

2002-CE  
ECON

2

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HONG KONG EXAMINATIONS AUTHORITY  
HONG KONG CERTIFICATE OF EDUCATION EXAMINATION 2002

## ECONOMICS PAPER 2

10.45 am – 11.45 am (1 hour)

**Subject Code 120**

1. Read carefully the instructions on the Answer Sheet and insert the information required (including the Subject Code) in the spaces provided.
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 should mark all your answers on the Answer Sheet.
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.

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2002-CE-ECON 2-1

There are 50 questions. Choose the **BEST** answer for each question.

1. In which of the following situations would ice in the North Pole be regarded as a free good ?
  - A. The ice is a gift of nature.
  - B. More of the ice is not preferred.
  - C. The price of the ice is zero.
  - D. The quantity demanded of ice is smaller than the quantity supplied at a price greater than zero.
  
2. Nowadays, many people download their favourite songs and pictures through the Internet without paying any fee. To society, these songs and pictures are
  - A. free goods because there are plenty of songs and pictures on the Internet.
  - B. free goods because their original owners have not received any payments.
  - C. economic goods because the cost involved in using the Internet is negligible.
  - D. economic goods because there are costs involved in producing these songs and pictures.
  
3. Mr Lee lives in his own house. He bears an opportunity cost from living in that house because
  - (1) he could earn rental income from letting the house to others.
  - (2) he has to pay property tax to the government.
  - (3) he has paid a sum of money to buy the house.
  - A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only



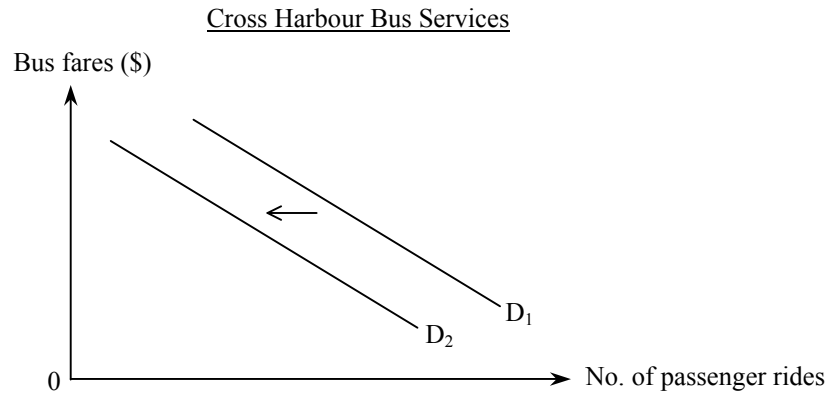
4. Which of the following would affect the cost of constructing the West Rail ?
- an increase in the damage to the natural environment along the railway caused by the construction
  - an increase in the wages of the maintenance staff for the operation of the train service
  - a decrease in the profit from providing the train service
  - a decrease in the revenue of the bus company operating a bus service along the railway
5. Which of the following are major determinants of the allocation of goods and services in a market economy ?
- the planning of government
  - the costs of production
  - the demand of consumers
  - the controlled prices
- (1) and (3) only
  - (1) and (4) only
  - (2) and (3) only
  - (2) and (4) only
6. The following table shows the supply of and demand for Good X.

| Unit price (\$) | Quantity demanded (units) | Quantity supplied (units) |
|-----------------|---------------------------|---------------------------|
| 2               | 20                        | 4                         |
| 4               | 16                        | 8                         |
| 6               | 12                        | 12                        |
| 8               | 8                         | 16                        |
| 10              | 4                         | 20                        |

If the government raises the price ceiling from \$4 per unit to \$8 per unit, the quantity transacted will

- increase by 4 units.
- increase by 8 units.
- decrease by 8 units.
- decrease by 4 units.

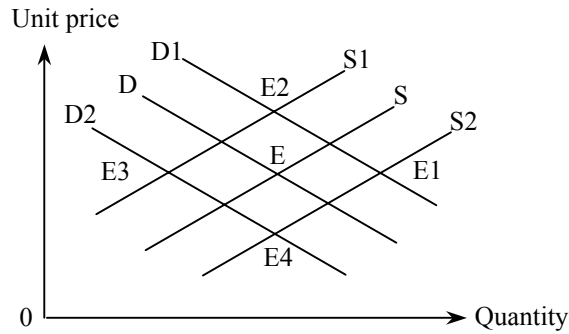
7. Refer to the following diagram :



Which of the following would lead to the above change in demand from  $D_1$  to  $D_2$ ?

- A. an increase in the toll fee for taxis using the cross harbour tunnels
  - B. an increase in the frequency of cross harbour bus services
  - C. a fall in the wage rate of bus drivers
  - D. a fall in the ticket price for Mass Transit Railway services
8. After a good harvest, the price of choi-sum has changed by 50% and the quantity transacted has changed by 40%. Which of the following statements is/are correct ?
- (1) The quantity demanded of choi-sum has increased.
  - (2) The demand for choi-sum has increased.
  - (3) The total revenue from selling choi-sum has increased.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

9. The diagram below shows the supply and demand schedules of the market for airline tickets in Hong Kong. The original equilibrium point is at E.



If, as a result of a terrorist attack, fewer people travel overseas and the insurance premium of airlines rises to a high level, the new equilibrium point will be at

- A. E1  
 B. E2  
 C. E3  
 D. E4
10. Suppose there is a technological advance in the production of a normal good. In which of the following situations may the market price of the good remain unchanged?
- A. The income of consumers decreases.  
 B. The government raises the unit sales tax on the good.  
 C. The demand for the good is perfectly inelastic.  
 D. The supply of the good is perfectly inelastic.
11. Suppose the government imposes a unit sales tax on a good. The producers' revenue after deduction of the sales tax will remain unchanged if
- A. the demand for the good is perfectly elastic.  
 B. the demand for the good is perfectly inelastic.  
 C. the supply of the good is perfectly elastic.  
 D. the supply of the good is perfectly inelastic.

12. Which of the following statements about production is correct ?
- Developed countries have no primary production.
  - Students selling flags for charity organizations are engaging in production.
  - An Indian restaurant engages in tertiary production only.
  - The car repair work belongs to secondary production.
13. The following table shows the monthly production of a firm with two inputs, labour and machines.

| Machines (Units) | Labour (Units) | Total Product (Units) |
|------------------|----------------|-----------------------|
| 1                | 3              | 18                    |
| 1                | 4              | 28                    |
| 1                | 5              | 40                    |
| 1                | 6              | 50                    |
| 1                | 7              | X                     |

If the law of diminishing marginal returns applies to the firm, X

- must be smaller than 50.
  - can be any value greater than 50.
  - must be smaller than 60.
  - is equal to 60.
14. A higher average labour productivity means a higher
- average output per worker.
  - marginal product per man.
  - total output per worker.
  - total product per unit of labour.
15. In economics, which of the following statements about capital is correct ?
- The quantity of fixed capital cannot be changed in the short run.
  - Capital earns the highest rate of return among all factors of production.
  - Capital is produced to satisfy consumers' wants directly.
  - The geographical mobility of capital is greater than that of land.

16. Under the previous wage payment system, Mrs Chan found that her workers were lazy. Now, she has adopted another wage payment system under which the quantity as well as the quality of the output of her firm has been raised. This improvement could be due to the fact that the previous wage payment system was \_\_\_\_\_ and the present one is \_\_\_\_\_.
- A. piece rate ... time rate
  - B. piece rate ... profit-sharing
  - C. time rate ... piece rate
  - D. time rate ... profit-sharing
17. Which of the following statements about limited companies in Hong Kong is correct ?
- A. Preference shareholders and debenture holders have to bear unlimited liability.
  - B. Issuing more debentures will increase the risk of being taken over.
  - C. Shares and debentures of public limited companies are traded on the stock exchange.
  - D. Debenture holders can claim the company's assets prior to shareholders when the company goes bankrupt.
18. As a small investor, Calvin prefers to purchase the shares of a listed company rather than those of a private limited company in Hong Kong because
- A. the accounts of a listed company have to be audited by certified accountants.
  - B. there is a separation between ownership and management in a listed company.
  - C. the shares of a listed company are freely transferable on the stock market.
  - D. the liability of the shareholders of a listed company is limited to their investment in the company.

19. Amy is an owner of a firm. Her liability to the firm is confined to her investment in the firm and she can transfer her ownership to anyone else without the consent of other owners.

Based on the above information, the firm is a

- A. general partnership.
  - B. limited partnership.
  - C. private limited company.
  - D. public limited company.
20. Because of the economic downturn, Mrs Chan's restaurant closed down and she had to use her personal property to pay its debts. Mrs Chan was \_\_\_\_\_ or \_\_\_\_\_ of the restaurant.
- A. the sole proprietor ... a general partner
  - B. the sole proprietor ... a limited partner
  - C. the sole proprietor ... a shareholder
  - D. a general partner ... a limited partner
21. If a private limited company in Hong Kong is turned into a public limited company,
- A. the company will pay the profits tax at a higher rate.
  - B. the company will gain the status of a legal entity.
  - C. the company will have a wider source of capital.
  - D. the original owners must increase their investments in the company.
22. Mrs Chan, a large supplier of frozen beef, opens a chain of beef steak houses. To this supplier,
- (1) the expansion is a vertical forward expansion.
  - (2) the risk of running a loss for her whole business will be lower.
  - (3) this can ensure a steady market outlet for her frozen beef.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

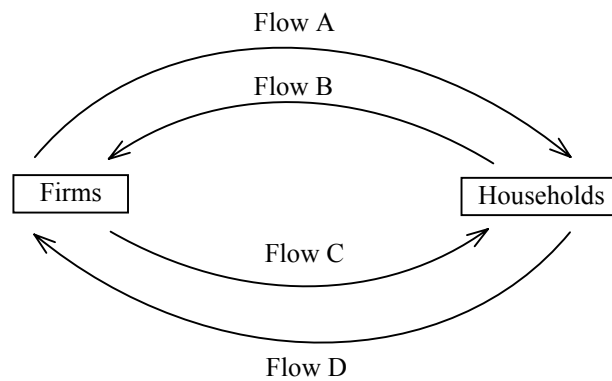




23. Which of the following is a general feature of a perfectly competitive market ?

- A. Market information is imperfect.
- B. There is non-price competition.
- C. There is only one price prevailing in the market.
- D. None of the above is a correct answer.

24.



Flow A, Flow D : real flows  
Flow B, Flow C : money flows

Refer to the above circular flows. Which of the following statements is correct ?

- A. Flows A and D are flows of households' expenditure and firms' payment to factor owners respectively.
- B. *All value-added totals contributed by the firms equal the market value of all final goods and services.*
- C. *The market value of Flow B equals the market value of all final goods and services plus the market value of unsold goods.*
- D. The flow of final goods and services includes self-provided services.

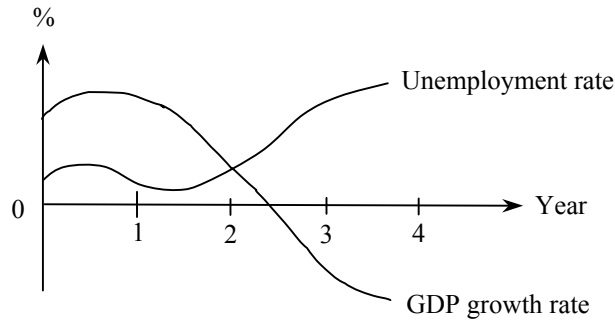
25. In order to calculate the gross national product of Hong Kong, which of the following items should be deducted from Hong Kong's gross domestic product (GDP) figure ?
- the dividend received from shares in Hang Seng Bank by a Japanese person who lives in the U.S.
  - the rental income earned by a Hong Kong resident from his property in the U.S.
  - the salary earned by a native English teacher employed on a two-year contract in a secondary school in Hong Kong
  - the donations of a Hong Kong resident to mainland China
26. Nancy runs a boutique in Hong Kong. The following table shows the boutique's financial statement for a given period of time.

|                             |               |               |
|-----------------------------|---------------|---------------|
|                             | <u>\$ 000</u> | <u>\$ 000</u> |
| Sales revenue of fashions   |               | 16 000        |
| Less : Imported fashions    | 2 000         |               |
| Electricity & water charges | 3 000         |               |
| Wage payment                | 2 500         |               |
| Profits tax                 | <u>1 500</u>  | <u>9 000</u>  |
| Net profit                  |               | <u>7 000</u>  |

What is the contribution of Nancy's boutique to Hong Kong's GDP in thousand dollars ?

- 7 000
  - 11 000
  - 14 000
  - 16 000
27. Country X has a higher GDP but a lower general living standard than Country Y. Which of the following is a possible reason for this ?
- The net factor income from abroad of Country Y is smaller.
  - The working hours of people in Country Y are longer.
  - Capital goods make up a higher proportion of the output of Country Y.
  - The population size in Country Y is smaller.

28.



The information above shows that the economy is in a stage of \_\_\_\_\_ in Year 3.

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

29.

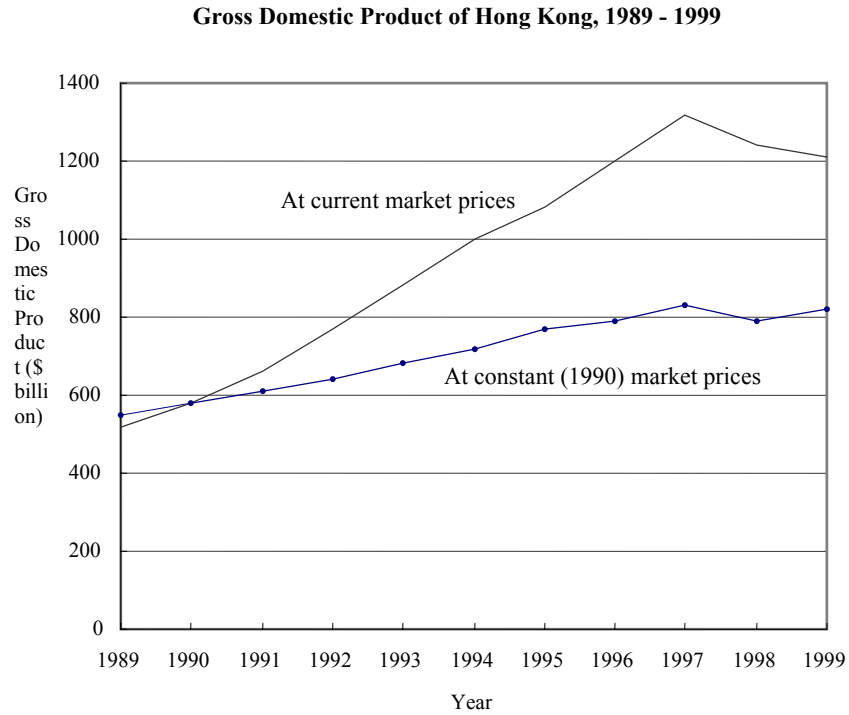
|                             | <u>Number of Persons</u> |
|-----------------------------|--------------------------|
| Population aged 15 or above | 10 000 000               |
| Employed population         | 6 800 000                |
| Unemployed population       | 1 200 000                |
| Underemployed population    | 800 000                  |

According to the above table, which of the following statements is/are correct ?

- (1) The labour force amounts to 8 000 000.
- (2) The underemployment rate is 10%.
- (3) The unemployment rate is 12%.

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

30. Refer to the chart below.



Source : The Census and Statistics Department

From 1991 to 1998, GDP at current market prices is always greater than GDP at constant (1990) market prices because

- A. the inflation rate is increasing in this period.
- B. the real output level is rising in this period.
- C. the current price level is always higher than the price level of 1990.
- D. the inflation rate is higher than the real output growth rate.

31. Which of the following are possible losses to a society caused by unemployment ?
- (1) more government spending on public security due to a higher crime rate
  - (2) more unemployment assistance given by the government
  - (3) lower output level
  - (4) lower cost of living
- A. (1) and (3) only
  - B. (2) and (4) only
  - C. (1), (2) and (3) only
  - D. (2), (3) and (4) only
32. Which of the following financial institutions in Hong Kong can accept savings deposits ?
- A. licensed banks
  - B. restricted licence banks
  - C. deposit-taking companies
  - D. All of the above are correct.
33. 'Currency in public circulation' and 'savings deposits' are both included in Hong Kong's money supply
- (1) M1.
  - (2) M2.
  - (3) M3.
- A. (2) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only

34. Which of the following statements about money are correct ?
- (1) The purchasing power of money will remain unchanged in times of deflation.
  - (2) A wider use of electronic money will reduce the cash held by the public.
  - (3) Money helps people to accumulate their purchasing power.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

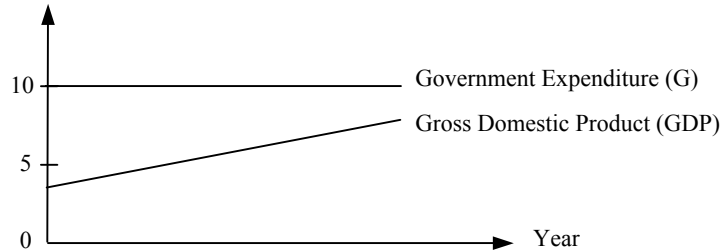
Answer Questions 35 and 36 by referring to the following balance sheet of a banking system which has an excess reserve of \$200.

| Assets (\$) |     | Liabilities (\$) |       |
|-------------|-----|------------------|-------|
| Reserves    | 500 | Deposits         | 1 200 |
| Loans       | 700 |                  |       |

35. The required reserve ratio is
- A. 15%
  - B. 20%
  - C. 25%
  - D. 30%
36. Suppose someone has withdrawn \$250 from the banking system. As a result, what would the maximum possible amount of bank deposits be ?
- A. \$200
  - B. \$600
  - C. \$800
  - D. \$1 000

37. Which of the following will reduce the deposit creation ability of the banking system ?
- (1) an increase in the use of credit cards by the public
  - (2) an increase in the amount of cash held by the public
  - (3) an increase in the legal reserve requirement for banks
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
38. Assume the whole banking system does not hold excess reserves and the required reserve ratio is 20%. If a person withdraws \$100 from a bank,
- A. the amount of loans made by the banks to the public will fall by at most \$400.
  - B. money supply will fall by at least \$400.
  - C. the amount of deposits in the banking system will fall by at least \$500.
  - D. the amount of cash reserve of the banks will fall by at most \$80.
39. Suppose the government of an economy announces that the people will have to pay a general sales tax of 2% of the selling price when they purchase any goods and services. The government also launches a series of programmes to make sure that the public understands the new tax.
- Which of the following taxation principles is illustrated by the above measures of the government ?
- A. equality
  - B. certainty
  - C. convenience
  - D. economy
40. If a general sales tax is introduced in Hong Kong,
- A. the tax base would be widened.
  - B. the wealth gap would be reduced.
  - C. less Hong Kong people would shop in Shenzhen.
  - D. the proportion of direct tax in the government tax revenue would increase.

41. Growth Rate (%)



According to the above graph, the ratio of G to GDP is

- A. increasing.
  - B. decreasing.
  - C. first increasing and then decreasing.
  - D. first decreasing and then increasing.
42. Suppose the government of an economy cuts the salaries tax allowance by 10% while both the wage rates and the general price level in the year fall by 5%. It follows that
- A. the tax revenue would increase.
  - B. more people would fall into the tax net.
  - C. the real income of people before tax would generally increase.
  - D. the ratio of people's tax payment to their nominal income would generally decrease.
43. Tobacco duty in Hong Kong is a kind of
- A. direct and proportional tax.
  - B. direct and regressive tax.
  - C. indirect and proportional tax.
  - D. indirect and regressive tax.



44. Suppose Mrs Wong, a sole proprietor of a garment factory, is the best cook in town, but she leaves all the cooking to her domestic helper at home. Which of the following would be correct ?
- The domestic helper has a comparative advantage in cooking.
  - Both Mrs Wong and the domestic helper provide a labour service and receive wages.
  - Complex division of labour is illustrated in this case.
  - Both Mrs Wong and the domestic helper are tertiary producers.
45. The following table shows the output of X and Y per unit of resources in countries A and B.

| Country \ Goods | X<br>(units) | OR | Y<br>(units) |
|-----------------|--------------|----|--------------|
| A               | 1            | OR | 3            |
| B               | 2            | OR | 4            |

Which of the following is/are the terms of trade under which trade between the two countries is mutually beneficial ?

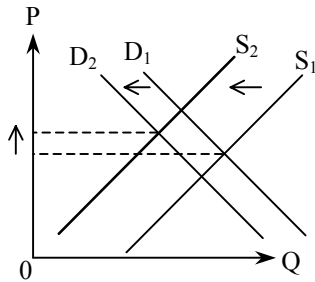
- $1 X = 2 Y$
  - $1 X = 3 Y$
  - $2 X = 5 Y$
  - All of the above are correct.
46. Now that China has become a member of the World Trade Organization (WTO), the Chinese government will have to lower the per unit tax on imports. As a result, in China
- the tariff revenue of the government will decrease but the import volume will increase.
  - the supply of imports will increase but the domestic price of imports will fall.
  - the supply of imports will increase but the import value will decrease.
  - Both the demand for imports and the import volume will increase.

47. Consider the trade between two countries X and Y, both of which produce garments and computers only. If country X has the comparative advantage in producing garments, then country X
- A. produces more garments per unit of resources than country Y.
  - B. produces better quality garments than country Y.
  - C. gives up a smaller amount of computers in order to produce a unit of garments than country Y.
  - D. gains more from their trade than country Y.
48. Which of the following should be included in the calculation of the balance of Hong Kong's current account ?
- A. A Hong Kong resident buys a life insurance policy from an insurance company in the US.
  - B. A company in Hong Kong purchases the copyright of a film from a British film producer.
  - C. A Hong Kong resident purchases a house in the US.
  - D. A Hong Kong investor buys a number of shares of a listed company in the US.
49. Which of the following items should **NOT** be included in the calculation of Hong Kong's GDP ?
- A. profit gained by a car agent from reselling second-hand cars
  - B. compensation paid to a car owner for his loss in a traffic accident
  - C. insurance premium for a car paid to a local insurance company
  - D. income earned by a person from repairing cars

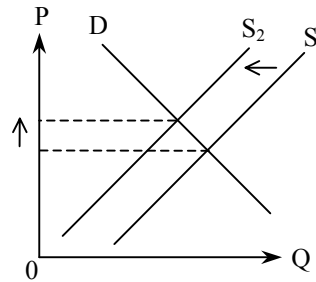
50. At the outbreak of war in the Middle East, civil aircraft which used to fly through the nearby air space had to fly longer routes in order to stay away from the war areas. Moreover, the risk of travelling by civil aircraft was also higher.

Which of the following diagrams about the effects of these changes is **INCORRECT** ?

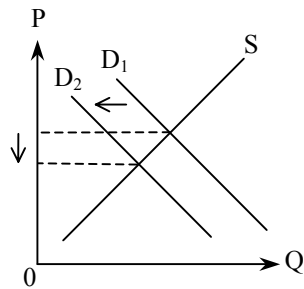
A. Air travel service



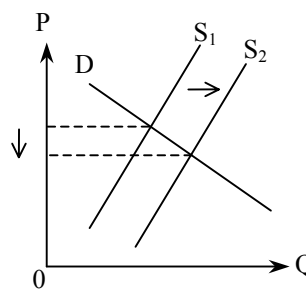
B. Imported goods by air



C. Civil aircraft



D. Pilots of civil aircraft



**END OF PAPER**

## 2002 Economics Paper 2

| Question No. | Key    | Question No. | Key    |
|--------------|--------|--------------|--------|
| 1.           | B (60) | 26.          | B (17) |
| 2.           | D (84) | 27.          | D (69) |
| 3.           | A (50) | 28.          | A (65) |
| 4.           | A (61) | 29.          | B (49) |
| 5.           | C (74) | 30.          | C (32) |
| 6.           | A (35) | 31.          | A (15) |
| 7.           | D (82) | 32.          | A (51) |
| 8.           | A (44) | 33.          | D (52) |
| 9.           | C (72) | 34.          | C (82) |
| 10.          | B (34) | 35.          | C (84) |
| 11.          | B (58) | 36.          | D (56) |
| 12.          | B (54) | 37.          | C (59) |
| 13.          | C (58) | 38.          | A (25) |
| 14.          | D (29) | 39.          | B (62) |
| 15.          | D (50) | 40.          | A (73) |
| 16.          | D (66) | 41.          | A (23) |
| 17.          | D (59) | 42.          | B (46) |
| 18.          | C (76) | 43.          | D (56) |
| 19.          | D (59) | 44.          | A (44) |
| 20.          | A (78) | 45.          | C (44) |
| 21.          | C (82) | 46.          | B (35) |
| 22.          | B (33) | 47.          | C (69) |
| 23.          | C (36) | 48.          | A (31) |
| 24.          | B (48) | 49.          | B (52) |
| 25.          | A (29) | 50.          | D (51) |

**Note:** *Figures in brackets indicate the percentages of candidates choosing the correct answers.*