



福建中學

FUKIEN SECONDARY SCHOOL

S6 Mock Examination (2021-2022)

Economics

Paper 1

(1 hour)

Date: 24th January 2022

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, 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. Carmen can only choose to take a swimming course or a fencing course in her leisure time. Which of the following will increase Carmen's opportunity cost of taking a fencing course?
 - (1) The price of fencing equipment increases.
 - (2) The swimming course is taught by an Olympic swimmer instead of another coach.
 - (3) The fencing course is more interesting than Carmen expected.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Miss Ma bought a second-hand residential unit and she spent \$100 000 to renovate the unit. Which of the following would be the LEAST important factor for Miss Ma to choose between living in the unit by herself or renting it out?
 - A. The neighbours of the unit are very friendly.
 - B. Miss Ma has spent a lot of time following up the renovation project.
 - C. The average rent of residential units decreases.
 - D. High costs are involved in finding suitable tenants.

3. In a planned economy,
 - (1) private property rights are suppressed.
 - (2) there is no competition.
 - (3) there is no money.
 - (4) there are no economic goods.
 - A. (1) only
 - B. (1) and (2) only
 - C. (1), (2) and (4) only
 - D. (1), (3) and (4) only

4. A restaurant holds a sharing day every week, providing free nutritious lunch sets designed for the elderly. The above case is related to the _____ question(s) in economics.
- A. 'how to produce'
 - B. 'for whom to produce'
 - C. 'what to produce' and 'how to produce'
 - D. 'what to produce' and 'for whom to produce'
5. Tam Jai International Co. Limited was officially listed on Stock Exchange of Hong Kong on 7 October 2021. After becoming a listed company, Tam Jai International Co. Limited
- A. must pay dividends to its shareholders.
 - B. has to pay a higher profits tax rate.
 - C. has a lower risk of being taken over.
 - D. must disclose its accounting information to the public.
6. Seats in the students' study rooms under the Leisure and Cultural Services Department are normally allocated on a first-come-first-served basis. The seats in the students' study rooms are _____ because _____.
- A. public goods the government provides these seats for public use
 - B. public goods anyone can use these seats on a first-come-first-served basis
 - C. private goods there is a production cost involved in providing these seats
 - D. private goods the seats are rival in consumption
7. The following is the contract of a salesperson at a boutique.
- | |
|-------------------------------------|
| Contract |
| Hourly wage: \$50 |
| Commission: 5% of the sales revenue |
- Compared to time rate only, which of the following about the above payment method is correct?
- A. The boutique will have a lower cost of calculating wages.
 - B. The boutique can transfer part of the business risk to the salesperson.
 - C. The salesperson will have a lower work incentive.
 - D. The income of the salesperson will be more stable.

8. The table below shows the production plan of a firm. The firm employs two inputs only, namely machines and labour.

Machines (units)	Labour (units)	Total product (units)
1	3	10
2	3	25
3	3	45
4	3	66
5	3	X

Suppose the above data illustrate the law of diminishing marginal returns. The value of X _____.

- A. must be smaller than 21
 B. must be greater than 87
 C. can be 87
 D. must be smaller than 87
9. The table below shows the input-output relationship of a price-taking firm. Suppose the fixed cost of the firm is \$5.

Output (units)	Average cost (\$)
1	10
2	11
3	12
4	13
5	14

When the market price is \$16,

- A. the profit of the firm is \$12.
 B. the profit-maximising output is 2 units.
 C. the firm suffers from diseconomies of scale.
 D. the optimal scale of production is 4 units.
10. Jollibee, a fast food chain, bought shares of Tim Ho Wan (添好運), a dim sum chain, in 2018 and acquired all shares of Tim Ho Wan in September 2021. Which of the following is the LEAST likely motive behind the integration?
- A. to take advantage of brand names
 B. to spread risk by business diversification
 C. to ensure a reliable supply of factors of production
 D. to enjoy economies of scale

11. The demand for _____ can be regarded as a derived demand for _____.
- A. actors free television programmes
 - B. tutorial services tutors
 - C. coffee milk tea
 - D. doctors nurses
12. When two goods are in competitive supply, an increase in the _____ a good will result in a decrease in the _____ the other good.
- A. demand for supply of
 - B. demand for quantity supplied of
 - C. supply of demand for
 - D. supply of price of
13. As people become more aware of food safety issues, hormone-free meat becomes very popular. As a result, the price of hormone-free meat changes by 50% and its quantity transacted changes by 30%. Which of the following statements is correct?
- A. The demand for hormone-free meat is elastic.
 - B. The demand for hormone-free meat is inelastic.
 - C. The supply of hormone-free meat is elastic.
 - D. The supply of hormone-free meat is inelastic.

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

Unit price (\$)	10	12	14	16	18
Quantity demanded (units)	25	20	15	10	5
Quantity supplied (units)	5	10	15	20	25

Suppose the government lowers the price floor from \$16 to \$12. Which of the following statements is correct?

- A. The market price will drop to \$12.
- B. The quantity transacted will remain unchanged.
- C. The total expenditure on good X will increase by \$50.
- D. The shortage of good X will disappear.

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

Unit price (\$)	11	10	9	8	7	6	5
Quantity demanded (units)	16	17	18	19	20	21	22
Quantity supplied (units)	22	21	20	19	18	17	16

Suppose the government imposes a per-unit tax of \$2 on good X. Which of the following are correct?

- (1) The ratio of consumers' tax burden to producers' tax burden is 1:1.
- (2) The market price of good X increases by \$2.
- (3) Consumers' total expenditure on good X increases.

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

16. Suppose the government provides a per-unit subsidy on good X. If the demand for good X is _____ and the supply of good X is _____, the consumers' share of the subsidy will be smaller than the producers' share of the subsidy.

- A. inelastic unitarily elastic
- B. inelastic elastic
- C. elastic perfectly elastic
- D. elastic inelastic

17. The market structure of fruit stores in Hong Kong is NOT perfectly competitive because

- A. there are many fruit stores in the market.
- B. the prices of fruits are not fixed.
- C. there is no restriction on fruit stores entering the market.
- D. the fruits sold in different fruit stores are heterogeneous.

18. The bumper harvest of cocoa beans has reduced the price of chocolate. Which of the following statements are correct?
- (1) The total revenue from selling chocolate will increase.
 - (2) The consumer surplus in the market of chocolate will increase.
 - (3) The marginal benefit of the last unit of chocolate will decrease.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
19. Country A imposes an effective quota on soft drinks. Assuming that the quota is still effective, when more people worry about the impact of soft drinks on health,
- A. the consumer surplus in the soft drink market will decrease.
 - B. the producer surplus in the soft drink market will decrease.
 - C. the excess demand in the soft drink market will decrease.
 - D. the efficiency loss in the soft drink market will increase.
20. Which of the following is an example of the divergence between private and social costs?
- A. A supermarket gives out food items that are near their expiry dates for free.
 - B. A laundry shop accidentally dyed the clothes of a few customers, and the affected customers accepted compensation from the laundry shop.
 - C. A vehicle repair shop emits strong smell, and the shop does not give any compensation to affected shops nearby.
 - D. Music coming from a music school disturbs lessons of a neighbouring tutorial school, and the tutorial school and the music school are owned by the same person.

21. Which of the following will NOT lead to a decrease in the Gini coefficient based on post-tax post-social transfer monthly household income in Hong Kong?
- A. to relax the eligibility for the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities
 - B. to provide a fixed amount of electricity charges subsidy to each eligible residential electricity account
 - C. to lower the double ad valorem stamp duty imposed on buyers of a second residential property
 - D. to impose a sales tax on luxury goods
22. To calculate Hong Kong's gross national income, which of the following should be deducted from Hong Kong's gross domestic product?
- A. The salary earned by a Hong Kong resident working in the Hong Kong branch of a British company
 - B. The dividend received by a Hong Kong resident from the shares of a Japanese company
 - C. The rent paid by a Japanese to a Hong Kong resident for renting a residential unit in Hong Kong
 - D. The salary earned by a Briton working in a design company in Hong Kong for half a year

23. Consider the following information about an economy.

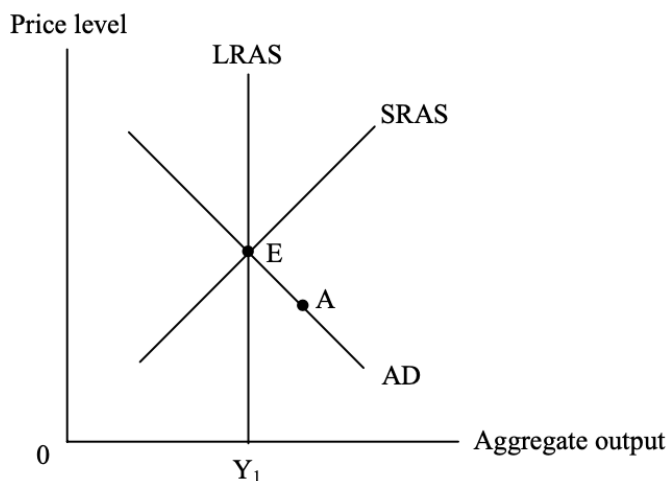
	Growth rate (relative to previous year)
Per capita nominal GDP	0%
Real GDP	-1%
Population	4%

Compared with the previous year, the nominal GDP has _____ and the general price level has _____ in the economy in the current year.

- A. increased increased
- B. increased decreased
- C. decreased increased
- D. decreased decreased

24. In which of the following situations would the per capita real GDP of a country overstate the living standard of its people?
- A. People consumed fewer non-market transacted goods.
 - B. The general price level increased sharply.
 - C. Income distribution became more even.
 - D. Population declined due to emigration wave.
25. The MTR Corporation Limited (MTR) plans to construct the Northern Link. The new line will connect the East Rail Line and the Tuen Ma Line, and a loop of railway around the North New Territories and Kowloon will be formed after the construction is completed. Which of the following will increase due to the construction of the Northern Link?
- (1) Hong Kong's GDP
 - (2) Hong Kong's geographical mobility of labour
 - (3) Hong Kong's occupational mobility of labour
 - (4) Hong Kong's potential output level
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (4) only
 - D. (2), (3) and (4) only
26. Study the following news extract.
- In April, the unemployment rate was about 5%. Many fresh graduates from universities entered the labour market and looked for jobs in May. About 10% of them had not found a full-time job by the end of May.
- According to the above information, other things being equal, the influx of fresh graduates into the labour market will
- (1) increase both the number of unemployed persons and the labour force in May.
 - (2) increase the unemployment rate in May.
 - (3) increase the number of employed persons in May.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

27. Study the following diagram.



Suppose the short run equilibrium point of an economy moves from E to A. Which of the following is a possible reason for the change in the equilibrium point?

- A. Firms' desire to invest increases.
- B. People's desire to import increases.
- C. The world price of oil decreases.
- D. The price level expected by the producer increases.

28. Which of the following will result in a leftward shift of the aggregate demand curve of a country?

- A. The central bank reduces the discount rate.
- B. The minimum wage rate is decreased.
- C. The progressivity of salary tax is increased.
- D. The central bank buys government bonds from the public.

29. As a form of money, jewels can better perform the function of a _____ than shells because jewels are more _____.

- A. store of value homogeneous
- B. store of value scarce
- C. unit of account divisible
- D. unit of account portable

30. Miss Lee plans to put \$200 000 as a time deposit for three months. Which of the following financial institutions in Hong Kong can accept her deposits?

- (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)

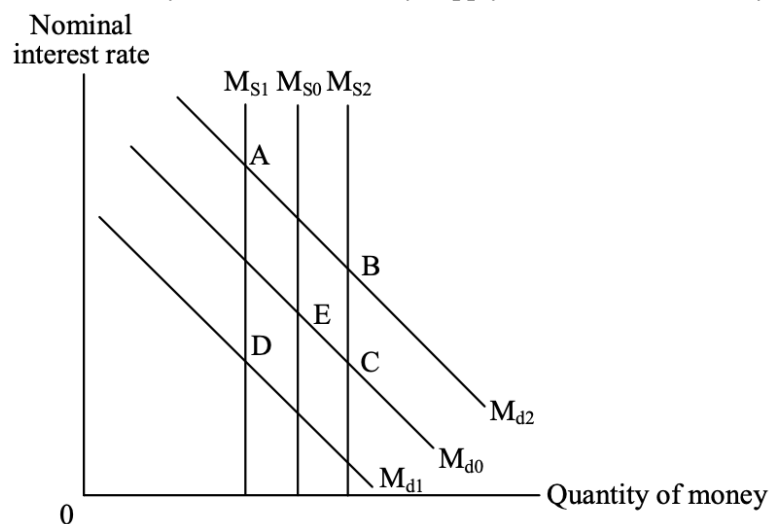
31. Study the following information.

Monetary base	\$70 million
Cash in public circulation	\$10 million
Required reserve ratio	20%
Actual banking multiplier	4

Suppose all banks loan out their excess reserves and all the loans are re-deposited into the banking system. Which of the following statements about the banking system is correct?

- A. The money supply will be \$310 million.
- B. The amount of deposits will be \$240 million.
- C. Reserves will be \$70 million.
- D. The amount of loans will be \$180 million.

32. The diagram below shows the money demand and money supply curves of an economy.



The original equilibrium point is E. Suppose most employers choose weekly payments over monthly payments. At the same time, the central bank sells government bonds to the public. The new equilibrium point will be _____.

- A. A
- B. B
- C. C
- D. D

33. The following phenomena are observed in Country A:

- (1) The investment expenditure is decreasing.
- (2) The purchasing power of money is rising.
- (3) The labour employment level is decreasing.

Country A is in the _____ phase of a business cycle.

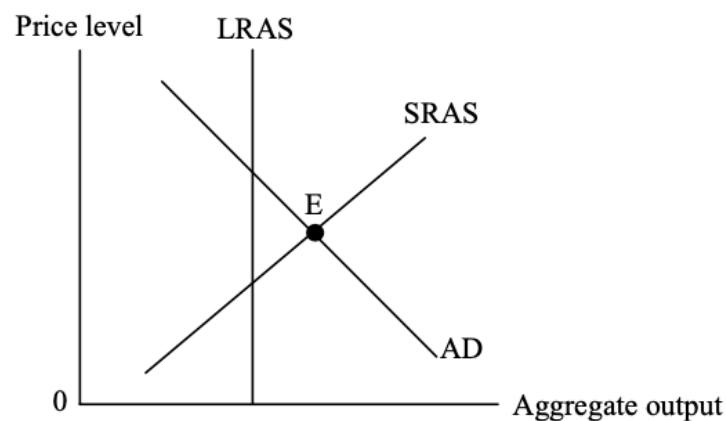
- A. recovery
- B. peak
- C. recession
- D. trough

34. Which of the following people will benefit from unexpected inflation?
- A. A flat owner who receives a fixed amount of rent
 - B. An elderly person who receives a fixed amount of Old Age Living Allowance
 - C. An employer who pays his workers a fixed monthly wage
 - D. A lender who lends money to his friend at a floating interest rate
35. Suppose the nominal interest rate is 5% and the expected inflation rate is -2% . If the actual inflation rate turns out to be 1%, the cost of holding cash and the actual real interest rate will be _____ and _____ respectively.
- A. 2% 1%
 - B. 2% 4%
 - C. 5% 1%
 - D. 5% 4%
36. According to the quantity theory of money, in the short run, if the growth rate of money supply is higher than that of the price level,
- (1) real output will increase.
 - (2) nominal output will remain unchanged.
 - (3) the velocity of circulation of money will decrease.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
37. According to the tax system of Hong Kong, which of the following income is subject to taxation?
- A. The monthly salary received by a Hong Kong resident working in Australia
 - B. The profits earned by a Frenchman operating a company in Hong Kong
 - C. The dividend received by an American holding shares of a listed company in Hong Kong
 - D. The revenue received by a Hong Kong resident selling a second-hand car

38. Which of the following would offset the effect of an increase in the discount rate on aggregate output?

- A. Security issue found in the electronic payment systems
- B. A decrease in the desire of saving
- C. An increase in the required reserve ratio
- D. A decrease in the basic allowance of the salaries tax

39. Refer to the following AS-AD diagram of an economy.



The economy initially operates at E. Which of the following policies can help the economy restore to its long run equilibrium without increasing the price level?

- A. To issue more money
- B. To sell government bonds to commercial banks
- C. To increase production subsidies
- D. To impose a sales tax

40. Which of the following policies would reduce the budget deficit and narrow the income gap at the same time?

- A. To increase the standard rate of the salaries tax
- B. To provide additional school textbook assistance to children from low-income families
- C. To increase the rent of public housing
- D. To raise the fee for public medical services

41. To improve the sewage treatment system, suppose the government imposes a sewage treatment tax on households. The amount of tax collected will be equal to the amount of expenditure on improving the system. Which of the following statements are correct?

- (1) The effect on aggregate demand will be expansionary.
- (2) In the short run, the output level will increase.
- (3) In the long run, the price level will decrease.

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

42. The following table shows the amount of umbrellas or computers that Country A and Country B can produce with ALL their resources.

	Umbrellas (units)		Computers (units)
Country A	10	OR	30
Country B	20	OR	15

Which of the following statements are correct?

- (1) Country B has an absolute advantage in producing umbrellas.
- (2) Country B will specialise in producing umbrellas and export them.
- (3) If the umbrella-producing country exports 10 units of umbrellas in exchange for 20 units of computers, the total gain from trade for umbrella-importing country is 10 units of computers.

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

43. Suppose a small open economy abolishes the import tariff imposed on good X. Which of the following will increase?

- A. The market price
- B. The quantity of imports
- C. The quantity of domestically produced good X
- D. Consumers' total expenditure on good X

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

Items	\$ million
Visible trade balance	80
Invisible trade balance	20
Net factor income from abroad	–30
Net current transfer	10
Capital inflow	30
Capital outflow	50

Based on the above information, reserve assets _____.

- A. decreased by \$60 million
 - B. decreased by \$100 million
 - C. increased by \$60 million
 - D. increased by \$100 million
45. The following table shows the change in the exchange rate of the US dollar (USD) against Indian rupee (INR).

Date	Exchange rate
1 June 2020	1 USD = 75.51 INR
1 June 2021	1 USD = 72.49 INR

Suppose the demand for imports is inelastic in both the US and India. The above change in the exchange rate will lead to _____.

- A. an increase in the total value of Indian exports to the US (in terms of the US dollar)
- B. a decrease in the total value of US exports to India (in terms of the US dollar)
- C. an increase in the competitiveness of Indian exports to Hong Kong
- D. a decrease in the number of Indian tourists visiting the US

END OF PAPER

