

Demonstration

Paper I Short and Structured Questions

Section A

1. (a) What is price? (2 marks)
- (b) If the nominal price of Good X is higher, on what condition can we say that it is cheaper? (3 marks)

Suggested Answer

- (a) Price is the exchange ratio between goods. 1
It can be expressed in nominal and relative prices. 1
- (b) If the proportionate increase in the nominal price of Good X is smaller than that of another good, 2
its relative price will be lower, and we can say that it is cheaper. 1

Guidelines

This question is related to relative price. Hence, students should not answer by simply saying that nominal price decreases.

- ★ 2. (a) What is the law of demand? State the law. (2 marks)
- (b) What is quantity supplied? What is quantity bought? Under what condition is quantity supplied greater than quantity bought? (3 marks)

Suggested Answer

- (a) The law of demand states that if the price of a good increases, its quantity demanded decreases, and vice versa; ceteris paribus. 2
- (b) Quantity supplied is the unit of a good a person is willing and able to sell at a particular price level, given the plan of sales. 1
Quantity bought is the unit of a good actually bought by buyers. 1
Quantity supplied is greater than quantity bought under surplus / excess supply. 1

Guidelines

Students should firstly provide the definitions of quantity supplied and quantity bought.

- ★ 3. The blu-ray disc player is newly introduced in the market. As the price is set too high, a large stock of the player is piling up.
- (a) Explain the phenomenon with the aid of a diagram. (5 marks)
- (b) Indicate in your diagram in (a) the total market value of the player. (2 marks)

Guidelines

This shows that the market is not in equilibrium.

Guidelines

Students are asked to explain the phenomenon, not to predict the change in price.

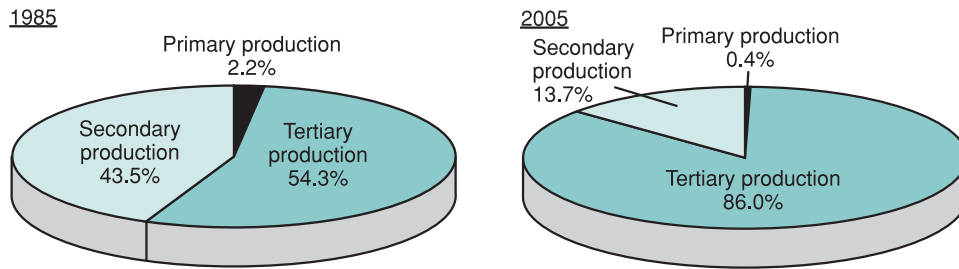


Figure 6.1 Employment by the three types of production in Hong Kong

(Source: Hong Kong Census and Statistics Department,

Hong Kong 2006, Hong Kong: Hong Kong Census and Statistics Department, 2007.)

- In both years, tertiary production employs the largest percentage of labour force, while primary production employs the smallest percentage of labour force.
- From 1985 – 2005, tertiary production has become more important while primary and secondary production have become less important in terms of employment.

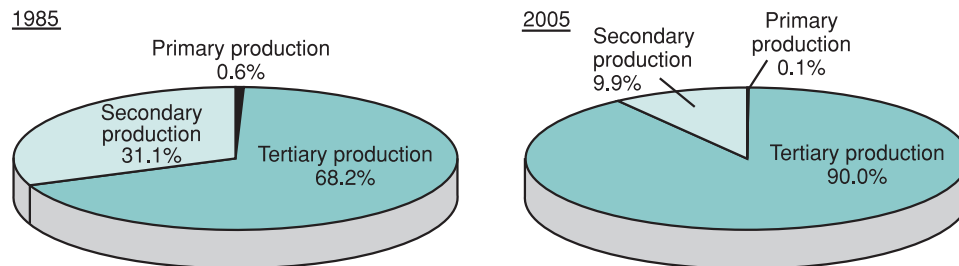


Figure 6.2 Contribution to total value of output by the three types of production in Hong Kong

(Source: Hong Kong Census and Statistics Department,

Hong Kong 2006, Hong Kong: Hong Kong Census and Statistics Department, 2007.)

- In both years, tertiary production contributes *most* to total output (i.e. has the highest value-added), while primary production contributes *least* to GDP (i.e. has the smallest value-added).
- From 1985 – 2005, tertiary production has become *more* important while primary and secondary productions have become *less* important in terms of contribution to GDP.

(d) Interdependence of the three types of production

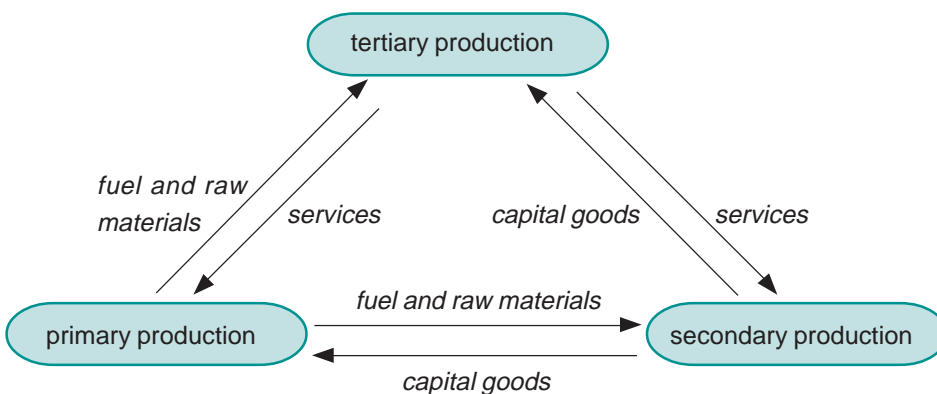


Figure 6.3 Interdependence of the three types of production