Hong Kong Diploma of Secondary Education Examination
Practice Paper for Economics
Report on Students' Performance

Comments on paper 1:
Students' performance on this paper was generally good. However, there was still room for improvement.

Q.8 45% of the students chose the key, while 32% of them chose option A. Students confused the pre-tax and net-of-tax total revenue. They also showed their misconception that a rise in tax would result in a rise in tax revenue.

Q.12 47% of the students chose the key, while 30% of them chose option A. While students showed their understanding of total revenue, total cost, marginal cost, price in the computation of profit, they lacked the accurate understanding on how to calculate the total producer surplus given the cost schedule and market price.

Q.13 34% of the students chose the key, while 33% chose option D. Students failed to see that a fixed transportation cost would lowered the relative ticket price of the more expensive seats (better seats) to the less expensive ones, and therefore the people in remote areas tend to buy more better-seat tickets. On the other hand, the lump-sum charge will imply a higher percentage increase in the price of short-distance trips than that of long-distance trips, resulting a higher percentage fall in the short-distance trips.

Q.33 27% of the students chose the key, while 33% chose option B. Students failed to realise that given the velocity of circulation of money and real output are constant, any change in money supply will lead to the same proportional change in price level and also the same proportional change in nominal output ($P \times Q$). They also showed the misconception that the change in price level will lead to a change in money supply, which is NOT the case in the quantity theory of money with money supply being exogenous.

Paper 2
Comment on individual questions:

Q no.	Students performance	Students merits/demerits
1	Quite Good	- Most students were familiar with the definitions of interest.

		- Some students failed to relate their answer to the given case. - A few students mistook Peter to be the lender and Mary to be the borrower.
2	Good	- Most students identified correctly the type of integration involved and the corresponding motives. - Quite a number of students failed to gave an accurate explanation of horizontal integration. - Some students mistook 'economies of scale' to be 'economics of scale'.
3	Excellent	- A few students failed to note the reduction in supply.
4	Satisfactory	- Many students failed to state the condition in which deadweight loss occurs. - Some students failed to show correctly the increase in consumer surplus and the reduction in consumer surplus. - Some students failed to identify correctly the new quantity transacted and hence failed to show correctly the new consumer surplus in (bi) and the deadweight loss in (bii). - Some students did not state whether they agreed or disagreed with the teacher.
5	Satisfactory	- Some students merely put down the definition of GDP as their explanation to why Mr Richardson's income was counted in HK's GDP.
6	Good	- Most students' explanation was logical and systematic. - Some students wrongly applied demand and supply analysis to answer the question.
7	Good	- Some students failed to read the question carefully and put down 'negative GDP growth rate' as one of the economic phenomena in trough. - Some students put down wrong answers like

			'no incentive to invest'.
8	Satisfactory	-	Some students wrongly put down standard of deferred payment or unit of account as the functions of money that demand deposits perform.
		-	Some students failed to explain the store of value and/or the medium of exchange function(s) properly.
9	Good	-	Some students try to explain why B had an absolute / a comparative advantage in producing food by merely putting the definition(s) of absolute/ comparative advantage without relating to the data given in the question.
10	Good	-	Most students performed well in part (a) and (b).
		-	Some students concluded that the total expenditure would increase (because price of imported European cars was higher) or the total expenditure would decrease (because HK people would buy fewer European cars).
11	Satisfactory	-	Most students could explain the reasons why specialisation improves productivity.
		-	Some students wrongly explained whether a textbook was a public good.
		-	Some students failed to explain the concept of non-rival in consumption correctly.
		-	Most students could identify the type of market structure of the publishers correctly and gave correct features correspondingly.
		-	Some students failed to explain how the STAS could help enhance equity by using the concept of equalizing income/opportunity.
12	Poor	-	Quite a number of students missed the data given in the question that there were a fixed number of tickets and put down an upward-sloping instead of a vertical supply curve.

		- Some students suggested reducing demand or imposing a tax to reduce the excess demand, which were either impractical or wrong.
		- Many students mistook the function of money (as a medium of exchange) to be the function of price (rationing outputs).
		- Only a few students could evaluate the proposal from the perspectives of different stakeholders.
13	Satisfactory	- Some students were able to put down correct and elaborative explanation, but other mixed different approaches or even wrongly put down reasons that explained downward-sloping AD curve.
		- In part (b), some students failed to explain why consumption(C), investment (I) and aggregate demand (AD) decreased, though they somehow concluded that C/I/AD decreased when asset prices dropped drastically.
		- In question (c), some students misread the question and suggested the use of expansionary policy to raise income back to full employment level.
14	Satisfactory	- The performance in part (a) was good, though some students forgot to put down the unit.
		- In part (bi), most students correctly concluded that the reduction in required reserve ration (rrr) would not change the monetary base (M0). However, some failed to explain correctly why M0 would not change.
		- In part (bii), some mistook the new rrr to be 5% and some other mistook a drop in rrr to be a rise in rrr.
		- Quite a number of students failed to state clearly in part (c) that a rise in Ms would raise P by the same percentage.

15	Satisfactory	- Quite a number of students were able to sho^ correctly the MC curve and the profit-maximizing price.
		- In question (bi), not many students could state clearly the product in the given case was the 'programme'.
		- Most students could provide clear and correct justification for the introduction of competition policy in (bii).
16.	Satisfactory	- In part (ai), some students fail to notice that the two countries may not have the same amount of resources.
		- In part (aii), some students explained verbally which good each country should specialize in, instead of indicating in figure provided. Some other plotted a line AB' but did not label it correctly.
		- Many students did not explain why both countries could gain on the basis of their answer to (aii). Instead, they calculated the gain from selling 1 unit of export / buying 1 unit of import to each country.
		- In part (b), some students failed to make comparison and simply stated in general terms what HDI took into account and the limitations in using per capita GDP to reflect general living standard.

General recommendation on paper 2:

1. Students should read the questions much more carefully so that careless mistakes can be avoided.

2. Students should try to relate economic concepts and theories to the case given in the questions instead of merely regurgitating definitions.

3. Students should learn to evaluate a policy from the perspectives of different stakeholders.

4. Students should make more effort to improve their spelling. At least the key concepts should be correctly spelt.

5. Students should try to improve their handwriting. Some students' handwriting is illegible.