# S5 Economics Practice Paper: Basic Economic Concepts and Opportunity Cost, Demand, Supply and Elasticity, Market Structure and Firm Behaviour, Production Costs and Economies of Scale, National Income and Macroeconomic Policy, Money, Banking and International Trade

S5 | Economics | Time: 75 minutes | Total: 100 marks | 24 questions

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## Part A: Basic Economic Concepts and Opportunity Cost (18 marks)

**Show your working and include units.**

**1. A student earns $60 per hour and gives up two hours of part-time work to study for three hours. Find the opportunity cost of studying in money terms.** [5]

**2. A machine costs $80,000, has a useful life of 4 years and a scrap value of $8,000. Find the annual depreciation using the straight-line method.** [5]

**3. An investor buys shares for $5,000, sells them a year later for $5,600 and receives $150 of dividends. Find the rate of return.** [4]

**4. Explain the difference between a free good and an economic good, and give one example of each.** [4]

## Part B: Demand, Supply and Price Elasticity (17 marks)

**Give elasticity answers to two decimal places.**

**5. The price of a good falls from $20 to $16 and quantity demanded rises from 100 to 130 units. Using the arc (midpoint) formula, find the price elasticity of demand, in absolute value.** [5]

**6. The price elasticity of demand for a good is 2.5 in absolute value. If price rises by 8 percent, find the percentage change in quantity demanded and its direction.** [4]

**7. The price rises from $40 to $56 and quantity supplied rises from 200 to 260 units. Using the arc formula, find the price elasticity of supply.** [4]

**8. The government sets a price ceiling for a good below the equilibrium price. Explain two effects on the market.** [4]

## Part C: Market Structure and Firm Behaviour (17 marks)

**State profit with its sign.**

**9. A perfectly competitive firm produces 500 units at a price of $12. Total cost is $6,400, of which $900 is fixed cost. Find its profit and decide whether it should keep producing in the short run.** [5]

**10. A monopolist faces the demand curve P = 100 - 2Q. Find the output and price at which total revenue is maximised.** [4]

**11. A firm has fixed cost of $1,200, variable cost of $8 per unit and sells at $14 per unit. Find the break-even output.** [4]

**12. Explain why firms in an oligopoly watch rivals' reactions closely when setting prices.** [4]

## Part D: Production, Costs and Economies of Scale (16 marks)

**Include units in your answers.**

**13. A firm produces 60 units with 4 workers and 72 units with 5 workers. Find the marginal product of the fifth worker.** [4]

**14. A firm has total fixed cost of $600 and total cost of $2,200 at an output of 200 units. Find average total cost and average variable cost.** [4]

**15. When a firm doubles all its inputs, output rises from 100 to 250 units. Find the percentage increase in output and state the type of returns to scale.** [4]

**16. Explain how division of labour raises productivity, and give one production example.** [4]

## Part E: National Income and Macroeconomic Policy (16 marks)

**All amounts are in $100 million; give whole numbers.**

**17. An economy has consumption C = 200 + 0.8Y, investment I = 300 and government spending G = 250. Find the equilibrium national income Y.** [4]

**18. The marginal propensity to consume is 0.8. Find the expenditure multiplier and the total rise in national income if investment increases by 500 hundred million dollars.** [4]

**19. Nominal GDP in a year is 1,200 hundred million dollars and the price index is 125 (base year = 100). Find real GDP.** [4]

**20. An economy has a labour force of 400 people (in tens of thousands) and 24 unemployed. Find the unemployment rate and explain why hidden unemployment is not counted in it.** [4]

## Part F: Money, Banking and International Trade (16 marks)

**Include units in your answers.**

**21. The required reserve ratio is 0.2 and the banking system holds 1,000 hundred million dollars of initial deposits. Find the maximum total deposits that can be created and the new deposits created.** [4]

**22. The exchange rate moves from 7.80 to 7.75 Hong Kong dollars per US dollar. Find the percentage appreciation of the Hong Kong dollar, to two decimal places.** [4]

**23. A economy exports 3,200 hundred million dollars of goods and imports 3,500 hundred million dollars. Find the trade balance and state whether it is a surplus or a deficit.** [4]

**24. Explain why, under a linked exchange rate system, Hong Kong interest rates broadly follow US interest rates.** [4]

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