

S6 Mock Examination (2021-2022) Economics Paper 2 (2 hours 30 minutes)

Date: 24<sup>th</sup> January 2022 Time: 10:00 a.m. - 12:30 p.m.

# **INSTRUCTIONS**

- 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, class number and the question 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.

Name:

	Marker's Use Only
Question No.	Marks
1	/ 4
2	/ 5
3	/ 11
4	/ 6
5	/ 5
6	/ 6
7	/ 7
8	/ 12
9	/ 10
10	/ 10
11	/ 28
Total	/ 104

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

Class: \_\_\_\_\_ No. :\_\_\_\_\_

Section A (44 marks)				
1.	1. Mr. Wong is a retired secondary teacher. Recently, he has become a volunteer tutor in a community centre			
	teaching a guitar course for free.			
	Statement A: Mr. Wong works as a volunteer tutor does not involve an opportunity cost.			
	(a) Do you agree with Statement A? Explain.		(2 marks)	
	(b)	Explain whether the free tuition service provided by Mr. Wong is a free good.	(2 marks)	
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2.	Refer to the following information of two firms. The two firms produce the same product.			
			Firm A	Firm B
	Qu	antity of output per day (units)	900	750
	Nu	mber of workers	15	10
	Nu	mber of working hours per worker per day	6	5
	(a)	Explain which firm has a higher average labou	r productivity.	(3 marks)
	(b)	Suggest TWO possible reasons to explain the	difference in average labou	ar productivity between the
		two firms.		(2 marks)
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3.	3. To reduce the budget deficit, Country A decides to impose a per-unit tax on each newly completed			
	residential unit sold.			
	(a)	) Discuss how the above tax will affect the average size of newly completed residential units sold in		
		Country A. (4 marks)		
	(b)	Under what condition will the consumers bear a larger tax burden than the producers? Illustrate		
		your answer with a demand-supply diagram. (7 marks)		

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4.	With	h effect from 11 December 2020, the statutory maternity leave for eligible employees in	Hong Kong has	
	been	n extended from 10 weeks to 14 weeks.		
	Statement A: 'Extending the statutory maternity leave can raise the birth rate of Hong Kong.'			
	(a)	Explain whether Statement A is a positive statement.	(2 marks)	
	(b)	Suppose many working women choose to become full-time housewives after giving	birth. Assuming	
		the number of job positions in Hong Kong is constant, explain how this phenomenon	n will affect the	
		unemployment rate in Hong Kong.	(4 marks)	

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5. The Hong Kong government issued the sixth Silver Bond on oversubscribed more than 1.8 times and some citizens were unable to for. Suppose the quantity of Silver Bond issued and the subscription prior	10 August, 2021. The bond was obtain the quantity they subscribed ce are fixed.
(a) Illustrate the above phenomenon in a demand-supply diagram.	(3 marks)
(b) Explain why buying Silver Bond may be better than buying share	es of a listed company to the elders.
	(2 marks)

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5.	The following table shows the number of resources required by Country A and Country B for the production			
	of umbrellas and watches.			
1 unit of umbrellas 1 unit of watches				
	Country A	12 units	20 units	
	Country B	5 units	15 units	
	Suppose the exchange ratio is 6 uni	ts of umbrellas for 3 units of watches	A transportation cost of 0.1 unit	
	of umbrellas is required to exchange for 1 unit of watches and the cost is horne by the watch-importi			
	country	se for a unit of watches and the cos	is come by the water importan	
	(a) Which country will export wa	tches? Evolain	(3 marks	
	(a) Which could y will export wa	most for the watch importing countr	(3 marks	
	(b) Calculate the gain per unit of I	inport for the watch-importing country	y. (5 marks	

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Kong dollar (HKD).	e rate between the Japanese yen (JF 1) and the mong	
Date	Exchange rate	
January 2020	1 JPY = 0.0711 HKD	
January 2021	1  JPY = 0.0747  HKD	
With the aid of a diagram, explain how the above change in the exchange rate would affect the total		
export value (in terms of JPY) of Japanese rice to Hon	g Kong. (7 marks)	
END OF SEC	CTION A	

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Section B (60 marks)

The following are the characteristics of Sophie's boutique before and after the change in the type of business 8. ownership:

		Before the change	After the change
Number of owners		1	5
Liability		unlimited	limited
Dis	closure of financial information to the public	not required	not required
(a)	To which type of production does the boutique belo	ong? Explain.	(2 marks)
(b)	Identify the types of business ownership of S	ophie's boutique befor	re and after the change
	respectively.		(2 marks)
(c)	Apart from limited liability, explain TWO advant	tages of changing the typ	e of business ownership
	to Sophie's boutique.		(4 marks)
(d)	Later, Sophie's boutique acquired a garment factor	у.	
	(i) Explain which type of integration this was.		(2 marks)
	(ii) List TWO possible motives for this type of in	tegration.	(2 marks)

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9.	The table below shows the balance sheet of a banking system. Suppose the banks hold \$1 000 excess			
	reserves and the public always hold \$500 cash.			
		Assets (\$)	Liabilities (\$)	
	Re	serves 3 000	Deposits 8 000	
	Lo	ans 5 000		
	(a)	If the market interest rate decreases, how will the	ne banks' opportunity cost of holding excess reserves	
		be affected? Explain.	(3 marks)	
	(b)	Suggest TWO possible reasons to explain why b	anks keep excess reserves. (2 marks)	
	(c)	Suppose the central bank lowers the required re-	eserve ratio by 5% and the banks are fully loaned up.	
		Calculate the new money supply and monetary b	base. Show your workings. (5 marks)	


S6 Economics Paper 2 Page 13 of 22 Pages Figure 1 shows the AS-AD diagram of an economy. Point E is the original short run equilibrium of the 10. economy. Figure 1 Price level LRAS<sub>0</sub> SRAS<sub>0</sub> Е  $\mathbf{P}_0$  $AD_0$ Aggregate output ſ  $\mathbf{\bar{Y}}_{\mathrm{f}}$  $Y_0$ (a) Explain whether there is a deflationary (output) gap. (2 marks) Suppose there are two proposals to restore the aggregate output to the full-employment output level. Proposal 1: the government purchases government bonds from the public. the government provides production subsidy to firms. Proposal 2: With the aid of Figure 1, explain how Proposal 1 can restore Y0 to Yf. (b) (6 marks) Compared with Proposal 1, discuss ONE advantage of Proposal 2. (2 marks) (c)


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11. The outbreak of COVID-19 in early 2020 has taken a heavy toll on Macau's economy and has seriously affected its hotel industry.

Source A: Macau's year-to-year percentage change in real terms of GDP from the 1st quarter in 2020 to the 2nd quarter in 2021



(Source: Government of Macao Special Administrative Region Statistics and Census Service)

### Source B: Receipts and profits of the hotel industry in Macau in 2019 and 2020

	Receipts ('000 MOP)	Profits ('000 MOP)
2019	3 220 823	4 524 126
2020	1 288 329	-9 336 922

(Source: Government of Macao Special Administrative Region Statistics and Census Service)

#### Source C: Hotel's average room rate in Macau in 2019 and 2020

	2019	2020
Average room rate (MOP)	1 316	812

(Source: Macao Government Tourism Office)



## Source D: Number of hotel guests in Macau from the 1st quarter of 2019 to the 2nd quarter of 2021

(Source: Government of Macao Special Administrative Region Statistics and Census Service)

#### Source E: A news article about the convention and exhibition industry in Macau

In 2020, many MICE (meetings, incentives, conventions and exhibitions) activities were cancelled or delayed due to the pandemic. Macau Trade and Investment Promotion Institute promotes the development of the convention and exhibition industry and facilitates the holding of more large-scale MICE activities in Macau. It also follows up on cancelled or delayed MICE activities through the "One-Stop Service" for MICE Bidding and Support in Macau. MICE activities are expected to bring more commercial travellers to Macau, benefiting the hotel, transportation, catering and retail industries.

(Source: various newspapers)

- (a) Refer to Source A. Identify the phase of a business cycle which Macau most likely was in during the 2nd quarter of 2021. Apart from the description about the GDP, give ONE general economic phenomenon which occurred in this phase.
  (2 marks)
- (b) Refer to Sources B-D. Can we conclude that 'the decrease in total revenue of the hotel industry in 2020 is a result of an inelastic demand for the hotel services'? Explain your answer with the aid of a diagram. (7 marks)
- (c) Refer to Sources A and D. Discuss how the change in the number of hotel guests between the 2nd quarter of 2020 and the 2nd quarter of 2021 helps explain the change in the GDP of the same period.

(2 marks)

(d) Refer to Source E. Explain how the holding of more MICE activities may involve externality. (3 marks)

For part (e), 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.

(e) Suppose the Macau government is considering the following two measures that will benefit the hotel industry.

Measure 1: relaxing the quarantine measures for inbound travellers when the pandemic stabilises, e.g. removing the 14-day quarantine requirement.

Measure 2: providing a per-unit subsidy to Macau citizens staying in hotels in Macau.

With reference to the above sources and your own knowledge of Economics, discuss the effects of each measure on the following variables in order to **evaluate** the two measures.

- aggregate output
- current account balance
- government revenue and expenditure

(14 marks)

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# Supplementary Answer Sheet

Question No.

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