Q.28

Topic:	Some economy-reviving measures mentioned in the 2021-22 Budget
Relevant economic topics:	opportunity cost, income distribution, GDP, aggregate demand and aggregate supply, balance of payments account
Types of material:	news excerpt, opinions
Question design: (total marks: 22 marks)	Elementary-level questions (11 marks); Advanced-level questions (11 marks)

(a) Possible reasons:
- Some of the goods are not produced in the current year but are from the inventory.
- Some of the goods are not produced locally but are imported.
- Any reasonable answers

(Mark the FIRST TWO points only, 2 marks each)

(b) If the government distributes cash directly, people can store the cash received as an asset. If people use the amount of money for purchasing goods and services, they will have to give up the return from storing the cash in the form of assets, such as the interest on bank deposits. According to Source A, the electronic consumption vouchers can only be used within a specific period of time after their issuance, so people cannot store their purchasing power. Compared with directly distributed cash, the opportunity cost of using electronic consumption vouchers for purchasing goods and services is lower, so people tend to spend more. (3 marks)

(c) Attracting more visitors will increase Hong Kong's exports of services. This will enlarge Hong Kong's current account surplus (or reduce its deficit). (2 marks)

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(d) Marks award for effective communication (EC: max 2 marks)

Marks	Performance
2	● *Arguments supported with the source/data and appropriate economic theories* ● *Relevant materials presented* ● *Well-organised and coherent answers presented without repetition of ideas* ● *Ideas clearly and fluently expressed with appropriate use of language/words/terms/symbols*
1	● *Arguments presented with some support of the source/data and economic theories* ● *Some irrelevant materials presented* ● *Answers presented in a less organised way with some repetition of ideas* ● *A clear message conveyed with some inappropriate use of language/words/terms/symbols*
0	● *Arguments presented with no support of the source/data and economic theories* ● *Materials unrelated to the gist of the question presented* ● *Inconsistent arguments presented* ● *Limited ideas expressed with inappropriate use of words/terms/symbols*

The maximum marks for content is 9 marks. Answers may include the following:

<u>Effects on aggregate output</u>

- Issuing electronic consumption vouchers will increase private consumption expenditure. Aggregate demand will increase. In the short run, Hong Kong's aggregate output will increase.
- Attracting more visitors to Hong Kong will increase Hong Kong's exports of services and net exports. Aggregate demand will increase. In the short run, Hong Kong's aggregate output will increase.
- Issuing electronic consumption vouchers and attracting more visitors will not affect Hong Kong's productive capacity. In the long run, Hong Kong's aggregate output will remain unchanged.

<u>Effects on income distribution</u>

- Only eligible Hong Kong permanent residents and new arrivals aged 18 or above, whether they are poor or rich, can receive the electronic consumption vouchers; others cannot (e.g. those under 18). Therefore, the effect of issuing electronic consumption vouchers on income distribution is uncertain.

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OR

As the same amount of electronic consumption vouchers will result in a higher percentage increase in the income of the low-income group, the income gap between the high-income group and the low-income group will be narrowed and the income distribution will become more even.

- Attracting more visitors to Hong Kong can stimulate the sales of local firms. Income of both the low-income and high-income groups may increase. Therefore, the effect of attracting more visitors to Hong Kong on income distribution is uncertain.

<u>Effects on other economic variables: unemployment rate</u>

- According to Source C, issuing electronic consumption vouchers and attracting more visitors to Hong Kong may lead to an increase in the profit of local merchants and prevent some of them from closing down. This may prevent the unemployment rate from rising.

<u>Effects on other economic variables: price level</u>

- Issuing electronic consumer vouchers will increase people's disposable income. The demand for normal goods will increase, causing the price of normal goods to increase. If most of the goods in the economy are normal goods, the price level will increase.
- Attracting more visitors to Hong Kong will increase Hong Kong's exports of services and net exports, so aggregate demand will increase. In the short run, Hong Kong's price level will increase.

(e) Proposal:

- Raising the personal allowance of the salaries tax/reducing the salaries tax rate: This will increase people's disposable income. Private consumption expenditure will increase, and aggregate demand will increase. In the short run, Hong Kong's aggregate output will increase.
- Reducing the profits tax rate: This will increase investment expenditure, and aggregate demand will increase. In the short run, Hong Kong's aggregate output will increase. (Mark the FIRST point only, 2 marks)

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