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UPEP ECONOMICS

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

## **MOCK PAPER (2026 March) (SAMPLE)**

### **ECONOMICS PAPER 1**

Time allowed: 1 hour

#### **INSTRUCTIONS**

1. When told to open this book, you should check that all the questions are there. Look for the words 'END OF PAPER' after the last question.
2. All questions carry equal marks.
3. ANSWER ALL QUESTIONS.
4. You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
5. No marks will be deducted for wrong answers.

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There are 45 questions in this paper. Choose the **BEST** answer for each question.

1. Mary plans to visit Korea in June and she has purchased return flight tickets for \$5,000. She has also just received a temporary job offer with a basic salary of \$50,000. However, if she accepts the offer, she needs to postpone her trip to Korea.  
Based on the above information, which of the following statements are correct?
  - (1) Her cost of accepting the temporary job will decrease if she can change the date of the flight free of charge.
  - (2) Her cost of visiting Korea will increase if the temporary job provides a bonus on top of the basic salary.
  - (3) Her cost of visiting Korea as planned will remain unchanged if the Korean government starts collecting a tourist arrival tax from July.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
2. Compared to a market economy, \_\_\_\_\_.
  - (1) goods and services in a planned economy are less readily allocated to the highest-valued users
  - (2) the gross domestic product (GDP) of a planned economy tends to be lower
  - (3) income distribution in a planned economy tends to be more even
  - A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. Which of the following is a normative statement /are normative statements?
  - (1) Replacing elderly concession fares from a flat rate of \$2 to 20% of the full fare will increase the cost of living for the elderly.
  - (2) The change in the transport subsidy scheme will only affect the unemployment rate of workers aged above 60.
  - (3) Providing free vaccines to elderly citizens is more important than providing them with a transport subsidy.
  - A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only

4. Which of the following statements about interest is correct?
- A. Interest does not exist in economies without a banking system.
  - B. Even if an individual does not need to borrow money for consumption, interest is still a cost to him.
  - C. A rise in interest rates will increase current consumption.
  - D. Interest rates tend to be lower in economies if the government frequently intervenes in the market
5. Wild truffles found in natural forests are
- (1) land in Economics because they are geographically immobile.
  - (2) free goods because people have no incentive to grow them.
  - (3) economic goods if people must train pigs to search for and collect them.
  - (4) capital goods if firms use them for fermentation to create truffle-based products.
- A. (1) and (2)
  - B. (2) and (3)
  - C. (3) and (4)
  - D. (1) and (4)
6. Which of the following would lower an economy's labour supply but raise average labour productivity?
- A. More scholarships are granted to students admitted to local universities.
  - B. More firms are using artificial intelligence (AI) robots in customer services.
  - C. The government tightens the requirements for unemployment allowances.
  - D. The number of unused quotas in the labour importation scheme for the construction sector increases.

7. The table below shows an economy's distribution of GDP.

	Year 1	Year 2
Primary production	1.5%	1.4%
Secondary production	20%	20.1%
Tertiary production	78.5%	78.5%
Total	100%	100%

If the growth rate of GDP is 3.1% in Year 2, compared with Year 1,

- A. labour productivity in all three types of production increased in Year 2.
- B. the proportion of workers engaged in secondary production increased in Year 2.
- C. the total production value of primary production must have decreased in Year 2.
- D. the total production value of tertiary production remained unchanged in Year 2.

8. Refer to the following information about Firm A and Firm B in Hong Kong.

	Firm A	Firm B
Number of owners	20	5
Liability of owners	Unlimited	Limited
Issuing shares to the public	Impossible	Impossible

Based on the above information, we can conclude that

- A. Firm A possesses less capital than Firm B.
  - B. neither firm needs to disclose financial information to the public.
  - C. owners of Firm B pay higher profits tax than those of Firm A.
  - D. neither firm has separation of ownership and management.
9. Which of the following will raise the occupational mobility of labour in Hong Kong?
- A. The Labour Department provides more information related to available job vacancies and corresponding requirements.
  - B. Hong Kong becomes a more knowledge-based economy.
  - C. More students receive professional training before graduation.
  - D. The completion of the Central Kowloon Bypass significantly shortens commuting time.
10. The table below shows the cost-output relationship of a firm in a perfectly competitive market. The fixed cost of the firm is \$10 and the market price is \$19.

Output (units)	Total cost (\$)
1	23
2	38
3	55
4	74
5	95
6	118

Suppose the fixed cost increases by \$2 and the marginal cost for each unit of output decreases by \$4. As a result, the firm's profits will \_\_\_\_\_.

- A. remain unchanged
- B. increase by \$12
- C. increase by \$16
- D. increase by \$18

11. The rapid development of artificial intelligence (AI) has led to a massive surge in the prices of computer memory chips (RAM), which are essential for AI operations. In this case, AI data centres
- enjoy external economies of scale.
  - suffer external diseconomies of scale.
  - enjoy internal economies of scale.
  - suffer internal diseconomies of scale.

12. The table below shows the supply and demand schedules for Good X.

Unit price (\$)	10	12	14	16	18
Quantity demanded (units)	600	550	500	450	400
Quantity supplied (units)	500	500	500	500	500

Suppose the demand for Good X decreases while the supply of Good X increases. As a result, the equilibrium price of Good X \_\_\_\_\_ and its equilibrium quantity \_\_\_\_\_.

- will decrease ... will increase
  - will decrease ... may increase, decrease or remain unchanged
  - will increase ... will increase
  - will increase ... may increase, decrease or remain unchanged
13. Which of the following will raise Hong Kong people's price elasticity of demand for petrol-powered private cars?
- A fall in the average prices of petrol-powered private cars
  - An increase in car insurance premiums for petrol-powered private cars
  - An increase in electric car charging facilities in Hong Kong
  - An increase in the licence fees for electric cars to about 70% of that for petrol-powered cars
14. Other things being constant, a decrease in the price of Good X will result in a decrease in the total expenditure on Good Y if
- Good X and Good Y are substitutes.
  - Good X and Good Y are complements.
  - Good X and Good Y are in joint supply and the demand for Good Y is inelastic.
  - Good X and Good Y are in competitive supply and the demand for Good Y is elastic.
- (1) only
  - (1) and (3) only
  - (2) and (3) only
  - (2) and (4) only

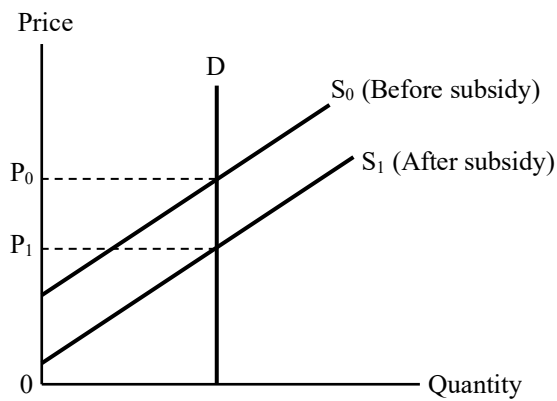
15. Suppose the supply curve of petrol cars in Country X is upward sloping and the government has imposed an effective quota on the production of petrol cars. When the government reduces the effective quota on the production of petrol-powered cars,
- A. the total revenue of petrol-powered car producers will increase.
  - B. the producer surplus in the petrol-powered car market will increase.
  - C. the total social surplus in the electric car market will increase.
  - D. the consumer surplus in the electric car market will decrease.
16. Country A's Talent Admission Scheme has attracted many potential residential property buyers. As a result, many property developers have shifted toward more investment in the residential property market.
- The above case illustrates the \_\_\_\_\_ function of price because \_\_\_\_\_.
- A. rationing ... more buyers are able to buy residential property
  - B. rationing ... residential properties are sold to the highest-valued users
  - C. allocative ... more construction resources are used to build residential property
  - D. allocative ... property developers may earn higher profits by constructing more residential properties
17. An online shop has launched a promotional campaign which waives the lump sum shipping fee for each order. Which of the following statements are correct?
- (1) The ratio of higher-priced goods sold to lower-priced goods sold will decrease.
  - (2) Fewer higher-priced goods will be sold.
  - (3) The profit of the online shop may increase.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
18. In late 2025, Netflix Inc. proposed acquiring Warner Bros. Studio and its streaming platform. Which of the following is the LEAST likely motive of the expansion?
- A. to spread risks through business diversification
  - B. to strive for a higher market share
  - C. to strive for more profit
  - D. to enjoy economies of scale

19. Which of the following statements about underproduction are correct?

- (1) Underproduction may occur in a free market.
- (2) Underproduction does not occur whenever the market is in equilibrium.
- (3) When underproduction occurs, the marginal social cost is lower than the marginal social benefit at the last unit.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

20. The following diagram shows the supply and demand curves for a good. Suppose the government provides a per-unit subsidy on the production of the good.



Which of the following statements about the above subsidy are correct?

- (1) The producers obtain no share of the subsidy.
- (2) There is no deadweight loss after the subsidy.
- (3) The marginal cost of the last unit falls from P<sub>0</sub> to P<sub>1</sub>.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

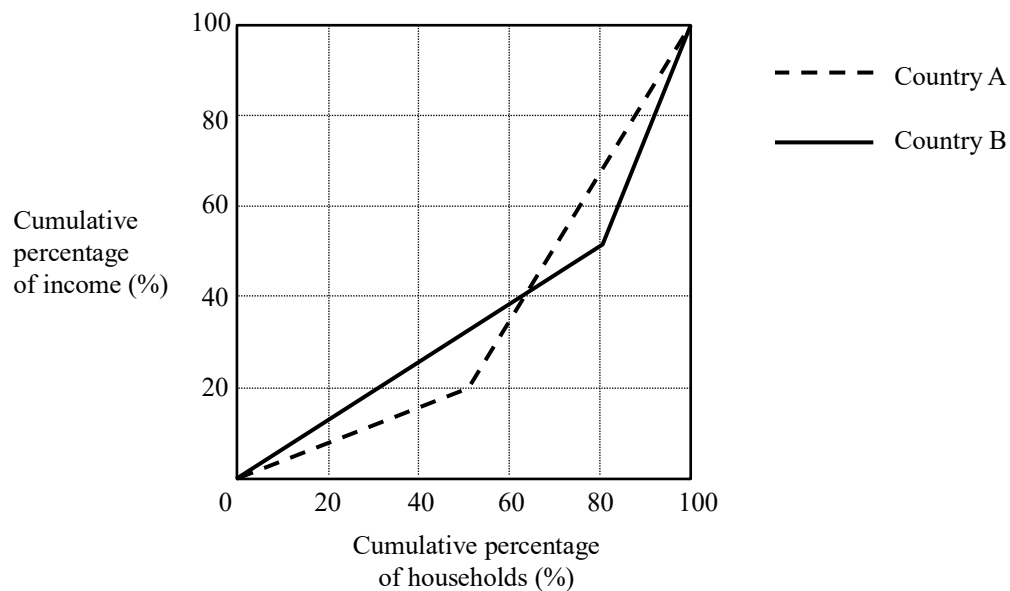
21. Suppose the government plans to build a new flyover, which will lead to noise pollution in the residential area.

Based on the above information, efficiency may be attained if

- (1) the construction time of the flyover is shorter than expected.
- (2) effective noise barriers are installed on the flyover.
- (3) there is a rise in average house prices in the area.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

22. Study the Lorenz curves for Country A and Country B below.

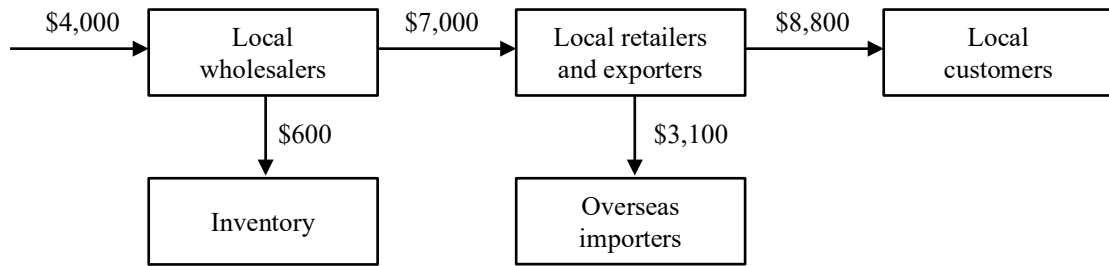


Based on the above information, we can conclude that

- (1) income distribution in Country A is more even than in Country B.
- (2) the bottom 20% of households in Country A earn a smaller proportion of the country's total income than that in Country B.
- (3) the top 20% of households in Country B earn a higher total income than the top 20% of households in Country A.

- A. (1) only
- B. (2) only
- C. (1) and (3) only
- D. (2) and (3) only

23. The following diagram shows a production chain for toys in an economy.



Suppose the above production chain involves the import of \$4,000 worth of raw materials. What is the contribution of the above production chain to the economy's gross domestic product (GDP) at market prices?

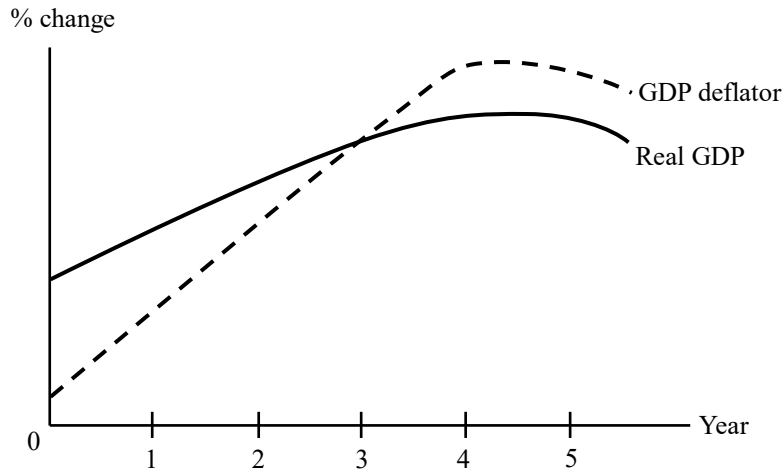
- A. \$8,500
- B. \$12,500
- C. \$15,500
- D. \$16,500

24. Which of the following would be included in Hong Kong's gross national income (GNI)?

- (1) Salary received by a Brazilian football coach working in Hong Kong for 16 months
  - (2) Rental income from properties in Hong Kong owned by a Hong Kong investor living in Canada
  - (3) Commission earned by a Hong Kong broker from transactions of shares for his clients
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

25. If the gross national income of an economy decreases while its gross domestic product increases, this implies that the net factor income from abroad \_\_\_\_\_.
- A. is negative
  - B. is positive
  - C. increases
  - D. decreases

26. The following diagram shows economic data for a country.

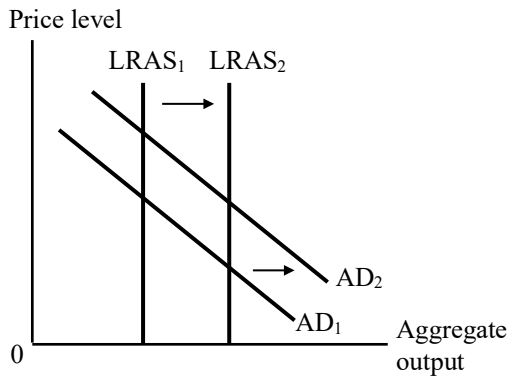


Based on the above information, we can conclude that

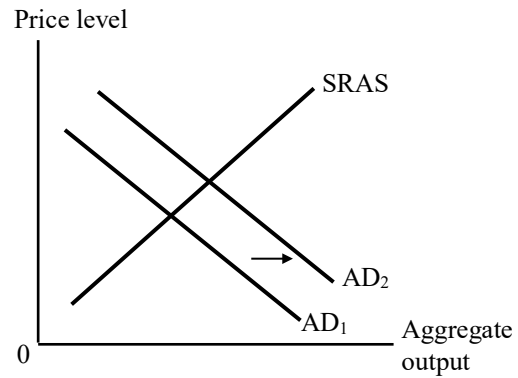
- (1) the growth rate of nominal GDP was the same as that of real GDP in Year 3.
  - (2) the nominal GDP increased continuously from Year 1 to Year 5.
  - (3) the price level increased continuously from Year 1 to Year 5.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

27. Suppose the financial secretary of a country proposes to increase the child allowance for taxpayers. At the same time, the government increases the quota for the importation of foreign workers. Which of the following diagrams best illustrates the effect of the above policies on price and output levels?

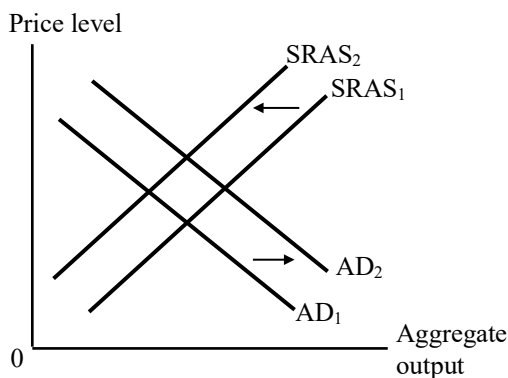
A.



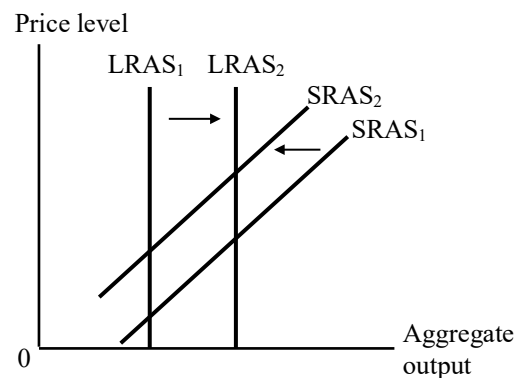
B.



C.



D.

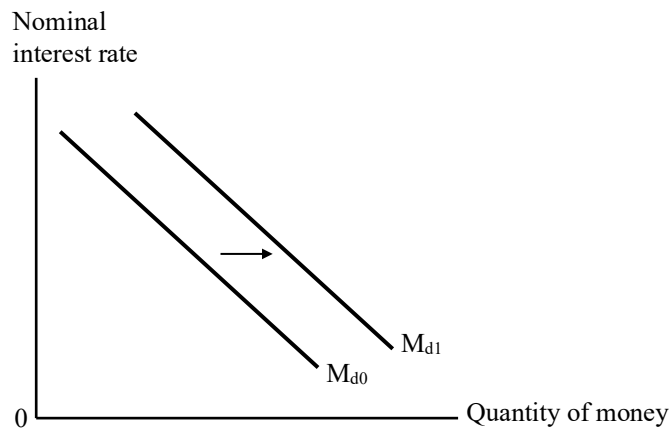


28. The government of Country B decreases the general sales tax rate on most goods and services from 8% to 5%, with the tax applying to both local and foreign consumers. As a result,

- (1) aggregate demand increases.
- (2) income inequality will be higher.
- (3) the government will have a fiscal deficit.
- (4) the invisible trade balance may decrease.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (1) and (4) only
- D. (2) and (4) only

29. Refer to the diagram below.



Which of the following would result in the above change in money demand?

- A. The expected inflation rate rises.
- B. The stock market becomes less volatile.
- C. The central bank reduces the discount rate.
- D. There is a rise in household disposable income.

30. Suppose the nominal interest rate on a one-year bond is 3% and the expected deflation rate is 2%. If the general price level turns out to rise by 1%, the opportunity cost of holding cash is \_\_\_\_\_ and the actual real rate of return of holding cash is \_\_\_\_\_.

- A. 3% ... 5%
- B. 3% ... -1%
- C. 4% ... 5%
- D. 4% ... -1%

31. Suppose a barter economy starts to use money for the exchange of goods. Which of the following statements is INCORRECT?

- A. Finding trading partners becomes easier.
- B. Conducting transactions that involve the future settlement of debt become more difficult.
- C. Buying and selling can be separated.
- D. Agreeing upon an exchange ratio takes less time.

32. Suppose the government injects \$1,000 into the banking system. After the credit creation process, the amount of deposits in the entire banking system increases by \$5,000.

Based on the above information, we can conclude that

- A. the legal reserve ratio is 20%.
- B. banks do not hold excess reserves.
- C. the amount of loans increases by at least \$4,000.
- D. there is cash leakage during the credit creation process.

33. Study the following balance sheet of a banking system in which banks do not hold excess reserves.

Assets (\$)		Liabilities (\$)	
Reserves	400	Deposits	2,000
Loans	1,600		

If \$150 is withdrawn from a bank and is held as cash, the maximum possible decrease in loans of the banking system is \_\_\_\_\_.

- A. \$600
- B. \$750
- C. \$1,600
- D. \$1,850

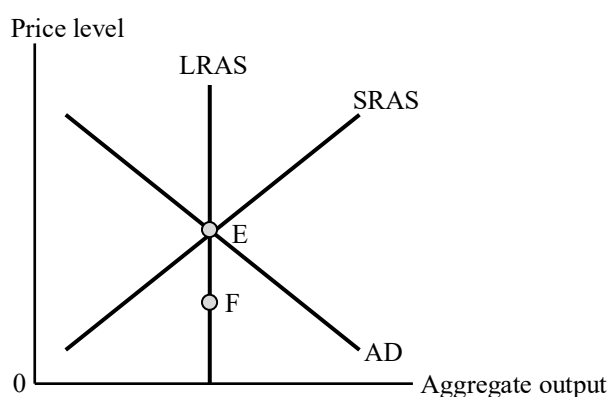
34. The table below shows data for Country A.

	April 2024	April 2025
Year-on-year percentage change in money supply	2%	10%
Consumer price index	125	135

According to the quantity theory of money, the growth rate of real output in Country A from April 2024 to April 2025 is \_\_\_\_\_.

- A. 0%
- B. 2%
- C. 8%
- D. 16%

35. A government official of Country A proposed increasing the airport departure tax (ADT) from \$0 to \$50 with effect from 1 January 2025. Airlines would be required to collect the ADT from each departing passenger. The proposed ADT is a \_\_\_\_\_ tax because \_\_\_\_\_.
- progressive ... airlines can shift the tax burden to the passengers
  - proportional ... the amount of tax payment is the same regardless of passengers' income levels
  - proportional ... it is consistent with the equity principle of taxation put forward by Adam Smith
  - regressive ... the higher the passenger's income, the lower the tax rate paid.
36. Suppose the central bank lowers the required reserve ratio. Which of the following will offset the effect on the equilibrium interest rate?
- The central bank prints more currency.
  - The payment of workers' salaries changes from weekly to bi-weekly.
  - The risk of investing in the stock market increases.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
37. The diagram below shows an economy's aggregate demand (AD), short run aggregate supply (SRAS) and long run aggregate supply (LRAS) curve.



- The economy initially operates at E. Which of the following will result in a change in the long run equilibrium point from E to F?
- An open market purchase of government bonds
  - A government subsidy provided to firms for research and development
  - A reduction in transfer payments
  - A fall in energy prices

38. Janet buys from Peter a negotiable certificate of deposit worth HK\$200,000 issued by a deposit-taking company and pays in cash. Peter then deposits HK\$50,000 and HK\$100,000 in his current account and savings account, respectively, and remits the remaining amount overseas.

What are the immediate effects of the above actions on the Hong Kong dollar money supply?

- A. M1 will increase while M2 will remain unchanged.
- B. M1 will remain unchanged while M3 will decrease.
- C. Both M2 and M3 decrease by the same amount.
- D. M1, M2 and M3 decrease by the same amount.

39. Which of the following would result in an increase in the employment level of an economy and a decrease in its price level at the same time?

- A. The central bank increases the required reserve ratio.
- B. The government distributes consumption vouchers.
- C. The government reduces the profits tax rate.
- D. The price of imported oil decreases.

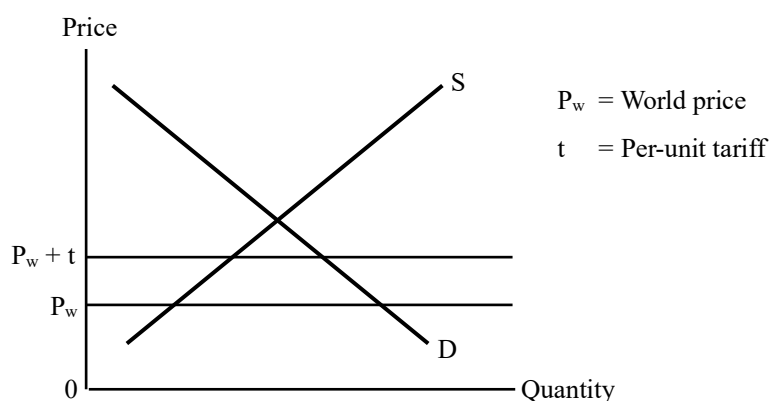
40. The following table shows the number of man-hours required by Country A and Country B for the production of garments and watches.

	1 unit of garments	1 unit of watches
Country A	4	8
Country B	5	20

Based on the above information, which of the following statements are correct?

- (1) Country A has an absolute advantage in the production of garments.
  - (2) Country B has a comparative disadvantage in producing watches.
  - (3) If the transportation cost of 1 unit of garments is 0.25 units of watches, it is impossible to have mutually beneficial trade.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

41. In international trade, the comparative advantage determines the \_\_\_\_\_ of the trading countries.
- gains from trade
  - volume of exports and imports
  - direction of trade
  - terms of trade
42. The diagram below shows the market for Good X in a small open economy. A per-unit tariff is imposed on Good X.



- If the government reduces the per-unit tariff,
- the tariff revenue of Good X will decrease.
  - the world price of Good X will decrease.
  - the quantity of Good X consumed domestically will remain unchanged.
  - the quantity of Good X produced domestically will decrease.
43. To celebrate its anniversary, a Hong Kong company organises a staff trip to Spain to watch a football league match. Which of the following would be included in the calculation of Hong Kong's balance of payments?
- The airline tickets bought from a Hong Kong airline for the staff to fly to Spain
  - The expenses incurred from staying in a hotel in Spain
  - The amount that the company owner pay for purchasing a residential property in Spain for future staff trips
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)

44. The following table shows the change in the exchange rate of the Hong Kong dollar (HKD) against the euro (€).

	Exchange rate
8 Jan 2024	HKD 100 = €12
8 Jan 2025	HKD 100 = €11

The above change in the exchange rate of the Hong Kong dollar to the euro would lead to

- A. an appreciation of the euro against the US dollar.
  - B. a decrease in the competitiveness of Hong Kong's goods exported to Europe.
  - C. a decrease in the total value (in terms of Hong Kong dollars) of exports from Europe to Hong Kong.
  - D. an increase in the total value (in terms of Hong Kong dollars) of exports from Hong Kong to Europe.
45. Which of the following statements about the Linked Exchange Rate System of Hong Kong is correct?
- A. Hong Kong's money supply is fully backed by the US dollar.
  - B. The Hong Kong Monetary Authority holds a considerable amount of foreign exchange reserves.
  - C. Commercial banks in Hong Kong can exchange Hong Kong dollars for US dollars at the linked exchange rate with the Hong Kong Monetary Authority.
  - D. The market exchange rate of the Hong Kong dollar against the US dollar is fixed.

**END OF PAPER**

UPEP ECONOMICS

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

## **MOCK PAPER (2026 March) (SAMPLE)**

### **ECONOMICS PAPER 2**

Time allowed: 2 hours and 30 minutes

This paper must be answered in English.

#### **INSTRUCTIONS**

1. This paper consists of three sections, A, B and C. Answer ALL questions in Sections A and B. Attempt any ONE question in Section C.
2. Write your answers in the spaces provided. DO NOT write in the margins. Answers written in the margins will not be marked.

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A large rectangular area with a solid black border, containing 25 horizontal dashed lines for writing.



4. a. An economist suggests imposing a quota instead of a tariff to restrict imports. Suggest **ONE** reason to support this. (2 marks)
- b. A small open economy imposes an effective quota on imported coffee beans. Suppose the world price of coffee increases while the quota remains effective. What impact would the above change have on items (i), (ii) and (iii)? Fill in the blank with one of the following choices: (3 marks)

increased	decreased	remained unchanged	uncertain
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	Item	Effect
(i)	Domestic price of coffee beans	
(ii)	The quantity of coffee beans produced domestically	
(iii)	The quantity of coffee beans consumed domestically	





7. The following table shows information about a country's balance of payments (BOP) in a year:

Items	\$ billion
Balance on goods	300
Balance on services	X
Net factor income from abroad	-40
Net current transfer	-120
Net capital inflow	180

- a. If the BOP balance of the country is \$50 billion, calculate the value of X. (1 mark)
- b. 'The foreign reserves of the country increased in that year.' Explain whether you agree with this statement. (2 marks)
- c. Initially, the country was a member of a trade organisation. Residents from other member countries could visit or work in the country without a visa. Last year, the country withdrew from the trade organisation and required foreign residents to obtain a visa to visit or work there.

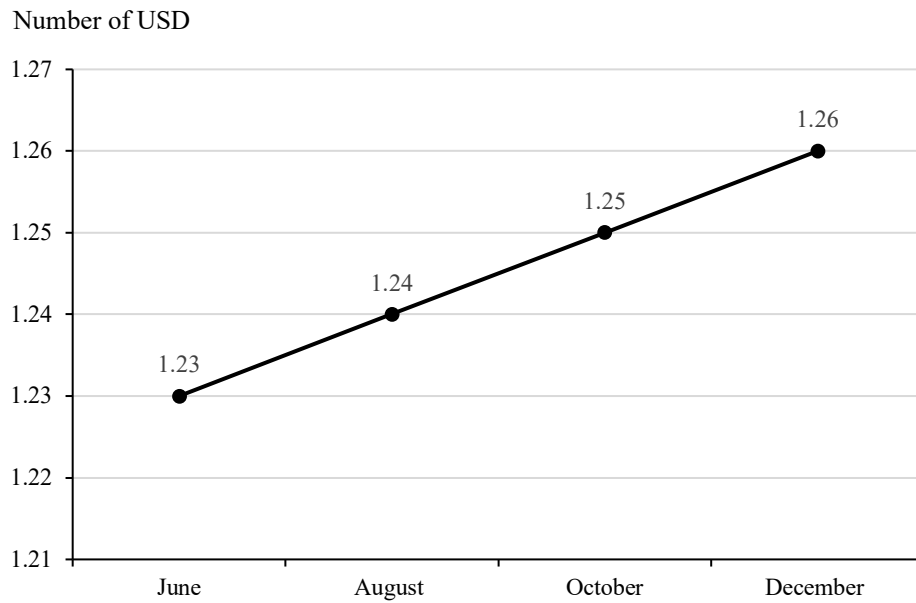
Explain how the TWO components of the country's current account in the balance of payments may be affected. (4 marks)

Blank writing area with horizontal dashed lines.

**END OF SECTION A**

**Section B (60 marks)**

8. The following diagram shows the number of US dollars (USD) that can be exchanged for 1 Swiss Franc (CHF) in 2025.



a. Suppose the price of Swiss watches (in terms of CHF) does not change. With the aid of Figure 3, explain how the above change in the exchange rate would affect the total export value (in terms of CHF) of Swiss watches to Hong Kong. (8 marks)

Figure 3







A large rectangular area with a solid black border, containing 25 horizontal dashed lines for writing.

**10.** Education is important to Hong Kong’s development. Higher education in Hong Kong is funded by the government through the University Grants Committee (UGC).

**Source A:** Tuition fees of UGC-funded full-time undergraduate programmes

Academic year	Tuition fees per student per academic year
2024/25	\$42,100
2025/26	\$44,500
2026/27	\$47,000

**Source B:** Examples of admission scores for UGC-funded full-time programmes under the Joint University Programmes Admissions System (JUPAS) in 2025

University	Programme	Median admission score
University A	Bachelor of Business and Administration (Economics and Finance)	23
University B	Bachelor of Social Sciences (Hons) in Economics	26.4
University C	Bachelor of Economics and Finance	40

**Source C:** Conversation between two students about UGC-funded programmes

Student A: The Hong Kong government only provides 15,000 UGC-funded full time undergraduate student places each year.

Student B: Yes. However, the number of applicants far exceeds the student places available!

**Source D:** Some views on attracting more non-local students to pursue studies in Hong Kong

A spokesperson for the Labour and Welfare Bureau	Hong Kong is facing a labour shortage and the shortage is expected to increase. Attracting more non-local students for higher education in Hong Kong can increase the labour force.
A spokesperson for a local university	The government should build more youth dormitories near universities to meet the housing needs of non-local students.

**Source D:** Some views on attracting more non-local students to pursue studies in Hong Kong (cont'd)

A politician	The government fund should be used to distribute a cash payout to citizens rather than to build more youth dormitories for non-local students.
A mainland student studying in a local university	The cost of living is too high in Hong Kong. I plan to find a job in Shanghai or Shenzhen after graduation.

- a.** Refer to Source A and Source B.
- i.** ‘Price competition is the only criterion to determine the allocation of UGC-funded full time undergraduate student places.’ Do you agree? Explain. (2 marks)
  - ii.** ‘Full time undergraduate student places may not be distributed to the highest-valued users.’ Explain this statement, giving ONE reason. (2 marks)
- b.** Refer to Source C.
- i.** In Figure 4, with the aid of a supply-demand diagram, explain the economic phenomenon shown in Source C. (2 marks)
  - ii.** With the aid of Figure 4, explain how the change in tuition fees of UGC-funded programmes shown in Source A will affect students’ total tuition expenditure. (3 marks)

Figure 4



- c.** Give arguments FOR and AGAINST the suggestion of the politician in Source D. (5 marks)

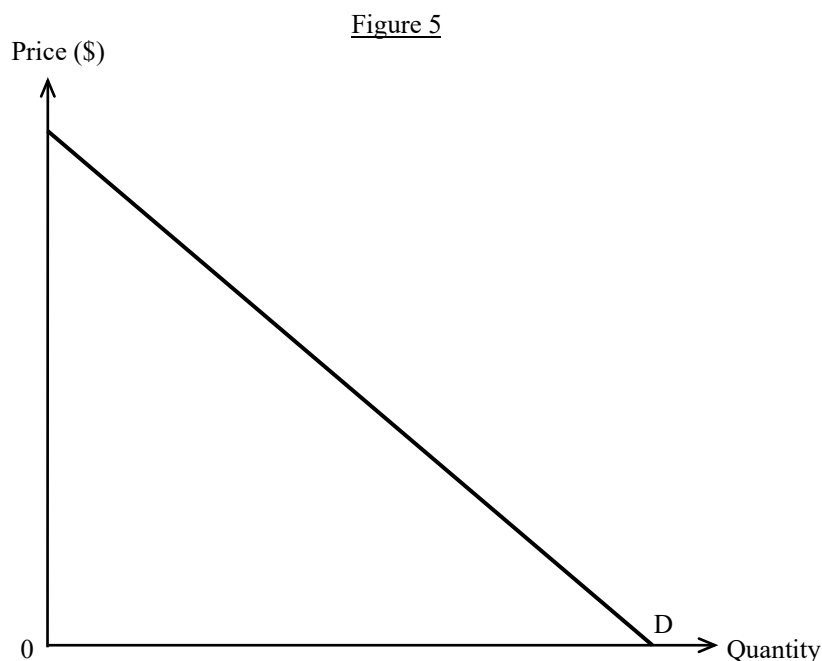


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**END OF SECTION B**

**Section C (16 marks)** Answer any ONE question.

11. Company QQ is the only mobile service provider in City X. It has a constant average cost of production and employs simple monopoly pricing. Figure 5 shows the market demand curve (D).



With the aid of Figure 5,

- a. i. explain how Company QQ would determine output and price to maximise profit. Indicate the output and price as  $Q_m$  and  $P_m$ , respectively.
- ii. explain why simple monopoly pricing may lead to economic inefficiency. (6 marks)
- b. A new residential estate is completed for intake. The following is a conversation between two broadband service providers:

**Provider A:** How about this — I focus on marketing and provide service to Blocks 1 to 3, while you handle Blocks 4 to 6?

**Provider B:** That sounds like an excellent idea.

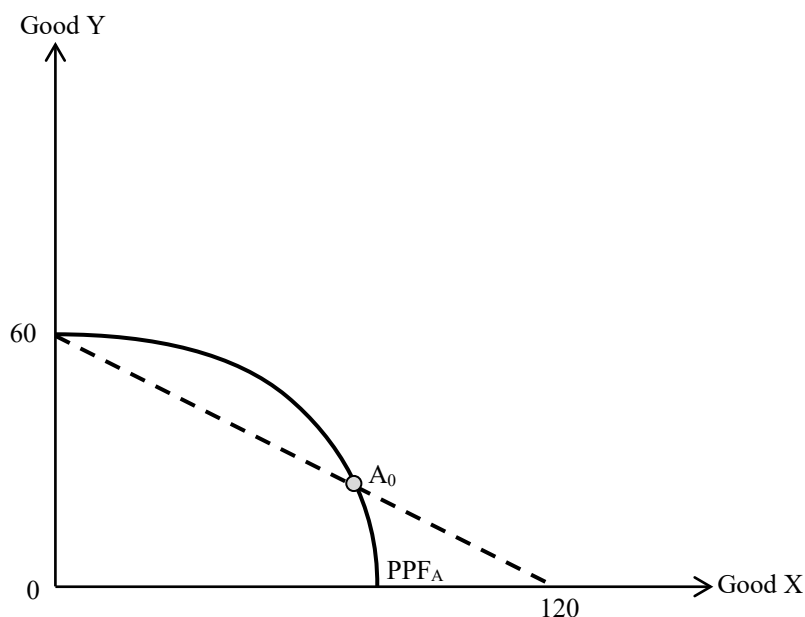
- i. Which anti-competitive behaviour may be found in the above conversation of the two broadband service providers? (1 mark)
- ii. If the above case happened in Hong Kong, which conduct rule of the *Competition Ordinance* might these broadband service providers have violated? Explain your answer. (2 marks)
- iii. The agreement between the two broadband service providers may not be anti-competitive. Justify with ONE reason. (2 marks)



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12. Figure 6 shows the production possibilities frontier of Country A ( $PPF_A$ ).  $A_0$  is the production point of Country A without trade.

Figure 6



- a. Explain why the production possibilities frontier of Country A is not a straight line. (2 marks)

Suppose the opportunity cost of producing 1 unit of Good X in Country A is 1 unit of Good Y at  $A_0$  and the slope of the dotted line is the world price of Good X.

- b. i. Explain whether Country A will import or export Good X after engaging in international trade. (2 marks)
- ii. Calculate Country A's gain from trading 1 unit of Good X. (1 mark)
- c. In Figure 6, indicate the production point and draw the consumption possibility curve of Country A as  $P_A$  and  $CPF_A$ , respectively, after it engages in international trade. (2 marks)
- d. Suppose Country A chooses to consume the same quantity of Good X after trade. In Figure 6, indicate
- i. the consumption point of Country A as  $C_A$ ; (1 mark)
- ii. the import volume and export volume of Country A as IM and EX. (2 marks)
- e. Suppose the world price of Good X doubles. Explain whether Country A's direction of trade will be affected. (2 marks)
- f. To avoid the negative impacts of climate change, the government of Country A grants more subsidies for renewable energy production. Explain how the policy affects the country's economic growth and economic development. (4 marks)

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**END OF PAPER**

UPEP ECONOMICS

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

**S4 FINAL EXAM (2026 Mar) (SAMPLE)**

**ECONOMICS PAPER 1**

Time allowed: 40 minutes

**INSTRUCTIONS**

1. When told to open this book, you should check that all the questions are there. Look for the words 'END OF PAPER' after the last question.
2. All questions carry equal marks.
3. ANSWER ALL QUESTIONS.
4. You should mark only ONE answer for each question. If you mark more than one answer, you will receive NO MARKS for that question.
5. No marks will be deducted for wrong answers.

There are 30 questions in this paper. Choose the **BEST** answer for each question.

1. Which of the following statements is correct?
  - A. Whenever there is a shortage, there must be scarcity.
  - B. Whenever there is scarcity, there must be a shortage.
  - C. Scarcity is eliminated when market supply increases.
  - D. Scarcity exists only when the price is zero.
  
2. A student considers whether to use his leisure time to join an online coding course or to work part-time in a café. The opportunity cost of joining the course will decrease if \_\_\_\_\_.
  - A. learning coding is more boring than expected
  - B. the wages from working in the café increase
  - C. the tuition fee for the course decreases
  - D. the internet monthly fee increases
  
3. Which of the following statements about interest is/are correct?
  - (1) Interest may still exist in a barter economy.
  - (2) When there is no inflation, interest disappears because of stable prices.
  - (3) Interest does not exist in a planned economy because economic decisions are made by the government.
  - A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
4. Starting from March 1, 2026, subdivided units (分間單位) in residential buildings must comply with a set of minimum standards for living conditions and obtain Basic Housing Unit (簡樸房) recognition before they can be legally let out for habitation. After March 1, 2026, \_\_\_\_\_ will be weakened for those owning subdivided units.
  - (1) the right to use
  - (2) the right to receive income
  - (3) the right to transfer
  - A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (2) and (3) only

5. A government distributes reusable water bottles for free. As a result, citizens must queue for the bottles but many cannot get one. Which of the following statements is correct?
- A. The bottles are free goods because they are distributed for free.
  - B. The bottles are economic goods because citizens queue for them.
  - C. The bottles are public goods because they are distributed by the government.
  - D. None of the above is correct.
6. The Monthly Pass (全月通) introduced by the MTR allows passengers to enjoy unlimited rides between designated stations within the valid month and can be purchased online through the MTR Mobile. Which of the following are positive statements?
- (1) Allowing passengers to purchase the Monthly Pass through the MTR Mobile will increase the demand for it.
  - (2) The number of MTR trips taken by passengers with the Monthly Pass is likely to rise.
  - (3) Selling the Monthly Pass through the MTR Mobile is the most appropriate way to stimulate sales volume.
  - (4) MTR should reduce the price of the Monthly Pass to benefit low-income passengers.
- A. (1) and (2) only
  - B. (3) and (4) only
  - C. (1), (2) and (3) only
  - D. (2), (3) and (4) only
7. A government decides to construct a logistics hub on agricultural land. This is related to the \_\_\_\_\_ question(s) in Economics.
- A. 'what to produce'
  - B. 'how to produce'
  - C. 'what to produce' and 'how to produce'
  - D. 'what to produce' and 'for whom to produce'

8. The following table shows the share of total production value of different types of production to gross domestic product (GDP) in Country A. The GDP in this country was lower in 2026 than in 2025.

	2025	2026
Primary production	19%	7%
Secondary production	30%	30%
Tertiary production	51%	63%
Total	100%	100%

From the above table, we can conclude that from 2025 to 2026,

- A. the total production value of tertiary production in Country A increased.
  - B. the contribution of secondary production to the labour market in Country A remained unchanged.
  - C. the number of workers employed in primary production in Country A decreased.
  - D. tertiary production became more important to Country A's economy.
9. A Hong Kong phone repair shop divides its production into different stages, including examining, parts ordering, repair and quality checking. This is an example of \_\_\_\_\_ production and \_\_\_\_\_ division of labour.
- A. secondary ... simple
  - B. secondary ... complex
  - C. tertiary ... simple
  - D. tertiary ... complex
10. A hotel is a production unit that provides accommodation services. The following people and objects are commonly found at a hotel:
- (1) guests
  - (2) the rooftop garden used by guests
  - (3) solar energy collected by the hotel using solar panels
  - (4) an apartment privately owned by the hotel manager
- Which of the following items is/are capital of the hotel?
- A. (2) only
  - B. (2) and (3) only
  - C. (3) and (4) only
  - D. (1), (2) and (4) only

11. Refer to the following information about a firm.

	Year 1	Year 2
Number of workers (persons)	220,000	200,000
Average number of working hours per worker (hours)	8	9
Total output (units)	8,800,000	9,360,000

Which of the following is a possible reason for the above change in the average labour productivity of the firm?

- A. The firm uses fewer machines in Year 2.
  - B. The firm employs less labour service in Year 2.
  - C. The firm provides more training for workers in Year 2.
  - D. The firm cancels the study subsidy for workers in Year 2.
12. At many international concert tours, performers are usually paid a certain percentage of the concerts' net profit instead of a fixed income because
- A. performers prefer not to have a fixed income.
  - B. it is difficult for concert organisers to calculate net profit.
  - C. concert organisers can transfer part of the business risk to performers.
  - D. performers can earn a more stable and predictable income.
13. The table below shows the average product a firm, which employs only labour and capital in production.

Labour (units)	Capital (units)	Average product (units)
1	9	40
2	9	49
3	9	59
4	9	X
5	9	63

If the marginal product of labour will start to diminish after the 3<sup>rd</sup> unit of labour is put to work, X \_\_\_\_\_.

- A. can be 60
- B. can be 63
- C. can be 64
- D. cannot be determined

14. The table below shows the cost-output relationship of a firm.

Output (units)	Total cost (\$)
0	3
1	6
2	11
3	15
4	18
5	20

Based on the table above, we can conclude that

- A. the average fixed cost when output is 3 units is \$5.
- B. the firm enjoys economies of scale.
- C. the firm's optimal scale of production is 5 units.
- D. none of the above is correct.

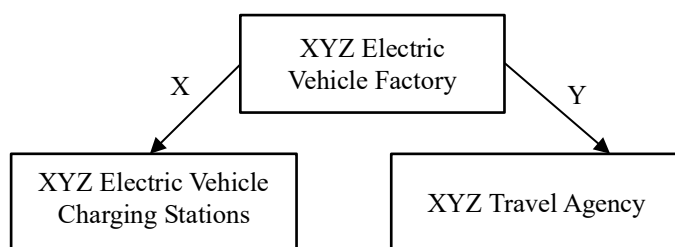
15. The following table shows the cost-output relationship of a price-taking firm:

Output (units)	Average cost (\$)
2	18
3	19
4	20
5	22
6	25

Suppose the product price is \$23 and the fixed cost of the firm is \$6. What are the profit-maximising output and the maximum producer surplus, respectively?

- A. 4 units and \$18
- B. 4 units and \$23
- C. 5 units and \$11
- D. 5 units and \$30

16. XYZ Electric Vehicle Factory expands its business as follows:



To XYZ Electric Vehicle Factory, the type of expansion shown by X and Y are \_\_\_\_\_ expansion and \_\_\_\_\_, respectively.

- A. forward ... lateral
- B. forward ... conglomerate
- C. backward ... lateral
- D. backward ... conglomerate

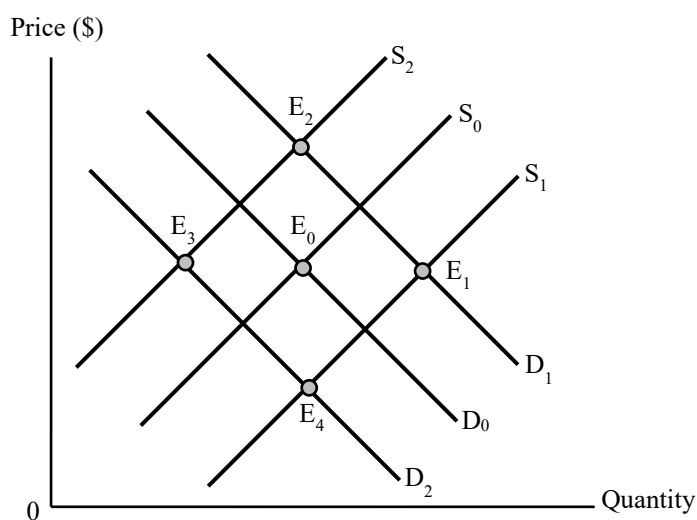
17. Refer to the following information about Firm A and Firm B in Hong Kong.

	Firm A	Firm B
Number of owners	5	1
Transfer of ownership	Needs the consent of other owners	Does <b>NOT</b> need the consent of other owners
Disclosure of financial information to the public	<b>NOT</b> required	Required

According to the above table, which of the following descriptions of Firm A and Firm B is correct?

- A. Firm A raises capital more easily than Firm B.
  - B. Firm B is a legal entity while Firm A may not be.
  - C. Firm B faces a higher profits tax rate than Firm A.
  - D. Firm B enjoys business continuity while Firm A does not.
18. The output of a firm in a perfectly competitive market is higher than its profit-maximising level. Which of the following statements is correct?
- A. The firm's average revenue is higher than its average cost.
  - B. Reducing output will increase the firm's profit.
  - C. The marginal cost of the last unit produced is lower than the market price.
  - D. Total revenue is smaller than its total cost.

19. The market structure of the bus industry in Hong Kong is
- perfect competition because there are many bus routes.
  - a monopoly because only one bus company provides services in each district.
  - an oligopoly because a small number of large bus companies dominate the market and their pricing strategies are interdependent.
  - monopolistic competition because each bus company provides slightly different bus services.
20. The diagram below shows the supply and demand curves of economics textbooks. The initial equilibrium point is  $E_0$ .



Suppose schools reduce the class size for Economics. At the same time, the supply of paper increases. As a result, the new equilibrium point will be \_\_\_\_\_.

- $E_1$
- $E_2$
- $E_3$
- $E_4$

21. If the price of electric scooters (電動滑板車) falls, which of the following statements are correct?
- (1) The quantity demanded for bicycles will decrease.
  - (2) The quantity supplied of scooter batteries will increase.
  - (3) The demand for scooter charging stations will increase.
  - (4) The demand for electric scooters will increase.
- A. (1) and (3) only
  - B. (2) and (4) only
  - C. (1), (2) and (3) only
  - D. (1), (2), (3) and (4)
22. When the weather is hot, the price of electrolyte drinks (電解質飲品) changes by 15% while the quantity transacted changes by 12%. The \_\_\_\_\_ for/of electrolyte drinks is \_\_\_\_\_.
- A. demand ... elastic
  - B. demand ... inelastic
  - C. supply ... elastic
  - D. supply ... inelastic
23. A café successfully bid \$80,000 for a weekend pop-up space in a busy district, which was twice the opening bid (起標價).
- The above case illustrates the \_\_\_\_\_ function of price because \_\_\_\_\_.
- A. rationing ... the demand for the pop-up space will decrease when the bid price increases
  - B. rationing ... the pop-up space is allocated to the user with the highest willingness to pay
  - C. allocative ... resources are directed to more profitable uses
  - D. allocative ... the bidding results in a higher selling price for the pop-up space

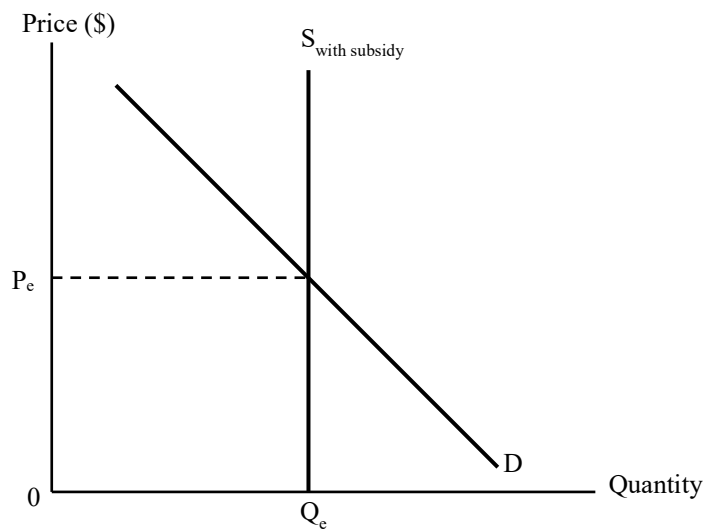
24. Refer to the following supply and demand schedules of Good X.

Unit price (\$)	10	14	18	22	26
Quantity demanded (units)	140	120	95	70	50
Quantity supplied (units)	40	70	95	120	150

Which of the following statements about the market for Good X is correct?

- A. If a price ceiling of \$22 is imposed, the quantity transacted of Good X will be 70 units.
- B. If a price floor of \$26 is imposed, the total revenue received by the sellers of Good X will increase by \$410.
- C. If a per-unit tax of \$8 is imposed, the tax burden on consumers for each unit of Good X will be \$8.
- D. If a quota of 70 units is imposed, the new total expenditure paid by consumers for Good X will be \$980.

25. Refer to the following supply-demand diagram of a good with a per-unit subsidy:



Suppose the government increases the per-unit subsidy on the good. Producers' subsidy benefit \_\_\_\_\_.

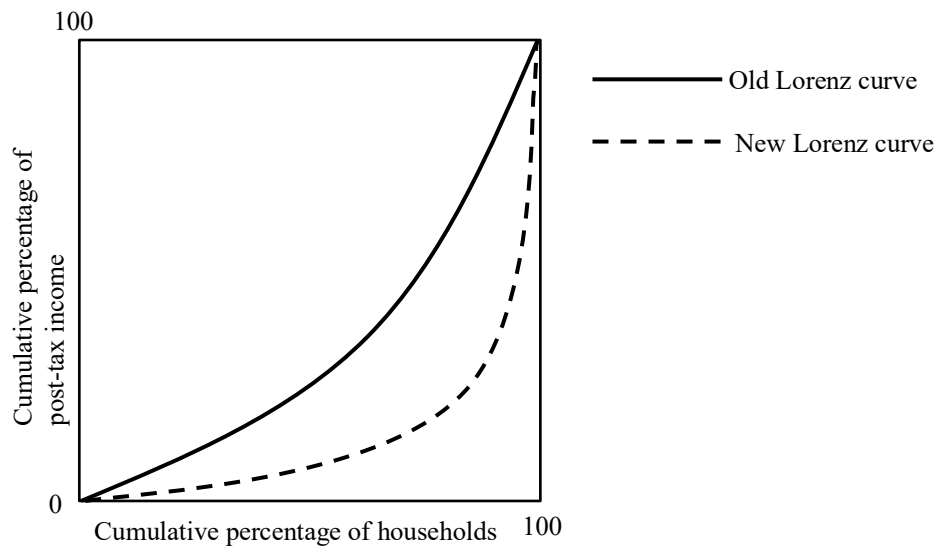
- A. will increase
- B. will decrease
- C. will remain unchanged
- D. will increase, decrease or remain unchanged, depending on the extent of the subsidy increase

26. A minimum wage is imposed in Country A. Later, during an economic boom, many firms expand. If the minimum wage remains unchanged, which of the following statements is correct?
- The efficient employment level will remain unchanged.
  - The new equilibrium employment level will be lower than the efficient level.
  - The deadweight loss may disappear.
  - None of the above is correct.
27. Which of the following is an example of the divergence between private and social benefits?
- A homeowner installs solar panels at the rooftop of his house to collect solar energy in order to generate electricity and allows his neighbours to use the electricity for free.
  - A passenger blocks the train door, delaying other passengers.
  - An usher watches the movie that is showing when he is working at a cinema house.
  - A neighbour plays outdoor music that disturbs residents nearby.
28. Suppose the following table shows the average annual income of bricklayers (砌磚工) with similar job duties and experience levels in Hong Kong and the mainland in 2026.

Place of work	Average annual income (in HKD)
Hong Kong	\$440,000
The mainland	\$290,000

- Based on the information above, which of the following statements are correct?
- The Gini coefficient within the construction industry is high.
  - Differences in salaries tax rates between Hong Kong and the mainland may explain the above income difference.
  - An increase in the number of construction projects in Hong Kong may explain the above income difference.
  - The higher cost of living in Hong Kong may contribute to the higher average annual income of the bricklayers in Hong Kong.
- (1) and (2) only
  - (2) and (3) only
  - (3) and (4) only
  - (1), (2), (3) and (4)

29. A government subsidises part of the fees for households to install water-saving filtration systems. Which of the following statements is correct?
- A. The economic inefficiency caused by underconsumption of water-saving filtration systems must be completely eliminated by the subsidy.
  - B. The divergence between private and social benefits can be decreased by lowering the marginal private cost of installing water-saving filtration systems.
  - C. To maximise total social surplus, the government should fully subsidise the fee for the installation of water-saving filtration systems.
  - D. The subsidy creates a new deadweight loss in the market.
30. The following diagram shows the change in the Lorenz curve in Country A in a year.



Which of the following statements is INCORRECT?

- A. Income for both high-income and low-income households might increase.
- B. The tax band of the progressive salaries tax might be widened.
- C. The subsidy on public healthcare services may decrease.
- D. The tax system might change from a progressive one to a regressive one.

**END OF PAPER**

UPEP ECONOMICS

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

**S4 FINAL EXAM (2026 March) (SAMPLE)**

**ECONOMICS PAPER 2**

Time allowed: 1 hour and 15 minutes

This paper must be answered in English.

**INSTRUCTIONS**

1. This paper consists of two sections, A and B. Answer ALL questions in Sections A and B.
2. Write your answers in the spaces provided. DO NOT write in the margins. Answers written in the margins will not be marked.

**Section A (30 marks)**

1. To promote local culinary culture and tourism, the Hong Kong government has launched the Food Truck Pilot Scheme (美食車先導計劃) to allow licensed food trucks to operate at designated venues.

a. The aroma of food from these trucks can be enjoyed by passersby without payment. Explain whether the aroma is a free good. (2 marks)

b. Sometimes, people needed to queue up to buy food from these food trucks. Suppose the waiting time is the same for everyone. Is the cost of buying food from these food trucks necessarily the same for these people? Explain. (3 marks)

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2. The table below shows the input-output relationship of a firm.

Labour (units)	Capital (units)	Average product of labour (units)
1	3	15
2	3	26
3	3	30
4	3	31

a. Based on the above data, explain why labour is a variable factor. (1 mark)

b. State the law of diminishing marginal returns and explain whether the above data illustrate the law. (5 marks)

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**3.** Pine Care Group Limited is a private elderly care home in Hong Kong. It was previously a listed company but was later privatised.

**a.** Suggest TWO reasons why Pine Care Group Limited decided to be privatised. (2 marks)

**b.** Some people suggest that the government should take over all elderly care homes rather than leave their operation to private firms. Discuss the suggestion by giving ONE argument FOR and ONE argument AGAINST this. (4 marks)

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**4.** To encourage the use of solar power, a country is considering providing a per-unit subsidy to solar panel suppliers. Under what condition would the installers of solar panels enjoy a larger share of the subsidy benefit than the producers? Illustrate your answer with the aid of a diagram. (7 marks)

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8. Mainland e-commerce platforms have become more popular in Hong Kong in recent years. Major mainland e-commerce platforms include Taobao, Jindong, Pinduoduo, etc.

**Source A:** More pick-up points in Hong Kong

In view of the increasing number of Hong Kong people buying from mainland online shops, many shops in Hong Kong have become pick-up points (自提點).

**Source B:** Recruitment advertisement from a mainland online shop

**Customer service assistant**

Job responsibilities: Answering customer inquiries

Working hours: 10am-8pm

Salary: ¥3,800 – ¥4,200 per month, plus performance-related bonus

**Source C:** A post on a Hong Kong social media platform about the shipping fee policy of a mainland e-commerce platform



Mr Wong

In August 2025, a mainland e-commerce platform offered free shipping fees for most items to Hong Kong. Previously, we had to pay shipping fees!



Ms Chan

Yes. Before the free shipping fee policy, I usually bought Thai rice on that platform. Now, I buy relatively more mainland rice, which is much cheaper.

**Source D:** Some views on mainland online shops



An owner of a mainland online shop

Many mainland online shops sell similar goods. We need to keep offering discounts to increase our total revenue.



An owner of a shop near a pick-up point in Hong Kong

The parcels at the pick-up point and the queue of customers collecting them block my shop entrance. As a result, the number of people visiting my shop has decreased sharply.

**Source D: Some views on mainland online shops (cont'd)**



An owner of a local retailer in Hong Kong

Competitive prices offered by mainland online shops are appealing to Hong Kong people. Many customers have switched to these shops. We are setting up an online shop to provide greater convenience for our customers.

- a. Refer to Source A. Explain ONE function of price which is illustrated in the source. (3 marks)
- b. Refer to Source B. From the viewpoint of the shop owner, state ONE advantage and ONE disadvantage of the payment method over a time rate. (2 marks)
- c. Refer to Source C. Using the law of demand, explain the change in the spending behaviour of Ms Chan in response to the change in the mainland e-commerce platform's shipping policy (3 marks)
- d. Refer to Source D. Why do online shop owners tend to use discounts to increase their total revenue? Explain using the concept of elasticity of supply/demand. (3 marks)

For part (e), students are required to present their answers in essay form. Criteria for marking will include the use of sources and economic theories, relevant content, logical presentation and clarity of expression.

- e. With reference to the above sources and your own knowledge in Economics, discuss the effects of the popularity of mainland e-commerce platforms in Hong Kong on Hong Kong's economy in terms of
  - total revenue of local retailers
  - average labour productivity
  - efficiency(10 marks)

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