

Marking Scheme

The answers provided in the marking scheme are for reference only. They are not the only possible answers. Alternative answers are acceptable so long as they are well reasoned.

The examination emphasises the testing of understanding, the practical application of knowledge and the use of processing skills. Candidates are advised to study this document in conjunction with the examiner's comments on candidates' performance in this booklet.

For essay-type questions, candidates are expected to demonstrate an understanding of the question, an ability to deploy relevant knowledge of the subject in response to the questions, and to present their answers logically and coherently.

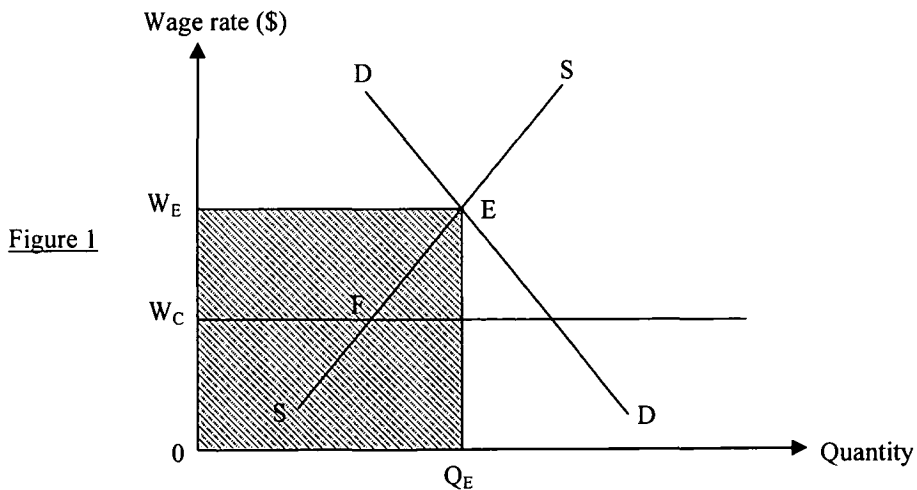
Paper 1

Section A

Marks

- | | | |
|----|--|---------------|
| 1. | (a) opportunity cost is the highest-valued option forgone. | 2 |
| | (b) No, because
the time cost of queuing up for one hour is not the same to everyone. | 1
1 |
| 2. | (a) The liability of the shareholders is confined to the amount of their investment in the company. | 2 |
| | (b) - the no. of shareholders is from 1 to 50
- shares are not freely transferrable
- no public subscription of its shares
- need not disclose its financial conditions to the public
- independent legal status
- separation of ownership and management
- lasting continuity
- any other relevant point
[Mark the FIRST TWO points only.] | } 1@, max : 2 |

3. (a)



- | | |
|--|--------|
| Not effective because | 1 |
| W_C is below the equilibrium wage rate W_E . | 1 |
| (b) No change, because
(ineffective price control) results in no change in both W and Q . | 1
1 |
| Shading of area $0 W_C E Q_E$ / indicating the area in Figure 1. | 1 |

4. (a) The law states that when variable factors are added continuously to the fixed factors, the marginal product will eventually decrease. 3
- (b) Yes, because the marginal product decreases. 1

Labour (units)	Marginal output (units)
4	70
5	90
6	80

5. (a) - productive resources will be left idle / output level will be lower
 - political disorder / social unrest
 - loss of skills
 - any other relevant point
 [Mark the **FIRST TWO** points only.] 1@, max: 2

(b)
$$\text{unemployment rate} = \frac{\text{unemployed population}}{\text{labour force}} \times 100\% = \frac{167\,500}{3\,512\,600 + 167\,500} \times 100\%$$

$$= 4.55\%$$
 1

6. No, because any of the following factors may lead to a lower average living standard in country A : 1
- Income is less evenly distributed in country A (difference in income distribution)
 - In country A, a larger proportion of total output consists of capital goods and national defense (difference in the composition of output)
 - There are more problems of pollution or traffic congestion in country A (different undesirable effects of production)
 - The people of country A enjoy less leisure (different amounts of leisure time)
 - There are fewer non-marketed / unreported goods in country A (different amounts of non-marketed / unreported production activities)
- [Mark the **FIRST TWO** points only.] 2@, max : 4

7. (a) $(\$ 220 \text{ m} - \$ 20 \text{ m}) / \$ 2\,000 \text{ m}$ 1
 $= 10 \%$ 1

(b)

Assets (\$mn)		Liabilities (\$mn)	
Reserves	<u>220</u>	Deposits	<u>2 200</u>
Loans	<u>1 980</u>		

In the above table,
 Reserves = \$ 220 million 1
 Loans = \$ 1 980 million 1
 Deposits = \$ 2 200 million 1

8. (a) In Country A, the cost of 1 unit of rice is $(30/10 = 3)$ units of computers 1
 In Country B, the cost of 1 unit of rice is $(20/10 = 2)$ units of computers 1
 \therefore Country B has a comparative advantage in producing rice. 1
- (b) Country B gains $(2.5 - 2)$ units of computers 1
 $= 0.5$ units of computers 1
 from 1 unit of export. 1

Section B

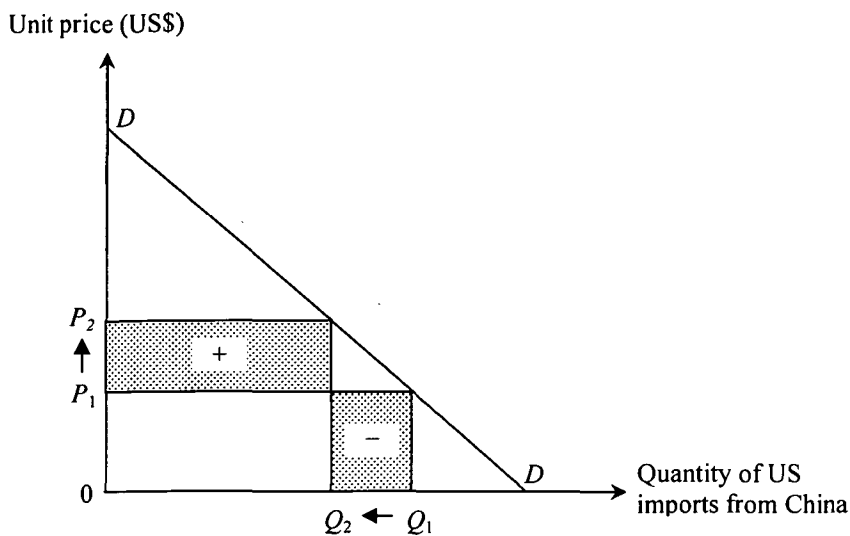
9. (a) He would gain because the real purchasing power of his fixed monthly payment decreases. 1
2
- (b) - different services / some shops may offer better after-sale service, etc
 - imperfect information / customers do not know which shops sell at a lower price
 - more convenient location results in higher rental payments
 - any other relevant point with appropriate explanation
 [Mark the **FIRST TWO** points only.] } 2@, max: 4
- (c) No, because 1
- its quantity available is insufficient to satisfy our wants / more of it is preferred.
 - resources used to provide the service had alternative uses / there is opportunity cost of providing the service.
- } Any one, 2

Question 9 total: 10

10. (a) (i) Imports from China will have a higher price in terms of US\$ when the RMB revalues. 2
 This would lead to a smaller quantity of imports from China. 1

(ii)

Figure 2



Indicate in the diagram :

- Price increase and quantity decrease along a demand curve 1
- Loss in import value < gain in import value 2

Verbal elaboration :

- The condition is : inelastic demand for the imports from China 1
- % decrease in import quantity < % increase in import price 2

- (b) Show understanding of the following concept: 1
 visible trade balance = total value of exported goods – total value of imported goods

It is possible when 1
 there is a rise in the value of exported goods to China 1
 which is larger than the rise in the value of imported goods from China. 1

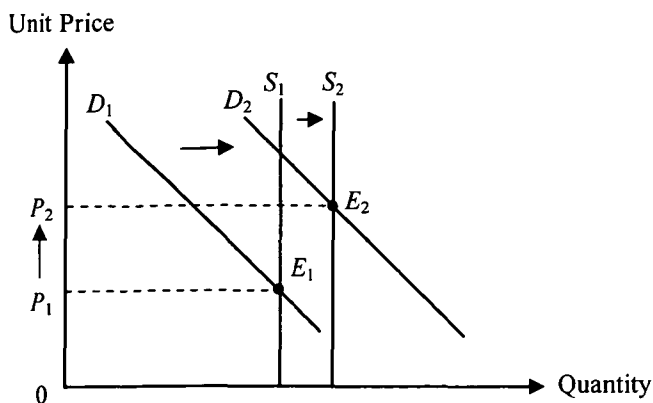
- (c) HK\$ M1 would increase 1
 by HK\$5 000 1
 because demand deposits are included in M1. 1

HK\$ M3 would decrease 1
 by HK\$20 000 1
 because RMB deposits are not included in HK\$ money supply. 1

Effective communication

max : 2
 Question 10 total: 21

11. (a) The following figure shows the supply of and demand for land in public auctions.



Indicate in the diagram :

- demand curve shifts to the right 1
- supply curve shifts to the right 1
- shift of the demand curve > shift of the supply curve, and a correct increase in price 1

Verbal elaboration :

- There is an increase in demand for land in public auctions. 1
- The demand for land in public auctions is a derived demand. / An increase in demand for properties will increase the demand for land in public auctions. } Any one, 1
- Given: increase in supply of land in public auctions by the government }
- The condition is : the increase in demand for land > the increase in supply of land 1

(b) Horizontal expansion. 1

- better utilization of resources }
 - to increase the market share }
 - economies of scale }
 - any other relevant point }
- [Mark the **FIRST TWO** points only.] 1@, max: 2

- (c) } 1
- direct tax revenue from profits tax ↑ 1
 - ∴ profits ↑ 1
 - ∴ more business of property agents, banks, etc/ investment ↑ / more money earned from business 1
- OR }
- direct tax revenue from salaries tax ↑ 1
 - ∴ wages ↑ 1
 - ∴ employment ↑ 1
- OR }
- direct tax revenue from property tax ↑ 1
 - ∴ rental income ↑ 1
 - ∴ demand for rental service ↑ 1
- } Either one, max : 3

(d) Regressive tax. 1

Higher-income earners pay a less than proportionate amount of tax / the tax rate decreases as the income increases. 2

(e) It will be affected, because 1
 the service of the property agents, banks, lawyers and the government (e.g. registration of ownership) adds value to the GDP. 1

Effective communication

max : 2

Question 11 total: 19