

2008 –CE
ECON 2

MC



HONG KONG CERTIFICATE OF EDUCATION MOCK EXAMINATION 2008

ECONOMICS PAPER 2

by Andrew Lo

(1 hour)

1. Read carefully the instructions on the Answer Sheet and insert the information required in the spaces provided.
2. When told to open this book, you should check that all the questions are there. Look for the words '**END OF PAPER**' after the last question.
3. All questions carry equal marks.
4. **ANSWER ALL QUESTIONS.** You should mark all your answers on the Answer Sheet.
5. You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
6. No marks will be deducted for wrong answers.

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1. Mary was asked to choose one birthday present from the following three things: a Barbie, a CD player and a skirt. She liked the Barbie the most and the CD player second. What would be her opportunity cost if she chose the Barbie?
 - A. a CD player and a skirt
 - B. a CD player
 - C. the price of a Barbie
 - D. no opportunity cost since it was a present

2. When both the money income level and the price level of a society rise,
 - A. the living standard will rise because citizens have more money to spend.
 - B. the living standard will rise because the value of money decreases.
 - C. Due to the unknown extent of both changes, the effect of living standard is not certain
 - D. The living standard will not change because the rise in income is offset by the rise in price.

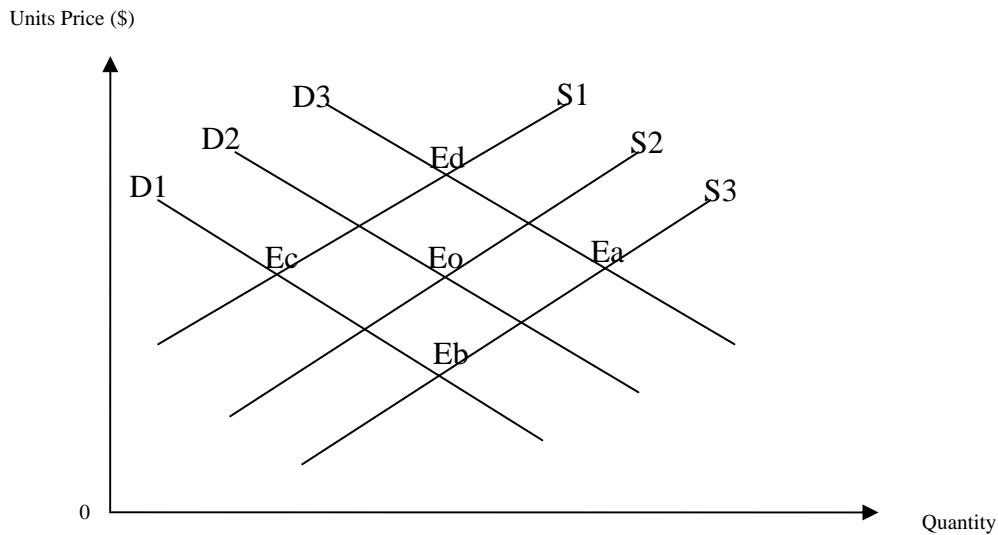
3. Which of the following mainly solves the basic economic problems in a market economy?
 - A. the entrepreneurs.
 - B. the customers
 - C. the price mechanism.
 - D. the government.

4. An example of joint demand is:
 - A. Telephone and fax machine
 - B. butter and milk
 - C. CD and CD player
 - D. bus service and mini bus service

5. If a good is scarce,
 - A. only a small quantity is available.
 - B. there is a huge demand for it
 - C. its quantity supplied is smaller than its quantity demanded
 - D. more of it is preferred

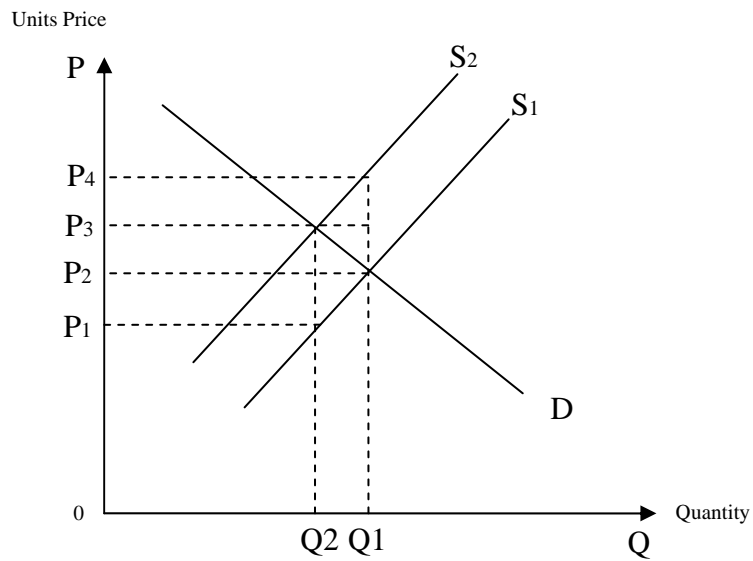
6. Andrew won a writing competition and was awarded a cell phone. This cell phone is
- A. a consumer good because it is a prize from competition.
 - B. an economic good as other competitors want to have it.
 - C. a capital good because it has a market value.
 - D. a free good because no money is paid for it
7. The labour supply of Hong Kong is increased by?
- A. increasing the number of holidays in a year
 - B. decreasing people migrating to other countries
 - C. providing more vocational training
 - D. increasing the use of machinery
8. In a lucky draw, Cecilia wins a bicycle. Which of the following statements is correct?
- A. Cecilia's opportunity cost of using the bicycle decreases if the price of the bicycle decreases.
 - B. The opportunity cost to Cecilia of using the bicycle is zero.
 - C. Cecilia will lose nothing if her bicycle is stolen.
 - D. The bicycle is a free good.
9. If the price of movie tickets increase and the rental of DVD falls, then the equilibrium price of DVD players
- A. May increase or decrease.
 - B. Will decrease..
 - C. Will increase.
 - D. will remain unchanged.
10. The demand for good Z is perfectly inelastic. What will be the equilibrium price of Z if the government provide subsidy of \$6 on every unit?
- A. decrease by \$6
 - B. decrease by less than \$6
 - C. decrease by more than \$6
 - D. remain unchanged

11. In the following diagram, E_0 is the initial equilibrium point of the market for Hong Kong's Electronic products in the China. Suppose there is an decrease in import duties in the China. Yet, there are many China. retailers order from Korea instead of Hong Kong, the new equilibrium point in the diagram would be



- A. E_a
 B. E_b
 C. E_c
 D. E_d
12. Refer to the following demand and supply schedules of a good.
- | | | | | | |
|---------------------------|------|------|------|------|------|
| Price per unit | \$25 | \$30 | \$35 | \$40 | \$45 |
| Quantity demanded (units) | 120 | 100 | 80 | 75 | 60 |
| Quantity supplied (units) | 60 | 75 | 80 | 100 | 120 |
- According to the above information, we can conclude that
- A. There is excess demand if the price floor is set at \$30
 B. a unit tax of \$10 on production would cause the equilibrium price to increase by 10
 C. a higher salaries tax would decrease the market price to a price lower than \$35.
 D. There is excess supply of the price ceiling is set at \$40

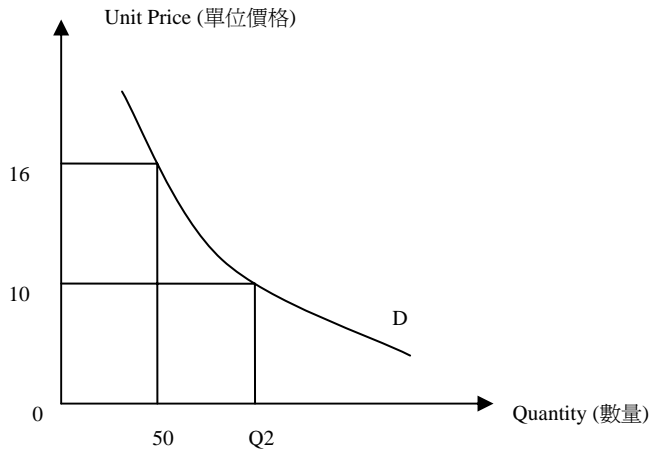
- 13 Suppose the government imposes a unit tax on good Y causing a shift of its supply curve from S_1 to S_2 .



The amount of tax benefit born by the sellers of good Y is

- A. $(P_3 - P_2) \times Q_1$
- B. $(P_4 - P_3) \times Q_1$
- C. $(P_3 - P_2) \times Q_2$
- D. $(P_1 - P_2) \times Q_2$

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In the above diagram, if the demand is inelastic, Q_2 will be

- A. 60
- B. 80
- C. 90
- D. 100

15

No. of workers	Marginal Output (Units)
1	10
2	12
3	11
4	10
5	7

From the above table, the total product will start to diminish when the _____ worker is put to work.

- A. first
- B. second
- C. third
- D. none of the above

16. Fiona, Mandy and Flora form a general partnership. Which of the following is true?
- A. They share profit equally.
 - B. They can transfer their ownership freely without the consent of other partners.
 - C. They have to bear unlimited liability.
 - D. They have to disclose their company's financial statement to the public
17. Peter owns a tutorial school and he teaches economics too. In economics, his economics notes in a class is classified as _____ while he is classified as a(n) _____.
- A. capital, labor, and entrepreneur
 - B. capital entrepreneur
 - C. land, laborer
 - D. land, capital
18. The law of diminishing returns
- A. Implies that marginal product can be negative.
 - B. Explains production in the long run
 - C. Implies that firms will eventually operate at a loss.
 - D. Quotes that firms will keep on adding variable factors to fixed factors.
19. A limited company is a legal entity. This means
- A. The company may sue other persons in its own name.
 - B. Its shares can be quoted on the stock exchange.
 - C. Ownership of the company and management are separated.
 - D. the company has to obey the law.
20. Which of the following is a general feature of a perfectly competitive market?
- A. Market information is imperfect.
 - B. There is non-price competition.
 - C. competition is very keen
 - D. None of the above is a correct answer.

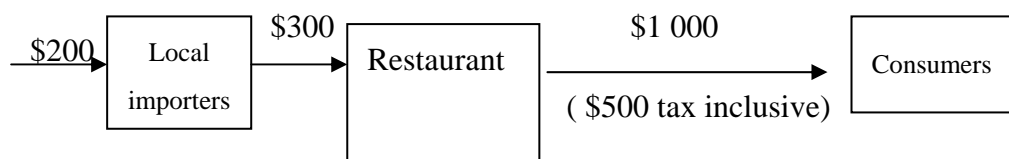
	Number of Persons
Employed population	18 000
Unemployed population	2000
Underemployed population	1000

Now there are 1 000 additional job seekers in the economy. If 100% of them were unable to find suitable job, the underemployment rate

- A. will increase
 - B. will decrease
 - C. will remain unchanged
 - D. may increase or decrease
- 22 Real GDP 3%
- Nominal GDP 5%

According to the above data on an economy,

- A. the real GDP has decreased
 - B. the unemployment rate has increased.
 - C. inflation exists in that economy
 - D. the general living standard has increased
- 23 The following diagram shows a production chain involving the import of 200 worth of chilled chicken into Hong Kong:



What is the contribution of the production chain to Hong Kong's GDP at market price?

- A. \$300
- B. \$500
- C. \$800
- D. \$1 000

24 The following table shows the gross domestic product (GDP) data of a country.

Components	\$ Million
Private consumption expenditure	300
Government consumption expenditure	200
Net domestic fixed capital formation	250
Changes in inventories	50
Total exports of goods	800
Re-exports of goods	200
Imports of goods	600
Exports of services	300
Imports of services	150
Depreciation	50
Indirect tax	50
Subsidy	80

The GDP at market price is

- A. \$900 million.
- B. \$930 million.
- C. \$990 million.
- D. \$1200 million.

25 According to the data below, what do we call the phase of the business cycle that the economy was in 2006

Year	2003	2004	2005	2006	2007
Real GDP growth rate (%)	1	0.0	2	3	3.5

- A. recovery
- B. peak
- C. recession
- D. trough

For Questions No. 26 and 27, consider the following data of an economy producing only Electronic products and providing medical services

26

	Price in 2000 (\$)	Price in 2007 (\$)	Output in 2007 (units)
Electronic products	10	25	50
Medical Services	30	40	70

The GNP at constant (2000) market prices for 2007 is

- A. \$2500
- B. \$3000
- C. \$2600
- D. \$4050

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The rate of inflation from 2000 to 2007 calculated by using the GNP deflator is:

- A. 5.7%
- B. 15.7%
- C. 55.7%
- D. 155.7%

Answer Questions 28 and 30 by referring to the following balance sheet of a banking systems

28

Assets (\$)		Liabilities (\$)	
Reserves	500	Deposits	1200
Loans	700		

The required reserve ratio is

- A. 15%
 - B. 20%
 - C. 25%
 - D. Cannot be determined
- 29** Suppose someone has withdrawn \$200 from the banking system. As a result, How does the maximum possible amount of bank deposits change ?
- A. increases
 - B. decrease
 - C. May increase or decrease
 - D. Cannot be determined
- 30** Which of the following financial institutions in Hong Kong can accept time deposits?
- A. licensed banks
 - B. restricted licence banks
 - C. deposit-taking companies
 - D. All of the above are correct.

- 31 The apple is NOT a good form of money mainly because it is
- A. indivisible.
 - B. Portable.
 - C. Homogeneous.
 - D. Perishable.
- 32 Which of the following will increase the money supply in an economy?
- A. Minimum required reserve ratio increases
 - B. A person repays a bank loan.
 - C. A bank grants a loan to a listed company
 - D. A bank increases the amount of excess reserves it holds.

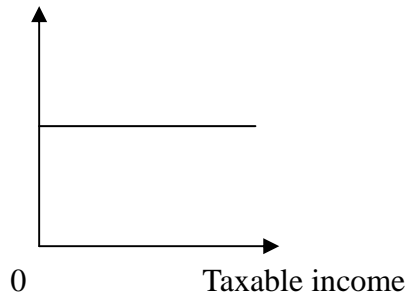
35 Refer to the following data about an economy.

	Year 1	Year 2
GDP Deflator	100	120

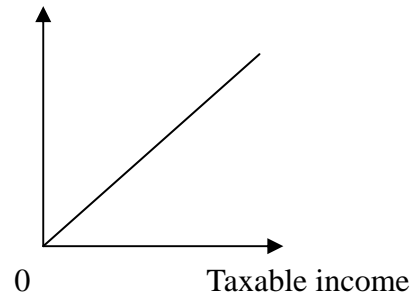
- We can conclude that from Year 1 to Year 2,
- A. the purchasing power of money has decreased.
 - B. the real national income has decreased.
 - C. the average standard of living has gone down.
 - D. The nominal GDP has increased
- 34 If a general sales tax is introduced in Hong Kong,
- A. The general price level would increase
 - B. the wealth gap would be reduced.
 - C. Consumption expenditure would increase
 - D. the proportion of direct tax in the government tax revenue would increase.

35 Which two of the following diagrams illustrate a progressive tax measured in terms of an average tax rate?

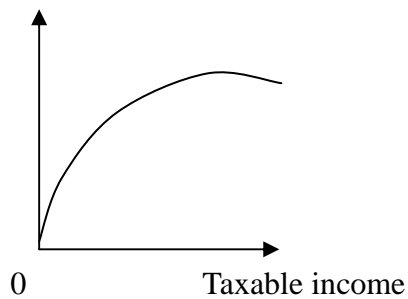
(1) Tax Payment



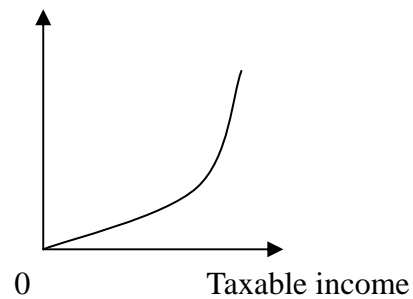
(2) Tax Rate



(3) Tax Payment



(4) Tax Payment



- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

36

Taxable Income (\$)	Tax payment Under Tax A (\$)	Tax payment Under Tax B (\$)
10 000	1 000	3 000
20 000	5000	5000
30 000	8000	5 400

From the above data, we can conclude that

- A. Tax A is a direct tax and Tax B is an indirect tax.
- B. there would be a continuous rise in general price level under Tax A.
- C. the administrative cost of Tax A is lower than that of Tax B
- D. The fluctuations of government tax revenue would be larger under Tax A than under Tax B when income fluctuates.

- 37 Profit Tax in Hong Kong is a kind of
- direct and proportional tax.
 - direct and regressive tax.
 - indirect and proportional tax.
 - indirect and regressive tax.
- 38 The national income of a country will tend to increase if
- Profit tax rate reduce
 - The government raises the interest rates.
 - Tariff imposed by her trading partner
 - The demand for exports decreases.
- 39 Who will lose during an unanticipated inflation?
- Mrs. Wong, who has hired a Filipino maid
 - Mr. Leung, who lend his money to his friend using floating interest rate
 - Mr. Chan, who runs a tutorial center
 - Mr. Wong, who has put all his money in his time deposit account

- 40 The following table shows the output of Food and Car in countries A and B.

Country \ Goods	X (units)	Y (units)
Food	1	And 3
Car	2	And 4

Which of the following is/are the terms of trade under which trade between the two countries is mutually beneficial?

- $1X = 2Y$
 - $1X = 3Y$
 - $2X = 5Y$
 - Cannot be determined
- 41 If a country has a comparative advantage in good X, it will
- have an absolute disadvantage in Y
 - have a comparative disadvantage in some other good(s).
 - export all its output of X to other countries.
 - completely specialize in the production of X.

42 An increase in tariff from 5% to 10% would definitely lead to the following:

- A. a large quantity of imports
- B. an uncertain effect on the total expenditure to foreign exporters
- C. more government tax revenue
- D. a higher consumption of locally-produced products

43 Consider the following balance of payments account of an economy :

	<u>\$million</u>	
Export of good & services	3000	
Import of good & services	2000	
Capital inflows	300	
<u>Capital outflows</u>	<u>7 00</u>	
Increase in foreign exchange & gold reserves		X

X is

- A. 500
- B. 600
- C. 1000
- D. 1500

44. From the following information, find the value of re-exports:

Domestic exports	\$400
Trade balance	\$400
Imports	\$100

- A. \$100
- B. \$200
- C. \$300
- D. \$400

- 45 Under the linked exchange rate system in Hong Kong,
- A. the market exchange rate of the HK dollar relative to the US dollar is fixed.
 - B. the market exchange rates of the HK dollar relative to currencies other than the US dollar are fixed.
 - C. the HK dollar will depreciate against the Japanese Yen if the US dollar appreciates against the Japanese Yen
 - D. the HK dollar will appreciate against the Euro if the US dollar appreciates against the Euro
- 46 If the Hong Kong dollar appreciates against the Japanese yen,
- A. Fewer Japanese tourists will be willing to come to Hong Kong.
 - B. The price of imports from Japan will increase
 - C. The competitive power of Hong Kong products in Japan will fall.
 - D. Those who hold Japanese yen deposits will gain.
47. A subsidy is imposed on a commodity. The subsidy benefit on the consumers is relatively smaller if the commodity has an _____ demand and an _____ supply.
- A. elastic; elastic
 - B. elastic; inelastic
 - C. inelastic; elastic
 - D. inelastic; inelastic
- 48 According to research evidence, one of the substance in milk has proved to be good for the healthy development of bones. This will lead to
- (1) a decrease in the the supply of cheese
 - (2) an increase in the quantity transacted of milk
 - (3) an increase the demand for milk
- A. 1 and 2
 - B. 1 and 3
 - C. 2 and 3
 - D. 1, 2 and 3

49. Suppose a bill is passed that all the farming industry in Hong Kong are required to install a costly anti-pollution equipment. The price of locally grown vegetable would _____ and the quantity transacted would _____.
- A. increase...increase
 - B. increase...decrease
 - C. decrease...increase
 - D. decrease...decrease
50. If the growth rate of per-capita real Gross Domestic Product (GDP) is greater than that of the real GDP as well as that of the per-capita nominal GDP, we can conclude that
- A. both the population and the general price level have fallen.
 - B. the growth rate of population is higher than that of real output and the living standard has fallen.
 - C. the growth rate of population is lower than that of real output and the stand of living has risen.
 - D. the inflation rate is greater than the growth rate of real output.

END OF PAPER