

A photograph of a classroom with students seated at desks, looking towards a projector screen. The screen displays a presentation slide with a bar chart and text. The room has large windows on the left and a whiteboard on the right. The overall lighting is dim, and the image has a blue tint.

HKDSE Economics Notes

SAMPLE NOTES

(2022年修訂版)

A classroom scene with students at desks and a projector screen displaying a presentation slide. The slide has a logo in the top right corner that says "管理" (Management) and "ESO Center" on the right edge. The text on the slide is partially obscured by the overlay.

Chapter 3

Ownership of Firms

(此為Sample節錄版)

Characteristics of limited company

- Legal entity
 - Can sue / can be sued
 - Can buy properties / sign contracts
 - Owner does not have to bear legal responsibilities
- Limited liability
 - Liability of shareholders is limited to the amount of investment in the company
- Lasting continuity
- Higher Profits tax rate
- Wider source of capital
 - Issuing shares / bonds
- More complicated Set-up procedures
- Separation of ownership / management

It is a MUST to recite all these – again, easy marks to pick up in the examination!

Shortcut of memorizing:
 L-L-L-P-W-S-S (first letter of every characteristic)
 L-L-L = Longgg (很長)
 P-W = Password (密碼)
 S-S = Many (所以不止用一個s表達, 要用2個s才能表達)

→ 口訣：很長的密碼有很多個

Private company VS public company

	Aspect	Private company	Public company
1	<u>C</u> apital raising	Cannot issue shares and bonds to public	Can issue shares and bonds to public
2	<u>E</u> xtent of disclosure	Need NOT disclose financial info	Need to disclose financial information regularly
3	<u>N</u> umber of owners	<50	Unlimited
4	<u>T</u> ransferability of shares	Shares have to be transferred under consent of all shareholders	Shares can be transferred freely

Shortcut of memorizing: C-E-N-T (first letter of every characteristic)

→ 口訣: Cent = 毫子

Characteristics of public enterprise

Public enterprise

- Higher average production costs
- Easy access to info & data
 - Better business decisions
- Adequate & stable capital
- Reliable supply of goods at lower price
 - Not profit-maximizing

Shortcut of memorizing: S-P-I-L-L (first letter of the first 5 characteristic) → Lack of continuity
 → 口訣: Spill = 倒翻了 → 沒有了延續性

Advantages of public enterprise over government department

- Better control of employees
- Higher Incentive to lower product cost
- More Responsive to demand
- More Profit-motivated (although may not be profit-maximizing)
- More Flexible operation
- More Innovative

Lower frequency of appearing in the examination, but good to know if you have time

Shortcut of memorizing: FRI-PIC
口訣: Fri Pic = 星期五的照片

Characteristics of partnership & sole proprietorship

- Simple Set-up procedures
- Lower Profits tax rate
- Financial Information kept secret
- Not a Legal entity:
 - Owners have to bear responsibilities
 - Cannot sue / be sued
- Unlimited Liability
 - Liability is not limited to the amount of investment in the company
- Lack of continuity

Shortcut of memorizing: S-P-I-L-L (first letter of the first 5 characteristic) → Lack of continuity

→ 口訣: Spill = 倒翻了 → 沒有了延續性

Partnership VS sole proprietorship

No upper limit of shareholders

1 shareholder

	Aspect	Partnership	Sole proprietorship
1	為保障購買完整版的學生 此處已遮蔽	Wider scope of specialization	Narrower scope of specialization
2		Needs consent of <u>all</u> shareholders	Needs consent of the sole proprietor
3		Narrower source of capital	Wider source of capital
4		Collective responsibility	Bear all risks / responsibility
5		-	Better
6		More prompt	Less prompt

Shortcut of memorizing: S-A
→ 口訣

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Bonds vs Shares

Firm's perspective

	Bonds	Shares
	✓ Not diluting existing shareholder's power of control	✗ Dilute existing shareholder's power of control
	✓ No risk of being taken over	✗ High risk of being taken over (shares are freely transferable)
	✗ Obligated to pay fixed interest	✓ No obligation to pay dividends
	✗ Fixed redemption date (pay face value upon maturity)	✓ No fixed redemption date (no need to buy back shares)

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Investor's perspective

	Bonds	Shares
	✓ Lower risk: higher priority in claiming repayment when the firm liquidates	✗ Higher risk: last in claiming repayment when the firm liquidates
	✓ More stable return (interest rate is fixed regardless of loss)	✗ Less stable return
	✗ Fixed rate of return (regardless of profit)	✓ Higher potential return
	✗ No voting rights	✓ Has voting rights (affect management of the firm)

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Shortcut of memorizing (aspect) → 為保障購買完整版的學生
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Shortcut of memorizing: 口訣 為保障購買完整版的學生
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Priority of claiming repayment upon liquidation:
Employees > Bond holders > Preference shareholders > Ordinary shareholders

A classroom scene with students at desks and a projector screen displaying a presentation slide. The slide shows a graph and text, with a logo in the top right corner. The text on the slide is partially obscured by the overlay text.

Chapter 5

Factors of production

(此為Sample節錄版)

Capital and land

Capital

- Man-made resources in production
- Return = interest
- Change in capital stock = capital formation (production / purchase of capital) - Capital depreciation (reduction of value due to capital consumption / obsolescence)
 - Capital formation cannot be negative
 - Capital formation is an investment (sacrificing capital consumption for more future consumption)
- Net increase in capital stock = capital accumulation
 - Capital accumulation can be negative (when capital depreciation > capital formation)
 - When there is a net increase in capital stock
 - Production capacity increases
 - Output level increases

Land

- Natural resources in production
- Return = rent
- The **emergence** of land incurs **NO** opportunity cost
 - There is no choice involved
 - BUT the **use** of land might have opportunity cost (if it has alternative uses)

Common trap in the examination:

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Capital VS land

Capital VS land

	Aspect	Capital	Land
1	Nature of resources	Man-made resource	Natural resources
2	Human effort involved?	✓	✗
3	Can it be increased?	Can be artificially increased	Can increase but cannot be artificially increased
4	Can it be relocated?	Can be relocated by human effort	Cannot be relocated by human effort
5	Cost	Production involves cost	Emergence involves no cost

Quick concept check – true / false?

- Both capital and land can be increased by human effort.
- The supply of both capital and land can be reduced by human effort.
- There is no cost in producing and using land for production.
- Both capital and land can increase the wealth of a society.
- Capital formation can be negative.

Capital VS land

Quick concept check – true / false?

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Labor

Labor

- Human effort used in production
- Return = wage
- Labor supply = no. of workers * average working hours
 - Unit: man-hour

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Factors affecting labor supply

- Size of labor force
 - Population size
 - Legal working age
 - Age and sex distribution
 - Years of schooling
- Average working hours
 - No. of public holidays
 - Maximum legal working hours

Labor

Labor productivity

- Human effort used in production
- Return = wage
- Labor productivity = output / man-hour
 - Unit: output per man-hour

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Factors affecting labor productivity

- H Health of workers
- I ncentive to work
 - e.g. bonuses, job prospect
- M anagement (whether there is division of labor)
- C apital goods per worker
- E ducation and training
- W orking conditions

Shortcut of memo

→ 口訣:

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Wage payment method

	To employer					To employee	
	Productivity	Cost of Supervision	Quality	Cost of quality control	Cost of wage calculation	Risk of income fluctuation	Reward to better work
Time rate	↓	↑	↑	↓	↓	↓	×
Piece rate	↑	↓	↓	↑	↑	↑	✓
Basic salary + commission	↑	↓	↑	↓	↑	Depends	✓
Profit-sharing	↑	↓	↑	↓	↑	↑	✓
Tips	↑	↓	↑	↓	↓	↑	✓

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Common advanced questions regarding wage payment

- To employers, basic salary + commission can achieve the same effects as profit-sharing. Why some employers still adopt profit-sharing?

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- If an employer wants to incentivize employees to improve the productivity and quality, they may just use commission instead of basic salary + commission. Why is basic salary still paid?

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- Both piece rate and basic salary + commission can help improve productivity and lower the cost of supervision. Why using basic salary + commission can achieve a higher quality than using piece rate?

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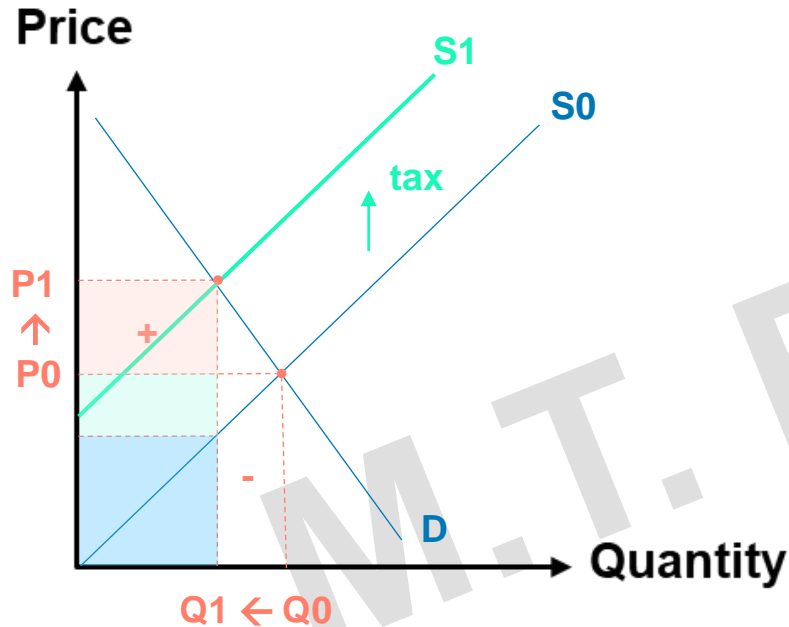
Chapter 11

Market intervention

(此為Sample節錄版)

Tax

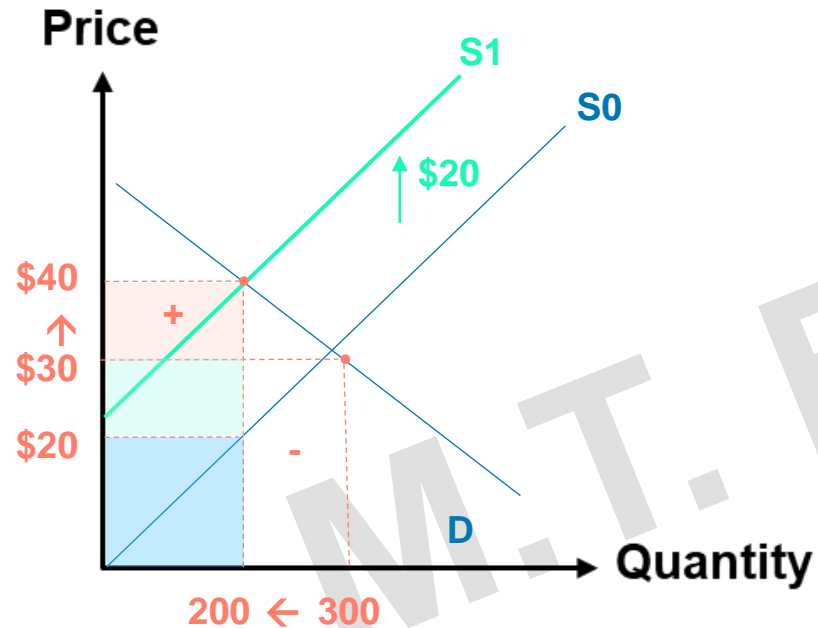
The examination will test you on per-unit tax, but it is good to know what ad valorem tax is



- Consumer tax burden
- Producer tax burden
- Post-tax revenue

- Per-unit tax (on producers): tax is the same regardless of price (VS ad valorem tax = tax as a percentage of the price being charged)
- When per-unit tax is imposed:
 - Supply curves shifts upwards from S_0 to S_1
 - Price increases from P_0 to P_1
 - Quantity decreases from Q_0 to Q_1
 - There is NO surplus / shortage (the equilibrium shifts)
 - Change of pre-tax revenue is uncertain (depending on the elasticity of demand)
 - Post-tax revenue decreases
- How to determine whether the producer or the consumer bear more tax burden?
 - The less elastic side will bear a heavier tax burden
 - E.g. in the graph, demand is more inelastic than supply, so consumer tax burden occupies a larger area

Tax (cont'd)

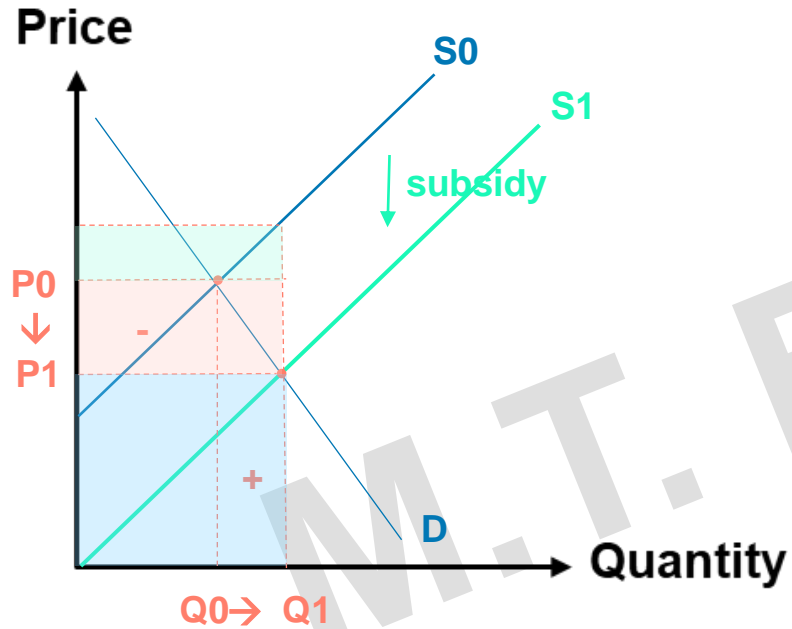


- Consumer tax burden
- Producer tax burden
- Post-tax revenue

Unit Price (\$)	Q_s	Q_d	Q_s after tax
10	100	500	-
20	200	400	-
30	300	300	100
40	400	200	200
50	500	100	300

- Original equilibrium: $P = \$30$ ($Q_s = Q_d = 300$)
- When a \$20 unit tax is imposed:
 - At \$30 now, the seller only receive \$10, so Q_s after tax corresponds to Q_s before tax when unit price is \$10
 - Therefore, at \$30 now, Q_s after tax is 100; at \$40 now, Q_s after tax is 200, etc.
- New equilibrium: $P = \$40$ ($Q_s = Q_d = 200$)
- Pre-tax revenue decreases from $30 \times 300 = \$9,000$ to $40 \times 200 = \$8,000$
- Post-tax revenue decreases from $30 \times 300 = \$9,000$ to $20 \times 200 = \$4,000$
- Consumer tax burden = $(40 - 30) \times 200 = \$2,000$
- Producer tax burden = $(30 - 20) \times 200 = \$2,000$

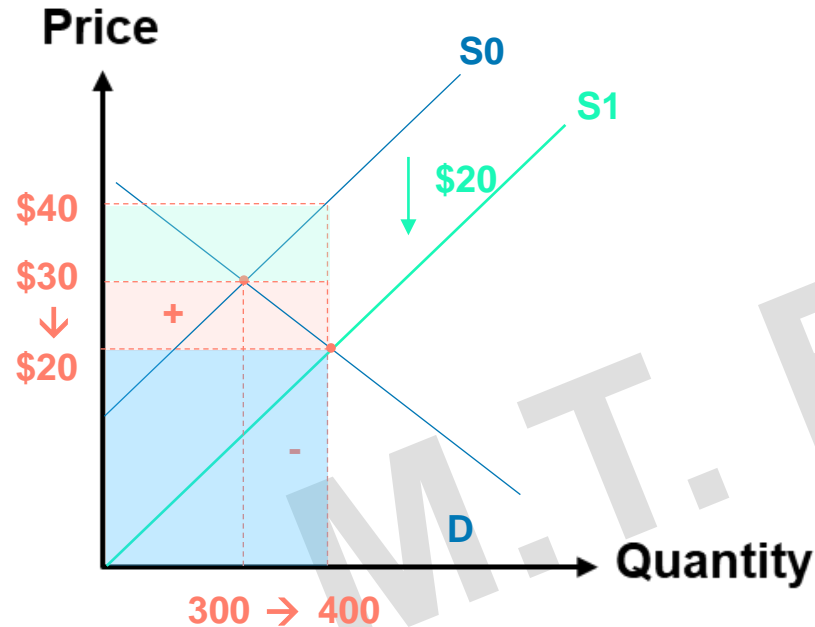
Subsidy



- Consumer subsidy benefit
- Producer subsidy benefit
- + Post-subsidy revenue

- When per-unit subsidy (on producers) is imposed:
 - Supply curves shifts downwards from S_0 to S_1
 - Price decreases from P_0 to P_1
 - Quantity increases from Q_0 to Q_1
 - There is NO surplus / shortage (the equilibrium shifts)
 - Change of pre-subsidy revenue is uncertain (depending on the elasticity of demand)
 - Post-subsidy revenue increases
- How to determine whether the producer or the consumer enjoy a larger subsidy benefit?
 - The less elastic side will enjoy a larger subsidy benefit
 - E.g. in the graph, demand is more inelastic than supply, so consumer subsidy benefit occupies a larger area

Subsidy (cont'd)



- Consumer subsidy benefit
- Producer subsidy benefit
- + Post-subsidy revenue

Unit Price (\$)	Q_s	Q_d	Q_s after subsidy
10	100	500	300
20	200	400	400
30	300	300	500
40	400	200	-
50	500	100	-

- Original equilibrium: $P = \$30$ ($Q_s = Q_d = 300$)
- When a \$20 unit subsidy is provided:
 - At \$30 now, the seller in fact receives \$50, so Q_s after subsidy corresponds to Q_s before subsidy when unit price is \$50
 - Therefore, at \$30 now, Q_s after subsidy is 500; at \$20 now, Q_s after tax is 400, etc.
- New equilibrium: $P = \$20$ ($Q_s = Q_d = 400$)
- Pre-subsidy revenue increases from $30 \times 300 = \$9,000$ to $20 \times 400 = \$8,000$
- Post-subsidy revenue increases from $30 \times 300 = \$9,000$ to $20 \times 400 + (40 - 30) \times 400 = \$12,000$
- Consumer subsidy benefit = $(30 - 20) \times 400 = \$4,000$
- Producer subsidy benefit = $(40 - 30) \times 400 = \$4,000$

Selected questions / question remarks

- When the tax on commodity X is doubled, its tax revenue is also doubled. This indicates that
 - A. The demand for X is perfectly elastic.
 - B. The demand for X is unitarily elastic.
 - C. The supply of X is perfectly elastic.
 - D. The supply of X is perfectly inelastic.
- People tend to consume less live poultry but more canned food. As a result, the price of the canned food changed by 50% and its quantity transacted rose from 1,000 cans to 1,350 cans per month we can conclude it had
 - A. an elastic demand
 - B. an inelastic demand
 - C. an elastic supply
 - D. an inelastic supply

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Selected questions / question remarks

- Suppose there is a technological advancement in the production of a normal good. In which of the following situations may the market price of the good remain unchanged?
 - A. The income of consumers decreases.
 - B. The government raises the unit sales tax on the good.
 - C. The demand for the good is perfectly inelastic.
 - D. The supply of the good is perfectly inelastic.
- Producer A goes bankrupt and closes down at the beginning of the year. The price of ball pens of producer B increases from \$6 to \$8 while the quantity transacted increases by 50%. We can conclude
 - A. the price elasticity of demand is greater than 1.
 - B. the price elasticity of demand is smaller than 1
 - C. the price elasticity of supply is greater than 1
 - D. the price elasticity of supply is smaller than 1

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Selected questions / question remarks

Unit Price (\$)	Q_d	Q_s
6	60	40
9	55	45
12	50	50
15	45	55
18	40	60

- If the government fixes the production quota at 45 units, the market price will be
 - A. \$9
 - B. \$12
 - C. \$15
 - D. \$18

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Selected questions / question remarks

Unit Price (\$)	Q_d	Q_s
6	60	40
9	55	45
12	50	50
15	45	55
18	40	60

- If the government uses a unit tax instead to fix the output at 45 units, the unit tax imposed will be
 - A. \$3
 - B. \$6
 - C. \$9
 - D. \$12

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Selected questions / question remarks

- The imposition of a per-unit sales tax on a good will reduce its equilibrium quantity if
 - A. the demand is inelastic.
 - B. the demand is elastic.
 - C. the demand is unitarily elastic.
 - D. All of the above is correct.
- Suppose the government provides a subsidy to vegetable suppliers in order to encourage the consumption of vegetables. In which of the following situations will the subsidy have no effect on the quantity transacted?
 1. The price elasticity of demand is equal to zero.
 2. The price elasticity of demand is equal to infinity.
 3. The price elasticity of supply is equal to zero.
 4. The price elasticity of supply is equal to infinity.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (4) only
 - D. (1) and (4) only

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A photograph of a classroom with students seated at desks, facing a projector screen. The screen displays a presentation slide with text and a logo. The text on the screen includes "A contribution margin for each unit of product is calculated as follows: Selling price per unit: 100, Variable costs per unit: 60, Contribution margin per unit: 40." The logo on the screen is "聯理" (Lianli). The overall scene is dimly lit with a blue tint.

Chapter 15-16

National Income accounting

(此為Sample節錄版)

GNP VS GDP

- GNP = total factor income earned by residents of an economy from engaging in economic activities in a given period
- GNP = GDP + net factor income from abroad
 - Net factor income from abroad = Factor income from abroad - Factor income paid abroad

	Local resident	Non-local resident
Resident producing unit	GDP+ GNP	GDP only (factor income paid abroad)
Non-resident producing unit	GNP only (factor income from abroad)	×

Quick test

Which of the following amounts should be deducted from the GDP of HK in order to calculate GNP?

- A. Rental income received by a Japanese investor from his residential apartment in Hong Kong
- B. The dividend received by a Hong Kong resident from his investment in the stock market of states
- C. Scholarship given by a tycoon in Hong Kong to subsidize overseas students to study in Hong Kong.
- D. The salary of a Hong Kong resident working in a branch office of an American bank in HK.

The answer is A.

- A: factor income paid abroad (deducted)
- B: factor income from abroad (added)
- C: simply transfer payment (X)
- D: both GDP + GNP (X)

Uses of GDP

Uses

- Reflection of general living standard
- General picture of performance of economy
 - Provide information for formulating government policies
- Basis of comparison of economic performance
 - Between different countries
 - Between different times

How to avoid misrepresentation

- Use real GDP to avoid impact from price fluctuation
 - \uparrow In price level $>$ \uparrow in nominal GDP
 - Output level $\downarrow \rightarrow$ Living standard \downarrow
 - Real GDP is used instead
- Use per-capita GDP to avoid the impact from population size
 - Even if GDP \uparrow , if \uparrow in population $>$ \uparrow in GDP, living standard \downarrow
 - Per Capita GDP is used instead

Limitations of GDP

Over-statement of living standard

- Income distribution
 - If income distribution is very uneven
 - Living standard in general may not be high
- Composition of GDP
 - Living standard mostly reflected by consumption only
 - Consumption component may only make up a small portion of the GDP
- Leisure time
 - Long working hours → living standard may be low
- Environmental impact
 - Detrimental externality may ↓ living standard

Under-statement of living standard

- Non-market activities (understated)
 - Non-market activities (e.g. self consumption) are not counted towards GDP
- Leisure time
 - If short working hours, even when GDP is low, living standard can be relatively high

Selected questions / question remarks

Suppose a country's export value of goods and services decreased by \$[x] billion. Explain why the decrease in GDP is less than \$[x] billion.

- Part of the reduction in export are not currently produced
 - Past inventories
 - 2nd hand goods
- Part of the reduction in export are not produced by non-resident producing units.
 - Imported raw materials.
- Part of the reduction in export are produced by other resident producing units
 - Intermediate products
- Part of the goods not exported are sold locally, so they have already been produced and consumed.

Explain why the total spending is greater than the consumption expenditure in GDP.

- Consumers spend on goods that are not currently produced.
 - 2nd hand goods
- There are unreported market transactions
 - Illegal goods
- Consumers spend on down payments for goods produced in the future.
- Consumers spend on goods classified as investment expenditure.

Selected questions / question remarks

Explain why a decrease of \$[x] billion in export would lead to a more-than \$[x] billion decrease in GDP.

- There may be a reduction in service related to export transactions, such as the value of transportation services and insurance services involved. (Spillover effect).

Explain how the [xxx] development plan can increase the GDP of Hong Kong.

- More facilities will be constructed. There will be an increase in investment.
- More construction of [xxx] will increase investment.
- More workers will be employed in
 - (i) the construction of facilities
 - (ii) those facilities after completion, so their income increase, thus consumption increases
- More foreigners will be attracted to visit the [xxx] and increase the net export of services.
- More local citizens are attracted to [xxx] so consumption increases.

These are common answers to this type of questions but you may need to adjust according to the context

Selected questions / question remarks

Explain if profits and dividends are included in GDP.

Yes, because profits (including dividends) is the factor income of the provision of entrepreneurship, which involves production.

- Factor income : interest (capital) , wages (labor) , rent (land), profits (entrepreneurship)
- All counted in GDP (income approach), but not counted in expenditure approach
 - Income approach is NOT tested in DSE, but you still have to know these involve production and are all included in GDP!

Explain whether the rent paid by a foreign airline for using the premises owned by a HK company should be included in HK's GDP.

It should be included if the HK company operates its business in HK and owns the premises located in HK. It is a resident producing unit of HK earning rental income in HK.

Selected questions / question remarks

	Year-on-year % change	
	Nominal GDP	Real GDP
2015	5.5%	8.2%
2016	3.9%	4.7%

In 2016,

- A. General price level decreased.
- B. Real GDP decreased
- C. GDP deflator increased.
- D. General living standard increased.

	Year-on-year % change	
	Nominal GDP	Real GDP
2017	9.6%	6.7%
2018	3.7%	2.3%

In 2016,

- A. General price level decreased.
- B. Real GDP decreased
- C. GDP deflator increased.
- D. General living standard increased.

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Selected questions / question remarks

Supposed the nominal GDP is greater than the real GDP in a certain year. This implies that

- A. The price level has increased.
- B. The real output is increasing at a faster rate than price level.
- C. The real value of output has not increased.
- D. The current price level is higher than that of the base year.

Which of the following is correct if the Gross National Product of a country decreased but her GDP increased?

- A. The net income from abroad was negative.
- B. The net income from abroad was positive.
- C. The net income from abroad was decreased.
- D. The net income from abroad increased.

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