

New Senior Secondary

Exploring
ECONOMICS
Mock Exam Papers



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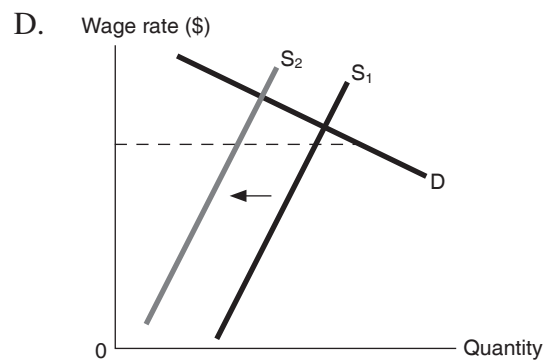
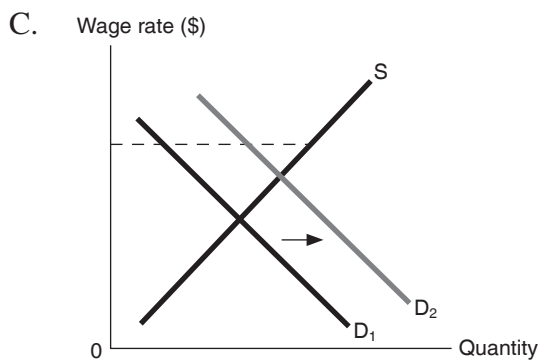
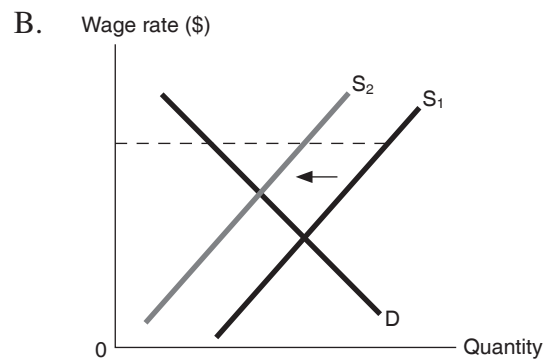
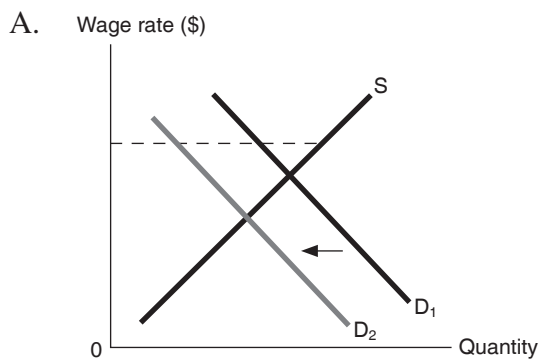
13. Suppose the government imposes an effective minimum price control on Good X. Which of the following are correct if the government raises the minimum price?

- (1) Total sales revenue will increase if the demand is inelastic.
- (2) Consumer surplus will necessarily decrease.
- (3) Deadweight loss will necessarily increase.

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



14. In Hong Kong, the market for domestic helpers imported from the Philippines is subject to an effective minimum wage. Suppose the HKSAR government changes its immigration policy to allow local households to employ full-time domestic helpers from the mainland of China. Which of the following diagrams best describes the change in the market for Filipino domestic helpers in Hong Kong?



27. Suppose the government issues government bonds to finance its expenditure on social welfare. This would result in

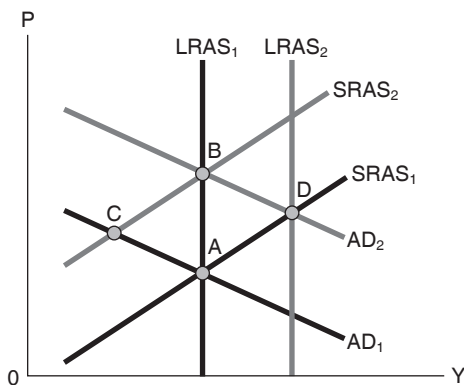
- A. an increase in the money supply.
- B. a balanced budget.
- C. an increase in the income gap between the rich and the poor.
- D. None of the above

28. Which of the following are assumptions behind a vertical long run aggregate supply curve?

- (1) Prices and wages are fully flexible.
- (2) Consumers and producers are fully informed of changes in the prices of products and production factors.
- (3) Costs of production remain constant.

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

29. In the following AS-AD diagram, Point A is the initial equilibrium.



Suppose the production cost increases temporarily due to a natural disaster. The long run equilibrium would most likely be at _____.

- A. Point A
- B. Point B
- C. Point C
- D. Point D

Section A (50 marks)

- 1. a. What is occupational mobility? (2 marks)
- b. Use the concept of opportunity cost to explain why popular singers generally tend to have low occupational mobility. (3 marks)

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- 2. Many banks offer credit cards to university students who do not earn any income.
 - a. Explain why interest is a cost to students who use credit cards for consumption. (2 marks)
 - b. Briefly explain why credit cards CANNOT perform the following functions of money:
 - i. Unit of account (1 mark)
 - ii. Store of value (2 marks)

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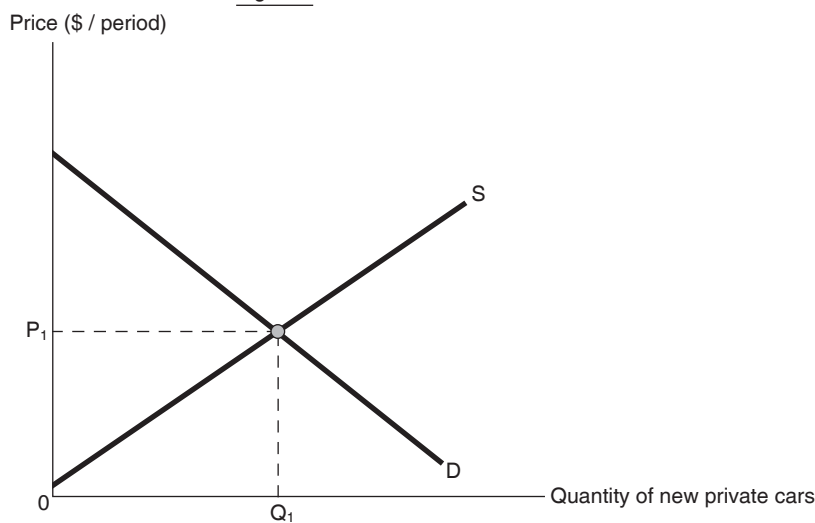
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Section B (54 marks)

10. In Country X, the problem of traffic congestion is serious.

- a. Briefly explain why the use of vehicles may result in a divergence between private and social costs when congestion develops. (3 marks)
- b. Figure 1 shows the new private car market in Country X. P_1 and Q_1 represent the market equilibrium price and quantity of new private cars, respectively. In an attempt to ease traffic congestion, the government considers imposing either a unit tax or a quota on new private cars.
 - i. Suppose the reduction in the quantity of new private cars is the same using either measure. Explain how these two measures help reduce the quantity of new private cars. Illustrate your answer in Figure 1. (7 marks)
 - ii. Continue with (b)(i). Suppose when the government imposes a quota, it gives quotas to existing private car suppliers free of charge. With the aid of Figure 1, compare the two measures in terms of the producer surplus. Based on the comparison, suggest which measure is more preferred by private car suppliers. (4 marks)

Figure 1



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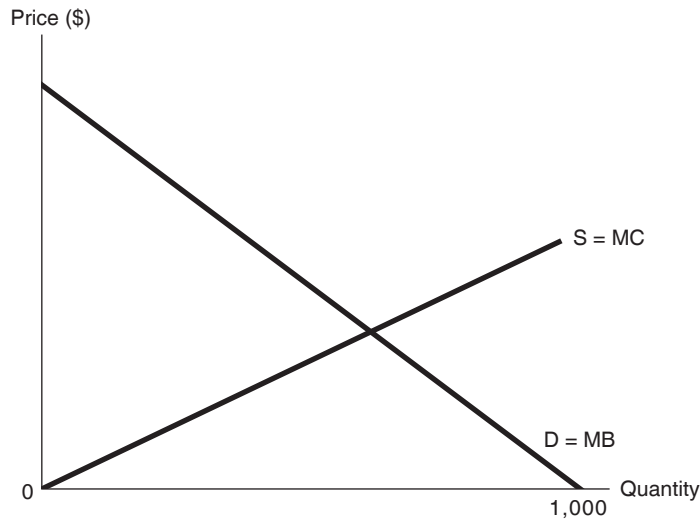
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Section C (16 marks) Answer any ONE question.

12. The diagram below shows the demand curve and supply curve in a perfectly competitive market.



- a. i. Show in the above diagram the equilibrium price (P_C) and the equilibrium quantity (Q_C) in a perfectly competitive market. (1 mark)
- ii. Suppose competitive firms collude and operate as a monopolist. Explain how the marginal revenue curve and the profit-maximising price (P_m) and quantity (Q_m) of the monopolistic market are determined and show them in the above diagram. (4 marks)
- iii. Illustrate with the aid of the above diagram, areas that represent changes in the consumer surplus, the producer surplus and the deadweight loss, respectively. (3 marks)
- b. i. List TWO forms of horizontal agreement and TWO forms of vertical agreement. (4 marks)
- ii. Explain why anti-competitive business practices may harm consumers. (2 marks)
- iii. Do you support the introduction of a competition policy? Give TWO reasons to justify your standpoint. (2 marks)

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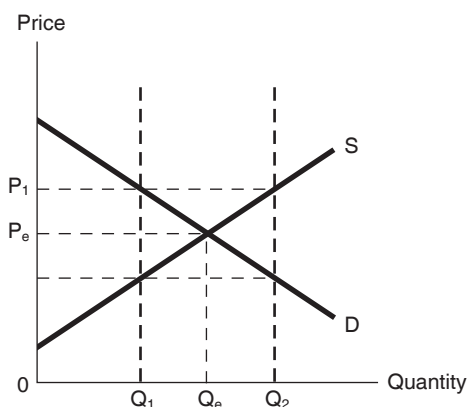
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15. D



After the government increases the quota from Q_1 to Q_2 , the quota becomes ineffective. The price will decrease from P_1 to P_e and the quantity transacted will increase from Q_1 to Q_e .

Option A is incorrect. This is because the consumer surplus must increase.

Option B is incorrect. This is because there was no excess demand before or after the change in quota.

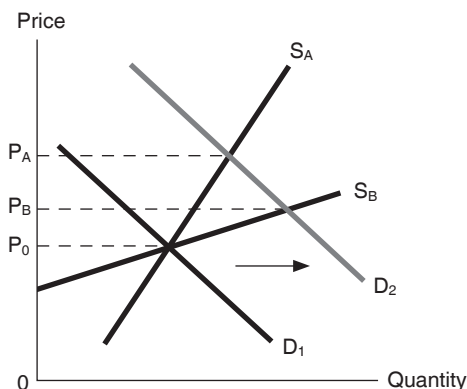
Option C is incorrect. After the change in quota, the price and quantity transacted are at the free market equilibrium levels. Therefore, there is neither overproduction nor underproduction.

16. A

Consumers' and suppliers' benefits from the tax removal are \$10 and \$20 per unit, respectively. As the suppliers' benefit is greater than the consumers' benefit, the demand elasticity is greater than the supply elasticity.

Before the removal of the tax, the tax revenue was $\$30 \times 10 = \300 . After removal of the tax, the tax revenue becomes \$0. Therefore, the loss of tax revenue is \$300.

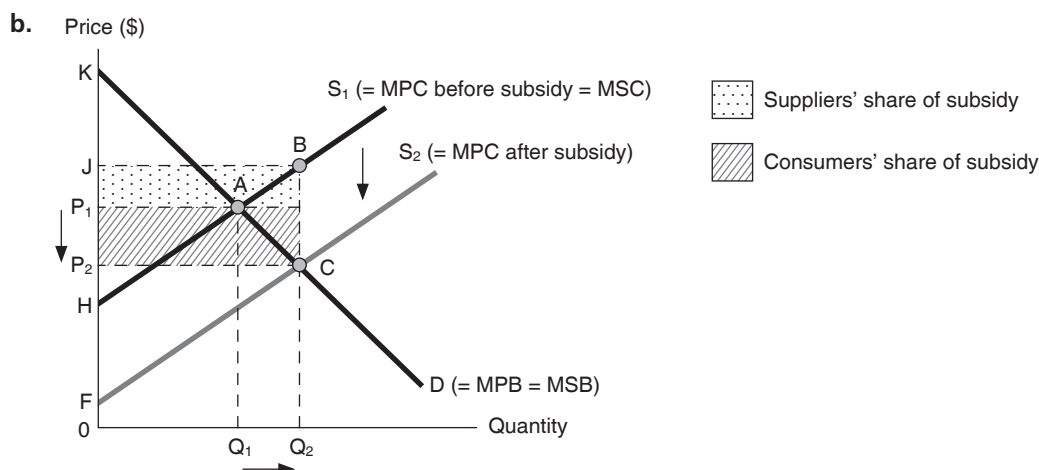
17. A



Referring to the above diagram, the supply of face masks in Country B is more elastic. When the demand for face masks increases as a result of an influenza outbreak, the percentage increase in price is smaller in Country B (from P_0 to P_B) than that in Country A (from P_0 to P_A). The more elastic supply in Country B can be explained by the fact that there are more inventories of face masks in Country B.

18. A

Option (3) is incorrect. Producer surplus is the extra amount a producer actually receives above the minimum amount he requires to receive for selling a certain quantity of a good.



Indicate in the diagram:

- Downward shift of the supply curve (1 mark)
- Quantity increases from Q_1 to Q_2 (1 mark)
- Deadweight loss = Area ABC (1 mark)

Verbal elaboration:

- After the subsidy, the supply of pre-school education will increase. (1 mark)
- At the new quantity (Q_2), marginal social cost (MSC) is higher than marginal social benefit.
OR: There is over-production of pre-school education. (1 mark)
- There is a deadweight loss equal to Area ABC. (1 mark)

Alternative answer:

- It is true that after the subsidy both the consumer surplus and producer surplus increase. (1 mark)
- However, the sum of the increase in CS and PS (Area HACF) is smaller than the subsidy amount (Area HBCF), which is the cost from a social viewpoint. Hence, there is a deadweight loss equal to Area ABC. (2 marks)

c. Indicate in the diagram:

- Consumers' share of the subsidy (1 mark)
- Suppliers' share of the subsidy (1 mark)

d. Regarding efficiency:

Pre-school subsidisation is more efficient because it has no disincentive effect on work while unemployment benefits have a disincentive effect on work.

(Any other reasonable answer with brief explanation. 2 marks)

Regarding equity:

- Pre-school subsidisation provides all children with equal opportunities to an education. Thus, it equalises opportunities. Unemployment benefits do not aim to equalise opportunities as the benefits do not provide equal opportunities to improve one's living standards.
- Only the low-income group can benefit from unemployment benefits while all parents, including the rich, can benefit from pre-school subsidisation. Thus, unemployment benefits are better at equalising outcomes.

(Any ONE of the above or other reasonable answer with brief explanation. 2 marks)