Marking Schemes

Paper 1

Question No.	Key	Question No.	Key
1.	D(67)	21.	D(64)
2.	A(62)	22.	B(61)
3.	D(90)	23.	A(53)
4.	B(72)	24.	D(53)
5.	C(70)	25.	A(72)
6.	C(86)	26.	A(73)
7.	A(76)	27.	C(71)
8.	B(77)	28.	B(69)
9.	B(39)	29.	A(64)
10.	D(38)	30.	A(51)
11.	C(45)	31.	C(40)
12.	B(61)	32.	D(68)
13.	D(78)	33.	C(56)
14.	C(64)	34.	C(51)
15.	B(80)	35.	D(69)
16.	B(66)	36.	D(52)
17.	A(60)	37.	C(65)
18.	A(75)	38.	B(47)
19.	B(56)	39.	C(37)
20.	D(82)	40.	A(52)

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

Paper 2

		Marks
1.	No, because the good may be produced from scarce resource which have alternative uses./ more of the good may still be preferred.	(1) (2)
2.	The law states that (holding technology constant,) when more units of a variable factor are added successively to a given quantity of fixed factors, the marginal product of this factor will eventually diminish.	(3)
	No, because all factors are variable.	(1) (1)
3.	(a) Conglomerate expansion, because the firm has expanded into unrelated industries.	(1) (1)
	(b) <u>Possible motives:</u> – to have product / income diversification so as to spread risk – to make use of its brand name of one product in other products – to use resources more efficiently as the two companies can share some of their resources – to enjoy economies of scale (e.g. Lower average cost of advertising as the total cost can be spread over a larger quantity of output.) – any other relevant point [Mark the FIRST THREE points only.]	@ 1; max: 3

Marks

4. (a) wider (1)

(b) Lower, because (1)
higher income group has a lower post-tax income while the income of lower income group remains unchanged. (2)

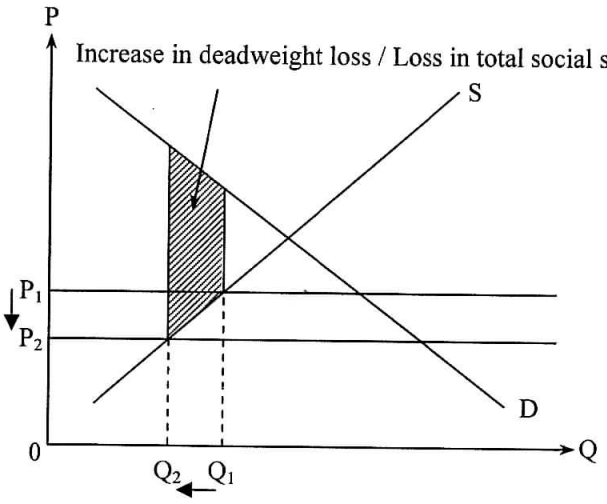
5. (a) No, because (1)
- there is excess demand / shortage. (1)
- other competitive criteria/non-price competition, such as queuing, will emerge. (2)
- the new competitive criteria do not necessarily depend on income. (2)

} max: 3

(b) Yes, because (1)
transportation and other tourist-related expenses, which are regarded as export of service, increases so the invisible trade account increases. (2)

(c) No, because (1)
there is greater deadweight loss. / total social surplus decreases. (1)

Indicate in the diagram:
- lowering of the price ceiling (1)
- correct position of increase in deadweight loss/loss in total social surplus (1)



6. (a)
- Loss of output
- Loss of human capital
- Political unrest
- any other relevant point

[Mark the FIRST TWO points only.]

} @ 1; max: 2

(b)
- Falling or even negative real GDP growth
- Low / falling inflation or even deflation
- Falling business confidence, levels of investment, consumption
- any other relevant point

[Mark the FIRST TWO points only.]

} @ 1; max: 2

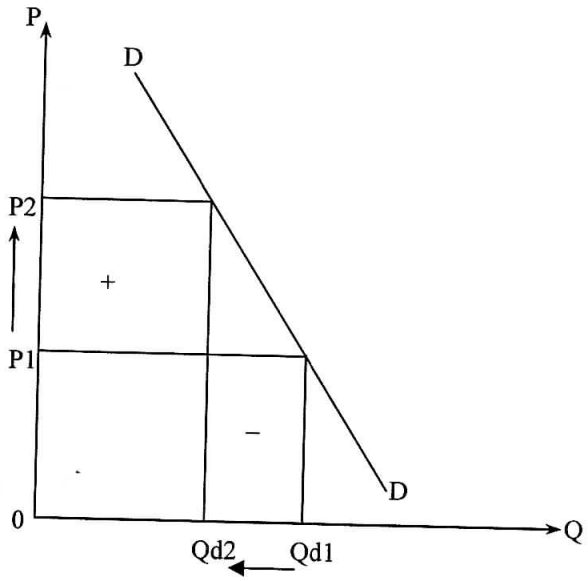
Marks

7. – Gold is more durable while cigarettes may lose their value during transaction.
– Gold is more generally accepted as medium of exchange than cigarettes.
– Gold is more homogenous while cigarettes have different qualities.
– any other relevant point
[Mark the FIRST TWO points only.]

} @ 2; max: 4

8. No, because
if the demand for import is inelastic , the import value will not decrease (1)
as the percentage increase in price will be greater than percentage decrease in quantity demanded. (1)
(2)

Indicate in the diagram:
– P ↑, Qd ↓ (1)
– gain in import value > loss in import value (1)
(2)



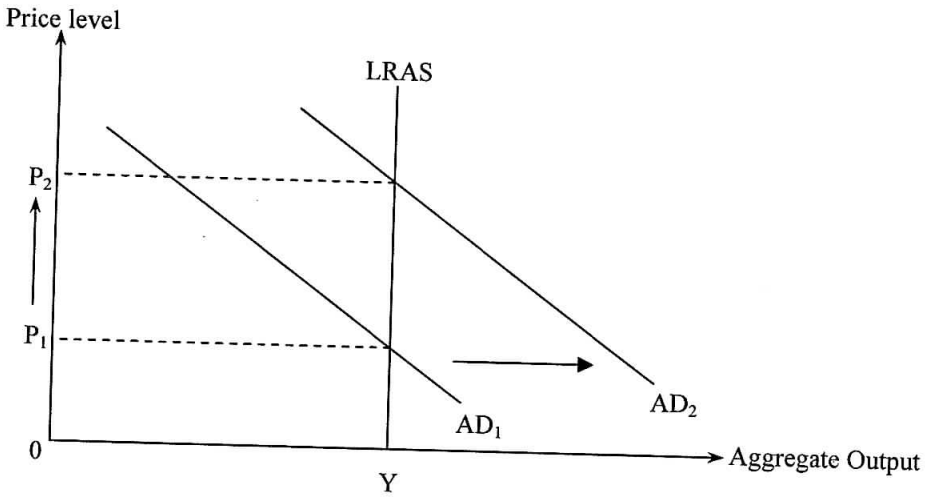
9. (a) In country A, opportunity cost of producing 1S = 0.2W (1)
In country B, opportunity cost of producing 1S = 0.25W (1)

(b) If each country specializes in producing the good in which the country has a lower opportunity cost, the total output will increase. (2)
Country A would export shirts. (1)

(c) $0.2W < 1S < 0.25W$ OR $4S < 1W < 5S$ (2)

Section B

		Marks
10. (a) (i)	No, because there is no corresponding production.	(1) (1)
(ii)	– He can get interest return even if the company does not make any profit that year. – Higher priority of getting paid than shareholders if the company is liquidated. – any other relevant point [Mark the FIRST TWO points only.]	@ 2; max: 4
(b)	– Equity is a subjective concept that involves value judgments. / Different people use different standards of equity.	(1)
	– Yes, because the $6 000 results in a higher percentage increase in income of the poor.	(2)
	– No, as it does not help equalize opportunities. Relative to the rich, the poor do not get more resources to improve their productivity / increase future income.	(2)
	– No, at it is not equalizing outcome as not everyone can benefit from the scheme, e.g. non-permanent residents and residents who are below 18 years old are not eligible for the $6 000.	(2)
	– any other relevant point	(2)
		max: 4
(c)	Verbal Elaboration: – Disposable income increases. – Consumption expenditure increases. – Aggregate demand increases. – Price level increases. – Aggregate output unchanged in the long run.	(1) (1) (1) (1) (1)
	Indicate in the diagram: – AD shifts out – Vertical LRAS – P increases and Y unchanged	(1) (1) (1)



		Marks
11. (a)	Persistent increase in the general price level	(2)
(b)	No, because the real income of workers would fall if the percentage increase in price level is greater than the percentage increase in nominal wage.	(1) (2)
(c)	The opportunity cost is the nominal return of the ibonds.	(2)
(d)	The ibonds help preserve the purchasing power of the invested sum of money because the interest return of ibonds will increase at the same rate as actual inflation.	(2)

12. (a) Oligopoly

(1)

- a few dominating firms
- price searcher
- interdependence of pricing policies
- product can be heterogeneous
- non-price competition
- not easy to enter the industry
- imperfect information
- any other relevant point

[Mark the FIRST TWO points only.] @ 1; max: 2

(b) Advantages:

- tighter control of ownership / more difficult to be taken over
- no need to disclose the accounting information to public
- any other relevant point

[Mark the FIRST TWO points only.] @ 1; max: 2

Disadvantages:

- cannot issue shares to general public to raise capital
- difficult to transfer its ownership
- any other relevant point

[Mark the FIRST TWO points only.] @ 1; max: 2

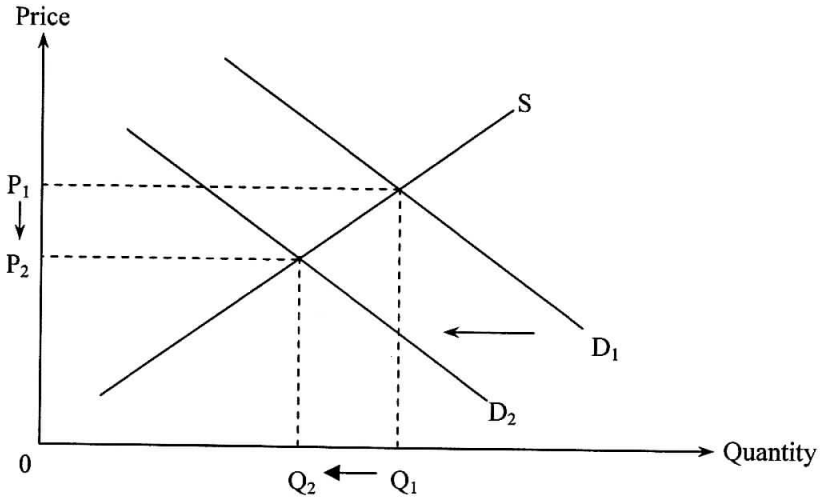
Marks

(c) (i) Verbal Elaboration:

- Living units under HOS and private housing are substitutes. (1)
- Bigger supply of public housing (living units under HOS) would result in a drop in demand for private housing. (1)
- Price of private housing drops. (1)

Indicate in the diagram:

- D shifts to the left (1)
- Lower P (1)



(ii) A rise in the mortgage interest rate could cool down the property market because some people fail or are unwilling to borrow at a higher interest rate. The demand for private housing drops. (1) (1) (1)

13. (a) Required reserve ratio = (\$500 million – \$100 million) / \$2 000 million (1)
= 20% (1)

(b) Maximum possible amount of deposits = \$500 million $\times \frac{1}{0.2}$ (1)
= \$2 500 million (1)

(c) Deposit = \$700 million $\times \frac{1}{0.2}$ = \$3 500 million (2)
Cash in public circulation = 0 (1)
Money supply = Deposit + Cash in public circulation
= \$3 500 million (1)

(d) – QTM: MV = PY, where M = money stock, V = velocity of circulation of money, P = general price level and Y = real output, assuming V constant. (2)
– An increase in M leads to an increase in P when Y increases by a smaller proportion. (2)
OR
– An increase in M leads to an increase in P by the same percentage when Y is constant. (2)

} max: 2

Section C

Marks

14. (a) Price discrimination is a kind of pricing behaviour by which different prices are charged on different customers for the same goods for reasons unrelated to difference in costs. (2)

(b)
- The seller needs to be a price searcher.
- The markets are separable. / Resale of goods and services between markets is difficult or very costly.
- Customers in different markets have different elasticities of demand.
- Customers in different markets have different information costs.
- any other relevant point

[Mark the FIRST TWO points only.] } @ 1; max: 2

(c) (i) No, because (1)
- the practice of lowering the price of the same item during a promotional period applies to all customers. (2)

OR
- the sellers make no attempt to separate customers. / the market is not separated. (2)

} max: 2

(ii) Yes, because (1)
- the costs of serving customers with or without discount coupons are the same. (2)

OR
- customers with discount coupons are the ones who are more sensitive to price changes and hence higher price elasticity. Therefore, they are charged a lower price. (2)

} max: 2

(d) (1) Price fixing: horizontal agreement (1+1)
(2) Exclusive dealing: vertical agreement (1+1)

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

[Mark the FIRST TWO points only.] } @ 1; max: 2

				Marks
15.	(a)	(i)	In country A, the opportunity cost of producing 1X = 1Y while in country B, the opportunity cost of producing 1X = 0.667Y.	(1)
			Country B has a lower opportunity cost in producing good X, therefore Country B has a comparative advantage in producing good X.	(1)
		(ii)	Yes, because	(1)
			their costs of producing goods X and Y are different.	(1)
	(b)		Country A will gain (1Y – 0.8Y =) 0.2Y	(2)
			and Country B will gain (0.8Y – 0.667Y =) 0.133Y per unit of X traded respectively.	(2)
	(c)	(i)	No, because	(1)
			country B will still enjoy a CA in producing good X as country A's and B's opportunity cost of production does not change.	(1)
		(ii)	Uncertain, because	(1)
			country B may no longer enjoy a CA in producing good X if the maximum possible level of production of Y exceeds 30 units.	(1)
	(d)	(i)	HDI measures the level of economic and social development of a country in 3 dimensions: health (measured by life expectancy at birth), education (measured by mean years of schooling and expected years of schooling) and living standard (measured by Gross National Income per capita).	(2)
		(ii)	– More production, business activities and employment opportunities in the import/export industry lead to higher per capita GDP. – Foreign health product or technology imported lead to better health. – any other relevant point [Mark the FIRST ONE point only.]	@ 2; max: 2