2021-DSE
ECON
PAPER 2

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2021

ECONOMICS PAPER 2
Question-Answer Book

10:15 am – 12:45 pm (2 hours 30 minutes)
This paper must be answered in English

Please stick the barcode label here.

Candidate Number									

INSTRUCTIONS

(1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1 and stick barcode labels in the spaces provided on Pages 1, 3, 5, 7, 9 and 11.

(2) This paper consists of two sections, A and B. Answer ALL questions in sections A and B.

(3) Write your answers in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.

(4) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string INSIDE this book.

(5) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

* A 0 8 0 E 0 0 2 *

Section A (44 marks)

1. The following is the advertisement of an online food delivery firm for recruiting riders.

Riders Wanted !!!

Earn great money	Bring your own equipment
• High salary for each delivery!	• A smartphone
• Keep 100% tips from customers	• A motorcycle with the necessary safety equipment

(a) From the viewpoint of the riders, state **TWO** disadvantages of the above arrangements. (2 marks)

(b) Explain whether the smartphones and motorcycles of the riders are consumer goods or capital goods. (2 marks)

(c) After employing more riders, the firm found that its system was overloaded and the marginal product of riders dropped. State the law that explains this phenomenon and briefly explain why such law can be applied in this case. (5 marks)

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2. Refer to the following taxi fare arrangement.

Original fare (whole day)	
First 2 kilometres	\$30
Every subsequent 200 metres	\$2

Suppose a late-night surcharge of \$20 will be added to the original fare on any taxi trips from 1:00 am to 5:59 am. How will this surcharge affect the average travel distance of taxi passengers during late-night? Explain. (4 marks)

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3. In 1992, Cathay Pacific Airways acquired an air-catering company which was renamed as Cathay Pacific Catering Services (H.K.) Limited (CPCS). CPCS provided around thirty million meals for various airlines in 2019.

From the viewpoint of Cathay Pacific Airways, name the type of the above integration and give **TWO** motives for this type of integration. (3 marks)

4. Give **TWO** reasons to explain why the smartphone market is **NOT** perfectly competitive. (4 marks)

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5. Mr Chan, a Hong Kong retired footballer, was employed as a consultant by a football club in the United Kingdom in January 2020. Seven months later, he quitted his position and returned to Hong Kong.

(a) Explain whether the salary received by Mr Chan from the football club in the United Kingdom would be included in the calculation of

(i) gross domestic product (GDP) in Hong Kong. (2 marks)

(ii) gross national income (GNI) in Hong Kong. (3 marks)

(b) If Mr Chan could choose to receive his salary in either British Pound (GBP) or US Dollar (USD), which currency would you recommend him to choose? Explain your answer. (2 marks)

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6. The following table shows the balance sheet of a banking system.

Assets ($ million)		Liabilities ($ million)	
Reserves	600	Deposits	1 500
Loans	900		

Initially the banks hold excess reserves of $300 million and the public always holds $100 million cash.

(a) Find the required reserve ratio. (1 mark)

(b) Suppose the required reserve ratio is reduced by 5% and banks lend out all excess reserves. Calculate the new money supply after the credit creation/contraction. Show your workings. (3 marks)

Remark: In the live paper, there was a typo in the information about loans for Question 6. The calculation of candidates was not affected. The question in this *Question Papers* booklet has been rectified.

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7. In a country, most of the prisoners in a correctional institution (懲教所) use cigarettes as a medium of exchange, but citizens in society refuse to settle payment by using cigarettes. Apart from not being generally acceptable, explain with **TWO** reasons why cigarettes are **NOT** a good form of money in society. (4 marks)

8. Suppose the outputs per unit of resources of Country A and Country B are as follows.

	Rice (units)		Wheat (units)
Country A	10	OR	4
Country B	6	OR	3

Find the range of terms of trade over which exchange between these two countries is mutually beneficial. Show your workings. (3 marks)

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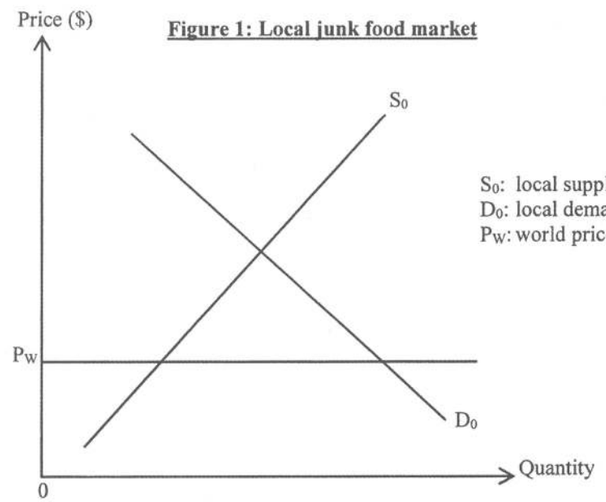
9. A small open economy imports junk food from other countries although such food is also produced by local manufacturers. During economic recession, local people consume more junk food. To improve public health, the government imposes an effective quota on the imported junk food.

(a) Explain whether junk food is a normal good or an inferior good in the economy. (2 marks)

(b) With respect to the imposition of an effective quota during economic recession, indicate the amount of quota as Q_A and the final equilibrium point as E_A in Figure 1. (4 marks)

Figure 1: Local junk food market



S_0: local supply of junk food before recession
D_0: local demand for junk food before recession
P_W: world price of junk food

END OF SECTION A

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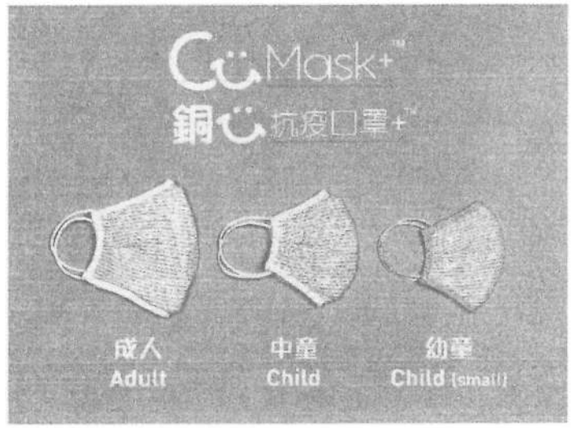
Section B (60 marks)

10. Masks have become a daily necessity as it is compulsory for people to wear masks in many public areas.

(a) 'Compulsory mask wearing creates a larger burden to the low-income group than the high-income group.' Justify the statement. (2 marks)

(b) The Government distributed 'CuMask' to citizens in Hong Kong for free.



Explain whether the 'CuMask' is a

(i) free good. (2 marks)

(ii) public good. (2 marks)

To stabilise the supply of surgical masks in Hong Kong, the Government has launched the 'Local Mask Production Subsidy Scheme', which provides subsidy to local mask producers.

(c) With the aid of a diagram, explain under what condition the total expenditure of consumers on surgical masks will decrease because of the subsidy. (7 marks)
(For simplicity, the subsidy is assumed to be a per unit one.)

(d) Wearing surgical mask can reduce the chance of contracting diseases for an individual and can prevent spreading diseases to others as well. In terms of externality, explain how the subsidy could improve economic efficiency. (4 marks)

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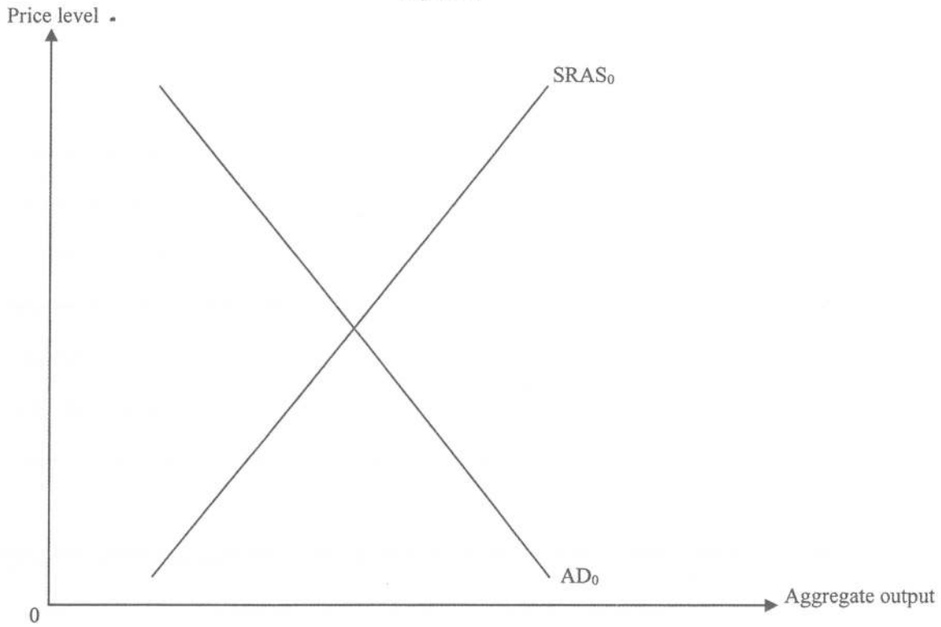
11. There exists a deflationary (output) gap in Country F.

Figure 2



(a) Define deflationary (output) gap and show the gap in Figure 2. (2 marks)

(b) A natural disaster has struck Country F. A large number of factories have closed down temporarily. Many people have lost their jobs and become pessimistic about their future.

With the aid of Figure 2, explain why the natural disaster would lead to a wider deflationary (output) gap in Country F. (7 marks)

(c) Without using a diagram, explain how the central bank of Country F could use an open market operation to narrow the deflationary (output) gap. (4 marks)

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12. The declining labour force would be one of the problems of Hong Kong in the future.

Source A: Some information about Hong Kong's fertility

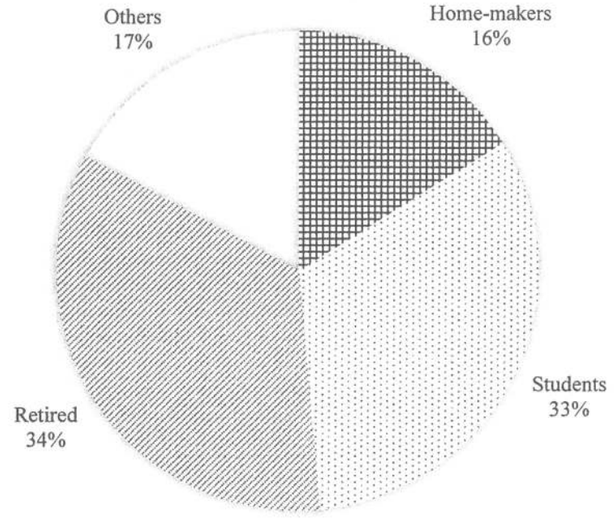
> Broadly speaking, Hong Kong's fertility showed a declining trend over the past three decades. The birth rate was 16.8 per 1 000 population in 1981 and 7.7 per 1 000 population in 2017.

Source B: Projection of the manpower situation in Hong Kong

Year	Population (million)	Total labour force (million)	Labour force participation rate# (%)
2016@	7.34	3.62	59.2
2021	7.61	3.68	58.6
2026	7.83	3.59	55.5
2031	8.00	3.51	52.9
2036	8.14	3.49	51.7

\# labour force participation rate = total labour force / population aged 15 and above
@ actual figure

Source C: Composition of non-labour force * in Hong Kong in 2016



* Non-labour force = population – total labour force
A person who is neither employed nor unemployed would be regarded as outside the total labour force, i.e. non-labour force.

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Source D: Highlight of a report on manpower to the Legislative Council

- To relieve manpower shortage and to supplement skills not readily available in the market, local employers can import workers through different schemes.
- For higher-skilled professionals, the annual number of imported professionals (via different schemes) was 67 656 in 2018.
- For lower-skilled workers, employers can import them through the Supplementary Labour Scheme (SLS). Under this scheme, restrictions are placed to protect the local workers. For example, wages of imported workers cannot be lower than the median wage of local workers in such positions.
- Total number of imported workers under SLS was 3 225 in 2018 and a high portion of them worked in elderly care service industry.
- Despite the importation of workers, there were still unfilled vacancies of 2 630 in elderly care service industry.

(a) Refer to Source A. In terms of the cost of child-raising, explain the trend of Hong Kong's fertility. (2 marks)

(b) Refer to Sources B and C. Suggest **TWO** possible reasons to explain the opposite trends of the projected population and projected total labour force. (2 marks)

(c) Refer to Source D. With the aid of a supply-demand diagram, explain the phenomenon 'despite the importation of workers, there were still vacancies in elderly care service industry'. (7 marks)

(d) Refer to Source D. Assume imported workers will have an initial contract of two years. Which **ONE** component of the current account of Hong Kong might be affected after the importation of workers? Explain. (3 marks)

Please turn to page 20 to answer Questions 12(e) & 12(f).

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Questions 12(e) & 12(f) are printed on page 20.

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Questions 12(e) & 12(f) are printed on page 20.

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12. (cont'd)

For part (e), candidates are required to present their answers in an essay form. Criteria for marking will include the use of sources and economic theories, relevant content, logical presentation and clarity of expression.

(e) Suppose the Government has two strategies to address the problem of declining labour force.

Strategy I:	Providing extra childcare service and cash to parents in order to increase the birth rate
Strategy II:	Expanding the existing schemes in order to import more workers

With reference to Sources A-D and your own knowledge in Economics, discuss the effects of each strategy on the following variables in order to **evaluate** the two strategies.

- aggregate output
- government expenditure
- average labour productivity

(14 marks)

(Hint: One of the strategies may have different short-term and long-term effects on some of the above variables.)

(f) Other than those mentioned in (e), suggest **ONE** strategy to the Government to increase the labour force. Briefly explain how it achieves the goal. (2 marks)

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END OF PAPER

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Supplementary Answer Sheet

Question No. _____

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