

ECONOMICS PAPER 1

8.30 am – 9.30 am (1 hour)

INSTRUCTIONS

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
2. When told to open this book, you should check that all the questions are there. Look for the words '**END OF PAPER**' after the last question.
3. All questions carry equal marks.
4. **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
5. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
6. No marks will be deducted for wrong answers.

Not to be taken away before the
end of the examination session

There are 40 questions in this paper. Choose the **BEST** answer for each question.

1. Which of the following statements are positive statements?
 - (1) More workers will be employed on a part-time basis after the imposition of a minimum wage.
 - (2) Less low skilled workers will be unemployed after the imposition of a minimum wage.
 - (3) Meal times should be counted as working time in the calculation of a minimum wage.
 - (4) The imposition of a minimum wage widens the income gap between the rich and the poor.
 - A. (2) and (3) only
 - B. (1) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only

2. Mr Kwok plans to purchase a new racing car from a German automobile manufacturer and drive the car in Hong Kong. In which of the following situations will the cost of purchasing the racing car increase?
 - A. The first registration fee increases.
 - B. The price of gasoline increases.
 - C. The Euro depreciates against the Hong Kong dollar.
 - D. The racing car performs poorly.

3. Which of the following statements about interest is correct?
 - A. People will reduce current consumption when the interest rate drops.
 - B. The interest rate will be zero if there is no inflation.
 - C. Interest does not exist in a planned economy.
 - D. Interest still exists without money.

4. A parking lot in the government headquarter is reserved for government officials. The parking lot is _____ because _____.
 - A. a private good ... it is for private use only
 - B. a private good ... concurrent consumption is not possible
 - C. a public good ... the government owns it
 - D. a public good ... no one has an exclusive right to use

5. The occupational mobility of labour in an economy will increase when
 - A. the cross-border railway network is improved.
 - B. licences are required for more types of job in the labour market.
 - C. tax allowances are provided for continuing education.
 - D. there is a greater degree of specialisation in production.

6. Which of the following policies will result in an increase in the labour force of Hong Kong?
- extension of free education from 9 years to 12 years
 - an increase in the minimum capital requirement of the Capital Investment Entrant Scheme (資本投資者入境計劃)
 - an increase in the immigration scheme quota for talented persons from the mainland
 - introduction of maximum working hours
7. Some property agencies pay their employees a basic salary plus commission because
- it can increase the working incentive of the employees.
 - it can transfer part of the business risk to the employees.
 - the cost of calculating wages is lower.
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)

8.

	Firm A	Firm B
Number of owners	2	10
Transfer of ownership	Needs the consent of other owners	Needs the consent of other owners
Continuity	Continues to exist when one of the owners goes bankrupt	Will be dissolved when one of the owners goes bankrupt

According to the above table, which of the following descriptions of Firm A and Firm B is correct?

- Firm A is at a greater risk of being taken over by another firm than Firm B.
 - Firm A is a legal entity while Firm B is not.
 - Both firms are subject to the same profits tax rate.
 - Firm A is required to disclose its financial status to the public while Firm B is not.
9. Refer to the following table showing the production costs of a price-taking firm.

Total output (units)	2	3	4	5	6
Marginal cost (\$)	4	6	8	10	12
Average variable cost (\$)	3	4	5	6	7
Fixed cost (\$)	1	1	1	1	1

If the product price is \$6,

- the firm will produce 5 units of output to maximize its profit.
- the maximum profit the firm can make is \$5.
- the average variable cost is \$5 when the firm maximizes its profit.
- the minimum total cost of the firm is \$13.

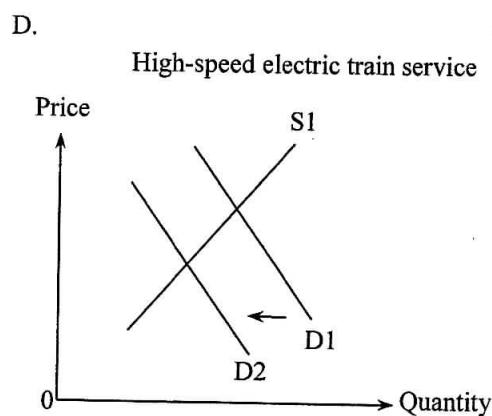
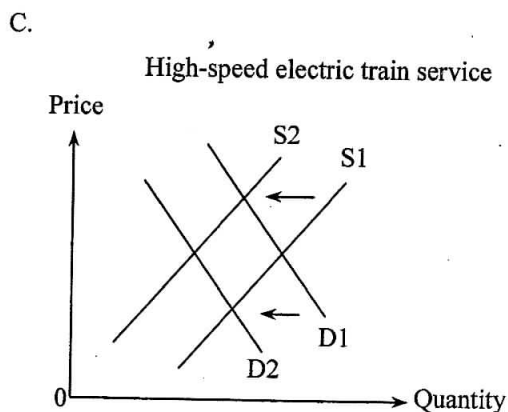
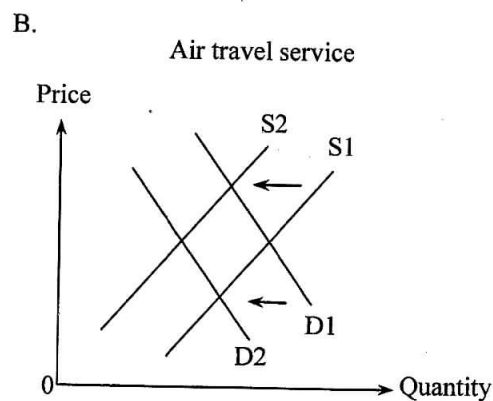
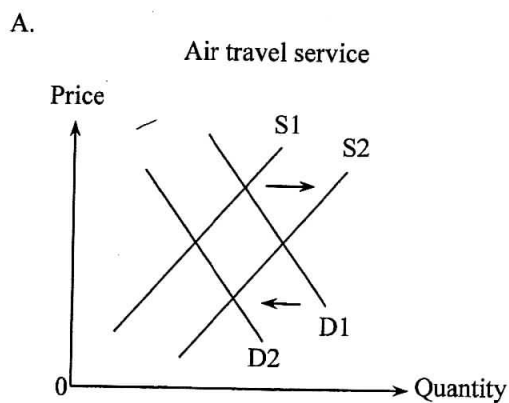
10. Refer to the table below.

	Factory A	Factory B
Number of workers employed	60	10
Total number of working hours	2 000	5 000
Total output (units)	12 000	20 000

Which of the following is a possible reason for the difference between the labour productivity of Factory A and Factory B?

- A. Factory B provides more training for its workers.
 - B. More machines are used in Factory B.
 - C. The working environment in Factory A is poorer.
 - D. Factory A pays its workers at piece rate while Factory B pays at time rate.
11. Michelle is a jewelry lover and she says, "I will spend all my monthly salary on jewelry no matter what the price is." From this we can conclude that her demand for jewelry is
- A. elastic.
 - B. inelastic.
 - C. unitarily elastic.
 - D. perfectly inelastic.
12. Owing to continuous bad weather, the quantity transacted of local vegetables falls by 40% while the price rises by 13%. Which of the following statements are correct?
- (1) The quantity demanded of local vegetables falls.
 - (2) The total expenditure on local vegetables rises.
 - (3) The demand for imported vegetables rises.
 - (4) The total expenditure on imported vegetables may rise or fall depending on the elasticity of demand.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (4) only
 - D. (3) and (4) only

13. A train accident seriously affects the confidence of travellers using a high-speed electric train service. At the same time, the airlines are facing the problem of rising fuel prices. Which of the following diagrams could represent a result of the above events?

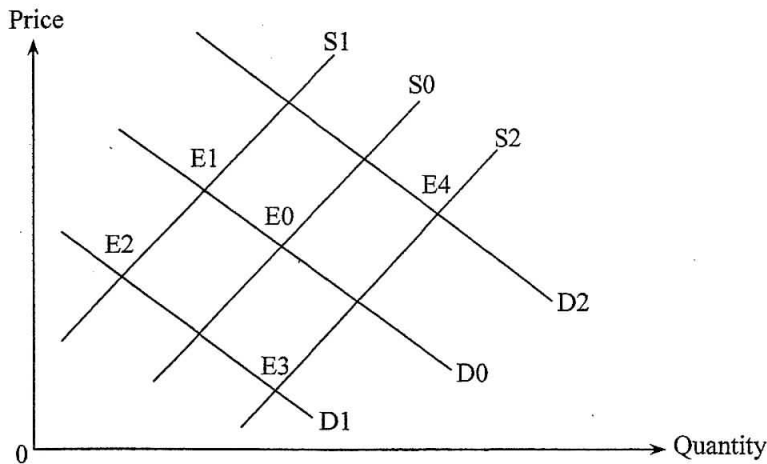


14. On 10th July 2011, the urban taxi fare for the first 2 km was raised from \$18 to \$20. Which of the following statements about the urban taxi service are correct?

- (1) The demand for taxi service dropped.
- (2) The price of long-distance taxi trips relative to short-distance taxi trips dropped.
- (3) The consumer surplus for the taxi service dropped.

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

15. The following is the demand-supply diagram of a property market. E0 is the original equilibrium point.



If the government increases the stamp duties levied on property buyers and tightens the controls on dumping of construction waste, the new equilibrium point in the property market will be _____.

- A. E1
- B. E2
- C. E3
- D. E4

Refer to the following demand-supply schedule of good X and answer Questions 16 and 17.

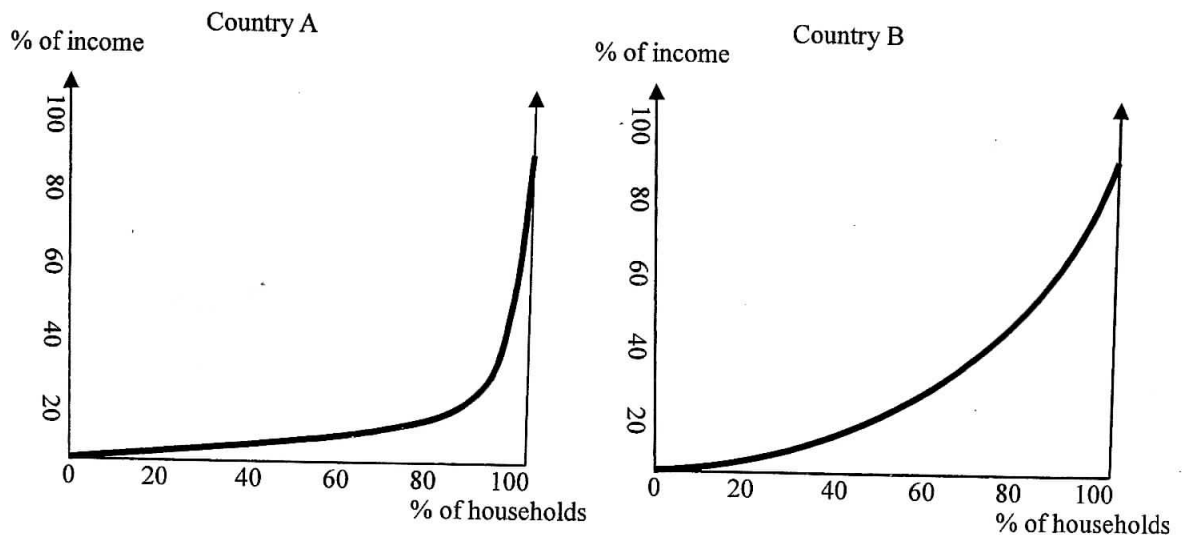
Price (\$)	Quantity demanded (units)	Quantity supplied (units)
10	700	300
11	600	400
12	500	500
13	400	600
14	300	700
15	200	800

16. If the government imposes a per unit tax of \$4 on good X,
- A. the total tax revenue will be \$2 000.
 - B. the total sales revenue will drop by \$1 800.
 - C. the demand for good X is inelastic.
 - D. the total sales revenue of the substitutes of good X will drop.
17. With reference to the above question, the ratio of the consumers' tax burden to the producers' tax burden is _____.
- A. 1:1
 - B. 1:3
 - C. 3:1
 - D. None of the above

18. If a firm is a monopolist in a market,
- A. its monopoly power may come from the government.
 - B. its return will be positive.
 - C. it faces no competition.
 - D. it bears no risk.

19. The increase of an effective quota on a good will result in
- (1) an increase in the quantity transacted of the good.
 - (2) a further improvement in the quality of the good.
 - (3) a smaller deadweight loss.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

20. The following diagrams show the Lorenz curves of Country A and Country B:



According to the above two diagrams,

- A. Country B has a higher national income than Country A.
- B. the low income group of Country B has a higher income than that of Country A.
- C. Country A has a more even distribution of income than Country B.
- D. Country A has a larger Gini coefficient than Country B.

21. Which of the following are possible causes of income inequality among individuals?

- (1) difference in race
- (2) difference in capital ownership
- (3) difference in health

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

22. Refer to the following table.

Gross Domestic Product (GDP) Components	\$ million
Private consumption expenditure	200
Net domestic fixed capital formation	40
Increase in inventory	X
Government consumption expenditure	24
Net exports	10
Indirect taxes	60
Subsidies	30
Depreciation	40
Net factor income from abroad	16

If the GDP at factor cost is \$264 million, the value of X is _____.

- A. - 50
- B. -20
- C. 20
- D. 50

23. Country A's general price level increases by 10% and its aggregate output and population drop by 2% and 10% respectively. As a result, Country A's nominal GDP will _____ and the per-capita real GDP will _____.

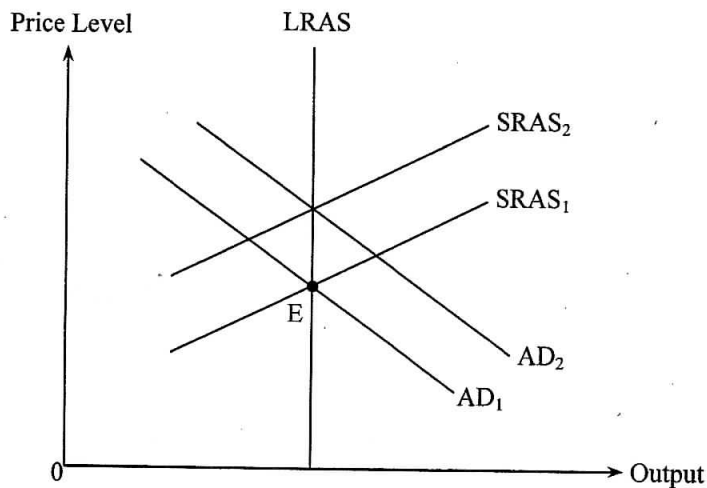
- A. rise ... rise
- B. rise ... fall
- C. remain unchanged ... rise
- D. remain unchanged ... fall

24. Many Hong Kong construction workers stay in Macau to work for several years. If they are attracted by the job opportunities offered by new infrastructure projects in Hong Kong and return to seek jobs, what will be the effect on the unemployment rate in Hong Kong?
- The unemployment rate will increase.
 - The unemployment rate will decrease.
 - The unemployment rate will remain unchanged.
 - The effect on the unemployment rate cannot be determined.

25. Which of the following will lead to a decrease in aggregate demand?

- a rise in private saving
- a rise in investment expenditure
- a fall in imports
- a fall in the progressivity of income tax

26. The diagram below shows the aggregate demand (AD) curves, the short run aggregate supply (SRAS) curves and the long run aggregate supply (LRAS) curve of a country. Point E is the initial equilibrium point.



When there is an economic recovery in the country's major trading partner, _____ in the short run and _____ in the long run.

- AD_1 will shift to AD_2 ... $SRAS_1$ will shift to $SRAS_2$
- AD_1 will shift to AD_2 ... AD_2 will shift back to AD_1
- $SRAS_1$ will shift to $SRAS_2$... AD_1 will shift to AD_2
- $SRAS_1$ will shift to $SRAS_2$... $SRAS_2$ will shift back to $SRAS_1$

27. The table below shows the balance sheet of a banking system.

Assets (\$ million)		Liabilities (\$ million)	
Reserves	400	Deposits	1 000
Loans	600		

Suppose the required reserve ratio for the banking system is 25%. Which of the following statements is correct?

- A. The excess reserves of the banking system are \$200 million.
 - B. The actual banking multiplier of the banking system is 4.
 - C. The banking system can expand its total deposits to \$1 600 million.
 - D. The maximum amount of loans the banking system can make is \$1 000 million.
28. Winnie withdraws HK\$500 000 from her time deposit with a deposit-taking company. Then she deposits HK\$200 000 as a time deposit and HK\$100 000 as a demand deposit with a licensed bank. She keeps \$50 000 in a safe at home and remits the remainder overseas.

What will be the immediate effect of the above actions on the Hong Kong dollar money supply?

- A. M1 will increase by HK\$50 000 and M2 will increase by HK\$350 000.
 - B. M1 will increase by HK\$150 000 and M3 will decrease by HK\$150 000.
 - C. M2 will increase by HK\$150 000 and M3 will decrease by HK\$150 000.
 - D. M2 will increase by HK\$350 000 and M3 will decrease by HK\$500 000.
29. Which of the following is **NOT** a function of the Hong Kong Monetary Authority?
- A. determining the inter-bank offered rate in Hong Kong
 - B. supervising the liquidity position of the private banking institutions
 - C. managing and investing the Exchange Fund
 - D. maintaining the stability of the linked exchange rate

30. On-line shopping has become more popular, and hence people hold less cash for transaction purposes. Which of the following measures can be adopted by a central bank to reduce the effect of the above situation on the interest rate?

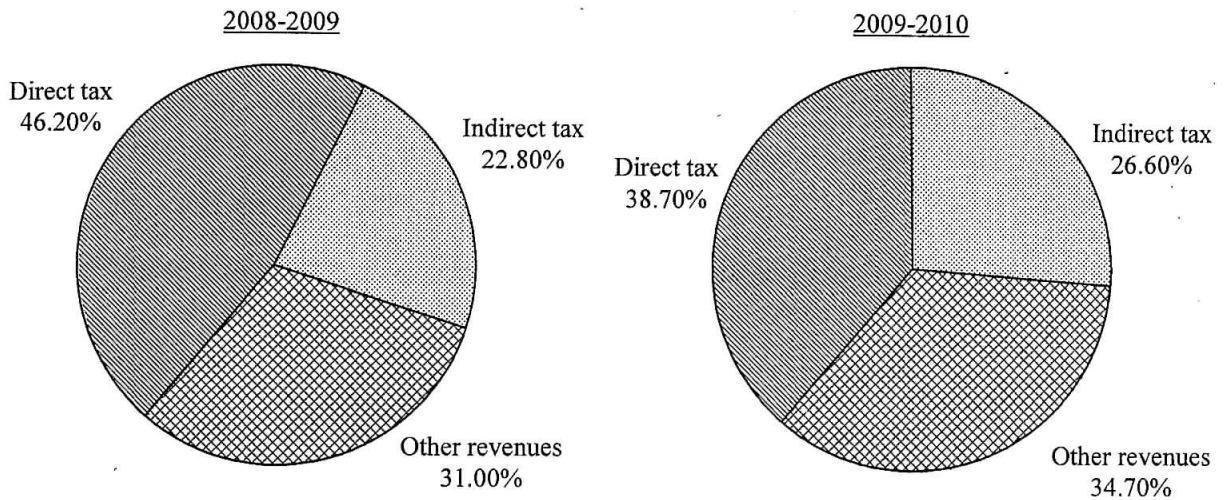
- (1) an increase in discount rate
 - (2) an increase in required reserve ratio
 - (3) an open market purchase of government bonds
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

31. In an open economy, the government expenditure is equal to tax revenue and the value of exports is equal to the value of imports. If there is an increase in private consumption expenditure, the government will have _____ and there will be _____.
- a budget deficit ... a trade deficit
 - a budget deficit ... a trade surplus
 - a budget surplus ... a trade deficit
 - a budget surplus ... a trade surplus
32. The US government has accumulated a huge amount of debt, about US\$14 trillion in 2011. If there is unexpected inflation in the US, which of the following parties will most likely gain?
- Hong Kong residents holding cash in Hong Kong dollars under the linked exchange rate system
 - US citizens holding time deposits
 - countries holding a large amount of US government bonds, like China and Japan
 - the US government
33. Serine has the following incomes:
- rental income from a leased flat
 - dividends from a local listed company
 - a gratuity (酬金) after completion of contract as a manager
 - commission received as an agent

According to the tax system of Hong Kong, which of the above incomes are subject to taxation?

- (1) and (3) only
 - (2) and (4) only
 - (1), (3) and (4) only
 - (1), (2), (3) and (4)
34. Suppose the government spends \$3 billion on the construction of a cruise terminal which is financed from its reserves. This will result in
- an increase in aggregate output in the short run.
 - an increase in aggregate output in the long run.
 - an increase in employment in the short run.
 - a budget deficit in the years of construction.
- (1) and (3) only
 - (2) and (4) only
 - (1), (2) and (3) only
 - (1), (3) and (4) only

35. The following charts show the composition of the General Revenue Account of Hong Kong in years 2008-2009 and 2009-2010.



Based on the above data, in the year 2009-2010,

- A. there was an economic recession in Hong Kong.
 - B. the ratio of direct taxes to indirect taxes increased.
 - C. the total amount of tax revenue decreased.
 - D. the proportion of tax revenue in total government revenue decreased.
36. Which of the following can offset the effect of a decrease in income tax rate on aggregate demand?
- A. a decrease in the asset demand for money
 - B. a decrease in the desire to import
 - C. an increase in the desire to invest
 - D. an increase in the required reserve ratio

37. The following table shows the number of toys or clothes that Country A and Country B can produce with one unit of resources.

	Toys (units)	Clothes (units)
Country A	10	10
Country B	4	10

If the terms of trade is 2 units of clothes = 1 unit of toys,

- A. Country A will gain 5 units of toys per unit of imports.
 B. Country A will gain 0.6 units of clothes per unit of exports.
 C. Country B will gain 0.5 units of clothes per unit of imports.
 D. Country B will export toys and gain 0.6 units of clothes per unit of exports.
38. Consider the trade of a good between two countries. Suppose we know their opportunity costs of producing the good. Without knowing the terms of trade, we can determine
- (1) the possible range of the terms of trade.
 - (2) the gain of each country from trading one unit of the good.
 - (3) the total gain of both countries from trading one unit of the good.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

39.

Date	Exchange Rate
September 2010	HK\$10 = 1 Euro
July 2011	HK\$11.3 = 1 Euro

The above change in the exchange rate between HK\$ and the Euro will result in

- A. a drop in the number of tourists from Europe to Hong Kong.
 B. a drop in the price (in terms of HK\$) of imports from Europe.
 C. a drop in the total value (in terms of the Euro) of imports from Europe.
 D. a drop in the exchange rate of the US dollar against the Euro.
40. Which of the following is an invisible import in the current account of Hong Kong?
- A. In Beijing, a Hong Kong tourist purchases tickets to visit a local museum.
 B. A Mainland resident consults a doctor in a hospital in Hong Kong.
 C. A Mainland billionaire donates money to a university in Hong Kong.
 D. A Hong Kong manufacturer purchases raw materials from a Mainland firm.

END OF PAPER