

FUKIEN SECONDARY SCHOOL
S6 First Term Uniform Test (2020-2021)
Economics
(1 hour 30 minutes)

Date: 19th October 2020

Name: _____

Time: 11:00 a.m. – 12:30 p.m.

Class: _____ No.: _____

Instructions to Students

1. This paper must be answered in English.
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. This paper consists of two sections, A and B.
4. Section A is Multiple-choice Questions. There are **21** questions in this section. Attempt **ALL** questions. You should mark all your answers on the Multiple-choice Answer Sheet. All questions carry equal marks. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question. No marks will be deducted for wrong answers. The section carries 30% of the whole paper.
5. Section B is Structured Questions. There are **6** questions in this section. Attempt **ALL** questions. All answers in this section should be put in the spaces provided in this question-answer book. This section carries 70% of the whole paper.

Marker's Use Only	
Question No.	Marks
1	/ 7
2	/ 4
3	/ 6
4	/ 8
5	/ 14
6	/ 16
Total	/ 55

Section	Total Marks	Weighted Marks
A	/ 21	/ 30
B	/ 55	/ 70
Total		/ 100

SECTION A (21 marks)

There are 21 questions in this section. Answer **ALL** questions. Choose the **BEST** answer for each question.

1. According to the law of demand, _____.
 - A. people spend more on medical services when the price increases
 - B. people consume less live chicken when the price of chilled chicken increases
 - C. foreign fans buy seats closer to the stage than local fans do at concerts
 - D. the imposition of a fixed fuel surcharge decreases the average distance that taxi passengers travel
2. Which of the following shows an elastic demand for bananas?
 - A. The quantity of bananas sold decreases when consumers' income increases.
 - B. The quantity of bananas sold decreases when their price increases.
 - C. When the price of bananas increase, the quantity decreases by a smaller percentage than the price.
 - D. The total revenue for banana producers increases when there is a good harvest.
3. The supply of ginseng (人參) tends to be inelastic because _____.
 - A. its price is high
 - B. it is a luxury
 - C. it has many uses
 - D. its production takes time and the producers cannot greatly increase production in a short period of time
4. Study the following table.

Price (\$)	1	2	3	4	5
Quantity supplied (units)	10	20	30	40	50
Quantity demanded (units)	40	35	30	25	20

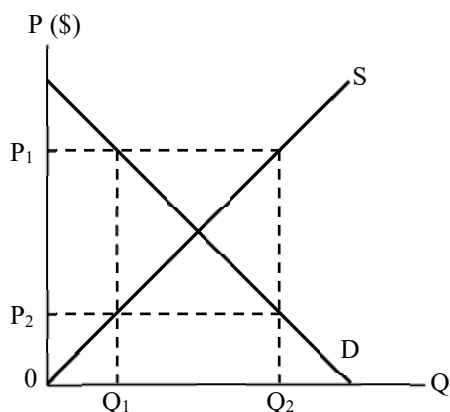
Which of the following is correct?

- A. If a price ceiling is set at \$4, the quantity transacted is 25 units.
- B. If a price floor is set at \$2, the quantity transacted is 20 units.
- C. Without any price controls, the quantity transacted is 30 units.
- D. All of the above

5. In a perfectly competitive market, the producer surplus can be maximised by _____.

- A. equating the marginal benefit with the marginal cost
- B. producing a good until the marginal cost of the last unit equals the price
- C. equating the marginal revenue with the marginal cost
- D. setting the price higher than the marginal cost

6. Refer to the following diagram.



Suppose a price ceiling is set at P_2 . Which of the following statements is correct?

- A. The shortage is equal to $Q_2 - Q_1$.
- B. There is underproduction.
- C. If the price ceiling increases to P_1 , the deadweight loss will be eliminated.
- D. All of the above

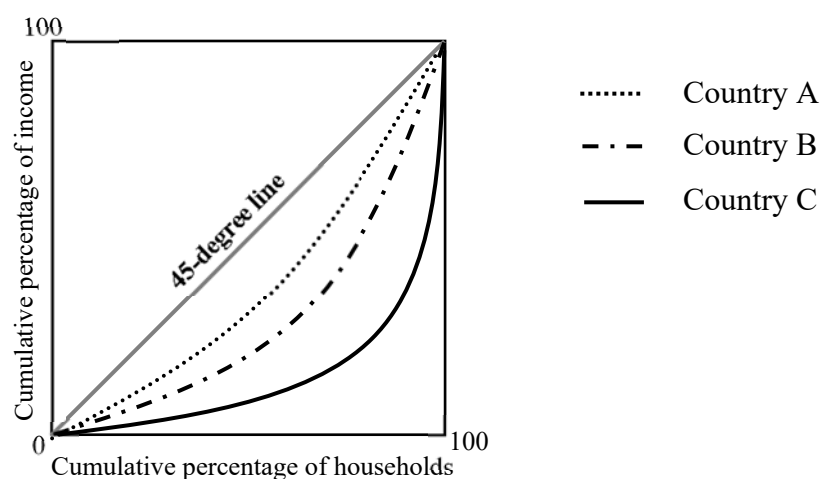
7. After the government increases an effective quota, _____.

- A. underproduction becomes more severe
- B. total social surplus may decrease
- C. the consumer surplus increases
- D. the quantity transacted decreases

8. If there is an external cost, taxation may be used to correct the market because taxation can decrease the output level by _____.

- A. decreasing the marginal social benefit
- B. increasing the marginal private cost
- C. increasing the marginal social cost
- D. decreasing the marginal external benefit

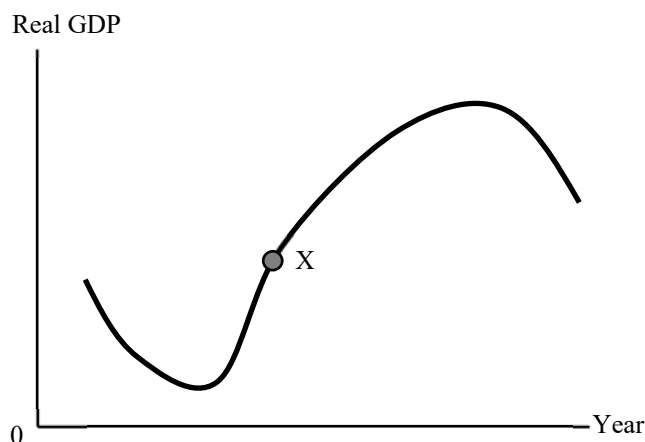
9. Beekeeper's bees help pollinate fruit trees in a nearby orchard. At the same time, the bees collect honey from the fruit trees. Which of the following is correct?
- A. As there are external benefits, there is underproduction.
 - B. The beekeeper should be paid for his pollination services.
 - C. The government should subsidise the orchard owner to improve economic efficiency.
 - D. There may be no divergence between private and social benefits.
10. The following diagram shows the Lorenz curves of Country A, B and C.



From the diagram above, we can conclude that _____.

- A. Country A's Gini coefficient is the smallest
- B. Country B's problem of income inequality is much more serious than that of Country C
- C. Country C's total income is the highest
- D. it is more likely that Country C has a minimum wage than the other countries

11. Country H is facing a large fiscal deficit and trade deficit. In the following diagram, X is in a certain phase of a business cycle.



Which of the following phenomena will likely be observed at X?

- (1) A decrease in the unemployment rate
 - (2) Deteriorating business confidence
 - (3) A decrease in the fiscal deficit
 - (4) A decrease in the trade deficit
- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only
12. Which of the following statements about the transaction demand for money is correct?
- A. Transaction demand for money is the total amount of money that an economy desires to hold.
- B. When real national income increases, the transaction demand for money will decrease.
- C. When salaries are paid weekly instead of monthly, the transaction demand for money will decrease.
- D. People hold money to conduct transactions because there is synchronisation between money receipts and expenditures.
13. Under inflation, the nominal rate of return of holding money is _____, while the real rate of return of holding money is _____.
- A. greater than zero greater than zero
- B. equal to zero smaller than zero
- C. equal to zero equal to zero
- D. smaller than zero greater than zero

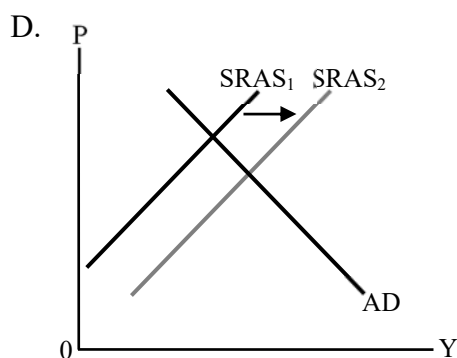
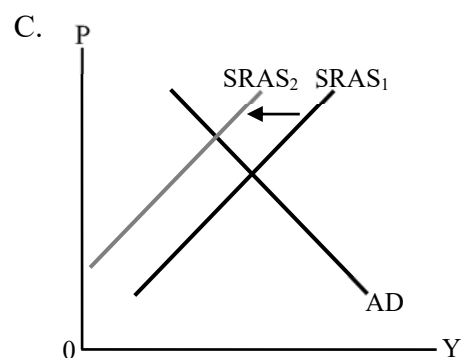
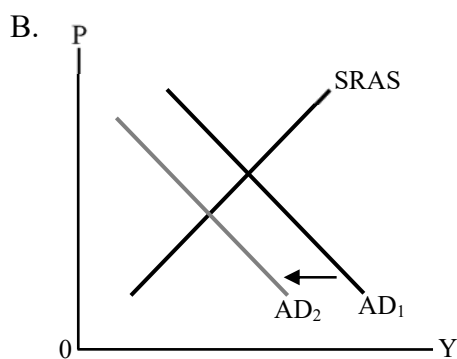
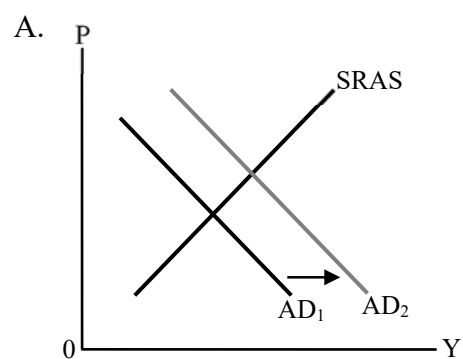
14. The expected inflation rate and the nominal interest rate are 5% and 10%, respectively. If the actual inflation rate is 6%, the actual nominal rate of return on holding cash is _____ and the cost of holding cash is _____.

- A. 0% 5%
- B. 0% 10%
- C. -5% 4%
- D. -6% 5%

15. When the demand for money increases, what can the government do to stabilise both national income and the price level?

- A. Increase government consumption expenditure
- B. Increase the required reserve ratio
- C. Decrease indirect taxes
- D. Increase the discount rate

16. Suppose the central bank increases the discount rate. Which of the following AS-AD diagrams can illustrate the effect of the above event?



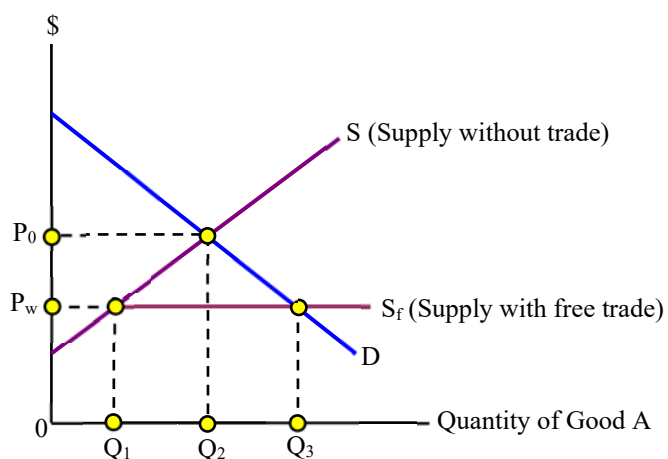
17. Suppose the central bank increases the money supply by 7% to boost the economy. Which of the following must be true according to the quantity theory of money?
- A. The nominal GDP increases by 7% in the short run.
 - B. The real GDP increases by less than 7% in the short run.
 - C. The price level increases by less than 7% in the long run.
 - D. All of the above
18. The equation of exchange tells us _____.
- A. money is neutral in the short run
 - B. the velocity of circulation of money is constant
 - C. the price level changes with the nominal money supply by the same proportion
 - D. None of the above
19. The following table shows the production combinations of Country A and Country B before they trade.

	Computer software (units)		Laptops (units)
Country A	200	AND	50
Country B	100	AND	100

Which of the following statements are correct conclusions?

- (1) Country A has a comparative advantage in producing computer software.
 - (2) Country B has a comparative advantage in producing laptops.
 - (3) Country A has an absolute advantage in producing computer software.
 - (4) Country B has an absolute advantage in producing laptops.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2), (3) and (4)
 - D. None of the above

20. Refer to the following diagram about Country T, with international trade.

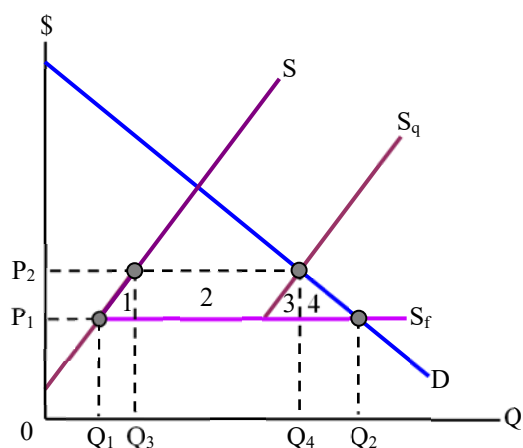


Suppose Country T is an importer of Good A and its government imposes a tariff on imports of Good A. Which of the following statements about the effects of the tariff are **INCORRECT**?

- (1) The quantity of imports will be smaller than $Q_3 - Q_1$.
- (2) Domestic consumption will not be greater than Q_1 .
- (3) The world price will be higher than P_w .

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

21. Refer to the following diagram about the market situation of Good X in Country F.



Suppose the world price is equal to P_1 and a quota (Q_3Q_4) is imposed on Good X. Which of the following statements are correct?

- (1) The actual quantity of imports decreases.
- (2) Area 2 is the change in the total value of imports.
- (3) With the quota, Country F's consumers will consume more of Good X.
- (4) With the quota, Country F's producers will sell more of Good X.

- A. (1) and (2) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (3) and (4) only

END OF SECTION A

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SECTION B (55 marks)

1. A certain country imposes a per-unit sales tax on memory cards. Explain with a well-labelled diagram how this affects the producer surplus in the digital camera market. (7 marks)

Answers written in the margins will not be marked.

2. A fast food stall producing and selling stinky tofu emits bad smell and badly affects the business of a nearby florist. Explain why the production of stinky tofu may result in inefficiency. (4 marks)

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3. To reduce income inequality, the Hong Kong Government pays low-income families living in public housing one month's rent. Tenants whose income exceeds the limit are excluded from this measure.

(a) State **TWO** possible sources of income inequality in Hong Kong. (2 marks)

(b) Do you think the government should pay the rent for low-income families to reduce income inequality? Explain. (4 marks)

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4. Country A has 5 units of resources and Country B has 20 units of resources. The following table shows the amount of food (F) and drinks (D) that Country A and Country B can produce with all of their resources.

	Country A	OR	Country B
Food (units)	25	OR	40
Drinks (units)	10	OR	20

- (a) Which country has an absolute advantage in producing food? Which country has a comparative advantage in producing drinks? Explain your answers. (4 marks)
- (b) Suppose the terms of trade is $1D = 2.2F$ and the transaction cost is $0.3F$ per unit of drinks traded. Determine whether the trade in drinks will be mutually beneficial under the following situations. (Remark: Assume there are no other costs involved.)
- (i) The transaction cost is paid by Country A. (2 marks)
- (ii) The transaction cost is shared evenly by both countries. (2 marks)

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5. Recently, the Chinese government has faced growing pressure to cut interest rates to stimulate economic growth.

(a) Without affecting China's monetary base, what monetary tool can the People's Bank of China use to cut interest rates? Suggest **ONE** tool and explain how it works. (4 marks)

(b) Based on your answer in (a) and the quantity theory of money, explain the effect of the monetary tool on the long run price level. (4 marks)

(c) Suppose China experiences a deflationary gap. With the aid of an AS-AD diagram, explain how cutting interest rates can help close the gap in the long run. (6 marks)

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6. Suppose the government of a certain city imposes a unit tax on gasoline.

(a) Explain with the aid of a diagram under what condition consumers bear more of a tax burden than producers. (6 marks)

(b) The taxi fare in the city is set by the government. It is observed that many taxi drivers wait for passengers all over the city. A taxi driver said, 'If the government abolishes the gasoline tax, the problem can be solved.' Do you agree with him? Explain your answer with the aid of a diagram. (For simplicity, the supply curve of taxi service is assumed to be upward sloping.) (7 marks)

(c) Some people suggest that the government should remove the controls on taxi fares so that the total income of taxi drivers can increase. Suggest **ONE** condition to explain why this is **NOT** necessarily true. (3 marks)

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