



福建中學

FUKIEN SECONDARY SCHOOL

S6 Mock Examination (2020-2021)

Economics

Paper 1

(1 hour)

Date: 20th January 2021

Name: _____

Time: 8:30 a.m. - 9:30 a.m.

Class: _____ No.: _____

INSTRUCTIONS

1. Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first write your name, class and class number in the spaces provided. No extra time will be given to candidates for writing your name, class, class number and question number 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.

There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. Hoho planned to visit London in England. He was informed that there was an outbreak of the novel coronavirus in London before setting off for the city. The opportunity cost for Hoho to continue going to London would _____ because _____.
 - A. increase ... the ticket price increased sharply before setting off for the city
 - B. increase ... there was a higher chance for him to get infected
 - C. remain unchanged ... the number of days he would stay in the city did not change
 - D. remain unchanged ... tourist attractions in the city might be temporarily closed

2. The Hong Kong government runs the Universal Community Testing Programme under which Hong Kong residents can receive a COVID-19 test free of charge. To the citizens, the test is a/ an
 - (1) economic good.
 - (2) producer good.
 - (3) consumer good.
 - A. (2) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (1) and (3) only

3. Nan Fung Cotton Mills (南豐紗廠) was once the most productive textile mill in Hong Kong. Later, Nan Fung Group redeveloped the mill into an arts and retail complex. This is an example of using _____ to solve the problem of _____.
 - A. market mechanism ... 'what to produce'
 - B. market mechanism ... 'how to produce'
 - C. government command ... 'what to produce'
 - D. government command ... 'how to produce'

4. Which of the following statements about interest is correct?
 - A. There is no interest in barter economy.
 - B. Given that a person owns a lake with great natural views. The income earned by the person is interest if he organises fishing tours and charges the tourists a large sum.
 - C. Interest may not exist if people are patient to wait.
 - D. A decrease in interest rate will lead to a decrease in capital formation.

5. Which of the following is/ are the normative statement(s)?
- (1) An increase in the income tax may increase the working incentive of workers.
 - (2) Providing vocational training to the poor is more effective in helping the poor than giving lump-sum cash to them.
 - (3) Raising the tax rate on the high-income group can better improve equity than increasing transfer to the poor.
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
6. The Employees Retraining Board (ERB) has launched the Love Upgrading Special Scheme 2 (Scheme) since July 2020 to support the unemployed or underemployed to upgrade their skills. Read the following advertisement:



Which of the following statements is correct?

- A. It will increase the occupational mobility of Hong Kong citizens because those unemployed or underemployed can enhance their skills and have more chances to change jobs.
 - B. It will decrease the geographical mobility of Hong Kong citizens because those unemployed or underemployed will stay at home only.
 - C. It will increase the geographical mobility of Hong Kong citizens because those unemployed or underemployed are actively travelling around to seek for jobs.
 - D. It will not affect labour mobility because not all citizens are willing to join the scheme.
7. The labour supply of Hong Kong will increase if
- A. the legal minimum working age is raised from 15 to 16.
 - B. the government expands the scale of admitted overseas-trained doctors.
 - C. the Continuing Education Fund subsidy ceiling increases from \$10 000 to \$20 000 per applicant.
 - D. the number of statutory holidays increases from 12 days to 17 days.

8. The input-output relationship of a firm is as follows. The firm employs two factors only: workers and machines.

	Year 1	Year 2
Number of workers employed	100	110
Number of machines (units)	50	50
Number of working hours per worker per day	8.5	8
Total output (units)	4 250	4 576

Which of the following is a possible reason for the change in the firm's labour productivity?

- A. The firm uses more capital.
- B. The firm provides more training for its workers.
- C. The firm pays its workers at time rate instead of piece rate.
- D. The working environment in the firm is poorer.

9. Consider the following information:

	Firm A	Firm B
Number of owners	1	1
Legal status	legal entity	NOT legal entity

Which of the following about firm A and firm B are correct?

- (1) Firm A needs to disclose its financial statements to the public while firm B does not.
- (2) If the firm is liquidated, the owner of firm A does not need to use his personal properties to settle the outstanding debts, while the owner of firm B may need to do so.
- (3) The shares and bonds issued by firm A can be traded in the stock exchange, while firm B cannot issue shares or bonds.
- (4) The profits tax rate of firm A is higher than that of firm B.

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

10. The following table shows the cost-output relationship of a price-taking firm.

Output (units)	Total cost (\$)
2	12
3	21
4	33
5	48
6	64

Suppose the market price has decreased from \$16 to \$15. The total variable cost of the firm will _____ and its profit will _____.

- A. decrease by \$16 ... decrease by \$5
 - B. decrease by \$16 ... increase by \$10
 - C. remain unchanged ... decrease by \$5
 - D. remain unchanged ... increase by \$10
11. The table below shows the output-cost relationship of a firm in long run.

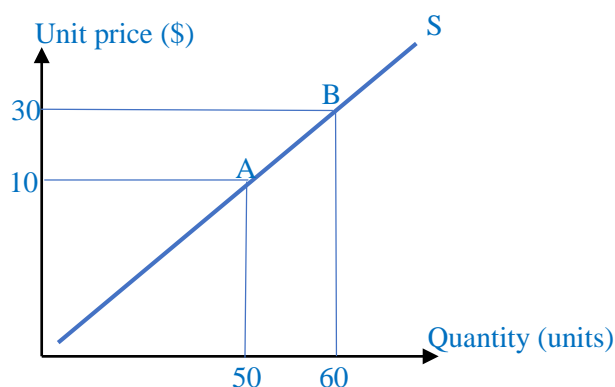
Output (units)	Total cost (\$)
0	12
1 000	21
2 000	33
3 000	48

Based on the above information, we can conclude that

- A. the firm's profit-maximising output is 3 000 units.
 - B. diseconomies of scale sets in when total output exceeds 2 000 units.
 - C. the optimal scale of production is 3 000 units.
 - D. the firm enjoys economies of scale.
12. After a famous basketball player has passed away, the prices of his second-hand signature basketball shoes have increased by around 6 times.
- The above case illustrates the _____ function of price because _____.

- A. allocative ... the prices transmit information about consumer preference to the producers
- B. allocative ... the producers can increase the supply to earn a higher profit
- C. rationing ... the shoes were distributed to the fans who love him the most
- D. rationing ... the shoes were distributed to the highest-valued buyers

13. The diagram below shows the market supply curve of good X.



The arc elasticity of supply between A and B is

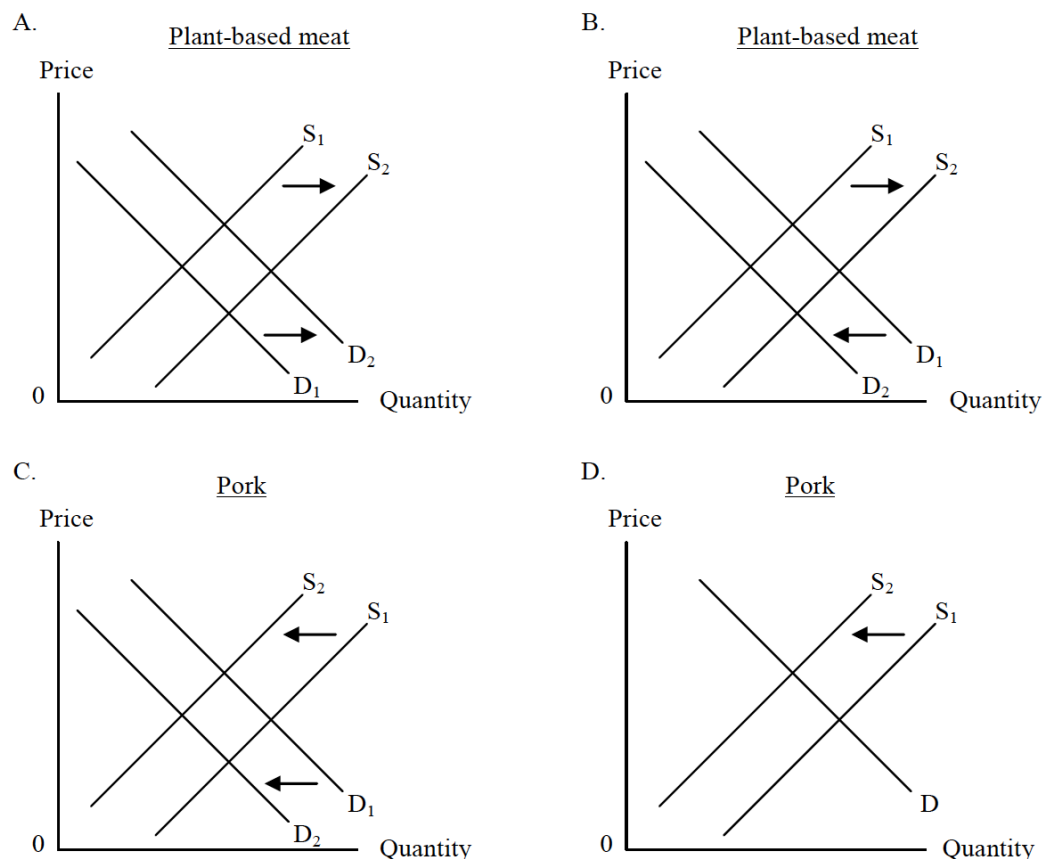
- A. 0.10.
 - B. 0.18.
 - C. 0.25.
 - D. 1.38.
14. The table below shows the ticket pricing of a concert.

Seating type	Price (\$)
Premium seat	980
Regular seat	380

Which of the following is **INCONSISTENT** with the law of demand?

- (1) When the fixed service charge for ticket purchases increases, the ratio of premium seat tickets sold to regular seats tickets sold decreases.
 - (2) When a 10% off discount is offered on ticket purchases, more people will buy premium seat tickets and fewer people will buy regular tickets.
 - (3) Audience from abroad are more likely to buy premium seat tickets than local audience.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

15. More people have become vegetarians in recent years. At the same time, the price of pig feed has increased. Which of the following diagrams could represent a result of the above events?



16. Refer to the following supply and demand schedules for good X.

Unit price (\$)	10	12	14	16	18	20
Quantity demanded (units)	9	8	7	6	5	4
Quantity supplied (units)	5	6	7	8	9	10

When the government imposes a per-unit tax on good X, the quantity transacted of good X decreased by 1 unit. Which of the following statements is correct?

- A. The total sales revenue (net of tax) decreases by \$2.
- B. The tax burden borne by the sellers is \$12.
- C. The demand for good X is more elastic than the supply of them.
- D. Within the range of the original and the new equilibrium prices, the elasticity of demand of good X is smaller than one.

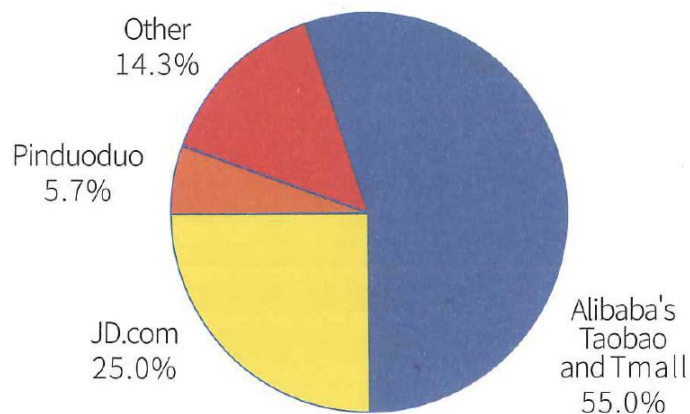
17. The government imposes a per unit subsidy on a good. The quantity transacted of the good will remain unchanged if
- (1) the demand is perfectly elastic.
 - (2) the demand is perfectly inelastic.
 - (3) the supply is perfectly elastic.
 - (4) the supply is perfectly inelastic.
- A. (1) and (3) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (2) and (4) only
18. The mother company of Japanese discount chain store Don Quijote opened its first Don Don Donki store in Hong Kong in 2019. As of September 2020, the company has opened branches in Tsim Sha Tsui, Tsuen Wan and Causeway Bay. This is an example of _____ expansion.

DON DON:
DONKI



- A. conglomerate
 - B. vertical
 - C. lateral
 - D. horizontal
19. If there is an increase in teachers' acceptance of electronic devices such as iPad or tablet due to the change in teaching method, the marginal cost of electronic devices will _____ and the producer surplus _____.
- A. increase ... will increase
 - B. increase ... may increase or decrease
 - C. decrease ... will increase
 - D. decrease ... may increase or decrease

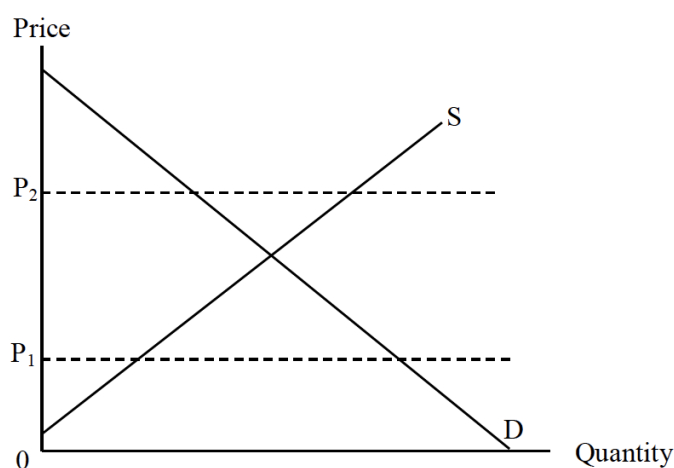
20. The chart below shows the e-commerce market share in China.



From the above chart, we can conclude that the e-commerce market is an example of _____ because _____.

- A. monopolistic competition ... sellers can affect the market price as their products are heterogeneous from consumers' perspective
- B. monopolistic competition ... non-price competition exists in the market
- C. oligopoly ... a few major sellers comprise significant total sales in the market
- D. oligopoly ... sellers are interdependent in their pricing strategies

21. Refer to the following demand-supply diagram of good X.



If the government raises the price floor of good X from P_1 to P_2 ,

- A. the producer surplus may increase.
- B. the deadweight loss will remain unchanged.
- C. the consumer surplus will increase.
- D. the excess demand for good X will be eliminated.

22. Due to a decline in the local student population, the enrolment of some self-financing post-secondary institutions is far less than the number of places available. Since the 2019/20 academic year, the government has raised the subsidy amount of the Non-means-tested Subsidy Scheme for students who enrolled Self-financing Undergraduate Studies in Hong Kong to \$31 300.

Which of the following statements are correct?

- (1) The excess supply of self-financing undergraduate programmes will decrease.
- (2) The deadweight loss will decrease.
- (3) The above measure helps equalise opportunities.

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

23. The following table shows the change in Gini Coefficient extracted from the Statistics Department.

Gini Coefficient based on	
Original monthly household income	0.539
Post-tax monthly household income	0.524
Post-tax post-social Transfer Monthly Household Income	0.473

Which of the following policies can explain the above changes in Hong Kong?

- (1) providing more public housing for Hong Kong citizens
- (2) reducing the eligible age for the elderly Government Public Transport Fare Concession Scheme from 65 to 60
- (3) raising the subsidy amount of the Public Transport Fare Subsidy Scheme

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

24. The table below shows the GDP data of an economy in two years.

	Growth rate (relative to the previous year) (%)	
	Year 1	Year 2
Per capita nominal GDP	5	5
Per capita real GDP	2	3
Population	-2	-2

Which of the following statements about the economy is **INCORRECT**?

- A. Population decreased from year 1 to year 2.
- B. The general price level increased in year 2.
- C. Real output increased in year 2.
- D. In year 2, nominal GDP was higher than real GDP.

25. Refer to the table below.

Components	\$ million
Gross national income at market price	620
Private consumption expenditure	300
Gross domestic fixed capital formation	100
Decrease in inventories	15
Net exports	105
Net factor income from abroad	-30
Capital consumption allowance	10
Indirect taxes	20

Government consumption expenditure is \$ _____ million.

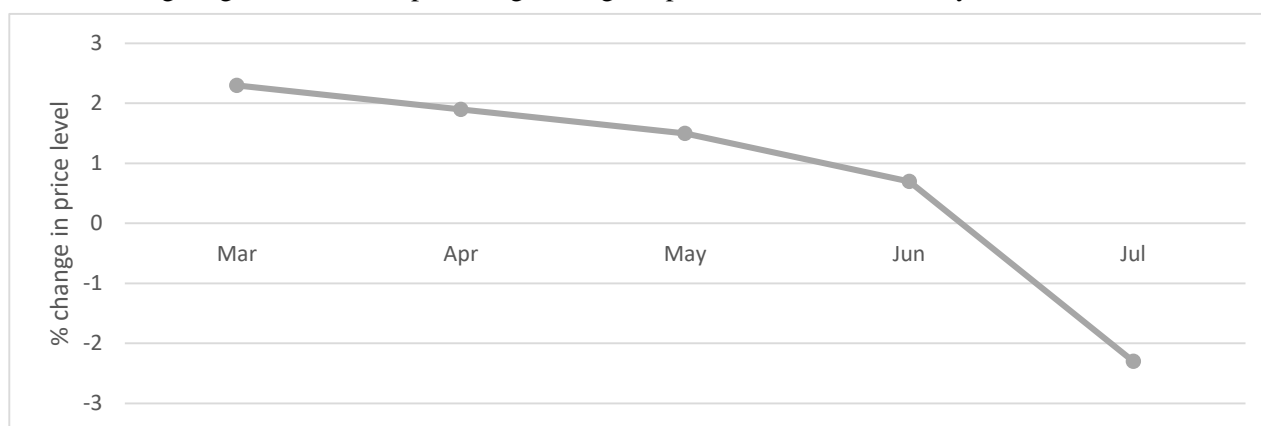
- A. 100
- B. 140
- C. 160
- D. 170

26. Which of the following are **NOT** included in the calculation of Hong Kong's GDP?

- (1) the rent earned by a Hong Kong property developer from its residential property in Japan
- (2) the estimated rental value of an owner-occupied property in Hong Kong
- (3) the dividend paid by a listed company in Japan to a Hong Kong resident

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

27. The following diagram shows the percentage change in price level of an economy:



Suppose the people in the economy did not expect any changes in price level. Based on the given information, which of the following persons will gain from June to July?

- A. flat owners repaying floating mortgage loans
- B. a holder of government Silver bonds with interest rates adjusted according to the inflation rate
- C. an employer who signs a fixed nominal wage contract with his employees
- D. a creditor who has loaned out a sum of money at a floating interest rate

28. The following is an extract of the “My Blog” from the Financial Secretary.

Hong Kong's economy is in deep water and figures are showing that the situation is getting worse. The unemployment rate increased by 0.3% to 3.7%. The decrease in retail sales value ranged from 18% to 24% over the last 6 months. According to the Census and Statistics Department, GDP grew at a negative annual rate of 2.9% in the fourth quarter of last year. I would assess the latest impact and consider suitable measures.

The above description shows that Hong Kong is in a stage of _____ in 2020.

- A. recovery
- B. prosperity
- C. recession
- D. depression

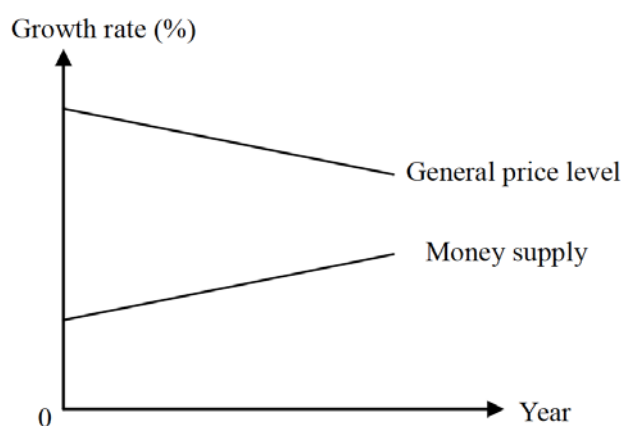
29. Some bakeries sell mooncake coupons before the Mid-Autumn Festival. These coupons can be used in exchange for mooncakes. Mooncake coupons are **NOT** money because
- A. they are not generally acceptable as a medium of exchange.
 - B. they are not issued by the government.
 - C. it is difficult to divide them into smaller denominations.
 - D. they are issued only during a particular period.
30. Cira wants to deposit \$600 000 in a financial institution for two months in Hong Kong. Which of the following institutions can accept this deposit?
- (1) licensed bank
 - (2) restricted licence bank
 - (3) deposit-taking company
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
31. Which of the following transactions would increase the money supply M2 of Hong Kong?
- A. Vennise withdraws \$1 000 000 deposit from her time deposit account in a deposit taking company and deposits the amount in a savings account.
 - B. Chloe transfers \$1 000 000 deposit from her time deposit account in a licensed bank to her current account.
 - C. Melody withdraws \$1 000 000 cash from her safe deposit box in a licensed bank and deposits the amount in her time deposit account in a restricted licence bank.
 - D. Stefannie receives \$1 000 000 remittance from overseas and uses the money to purchase a certificate of deposits issued by a restricted licensed bank.
32. Which of the following will offset the effect of widespread use of electronic payment tools on nominal interest rate?
- A. The income of citizens decreases.
 - B. The risk of holding interest-bearing assets increases.
 - C. The central bank buys government bonds in the open market.
 - D. The central bank lowers the required reserve ratio.

33. Study the following balance sheet of a banking system. The amount of excess reserves is \$80 million.

Assets (\$)		Liabilities (\$)	
Reserves	800	Deposits	3 600
Loans	2 800		

If the central bank issues newly printed banknotes worth \$150 million, excess reserves will increase by \$20 million and the cash held by the non-bank public will increase by \$100 million. The money supply of the economy will increase by \$_____ million.

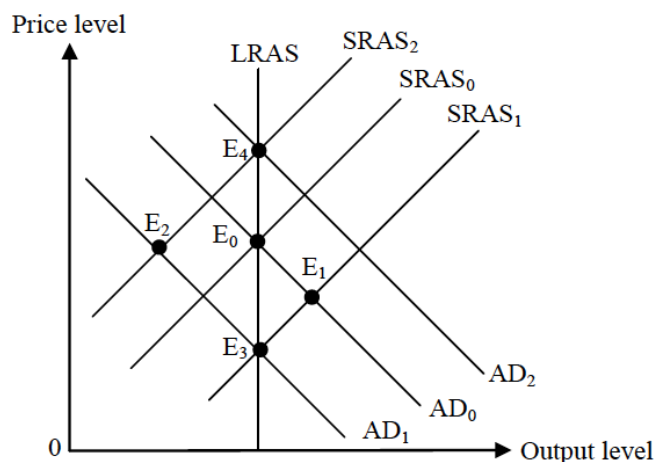
- A. 50
 - B. 100
 - C. 150
 - D. 250
34. Refer to the following diagram.



According to the quantity theory of money, which of the following statements is correct?

- A. Nominal output is decreasing.
 - B. Real output is decreasing.
 - C. Cost of living is decreasing.
 - D. The velocity of circulation of money is increasing.
35. Which of the following will lead to an increase in both aggregate output and price level in the short run?
- A. More people go travelling abroad.
 - B. There is an appreciation in the currency of the economy.
 - C. Firms expect the future price level to rise.
 - D. There is a decrease in the desire to save.

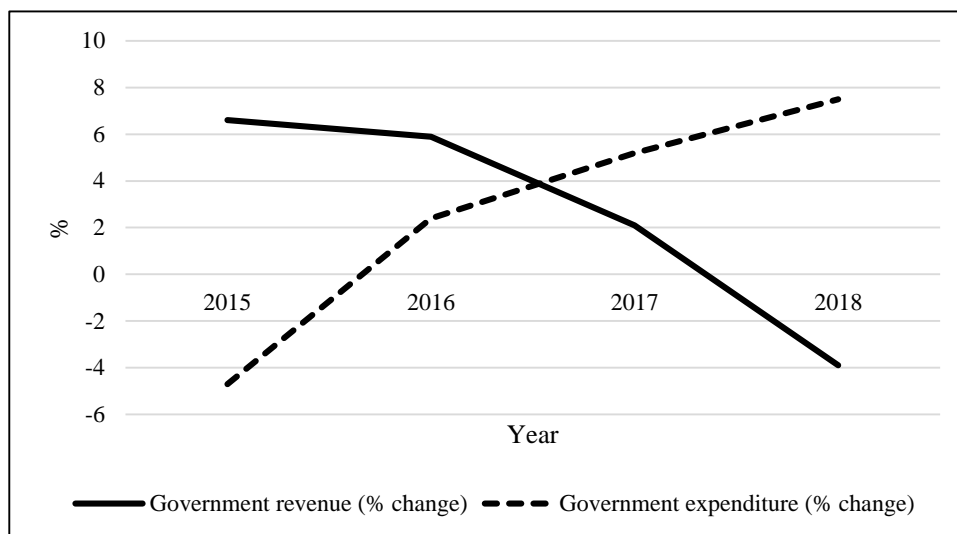
36. The diagram below shows the aggregate demand (AD) curve, short run aggregate supply (SRAS) curve and long run aggregate supply (LRAS) curve of an oil-importing country. The economy initially operates at E_0 .



If the international oil price decreases sharply, the short run equilibrium of the country will be at _____, and the long run equilibrium will be at _____.

- A. $E_1 \dots E_0$
 B. $E_1 \dots E_3$
 C. $E_2 \dots E_3$
 D. $E_2 \dots E_4$
37. Suppose economy A initially operates at long run equilibrium and the government expenditure equals government revenue. _____ will result in a fiscal surplus and a deflationary (output) gap in the economy.
- A. An increase in the profits tax rate
 B. An increase in the required reserve ratio
 C. A decrease in government expenditure on national defence
 D. An increase in tariffs on imported goods
38. Suppose there is a deflationary gap in a country. An academic suggests the government reduce the discount rate or increase the production subsidy for small-sized enterprises to restore the economy to its long run equilibrium. Which of the following is the advantage of increasing the production subsidy for small-sized enterprises over reducing the discount rate to narrow the deflationary gap?
- A. Income distribution will be more even.
 B. The unemployment rate will be lower.
 C. The real output level will be higher.
 D. The cost of living will be lower.

39. The diagram below shows some data of the government of an economy from 2015 to 2018.



During the above period, we can conclude that

- A. the economy was in a recovery.
- B. there has been a fiscal deficit since 2017.
- C. the government had to use fiscal reserves to finance the budget deficit after 2016.
- D. the government revenue in 2018 was lower than that in 2017.

40. The following table shows the data about Country A.

	Good X (units)		Good Y (units)
Total output with no international trade	80	and	40
Total output with specialisation and international trade	160	and	0
Total consumption with international trade	100	and	60

Which of the following statements about Country A is correct?

- A. Country A has absolute advantage and comparative advantage in producing Good X.
- B. The opportunity cost of producing 1 unit of Good X is 2 units of Good Y.
- C. The gain from trade of exporting 1 unit of Good X is 1 unit of Good Y.
- D. Country A can benefit from trading with Country B, whose opportunity cost of producing 1 unit of Good Y is 0.5 units of Good X.

41. The following table shows the number of man-hours required by Country A and Country B in the production of soy beans and computers.

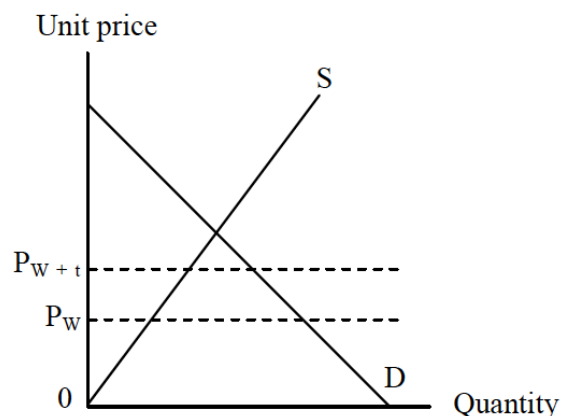
	1 unit of soy beans	1 unit of computer
Country A	1	8
Country B	2	10

Suppose the transportation cost for each unit of computers is 0.2 units of soy beans and it is borne by the importing country. Which of the following would be a mutually beneficial terms of trade between Country A and Country B?

- (1) 1 unit of computer = 5.2 units of soy beans
- (2) 1 unit of computer = 7 units of soy beans
- (3) 1 unit of computer = 8 units of soy beans

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

42. The following is the supply-demand diagram of good X in a small open economy.



Initially the world price of good X is P_W , and the economy imposes a tariff on the imports of good X at $\$t$. Suppose the world price of good X dropped by $\$t$. Which of the following statements is correct?

- A. The import volume of good X will remain unchanged.
- B. The total revenue of domestic producers will decrease.
- C. The domestic price of good X will be equal to its world price.
- D. The economy's tariff revenue will decrease.

43. Which of the following would be included in the calculation of Hong Kong's current account balance?

- (1) Expenses of a Hong Kong resident buying bonds of a British company through a local bank
- (2) Expenses of a Hong Kong athlete participating in an overseas competition
- (3) A Hong Kong resident placing an international order for a toy model through a Hong Kong agent

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

44. The following table shows the information about the balance of payments of a country.

Items	\$ million
Visible trade	55
Invisible trade	X
Net factor income from abroad	15
Capital inflow	18
Capital outflow	24
Increase in reserve assets	30

Which of the following statements is correct?

- A. There is an invisible trade surplus of \$19 million.
- B. The current account deficit is \$36 million.
- C. The balance of payments surplus is \$30 million.
- D. The country's gross domestic product is greater than its gross national income.

45. The exchange rates of the Hong Kong dollar (HKD) against the Australian dollar (AUD) and the US dollar (USD) between October and December 2019 were as follows:

Date	Price of 1 unit of AUD	Price of 1 unit of USD
October 2019	5.33 HKD	7.843 HKD
November 2019	5.35 HKD	7.830 HKD
December 2019	5.37 HKD	7.807 HKD

Which of the following would be a result of the above changes in the exchange rates?

- A. The competitiveness of Hong Kong exports to Australia would decrease.
- B. The total value (in terms of AUD) of Hong Kong exports to Australia would decrease.
- C. The prices (in terms of USD) of US exports to Australia would increase.
- D. The number of US tourists to Australia would decrease.

END OF PAPER