Q.37

Topic:	Hong Kong's tourism industry
Relevant economic topics:	Basic economic problems, law of demand, demand and supply, externality, aggregate demand and aggregate supply, balance of payments
Types of material:	Table, news excerpt, opinions, social media post
Question design: (total marks: 34 marks)	Elementary-level questions (20 marks); Advanced-level questions (14 marks)

(a) <u>Verbal elaboration:</u>

- As Hong Kong fully resumed a normal flow of people with Mainland China and the rest of the world, demand for hotel rooms would increase. (1 mark)
- The price and quantity transacted would increase. (1 mark)
- The total rental revenue would increase. (1 mark)

<u>Illustrate in the diagram:</u>

- vertical supply curve (1 mark)
- rightward shift of the demand curve (1 mark)
- price and quantity transacted increase (1 mark)
- total rental revenue increases (1 mark)

(b) Compared with distributing free air tickets, distributing air tickets on a 'buy one, get one free' basis will increase the price of longer stays and shorter stays by the same amount. The relative price of longer stays (in terms of shorter stays) will decrease. According to the law of demand, a higher proportion of tourists will choose longer stays and their average length of stay in Hong Kong will increase. (4 marks)

(c) Invisible trade: Exhibitors from all over the world staying in Hong Kong hotels will increase exports of services. (2 marks)
Visible trade: Domestic jewellery companies receiving more orders from enterprises all over the world will increase exports of goods. (2 marks)

(d) What to produce. (1 mark)
Setting up stalls to sell snacks and setting up special decorations are about the kinds of goods to produce. (1 mark)

(e) According to Source E, tourists visiting Hong Kong who take photos in front of the special decorations and share them on social media will serve as channels for promotion, which may attract more tourists to visit Hong Kong and bring higher revenue or profits to Hong Kong's tourism industry. If such extra benefits are not compensated, the behaviour will involve positive externality. (3 marks)

(f) Marks awarded 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 12 marks. Answers may include the following:

Tourists' total expenditure in Hong Kong

Proposal I:

- Promoting green tourism will attract more tourists to visit Hong Kong, so tourists' total expenditure in Hong Kong will increase (such as expenditures on hotel accommodation and transportation). However, country parks and hiking trails are provided for free, thus promoting green tourism will have no further effect on tourists' other expenditures in Hong Kong.

Proposal II:

- Offering tourist shopping discounts will attract more tourists to visit Hong Kong, so tourists' total expenditure in Hong Kong will increase (such as expenditures on hotel accommodation and transportation).
- If tourists' demand for goods sold in Hong Kong is elastic, the percentage decrease in price will be smaller than the percentage increase in quantity demanded. Offering shopping discounts will increase tourists' total expenditure on shopping in Hong Kong.

Evaluation:

Proposal II is better than proposal I because proposal II will have a greater effect on increasing tourists' total expenditure in Hong Kong.

Aggregate output

Proposal I:

- Improving supporting facilities in Hong Kong's country parks and improving hiking trails will increase government expenditure. In the short run, aggregate demand will increase and aggregate output will increase.
- Improving supporting facilities in Hong Kong's country parks and improving hiking trails will increase Hong Kong's productive capacity. Long run aggregate supply will increase and aggregate output in the long run will increase.

Proposal II:

- Offering tourist shopping discounts will increase exports of services. In the short run, aggregate demand will increase and aggregate output will increase.
- Offering tourist shopping discounts will not affect long run aggregate supply. In the long run, aggregate output will remain unchanged.

Evaluation:

Proposal I is better than proposal II because proposal I will lead to an increase in both short run and long run aggregate output, while proposal II will only increase aggregate output in the short run.

Fiscal balance

Proposal I:

- Improving supporting facilities in Hong Kong's country parks and improving hiking trails will increase government expenditure.
- More tourists visiting Hong Kong will increase tax revenue, such as revenues from hotels' profits tax and the air passenger departure tax.
- The effect on the fiscal balance is uncertain.

Proposal II:

- Offering tourist shopping discounts may involve some administrative costs, but such costs should be insignificant relative to other components of government expenditure.
- More tourists visiting Hong Kong will increase tax revenue, such as revenues from hotels' and retailers' profits tax and the air passenger departure tax.
- The fiscal balance will improve.

Evaluation:

Proposal II is better than proposal I because proposal II may bring more tax revenue to the government without significantly increasing government expenditure, and improve the fiscal balance.