

- (91 : 4) (b) (i) Yes, it should be recorded in the visible trade account. 1
 ∴ it is trading of physical goods. 1
- It worsens Hong Kong's balance of payments.
 This item represents a payment in HK's b.o.p. account. 1
- (ii) No, it should not be recorded in the visible trade account. 1
 ∴ it is trading of service. 1
- It favours Hong Kong's balance of payments.
 This item represents a receipt in HK's b.o.p. account 1

- (92 : 2) (c) depreciation of HK\$
- import price / cost of imported raw materials (in HK\$) ↑ 2
 → unit cost of production ↑ 2

(92 : 4) (c)

Balance of invisible trade	Balance of payments
(i) no effect	Unfavourable
(ii) favourable	favourable

- (93 : 2) (b) (i) re-exports 1

- ∴ more raw materials and machines to China via Hong Kong
- ∴ more Chinese exports via Hong Kong

2@ Max : 2

- (ii)
- retraining is required / lack of qualifications, experience and Skills in new jobs
 - age problem
 - loss in income earnings
 - licensing requirements / entrance barriers
 - lack of information about the job market
 - adaptation to new working environment
 - any other relevant point

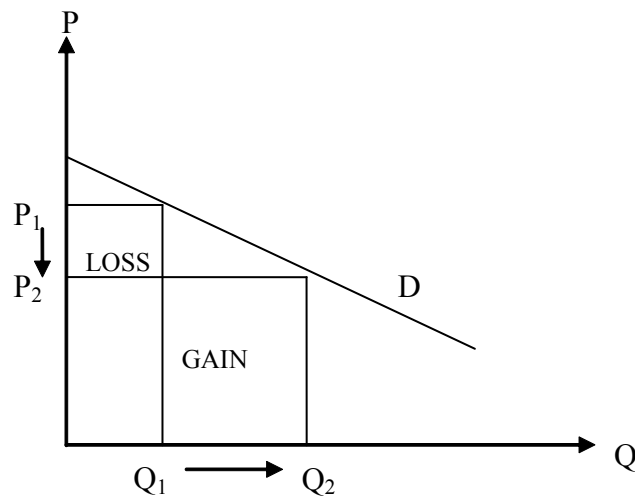
2@ Max : 6

(Mark the FIRST THREE points only.)

- (c) Chinese garments more expensive in the U.S.A. 1
- (i) More demand for substitutes / South Korean garments 1
→ South Korean garment producers gain 1
- (ii) less demand for HK's re-export services and or less demand for bank loans to finance the investment in China 1
→ less demand for HK's banking service 1
→ HK's bank lose 1
- Max : 2
- (94 : 8) It occurs when the country's capital account and other items in the current account altogether has a surplus and the surplus is greater than the trade deficit. 4
- (95 : 9) (b) (i) Souvenirs imported from HK=> the US current account /trade 1
account was unfavourably affected ---- A 1
Souvenirs bought by tourists=> the US current account/ invisible trade account was favourably affected ---B 1
A effect < B effect=> favourable to the US balance of payments 1
- (ii) It affected the US capital account 1
favourably => favourable to the US b.o.p. 1
- (96 : 9) (a) The balance of current account
= \$(24-35+17-19)mn.
= \$-13mn.
- (b) No. I do not agree with the statement since both the current and capital accounts are in deficit and there is really a balance of payments deficit of \$28 mn.
- (97 : 6) If the initial export value of goods is significantly higher than the initial import value of goods and the difference is more than compensate for the difference in their individual growth rates, then there is a case of visible trade surplus. 3

- (97 : 11) (a) (i) (I) No. ∴ there is no export of goods but an import of \$1m/ ∴ there is an import. 2
- (II) No. ∴ total payments (=\$1m.) >total receipts (\$0.6m) 2
- (ii) (I) {Output (or value-added) approach:} 2 max: 2
 $\{(0.8-0.5) + (0.7-0.5) + (1.6-0.7)\}m$ 1
 $=\$1.4m$
- {Expenditure approach:} 2 max: 2
 $\$(0.8+1.6-1)m$ 1
 $=1.4m$
- {Remark: Mere mention of correct numerical answer \$1.4 m without showing working – max:1 mark}
- (II) {Value-added approach:} ∴ input costs are deducted at every stage of production. 2
- {Expenditure approach:} ∴ only the expenditures on final goods and services are summed up. 2
- (98 : 8) No. ∴ no information on the capital account/invisible trade account. 3
 Effective communication mark for Section A: max: 2

(98 : 11) (b)



- price of Japanese cars (quoted in HKS) falls 1
- an increase in the quantity demanded for Japanese cars 1
- elastic demand means the % change in quantity demanded is larger than the % change in price 2
- sales revenue increases OR revenue loss < revenue gain 1

(c) (i) With less business, the middle-men services/ back-up services rendered for the local demand for Japanese cars dropped in value. Thus the GDP fell. 2

Similarly, the middle-men services rendered for the re-export demand for Japanese cars dropped in value. Thus the GDP fell. 2

(ii) current account / (capital and financial account) 2

(iii) (1) A fall in local demand for import will improve the current account balance / improve the visible trade balance / (worsen the capital and financial account balance). 2

(2) A fall in re-export demand will

- worsen the visible trade balance / (improve the capital and financial account balance)
- affect the invisible trade balance / current account balance / (capital and financial account balance) favourably or unfavourably / uncertain

(2@, max:2)

- (3) The combined effect on HK's BOP is uncertain / depending on the relative strength of the effect caused by the fall in import demand and the effect caused by the fall in re-export demand. [This answer should match with the answer to (1) and (2).]

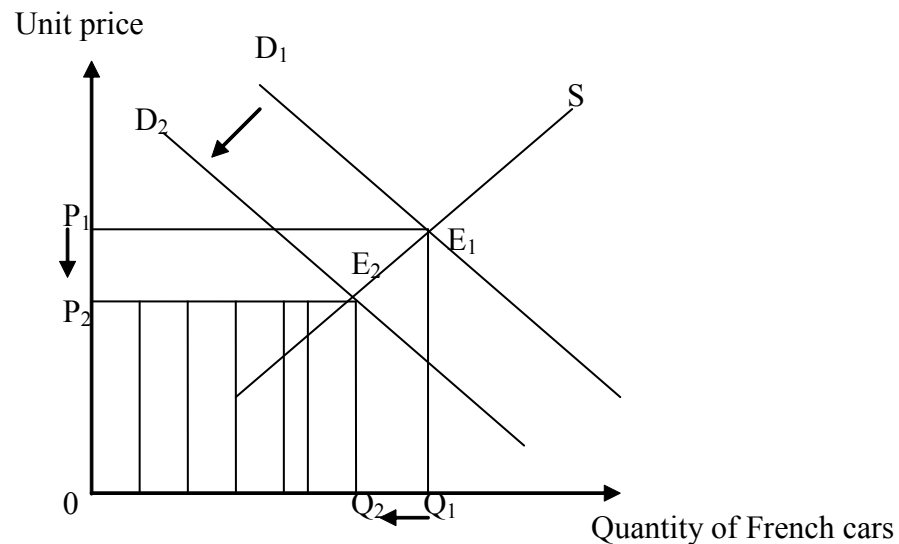
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OR

The combined effect on HK's BOP Account is equal changes in both the credit entries and the debit entries.

1

(99 : 9) (b)



- The devaluation → price (in HK\$) of Japanese cars ↓ 1
 Japanese cars and French cars are substitutes 1
 ∴ demand for French cars ↓ 1
 → both equilibrium price and quantity of French cars ↓ 1+1
 → sales revenue of French cars ↓ 1
 (from $OP_1E_1Q_1$ to $OP_2E_2Q_2$)

(99 : 10) (d) HK\$ appreciates against these Asian currencies 1
 → these Asian countries' exports become relatively cheaper than HK exports in the US market 1
 → there are (cheaper) substitutes 1
 → demand for HK exports ↓ 1
 → demand for labour in HK's export sector ↓ 1
 → HK's unemployment is very likely to increase 1

(01 : 8) (a) (i) - Goods 1
 - Services 1

(Mark the FIRST TWO points only.)

(ii) Eg. interest (other eggs are: dividend, rental income, wages) earned from / paid to foreign countries 2

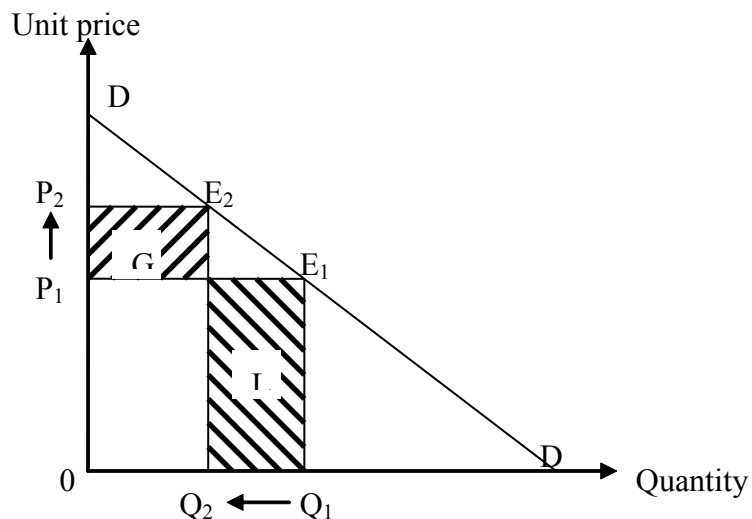
(b) The capital and financial account. 2

(04 : 8) Re-exports

= visible trade surplus + import of goods – domestic exports 1
 = \$(40 + 30 - 10)m 2
 = \$60m

(04 : 11) (b) (i) Increase ∴ HK\$ depreciates against the Euro dollar under the linked exchange rate system.

(ii)



- (P↑=>)Qd↓
- Elastic demand for imports
- % change in P > % change in Q
- Indicate in the diagram:
- Gain in total import value G < loss in total import value L

- (06 : 10) (a) (i) Increased because 1
Euro appreciated against the Hong Kong dollar. 1

(ii)

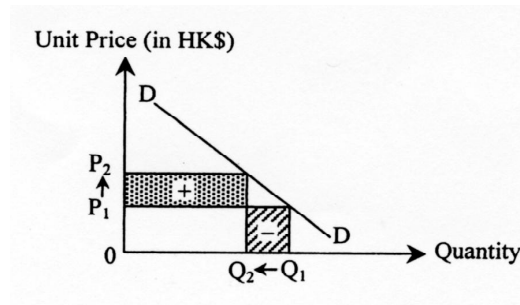


Diagram:

- $P \uparrow, Q_d \downarrow$ 1
- Correct position of 'Increase in total expenditure' & 'Decrease in total expenditure' 1
- 'Increase in total expenditure' > 'Decrease in total expenditure' 1

Verbal elaboration:

- With an increase in import price in terms of HK\$, the quantity of imported cars decrease. 1
- If demand is inelastic, 1
- % change [increase] in $P >$ % change [decrease] in Q_d . 1

- (iii) In terms of €, the total value of imported cars from Europe decreased because the volume of imports decreased while the price of imported cars in terms of € remained unchanged.

- (06 : 11) (a) (i) Show the following concept of visible trade balance:
Visible trade balance
= value of exports of goods – value of imports of goods 1

[Most goods in HK are imported.] In Hong Kong, an increase in private consumption
Usually means an increase in value of imports of goods. 1

∴ visible trade balance most likely worsens,
[other things being equal or assuming no change in value of exports of goods.] 1

- (ii) The condition is:
Increase in the value of exports of goods
< increase in the value of imports of goods 2

- (08 : 11) (c) Show the understanding of the following concept:
Visible trade balance
= value of exported goods – value of imported goods 1
- No, because 1
there may also be a fall in the value of exported goods 1
which is larger than the fall in the value of imported goods 1
- (09 : 8) (a) P is services.
- (b) Q Account is Capital and Financial Account.
- (c) (i) Visible trade balance = -130 billion dollars
(ii) Re-export of goods = 2323 billion dollars