Section A

1. Full cost = monetary cost + time cost
During holiday periods, although the monetary cost of travelling abroad (including air ticket fares and hotel expenses) is usually higher than that during non-holiday periods, the time cost (e.g., income foregone) may be a lot lower. If the time-cost saved outweighs the extra monetary cost, then in terms of full cost travelling abroad during holiday periods would be less expensive.

Marks
(3)

2. (a) Reasons:
   - Peter wants to invite more investors to get new funds for expansion of his business.
   - Peter can make use of different expertise from Paul and Mary in the new markets.
   - Any other relevant points.

   [Mark the FIRST TWO points only.]

Marks
@1
max: 2

(b) Entrepreneurship,
as she bears business risk.

(2)

3. Explanations:
   - Reduction of marketing and promotion costs, as the region would attract more buyers for high-technology products/services.
   - Reduction of transportation cost, as transport network and other infrastructures would develop more quickly, thus improving accessibility.
   - Reduction of average/marginal cost of recruiting more experienced and skilled workers, as more of these workers would be attracted to the region.
   - Any other relevant points.

   [Mark the FIRST TWO points only.]

Marks
@2
max: 4

4. Factors:
   - Race, as there may be racial discrimination in the job market and some ethnic minority groups may suffer a lower wage rate for the same job.
   - Gender, as sex discrimination may exist in the workplace. On average, female suffers a lower wage rate for the same rank.
   - Physical attributes, as average income may be higher for people who are fitter, or taller, or better-looking since these people are more productive for certain jobs (e.g., sportsmen, fashion models).
   - Any other relevant points.

   [Mark the FIRST TWO points only.]

Marks
@2
max: 4

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Marks

5. (a) Supply of medical staff may be inelastic because they require special training and qualification. Even if the government raises their wage rates sharply, the percentage increase in the quantity supplied of medical staff would still be smaller than the percentage increase in their wage rates. (3)

(b) Unemployment rate = (number of unemployed people / the total labour force) × 100% (4)
The number of unemployed people will not change while the labour force increases as the retired staff is not in the labour force originally. The unemployment rate will drop.

Marks

6. (a) No. The reduction in the profits-tax rate may induce firms to increase their investment expenditure, so they may end up earning higher profits (tax base). Increase in profits tax revenue due to the increase in profits (tax base) may be greater than the decrease in profit tax revenue due to the reduction in tax rate. (4)

(b) Equality: The new tax is no longer proportional, meaning that it is inconsistent with the equality principle.

Economy: The new tax system may incur a slightly higher administration cost, rendering it less in line with the economy principle.

Certainty: Both the new and old tax systems are equally well-defined and announced publicly, so the new one would be just as certain as the old.

Convenience: There is no change in the method of tax collection, so the change in tax system would have no effect on convenience.

@2 max: 2

[Mark the FIRST point only.]

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Marks

7. (a) (i) New M_0 = \$500 million + \$100 million + \$40 million = \$640 million (2)

(ii) Banks do not hold excess reserves / there is sufficient demand for loans. There is no cash leakage. (2)

(iii) Old M_s = \$2 000 million + \$100 million = \$2 100 million
RRR = (\$500 million– \$100 million) / \$2 000 million = 0.2
New M_s = \$100 million + (\$500 million + \$40 million) / 0.2
= \$2800 million
∴ M_s increases by \$700 million (= 2800 million– 2 100 million).[1] (4)

(b) MV = PY, where M: money supply, V: velocity of circulation of money, P: price level, and Y: output (4)

Assume V and Y are both constant. Then when M increases, P would increase by the same proportion.
OR
Assume V is constant. Then when the percentage increase in M is higher than that in Y, P would increase as well.

Marks

8. (a) The opportunity cost of producing 1 T in China = 5C
The opportunity cost of producing 1 T in Japan = 2C (2)

(b) If each country specialises in producing the good in which the country has lower opportunity cost, then total world output would increase.
Japan would export toys, as it has a lower cost of producing toys than China. (3)

(c) Range of TOT: 2.05C < 1T < 4.95C (2)

[1] Credits would also be awarded to those candidates who reasoned that the public's initial cash holding of \$100 million might also be deposited into the banking system to yield \$500 million of additional deposits, resulting in an aggregate increase of \$1200 million of deposits and thus a net increase of \$1100 million of money supply. As a side note, for the topic of money and banking at the DSE level, cash held by the general public should be treated as an exogenous variable (i.e., change of cash in public is assumed to be zero except under other exogenous changes).

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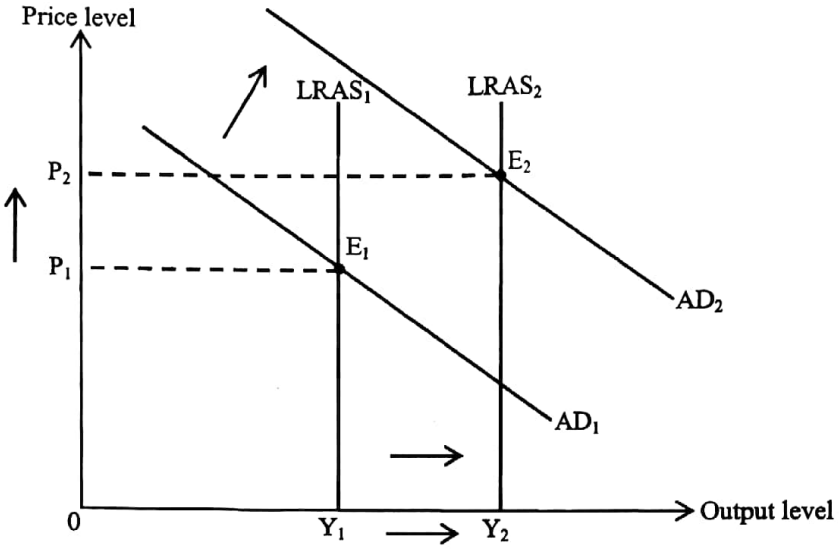
Marks

9. Illustrate in the diagram:
   - Rightward shift of AD (due to more visitors from the Mainland) (1)
   - Rightward shift of LRAS (due to faster development of the HK economy) (1)
   - Correct position of P_2 (at E_2), with a bigger horizontal shift in AD than in LRAS (1)



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Section B

10. (a) The cost of measuring the output of the foreign domestic helpers is too high / the work of domestic helpers is not standardised. **Marks** (2)

(b) The foreign domestic helpers will lose under unexpected inflation, as the purchasing power of their fixed wage would drop. (2)

(c) Verbal elaboration:
At Q_1, marginal benefit is greater than marginal cost.[2] (1)

Illustrate in Figure 2:
- correct position of minimum wage (1)
- correct position of Q_1 (1)
- correct position of deadweight loss (1)

Foreign Domestic Helpers in Hong Kong

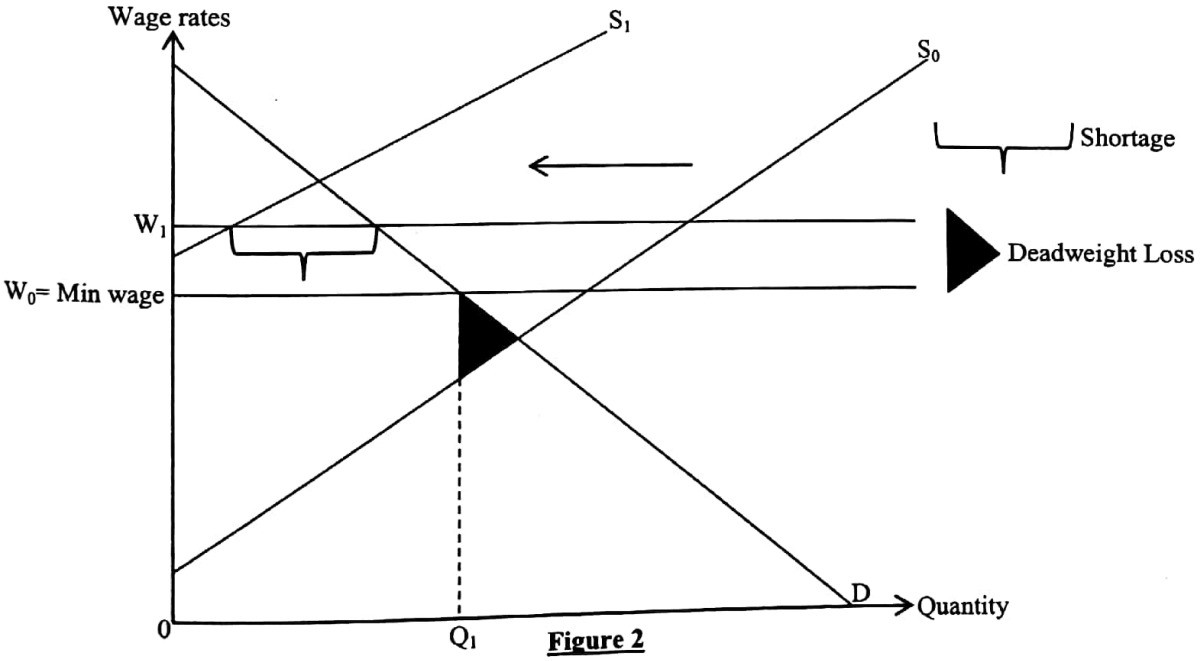

Figure 2

[2] The theory of labour market (i.e. value of marginal product) is not required.

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Marks

(d) Filipino maids working in the Mainland and Filipino domestic helpers in Hong Kong are in competitive supply. (3)
If competition from the Mainland sharply reduces the supply of foreign domestic helpers in Hong Kong, then shortage of such workers could still arise even at a higher wage rate.

Illustrate in Figure 2:
- Leftward shift of supply curve (1)
- Correct position of shortage at the higher wage rate (2)

(e) Possible phenomena:
- Employers may try to recruit domestic helpers from other countries to work in Hong Kong.
- The minimum wage may be raised / abolished by the government.[3]

} @1 max: 1

Marks

11. – General living standard:
The living standard would fall because the higher proportion of government expenditure or resources/output devoted to national defence would not have much to contribute to the living standard in general.
Overall the citizens would enjoy less goods and services. Since those males drafted for military service are forced to leave their existing jobs, their household income (and consumption) would fall.

– Aggregate output:
The SRAS curve would shift to the left, as less labour is available for production.
The AD curve would also shift to the left, as the UN embargo reduces exports from Country Z.
As a result, aggregate output would fall.

– Balance of payments (BOP):
BOP would be worsened.
Export of goods would fall because of the embargo.
Export of services would also fall as fewer tourists would want to visit Country Z because of the threat of war.
Foreign investors would withdraw their investments in Country Z, so capital may flow out of the country.

} max: 10

[3] More people may quit their jobs and take care of their children or the elderly on a full-time basis.

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12. (a) Reasons:

Marks

- Sellers provide heterogeneous services, e.g., rooms with different size/features.
- Market information is imperfect, e.g., information about the quality of services.
- Price searcher / under competition there are different prices, e.g., different hotels charge different room rates for similar rooms.
- Any other relevant points.

[Mark the FIRST TWO points only.]

@2 max: 4

(b) Functions:

- Unit of account: The price of the hotel accommodation service is expressed in terms of RMB. (2)
- Medium of exchange: RMB serves as a medium to facilitate people's buying and selling of services in the website. (2)

[Mark the FIRST TWO points only.]

(c) Export of services / net exports. (1)

(d) During 2015-16, RMB depreciated against USD. Under HK's linked exchange rate system, the value of HKD would follow that of USD, so RMB depreciated against HKD as well.

Depreciation of RMB implies that goods in HK became more expensive in terms of RMB. Therefore fewer mainland tourists would come to HK, and those who came would spend less in HK. As mainland visitors were the major source of tourists in HK, a significant drop in "total tourism expenditure associated to inbound tourism" would result.

max: 6

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Marks

13. (a) (i) Potential output would drop as the working-age population gradually decreases. (2)
(from 5.36M in 2014 to 4.76M in 2054)

(ii) The fiscal balance may be worsened. (3)
Government revenue may drop, as the working-age population, which accounts for a major portion of taxpayers, drops.
Government expenditure may increase, as the government spends more on medical services and transfer payments to the growing old-age population.

(b) (i) Subsidy: (2)
Labour productivity would rise as improved technology or higher quality of capital goods would result in an increase in output per unit labour.

(ii) Importing more workers: (3)
Uncertain. Labour productivity would increase if the imported workers are more productive on average than the existing local ones.

(c) Nursing, because (4)
the demand for medical service would rise as a result of the aging population, and the demand for nurse is the derived demand for medical service. The expected future income of a nurse should thus be higher (than that of someone working in primary education).

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Section C

Marks

14. (a) Price fixing. (1)
[Mark the FIRST point only.]

Potential loss to consumers:
- higher price
- lower output
- lack of choices to consumers
- loss in consumer surplus
- (price) competition restricted
- any other relevant point

@1 max: 2

[Mark the FIRST TWO points only.]

(b)
- Due to interdependence among firms in an oligopolistic market, whenever a firm changes its prices, all others would follow promptly. As a result, prices set by different firms in the market would end up being the same.
- Strong demand for high-quality petrol products, such as Ron 98. This justifies the supply of only one, the most expensive type of petrol.
- Any other relevant point

@2 max: 2

[Mark the FIRST point only.]

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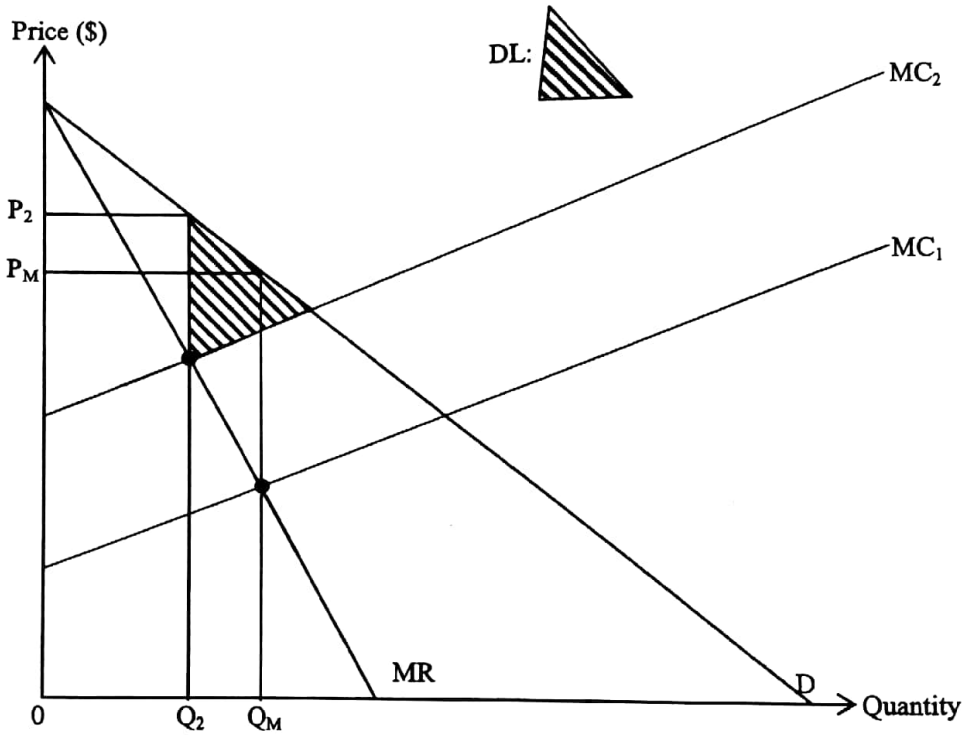
Marks

(c) Illustrate in the diagram: (1)
Correct position of MR (1)
Correct position of Q_M (1)
Correct position of P_M

(d) Illustrate in the diagram: (1)
Correct position of MC_2 (1)
Correct position of P_2 and Q_2 (1)
Correct position of DL



(e) Case 1: Yes, because the costs of serving the elderly or non-elderly are the same for the same bus service, but the elderly are being charged a lower fare. [4] (3)

Case 2: No, as ALL customers enjoy the same discount and thus face the same pricing strategy, **OR** the market is not separated. (2)

[4] Candidate may argue that public transportation services for the elderly are subsidized by the HK government, so that the bus company has not practised price discrimination.

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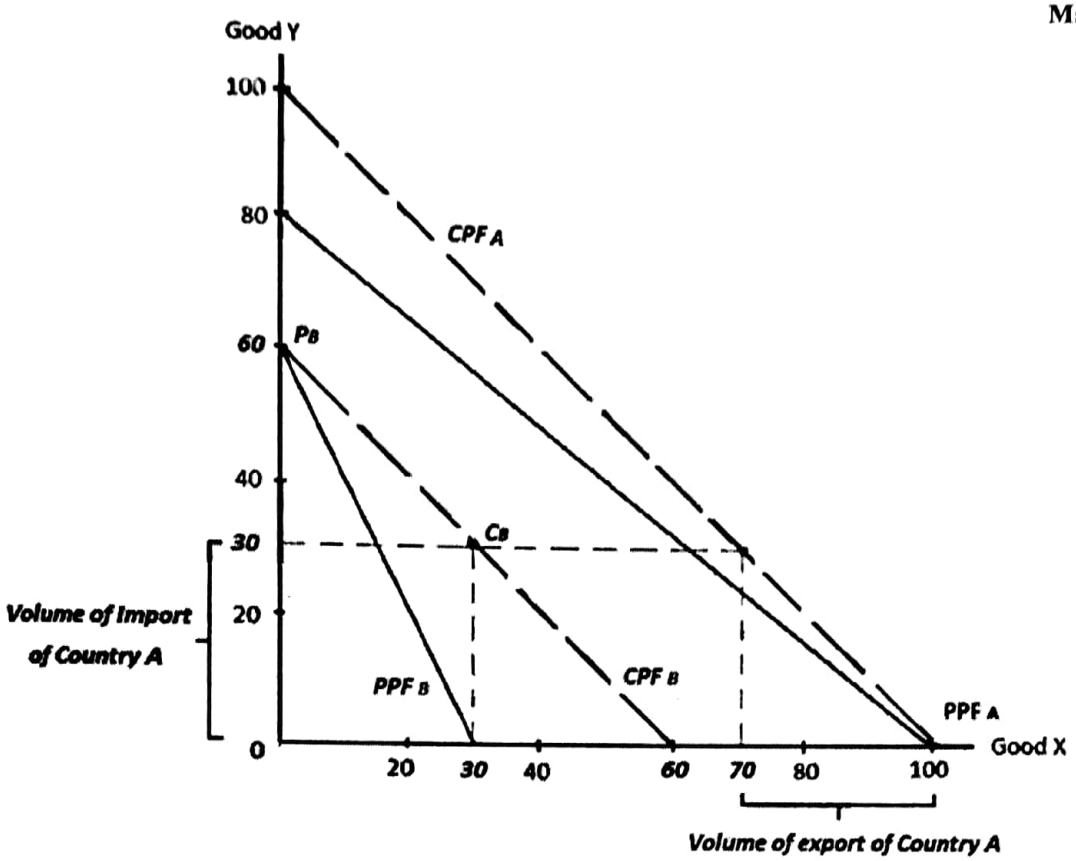
15. **Marks**



Illustrate in the diagram:

(a) – Correct position of production possibility frontier of Country B (PPF_B) (1)

(b) – Country A has absolute advantage in producing Good X. (1)
– With the same amount of resources (30 units), Country A can produce a larger quantity of Good X (60 units) than Country B (30 units)
– With the same amount of resources (50 units), Country A can produce a larger quantity of Good X (100 units) than Country B (50 units).
– Country A can produce 1 unit of X with fewer units of resources (0.5 units of resources) than Country B (1 unit of resources).

} Any one @2

Illustrate in the diagram:

(c) (i) – Correct position of production point of Country B (P_B) (1)

(ii) – Correct position of consumption possibility frontier of Country B (CPF_B) (1)
– Correct position of consumption point of Country B after trade (C_B) (1)

(iii) – Correct position of consumption possibility frontier of Country A (CPF_A) (1)
– Correct position of volume of import of Country A (1)
– Correct position of volume of export of Country A (1)

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Marks

(d) (i) Uncertain, because per capita GNI would fall while life expectancy may rise.[5] (3)

(ii) Uncertain, because while per capita GNI may increase, average year of schooling and/or average life expectancy may drop. (3)

[5] It may be argued that the effect on life expectancy would become significant only in the long term, so that the (immediate) GNI effect should dominate in the current period.

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