Candidates' Performance

Candidates' overall performance was good. The mean score of this paper was 28 out of 44. The following questions deserve special attention.

Q.15 The average waiting time for public housing is 4.7 years according to the data from the Housing Authority. Which of the following would lead to an increase in the waiting time for public housing in the long term?

A.	a financial aid offered to low-income families renting private residential flats	(6%)
*B.	a rise in the income limit of applying for public housing	(47%)
C.	a relaxation of rules regulating the change of land use	(36%)
D.	a provision of shared-housing units by a billionaire for the applicants of Comprehensive Social Security Assistance Scheme	(11%)

At the existing price, there is an excess demand for public housing. Relaxation of land-use regulations would probably raise the supply of land for public housing, allowing the Housing Authority to build more public units in the future. Other things being constant, an increase in future supply would result in a smaller shortage—or shorter waiting time—in the long term. Option C is thus incorrect. On the other hand, a rise in the income limit of applying for public housing would increase the number of eligible citizens, hence the demand—and waiting time—for public housing.

Q.40 A Hong Kong resident works for a Mainland company located in Shenzhen and he earns a monthly wage. He receives dividend from Hang Seng Bank and rental income from a leased apartment in Mongkok as well. He took a flight to Seoul departing from the Hong Kong International Airport last month.
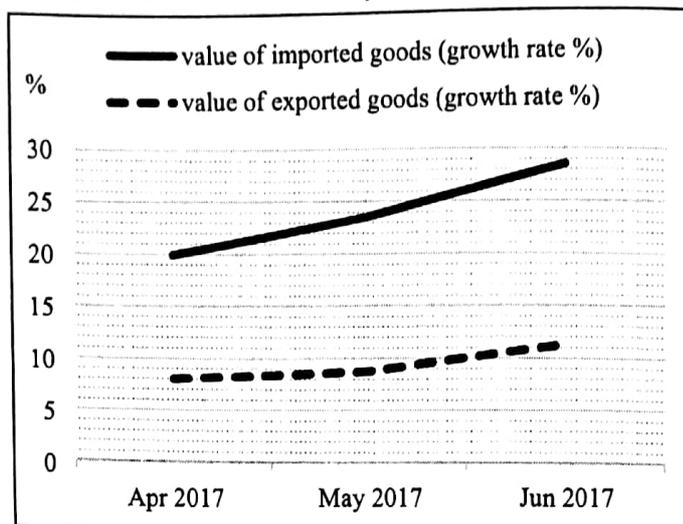
Which type(s) of direct tax does he need to pay in Hong Kong?

(1) property tax
(2) profits tax
(3) salaries tax
(4) air passenger departure tax

*A.	(1) only	(24%)
B.	(1) and (4) only	(58%)
C.	(1), (2) and (3) only	(9%)
D.	(2), (3) and (4) only	(9%)

Knowing that no profits tax and salaries tax are required to pay in Hong Kong in this case, most candidates were able to rule out Options C and D. But many of them overlooked the key words 'direct tax' and mistakenly picked Option B, revealing that either they were careless in reading the question or they did not realise that air passenger departure tax is an indirect tax rather than a direct tax.

Q.42 The diagram below shows some trade data of Country A in the second quarter last year.

Country A reported a trade surplus during that period. Based on the given information, we can conclude that during the second quarter last year,

A. the trade balance was in deficit.
B. the volume of imported goods increased faster than that of exported goods.
C. the visible trade surplus decreased.
D. the current account deficit increased.

This item was deleted as it did not effectively assess candidates' knowledge and understanding of trade balance. Most candidates were able to rule out option A as it is stated explicitly in the question that 'Country A reported a trade surplus'. However, some candidates might have confused the values of imported/exported goods with their corresponding volumes (ignoring their corresponding prices), and wrongly selected Option B as their answer. Candidates who had correctly interpreted the information from the diagram might have concluded that the visible trade surplus decreased and hence chose Option C. Such conclusion had overlooked the possibility that the initial value of exported goods might be many times bigger than the initial value of imported goods in the first quarter of 2017, so that even though the former grew at a slower rate than the latter, their difference (i.e. the trade surplus) could still increase in the second quarter of 2017. As for Option D, since information about trade balance was not sufficient for deducing any conclusion about the current account balance, candidates should not have chosen this as their answer.

Q.44. The Hong Kong Tourism Board organised the E-sports and Music Festival in summer 2017. Foreign E-sports players and K-pop superstars participated in the festival and they attracted locals and tourists from other parts of the world to attend the event. Organising the festival will lead to

(1) an increase in private consumption expenditure in Hong Kong.
(2) an increase in export of services in Hong Kong.
(3) a decrease in balance of payment deficit in Hong Kong.

*A.	(1) and (2) only	(46%)
B.	(1) and (3) only	(8%)
C.	(2) and (3) only	(8%)
D.	(1), (2) and (3)	(38%)

Most candidates were able to identify the effects of the festival on private consumption expenditure and export of services in Hong Kong. However, many of them drew an incorrect conclusion about its effect on the balance of payments (BOP). To explain why statement (3) is incorrect, one merely has to either (a) recall the fact that Hong Kong has recorded BOP surpluses in recent years, or (b) understand that a project involving both payments to foreign countries (e.g. factor incomes paid to foreigners) and payments from foreign countries (e.g. export of services) in the current account would lead to an ambiguous effect on the BOP.

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Paper 2

Section A

Q. number	Performance in General
1	Satisfactory. Many candidates gave an accurate definition of full cost, and correctly pointed out that the full cost of traveling abroad during holiday periods might be lower than that during non-holidays. However, some candidates failed to provide detailed explanations. For instance, they did not refer to the higher monetary costs and, in contrast, possibly lower time costs during holidays (relative to non-holidays), so that overseas travels might end up being cheaper during holiday periods if time-cost saved outweigh the extra monetary costs.
2(a)	Excellent.
2(b)	Satisfactory. Most candidates correctly identified Mary's role as an entrepreneur. Some candidates wrongly treated Mary as capital because she provided (financial) capital to the company. A small number of candidates tried to provide a reason behind Mary's role as an entrepreneur as she takes part in making business decisions. This, unfortunately, was contradictory to the information provided in the question.
3	Satisfactory. Many candidates were aware that clustering of an industry could bring joint benefits. However, some were unable to either (a) specify the types of costs that could be lowered or (b) relate their discussions to the reduction in the average cost of production. A small number of candidates confused the concept of external economies of scale with that of internal economies of scale.
4	Good. Most candidates were able to list two factors leading to income inequality, but only some managed to provide proper explanations. Instead of simply quoting terms like racial or sex discrimination, candidates were required to elaborate on the different kinds of discrimination that may prevail in the economy. Furthermore, instead of making vague statements like 'physical attributes affect income', they were required to explain specifically which type of people — with which kind of physical attribute (e.g. height / fitness / appearance) — would earn higher income on average.
5(a)	Fair. Common errors include: - confusing the elasticity of supply with the elasticity of demand; - comparing the percentage changes in price (wage rates) and in quantity demanded for medical staff to infer about the resulting change in total revenue (total cost of medical staff).
5(b)	Good. Many candidates demonstrated a good understanding of the 'unemployment rate' formula and of how the change in government policy would affect each of the variables in the formula. Only a small number of candidates failed to state the formula or forgot that the unemployment rate should be in percentage terms.
6(a)	Satisfactory. Some candidates did not realise that a change in the profits tax rate would affect the firm's incentive to invest and thus profits from its investment (tax base) as well. Some argued erroneously that the working incentive of labour would be affected. Among those who correctly identified the positive effect of the reduction in profits tax rate on income, some failed to specify clearly the condition for the profits tax revenue to increase.
6(b)	Fair. Most candidates were able to name one principle of taxation. But only some candidates made use of the information provided in the question to discuss whether the new tax system was consistent with their chosen principle. Some misunderstanding regarding the principles was evident. This included the misinterpretation of the concepts of - 'equity' as a requirement for tax payers with bigger profits to be charged at higher tax rates and; - 'economy' as a reduction in the firm's profits tax payments due to a lower tax rate (8.25% instead of 16.5%) on the first $2 million of earned profits (the first tier).
7(a)(i)	Good. A minority of candidates mistakenly thought that the central-bank purchase of government bonds from the public would reduce the amount of cash in circulation.

Q. number	Performance in General
7(a)(ii)	Good.
7(a)(iii)	Fair. Many candidates were able to start by calculating the required reserve ratio, but unable to apply their knowledge of money and banking correctly to handle this somewhat unfamiliar case. The following is a list of mistakes and omissions evident in some candidates' work: - failing to realise that the $40 million purchase of government bonds by the central bank should provide additional reserve for banks to carry out credit creation; - mis-reading the question: some candidates merely calculated the maximum possible amount of (new) money supply, without finding the maximum possible *change* in money supply as required by the question.
7(b)	Good. A small number of candidates did not state their assumptions when discussing the quantity theory of money (QTM), while some failed to indicate clearly the prediction of QTM regarding the change in the general price level.
8(a)	Good. The only problem was the inaccuracy in the units in which some candidates stated their answers.
8(b)	Fair. Most candidates were able to provide the meaning of comparative advantage, but only some of them managed to state the principle of comparative advantage clearly and correctly. For instance, some failed to associate it with 'lower opportunity cost.'
8(c)	Fair. Some candidates were unable to express the inequality — i.e. the range of terms of trade (TOT) — in proper units, while some expressed it in the reverse direction. Some others did not realise that the transportation cost would raise the lower bound, but also lower the upper bound, of the TOT range.
9	Excellent. Only a minority of candidates failed to indicate the new equilibrium point correctly — i.e. at the intersection of the new AD and new LRAS curves.

Section B

Q. number	Performance in General
10(a)	Excellent.
10(b)	Excellent. Most candidates were able to explain their answers by using the concept of purchasing power of money or real value of wage.
10(c)	Good. Many candidates correctly drew the minimum wage at a level higher than the market-clearing wage (i.e. above the intersection between the supply and demand curves). However, some diagrams were either incomplete — with missing labels (e.g. D, S, or W) — or inaccurate — failing to highlight the 'deadweight loss' area. In their verbal explanations, a few candidates were unable to state the inefficiency condition: marginal benefit > marginal cost.
10(d)	Fair. Common mistakes included: - misconceiving that foreign domestic helpers in Hong Kong and China are in joint supply; - mistaking the effect of China's open door to Filipino domestic helpers as being an increase in the demand for (instead of a decrease in the supply of) these maids in HK; - overlooking the information about the wage increase and failing to show such an increase in their diagrams; - showing the shortage of foreign domestic helpers only at the original minimum-wage level, but not at a higher wage level; - showing diagrammatically a relatively mild reduction in supply, resulting in a surplus (excess supply) rather than a shortage (excess demand) of helpers.

Q. number	Performance in General
10(e)	Satisfactory. There were a lot of possibilities, and many candidates made good attempts at predicting what could happen in the market.
11	Satisfactory. Most candidates were able to make use of appropriate tools to analyse the effects on Country Z. The following problems were identified: - focusing wrongly on why Country Z's living standard had been over-estimated instead of how its living standard would change; - failing to realise that the (likely) reduction in the production of consumer goods could be a reason for the drop in living standard; - mistaking the increase in the proportion of government spending on national defence for an increase in government expenditure; - mistaking a worsening in the balance of payments (BOP) for BOP deficits; - failing to indicate whether the embargo would reduce visible or invisible exports; - failing to accurately use such BOP-related terms as capital inflow/outflow, and inflow/outflow of factor incomes.
12(a)	Good. Most candidates were able to make use of the information provided as evidence to illustrate why the market for hotel services is not perfectly competitive.
12(b)	Good. Most candidates were able to identify the relevant functions of money performed by RMB in this context. However, only some of these candidates used the information provided to illustrate their answers. A small number of candidates might have misread the question and chose to discuss the functions of prices (rather than money) in their answers.
12(c)	Good. A minority of candidates mistook the inbound-tourist expenditure for private consumption expenditure.
12(d)	Satisfactory. Most candidates were able to identify the depreciation of RMB against USD and to make an inference regarding the corresponding depreciation of RMB again HKD under the linked exchange rate system. Common problems included: - providing arguments to show that the reporter was wrong instead of justifying his statement; - misinterpreting Source 3 as a depreciation of the USD; - failing to state clearly whether the RMB depreciated against the USD or HKD; - failing to relate the depreciation of RMB against HKD to the rise in prices of goods and services in Hong Kong (in terms of RMB) to the Mainland tourists.
13(a)(i)	Excellent. A minority of candidates did not read the information carefully and erroneously stated that there was an increase in the working-age population.
13(a)(ii)	Good. Most candidates pointed out that 'an increase in government expenditure on medical services and welfare' or 'a decrease in tax revenue due to a fall in the working-age population' might result from the change in population composition. Some candidates used the term 'imbalance' to describe the effect on fiscal balance. The use of this term was considered not to be sufficiently precise.
13(b)(i)	Excellent. Most candidates stated that 'advances in technology' / 'mechanisation' / 'lower production cost' / 'same output with less labour input' would result in a rise in labour productivity.
13(b)(ii)	Fair. Only some candidates were able to draw a conclusion based on a productivity comparison between the newly-imported workers and the existing workers. Some candidates did not seem to understand the definition of average labour productivity, apparently thinking that, by increasing output (via more imported workers), labour importation would help increase average productivity. Others only focused on the change in labour force, but ignored the possible change in output.
13(c)	Good. Most candidates were able to apply economic concepts and theories to recommend the nursing as a programme with better income prospects. Weaker candidates failed to explain their answers by using such terms as derived demand, wages and factor of production.

Section C

Q. number	Popularity	Performance in General
14(a)	54%	Excellent.
14(b)		Satisfactory. Some candidates did not understand the meaning of the key words 'alternative reason,' and thus gave irrelevant answers. Instead of applying clear economic concepts, some candidates only managed to provide vague arguments.
14(c)		Good. Most candidates were able to find the correct profit-maximising price (P_m) and output (Q_m) levels. Some candidates misinterpreted the phrase 'the cost of fuel is the only cost of production' as meaning zero marginal cost (MC). Others wrongly labelled the MC curve as the supply curve.
14(d)		Fair. Some candidates committed the following mistakes: - failing to identify any deadweight loss or wrongly indicating the deadweight loss before the fuel-price increase; - failing to identify the change in MC; - misconceiving a rise in fuel price as a reduction in MC; - failing to find the new equilibrium price and quantity after the rise in fuel cost even if they drew the new MC correctly.
14(e)		Good.
15(a)	46%	Good. Some candidates wrongly labelled the two intercepts as they confused the X and Y axes.
15(b)		Good. The majority of candidates were able to identify A as the country with absolute advantage in producing X. However, some candidates only wrote the definition of absolute advantage without providing an explanation in terms of the outputs of Good X produced by the two countries under the same amount of resources.
15(c)(i)(ii)(iii)		Satisfactory. Most candidates were able to draw PPF_B and to indicate P_B correctly in the diagram. Many candidates were also able to draw CPF_B and indicate C_B correctly. However, quite a number of them were unable to make use of both P_B and C_B to derive the import and export volumes. This showed the candidates' weakness in applying trade theory in a somewhat more complicated case. Some mistakes included: - failing to identify the consumption point of country A (i.e. C_A); - indicating in the diagram the import and export volumes of country B rather than those of country A; - indicating in the diagram the export volume with reference to P_A (correctly) but the import volume with reference to P_B (incorrectly); - mis-representing the import/export volume as a single consumption basket (i.e. a single point) in the diagram.
15(d)(i)(ii)		Satisfactory. In part (i), most candidates were able to explain the change in the Human Development Index (HDI) with reference to life expectancy and/or output. However, only some realised that there might be offsetting effects, resulting in the possibility of HDI changing ambiguously. In part (ii), some candidates failed to realise that differences in the productivity/health/education levels between the illegal immigrants and the original residents might result in a change in the country's HDI. Some candidates mistakenly thought that GDP (aggregate output), rather than per capita GNI, should be used in the calculation of HDI. Weaker candidates did not discuss changes in the three parameters in the HDI measure (i.e. national income, life expectancy, and education). Instead, such candidates merely gave vague arguments in their answers.

General comments and recommendations

1. Some candidates lacked a thorough understanding of basic economic concepts and principles, especially when applying them to solve hypothetical or real-life problems. Candidates should strengthen their analytical skills instead of simply regurgitating concepts and theories.

2. Some candidates did not read the questions carefully. Candidates should devote special attention to the assumptions and conditions laid down in the questions to avoid giving irrelevant answers.

3. Some candidates had difficulty in presenting their answers in a precise way. Candidates should equip themselves with better language abilities as well as graphical skills.

4. Some candidates lacked awareness of current economic issues in our society. Candidates should pay more attention to economic news.

5. Some candidates lacked skills to extract information from tables and graphs as well as to draw well-labelled diagrams. Candidates should pay special attention to the headings, labels and axes as they are essential to our understanding of the data presented therein.