

FUKIEN SECONDARY SCHOOL
S5 First Term Examination (2020-2021)
Economics
(1 hour 30 minutes)

Date: 6th January 2021

Name: _____

Time: 10:30 a.m.-12:00 pm

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 **23** 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 **8** 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.

Question No.	Marker's Use Only
	Marks
1	/ 7
2	/ 4
3	/ 7
4	/ 4
5	/ 4
6	/ 9
7	/ 13
8	/ 12
Total	/ 60

Section	Total Marks	Weighted Marks
A	/ 23	/ 30
B	/ 60	/ 70
Total		/ 100

Section A Multiple-choice Questions (30%, 23 marks)

There are **23** questions in this section. Choose the **BEST** answer for each question.

1. The following is the interface of an online shopping platform.

Online Shopping Street

Product: Disinfectant (500ml)

Quantity: 1

Price: \$50

Please select the pickup method:

☐

Store pickup

☒

Home delivery (Delivery fee \$20, deliver in 1 week)

Which of the following situations would lower Jim's opportunity cost of buying a bottle of disinfectant on the above platform using home delivery?

- (1) Location of the pickup store is further than expected.
 - (2) The online shopping platform waives the delivery fee for all orders.
 - (3) The disinfectant is delivered to his home two days earlier than scheduled.
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)
2. Interest
- A. cannot be expressed in terms of goods.
- B. will not exist in one-man economy.
- C. will still exist without borrowing and lending.
- D. is not an opportunity cost.
3. The weather forecast online service provided by Hong Kong Observatory is a
- A. public good because it is provided by a government department.
- B. public good because it can be consumed by many people concurrently.
- C. free good because the cost of serving an additional person is zero.
- D. free good because people do not need to pay for the weather forecast service.

4. Which of the following statements are normative statements?

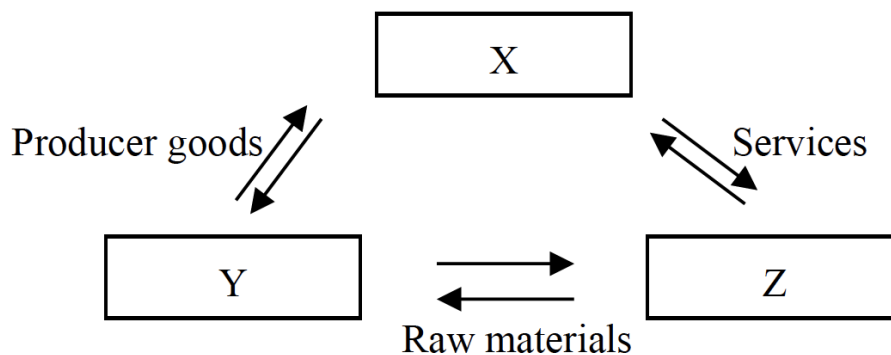
- (1) The stock of masks is not enough for all citizens in Hong Kong.
- (2) Mask producers should sell masks to the elderly first.
- (3) Retailers should not raise the price of masks when there is an outbreak of disease.
- (4) Surgical masks are more effective in preventing infection than dust masks.

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

5. Which of the following statements about a market economy is correct?

- A. All resources are allocated by price mechanism.
- B. Private property rights exist in the economy.
- C. Non-price competition does not exist in the economy.
- D. People in the economy are richer than those in a command economy.

6. The following diagram shows the relationship of the three stages of production.



X and Y stand for _____ and _____ respectively.

- A. primary production ... secondary production
- B. secondary production ... tertiary production
- C. tertiary production ... primary production
- D. tertiary production ... secondary production

7.	Firm A	Firm B
Transfer of ownership	the consent of other owners NOT required	the consent of other owners required
Continuity	continues to exist when one of the owners goes bankrupt	will be dissolved when one of the owners goes bankrupt
Sources of capital	can issue shares to the public to raise capital	cannot issue shares to the public to raise capital

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

- A. Both firms are legal entities.
 - B. Firm A is larger than Firm B in size.
 - C. Firm B is required to disclose its accounting information to the public while Firm A is not.
 - D. Owners of Firm A enjoy limited liability while those of Firm B are subject to unlimited liability.
8. Construction workers are usually paid at a daily time rate. This wage payment method is chosen because
- (1) their work are not standardized.
 - (2) the employer wants to reduce costs of counting workers' contribution.
 - (3) the employer wants to reduce costs of supervising their performance.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. To promote the development of the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區), the Chinese government relaxes the restrictions on Hong Kong citizens in the purchase of real estates in the area. Which of the following statements is correct?
- A. It will increase the occupational mobility of Hong Kong citizens because those moving to mainland China will necessarily change their jobs.
 - B. It will increase the geographical mobility of Hong Kong citizens.
 - C. It will reduce the geographical mobility of Hong Kong citizens.
 - D. It will not affect labour mobility because those who buy real estates in mainland China are retired persons.

10. Which of the following measure may raise the labour supply and average labour productivity of Hong Kong at the same time?
- A. setting statutory maximum working hours
 - B. providing a subsidy to enterprises for installing advanced machines
 - C. providing more on-the-job training for workers
 - D. relaxing licensing requirements for overseas specialist doctors to work in Hong Kong
11. The table below shows the cost-output relationship of a price-taker firm.

Total output (units)	Average variable cost (\$)
1	2
2	3
3	4
4	5
5	6

Suppose the market price is \$6 and the fixed cost is \$1. What is the profit of the firm?

- A. -\$1
 - B. \$3
 - C. \$5
 - D. \$12
12. There is an increasing trend on the usage of electronic payment systems. ApplePay, VisapayWave and MasterCard paypass are some of the examples.



Which of the following statements is correct?

- A. The maximum amount of deposits created by the banking system will decrease.
- B. The amount of monetary base will decrease.
- C. The volume of the legal tender in circulation will decrease.
- D. The electronic payment systems are regarded as money in the modern society.

13. Which of the following transactions would reduce the money supply (M2) of Hong Kong?
- A. Vanessa transfers \$800 000 from her current account in a licensed bank to her time deposit account in a deposit-taking company.
 - B. Hugo transfers \$350 000 from his savings account to his current account in a licensed bank.
 - C. Aiden withdraws \$1 200 000 deposit from his time deposit account in a restricted licence bank and puts the cash in a safe deposit box in a licensed bank.
 - D. Angus receives \$2 000 000 remittance from overseas and uses the money to purchase a certificate of deposits issued by a licensed bank.
14. Ashley wants to deposit \$800 000 as time deposit in a financial institution for two months in Hong Kong. Which of the following institutions can accept her deposit?
- (1) licensed banks
 - (2) restricted licence banks
 - (3) deposit-taking companies
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
15. Which of the following statements are correct?
- (1) When the legal reserve ratio is 100%, the money supply equals the monetary base.
 - (2) When people withdraw money from banks, the monetary base decreases.
 - (3) When the required reserve ratio increases, the monetary base remains unchanged.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

16. Initially, a banking system has an excess reserve of \$150 million and the public holds \$950 million cash. The balance sheet of the banking system is as follows:

Assets (\$ million)		Liabilities (\$ million)	
Reserves	600	Deposits	1 800
Loans	1 200		

Suppose \$250 million is withdrawn from the banking system and held as cash by the public. After the process of deposit creation/ contraction is completed, the amount of loan and money supply will be \$_____ million and \$_____ million respectively.

- A. 600 ... 1 800
 - B. 1 050 ... 2 600
 - C. 1 800 ... 2 600
 - D. 1 200 ... 2 050
17. Read the following news extract.

To encourage developers to release residential units more quickly into the market and reduce the overheat of the property price in Hong Kong, the Hong Kong government intended to introduce a new tax on vacant properties. The tax targeted at newly built flats and will be applied to properties which are unoccupied for six months in any year.

It is proposed that the tax will be levied at the rate of 200% of the property's annual rental value, calculated with reference to market rates as determined by government officers.

The tax on vacant properties is a/an _____ and _____ tax.

- A. direct ... proportional
 - B. direct ... regressive
 - C. indirect ... proportional
 - D. indirect ... regressive
18. The imposition of a lump-sum tax violates the _____ principle of taxation put forward by Adam Smith.
- A. certainty
 - B. equality
 - C. economy
 - D. convenience

19. Consider the following data:

Taxable income (\$)	Tax payment (\$)
20 000	1 000
40 000	2 400
60 000	X

If the above tax is progressive, which of the following is correct?

- A. X must be greater than 3 800.
 - B. X must be smaller than 3 600.
 - C. X may be equal to 3 800.
 - D. X may be equal to 3 600.
20. Which of the following is/ are direct tax(es) in Hong Kong?

- (1) property tax
- (2) rates on property
- (3) stamp duty on transfer of stock
- (4) estate duty

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

21. The following shows the change in the exchange rate between the Hong Kong dollar and the Euro.

15 th December	HK\$1 = Euro €0.117
31 st December	HK\$1 = Euro €0.106

If Winkie used HK\$100 000 to buy Euro on 15th December and sold it back to Hong Kong dollar on 31st December, the _____ from the investment is HK\$ _____.

- A. loss ... 9 402
- B. loss ... 10 377
- C. gain ... 9 402
- D. gain ... 10 377

22. A depreciation of British pound against Hong Kong dollar will result in

- (1) an increase in the number of Hong Kong students studying in the UK.
- (2) an increase in the total value (in terms of British pound) of Hong Kong imports from the UK.
- (3) a higher price of US dollar in terms of British pound.

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

23. Which of the following statements about the linked exchange rate system of Hong Kong is correct?

- A. The public can exchange for US dollars at the linked rate with the Hong Kong Monetary Authority.
- B. The Hong Kong dollar is linked to various currencies such as the US dollar, the Euro and the Renminbi.
- C. The market exchange rate of the Hong Kong dollar against the US dollar is determined by market force.
- D. The money supply (M3) of Hong Kong is fully backed up by the US dollar.

1. Bosco runs a stationery store on self-owned premises. He is considering whether to continue to run the stationery store. His options and the order of preference are shown below:

First preference:	to continue to run the stationery store
Second preference:	to lease out the premises
Third preference:	to sell the premises

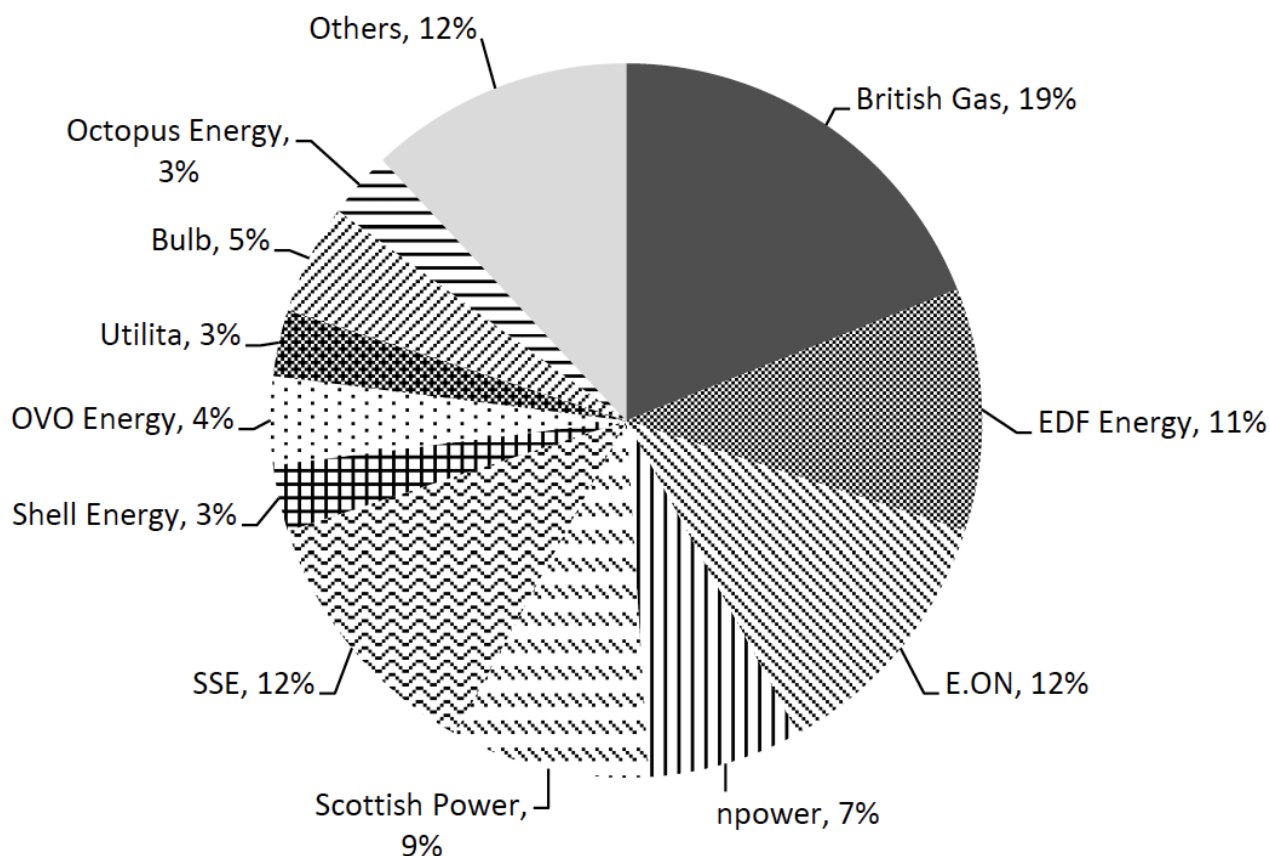
- (a) Analyse whether Bosco's opportunity cost of choosing to continue to run the stationery store will ***necessarily*** remain unchanged if
- (i) the average rent of shops in the same district increases. (2 marks)
 - (ii) the expected selling price of the premises increases. (3 marks)
- (b) Give **ONE** example of variable cost incurred in Bosco's business. Explain your answer. (2 marks)

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2. '9999 gold is preferred to diamonds when used as money.' Defend this statement with **TWO** reasons. (4 marks)

[illegible]

3. The chart below shows the market shares of the electricity supply market in the United Kingdom in the third quarter of 2019.



- (a) What was the market structure of the above electricity supply market? List **TWO** features of this market structure. (3 marks)

In 2020, the British electricity supplier EDF Energy has acquired an electric vehicle charging company, Pod Point. Pod Point has over 60 000 charging points in the United Kingdom.

- (b) To what type of integration does this belong? Explain your answer. (2 marks)
- (c) List **TWO** possible motives for the above integration. (2 marks)

4. Netflix is a video streaming service and it has also produced many movies and documentaries. In 2019, Apple Inc. and The Walt Disney Company announced respectively that they would enter the video streaming service market and produce a large number of original programs.

Give **TWO** reasons to explain why the above situation may lead to external diseconomies of scale in Netflix. (4 marks)

5. Ocean Park Corporation is wholly owned by the Hong Kong government. The company is financially independent of the government. Its main sources of income are admission fees, sales of souvenirs and catering services.

(a) State **TWO** advantages of providing the service by a public enterprise instead of a private enterprise.

(2 marks)

Instead of obtaining bank loans to finance the infrastructure development, it is suggested that Ocean Park can invite public subscription of its shares to raise capital.

(b) State **TWO** advantages of issuing shares over obtaining loans from banks for raising capital.

(2 marks)

6. The following table shows the change in exchange rate between the Australian dollar (AUD) and the Renminbi (RMB).

Date	Exchange rate
January 2019	1 AUD = 4.84 RMB
December 2019	1 AUD = 4.88 RMB

Suppose the price of Australian goods (in terms of Australian dollars) does not change.

- (a) (i) Explain how the tuition fee (in terms of Renminbi) of Australian higher education institutions would be affected. (2 marks)
- (ii) Explain how the cost of studying in Australian higher education institutions would be affected. (2 marks)
- (b) Explain, with the aid of the diagram below, how the total expenditure (in terms of Australian dollar) on Australian goods would be affected. (5 marks)

Price (in terms of Australian dollar)



[illegible]

Assets (\$ million)		Liabilities (\$ million)	
Reserves	1 000	Deposits	5 000
Loans	4 000		

(b) Calculate the amount of cash held by the public. (1 mark)

(e) Explain briefly the process of deposit deposit/ contraction resulting from the above withdrawal. (4 marks)

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8. In early 2020, there has been an outbreak of coronavirus disease.

Source A: Production data of a face mask factory

Total operating time of machines (hours)	Labour (man-hours)	Total output (units)
32	100	30 000
64	200	50 000
96	300	65 000

Source B: Message from Amazon.com

Dear friends,

This is greetings from your Amazon seller. Thank you for your order and it is our honour to have the chance to serve you. Unfortunately, it seems that we meet some unexpected problems for your order. Due to the limited supply, the Thai government has banned the export and controlled the price of face mask.


We are sorry about that. We will try to check other logistic companies in the coming days and let you know soon. Thank you for your kind understanding.

Source C: Contents of Anti-epidemic fund (extracted)

Implementing the Employment Support Scheme (\$80 billion):

- The government will provide wage subsidy to eligible employers to retain their employees. Employers have to undertake not to fire any employees.

Source D: Opinion on coronavirus disease

<p>Financial Secretary</p> 	<p>As for the fiscal deficit, we are free to discuss the source of income, stability and financial fluctuation. Sales tax is one of the considerable measures in the future.</p>
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- Refer to Source A. Explain whether the above data illustrate the law of diminishing marginal returns. (2 marks)
- Refer to Source B. Explain with **TWO** reasons why the private property rights over the Thai masks will be weakened. (2 marks)
- Refer to Source C. Suggest **ONE** basic economic problem which is involved in the above source. Explain your answer. (2 marks)
- Refer to Source D. Discuss whether each of the following groups of stakeholders would prefer the introduction of sales tax:
 - the government officials who are concerned about the stability of government revenue in Hong Kong, and
 - the poor who are concerned about the income distribution in Hong Kong. (6 marks)

[illegible]

- END OF PAPER -