

HONG KONG DIPLOMA OF SECONDARY
EDUCATION EXAMINATION MOCK PAPER

ECONOMICS

**PAPER 2: STRUCTURED AND ESSAY
QUESTIONS (2028 ONWARDS)**

Time Allowed: 2 hr 30 min

Total Marks: 120

INSTRUCTIONS TO CANDIDATES:

1. This paper consists of multiple sections.
2. Answer all compulsory questions. Follow the choice instructions for optional questions.
3. Write your answers in the spaces provided.
4. Unless otherwise specified, all working must be clearly shown.
5. Unless otherwise specified, numerical answers should be either exact or correct to 3 significant figures.

A

QUESTION 1

A student has one free afternoon and can either attend a concert or work a shift earning \$400. The student chooses to attend the concert. What is the opportunity cost of this choice? (2 marks)

- A. The concert ticket price only
- B. The \$400 wage forgone, together with any other best alternative forgone
- C. All the activities the student could have done that afternoon
- D. The student's total income for the week

QUESTION 2

A firm employs more workers while keeping its factory size and machinery fixed. Output rises, but each additional worker adds less output than the previous worker. Which statement best describes this situation? (2 marks)

- A. The firm is experiencing diminishing marginal returns to labour in the short run
- B. The firm's total output must be falling
- C. The firm is experiencing economies of scale
- D. The marginal product of labour is increasing

QUESTION 3

In a competitive market, the government imposes a binding maximum price below the original equilibrium price. Assuming demand and supply are otherwise unchanged, which outcome is most likely? (2 marks)

- A. A surplus, because quantity supplied exceeds quantity demanded
- B. A shortage, because quantity demanded exceeds quantity supplied
- C. An increase in both demand and supply
- D. The market price rises to a level above the original equilibrium

QUESTION 4

A Hong Kong resident buys a newly produced machine made overseas. Which statement about Hong Kong's GDP is correct, assuming the machine is not produced in Hong Kong? (2 marks)

- A. The machine's full value is included in Hong Kong's GDP because the buyer is a Hong Kong resident
- B. The machine's value is excluded from Hong Kong's GDP because GDP measures production within Hong Kong
- C. The machine's value is included in Hong Kong's GDP only if it is paid for in Hong Kong dollars
- D. The machine's value is counted as Hong Kong exports

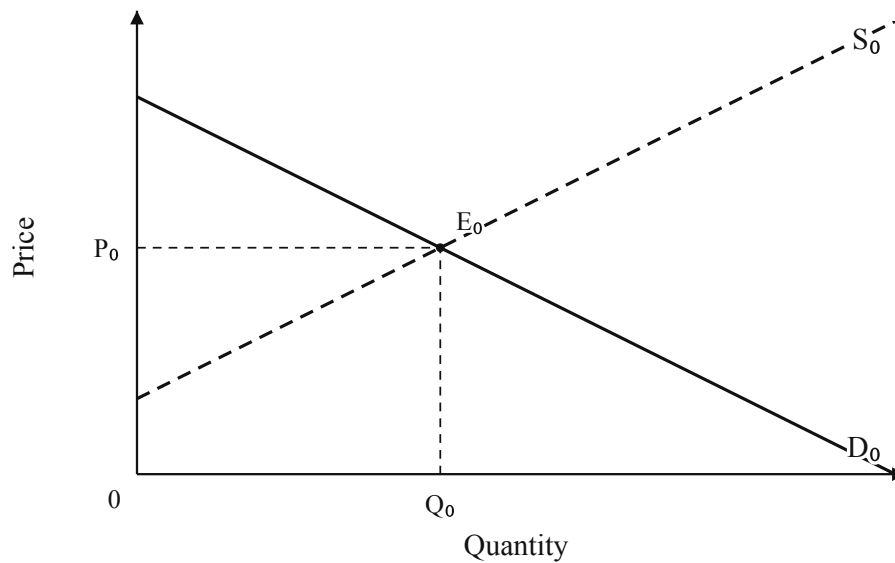
QUESTION 5

A small Hong Kong bakery has limited oven time and labour. It can produce bread and cakes using these scarce resources.

- (a) Explain why the bakery faces the economic problem of choice. In your answer, identify scarcity and the role of opportunity cost. (3 marks)
- (b) The bakery can use an additional hour of oven time either to make 30 loaves of bread or 10 cakes. Calculate the opportunity cost of producing 1 cake in terms of loaves of bread. (3 marks)
- (c) State one reason why the bakery's production possibility frontier may shift outwards over time. (2 marks)

QUESTION 6

The diagram shows the initial demand and supply conditions in a market for takeaway meals. A rise in nearby office employment increases consumers' income. Assume takeaway meals are a normal good and all other factors remain unchanged.



- (a) Explain the effect of the income rise on the demand for takeaway meals and distinguish a change in demand from a change in quantity demanded. (3 marks)
- (b) Using a demand-and-supply diagram, explain the likely changes in the market equilibrium price and quantity. Do not calculate numerical values. (4 marks)
- (c) Suppose the price of takeaway meals is temporarily prevented from adjusting. Explain the resulting market pressure and state one possible non-price means of allocating the meals. (3 marks)

QUESTION 7

The following simplified figures are for an economy in one year. All figures are in billions of local currency units.

Selected annual economic data

Item	Value
Consumption expenditure	620
Investment expenditure	180
Government expenditure on final goods and services	210
Exports	260
Imports	290
Nominal GDP	980
GDP deflator	105

- (a) Use the expenditure approach to calculate GDP from the expenditure components in the table. (3 marks)
- (b) Calculate real GDP, using the GDP deflator shown and taking the base-year deflator as 100. Give your answer to one decimal place. (4 marks)
- (c) State one reason why a rise in real GDP per capita does not necessarily mean that every resident is better off, and explain your answer. (3 marks)

QUESTION 8

A commercial bank receives a new cash deposit of \$10,000. Assume the required reserve ratio is 10%, the bank initially has no excess reserves, and all loans are redeposited in the banking system. Ignore cash leakage and other constraints.

- (a) Calculate the required reserve and the maximum initial loan that the bank can make from the deposit. (3 marks)
- (b) Calculate the maximum total increase in bank deposits generated by the original deposit under the assumptions given. (3 marks)
- (c) Explain one reason why the actual increase in the money supply may be smaller than the theoretical maximum. (2 marks)

B

QUESTION 9

An economy experiences a fall in private investment and a slowdown in its major export markets. The economy has spare productive capacity initially, but inflation has recently accelerated.

- (a) The marginal propensity to consume is 0.8. Calculate the simple expenditure multiplier and state one (3 marks) assumption underlying its use.

- (b) Using the aggregate expenditure model, explain how the stated changes can affect equilibrium real output and employment in the short run. (5 marks)

- (c) Assess whether expansionary fiscal policy is an appropriate response. Your answer should consider both the output gap and the risk of inflation, and reach a supported conclusion. (6 marks)

QUESTION 10

Consider government intervention in two settings: provision of street lighting in a district and a policy intended to reduce emissions from road transport in Hong Kong.

- (a) Explain why a private market may underprovide street lighting, referring to the characteristics of a public good and the free-rider problem. (4 marks)

Question 10 (continued)

- (b) Explain how a per-unit tax on emissions or fuel can reduce road-transport emissions. State one condition that affects the size of the reduction. (5 marks)
- (c) Assess the claim that an emissions tax is necessarily the fairest and most efficient policy for reducing transport pollution. Consider at least two affected groups or policy concerns. (5 marks)

QUESTION 11

The table gives illustrative annual data for two economies. They produce only garments and electronic components. Production resources can be reallocated between the two goods within each economy.

Maximum annual output with existing resources

Economy	Garments (thousand units)	Electronic components (thousand units)
Economy H	120	60
Economy R	80	80

- (a) Calculate the opportunity cost of producing 1 thousand units of electronic components in each economy. (4 marks)
Identify which economy has a comparative advantage in producing components.

Question 11 (continued)

- (b) Explain how specialization and trade could allow the two economies to consume combinations beyond their individual production possibilities. State a condition on the terms of trade for mutually beneficial exchange. (4 marks)
- (c) Suppose Economy H considers imposing a tariff on imported components to protect domestic producers. Assess the likely effects on consumers, producers, government revenue and resource allocation. Reach a reasoned conclusion. (6 marks)

QUESTION 12

A food-delivery platform operates in a market where network effects and control over customer data may make entry difficult. Restaurants can use more than one platform, but many consumers prefer platforms with a wide choice of restaurants.

- (a) Explain how network effects and an entry barrier can strengthen the market power of an established platform. (4 marks)
- (b) Explain two possible consequences of market power for consumers or restaurants, distinguishing a short-run gain from a possible longer-run concern. (4 marks)

Question 12 (continued)

- (c) Assess whether a competition authority should restrict the platform from offering exclusive discounts to restaurants that use it. Explain the case for and against intervention and state what further evidence would be useful. (6 marks)

QUESTION 13

Answer ONE of the two elective alternatives below. Each alternative carries 20 marks.

Alternative 1

(20 marks total)

Elective 1: Monopoly pricing, anti-competitive behaviours and competition policy. A single firm supplies a local market for a service. Its demand is downward sloping, and the firm can choose its price and output. A regulator is considering a price cap after complaints about high charges and poor service.

- (a) Explain why a profit-maximising monopolist may restrict output and charge a price above marginal cost. Use the relationship between demand, marginal revenue and marginal cost in your explanation. (5 marks)

- (b) Explain how a binding price cap could affect the firm's price, output and profit. State one possible unintended consequence if the cap is set too low. (4 marks)

- (c) Distinguish price discrimination from predatory pricing. For each, identify a circumstance in which the conduct may harm competition or consumers. (5 marks)

Question 13 · Alternative 1 (continued)

- (d) Assess whether a price cap is preferable to relying on competition policy to address the firm's market power. (6 marks)
Consider efficiency, consumer protection, information and implementation, and reach a supported conclusion.

Alternative 2

(20 marks total)

Elective 2: Extension of trade theory, economic growth and development. An economy with a large pool of relatively low-skilled labour exports labour-intensive products. It is considering deeper trade integration and investment in education, transport infrastructure and technology. The government also wants growth to improve living standards broadly.

- (a) Use factor endowment theory to explain why the economy may initially export labour-intensive products and import capital-intensive products. (5 marks)
- (b) Explain how trade integration and foreign investment could contribute to productivity growth, while identifying one risk or limitation. (5 marks)
- (c) Distinguish economic growth from economic development and explain why growth in real GDP alone is an incomplete measure of development. (4 marks)

Question 13 · Alternative 2 (continued)

- (d) Assess whether education and infrastructure investment can ensure that trade-led growth improves living standards broadly. Discuss distributional and sustainability concerns and reach a supported judgment. (6 marks)