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HKDSE / IB Diploma / GCE AS AL / AP / SAT / HSC
IGCSE / GCSE / IB MYP / KS3 / MO / F.1 - F.6 / Y9 - Y13

2016 HKDSE Economics Paper 1
Suggested Solutions

Prepared by Andy Lai

HKDSE Economics 5** Teac

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2016 HKDSE Economics Paper 1 Suggested Answers

1.	B	2.	C	3.	D	4.	D	5.	C
6.	B	7.	B	8.	B	9.	D	10.	A
11.	B	12.	B	13.	D	14.	A	15.	A
16.	B	17.	A	18.	D	19.	A	20.	B
21.	C	22.	D	23.	C	24.	D	25.	C
26.	D	27.	C	28.	B	29.	A	30.	C
31.	D	32.	A	33.	A	34.	D	35.	A
36.	C	37.	B	38.	D	39.	A	40.	C
41.	B	42.	C	43.	B	44.	A	45.	D

*** MC 22 Remarks Answer: Remains unchanged!**

MC 係分 ABC Grade 既地方,
越出越煩, 越出越難! 轉數快, 概念清!
缺一不可! 同學一定要快又要好小心!

Andy's predicted M.C. Grade boundaries:
5: 42 / 45 5*: 40 / 45 5: 38 / 45**
4: 34 / 45 3: 30 / 45 2: 24 / 45

Section A		
1.	B	黎 Sir 提提你 : ● Economic goods: More of it is preferred ● Economic goods: Production costs / scarce resources involved ● Economic goods: Scarcity ⇒ Competition ⇒ Discrimination ● Free goods: More of it is NOT preferred, but it doesn't mean people prefer economic goods more than free goods. ● Free goods: More of it is NOT preferred ⇒ Need not competition

2.	C	黎 Sir 提提你 : ● Economic goods: More of it is preferred ● Economic goods: Production costs / scarce resources involved ● Economic goods: Scarcity ⇒ Competition ⇒ Discrimination ● Producer goods / Capital goods: For further production of goods and services ● Consumer goods: For direct consumption ● To organizers ⇒ USB flash drive as promotion services ⇒ Producer goods ● To participants ⇒ USB flash drive for personal use normal use ⇒ Consumer goods

3.	D	黎 Sir 提提你 : ● Opportunity Cost = Highest valued option forgone ⇒ Something you have to give up when making a decision! ● Cost of having trip = Explicit cost + Implicit cost ● Explicit cost = Alternative use of money to paid for the trip ● Implicit cost = Alternative use of the time having trip / Time Cost ● Typhoon approaching Tokyo ⇒ ↓ Value of the trip, Not affect the cost! ● A free buffet is given during his leave ⇒ ↑ Sth. to be given up ⇒ ↑ Cost ● Better Tokyo scenery ⇒ ↑ Value of the tirp, Not affect the cost ● Japanese Yen depreciates ⇒ ↓ HKD used to exchange same amount of Yen ⇒ ↓ Money to be given up ⇒ ↓ Cost of having the trip!

4.	D	黎 Sir 提提你 : ● Loanable market ⇒ Present consumption Vs Future consumption ● In economics, assume human beings are impatient ⇒ Human being are willing to pay for / prefer present to future availability or consumption of goods ● Interests: Cost of earlier availability of resources (Borrower) ● Interests: Compensation / Premium for deferring consumption (Lender) ● Interests still exists without money or inflation, not a monetary phenomenon. ● Interests still exists without transaction costs and information cost.

5.	C	黎 Sir 提提你 : ● Private Property rights: exclusive rights to use, exclusive right to receive income, and right to transfer ● Follow the recipes in the book to prepare dinner ⇒ Exclusive rights to use! ● Leave the book alone without reading it ⇒ Exclusive rights to use! ● Lend Kitman a book and a dinner in return ⇒ Rights to receive income ● Scan and upload the whole book ⇒ Infringing the copyright in a book!

6.	B	黎 Sir 提提你 : ● Land: Natural resources ● Capital: Man-made resources For example, school building, sanitisers in the toilets. ● Labour: Human resources of effort paying and decision making For example, teachers, ● Entrepreneur: Human resources of risk bearing and decision making ● Private cars owned by teachers is not the resources of the school! It is the teachers' private resourcces

7.	B	黎 Sir 提提你 : ● Fixed factors: remains unchanged as the output↑ ● Variable factors: ↑ when outpouts↑ ● In this question, teachers and sanitizers in the toilets are the most appropriate variable factors. However, there is no choice of this two only. ● By the rule of thumb: Choose the BEST answer ⇒ Option B is the answer! ● In fact, the school building can be fixed or variable factors, depending on the size of students in the school. If the numbers of students is larger than the maximum capacity of the school can handle, constructing another school is needed ⇒ Variable factors! ● Remarks: To be honest, it is quite difficult to distinguish between fixed factors and variable factors. The key to deal with this kind of problem is by elimination!

8.	B	黎 Sir 提提你 : ● ↓Legal minimum working age ⇒ ↑Labour supply ● ↑Training for labour now ⇒ ↑Skills of labour ⇒ ↑Labour productivity ● ↑Foreign direct investment ⇒ ↑Demand for labour ● ↑Salaries tax rate ⇒ ↑Disincentive effect of work ⇒ ↓Labour supply

9.	D	黎 Sir 提提你 : ● Occupational Mobility: The degree of ease at which a factor can change from one form of occupation to another. ● Clerk in an accounting firm ⇒ ↓Pecuniary and non-pecuniary return ⇒ and ↑Skills not specific and transferable ⇒ ↑Occupational mobility ● Professional basketball player ⇒ ↑Pecuniary and non-pecuniary return ⇒ and ↑Specific skills not transferable ⇒ ↓Occupational mobility ● Licensed plumber ⇒ ↑Pecuniary and non-pecuniary return ⇒ and ↑Specific skills not transferable ⇒ ↓Occupational mobility ● Graduate trainee in a law firm ⇒ ↑Pecuniary and non-pecuniary return ⇒ and ↑Specific skills not transferable ⇒ ↓Occupational mobility

10.	**A**	**黎 Sir 提提你 :** ● **Piece rate: Paid with directly proportion to the quantity of output** ● **Newspaper columnist ⇒ ↑Ease of calculating his income and efforts** ● **Primary school teacher should not be paid on piece-rate basis because the teacher may only want to recruit more numbers of students to attend his class but the quality of services may be lower.** ● **Fireman should be paid on piece-rate basis because in some seasons, fire is not happening frequently, their income will not very low.** ● **Bus driver should be paid on piece-rate because he may have incentive to drive more passengers without considering the safety concern and quality concern.**

11.	**B**	**黎 Sir 提提你 :** ● **HKTV lanuched HKTV Mall ⇒ Totally different industry** **⇒ Conglomerate expansion** ● **Conglomerate expansion ⇒ ↑ Diversification of business risk** ● **Conglomerate expansion ⇒ ↑ Extend its brand name to other market** ● **Conglomerate expansion ≠ Higher profits** ● **Having higher profits or not depends on the management of the company!**

12. B

黎 Sir 提提你 :

- Price Taker ⇒ Perfectly competitive market
  ⇒ Marginal Revenue = Market price = $25 (Why?)
- To achieve profit maximization ⇒ Marginal cost = Marginal revenue

Output (units)	2	3	4	5	6	7
Average Cost ($)	20	21	22	23	24	25
Total Cost ($)	40	63	88	115	144	175
Marginal Cost ($)	/	23	25	27	29	31
Marginal Revenue ($)	25	25	25	25	25	25
Average Revenue ($)	25	25	25	25	25	25
Total Revenue ($)	50	75	100	125	150	175

- Therefore, Profit-maximizing output, Q = 4
- Total Profit = Total Revenue – Total Cost = 100 – 88 = $12

13. D

黎 Sir 提提你 :

- ↓ Price of private housing ⇒ ↑ Quantity demanded of private housing!
- Relations of private housing and public housing: Substitudes

  ↑ Supply of public housing housing
  ⇒ ↓ Price of public housing
  ⇒ ↑ Quantity demanded of public housing
  ⇒ ↓ Demand for private housing

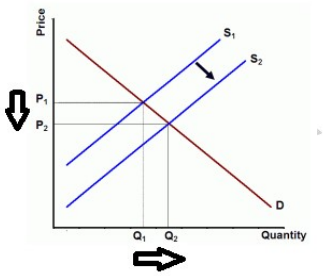
- ↑Expectation of rising interest rates ⇒ ↑Interest rate burden later
  ⇒ ↓Demand for private housing
- People expect the price of private housing to rise later
  ⇒ →The price they have to pay to buy the private house

14.	**A**	**黎 Sir 提提你 :** ● **A is the derived demand of B = Demand for B lead to the demand for A** **(Effect) (Cause)** ● **Coffee bean is the derived demand of Coffee because if you want to make coffee, you have to use coffee bean. 'Coffee' is the cause and 'Coffee bean' is the effect.** ● **The demand for digital camera will not necessarily lead to the demand for selfie sticks. On the contrary, The demand for selfie sticks may lead to the demand for digital camera.** ● **Chicken wings and chicken legs ⇒ By-products ⇒ Joint supply** ● **The demand for printing paper will not necessarily lead to the demand for selfie sticks. Actually, Printing paper is the cost of production of publishing newspapers.**

15. **A**

黎 Sir 提提你 :

- ↓Cost of production ⇒ ↑Supply of Good X ⇒ ↓Price but ↑Quantity



Good X Market

- $PED = \frac{\%\Delta QD}{\%\Delta P} = \frac{10\%}{5\%} > 1$ ⇒ Elastic demand (: Why not calculate PES?)

- Roughly speaking, in the short run:

  Durable goods ⇒ ↑Price ⇒ People might use their current goods

  ⇒ Elastic demand

- $PED = \frac{\%\Delta QD}{\%\Delta P} = \frac{10\%}{5\%} > 1$ ⇒ Elastic demand ⇒ Many substitutes and even close substitutes

- Equilibrium market ⇒ Qd = Qs ⇒ No Surplus ⇒ No excess capacity!

- Factors of production not easily available ⇒ PES < 1, but, who knows? ^.^

- Remarks:

✧ Some students may argue that elastic demand doesn't mean there are close substitutes available, only means there should be quite many substitutes. However, the rule of thumb of dealing with multiple choices questions: Choose the BEST answer.

✧ Remember: Only supply curve is shifted ⇒ PED cannot be calculated

Only demand curve is shifted ⇒ PES cannot be calculated

16.	B	黎 Sir 提提你 : ● Uber ⇒ ↑Competition with tax service ⇒ ↓Demand of taxi services ● ↓Fuel price ⇒ ↓Cost of production ⇒ ↑Supply of taxi services ● Therefore, Equilibrium point shift from E ⇒ E_2 or E $\overset{\uparrow SS}{\Rightarrow}$ E_3 $\overset{\downarrow DD}{\Rightarrow}$ E_2

17.	A	黎 Sir 提提你 : ● Legal procedures for urban re-development are simplified ⇒ ↑Numbers of buildings to be rebuilt ⇒ ↑Demand for construction workers at present ● ↓Wages rates of construction workers ⇒ ↓Quantity supplied of construction workers at present ● Allowance for training programmes for construction industry ⇒ ↑Number of people joining construction industry ⇒ ↑Supply for construction workers in the future ● ↓Job opportunities in construction industry in Macau ⇒ ↑Attractiveness of construction industry in Hong Kong ⇒ ↑Supply for construction workers at present

18.	D	黎 Sir 提提你 : ● Law of demand: ↑P ⇒ ↓Qd, vice versa, ceteris paribus. ● Price stated in law of demand ≠ nominal price only ⇒ Relative price, too! ● ↑Monthly rental parking ⇒ ↑Relative price of vehicles with lower quality ⇒ ↓Quantity demanded of vehicles with lower quality ⇒ ↑Average quality of vehicles using parking spaces ● Ad valorem sales tax applied ⇒ No change in relative price of both red wine of high-quality and red wine of low-quality still remains unchanged ⇒ No change in quantity demanded of both of them ● Nominal price of expensive fruits is the same for both faraway market and market near a farm, but the cost of transportation is much higher to faraway market than a market near the farm ⇒ ↓ Relative price of expensive fruits in a faraway market ⇒ ↑ Quantity Demanded of expensive fruits in a faraway market ● Economic boom ⇒ ↑ Real disposable income of people ⇒ ↑ Demand for normal goods like residential flat ⇒ ↑ Both prices and quantity transacted of residential flat. ● Remarks: Ad valorem sales tax: Tax payment increases according to the value of the good, usually imposed as a certain percentage of the price of the good. Although the concept of Ad valorem sales tax is not included in the existing syllabus, the same situation as lump sum tax, there will be simple explanation of what it is and test the logical thinking of candidates and who can intercept, understand and apply the new ideas in the exam questions. This is a new trend in recent HKDSE Examination!

19. A

黎 Sir 提提你 :

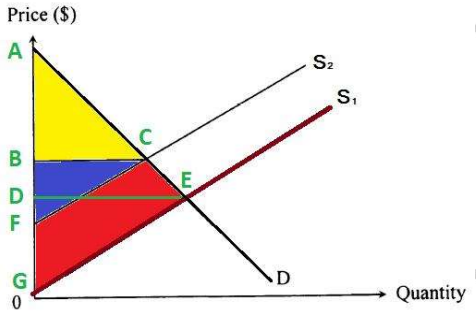
- **The demand and supply schedule of a good before and after subsidy applied is stated below:**

Price ($)	40	50	60	70	80	90
Quantity demanded (units)	14	12	10	8	6	4
Quantity supplied (units)	6	8	10	12	14	16
New Quantity supplied (units)	10	12	14	16	/	/

- **Total revenue including subsidy = $50 x 12 + $20 x 12 = $ 840**
- **Total subsidy granted by the governrn.ent = $20 x 12 = $240**
- **From Price decreases its price from price = 60 – 10, the revenue↑ ↓**

20.	B	黎 Sir 提提你 : ● Monopoly: The only seller in the specific market and price setter. ● Monopoly has no close substitute but still have substitutes ● Close Substitutes ≠ Substitutes ● Substitutes: Different kinds of goods or services produced by different companies but being able to replace each other in a certain extent, for example, Coca-cola and Ribena. ● Close substitutes: Same kind of goods or services produced by different companies but being able to replace each other in a certain extent, for example, Watson's distillated water and Vita distillated water. ● Natural monopoly market has no entry barrier.

21.	C	黎 Sir 提提你 : ● Efficiency: Marginal social benefit = Marginal social cost ⇒ Difference between marginal social benefit and marginal social cost is zero ⇒ Total social surplus is maximized! ● Only maximize either consumer surplus or producer surplus does not means the total social surplus is maximized.

22.	D	黎 Sir 提提你 : ● Good X and good Y are in competitive supply. ● ↑Demand of Good Y ⇒ Both ↑Price and ↑Quantity of Good Y ⇒ ↓Supply of Good X (In competitive supply) ⇒↑Price and ↓Quantity of Good X ● ↓Consumer surplus and ↓Producer surplus in Good X  Old consumer surplus: ADE New consumer surplus: ABC Old producer surplus: BEG New producer surplus: BCF Decrease in supply of Good X ● Remarks: Decrease in supply will not necessary decrease in producer surplus, but for this question, it stated that Supply curve shifted in a parallel manner and the demand curve is downward sloping, which makes the quantity transacted decrease and the increase in price is less than the extent of decrease in supply ⇒ ↓Producer surplus! ● If the demand curve is perfectly inelastic demand and the supply curve is decreased by a parallel manner, what is the effect on producer surplus? Increases, decreases, remain unchanged or cannot be determined?

23.	C	黎 Sir 提提你 : ● GDP at factor cost = GDP at market price – Indirect business tax + Subsidy ● GDP at factor cost = C + I + G + X – M – Indirect business tax + Subsidy = 380 + 230 -50 + 450 +130 – 170 – 0 + 30 = 1000

24.	D	黎 Sir 提提你 : ● GDP deflator = Reflecting the general price level of the economy ● GDP deflator = Reflecting the cost of living of people in the economy ● %ΔGDP Deflator > 0 ⇒ ↑GDP Deflator ⇒ ↑General Price level ⇒ ↓Purchasing Power of $ ⇒ Actual inflation rate > 0% ● From Fisher equation, ⇒ Realized Real interest rate = Nominal interest rate – Actual inflation rate ⇒ Actual inflation rate = Nominal interest rate – Realized Real interest rate > 0 ⇒ Actual inflation rate = Nominal interest rate – Realized Real interest rate > 0 ⇒ Nominal interest rate > Realized Real interest rate

25. **C**

黎 Sir 提提你 :

- **Unemployment rate =** $\frac{No.\ of\ Unemployment}{Labour\ \ force} \times 100\%$

- **Some unemployed workers gives up seeking jobs**
  - ⇒ **Both unemployment and labour force ↓ by the same absolute amount**
  - ⇒ **%↓of unemployment >> %↓in labour force**
  - ⇒ **Unemployment rate =** $\frac{No.\ of\ Unemployment\downarrow\downarrow\downarrow}{Labour\ force\downarrow} \times 100\% \Rightarrow \downarrow$

- **Some university graduates join the labour force, but there is no information about how many of them would become employed ⇒ Uncertain effect!**

- **Some factories move to a neighbouring country with lower labour cost**
  - ⇒ **↓Labour demand of Hong Kong**
  - ⇒ **↓Labour to be employed**
  - ⇒ **↑Labour to become unemployed but labour force remains unchanged**
  - ⇒ **Unemployment rate =** $\frac{\uparrow No.\ of\ Unemployment}{Labour\ force} \times 100\% \Rightarrow \uparrow$

- **The government increase unemployment benefits**
  - ⇒ **↓Incentives to work for both employed and unemployed workers**
  - ⇒ **↑Unemployed workers but labour force remains unchanged**
  - ⇒ **Unemployment rate =** $\frac{\uparrow No.\ of\ Unemployment}{Labour\ force} \times 100\% \Rightarrow \uparrow$

26.	D	黎 Sir 提提你 : ● ↑Required reserve ratio ⇒ ↓Loan to the public ⇒ ↓Deposit creation ⇒ ↓Money Supply = ↓Demand deposit + Currency in public circulation ⇒ ↑Nominal interests rate ⇒ ↑Interests burden ⇒ ↓Investment ⇒ ↓Aggregate demand (∵ ↑AD = C + ↓I + G + X – M) ● ↑Price level of the country ⇒ Downward movement along the AD curve ⇒ ↓Aggregate output demanded ● ↑Appreciation of currency of trading partner ⇒ ↓Price (in terms of currency of trading partner) ⇒ ↑Exports aggregate demand ⇒ ↑Aggregate demand (∵ ↑AD = C + I + G + ↑X – M) ● ↑Government spending on social welfare ⇒ No current production of goods and services, only wealth transfer ⇒ No effect on Aggregate demand

27.	C	黎 Sir 提提你 : ● Government builds new infrastructures ⇒ ↑Demand for construction workers ⇒ ↑Employed population during the construction period ● Government builds new infrastructures ⇒ ↑Demand for construction workers ⇒ ↑Employed population during the construction period ● Government builds new infrastructures ⇒ ↑Demand for construction workers ⇒ ↑Employed population during the construction period ⇒ ↑Consumption + Investment + Goverssssssssnment ⇒ ↑Aggregate demand (∵↑AD = ↑C + ↑I + ↑G + X – M) ● Government builds new infrastructures ⇒ ↑Demand for construction workers ⇒ ↑Employed population during the construction period ⇒ ↑Potential output after completion i.e. ↑ Numbers of infrastructures ● However, after government builds new infrastructures ⇒ ↓Demand for construction workers ⇒ ↓Employed population during the construction period ⇒ ↓Consumption + Investment + Government ⇒ ↓Aggregate demand (∵↓AD = ↓C + ↓I + ↓G + X – M) ⇒ ↓Price level (Upward movement along the supply curve)

28.	B	黎 Sir 提提你 : ● Multiple entry permit replaced by one trip per week cap ⇒ ↓ Exports of goods and services ⇒ ↓ Aggregate demand ⇒ ↓ Output level and Price level in the short run and ⇒ ↓ Price level in the long run ● No change in Long run aggregate supply (LRAS) ⇒ No change in output level in the long run

29.	A	黎 Sir 提提你 : ● Stock market becomes less volatile ⇒ People prefer keeping less cash on hand and more investment ⇒ ↓Asset demand ● General price level is expected to ↓ continuously ⇒ People prefer keeping more cash on hand and instead of investment ⇒ ↑Asset demand ● The central bank raises the discount rate ⇒ ↑Cost of borrowing money from comvvmercial banks ⇒ ↓Interests rates offered to depositors ⇒ ↓ ● Stock market becomes less volatile ⇒ People prefer keeping less cash on hand and more investment ⇒ ↓Asset demand

30. C

黎 Sir 提提你 :

- $199 x 12 months for a new mobile phone
  ⇒ '$' = HKD = unit of account

- $199 x 12 months for a new mobile phone
  ⇒ 12 installments in terms of '$' = HKD = standard of deferred payment

31. D

黎 Sir 提提你 :

- The balance sheet of a banking system is as shown below:

The balance Sheet of a Banking System			
Assets (HKD)		Assets (HKD)	
Reserves:	250	Deposits	500
Loans:	250		

- Actual reserve % = Actual reserve / Actual deposit = 250 / 500 = 50%

- Actual banking multiplier = 1 / actual reserve % = 1 / 50% = 2

- Given excess reserve = $125 million
  ⇒ Minimum required reserve% = (250-125)/500 = 25%
  ⇒ Maximum Banking Multiplier = 1/25% = 4

- Therefore, if all excess reserve is loan out
  ⇒ Maximum amount of deposit changed = 250 x 4 = 1000 million
  ⇒ Maximum amount of loan changed = 1000 – 250 = 750 million

32. **A**

黎 Sir 提提你 :

- **Money Supply Problem: Andy's special skills!**

  ΔM1 $\Rightarrow$ Also ΔM2 and ΔM3
  ΔM2 $\Rightarrow$ Also ΔM3
  ΔM3 $\Rightarrow$ Only ΔM3

- **Withdraw $500k from saving A/C with a licensed bank $\Rightarrow$ ΔM2 = -500,000**

- **Half of $500k is put into current account $\Rightarrow$ ΔM1 = +250,000**

- **Remaining of $500k is put into deposit taking company $\Rightarrow$ ΔM3 = +250,000**

- **The changes of M1, M2 and M3 can be shown below:**

M1	M2	M3
	-500,000	-500,000
+250,000	+250,000	+250,000
		+250,000
↑	↓	No change

33.	A	黎 Sir 提提你 : ● **Four assumptions for credit creation:** ✧ **Fractional required minimum reserve ratio (r):** $0\% < r < 100\%$ ✧ **No excess reserve** ✧ **Public willing to borrow** ✧ **No cash drain / No cash leakage:** ● **Actual deposit < Maximum deposit ⇒ The four assumption(s) doesn't hold!** ● **↑Popularity of electronic payment** **⇒ ↑Deposit ⇒ ↓Cash leakage** **⇒ ↓Gap between actual reserve and maximum reserve** ● **Central bank tightens the restrictions imposed on mortgage loans from banks** **⇒ ↓Loans to public ⇒ ↓Deposit** **⇒ ↑Gap between actual reserve and maximum reserve** ● **Central bank buys bonds from the public** **⇒ ↑Cash holding on public hands** **⇒ But we don't know whether the public will re-deposit cash in banks** **⇒ ΔGap between actual reserve and maximum reserve is uncertain** ● **↓Legal reserve ratio for banks** **⇒ ↑Excess reserve** **⇒ But we don't know whether banks will keep excess reserve or loan it to the public, and we don't know whether the public will redeposit it back to the banking system or keep it themselves.** **⇒ Δ Gap between actual reserve and maximum reserve is uncertain**

34.	D	黎 Sir 提提你 : ● According to quantity equation: $M \times v = P \times Y$ ● Classical Quantity Theory of Money: Assume v and Y are constant ● Therefore, $\%\Delta M = \%\Delta P \Rightarrow$ Money Supply Growth rate = Inflation rate! ● Now, Money supply is growing at a constant % each year $\Rightarrow \%\Delta M = k\%$ where k is any positive real number $\Rightarrow \%\Delta P = k\% \Rightarrow$ Inflation rate = k%

35.	A	黎 Sir 提提你 : ● A mobile app designer $\Rightarrow$ Annual salary > Allowance $\Rightarrow$ Salary taxes ∨ ● Earning dividens $\Rightarrow$ No dividens tax in Hong Kong! (Do you know why?) ● Buying a second-hand car $\Rightarrow$ Need not pay 1st registration tax! ● Departure from Hong Kong airport $\Rightarrow$ Air passenger departure tax ∨

36.	C	黎 Sir 提提你 : ● ↓Allowance ⇒ ↑Numbers of people with low income falling in tax net ⇒ ↑Subjects to be tax ⇒ Tax base is widen and boarden ● ↓Allowance ⇒ ↑Numbers of people with low income falling in tax net ⇒ More uneven income distribution ● ↓Standard tax rate ⇒ ↑Working incentives of people paying standard tax ● ↓Standard tax rate ⇒ ↑Working incentives of people paying standard tax ↓Allowance ⇒ ↓Working incentives of people paying progressive tax Therefore, the effect to the total tax revenue is uncertain. ● For reference, 2006 HKCEE Paper 2 MC Q42

37.	B	黎 Sir 提提你 : ● If deflation is unexpected ⇒ ↑Purchasing power of debts + interest (1%) paid by the government ⇒ ↑wealth redistribution from government to the i-bonds holder ● If deflation is unexpected ⇒ ↑Purchasing power of fixed pensions received by pensioners ⇒ Pensioners will gain ● If deflation is unexpected and the mortage lons is at floating rate ⇒ Creditors will charge a lower interest rates to the debtors to keep the purchasing power of debts and interests paid back the same ⇒ Neither Debtors nor creditors benefit or suffer. ⇒ Wealth redistribution will not take place. ● Remarks: The interest rate of i-bond is calculated based on the Composite Consumer Price Index and interest rates will be at least 1% p.a. if deflation.

38.	D	黎 Sir 提提你 : ● ↑Government expenditure and income tax by the same amount ⇒ ↑Aggregate demand (Do you know why?) ● ↑Income tax will have disincentive effect on working ⇒ ↑Numbers of people quitting the jobs ⇒ ↓Aggregate output (Do you know why?) ● Therefore, the change in the aggregate output depends on the extent of increase in aggregate demand and decrease in aggregate output ⇒ The effect of aggregate output is uncertain. ● Remarks: ➢ Disposable income = Annual income - Tax revenue to the government, part of the disposable income is savings. ➢ Assume both government expenditure (G) and income tax (T) increase by $10,000, total annual income is $80,000, and original tax revenue to the government is $20,000, and the proportion of savings to the disposable income is $50% ➢ ↓Consumption (C) = [(80,000 -20000) – (80,000 – 30,000)] x (1-50%) = $ 5000 ➢ Therefore, ∆Real GDP = - 5000 + 10000 = ↑$5000 ⇒ ↑Aggregate output! ➢ For simplification, because part of the disposable goes to saving, therefore, the decrease in consumption is less than that of increase in government. ● ↑Income tax will have disincentive effect on working is a very important and hot topic in HKDSE examination, for your reference, 2013 LQ Q8.

39.	**A**	**黎 Sir 提提你 :** ● **Economic recovery of country A's trading partners** **⇒ ↑Export demand of the country** **⇒ ↑Aggregate demand of the country** **⇒ Short run equilibrium output > Full employment output** **⇒ An inflationary (output) gap exists!** ● **Economic recovery of country A's trading partners** **⇒ ↑Export demand of the country** **⇒ ↑Revenue and profit earned by local export company** **⇒ ↑Profits tax and salary tax revenue** **⇒ Tax Revenue > Government expenditure** **⇒ A fiscal surplus exists since before it is fiscal balance (i.e T = G).**

40.	C	黎 Sir 提提你 : ● Fiscal deficit: Tax Revenue < Government expenditure ● Trade deficit: Export Value < Import Value ● Depreciation of a country currency ⇒ ↑Export Demand in terms of our country currency ⇒ ↑Export revenue in terms of our country currency ⇒ It may makes Export revenue = Import revenue ⇒ It may also ↑profits tax, salary tax revenue ⇒ It may makes tax revenue = government revenue ● ↑Income tax ⇒ ↓Working incentives ⇒ ↓Disposable income ⇒ ↓Import demand ⇒ It may makes Export revenue = Import revenue ⇒ It may also ↑ income tax revenue ⇒ It may makes tax revenue = government revenue ● ↓Nominal interests rates ⇒ ↓Interests burden ⇒ ↑Disposable income ⇒ ↑Import demand ⇒ It may makes Export revenue <<< Import revenue ⇒ It may also encourage consumption and investment ⇒ It may ↑indirect tax revenue and profits tax revenue ⇒ It may makes tax revenue = government revenue ● Remarks: ↑Income tax will have two opposite effects: Disincentive effects and increase in tax revenue, the final effects on government tax revenue depends on which effects have larger extents, for reference, 2013 LQ Q8.

41. B

黎 Sir 提提你 :

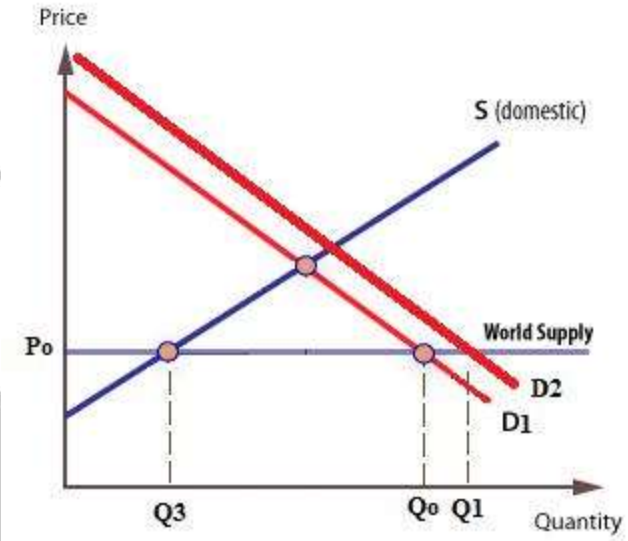
- **Output table ⇒ Opportunity Cost table!**

	Toys	Cars
Country A	50	80
Country B	20	60

⇒

	Toys	Cars
Country A	1.6 Cars	0.625 Toy
Country B	3 Cars	0.333 Toy

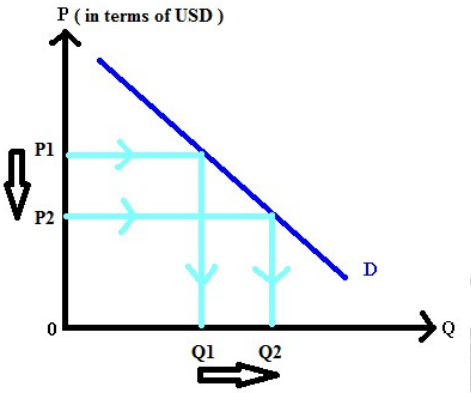
- **Therefore, Country A export Toys while Country B export Cars**
- **Mutually beneficial terms of trade:** $1.6\,Cars < 1\,Toy < (3-0.4) = 2.6\,Cars$

42.	C	黎 Sir 提提你 : ● ↑Demand from D1 to D2 ⇒ ↑Excess Demand from Qo-Q3 to Q1-Q3 ● Quota remains unchanged ⇒ Quantity of (Q1-Qo) have to buy Good X from domestic farmers ⇒ Import volume (quantity) remains unchanged! ● Quota remains unchanged ⇒ Quantity of (Q1-Qo) have to buy Good X from domestic farmers ⇒ ↑ Demand of Good X in the small country ⇒ ↑ Both Price and quantity sold of Good X in the small country  **Market for Good X**
43.	B	黎 Sir 提提你 : ● Visible Trade + Invisible Trade + Capital inflow – Capital outflow = ΔOfficial Reserve ⇒ 20 + X + 70 – 50 = 30 ⇒ X = -10

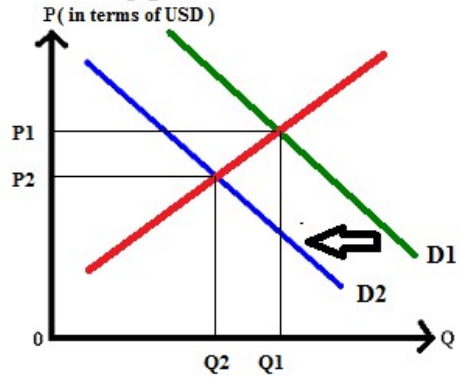
44. **A**

黎 Sir 提提你 :

- **Depreciation of currencies against US dollars of all countries in the region except that of country X**
  - ⇒ **↓Price (in terms of US dollars) of the exported goods to USA from all countries except country X**
  - ⇒ **↑Quantity demanded of the exported goods to USA from all countries except country X**
  - ⇒ **↓Demand of exported goods to USA from country X (∵Substitutes)**
  - ⇒ **↓Both price (in terms of US dollars and country X currency) and quantity transacted (Volume) of exported goods to USA from country X**



Exported goods to USA from countries except country X



Exported goods to USA from country X

- **Remarks: Are you able to draw two demand and supply diagrams of exported goods to USA from all countries and that from country X to explain the situation above?**

45.	D	黎 Sir 提提你 : ● USD 1 = ↑ 0.8773 (15 Feb 15) → USD 1 = ∈ 0.8965 (15 Aug 15) ⇒ USD appreciates against Euro ⇒ HKD appreciates against Euro (∵Linked exchange rate system of HKG) ⇒ ↓ Demand of Hong Kong exports to Europe in terms of HKD ⇒ ↓ Both Price (HKD) and Quantity demanded of Hong Kong exports to Europe ⇒ ↓ Total value (HKD) of Hong Kong exports to Europe ● USD 1 = ↑ 0.8773 (15 Feb 15) → USD 1 = ∈ 0.8965 (15 Aug 15) ⇒ USD appreciates against Euro ⇒ HKD appreciates against Euro (∵Linked exchange rate system of HKG) ⇒ ↑ Price (Euro) Hong Kong exports to Europe ⇒ ↓ Quantity demanded (Euro) of Hong Kong exports to Europe ⇒ ↓ Numbers of European tourists to Hong Kong ● USD 1 = ∈ 0.8773 (15 Feb 15) → USD 1 = ∈ 0.8965 (15 Aug 15) ⇒ USD appreciates against Euro ⇒ HKD appreciates against Euro (∵Linked exchange rate system of HKG) ⇒ ↓ Price (HKD) Europe exports to Hong Kong ⇒ ↑ Quantity demanded (HKD) of Europe exports to Hong Kong ⇒ Δ Total value (HKD) depends on price elasticity of demand ⇒ Uncertain! ● Exchange rate of HKD with USD is linked ⇒ Market exchange rate is floating but should be around USD 7.8 : 1 ⇒ No change in Price (USD) of Hong Kong exports to USA ⇒ No change in Quantity demanded (USD) of Hong Kong exports to USA ⇒ No change in volume of Hong Kong exports to USA ● Remarks: There is a very important prerequisite to maintain the linked exchange rate, i.e. Linked exchange rate is fully supported by Government official reserves by setting strong-sided and weak-sided policy.

The end.

黎 Sir 簡介 Andy Lai BEng CUHK, MIEEE

Mathematics
Economics
Physics

- ✧ 畢業於香港中文大學電子工程學系，黎 Sir 教室創辦人之一.
- ✧ 超過 15 年教授中學文憑 / IB Diploma / GCE / HSC / SAT / AP / GCSE / IGCSE / IB MYP 課程經驗.
- ✧ 與學生面對新中學文憑試, 黎 Sir 親身上陣, 以實力於數學科, 物理科和經濟科奪取 5**,證明寶刀未老.
- ✧ 熟悉出題趨勢，教授考試取分技巧；鼓勵同學獨立思考，增強同學理解能力.
- ✧ 善用生活化例子講解，教法生動，增加學習趣味；深入淺出，明白學生學習上的困難和需要.
- ✧ 精心編制筆記，適合中文和英文中學學生就讀；精心編制練習和試題，協助同學盡快掌握答題技巧.
- ✧ 黎 Sir 在中學和大學時代已是一名傑出學生，曾獲取的多項學業上和運動上的獎學金及獎項.
- ✧ 曾代表香港參加國際性運動比賽，取得優異成績，又讀得又玩得，絕不是死讀書的書呆子.
- ✧ 任教科目：所有數學科，物理科，化學科，生物科，經濟科，商業科.

黎 Sir 教室學生佳績：

Excellent Results

- ✧ 首屆香港中學文憑 (HKDSE)，多位學生取得 5/5*/5**級以上佳績. 更有學生考獲 5 科 5**級 2 科 5*級 1 科 5 級優異成績，在全港 72620 考生中，排名 28，入讀港大醫學院.
- ✧ 英國高考 (GCE AS/AL)，多位學生取得 A*/A 最高級別，更有學生考獲 5 科 A*.
- ✧ 國際文憑 (IB Diploma)，多位學生取得 6 / 7 級別，更有學生取得 44/45 總分.
- ✧ 英國會考 (IGCSE / GCSE)，多位學生取得 A / A*成績，更有學生取得 8 科 A*。
- ✧ 加拿大大學預科 (CESI) 數學課程 MCV4U，取得 98 / 100, 99 / 100 成績。
- ✧ 學生成功拔尖 (EAS)，提早入讀港大理學院和中大法律學院.
- ✧ 香港中學會考 (HKCEE)，多位學生取得 20 分以上佳績.
- ✧ 保加利亞國際數學競賽 (BIMC 2013) 隊際賽金牌.
- ✧ 奧數華夏杯/港澳杯/華杯，多位學生取得特等獎/金獎/一等獎/全港第二名.
- ✧ 還有更多，恕不能盡錄，詳情請瀏覽以下網址: www.andylai.hk/result.htm

黎 Sir 教室課程特色：

- ✧ 小組教學 (1 – 6 人)，導師親身教學；照顧每位學生需要，事半功倍.
- ✧ 精心編制筆記，練習以近 30 年本地和外國公開試題為藍本.
- ✧ 概念理解，取分技巧並重；協助同學盡快掌握答題技巧.
- ✧ 歡迎自由組合小組上課，時間及課程內容編排更有彈性.
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黎 Sir 簡介 Andy Lai

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- ✧ 畢業於香港中文大學，黎 Sir 教室創辦人之一.
- ✧ 超過 16 年教授 中學文憑 / IB Diploma / GCE / HSC / SAT / AP / GCSE / IGCSE / IB MYP 課程經驗.
- ✧ 與學生面對新中學文憑試, 黎 Sir 親身上陣, 於數學科, 物理科和經濟科奪取 5**, 證明寶刀未老.
- ✧ 現於黎 Sir 教室任教補習班，學生就讀於英文中學，中文中學，國際學校及英國留學生.
- ✧ 熟悉近年出題趨勢，教授考試取分技巧；鼓勵同學獨立思考，增強同學理解能力.
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- ✧ 黎 Sir 在就讀大學時曾於全球最大美資電腦公司任實習生超過一年，大學畢業後旋即於全港大型英資電腦公司，負責主理該公司所代理的全球大型美資電腦公司儲存系統銷售業務.
- ✧ 於短短半年內將該產品線銷售業績提升超過 50%. 同時更被公司評選為"傑出表現員工 Outstanding Performer"，成功將書本上的知識靈活運用於工作上.
- ✧ 黎 Sir 為了教學理想，毅然辭去工作，全身投入教學事業，希望將自己的一套學習方法教授學生.

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小巴: 21K, 74, 74S

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