

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

MOCK PAPER

ECONOMICS PAPER 1

Time allowed: 1 hour

INSTRUCTIONS

1. 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.
2. All questions carry equal marks.
3. ANSWER ALL QUESTIONS.
4. You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
5. No marks will be deducted for wrong answers.

There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. A free good is a good
 - A. that is provided by nature.
 - B. of which people prefer to have less.
 - C. for which people do not compete.
 - D. that all people can consume at the same time.

2. Mr Wong operates a dessert shop on his own premises in Mongkok. The private cost of running his shop will increase if
 - (1) a potential tenant offers a rent higher than the market rent.
 - (2) he has to offer higher salaries to his shop assistants to retain them.
 - (3) the queue of customers outside his shop causes inconvenience to passers-by.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. The Hong Kong Government has announced plans to complete seven new railway projects by 2031, with a budget of HK\$110 billion. The new railways will be built and run by the MTR Corporation.

The above case is related to the _____ question(s) in economics.

 - A. 'what to produce'
 - B. 'how to produce'
 - C. 'what to produce' and 'how to produce'
 - D. 'how to produce' and 'for whom to produce'

4. Foggie Delivery only employs drivers and motorbikes to provide delivery services. The following table shows the input-output relationship.

Drivers	Motorbikes (units)	Total output (units)	Total cost (\$)
2	2	20	40
3	3	30	90
4	4	40	160

According to the above information, Foggie Delivery operates in _____ and _____.

- A. the short run ... the law of diminishing marginal returns applies
 - B. the short run ... the law of diminishing marginal returns does not apply
 - C. the long run ... it enjoys economies of scale
 - D. the long run ... it suffers from diseconomies of scale.
5. From the viewpoint of a shareholder of a public limited company, which of the following is an advantage of issuing bonds over issuing shares?
- A. The debt-to-equity ratio can be reduced.
 - B. Current shareholders' control power over the company will not be diluted.
 - C. The company does not have to disclose its financial statements to the public.
 - D. The interest paid to bondholders is less than the dividend paid to shareholders.
6. Study the information below.

	Firm A	Firm B
Number of owners	3	50
Business continuity	Lasting	Lasting
Disclosure of financial information	Need NOT disclose to the public	Need to disclose to the public

According to the above information, which of the following statements is correct?

- A. Both firms can issue shares.
- B. Firm A pays a lower profits tax rate than Firm B.
- C. Firm B enjoys limited liability but Firm A does not.
- D. Firm B has independent legal status but Firm A has not.

7. The following table shows the percentage share of total employment by major industry groups in Hong Kong.

Industries	2009	2014
Public administration, and social and personal services	25.1%	25.9%
Import / export, wholesale and retail trades	25.4%	24.2%
Financing and insurance, real estate, and professional and business services	18.4%	19.7%
Transportation, storage, postal and courier services	9.2%	8.4%
Construction	7.5%	8.3%
Accommodation and food services	7.3%	7.4%
Information and communications	2.7%	2.9%
Manufacturing	3.8%	2.8%
Electricity, gas and water supply, and waste management	0.4%	0.4%
Others	0.2%	0.1%

Source: Census and Statistics Department

According to the above data, which of the following statements is correct?

- A. Compared to 2009, more people were employed in financing and insurance, real estate, and professional and business services in 2014.
 - B. Import / export, wholesale and retail trades was the second most important industry by employment in 2014.
 - C. The percentage share of employment by secondary production was 21.8% in 2014.
 - D. The contribution of public administration and social and personal services to Hong Kong's GDP was the greatest among the industry groups in 2014.
8. The government has implemented the following two policies.

Policy 1: To introduce the Admission Scheme for Mainland Talents and Professionals
Policy 2: To increase the number of subsidised places for tertiary education

Which of the following statements about the above policies is correct?

- A. Both policies increase labour supply.
- B. Both policies increase labour productivity.
- C. Policy 1 decreases labour supply while Policy 2 increases labour supply.
- D. Policy 1 increases labour productivity while Policy 2 decreases labour productivity.

9. The occupational mobility of labour will increase if
- A. the public transport system provides better services.
 - B. more workers choose to work overseas.
 - C. the licensing requirements in many industries become stricter.
 - D. the government subsidises the continuing education of its citizens.

10. A secretary is usually paid by a time rate because
- (1) it increases her working incentive.
 - (2) it is costly to measure her productivity.
 - (3) it reduces the cost of monitoring her work performance.
- A. (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

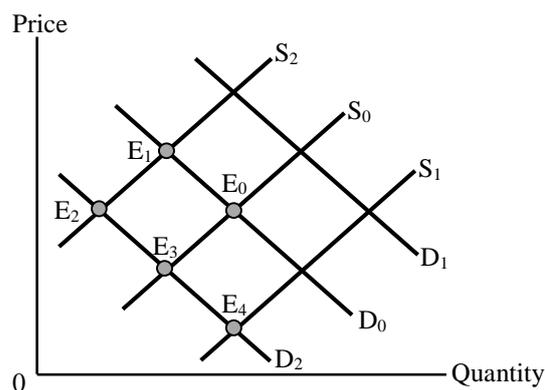
11. The following table shows the production cost of a price-taking firm.

Output (units)	0	1	2	3	4
Total cost (\$)	3	6	10	15	21

Suppose the market price is \$5. Which of the following statements is correct?

- A. The firm operates in the long run.
 - B. The maximum profit the firm can make is \$5.
 - C. The profit-maximising output level is 3 units.
 - D. None of the above
12. Which of the following is INCONSISTENT with the law of demand?
- A. The unemployment rate increases after the introduction of a minimum wage.
 - B. People spend more on luxuries after an increase in the unit sales tax.
 - C. More people take shorter flights after a fixed airport construction surcharge is imposed on all air tickets.
 - D. The average size of a pack of potato chips remains unchanged after a 5% ad valorem fat tax is imposed on potato chips.

13. Which of the following will likely decrease the demand for petroleum?
- A. The price of electric cars increases.
 - B. Some oil-exporting countries decrease the production of oil.
 - C. Petroleum becomes more expensive.
 - D. The government increases tax allowances for companies using electric cars.
14. After a forest fire in a major orange exporting country, the quantity transacted of oranges decreases by 40%, and the price increases by 20%. We can conclude that
- A. the demand for oranges is elastic.
 - B. the demand for oranges is inelastic.
 - C. the supply of oranges is elastic.
 - D. the supply of oranges is inelastic.
15. The following diagram shows the market for beef in Country A. The initial equilibrium is at Point E_0 .



Suppose mad cow disease breaks out in Country A and the government kills a large number of cattle. Consumers have doubts about the safety of eating beef. The new equilibrium is most likely at _____.

- A. E_1
- B. E_2
- C. E_3
- D. E_4

16. The following shows the effects of a unit subsidy of \$3 on Good X.

	Market price (\$)	Quantity transacted (units)
Before subsidy	10	350
After subsidy	8	420

Which of the following about Good X are correct?

- (1) The demand is inelastic.
- (2) The supply is inelastic.
- (3) Demand is less elastic than supply.
- (4) Demand is more elastic than supply.

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

17. The government imposes a \$6 per unit tax on Good X. The following table shows the supply and demand schedules of Good X after tax.

Unit price (\$)	12	15	18	21	24	27
Quantity demanded (units)	200	180	160	140	120	100
Quantity supplied (units)	80	100	120	140	160	180

If the tax is now abolished, the new market price will be

- A. \$15.
- B. \$18.
- C. \$21.
- D. \$27.

18. The following table shows the market share of mortgage loans providers in Hong Kong in 2017.

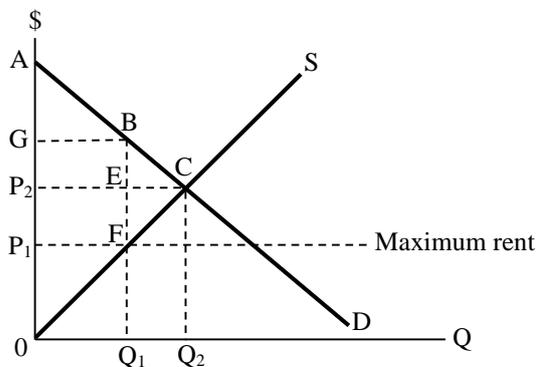
	Market share (%)
HSBC	24.1
Bank of China	21.3
Hang Seng Bank	15.4
Standard Chartered	10.1
The Bank of East Asia	5.0
Others	24.1

Source: Centaline Mortgage

The mortgage loan market in Hong Kong belongs to _____ because _____.

- A. monopolistic competition there is free entry into the market
- B. monopolistic competition the product is heterogeneous
- C. oligopoly there are a few dominant loan providers in the market
- D. oligopoly the product is homogeneous

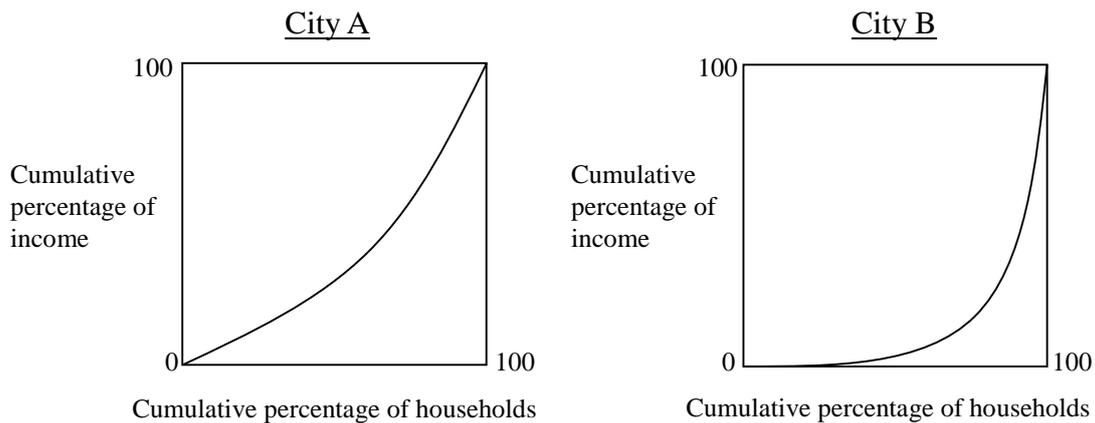
19. Suppose the government decides to limit the maximum rent for private housing. The maximum rent has been set at P_1 on the diagram below.



Which of the following is/are correct?

- (1) The deadweight loss is equal to Area BCF.
 - (2) The consumer surplus is equal to Area ACFP₁.
 - (3) The producer surplus is equal to Area GBFP₁.
 - (4) The total social surplus is equal to Area ABF₀.
- A. (1) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only

20. A decrease in the consumer surplus may be caused by
- an increase in price.
 - an increase in quantity transacted.
 - an increase in supply.
 - an increase in demand.
21. If there is a divergence between private and social costs,
- the private cost is smaller than the external cost.
 - the government must take action to correct it.
 - inefficiency must exist due to underproduction.
 - the market may solve the problem by market transaction if the transaction costs involved are small.
22. Study the following Lorenz curves of City A and City B based on original household incomes.



Which of the following descriptions is correct?

- The Gini coefficient of City B is higher than that of City A.
- The low-income group in City A earns a higher income than that of City B.
- The welfare policy in City B is poorer than City A.
- City A has a higher per capita GDP than City B.

23. Refer to the following information about the gross domestic product (GDP) of Country A.

Components	\$ billion
Private consumption expenditure	60
Net domestic capital formation	40
Decrease in inventories	5
Government consumption expenditure	25
Domestic exports of goods	7
Re-exports of goods	3
Imports of goods	27
Exports of services	24
Imports of services	20
Depreciation	5
Indirect taxes	6
Subsidies	2

GDP at factor cost is

- A. \$105 billion.
- B. \$110 billion.
- C. \$113 billion.
- D. \$120 billion.

24. To find Hong Kong's GNP, which of the following items has to be deducted from Hong Kong's GDP?

- A. The remuneration paid by a local company to a Korean singer for staging a show in Hong Kong
- B. The salary received by an Irish football coach who has been teaching at a sports club in Hong Kong for one year
- C. The dividend income earned by a Hong Kong resident from holding the shares of an American bank
- D. A mainland tourist's expenses at a restaurant in Hong Kong

25. The following table shows data from an economy.

	Growth rate	
	2016	2017
Nominal GDP	1%	-1%
Consumer price index	1%	-2%
Population	2%	2%

Based on the above data, we can conclude that

- A. the real GDP of the economy decreased in 2017.
 - B. the per capita nominal GDP of the economy increased in 2016.
 - C. the price of all goods decreased in 2017.
 - D. the growth rate of real GDP in 2017 was higher than that in 2016.
26. Which of the following statements about nominal and real interest rates are correct?
- (1) The nominal interest rate is the cost of holding money.
 - (2) The sum of the nominal interest rate and the inflation rate is equal to the real interest rate.
 - (3) The real interest rate will be zero if the inflation rate is equal to the nominal interest rate.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
27. Which of the following people would lose when unexpected inflation occurs?
- A. A retired civil servant receiving a price-level-adjusted pension
 - B. A property owner repaying a floating mortgage loan
 - C. An employer paying his employees with fixed monthly salaries
 - D. An investor receiving fixed interest income from bonds
28. Which of the following would lead to a rise in the unemployment rate?
- A. A group of emigrants return to Hong Kong. All of them have found a job before coming back.
 - B. A group of working women quit their jobs after their pregnancies.
 - C. Some part-time workers start looking for full-time jobs.
 - D. Some job seekers give up looking for jobs.

29. Country C is an export-driven economy. Suppose a major trading partner of Country C experiences a recession. In the short run, the price level will _____ and the unemployment rate will _____ in Country C.

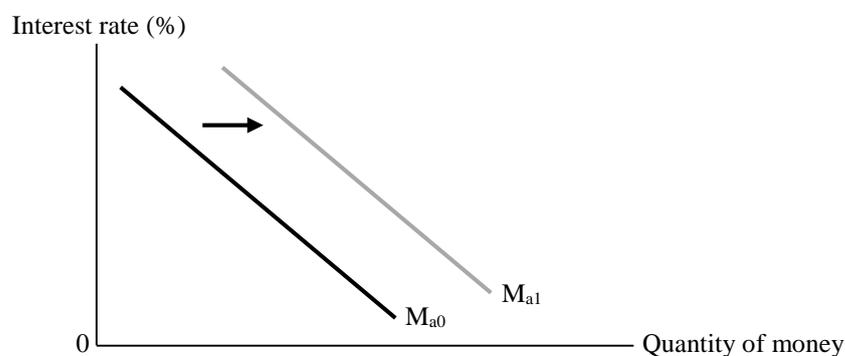
- A. increase ... increase
- B. increase ... decrease
- C. decrease ... increase
- D. decrease ... decrease

30. Bitcoin (比特币), a form of virtual money, is accepted on some websites for settling payments. Some people purchase Bitcoin for investment purposes too. According to the above information, Bitcoin performs the functions of

- (1) a medium of exchange on some websites.
- (2) a store of value.
- (3) a standard of deferred payment.

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

31. Refer to the following diagram.



Which of the following will lead to the above change in the asset demand for money?

- A. The general price level increases.
- B. Electronic payment methods become more popular.
- C. The nominal interest rate increases.
- D. The stock market becomes riskier.

32. Faster Payment System (FPS) will be launched in September 2018 by the HKMA to promote the wider use of mobile retail payments and offer greater convenience to customers and merchants. After the successful launch of this system, the _____ will decrease.

- (1) transaction demand for money
- (2) monetary base
- (3) money supply
- (4) inflation rate

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

33. Samuel withdraws \$900,000 from his current account. He then puts \$380,000 and \$500,000 into his accounts with a deposit-taking company and a restricted licence bank, respectively. He keeps the remainder for emergency use. Which of the following would be the immediate effects on the M1, M2 and M3 money supply?

- A. M1 increases by \$20,000; M2 decreases by \$880,000; M3 increases by \$880,000.
- B. M1 decreases by \$880,000; M2 remains unchanged; M3 increases by \$880,000.
- C. M1 decreases by \$880,000; M2 decreases by \$880,000; M3 remains unchanged.
- D. M1, M2 and M3 all remain unchanged.

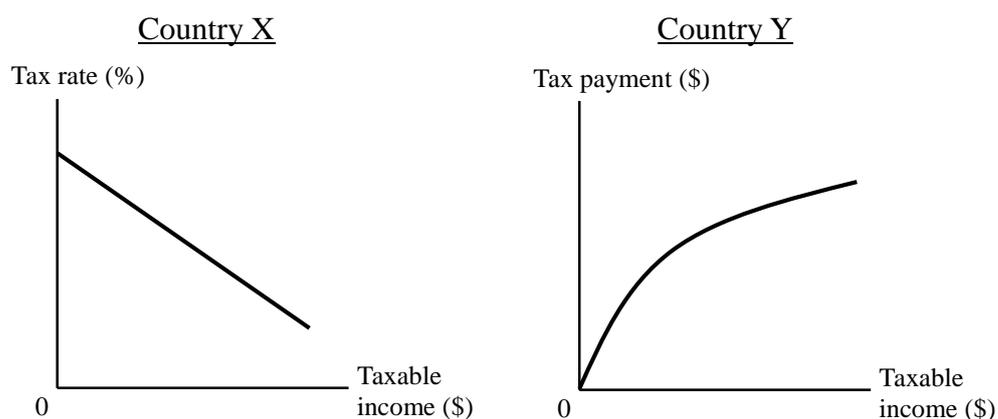
34. The following table shows the balance sheet of Banking System A. The public does not hold any cash.

Assets (\$)		Liabilities (\$)	
Reserves	100	Deposits	300
Loans	200		

The banking system is short of reserves by \$50. Suppose a client withdraws \$50 from Banking System A and remits the money overseas. The new maximum amount of money supply is _____ and the new monetary base is _____.

- A. \$100 ... \$50
- B. \$300 ... \$50
- C. \$300 ... \$150
- D. \$450 ... \$150

35. According to the classical quantity theory of money,
- an increase in the price level will cause an increase in the money supply.
 - only a continuous growth in the money supply can sustain a long-run economic growth.
 - a change in the nominal money supply will cause the same percentage change in nominal national income.
 - the velocity of circulation of money is not stable.
36. Refer to the following diagrams about taxes in Country X and Country Y.



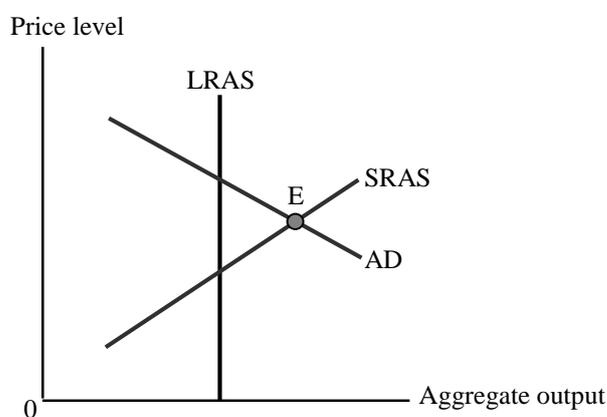
Which of the following statements is/are correct about the tax systems in Country X and Country Y?

- The tax system in Country X is regressive.
 - The tax system in Country Y is progressive.
 - The tax revenue of the government of Country Y is higher than that of Country X.
 - The tax system in Country Y has the effect of reducing the income gap.
- (1) only
 - (1) and (2) only
 - (1), (2) and (4) only
 - (2), (3) and (4) only
37. Which of the following will likely lead to a fall in the price level?
- The central bank purchases government bonds from the public.
 - The central bank sells government bonds to the public and raises the discount rate at the same time.
 - The government lowers the general sales tax and profits tax at the same time.
 - The government lowers the salaries tax and increases spending on education.

38. Which of the following statements are INCORRECT?

- (1) A balanced budget will have no effect on aggregate output.
 - (2) The government can use an expansionary monetary policy to offset the effect of raising indirect taxes on the price level.
 - (3) In the long run, reducing direct taxes will have no effect on nominal national income.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

39. The following diagram shows the economic situation in City Y. The economy initially operates at Point E.



Refer to the above diagram. City Y faces _____ gap. The government can close the gap by _____.

- A. an inflationary ... lowering the goods and services tax
- B. a deflationary ... providing more transfer payments to low-income groups
- C. an inflationary ... selling government bonds to the market
- D. a deflationary ... providing education subsidies

40. Which of the following items can have a negative value?

- (1) Net exports
 - (2) Net external factor income flow
 - (3) Consumer price index
 - (4) Inflation rate
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (1), (2) and (4) only

41. The following table shows the amount of resources required to produce 1 unit of cookies and 1 unit of ham in Country A and Country B.

	1 unit of cookies	1 unit of ham
Country A	1	2
Country B	4	10

Based on the above table, we can conclude that:

- (1) Country A has an absolute advantage in producing both goods.
 - (2) Country B has a comparative advantage in producing cookies.
 - (3) Country B may import ham from Country A.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

42. The following shows Hong Kong's growth rate of exports and imports from 2015 to 2017.

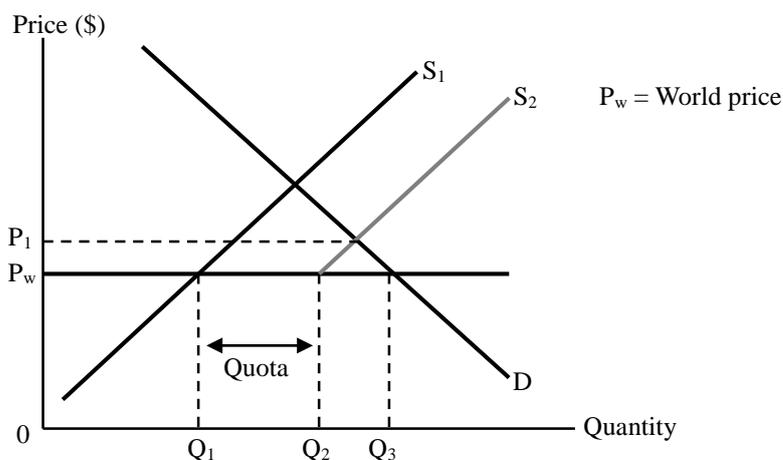
	2015	2016	2017
Total exports	-1.8%	-0.5%	+8%
Total imports	-4.1%	-0.9%	+8.7%

Source: Hong Kong Trade Development Council

During the period 2015 to 2017, which of the following is/are correct?

- (1) Hong Kong experienced a trade deficit throughout the period.
 - (2) It is possible for Hong Kong to have a trade surplus in 2017.
 - (3) The export sector shrank in both 2015 and 2016.
- A. (1) only
 B. (2) only
 C. (2) and (3) only
 D. (1), (2) and (3)

43. Country A, a small open economy, has imposed an import quota on Good X as shown on the diagram below.



Suppose Country A decides to cancel the quota restriction. Which of the following conclusions can be drawn?

- A. The market price of Good X increases from P_w to P_1 .
- B. Domestic production decreases from Q_3 to Q_1 .
- C. The volume of imports increases from $(Q_2 - Q_1)$ to $(Q_3 - Q_1)$.
- D. Domestic consumption increases from Q_2 to Q_3 .

44. Study the following information about the balance of payments account of Country A.

Items	\$ million
Balance on goods	600
Balance on services	-400
Net current transfers	100
Net factor income from abroad	-200
Net change in financial and capital non-reserve assets	-500

Country A has a current account _____ and the reserve assets _____.

- A. surplus ... increase by \$400 million
- B. surplus ... decrease by \$400 million
- C. deficit ... increase by \$600 million
- D. deficit ... decrease by \$600 million

45. Suppose the US dollar appreciates against the Japanese yen. Under Hong Kong's linked exchange rate system, which of the following are correct?

(1) More Hong Kong people will visit Japan.

(2) Hong Kong's volume of imports from Japan will increase.

(3) The value of Hong Kong exports to Japan (in Hong Kong dollars) will increase.

A. (1) and (2) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)

END OF PAPER

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

MOCK PAPER

ECONOMICS PAPER 2

Time allowed: 2 hours and 15 minutes

This paper must be answered in English.

INSTRUCTIONS

1. This paper consists of three sections, A, B and C. Answer ALL questions in Sections A and B. Attempt any ONE question in Section C.
2. Write your answers in the spaces provided. DO NOT write in the margins. Answers written in the margins will not be marked.

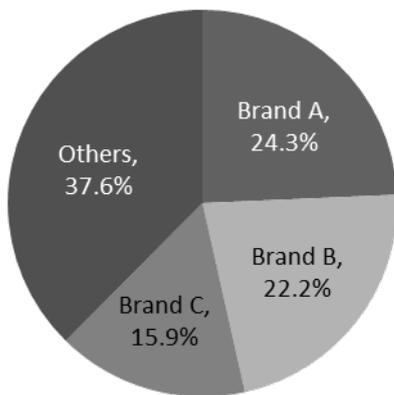
Section A (50 marks)

1. Ann is a Secondary Five student. She is offered a scholarship to study at a high school in the US for one year after she completes Secondary Five. The scholarship covers all her expenses in the US. She will return to Hong Kong to attend Secondary Six after one year.

Explain whether Ann’s opportunity cost of studying in the US will *necessarily* increase if

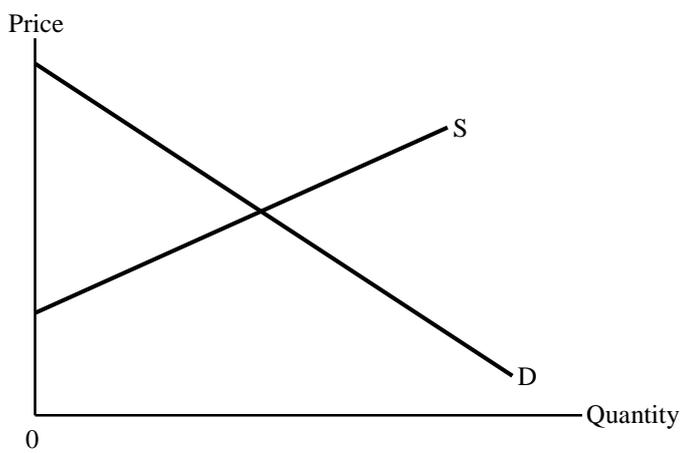
- a. she learns less than she expects at the US high school. (2 marks)
- b. her favourite teacher will retire after she completes Secondary Five. (2 marks)

2. Taiwanese drinks like bubble tea (珍珠奶茶) are popular in Hong Kong. The following shows market shares by sales revenue for Taiwanese drinks in Hong Kong.

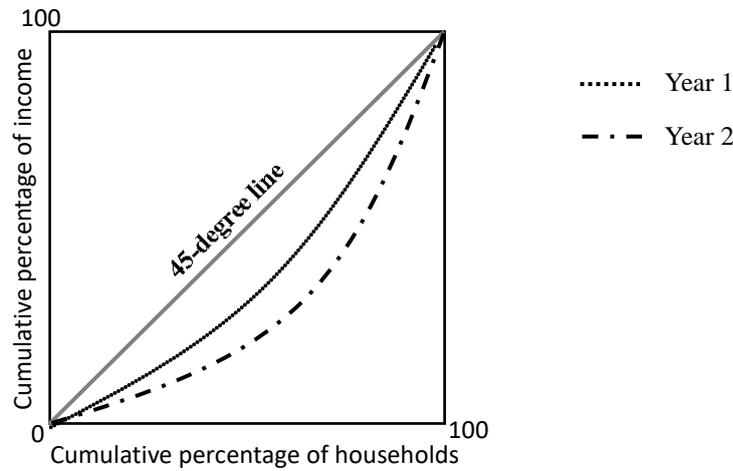


To what type of market structure do the Taiwanese drink shops in Hong Kong belong?
Give TWO features of this market structure. (3 marks)

3. Explain, with the aid of the following figure, how imposing a unit tax on Good X would affect efficiency. (5 marks)



4. The following diagram shows the change in the Lorenz curve of Country A from Year 1 to Year 2.



Suggest TWO possible reasons for the above change in the Lorenz curve. (2 marks)

5. The following is a news report about the Beijing Marathon 2017.

As long-distance running becomes popular among China’s middle class, the number of registration places available for the Beijing Marathon 2017 cannot match the demand...

In 2014, the State Council announced measures to boost the sports industry and encourage sports-related spending on items such as sports watches, jogging sneakers, sportswear, and training courses. According to a report, a runner spends an average of RMB4,000 annually on sports-related items.

- a. It was reported that some unregistered marathon runners paid RMB2,000 to buy a registration place from touts (黄牛黨). The official registration fee was RMB200. Explain the function of prices in the above case. (2 marks)
- b. Discuss TWO economic effects of the government measures mentioned in the article above. (4 marks)

6. In 2016, Centaline Property Agency Limited (中原地產) abandoned a plan to be listed on the Hong Kong Stock market. It was reported that Centaline only has three shareholders.
- a. State ONE advantage and ONE disadvantage for the form of business ownership to which Centaline Property Agency Limited belongs over a partnership. (2 marks)
 - b. Centaline Property Agency Limited set up Centaline Mortgage Broker Limited to provide mortgage loan services to property buyers.
 - i. Explain what type of expansion is involved. (2 marks)
 - ii. Give TWO possible motives for Centaline Property Agency Limited to set up Centaline Mortgage Broker Limited. (2 marks)

11. In the summer of 2017, public hospitals were seriously overloaded due to an outbreak of influenza.

Source A: Public hospital wards overflow with influenza patients

Occupancy rates at public hospitals increase to 124 percent. Temporary beds have been placed in public hospital corridors. Patients have to wait longer before they receive treatment. Civil service doctors who are administrators or researchers are also urged to treat patients during non-office hours.

Source B: Effectiveness and benefits of influenza vaccine

The flu vaccination can keep you from contracting (感染) the flu and can reduce the risk of flu-associated hospitalisation. Getting vaccinated yourself, apart from protecting yourself, also protects the people around you, including those who are more vulnerable to serious flu illness, like babies and young children, the elderly, and people with certain chronic health conditions.

Source C: The Vaccination Subsidy Scheme (VSS) in 2017/18

1. Who are eligible	The following Hong Kong residents: <ul style="list-style-type: none">• Pregnant women• Elderly aged 65 or above• Children aged between 6 months and 12 years
2. Where one can receive the vaccination	Private doctors who enrolled in the VSS
3. The amount of subsidy	HK\$190 per dose of seasonal influenza vaccination

Source: www.chp.gov.hk

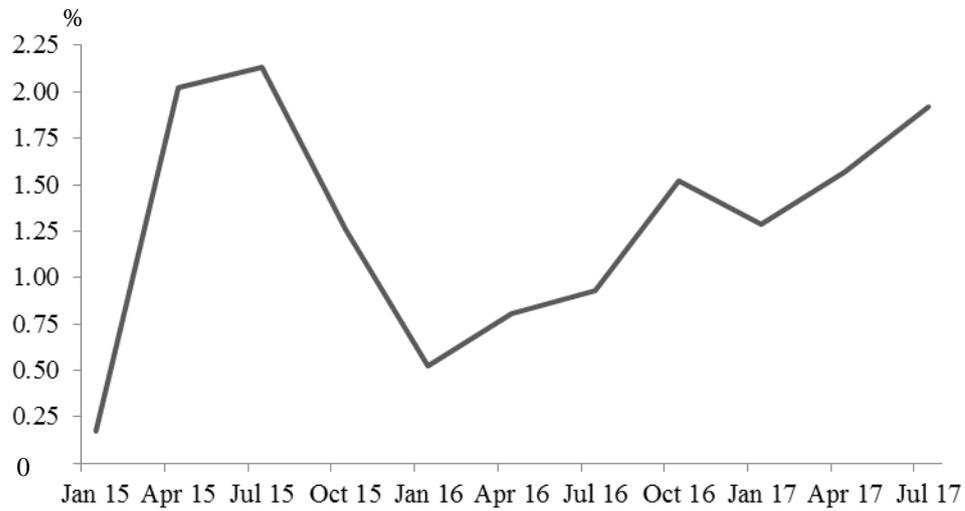
- Identify TWO variable factors employed by the public hospitals in Source A. Explain. (2 marks)
- Refer to Source A. The waiting time of patients in public hospitals during the flu season increases. Explain the above phenomenon with the aid of a supply-demand diagram. Assume that the consultation fees at public hospitals are unchanged. (5 marks)
- With reference to Source B, explain why a person getting an influenza vaccination involves externalities. (3 marks)
- Based on your answer in (c), explain how the VSS described in Source C could help improve efficiency. (3 marks)

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A large rectangular box with a solid black border, containing 25 horizontal dashed lines spaced evenly down the page. This is a template for writing.

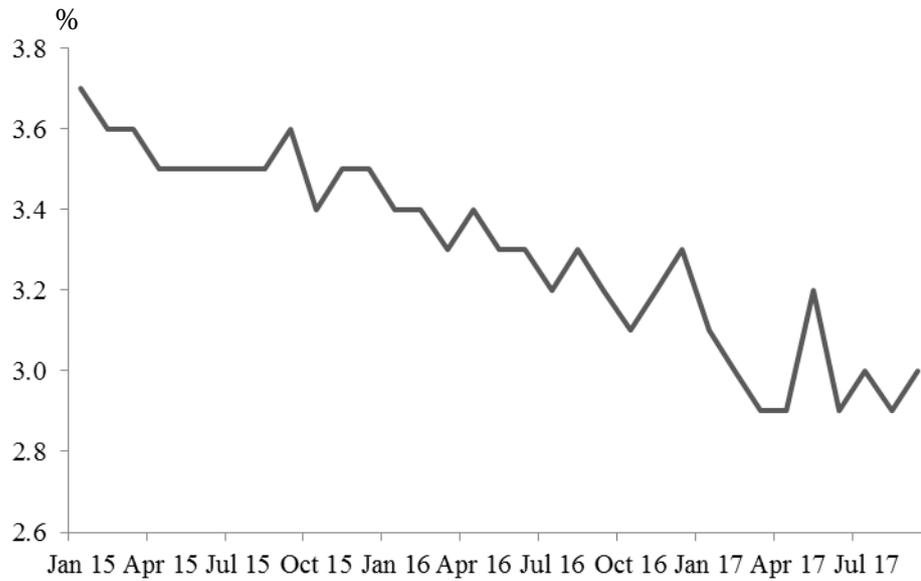
13. The Japanese government has tried various measures to boost the economy.

Source A: Real GDP growth rate of Japan (year-on-year percentage change)



Source: Federal Reserve Bank of St. Louis

Source B: Unemployment rate of Japan



Source: Federal Reserve Bank of St. Louis

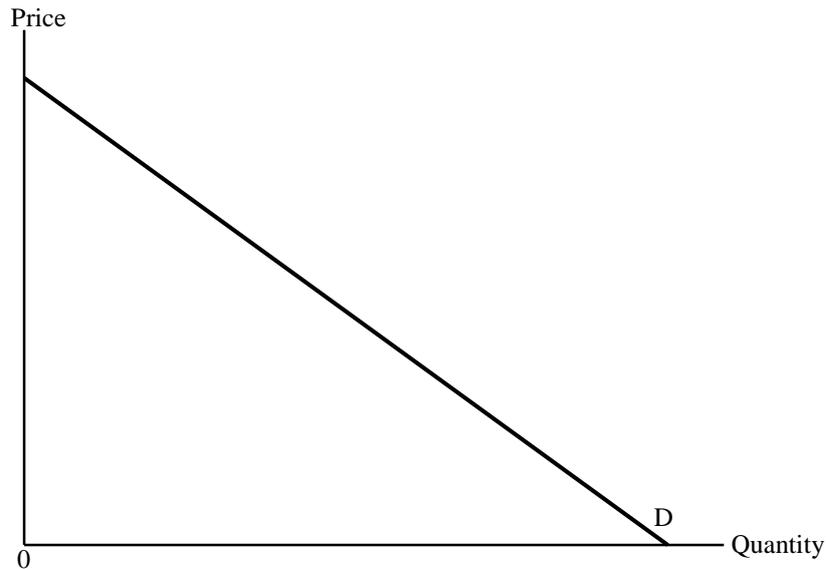
Source C: Exchange rate of US dollar against Japanese Yen

Date	Price of USD in terms of Japanese Yen
4-7-2016	1 USD = 102.50 Yen
4-7-2017	1 USD = 113.17 Yen

Section C (16 marks) Answer any ONE question.

14. Hotel A is the only hotel in Country Y. Its marginal cost is constant.

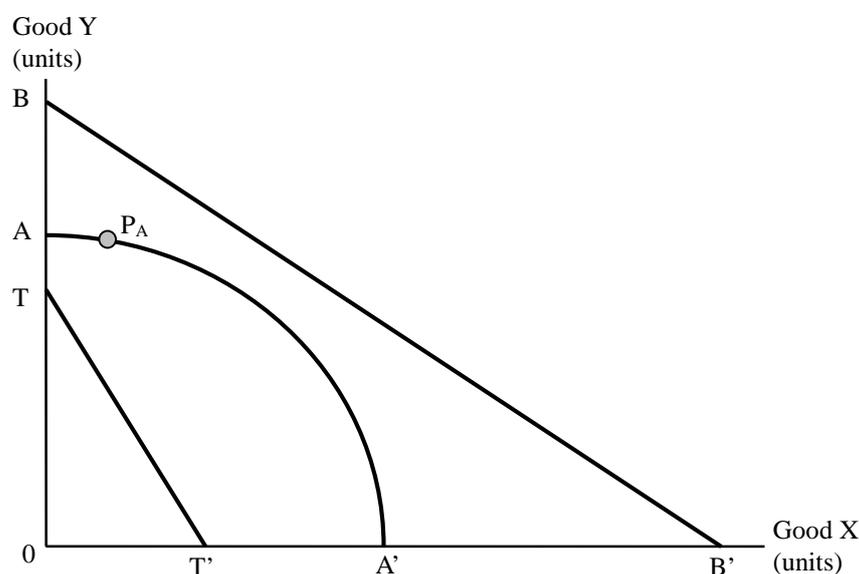
- a.** Suppose Hotel A adopts simple monopoly pricing.
 - i.** Indicate the output and price of Hotel A as Q_1 and P_1 , respectively, in the figure below. Explain. (4 marks)
 - ii.** Explain, with the aid of the figure below, why such simple monopoly pricing is inefficient. (2 marks)



- b.** Suppose a unit tax is imposed on Hotel A. Indicate the new output and price as Q_2 and P_2 , respectively, on the same figure in (a). (2 marks)
- c.** Hotel A offers a 50% discount on its lunch buffet to customers who frequently visit the hotel. Explain whether this pricing arrangement constitutes price discrimination. (3 marks)
- d.** There are several hotels in Country X.
Super Hotel, together with four major hotels, requests that a major supplier of luxury food not supply food to Star Hotel.
 - i.** Name the anti-competitive behaviour that the above hotels may be engaging in. Explain how this practice may restrict competition. (3 marks)
 - ii.** Suppose the behaviour stated in (d)(i) occurs in Hong Kong. Which conduct rule of the Competition Ordinance in Hong Kong might the above hotels be violating? Explain. (2 marks)

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15. The following figure shows the production possibilities frontiers (PPF) AA' and BB' for Country A and Country B, respectively. P_A is Country A's production point without trade. TT' is the world price line of Good X.



- a. What does the shape of Country B's PPF imply? (1 mark)
- b.
 - i. Explain whether Country B has an absolute advantage in producing Good X. (2 marks)
 - ii. Explain in which good Country A has a comparative advantage compared with Country B. (3 marks)
- c. Suppose Country A opens up trade.
 - i. Indicate the production point of Country A after trade as P_T in the above figure. Explain your answer. (3 marks)
 - ii. Indicate the consumption point after trade as C_T in the above figure, given that consumers want to consume the same amount of Good Y as before trade. (1 mark)
 - iii. Indicate the amounts of exports as X and imports as M in the above figure. (2 marks)
- d. The following table shows the human development index (HDI) of Country A after opening up for trade.

Year	2003	2010	2017
HDI	0.60	0.67	0.72

- i. Suggest ONE possible reason for the above change in HDI after trade. (2 marks)
- ii. Besides trade, explain ONE possible government measure that may lead to the above change in HDI. (2 marks)

Lined writing area for Section C.

END OF SECTION C