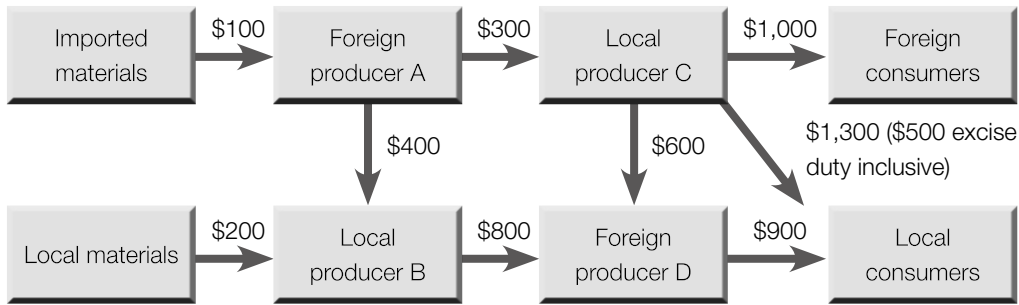


2. Refer to the following production chain in an economy.



Calculate the contribution of the above production chain to the economy's gross domestic product

(a) at factor cost using the expenditure approach. (3 marks)

(b) at market prices using the value added approach. (3 marks)

Show your workings.

Strategies

Recall the ways to calculate GDP by the expenditure and the value added approaches, and what should be added to and subtracted from GDP at market prices to find GDP at factor cost.

Ans. (a) Contribution to GDP at factor cost
 = \$(1,000 + 1,300 + 600 + 800 - 300 - 400 - 900) 1
 = \$2,100 2

(b) Contribution to GDP at market prices
 = \$[(200 - 0) + (800 - 400 - 200) + (1,000 + 1,300 + 600 - 300)] 1
 = \$3,000 2

3. Refer to the following gross domestic product (GDP) data for an economy.

Year	GDP at constant market prices (\$ billion)	GDP at current market prices (\$ billion)
2008	500	550
2009	450	500

(a) Explain whether the real output level in 2009 is higher than that of 2008. (2 marks)

(b) For both 2008 and 2009, explain why the GDP at current market prices is greater than the GDP at constant market prices for the same year. (2 marks)

Strategies

(a) Consider whether changes in price levels and output quantity can be reflected in GDP at constant market prices.

(b) Consider what makes GDP at current market prices different from GDP at constant market prices.

Ans. (a) No. 1
 This is because the real GDP for 2009 is lower than that of 2008. 1

(b) There is inflation. / The general price level was rising. 2



4. Hong Kong's luxurious apartment market has been on an upward trend since 2009. Explain with **THREE** reasons how a sharp **increase in property prices** and the **number of transactions** would affect Hong Kong's GDP. (4 marks)

- Ans.** HK's GDP will increase because 1
- the value of currently constructed luxurious apartments will increase. 1
 - the commission earned by the property brokers will increase. 1
 - the consumption expenditure of property buyers and sellers will increase. 1

Strategies

Consider what services may be required in the transaction of properties, and how the property sellers will adjust their consumption after receiving money from property sales.

Section B

5. (a) In a certain year, the sales revenue of German cars in Hong Kong increased. This was because the **local demand** for these cars increased and the **demand for re-export** of these cars to mainland China also increased. Explain the effects of the two changes in demand on Hong Kong's GDP. (4 marks)

Strategies

Consider what services are required during the import process of the German cars into Hong Kong.

Level Boosting Examples

Ans. *Level 2 answer*

- (a) As the German cars are not an output of Hong Kong, Hong Kong's GDP is not affected. 0

Boost Your Level

Middleman services are required in the imports of German cars into Hong Kong. Such contribution to HK's GDP should be considered.

Level Analysis

Middleman services such as transportation and logistics must be involved. The answer ignored the need for such services.

Level 5 answer

- (a) With more business, the middleman services / back-up services provided for the local demand for German cars increased in value. 1
Thus, Hong Kong's GDP increases. 1
Similarly, the middleman services provided for the re-export demand for German cars increased in value. 1
Thus, Hong Kong's GDP increases. 1

Level Analysis

The contribution of the middleman services involved in the imports of German cars to HK's GDP is considered.



Payment in small value coins and large value notes rejected

It seems that it is more and more common for retailers to refuse \$500 and \$1,000 banknotes, as well as coins with a value less than \$1. The HKMA stated that according to the 'Coinage ordinance', coins of denominations not less than \$1 can be used for the payment of an amount not exceeding \$100, and coins of denominations less than \$1 can be used for the payment of an amount not exceeding \$2. Also, according to the 'Legal tender notes issue ordinance', there is no regulation that disallows people to refuse to accept legal tender. The HKMA cannot intervene in the business arrangement between shops and customers. The conditions of transaction should be determined by the exchange parties, including what means of payment is used.



\$1,000 banknotes are often refused by retailers.

Analysis: Hong Kong banknotes and coins are the legal tender of Hong Kong. According to the 'Legal tender notes issue ordinance', legal tender means the currency notes issued in Hong Kong by the Financial Secretary, and the banknotes issued in Hong Kong by a note-issuing bank in accordance with the terms and conditions (if any) to which its authorization (or deemed authorization) is subject. Such ordinance does not state that legal tender payment in business transactions cannot be refused, and whether either side of the exchange parties can refuse to accept legal tender. If the sellers declare the refusal to accept large value banknotes and small value coins, this is regarded as a condition of exchange, and such act is not against the law in Hong Kong.

Key Terms Review

Barter economy	An economy in which goods are directly exchanged for goods without the use of money.
Double coincidence of wants	The condition under which each offers a good to a person and wants the good offered by the same person in an exchange.
Money	Anything generally accepted as a medium of exchange (for payment of output and settlement of debts).
Medium of exchange	The function of money of which people generally exchange goods for money and money for goods.