# HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY

# HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2017

## ECONOMICS PAPER 2

## MARKING SCHEME

**Provisional Marking Scheme**

**General Notes for Markers on Marking**

1.  The marking scheme agreed at the Markers' Meeting should be strictly adhered to in order to achieve a uniform standard of marking.

2.  The marking scheme may not exhaust all possible answers for each question.  Markers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme but are correct and well reasoned.

3.  The following symbols are used:

    /   A single slash indicates an acceptable alternative within an answer.

    @   The number in front of the symbol indicates the marks for each point.

    max   Maximum mark for the question/sub-question

4.  In questions asking for a specified number of reasons or examples etc. and a candidate gives more than the required number, the extra answers should not be marked.  For instance, in a question asking candidates to provide two examples, and if a candidate gives three answers, only the first two should be marked.

# CONFIDENTIAL (FOR MARKERS' USE ONLY)

**Section A**

|  |  |
|---|---|
|  | **Marks** |
| 1. (a) No. The value of highest value option forgone (i.e. First option) drops. | (2) |

(b)  No.  Working time in South Korea may be very long so that the first option becomes less preferrable. (3)

**Marks**

2. (a) (i) From the viewpoint of employee:
possibility of getting higher income with more effort/better service (2)

(ii) From the viewpoint of employer:
lower monitoring cost for the performance of the waiters/higher work incentive for the waiters (2)

(b) Reasons:
– The firm may become too large in scale so the managerial efficiency is lowered.
– The firm may have large outstanding loans so the cost of further borrowing increases.
– The market may be saturated so the marketing cost increases.
– Any other relevant point
[Mark the FIRST TWO reasons only.]

@2
max: 4

**Marks**

3. Oligopoly. (1)

Features:
– several dominant firms
– entry barrier
– interdependent pricing strategies
– imperfect market information
– Any other relevant point
[Mark the FIRST TWO features only.]

@1
max: 2

**Marks**

4. (a) Positive externality. Restaurants in remote area enjoy an increase in total revenue due to the game developer's action without compensation to the game developer. So external benefit exists and marginal social benefit is greater than marginal social cost. The number of existing hotspots near the restaurants is lower than that required by the efficiency level.   (3)

   (b) The restaurants may pay the game developer to increase the hotspots nearby.   (2)

   **or**
   The game developer may charge the restaurants for placing more hotspots near them.   **or** (2)

**Marks**

5. Functions of money:
   – Store of value:
     As the value of the local currency drops in terms of foreign currency, its purchasing power drops in terms of the quantity of foreign goods and services bought.

   – Standard of deferred payment:
     As the value of the currency becomes highly volatile, the cost of agreeing on the contracts of future payments of local currency increases.

   – Medium of exchange:
     Some multinational firms may refuse to accept the currency if the value fluctuates too much.
     [Mark the FIRST TWO functions only.]

@2
max: 4

**Marks**

6. (a) Fluctuation in consumption is less than that of income, thus the tax revenue generated from consumption reduces less in economic downturn.   (2)

   **or**
   Introduction of a general sales tax widens the tax base so the tax revenue collected fluctuates less.   **or** (2)

   (b) Standard tax rate of salaries tax / profits tax / property tax
   as every taxpayer pays the tax amount in the same proportion of his income.
   [Mark the FIRST point only.]   (2)

**Marks**

7.  (a)  (i)   Uncertain.  Without knowing the total amount of resources of both countries, the productivity (output per unit of resource) for food and computer cannot be determined.   (2)

     (ii)  Total output that can be produced when both countries specialize in producing food or computers:

| | Food | Computers |
|---|---|---|
| Country A | 200 | 100 |
| Country B | 200 | 200 |

The opportunity cost of producing 1 unit of computer in Country A:   (1)
= 200/100 = 2 units of food
The opportunity cost of producing 1 unit of computer in Country B:   (1)
= 200/200 = 1 unit of food

Country B has a lower opportunity cost in producing computers, so it will produce and export computers.   (1)

(b)  Terms of Trade (TOT)= 7/4 = 1.75 F per unit of C   (1)
Per unit gain for Country B= 1.75-1 = 0.75F   (1)
Total gain = 0.75*16 = 12F   (1)

**Marks**

8.  (a)  RRR= (1000-250)/3000 = 0.25   (1)

(b)  The change in deposits = $250 \times \frac{1}{0.25}$ = \$1000   (2)

**Marks**

9.  (a)  Depression/ trough — (1)

(b)  A reduction in interest rate results in a rise in investment/consumption. Aggregate demand increases and thus aggregate output increases. — (3)

(c)  Consistent. — (1)
When interest rate dropped in 2009, GDP growth rate increased and unemployment rate dropped. — (3)

[Alternatively, it may be argued that the data is not consistent as the US cut the interest rate in 2008 but still in 2009 GDP had a negative growth and unemployment roared.][1]

(d)  Subsidizing research and development/ importation of labour/investment in infrastructures increases the LRAS/potential output/ production capacity of the economy as a whole. — (2)
[Mark the FIRST policy only.]

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[1] The long and variable time lag of monetary policy is not required.

**Section B**

Marks

10. (a) – Shares of a listed company are freely transferrable while shares of a private limited company are not.
    – A listed company is required to disclose the accounting information to the public while a private limited company is not.
    – A listed company can issue shares and bonds to the general public while a private limited company cannot.
    [Mark the FIRST TWO points only.]

@1
max: 2

(b) Arguments supporting the suggestion:
    – Government will have a better control of the price so that it may reduce the price to relieve the burden of the passengers
    – MTR may be easier to get loans as it is fully owned and supported by the government.
    [Mark the FIRST point only.]

@2
max: 2

Arguments opposing the suggestion:
    – It may make the management less efficient/less sensitive to price signal.
    – The money involved in the purchase is substantial, which may have better alternative uses such as education and medical service.
    [Mark the FIRST point only.]

@2
max: 2

(c) No. (1)
    Verbal elaboration:
    – There was a rise in demand. (2)
    – Both the price and the quantity transacted increased. (2)
    – Total revenue increased. (1)

    Illustrate in the diagram:
    – Demand curve shift to the right (1)
    – Higher Price and Quantity (1)
    – Higher Total Revenue (1)

max: 7



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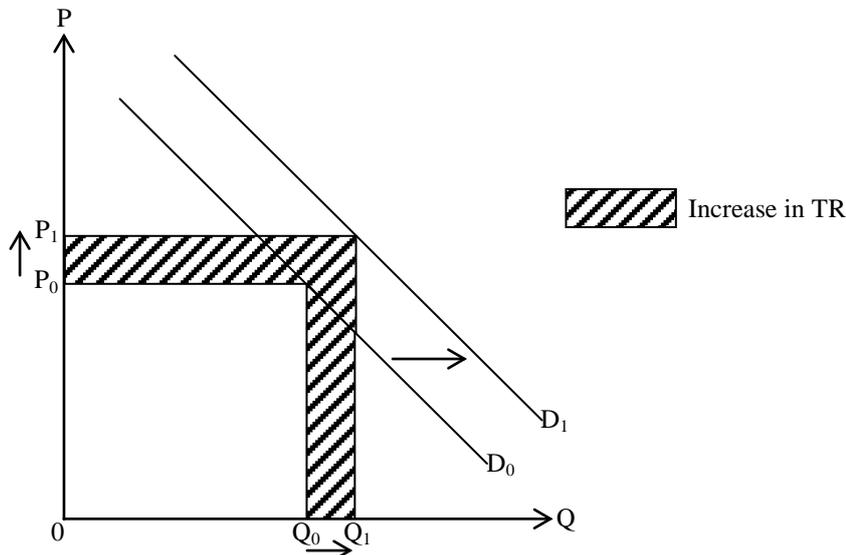
**Marks**

11. (a) <u>Verbal elaboration:</u>
The condition is that the elasticity of demand for the service is lower than the elasticity of its supply.    (2)

 

<u>Illustrate in the diagram:</u>
 – Parallel downward shift of supply curve due to the per unit subsidy    (1)
 – Correct position of New Price ($P_1$)    (1)
 – Correct position of New Quantity ($Q_1$)    (1)
 – Correct position of producer's benefit and consumer's benefit    (1)
 – Consumers' benefit > producers' benefit    (1)
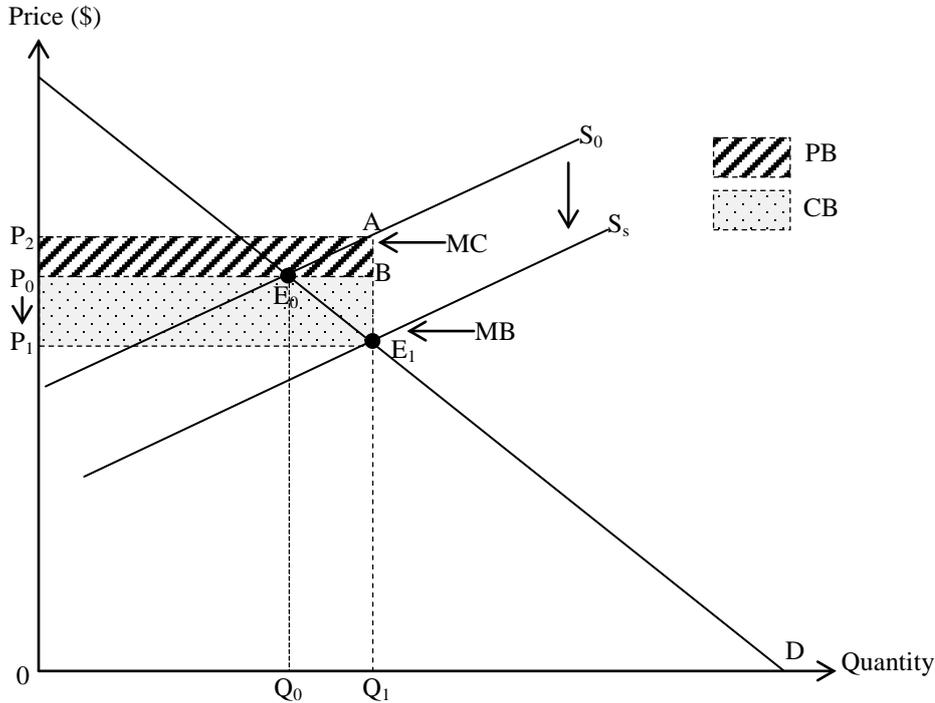


(b) <u>Verbal elaboration:</u>    (1)
Marginal cost is larger than marginal benefit at $Q_1$.

 

<u>Illustrate in the diagram:</u>
 – Correct position of marginal benefit    (1)
 – Correct position of marginal cost    (1)

(c) Yes. Subsidizing education is a measure to equalize opportunities, so the poor will not be deprived from university education because of their background. Education also improves their future income, thus reducing income inequality over generations.    (3)

Provided by dse.life

**Marks**

12. (a) The geographical mobility of the low-skilled workers from the EU would be lower. (3)
Because those workers from the EU are less likely to go to work in the UK.

(b) <u>Verbal elaboration:</u>
– The new visa requirement increases the labour cost, resulting in a drop in (2)
SRAS.
– Political uncertainty results in a drop in investment and AD. (2)
– Aggregate output drops. (1)

<u>Illustrate in the diagram:</u>
– leftward shift of AD curve (1)
– leftward shift of SRAS curve (1)
– lower output (1)
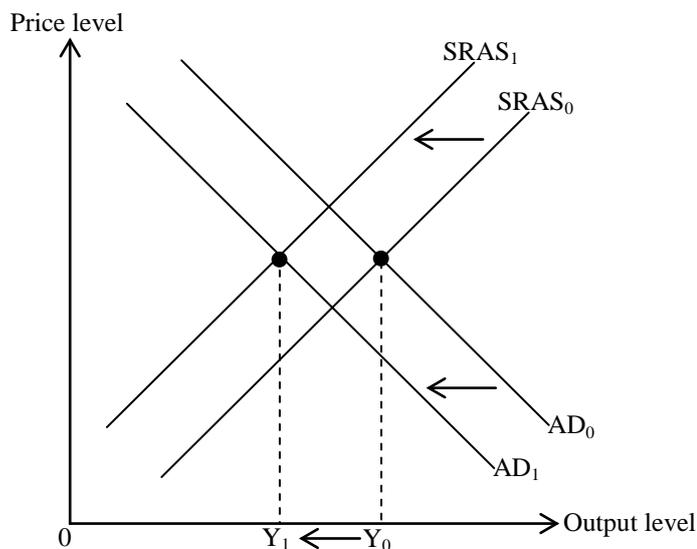


(c) <u>Components of current account:</u>
– Invisible trade: the increase in cost of travel will result in a fall in the number of
visitors to EU and hence the import of service.
– Factor income (primary income): fewer workers working in EU will result in a
drop in wage payment to British workers.
– Unilateral transfer (secondary income): fewer workers working in EU will result
in a drop in workers' remittance back to Britain.

@2
max: 4

**Marks**

13. (a) (i) Tertiary production. (1)

(ii) GDP rises as it is the consumption expenditure by Mr Chan spent on final goods and services. (2)

(b) (i) <u>Proposal A's effect</u> on aggregate output:
AD drops because disposable income drops and thus consumption drops. As a result, output drops. (4)
[SRAS might drop due to the disincentive effect on working incentive of the tax]

<u>Proposal B's effect</u> on aggregate output:
There will be no extra effecton aggregate output as there is no change in AD/AS components. (2)

(ii) <u>Proposal A's effect</u> on income distribution:
In general salaries tax payers (higher income group) pay more tax while non-tax payers (lower income group) are not affected. (2)
High income tax payers pay more, low income tax payers pay less. (2)
The after-tax income inequality is reduced. (1)

<u>Proposal B's effect</u> on income distribution:
No change in existing tax structure result in no extra effect on current tax payers, so the income inequality is unaffected. (2)
Reduction of fiscal reserves may result in a rise in tax in the future, so future tax payers may pay more. (2)

(iii) <u>Proposal A's effect</u> on other variables:
- Price level will drop as AD drops. (2)
- Unemployment may increase as AD drops. (2)
- Any other relevant point

<u>Proposal B's effect</u> on other variables:
- Government budgetary position worsening may imply tax raise in the future. (2)
- Business confidence may be worsened because the problem of fiscal sustainability may create tax burden to future generations and so investment may be reduced. (2)
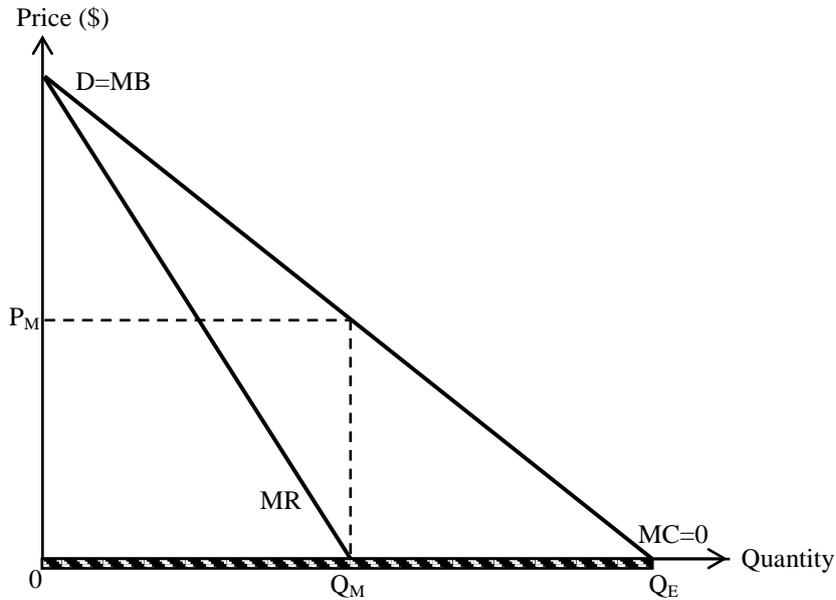- Any other relevant point

Note: The maximum marks for part (b) is 10.

**Section C**

<div align="right">

**Marks**

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14. (a) (i) <u>Illustrated in the diagram:</u>
- Correct position of MR (1)
- Correct position of $Q_M$ (1)
- Correct position of $P_M$ (1)

Price ($)

D=MB

$P_M$

MR

MC=0

Quantity

0       $Q_M$       $Q_E$

<u>Verbal elaboration:</u>
HK ONLINE would produce at a quantity where MR=MC=0. (1)

(ii) – Correct position of $Q_E$ (1)

(b) (i) Yes. (3)
New and existing customers are charged different prices for the same services with the same cost.

(ii) No. (3)
A lower price is charged because the cost of production is lower (e.g. lower administration cost/marketing cost/ installation cost etc.)

(c) (i) Market sharing/market allocation. (1)

<u>Motives:</u>
- Firms face less competition in their assigned markets.
- They can raise prices in their own markets and earn more profit.
- Firms can reduce their marketing cost as they only focus on their own markets.
 [Mark the FIRST TWO motives only.]

@1
max: 2

(ii) The first conduct rule. Because it is a case of an anti-competitive agreement. (2)

**Marks**

15.
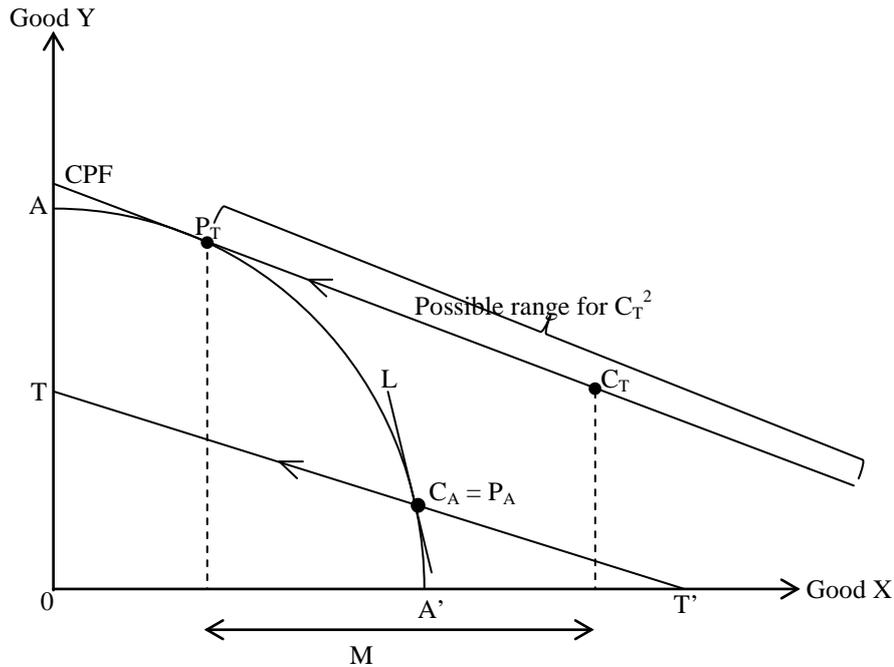


(a) (i) <u>Illustrated in the diagram:</u>
correct position of $C_A$ = production point $P_A$ (1)

<u>Verbal elaboration:</u>
Without trade, Country A can only consume its own production. (1)

(ii) <u>Illustrated in the diagram:</u>
Correct position of the straight line (1)

<u>Verbal elaboration:</u>
– Slope of L is the marginal cost of Good X. (1)
– L is steeper than TT'. (1)
  That means marginal cost of producing Good X is higher than the world price of (1)    max: 3
  Good X.
  So Country A did not have a comparative advantage in producing Good X (1)

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[2] The knowledge of the convex indifference curve is not required.

**Marks**

(b) (i)    <u>Illustrated in the diagram:</u>
   –   Correct position of $P_T$                                                          (1)
   –   Correct position of CPF                                                            (1)

   <u>Verbal elaboration:</u>
   –   Country A would produce at $P_T$ where TOT = domestic marginal cost of            (1)
       production.

(ii)   <u>Illustrated in the diagram:</u>
   –   Correct position of $C_T$                                                          (1)

   <u>Verbal elaboration:</u>
   –   Country A can consume at a point which is unattainable under local                (1)
       production before trade.

(iii)  <u>Illustrated in the diagram:</u>
   –   Correct position of M                                                             (1)

(c) (i)    –   enhance economic growth (reflected by  higher per-capita real GDP growth     (1)
              rate) because
              external trade increase the aggregate demand and hence real GDP.            (1)

(ii)   –   no change in economic development (reflected by the same HDI) because         (1)

              more people may leave school earlier to take part in trading and decreased the   (1)
              average years of schooling.
              <u>or</u>                                                                    <u>or</u>
              more pollution caused by more production after trade / new disease or virus   (1)
              brought by foreigners may shortened the life expectancy at birth.