

FUKIEN SECONDARY SCHOOL
S5 Final Examination (2020-2021)
Economics
Paper 1
(1 hour)

Date: 17th June 2021

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

Name: _____

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 and class 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.

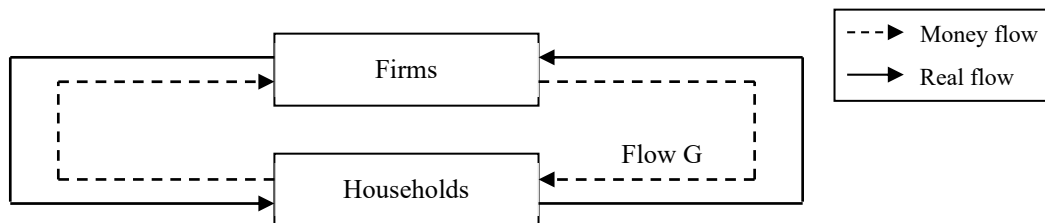
There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. Which of the following are resident producing units of Hong Kong?

- (1) A foreign domestic helper who intends to work in Hong Kong for three years
- (2) A Hong Kong branch of a French fashion store
- (3) A mainland factory established by a Hong Kong firm
- (4) A Hong Kong company established by an American

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

2. Refer to the following circular flows of an economy:



Flow G represents _____.

- A. total income distributed to factors of production
 - B. factor services provided by households
 - C. total expenditure on final products
 - D. total value of production
3. Which of the following items is included in government consumption expenditure?
- A. Work Incentive Transport Subsidy granted by the Government
 - B. Tax rebates paid by the Government
 - C. Salary paid to a public librarian
 - D. Government expenditure for building a high speed railway
4. Which of the following items can have a negative value?
- A. Exports
 - B. Net domestic fixed capital formation
 - C. Gross investment expenditure
 - D. Depreciation

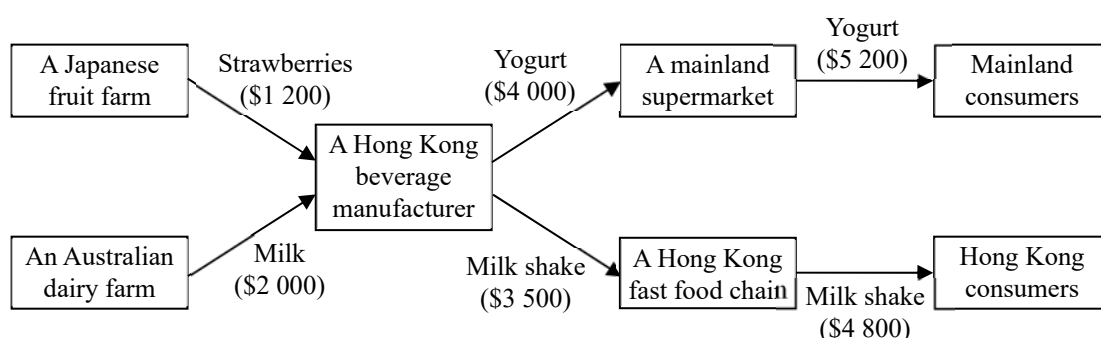
5. The following table gives statistical data about Country G.

Components of gross domestic product (GDP)	\$ billion
Private consumption expenditure	20
Government consumption expenditure	7
Net fixed investment expenditure	18
Changes in inventories	-4
Total exports	16
Total imports	10
Depreciation	2

What is the GDP at market prices for Country G?

- A. \$47 billion
- B. \$49 billion
- C. \$53 billion
- D. \$55 billion

6. The following shows a production chain in Hong Kong.



What is the above production chain's contribution to Hong Kong's GDP?

- A. \$5 600
- B. \$6 800
- C. \$8 800
- D. \$10 000

7. To find Hong Kong's GNP, which of the following items has to be added to Hong Kong's GDP?

- A. The salary of a foreign Korean teacher who works at a school in Hong Kong for two years
- B. The income earned by a Hong Kong resident from a Korean company in Hong Kong
- C. The rent received by a Hong Kong resident who lets out an apartment in Korea
- D. A Korean tourist's shopping expenses in Hong Kong

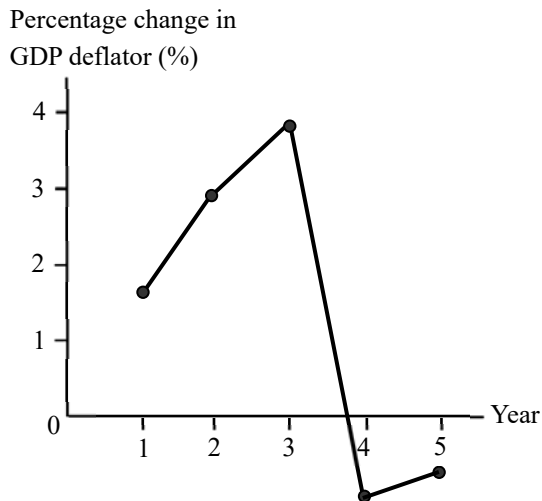
8. Country B is a closed economy which only produces fish and chips. The following table shows production information about Country B.

Year	Quantity of fish	Unit price of fish	Quantity of chips	Unit price of chips
1	50 units	\$10	100 units	\$25
4	60 units	\$5	200 units	\$10

Suppose Year 1 is the base year and the population of Country B has changed from 1 000 persons to 2 000 persons. Which of the following statements about Country B is **INCORRECT**?

- A. Its general price level has decreased from Year 1 to Year 4.
- B. Its nominal GDP has increased from Year 1 to Year 4.
- C. Its real GDP has increased from Year 1 to Year 4.
- D. Its per capita real GDP has decreased from Year 1 to Year 4.
9. If the GDP deflator fell from 105 to 100 in a certain year, this implies that _____.
- A. the deflation rate was about 4.8%
- B. the prices of all goods fell by 4.8%
- C. the general income of people increased by 5%
- D. real GDP decreased by 5%
10. Mr. Lee borrowed \$50 000 from Ms. Yeung last year and promised to repay her this year. Ms. Yeung expected the inflation rate to be 5% and charged Mr. Lee an 11% interest rate. The inflation rate turned out to be 4%. The expected real interest rate and the actual real interest rate are _____ and _____ respectively.
- A. 5% 2%
- B. 5% 4%
- C. 6% 6%
- D. 6% 7%

11. Study the following diagram about the GDP deflator in a certain city.



Which of the following is **INCORRECT**?

- (1) The city experienced inflation from Year 1 to Year 3.
- (2) The city experienced deflation in Year 4.
- (3) The city experienced disinflation in Year 5.
- (4) The general price level in Year 4 was the lowest among all five years.

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

12. Which of the following will gain if unanticipated inflation occurs?

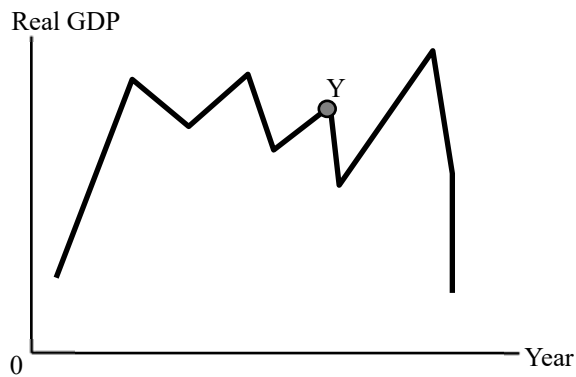
- A. Banks which set fixed deposit rates
- B. Employees who receive fixed salaries each month
- C. Landlords who receive fixed rental payments
- D. Debtors who pay monthly installments with an indexed interest rate

13. Which of the following people is/are **NOT** included in the unemployed population?

- (1) University students who want to find a part-time job
- (2) Part-time volunteer workers who are finding full-time jobs
- (3) People who involuntarily work less than 30 hours a week

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

14. In the following diagram, Y is in a certain phase of a business cycle.



_____ will remain low at Y.

- (1) The unemployment rate
 - (2) Firm inventories
 - (3) Transfer payments
 - (4) Sales receipts
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (3) and (4) only
 - D. (1), (2) and (3) only
15. The aggregate demand curve is _____ sloping because _____ when the price level increases.
- A. upward people's total expenditure increases
 - B. upward the increase in interest rates attracts firms and households to invest
 - C. downward the domestic economy imports less due to the decrease in real wealth
 - D. downward fewer goods are bought due to the drop in purchasing power of cash
16. Which of the following can explain why the short run aggregate supply curve is upward sloping?
- (1) Bound by contracts, employers cannot lower their employees' salaries immediately when output prices fall.
 - (2) When the price level increases, firms expect the price level to rise further. Thus, they produce more now and sell their products later at higher prices.
 - (3) When the price level increases, firms find it profitable to increase their output.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

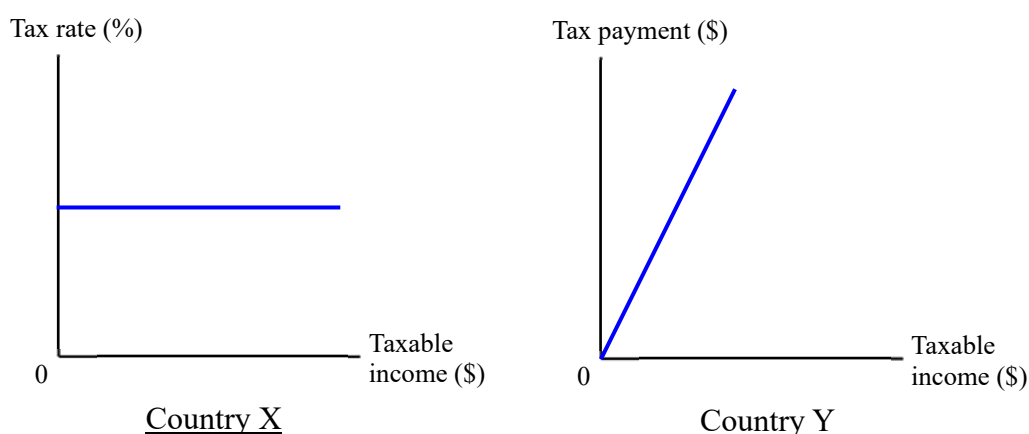
17. Which of the following will **NOT** increase Hong Kong's long run aggregate supply?
- A. Putting more effort into improving air quality in order to attract more foreign professionals to migrate to Hong Kong
 - B. Providing subsidies from the Continuing Education Fund to encourage further studies
 - C. Employing advanced computer systems at the stock exchange
 - D. Printing money
18. Refer to the following table:

Taxable income (\$)	Tax rate (%)		
	Tax A	Tax B	Tax C
1 000	10	0	20
10 000	10	15	15
100 000	10	10	10

Which of the above taxes achieves the equality principle advocated by Adam Smith?

- A. Tax A
- B. Tax B
- C. Tax C
- D. Tax A and Tax B

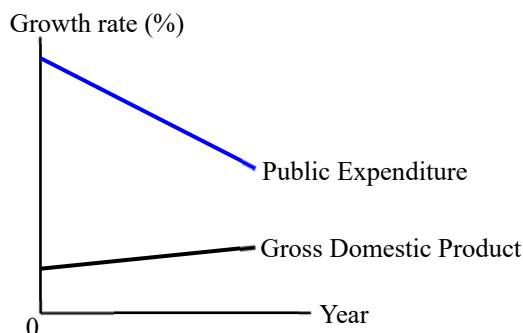
19. Refer to the following diagrams about taxes in Country X and Country Y.



According to the above diagrams, which of the following statements is correct?

- A. The tax in Country X is a proportional tax while the tax in Country Y is a progressive tax.
- B. Both taxes are a proportional tax.
- C. Both taxes are a progressive tax.
- D. The tax in Country X is a progressive tax while the tax in Country Y is a proportional tax.

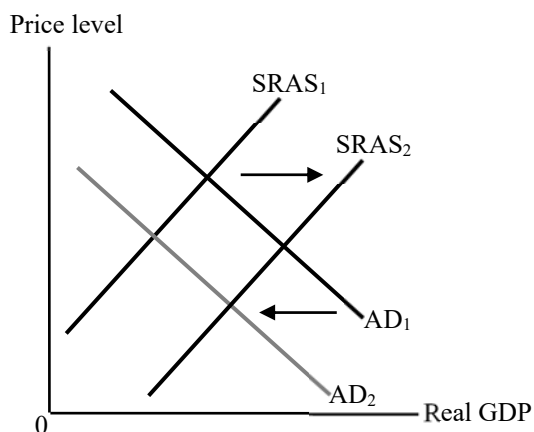
20. Study the following diagram.



During the period, the size of the public sector was _____.

- A. decreasing
 - B. increasing
 - C. first decreasing and then increasing
 - D. first increasing and then decreasing
21. In Hong Kong, which of the following events does **NOT** involve a direct tax?
- A. Alex, a licensed hawker, earns \$1 million per year.
 - B. Boyle, a foreign singer, holds a concert in Hong Kong and earns \$1 million.
 - C. Charles, a son of a rich man, receives monthly rental income of \$1 million from letting properties in Hong Kong.
 - D. Doris, a speculator, has a capital gain of \$1 million from trading shares on the Hong Kong stock exchange.

22. Refer to the following diagram.



Which of the following government policies can account for the above changes?

- A. Raising salaries tax and lowering the environmental levy on plastic shopping bags
- B. Lowering profits tax and raising property taxes
- C. Raising government expenditure and duty on gasoline
- D. Reducing transfer payments and allowances for taxpayers

23. Suppose inflation in Country P has been high for years. As a result, the function of Country P's currency as a _____ has deteriorated.
- A. medium of exchange
 - B. store of value
 - C. unit of account
 - D. standard of deferred payment
24. Which of the following functions are performed by the Hong Kong Monetary Authority?
- (1) Maximising the government's budget surplus
 - (2) Being a lender of last resort
 - (3) Managing official reserves
 - (4) Issuing \$100 notes
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (3) and (4) only
 - D. (2), (3) and (4) only
25. Which of the following statements about the three-tier system of deposit-taking institutions in Hong Kong is correct?
- A. Both licensed banks and restricted licence banks can accept time deposits.
 - B. Deposit-taking companies cannot accept deposits less than HK\$500 000.
 - C. The deposits in restricted licence banks must have three-month maturities or more.
 - D. The liquidity ratio for all deposit-taking institutions is 20%.
26. Which of the following transactions will cause a change in Hong Kong's M1 but not M2?
- A. Ms. Kwong withdraws her deposits at a restricted licence bank and holds the amount in cash.
 - B. Kelly uses all her cash to buy certificates of deposit newly issued by a restricted licence bank.
 - C. Stephen transfers his savings deposits at a licensed bank to his demand deposit account.
 - D. Robbers took the cash reserves at a branch of a bank and used the money to buy jewellery and luxury cars.
27. Which of the following will reduce the credit creation ability of a banking system?
- A. There is a recession and banks are less willing to provide loans in order to reduce their risk.
 - B. Electronic payment methods are used more widely among the public.
 - C. The demand for bank loans increases.
 - D. The actual reserve ratio decreases.

28. The following is the balance sheet of a banking system.

Assets (\$)		Liabilities (\$)	
Reserves	200	Deposits	500
Loans	300		

Suppose the banking system always holds \$100 in excess reserves. Which of the following statements is correct when the central bank lowers the required reserve ratio by 10%?

- A. The monetary base will increase by \$100.
- B. The amount of reserves will decrease by \$100.
- C. The maximum amount of deposits will increase by \$500.
- D. The maximum amount of loans will increase by \$1 500.

29. The following table gives information about a banking system.

Monetary base	\$30 billion
Cash held by the public	\$12 billion
Money supply	\$162 billion

What is the actual reserve ratio of the banking system?

- A. 9%
- B. 10%
- C. 12%
- D. 15%

30. Suppose online shopping becomes more popular and people use credit cards to make their online payments. Which of the following is the possible effect of this?

- A. A leftward shift in the money demand curve
- B. A decrease in asset demand for money
- C. An increase in the liquidity of money
- D. None of the above

31. If the time interval between two successive receipts of income _____, the transaction demand for money will _____.

- A. increases increase
- B. increases decrease
- C. decreases increase
- D. decreases decrease

32. Suppose the inflation rate is 4%, while the nominal interest rate is 5%. What is the real rate of return on holding money?
- A. -4%
 - B. -1%
 - C. 0%
 - D. 1%
33. The cost of holding money increases if _____.
- A. there is unexpected inflation
 - B. the nominal interest rate increases
 - C. the risk of holding money falls
 - D. money is more liquid than before
34. Which of the following types of assets has the highest liquidity?
- A. Savings deposits
 - B. Negotiable certificates of deposit issued by deposit-taking companies
 - C. Money in a Mandatory Provident Fund account
 - D. Government bonds
35. If the central bank raises the required reserve ratio and the nominal income level decreases, the nominal interest rate will _____.
- A. increase
 - B. decrease
 - C. remain unchanged
 - D. There is insufficient information to determine.
36. Open market sales of government bonds by the central bank will _____.
- A. reduce inflationary pressure
 - B. lower the nominal interest rate
 - C. increase the asset demand for money
 - D. increase aggregate output

37. A decrease in the discount rate _____ the cost of borrowing from the central bank. As a result, _____ increases.
- A. lowers the money supply
 - B. lowers the nominal interest rate
 - C. raises aggregate demand
 - D. raises the price level
38. Which of the following statements about monetary policy in Hong Kong is correct?
- A. The Hong Kong Association of Banks is responsible for carrying out monetary policies.
 - B. The major objective of monetary policy in Hong Kong is to maintain the exchange rate of the Hong Kong dollar.
 - C. Open market operations cannot be used in Hong Kong because Hong Kong does not have a bond market.
 - D. No monetary policy can be carried out in Hong Kong due to the absence of a central bank.
39. Which of the following statements about the quantity theory of money is correct?
- (1) The price level may change in the long run.
 - (2) Nominal GDP may change in the long run.
 - (3) Real GDP remains unchanged in the short run.
 - (4) The price level remains unchanged in the short run.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (3) and (4) only
40. The equation of exchange _____.
- A. states that total expenditure on final products is always the same as the total value of final products exchanged
 - B. predicts that changes in nominal money supply cannot affect the long run equilibrium output level
 - C. explains the total number of times that money has to change hands in order to complete transactions of final products in a year
 - D. assumes that the velocity of money circulation is constant

41. The following table shows the amount of goods that can be produced with 1 unit of resources in Country A and Country B.

	Red wine (units)		White wine (units)
Country A	4	OR	12
Country B	X	OR	18

Suppose the two countries agree to exchange 1 unit of red wine for 4 units of white wine. Which of the following **CANNOT** be the value of X?

- A. 2
 B. 3
 C. 4
 D. 5
42. Before trading, Country A and Country B use half of their resources to produce wheat and the other half to produce machines. The following table gives information about the two countries before and after they trade according to the principle of comparative advantage.

		Wheat (units)		Machines (units)
Country A	Production combinations before trade	50	AND	80
	Consumption combinations after trade	60	AND	90
Country B	Production combinations before trade	90	AND	45
	Consumption combinations after trade	120	AND	X

Suppose Country A does not keep any stock of machines. From the data above, which of the following conclusions can be drawn?

- A. The total gains from trade for the two countries are 40 units of wheat.
 B. The terms of trade is 1 unit of wheat : 1 unit of machines.
 C. The value of X is 70.
 D. There is insufficient information to determine.

43. Study the following information and answer the question.

Period	Exchange rate
Jan 2020	HKD 6.1 : AUD 1
Jan 2021	HKD 6.2 : AUD 1

HKD: Hong Kong dollar; AUD: Australian dollar

Referring to the above data, which of the following conclusions can be drawn?

- A. The Australian dollar has depreciated against the Hong Kong dollar.
 - B. The total value (in terms of HKD) of Hong Kong's exports to Australia has decreased.
 - C. The number of Australians who travel to Hong Kong has decreased.
 - D. In Hong Kong, the prices (in terms of HKD) of imported Australian goods have increased.
44. In January 2020, Ms. Fong, a mainland resident, bought an apartment for \$10 million in Hong Kong. In December 2020, she sold the apartment to a Hong Kong resident for \$15 million. This would result in an increase in the deficit or a decrease in the surplus in Hong Kong's _____ in 2020.
- A. visible trade account
 - B. capital and financial account
 - C. current transfers account
 - D. services account
45. Which of the following about Hong Kong's exchange rate system is correct?
- A. The public can always exchange HK dollars for US dollars at the rate of HKD 7.8 : USD 1.
 - B. Hong Kong's note-issuing banks can exchange HK dollars for US dollars at the linked rate through the Exchange Fund.
 - C. The HK dollar is backed by a basket of currencies.
 - D. The Hong Kong Monetary Authority can freely adjust the exchange rate to reduce unemployment.

END OF PAPER