

Economics

1.

(a) No (1)

Full cost = monetary cost + non-monetary cost (time cost) (1)

As the time cost (e.g. the time of queuing) maybe lower during the day with typhoon, it is not necessarily to have a lower opportunity cost during normal days. (1)

(b) No(1)

Although the monetary price will be lower after the implementation, the shortage maybe created, causing the waiting time increase, time cost increase, the opportunity cost not necessarily lower. (1)

2.

(a) Yes (1)

As the free beauty treatment required the cost of production. (Or any other reasonable answer) (1)

(b) Private limited company (1)

Limited liability (or any other reasonable answer) (1)

(c) Profit-sharing scheme (1)

It will increase the working incentive of the manager. (1)

3. As youth are unable to apply hostel, shortage occurs, the economic downturns cause the demand of hostel decrease. Given that the price of hostel is fixed, the shortage may decrease, or even surplus of hostel occurs. (4)

4. The law of diminishing marginal returns stated when the variable factors in continuously added to fixed factor, the marginal return will eventually diminished, holding other factors constant. (2)

Yes, when the 5th machinery is deployed, the marginal product decrease. (2)

5. Under the linked exchange rate (1), the USD appreciated against the GBP, the HKD appreciated against the GBP. (1) The price of imported goods (in terms of HKD) decreases, the import volume would increase (1) and the export volume would decrease (1), the net export decrease, the aggregate demand decrease (1), the price level would decrease. (1)

6.

(a) GDP: $55 - 10 + 83 - 60 + 60 = 128$ thousand dollars. (4)

(b) The first sentence is normative statement, (1) as it involved value judgement. (1) The second sentence is positive statement, (1) as it can be refutable by facts. (1)

7. Unemployment rate = unemployed population/labour force x 100% (1)

As the illegal labour was sent back to original country, labour force decrease. (1) If the job vacancies is not replaced by the unemployed population, the unemployment rate increase. (1)

8. Uncertain (2)

As the table only show the total output of each country, which did not reflect the trade off between two output. (1) There is insufficient information to find out which country has comparative advantages among each other. (1) There maybe no mutually beneficial range of terms of trade. (1)

9.

(a) Suppose the public deposit the cash into the bank, cash reserves increase, the bank will loan out excess reserves to the public, the public will deposit back to the bank, the process goes on until there is no excess reserves. (2)

(b) Monetary base: $1,200 + 5,200 = 6,400$ million (1)

Money Supply: $1,200 + 5,200/0.2 = 27,200$ million (1)

10.

- (a) Lower risk of being taken over, (1) as the bondholders do not have the ownership of the company. (1)
The voting rights will not be diluted, (1) as the bondholders do not have voting rights (1)

- (b) Primary/Secondary production, (1) as the company produce raw materials/ turn raw materials into finished goods. (1)
Tertiary production (1), as the company involved in reinvestment. (1)

- (c) Regional division of labour (1)
Practice makes perfect (1)
Reduce time in job transfer (1)
(Or other reasonable answer)

- (d) No (1)
Cannot be unit of account, (1) it cannot measuring the value of goods (1)
Cannot be medium of exchange, (1) it cannot facilitating trading (1)
(max:4)

- (e) Generally acceptable, (1) it should be accepted by most of individuals (1)
Divisible, (1) the value of money would not decrease when it is divided (1)

11.

(a) There is positive externality, (1) as the people who have injected vaccines help protect the health of others who has not injected and did not received compensation, (1) result the divergence between marginal social cost and marginal social benefit, causing underproduction. (1)

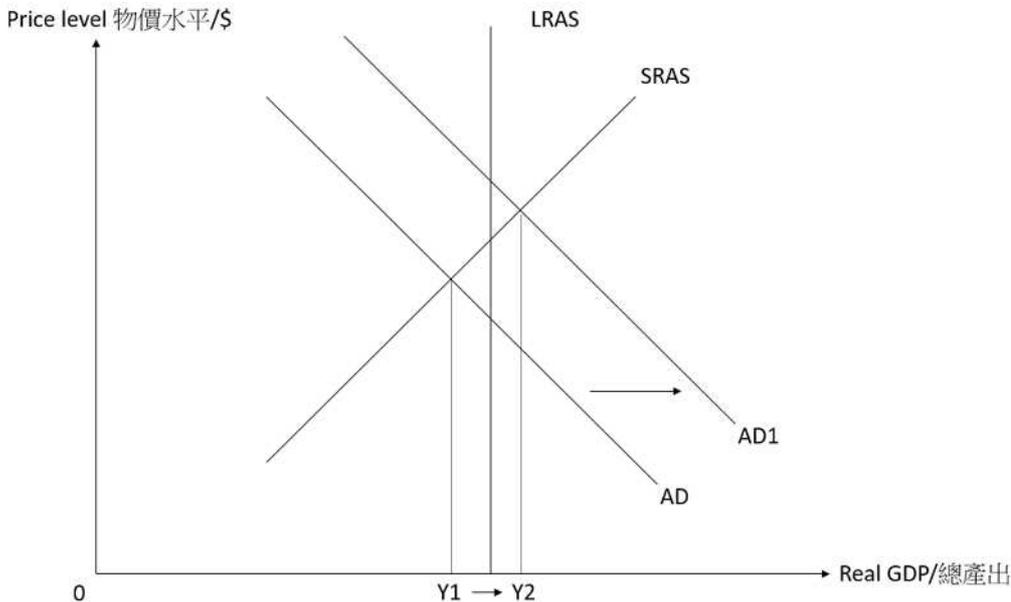
(b) No, if the cost of taking action is higher than external benefit. (2) (Or other reasonable answer)

(c) Diagram:

Original inflationary gap (1)

AD decrease (1)

Deflationary gap occur/reduce inflationary gap (for answering no deflationary gap) (1)



Due to COVID-19, it reduce private consumption expenditure and investment expenditure, (1) aggregate demand decrease (1)

The decrease in aggregate demand would lead to inflationary gap no longer exist, deflationary gap occur (1)

Or

The decrease in aggregate demand would lead to an decrease in inflationary gap but not occurring deflationary gap (1)

(d) In long run, there is a downward pressure to input factor market, which reduce input price, (1) the aggregate supply increase, (1), the real output will reach to potential output. (1)

12.

(a) The unemployment rate increase (1)

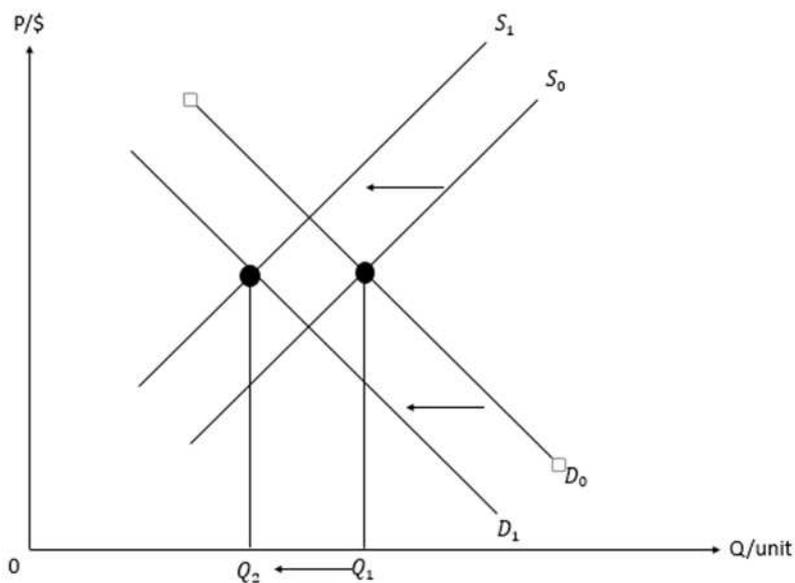
(b) Recession, (1) inflation rate decrease/ deflation rate increase (1)

(c) Diagram:

Demand decrease (1)

Supply decrease (1)

Quantity transacted decrease (1)



As the restaurants start to close down, the supply decrease (1)

The customers reduce their consumptions, the demand decrease (1)

The price uncertain, the quantity transacted decrease (1)

(d) $MV=PY$,

Which

M is money supply

V is velocity of money circulation

P is price level

Y is real output (2)

When short run money supply increase, price and real output increase, holding V is constant

Or

When long run money supply increase, price increase as same as percentage, holding V and Y are constant.

(e) Strategy 1: Provide Consumption Coupons to the Public

Effects on Price Level

Providing consumption coupons can increase private consumption expenditure, lead to an increase in aggregate demand, short run aggregate output increase, price level increase, an inflationary gap may occur or reducing the deflationary gap.

Effects on Unemployment Rate

The distribution of consumption coupons may reduce the unemployment rate as businesses may respond to consumption incentives. Higher consumer spending could be increase the demand of different industries, as labour is the derived demand of goods and services, the demand of labour increase, give that the minimum wage remained unchanged, the surplus of labour reduced, unemployment rate decrease. However, as consumption coupon is a temporary policy, it required an additional input to maintain or it bring temporary effect to the economy.

Effects on Government Expenditure

On the expenditure front, the government expenditure would increase greatly. Although it will have a slightly increase in government consumption expenditure, due to the administration cost. It is expected the it will be recovered by the tax revenue due to the boost of consumption coupons

Strategy 2: Adjust Discount Rates

Effects on Price Level

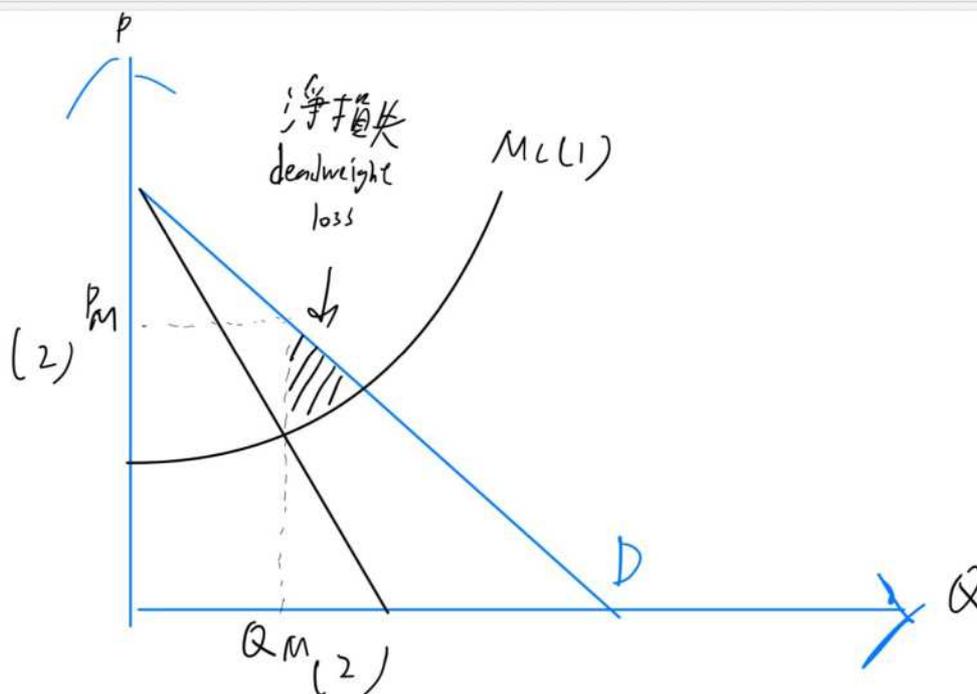
Lowering the discount rate encourages borrowing, if there is a demand for loan, the deposit in banking system increase, money supply increase, the interest rate decrease, which increasing private consumption expenditure and investment expenditure, will lead to an increase in aggregate demand, as the short run price level and aggregate output would increase. If the investment expenditure is spend on infrastructure, long run aggregate supply increase, lead to a fall on long run price level.

Effects on Unemployment Rate

Lowering the discount rate would encourage economic boom to the economy, lead to a higher consumption and expenditure, this will lower the unemployment rate. However, the discount rate need to be maintained if the economy would like to maintain lower unemployment rate.

Effects on Government Expenditure

Lowering the discount rate would not greatly increase government expenditure.



13 (b)

At current output, the marginal benefit is larger than marginal cost, (1) causing underproduction (1), deadweight loss happened

13 (c)

price discrimination happen when the firm provide same type of goods and products with same cost, but selling to different market segments with different price. (2)

No as the firm selling different product to different market. (2)

13(d)

Horizontal: Bid-rigging(1)

The firms decide which firm would win the bidding. (1) This would resulting higher bidding price as the company would allocate winning company by bidding price. (2)

Vertical: exclusive dealing (1)

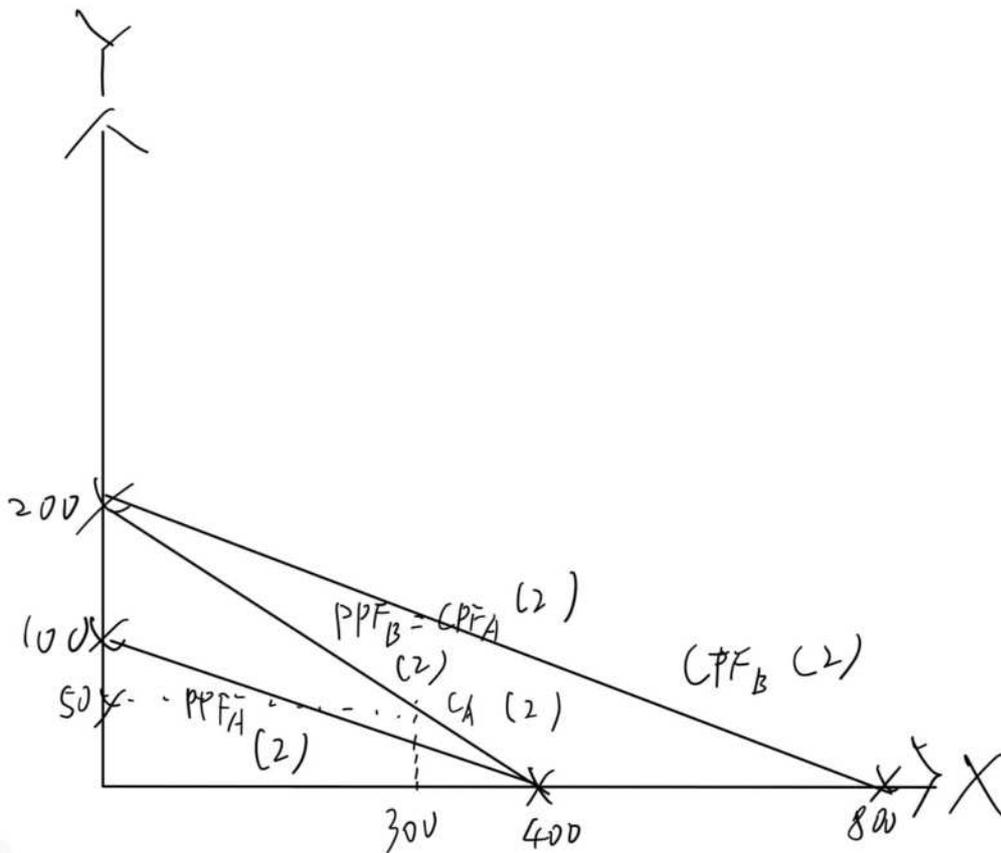
The retailer are not allowed to purchase goods from other suppliers according to the agreement. (1)

The customer would have fewer choice due to the limitations from the supplier. (2)

Or

Any other reasonable answer

(Max: 7)



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14(a) country A use 1 unit of resources to produce 1 unit of good Y, (1) country B use 1 unit of resources produce 1 unit of good Y, (1) No country has absolute advantages in producing good Y (1)

14(e) country b has comparative advantage in producing good X (1), although it could increase the amount of good X, the opportunity cost of producing good X decrease, (1) it will not change another good (1)

14(f) No, although extracting raw materials will increase GDP, if the extraction pollute the environment, people expected life span decrease, (2) another way if the extraction involved child labour, people education level would decrease (2)