

FUKIEN SECONDARY SCHOOL

S5 Final Examination (2020-2021)

Economics

Paper 2

(2 hours 30 minutes)

Date: 17th June 2021

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

Name: _____

Class: _____ No.: _____

Instructions to Students

1. This paper must be answered in English.
2. After the announcement of the start of the examination, you should first write your name, class and class number in the spaces provided on Page 1.
3. This paper consists of two sections, A and B. Answer **ALL** questions.
4. Write your answers in the spaces provided in the Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
5. Supplementary answer sheets will be supplied on request. Write your name, class and class number on each sheet.
6. No extra time will be given to candidates for writing your name, class, class number and question number after the 'Time is Up' announcement.

Question No.	Marker's Use Only
	Marks
1	/ 4
2	/ 6
3	/ 8
4	/ 6
5	/ 4
6	/ 8
7	/ 8
8	/ 14
9	/ 22
10	/ 24
Total	/ 104

Paper	Total Marks	Weighted Marks
1	/ 45	/ 30
2	/ 104	/ 70
Total		/ 100

SECTION A (44 marks)

1. Rice grain was one of the earliest forms of Japanese currency. Explain with **TWO** reasons why rice grain is **NOT** a good form of money. (4 marks)

2. The following is the balance sheet of a banking system. Suppose the banks now hold \$10 billion in excess reserves and the public always holds \$5 billion in cash.

Assets (\$ billion)		Liabilities (\$ billion)	
Reserves	70	Deposits	150
Loans	80		

- (a) What is the required reserve ratio in the above banking system? Show your workings. (2 marks)
- (b) Suppose all banks lend out all their excess reserve. What is the maximum possible amount of money supply in the economy? Show your workings. (4 marks)

3. The table below shows the employment statistics of a certain country.

	<u>Number of persons</u>
Population aged 15 or above	4 000 000
Employed population	3 634 800
Unemployed population	111 800
Underemployed population	55 700

- (a) Calculate the unemployment rate of the country. Show your workings. (corr. to 2 decimal place) (2 marks)
- (b) Because of the shortage of medical staff in the country, the government launches a scheme to recruit qualified medical staff, including doctors and nurses, from overseas. Suppose the medical staff from overseas do not replace any of the domestic medical staff. Explain how the unemployment rate will change. (4 marks)
- (c) State **TWO** losses of unemployment to society. (2 marks)

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4. Recently, some low-risk income-earning assets have been introduced in the market. At the same time, banks loan larger portions of their excess reserves. With the aid of a money supply-money demand diagram, explain the effects of the above events on the nominal interest rate. (6 marks)

5. Explain whether the following statements are **NECESSARILY** true.

- (a) A country will have a current account deficit when it has a capital and financial account surplus. (2 marks)
- (b) A country has a current account surplus when its net exports are positive. (2 marks)

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6. Suppose the US dollar depreciates against the Korean won and Hong Kong exports garments to Korea.

(a) Assume the price of Hong Kong-made garments in terms of Hong Kong dollars remains unchanged. Explain how the above event affects the price of Hong Kong-made garments in terms of Korean won. (2 marks)

(b) What are the effects of the above event on Hong Kong exporters' total revenue from exporting garments to Korea in terms of Hong Kong dollars? Explain your answer with the aid of a diagram. (6 marks)

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7. The following table shows the amount of resources required to produce 1 unit of clothes or food in two countries.

	Clothes	Food
Greece	20 units of resources	50 units of resources
Russia	40 units of resources	80 units of resources

- (a) Which country has a comparative advantage in producing food? Show your workings. (3 marks)
- (b) Calculate the minimum transaction cost per unit of food which will make the two countries stop trading. Show your workings. (2 marks)
- (c) Suppose 1 unit of food can be exchanged for 2.2 units of clothes. Under a situation where there is no transaction cost, calculate the gains from trade for Greece by importing 1 unit of goods. Show your workings. (3 marks)

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END OF SECTION A

SECTION B (60 marks)

8. The following table shows information about a certain city in 2020.

GDP at factor cost	\$3 975 000
GDP deflator	125
Population	8 400

- (a) The amounts of indirect taxes and subsidies in 2020 are \$150 000 and \$70 000 respectively. Calculate the city's GDP at market price in 2020. Show your workings. (2 marks)
- (b) Calculate the city's per capita real GDP at market price in 2020. Show your workings. (corr. to the nearest integer) (2 marks)
- (c) Jacky said, 'Since the per capita real GDP in 2020 is higher than that in 2019, the economic welfare of everyone in the city has improved.' Explain with **THREE** reasons why he may **NOT** be correct. (6 marks)
- (d) Explain **TWO** differences between consumer price index (CPI) and the GDP deflator. (4 marks)

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9. The following are the highlights of Hong Kong's budget for the 2021-22 fiscal year.


Relieve People's Hardship

Set Up a Special 100% Loan Guarantee for Individuals

- Provide an extra financing option for the unemployed
- Loan ceiling at **\$80,000**. Application period of **6** months
- Interest rate fixed at **1%** per annum. Maximum repayment period of **5** years
- Principal moratorium for the first **12** months. Offer reimbursement for interest paid after loans are repaid in full as scheduled

- Provide rates concession for domestic properties in 2021-22, subject to a ceiling of **\$1,500** per quarter in first two quarters and **\$1,000** per quarter in remaining two quarters
- Grant a subsidy of **\$1,000** to each residential electricity account
- Provide an extra **half-month** allowance of standard CSSA payment, Old Age Allowance, Old Age Living Allowance or Disability Allowance. Similar arrangements will apply to Working Family Allowance and Individual-based Work Incentive Transport Subsidy
- Pay examination fees for school candidates sitting for 2022 HKDSE Examination
- Earmark **\$1** billion to subsidise drainage repair works in over **3 000** old buildings

- Reduce salaries tax and tax under personal assessment for 2020-21 assessment year by **100%**, subject to a **\$10,000** ceiling



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With reference to the highlights of Hong Kong's budget for the 2021-22 fiscal year, answer the following questions.

- (a) Explain whether the rates are direct taxes. (2 marks)
- (b) An economics student said, 'The reduction of salaries tax and tax under personal assessment can effectively achieve a more even income distribution in Hong Kong.' Discuss this statement by giving **ONE** argument **FOR** and **ONE** argument **AGAINST** it. (4 marks)
- (c) Hong Kong is experiencing a serious problem of unemployment. With the aid of a diagram, explain how the provision of extra allowance can help relieve the problem. (7 marks)
- (d) Mr. Kwong said, 'Even if the government does nothing, market forces will help solve the problem of unemployment in the long run.' Justify his statement with the aid of a separate diagram. (6 marks)
- (e) What would be the effect of the implementation of Hong Kong's budget for the 2021-22 fiscal year on the fiscal balance of the Hong Kong government? Explain. (3 marks)

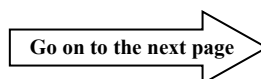
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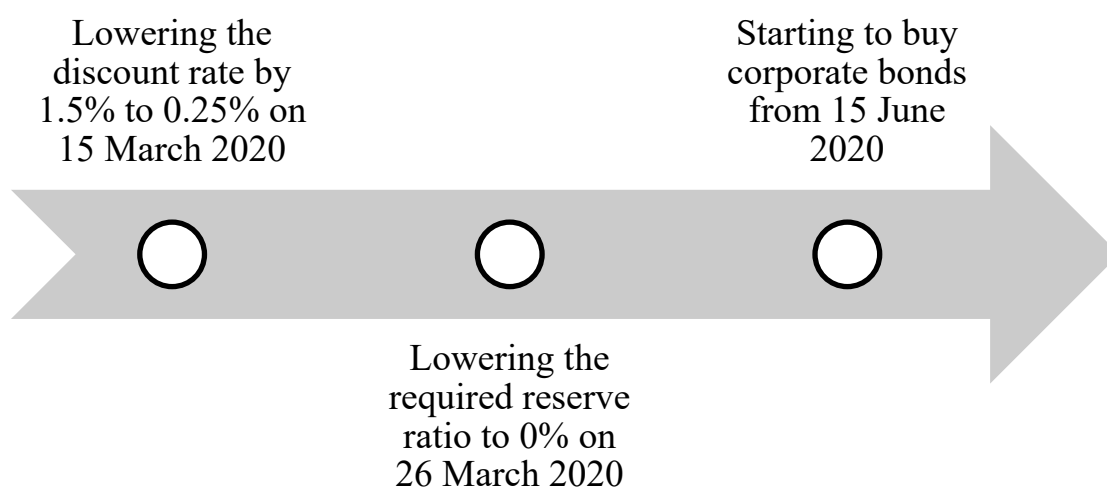


10. Hit by the effects of COVID-19 pandemic on the economy, the United States has adopted certain measures to boost the economy.

Source A: Quarter-to-quarter percentage change in the United States' real GDP from the 2nd quarter in 2019 to the 2nd quarter in 2020

2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
1.5%	2.6%	2.4%	−5.0%	−31.4%

Source B: Actions taken by the US Federal Reserve during the COVID-19 pandemic






Source C: A news article about the United States' plan to stimulate the economy

A USD2 trillion stimulus package was passed by the US Congress. The relief plan will provide up to USD1 200 in cash aid to each adult whose annual income is lower than USD99 000, while businesses will receive loans and financial assistance totaling USD500 billion. According to media reports, the United States will fund the package mainly through bond issuances. The US Department of Treasury expected the country's fiscal deficit for fiscal year 2020 to reach USD3.1 trillion due to the various measures to stimulate the economy.

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Source D: Opinions on the United States' stimulus package

 The owner of a small US firm	The financial assistance provided to businesses will lower the production cost of firms, thus increasing the profit on producing goods.
 An employee of a small US firm	The firm which I work for has suffered a huge loss of business because of the pandemic. If the firm closes down, I will become unemployed.
 A US resident	If the United States' fiscal deficit continues to increase, it is very likely that the government will raise taxes. Higher taxes will reduce young people's income after taxes in the future.

- (a) Refer to Source A. Identify the phase of the business cycle the United States was in in the above period. Apart from the change in real GDP, give **THREE** general economic phenomena which occur in this phase. (4 marks)
- (b) Based on the quantity theory of money, explain how the measures mentioned in Source B would help boost the real output of the United States in the short run. State the assumption(s) needed to reach your conclusion. (4 marks)
- (c) Refer to Source C. Should this cash aid by the government be included in the calculation of Gross Domestic Product of the United States in 2020? Explain. (2 marks)

For part (d), candidates are required to present their answer in essay form. Criteria for marking will include use of sources and economic theories, relevant content, logical presentation and clarity of expression.

(d) Suppose there are two proposals to relieve the impact of the epidemic on the United States economy:

Proposal I	Increase the scale of purchasing government and corporate bonds by the US Federal Reserve
Proposal II	Provide subsidies to small firms

With reference to the above sources and your own knowledge in Economics, discuss the effects of the two proposals above on the economy of the United States, including:

- unemployment rate,
- general price level,
- fiscal balance, and
- Income inequality.

(14 marks)

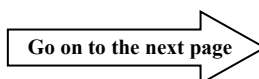
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