while rich decrease.

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.
- (a) 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)
- (b) "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)
- (c) 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) Because the Demand is elastic, when tariff is imposed on goods imported from Country C, the Supply of good will decrease so that supply curve shift to leftwards and price increase from  $P_0$  to  $P_1$ , quantity decrease from  $Q_0$  to  $Q_1$ . Because the amount quantity decreased is larger than the increase in Price, the total expenditure of Country B on goods imported from Country C will decrease.

b) In this situation, if the country currency devalue against the trading partners, the supply of good from exporters may decrease because they can't earn profit from exporting goods, so they will increase the price of good and at the same time the demand for goods imported from Country C is elastic. So when the price of good increase they will buy less, and have the same affect with tariff.

c) If the <sup>country</sup> currency devalue against their trading partners, the invisible trade will decrease, because tourist will not go to another country for tourism so that the exporting service decrease.

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)

b) It's a normative statement, because you can reject the statement with using a data.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

$$mv = PY$$

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) Because  $mv = PY$ ,  $m$  refer to money supply,  $v$  refer to velocity of money,  $P$  refer to Price level,  $Y$  refer to real GDP, when

b) No,

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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

	Rice (units) $2T$	OR	Toys (units) $0.5R$
Country E	10	OR	20
Country F	5 $3T$	OR	$0.33R$ 15

① F  
R E

- (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) Country E 

$2T$	$0.5R$
$3T$	$0.33R$

 | O.C of making Rice of Country E =  $20 \div 10 = 2T$   
Country F 

$3T$	$0.33R$
------	---------

 | O.C of making Rice of Country F =  $15 \div 5 = 3T$

Term of trade :  $1R : 2.2T$

The gain from Country E :  $2.2T - 2T = 0.2T$

The gain from Country F :  $2.2T - 3T = -0.8T$

b) Because Absolute advantage don't calculate the opportunity cost of producing while comparative advantage counted. In Part (a), Country F have the comparative advantage in producing toys, for example  $0.33R$  (Country F) smaller than  $0.5R$  (Country E).

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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) The required reserve ratio:  $\frac{4000}{1000} = 1:4$

(After deposit: \$600 million)

Assets		Liabilities	
R 1600		D 4600	
L 3000			

The maximum change in money supply: New money supply - old money supply

$$= (400 + 6400) - (1000 + 4000)$$

$$= \$1800$$

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 transportation, irrigation and flood prevention in the rural villages in these provinces.
-----------	---

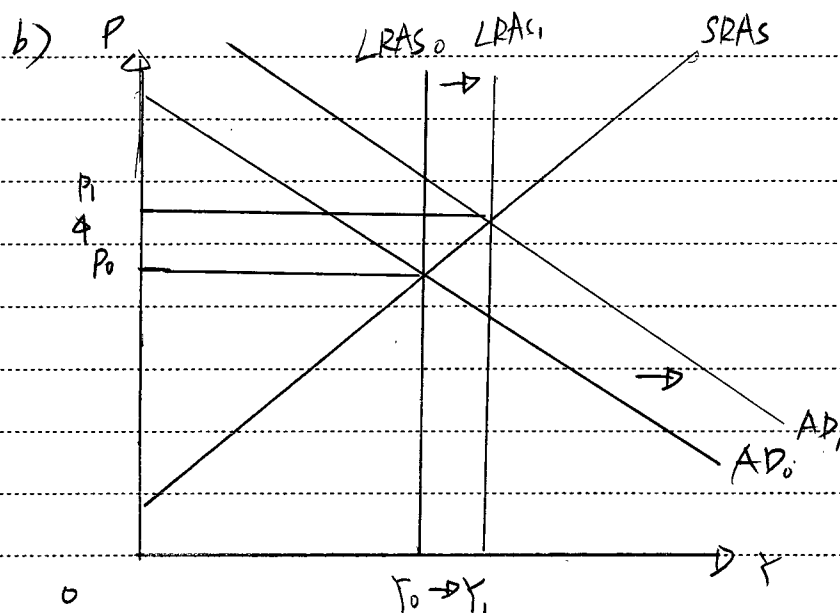
- (b) Refer to Example 2. With the aid of a diagram, explain how aggregate output in these six provinces would be affected in the long run. (8 marks)

ai) Tertiary production, because they are providing service for the travellers when they set up hotels. Primary production, they go farming and producing the raw materials for example vegetables and animals.

aii) It will increase the labour mobility of the villagers, because more jobs are given in the development of tourism and the division of labour can apply to it and the productivity of them increase.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



Because the government provided funding, it means the government expenditure in aggregate demand increases. So that the AD curve will shift to the rightward from  $AD_0$  to  $AD_1$ . Also, because the funding for developing hydroelectric power can improve the flood prevention in the rural villages in these provinces, it means the long-run average cost decreases because less money or cost is used to maintain the flood. So the LRAS curve shifts rightward from  $LRAS_0$  to  $LRAS_1$ . The price level increases from  $P_0$  to  $P_1$  and aggregate output increases from  $Y_0$  to  $Y_1$ , so the aggregate output will increase.

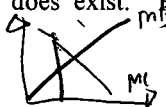
Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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)

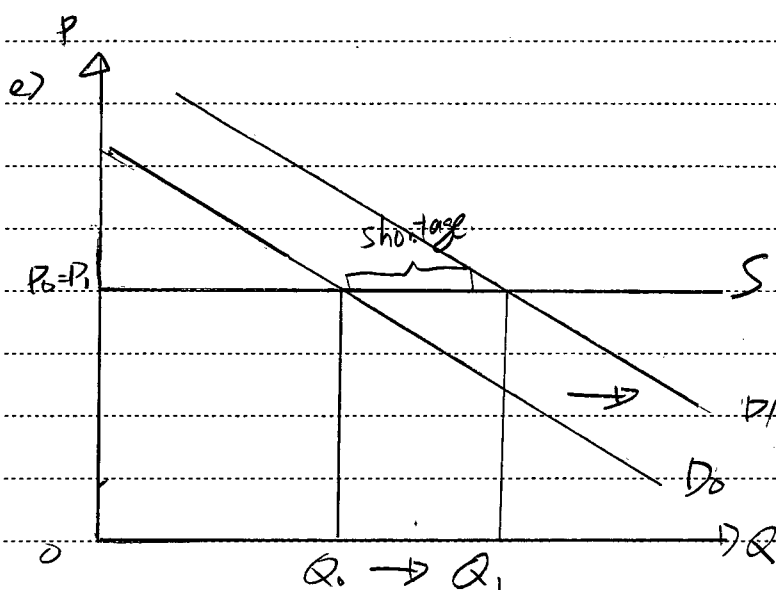
a) Because more people will go to mall to watch olympic events, it mean the private benefits of restaurant in shopping mall will increase because more people buy their product while the social benefit decrease due to the is too crowd because many people go to the mall to watch olympics broadcast. So there will have divergence between private and social benefits and deadweight loss exist.

b) Market mechanism for example unit tax can reduce the divergence because the tax can decrease the demand on

Answers written in the margins will not be marked.

c) Division of labour, practice make perfect, they focus to do the same tasks and the efficiency of them will increase. Also, saving time to train them. <sup>Because</sup> They don't need to multi-tasks and focus their tasks, it can save time to train them and increase the productivity of their own tasks.

d) Because the cost of quality monitoring is low, because athletes can get bonus or extra prize money when they win in competitions, they'll have higher incentive to practice and compete.



Because more and more people know the certain sport after an athlete won a medal, more and more people want to learn and the demand of courses in the sport will increase, so that the demand curve shift rightwards from  $D_0$  to  $D_1$ , while the supply is unitary elastic, so that  $P_0$  remain unchanged and  $Q_0$  increase to  $Q_1$  and shortage exist, so that there're long queues registering for courses in the sports.

Answers written in the margins will not be marked.

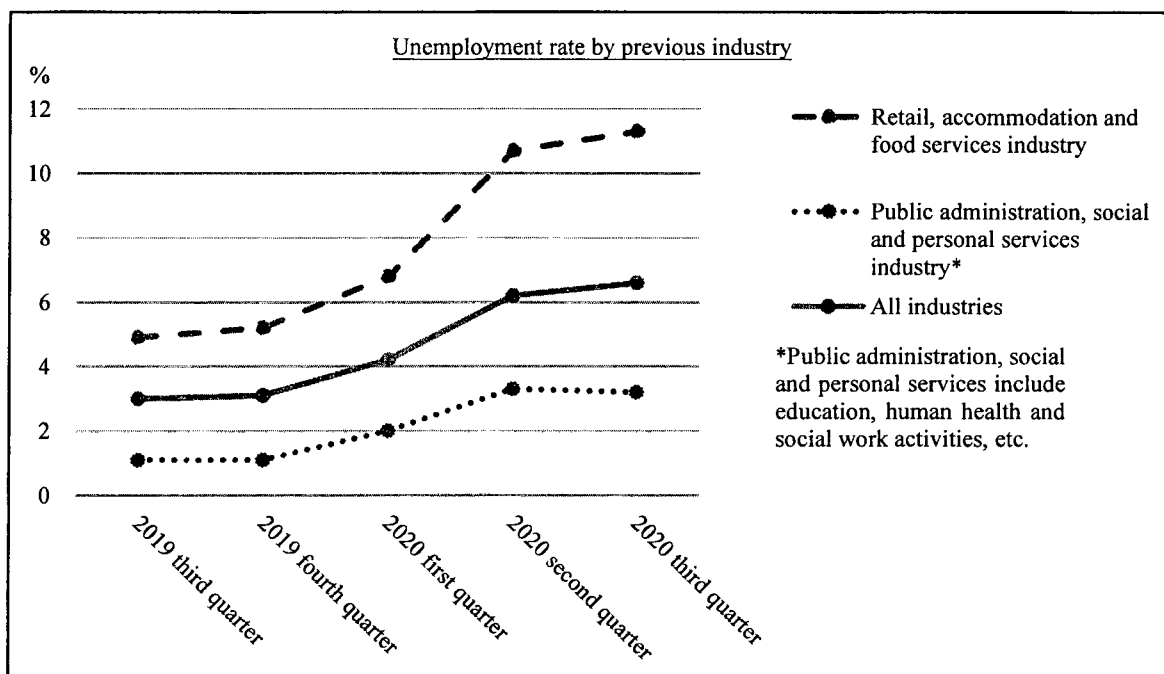
Answers written in the margins will not be marked.

f) Yes, because the opportunity cost of being a professional athlete maybe the giving up the study and working. So if the <sup>average</sup> income of athlete increase, the opportunity cost of being a professional athlete will decrease due to the difference of being athlete and working become smaller.

Answers written in the margins will not be marked.

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  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




Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

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.]

ai) Recovery, the real GDP decrease.

aii) Because most country impose policies such as block the importing business and tight the no of customer every desk. So the total revenue of retailer and food service industry decrease, they need decrease the cost of labour to maintain their expenditure. So that the unemployment rate of them increase fastly.

b) Yes, it would, because \$5000 distributed to public is a type of subsidy for people.

c) ~~Because they~~ have imperfect information  
they don't exist price competition.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



d) First, the store of value, consumption vouchers have a deadline for using it, the consumption vouchers will lose its value after deadline expired, it can't store any value of it.

Also, the medium of exchange, consumption vouchers can't be used in transaction such as purchase of financial products and buy products from merchant located outside Hong Kong. It means the consumption vouchers are not generally acceptable in Hong Kong or in the world.

e) First, Government should use scheme H in objective 2, because most likely now the number of hospital and staff are not enough in Hong Kong. So the <sup>average</sup> productivity of doctor or nurse is low because the resource are enough to satisfy them to use and they need to multi-tasks and do different tasks for example taking care patients and cleaning. If government spend the sum of money to build new hospital and hire additional medical staff, there will be more resource or technology for doctor to use and division of labour can apply due to the number of medical staff increase, they can focus to do what they know and the efficiency will be increase. As a result, the average labour productivity will increase.

Second, Government should use scheme C in objective 3, because people are not willing to go out shopping due to the pandemic, they need to use money to buy masks and scare affect the consumers. If Government using the scheme as existing the consumption vouchers will increase the disposable income of people, they'll have more motivation to buy products or doing the consumption, so that the consumption will be increase in the short run. Meanwhile scheme H is spend money to build the new hospital and hiring additional medical staff. The aggregate curve in long run will decrease because the needs on hospital and

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

medical staff after the pandemic, there'll be over-production and the average cost keeping increase.

while using scheme C, it can't increase the average labour productivity because consumption vouchers are distributed to everyone, everyone can get it freely. If you are resident of Hong Kong and aged 18, it won't increase the working incentive of people.

Third, Government should use scheme H to solve the objective 1, because building new hospital and hiring additional medical staff mean the demand of labour increase for example workers or cleaner, these types of job have a high occupation mobility for industry work that affected by pandemic. because these job don't required knowledge and skills, they can apply these job easily. While scheme C, distribute the consumption vouchers to public can't relieve the unemployment that affected industry, because distribute the consumption voucher don't contain or exist any production.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

---

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There is no text or other markings on the paper.

Answers written in the margins will not be marked.

2022-DSE-ECON 2-22

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

**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.

Answers written in the margins will not be marked.

Supplementary Answer Sheet

Question No. \_\_\_\_\_

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.