

41. Which of the following results **CANNOT** be a negative number?

- A. total exports *minus* total imports
- B. money supply (M2) *minus* money supply (M1)
- C. factor income received from abroad *minus* factor income paid abroad
- D. GDP at market price *minus* GDP at factor cost

42. An international movie director came to Hong Kong to shoot a Hollywood movie for three weeks. Which of the following would be included in the calculation of Hong Kong's current account balance?

- (1) She stayed in a hotel in Tsim Sha Tsui.
- (2) She bought souvenirs in a shopping mall in Central.
- (3) She sold the copyright of the movie to a Hong Kong movie distributor.

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

45. Which of the following statements about the Linked Exchange Rate System of Hong Kong is correct?

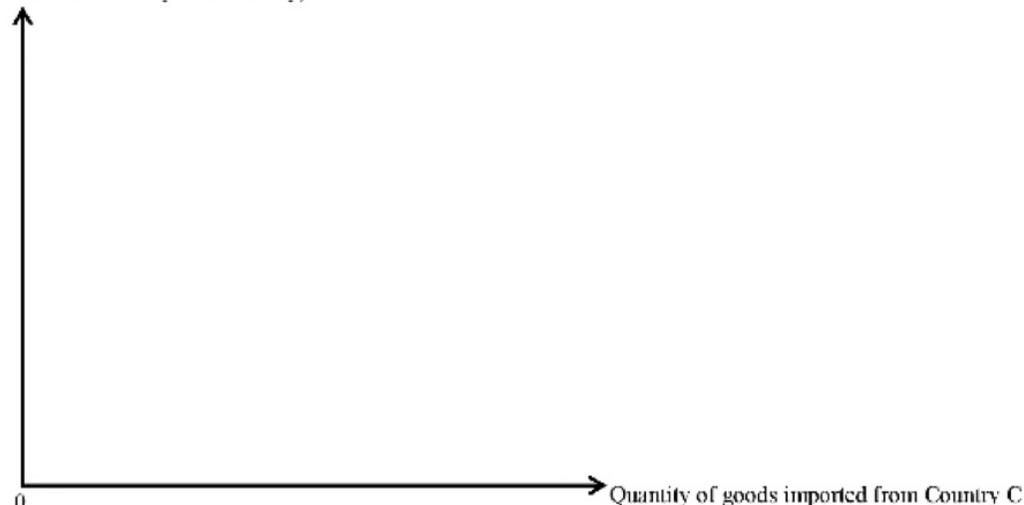
- A. The public can sell their Hong Kong dollars to the Hong Kong Monetary Authority in exchange for US dollars at the market exchange rate.
- B. The public can sell their Hong Kong dollars to the three note-issuing banks in exchange for US dollars at the linked exchange rate.
- C. An appreciation of Hong Kong dollar against Japanese yen would lead to an appreciation of US dollar against Japanese yen.
- D. An appreciation of US dollar against Japanese yen would lead to an appreciation of Hong Kong dollar against Japanese yen.

4. Country B and Country C are two large open economies. Facing a huge visible trade deficit, Country B imposes a per-unit tariff on goods imported from Country C. Suppose Country B's demand for goods imported from Country C is elastic.

- (a) With the aid of Figure 1, explain how the tariff would affect the total expenditure of Country B on goods imported from Country C. (6 marks)
- (b) "Devaluation of a country's currency against its trading partners' may have the same effect on imports as tariff." Use Country B as an example to justify this statement. (2 marks)
- (c) Apart from the effect on the country's visible trade balance, explain **ONE** other effect of devaluation on its balance of payments. (2 marks)

Figure 1: Goods imported from Country C by Country B

Price (in terms of Country B's currency)



SECTION 8: INTERNATIONAL FINANCE

8.1 BALANCE OF PAYMENTS

Multiple Choice Questions

1990/CE/11/36

Which of the following will have favourable effects on the current account of Hong Kong's balance of payments?

- (1) A Japanese tourist spends a day in the Ocean Park.
 - (2) An American bank sets up a representative office in Hong Kong.
 - (3) The Hong Kong government buys a computer system from the USA.
 - (4) A Hong Kong resident receives dividends from his US stocks.
- A. (1) and (2) only
B. (1) and (4) only
C. (2) and (3) only
D. (3) and (4) only

1990/CE/11/46

There will be a worsening of both the balance of payments and the balance of trade if

- A. exports increase.
B. re-exports decrease.
C. investment in foreign countries decreases.
D. the government gives more aid to foreign countries.

1990/CE/11/60

Which of the following is **NOT** an effect of importing foreign skilled labour for the construction industry?

- A. a favourable effect on Hong Kong's balance of payments
B. pressure on Hong Kong's social services
C. a slower increase in the real wage rate of Hong Kong's construction workers
D. a favourable effect on Hong Kong's GDP

1991/CE/11/49

The rental income earned from a property in Canada and remitted to Hong Kong by a Hong Kong citizen

- A. is included in the GDP of Hong Kong.
B. has a favourable effect on Hong Kong's balance of visible trade.
C. has a favourable effect on Hong Kong's balance of payments.
D. is taxable in Hong Kong.

1991/CE/11/50

The following table shows the balance of payments of a country:

	\$ billion
Exports	30
Imports	X
Capital inflow	50
Capital outflow	60

Foreign exchange and gold reserves decrease by \$20 billion. What is the value of X ?

- A. 10
- B. 20
- C. 30
- D. 40

1991/CE/11/60

The _____ of Hong Kong is **NOT** affected when some goods are imported to Hong Kong.

- A. visible trade balance
- B. current account
- C. capital account
- D. foreign exchanged and gold account

1992/CE/11/52

Calculate the value of net exports from the following information :

Domestic exports of goods	\$300
Re-exports of goods	\$150
Imports of goods	\$350

- A. -\$50
- B. \$100
- C. \$450
- D. \$800

1992/CE/11/60

Which of the following items would **NOT** be entered in the capital account of Hong Kong's balance of payments?

- A. A Hong Kong citizen buying a factory in Japan.
- B. A Hong Kong citizen buying a computer made in the U.S.A.
- C. A Hong Kong citizen buying securities in London's stock market.
- D. A Hong Kong citizen buying a house in the U.S.A.

1993/CE/11/40

	\$ million
Private consumption expenditure	40
Government consumption expenditure	10
Gross domestic fixed capital formation	10
Change in stocks	1
Total exports of goods	80
Domestic exports	70
Re-exports	10
Imports of goods	60
Exports of services	20
Imports of services	30
Inflow of capital	30
Outflow of capital	15

The balance of payments of the economy in that year is

- A. \$10 million
- B. \$15 million
- C. \$20 million
- D. \$25 million

1993/CE/11/54

Which of the following will improve the capital account of Hong Kong's balance of payments?

- A. A Hong Kong businessman sets up a computer firm in the U.S.A.
- B. A British investor buys a commercial building in Hong Kong.
- C. A Hong Kong shipping company receives rental income for providing shipping services to a foreign merchant.
- D. A Hong Kong investor receives a dividend from an overseas investment.

1994/CE/11/51

From the following information, find the value of re-exports:

Domestic exports	\$500
Trade balance	\$250
Imports	\$450

- A. \$50
- B. \$200
- C. \$250
- D. \$300

1994/CE/11/55

Which of the following has a favourable effect on the current account of Hong Kong's balance of payments?

- A. A Macau citizen leaves Hong Kong by using the service provided by a Hong Kong hydrofoil company.
- B. A businessman from Mainland China invests in the real estate market in Hong Kong.
- C. A local bank pays interest to an overseas depositor.
- D. A company in Mainland China issues shares in Hong Kong.

1994/CE/11/56

Mr Chan, who is an imported worker in Hong Kong, remits his income to his family in China. Which of the following statements is correct?

- A. Mr Chan's income is included in Hong Kong's GNP.
- B. The remittance has an unfavourable effect on Hong Kong's balance of visible trade.
- C. The remittance has a favourable effect on Hong Kong's balance of invisible trade.
- D. The remittance has a favourable effect on China's balance of payments.

1995/CE/II/54

Consider the following balance of payments account of an economy:

	\$ million
Export of goods & services	2 800
Import of goods & services	3 200
Capital inflows	Z
Capital outflows	700
Increase in foreign exchange & gold services	40

Z is

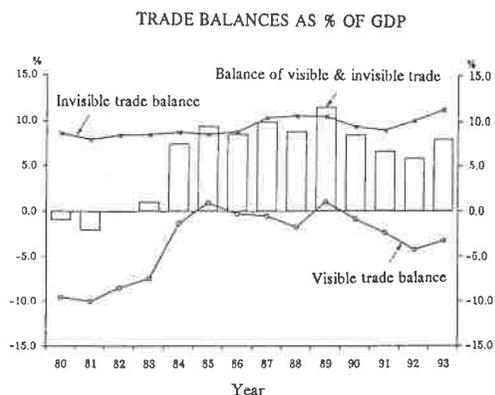
- A. 260
- B. 340
- C. 1 060
- D. 1 140

1995/CE/II/56

If an American tourist gives money to local beggars, Hong Kong's GDP will _____ and its balance of payments will _____

- A. increase be improved
- B. increase remain unchanged
- C. remain unchanged be improved
- D. remain unchanged remain unchanged

1995/CE/II/57

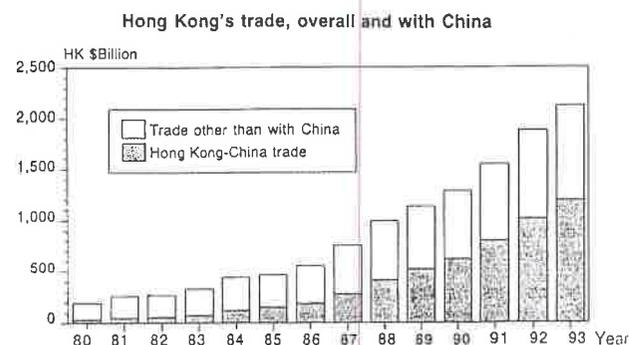


Source: Hong Kong Economic Indicators, Standard Chartered

Based on the above chart, which of the following are correct?

- (1) The payments for imports of goods usually exceed the receipts from exports of goods.
 - (2) Over the years, net exports of services accounted for more than 7% of Hong Kong's GDP.
 - (3) Hong Kong's current account has a surplus in recent years.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

1995/CE/II/58



The above graph shows that in recent years,

- A. the value of Hong Kong's trade with countries other than China had decreased.
- B. Hong Kong had gained an increasing surplus from its trade with China.
- C. the flow of people between Hong Kong and China has increased.
- D. China has become largest trading partner of Hong Kong.

1996/CE/II/48

Which of the following will worsen the balance of payments **but not** the balance of trade of Hong Kong?

- A. A Japanese pop singer cancelled his concerts in Hong Kong.
- B. A charity organization in Hong Kong reduced its donations to Mainland China.
- C. U.S. businessmen reduced their investment in Hong Kong.
- D. Re-export from Hong Kong to Mainland China decreased.

1996/CE/II/49

The official opening of Macau International Airport took place in December 1995. It is predicted that one-third of the visitors from Taiwan using Hong Kong's airport services **will be** diverted to Macau. This will

- (1) have a favourable effect on the balance of trade of Macau.
- (2) increase Macau's gross domestic product.
- (3) reduce the demand for Hong Kong's airport services.

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

1996/CE/II/50

Which of the following is favourable to the capital account of Hong Kong's balance of payments?

- A. An American firm buys some certificates of deposit issued by a bank in Hong Kong.
- B. An American firm donates money to a charitable organization in Hong Kong.
- C. A Hong Kong firm buys a hotel in Canada.
- D. A Hong Kong firm receives interests and dividends from its investment in the U.S.A.

1996/CE/II/51

Refer to the following data in the balance of payments account of a country.

	\$ billion
Visible exports	15
Visible imports	13
Invisible exports	8
Invisible imports	11
Inflow of capital	9
Outflow of capital	12

This country has a/an _____ balance of visible trade and a/an _____ balance of payments.

- A. favourable favourable
- B. favourable unfavourable
- C. unfavourable favourable
- D. unfavourable unfavourable

Answer Questions 50 and 51 by referring to the data below of an economy in a certain year:

	\$Billion
Domestic exports of goods	15
Re-exports	8
Imports of goods	20
Exports of services	7
Imports of services	4
Net capital inflow	-2

1997/CE/II/50

The balance of visible trade (in \$ billion) is

- A. -5
- B. -2
- C. 3
- D. 6

1997/CE/II/51

The balance of payments (in \$ billion) is

- A. -4
- B. 0
- C. 1
- D. 4

1997/CE/II/52

Which of the following will produce a favourable effect on the balance of payments of Country A?

- A. The citizens of Country A increase their investment abroad.
- B. The government of Country A abolishes the tariffs in imports.
- C. The citizens of Country A receive interest from the US government bonds they hold.
- D. The government of Country A pays for the service of a foreign consultant firm.

1998/CE/II/46

Which of the following is an invisible export in Hong Kong's balance of payments accounts?

- A. A Japanese firm buys shares on the Hong Kong Stock Exchange.
- B. A Hong Kong citizen buys tickets from Japanese airlines.
- C. A Hong Kong citizen remits money to his son in Japan.
- D. A Japanese tourist consults a local doctor in Hong Kong

1998/CE/II/53

Which of the following statements about the firework display for the handover ceremony of Hong Kong to China is **INCORRECT**?

- A. Consumption was involved when people watched the firework display.
- B. The nominal GDP of Hong Kong increased.
- C. There was a favourable effect on the visible trade balance of Hong Kong.
- D. The firework display has an opportunity cost because the money spent on it has other uses.

1999/CE/II/47

The following information shows the trade statistics of an economy in a certain year:

	\$ million
Domestic export of goods	30
Re-exports	40
Import of goods	50
Export of services	60
Import of services	80

According to the above data, the economy

- A. has a visible trade surplus.
- B. has a visible trade deficit.
- C. has no visible trade surplus or visible trade deficit.
- D. There is not enough information to obtain the answer.

1999/CE/II/53

Being a Hong Kong resident, Mr Wong earns a living in Hong Kong. He gets married to Mei-ling who lives in Mainland China. Which of the following events will **NOT** affect the balance of payments of Hong Kong?

- A. He buys a wedding ring in Hong Kong and takes it to her by Himself.
- B. He remits a sum of money as the betrothal (聘禮) gifts through a Bank to Mei-ling's parents.
- C. He pays for the honeymoon trip to Thailand.
- D. He rents a residential apartment for her in Shenzhen.

1999/CE/II/54

Which of the following is **NOT** included in the calculation of the balance of Hong Kong's current account?

- A. The investment of a U.S. company in a Hong Kong computer firm.
- B. Japanese cars sold in Hong Kong
- C. A drama performance attended by the tourists in Hong Kong.
- D. The exports of China handled in the container port of Hong Kong.

2000/CE/11/50

Suppose country A has a balance of payments deficits in Year 1. In Year 2, the changes in the balance of payments are as shown below:

	\$ Billion
Export of goods	+28
Export of services	+7
Import of goods	+35
Import of services	+13
Capital inflows	+5
Capital outflows	+8

Based on the above information, we can conclude that

- A. In Year 2, the visible trade deficit has increased.
- B. In Year 2, the visible trade deficit has decreased.
- C. In Year 2, the balance of payments deficit has increased.
- D. In Year 2, the balance of payments deficit has decreased.

2000/CE/11/51

Which of the following should be included in the calculation of the balance of Hong Kong's current account?

- A. A company in Hong Kong pays interests for loans from a bank in U.K.
- B. A Hong Kong resident purchases a new flat in Shenzhen.
- C. A U.S. investor purchases 5 000 units of the Tracker Fund of Hong Kong.
- D. An author in Hong Kong sells the copyright for his new book to a publisher in Taiwan.

2001/CE/11/41

Which of the following should be included in the calculation of the balance of Hong Kong's current account?

- A. A foreigner buys shares issued by a local property developer.
- B. A foreigner receives rental income from his property in Hong Kong.
- C. A company in Hong Kong donates medical equipment to a hospital in Mainland China.
- D. A US manufacturer sets up a factory in Hong Kong.

2001/CE/11/45

Hong Kong's Balance Of Payments Account		\$ million
Current Account	72 000	
Goods		-25 000
Services		81 000
Factor income		27 000
Current transfers		-11 000
Capital and Financial Account	-76 000	
Net errors and omissions	4 000	
		Total sum = 0

According to the above data,

- (1) the visible trade deficit is \$25 000 million.
 - (2) the invisible trade surplus is \$81 000 million.
 - (3) the balance of payments account is in balance.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2002/CE/11/48

Which of the following should be included in the calculation of the balance of Hong Kong's current account?

- A. A Hong Kong resident buys a life insurance policy from an insurance company in the US.
- B. A company in Hong Kong purchases the copyright of a film from a British film producer.
- C. A Hong Kong resident purchases a house in the US.
- D. A Hong Kong investor buys a number of shares of a listed company in the US.

2003/CE/11/43

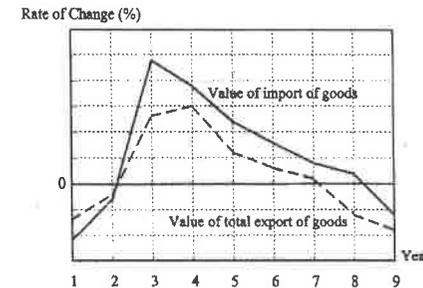
Refer to the data of an economy in a certain year below:

	\$ Billion
Domestic exports of goods	20
Imports of goods	50
Visible trade balance	-5

The re-exports (in \$ billion) are

- A. 15
- B. 25
- C. 30
- D. 35

2003/CE/11/48



According to the above diagram, from Year 4 to Year 6,

- A. the economy has suffered from visible trade deficit.
- B. the value of import of goods has decreased.
- C. the value of total export of goods has increased.
- D. the visible trade deficit has improved.

2004/CE/11/49

Many foreign tourists cancelled their holiday trips to Hong Kong during the SARS infection. This would

- A. worsen Hong Kong's visible trade balance.
- B. worsen Hong Kong's invisible trade balance.
- C. make Hong Kong's balance of payments imbalanced.
- D. All of the above are correct.

2004/CE/II/50

Mr Wong, a Mainland resident, comes to visit Hong Kong for a week. Which of the following should be included in Hong Kong's current account?

- A. the transport service he bought from a Mainland airline
- B. the accommodation service he bought from a Hong Kong hotel
- C. the residential flat in Tsim Sha Tsui he bought
- D. the Bank of China (H.K.) Ltd shares he bought

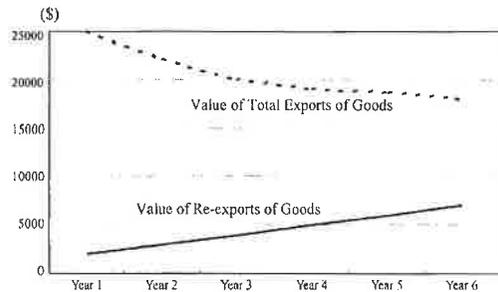
2005/CE/II/44

After the introduction of the 'individual visit' scheme, the Chinese government allows individuals from the mainland to travel in Hong Kong. This measure will increase Hong Kong's

- (1) tertiary production.
- (2) GDP.
- (3) invisible trade surplus.

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

2005/CE/II/47



According to the above diagram, from Year 2 to Year 5, the value of domestic exports of goods

- A. was decreasing.
- B. was increasing.
- C. remained constant.
- D. was indeterminate.

2006/CE/II/45

Many tourists from Mainland China buy souvenirs at Hong Kong Disneyland. Suppose these souvenirs are made in Mainland China. Then the tourist spending mentioned above is a/an _____ to Hong Kong.

- A. domestic export of goods
- B. re-export of goods
- C. export of services
- D. import of services

2006/CE/II/48

An Indonesian maid who works for a family in Hong Kong remits part of her wage earnings to Indonesia. In which component of the current account of Hong Kong's balance of payments should the above remittance be recorded?

- A. goods
- B. services
- C. income
- D. current transfers

2007/CE/II/48

Refer to the data of an economy in a certain year:

	\$ Billion
Domestic exports of goods	20
Re-exports	25
Imports of goods	40
Exports of services	23
Imports of services	19

The visible trade balance is \$ _____ billion.

- A. -20
- B. -5
- C. 5
- D. 9

2007/CE/II/50

An increase in the value of exports and a decrease in the value of imports in Country X would

- A. decrease its GDP.
- B. result in a surplus of its trade account.
- C. improve the balance of its current account.
- D. result in a depreciation of its domestic currency.

2008/CE/II/46

Which of the following should be included in the calculation of the invisible imports of Hong Kong?

- A. A Hong Kong citizen purchases shares in a state-owned enterprise on the Hong Kong stock market.
- B. A Hong Kong citizen buys some airtickets from a mainland Chinese airline.
- C. A mainland student pays tuition fees for his studies at a university of Hong Kong.
- D. A mainland investor purchases a residential apartment in Hong Kong.

2008/CE/II/47

Refer to the data of an economy in a certain year below:

	\$ Billion
Domestic exports of goods	50
Re-exports	35
Imports of goods	60
Exports of services	25
Imports of services	10

There is a/an _____ of \$ _____ billion.

- A. visible trade surplus 25
- B. visible trade deficit 10
- C. invisible trade surplus 40
- D. invisible trade deficit 15

2008/CE/II/48

Last year, a film crew came to Hong Kong to make a Batman movie. The shooting of the film in Hong Kong would

- (1) improve the visible trade balance of Hong Kong.
 (2) improve the invisible trade balance of Hong Kong.
 (3) increase the GDP of Hong Kong.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

2008/CE/II/49

A US engineer is working in Hong Kong. Which of the following amounts should be included in the calculation of the balance of Hong Kong's current account?

- A. the part of her salary earnings that she deposits with a bank in Hong Kong
 B. the part of her salary earnings that she remits to her family in the US
 C. the money she pays to buy shares in Chinese state-owned enterprises quoted on the Hong Kong Stock Exchange
 D. the money she spends on buying clothes and toys in Hong Kong which are sent to her children in the US

2009/CE/II/47

Mary is a fashion merchandiser for a department store in Thailand. She came to Hong Kong and purchased \$300 000 worth of garments from a Hong Kong garment manufacturer. These garments were shipped directly from the garment manufacturer to the department store. During her stay in Hong Kong, she also bought a personal computer worth \$10 000 from an electrical appliance shop for her own personal use.

The \$300 000 worth of garments would be regarded as a/an _____ export of Hong Kong and the \$10 000 computer would be regarded as a/an _____ export of Hong Kong.

- A. visible visible
 B. visible invisible
 C. invisible visible
 D. invisible invisible

2010/CE/II/48

Refer to the following trade figures of an economy in a certain year:

	\$ Billion
Total exports of goods	140
Re-exports	50
Exports of services	33
Imports of goods	72
Imports of services	20

The visible trade balance is \$ _____ billion.

- A. 68
 B. 81
 C. 118
 D. 131

2010/CE/II/49

Which of the following should be included in the calculation of the invisible imports of Hong Kong?

- A. the money spent by a Hong Kong citizen to buy a ticket for a concert held in Macau
 B. the money spent by a Malaysian tourist to purchase a ticket for the 2009 East Asian Game held in Hong Kong
 C. the money spent by a Hong Kong citizen on donations to earthquake victims in Haiti
 D. the money spent by a Hong Kong citizen to purchase an RMB sovereign bond of mainland China through a Hong Kong bank

2012/DSE/I/40

Which of the following is an invisible import in the current account of Hong Kong?

- A. In Beijing, a Hong Kong tourist purchases tickets to visit a local museum.
 B. A Mainland resident consults a doctor in a hospital in Hong Kong.
 C. A Mainland billionaire donates money to a university in Hong Kong.
 D. A Hong Kong manufacturer purchases raw materials from a Mainland firm.

2014/DSE/I/43

Which of the following is included in the calculation of the balance of Hong Kong's current account?

- A. A mainland investor purchases a house in Hong Kong.
 B. A Hong Kong investor buys shares issued by a mainland listed company.
 C. A mainland resident buys an air ticket to Hong Kong from a mainland airline.
 D. A Hong Kong resident buys a life insurance policy from a mainland insurance company.

2015/DSE/I/43

A lecturer from the US has been working in Hong Kong for 10 years. Which of the following would be included in the calculation of Hong Kong's current account balance?

- (1) the money he gives to his wife in Hong Kong
 (2) the money he uses to buy shares listed in the US stock market
 (3) the money he donates to a charity organization in Africa
 (4) the money he spends on visiting his parents in the US

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

2015/DSE/I/44

The following table shows some information about the balance of payments of Country A.

Items	\$ million
Balance on goods	-1 200
Balance on services	700
Net factor income from abroad	200
Net current transfer	-100
Increase in reserve assets	180

According to the above data, which of the following statements are correct?

- (1) The current account deficit is \$400 million.
 (2) Country A's GDP is smaller than its gross national product.
 (3) The balance of payments surplus is \$180 million.

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

Short & Structured Questions

1990/CE/1/3(a)(i)

The following are Hong Kong's Gross Domestic Product (GDP) components (at current prices) in 1988:

	<u>\$ Billion</u>
Private consumption expenditure	255
Government consumption expenditure	30
Gross domestic fixed capital formation	109
Increase in stocks	10
Domestic exports of goods	218
Re-exports of goods	275
Imports of goods	501
Exports of services	86
Imports of services	56

(The GDP deflator for 1980 = 100)

Calculate the visible trade balance. (2 marks)

1991/CE/1/4(b)

Every morning Mr. Chan transports vegetables from a farm in Shenzhen to Hong Kong. Explain whether

- (i) the import value of the vegetables, and
- (ii) the value of Mr. Chan's transport services

should be recorded in Hong Kong's visible trade account. Also, state the respective effects of (b)(i) and (b)(ii) on Hong Kong's balance of payments. (6 marks)

1992/CE/1/4(c)

State the effect of each of the following on **BOTH** the balance of invisible trade and the balance of payments in Hong Kong. (4 marks)

- (i) Company B deposited £1 000 into its savings account with a bank in England.
- (ii) Company B received a dividend payment from investment abroad.

1993/CE/1/2(b)(i)

Many Hong Kong manufacturers have recently moved their factories to China. Explain the effect on the volume of Hong Kong's re-exports. (3 marks)

1993/CE/1/4(a)

The following table shows the composition of Hong Kong's Gross Domestic Product (GDP) in 1980 and 1990:

GDP Components	Ratio to total GDP	
	1980	1990
Private consumption expenditure	62%	62%
Government consumption expenditure	A%	6%
Investment	36%	28%
Exports	88%	165%
Imports	93%	161%

- (ii) Was external trade more significant to Hong Kong's economy in 1990 than in 1980? Explain in terms of the above figures. (3 marks)
- (iii) Was there a trade deficit or surplus in 1980? In 1990? Give **TWO** reasons for the change in the trade balance. (6 marks)

1994/CE/1/8

Explain how it is possible for a country to have a trade deficit and a balance of payments surplus at the same time. (4 marks)

1995/CE/1/9(b)

The World Cup of 1994 was held in the USA. People from all over the world went to the US to watch the matches.

For each of the following situations, name the account(s) within the US balance of payments that would be affected, and explain how the US balance of payments would be affected.

- (i) Many tourists from other countries bought souvenirs in the US which were made in Hong Kong. (5 marks)
- (ii) Some hotels in the US were built before the event by foreign investors. (2 marks)

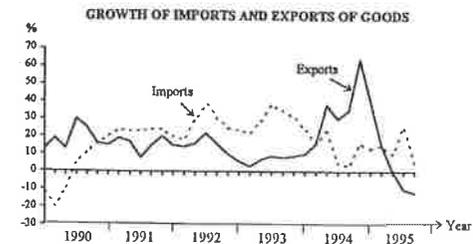
1996/CE/1/9

The table shows the items (in \$mn) of the balance of payments of a country in a certain year:

	<u>Debit</u>	<u>Credit</u>
Exports of goods		24
Imports of goods	35	
Exports of services		17
Imports of services	19	
Capital inflow		50
Capital outflow	65	
Foreign exchange & gold account		28
Total	119	119

- (a) Calculate the balance of current account. (1 mark)
- (b) 'The country has no balance of payments problem because the debit total for all items equals the credit total.' Explain whether you agree with this statement. (3 marks)

1997/CE/1/6



Explain under what conditions we can conclude from the above chart that the economy had a visible trade surplus from 1991 to 1993. (3 marks)

1997/CE/1/11(a)(i)

Suppose \$1 million worth of seafood is imported to Hong Kong. Half of it is sold to local households at \$0.8 million and half to local restaurants at \$0.7 million. These restaurants cook and sell the seafood to their customers at \$1.6 million of which \$0.6 million is tourist spending.

Explain whether the above transactions together will improve Hong Kong's

- (I) balance of visible trade.
- (II) balance of payments.

(4 marks)

1998/CE/1/8

Refer to the table below:

Year	Imports (\$mn)	Domestic Exports (\$ mn)	Re-exports (\$mn)
1996	1 535 582	212 160	1 185 758

Source: HONG KONG 1997

Based on the above information, explain whether we can come to the conclusion that Hong Kong suffered from a balance of payments deficit in 1996. (3 marks)

1998/CE/1/11(c)

In a certain year the sales revenue of Japanese cars in Hong Kong decreased. This was because the local demand for these cars dropped and the demand for re-export of these cars to Mainland China also declined.

- (ii) Which account of Hong Kong's balance of payments was affected? (2 marks)
- (iii) Explain the combined effect of the two changes in demand on Hong Kong's balance of payments. (5 marks)

1999/CE/1/6(b)

Aaron won an overseas scholarship and received a remittance of \$10 000.

Explain whether this initial sum of \$10 000 should be included in the calculation of the balance of invisible trade of the overseas economy. (2 marks)

2001/CE/1/8

Refer to Hong Kong's balance of payments account.

- (a) (i) Two components of the current account are 'factor income' and 'current transfers'. Name the other **TWO** components. (2 marks)
- (ii) Give an example of the component 'factor income'. (2 marks)
- (b) Besides the current account, name the other account in the balance of payments account. (2 marks)

2004/CE/1/8

The following information shows the trade statistics of an economy in a certain year:

	\$million
Visible trade surplus	40
Domestic exports of goods	10
Import of goods	30
Import of services	50
Export of services	25

Calculate the value of re-exports of the economy. (3 marks)

2006/CE/1/11(a)

An increase in private consumption expenditure usually affects the visible trade balance and the public finance.

- (i) Explain how an increase in Hong Kong's private consumption expenditure may affect her visible trade balance. (3 marks)
- (ii) The data below show signs of a strong recovery of the Hong Kong economy in 2004.

	Change in value on a year-on-year basis
Private consumption expenditure	+6.8 %
Total export value of goods	+15.9%

Source: The HKSAR Government

Given the above information, explain under what condition would Hong Kong's 2004 visible trade balance worsen. (2 marks)

2008/CE/1/11(c)

Trade deficit is a concern of many countries.

Explain whether the visible trade balance of a country would definitely be improved when the value of its imported goods decreases. (4 marks)

2009/CE/1/8

Suppose the balance of payments account of Hong Kong in a certain year is as follows:

	\$ billion
1. Current Account	R
Goods	S
P	300
Income flow	30
Current transfers	-20
2. Q Account	-180
	Total sum = 0

- (a) The name of the component P of the current account is _____.
- (b) In the balance of payments account, the name of the Q account is _____ Account.
- (c) In the above table, R and S stand for the current account balance and the visible trade balance respectively. Suppose there are no errors and omissions.
- (i) The visible trade balance = _____ billion dollars.
- (ii) The domestic export of goods is \$147 billion and the import of goods is \$2 600 billion. Therefore the re-export of goods is _____ billion dollars. (4 marks)

2010/CE/1/9(d)

Many mainland Chinese tourists buy souvenirs in Hong Kong which are imported from the Mainland. Explain why these transactions would improve the current account balance of Hong Kong's balance of payments. (5 marks)

2013/DSE/II/6

The table below shows the items of the balance of payments of Country A in a certain year:

	Debit (\$ million)	Credit (\$ million)
Export of goods		35
Import of goods	50	
Export of services		47
Import of services	27	
Capital inflow		70
Capital outflow	85	
Foreign exchange and reserve assets		10
Total	162	162

- (a) Calculate the current account balance of Country A. (1 mark)
- (b) "Country A has a balance of payments surplus because there is an increase in foreign exchange reserves in that year." Explain whether you agree with this statement. (3 marks)

2015/DSE/II/12(a)

Research shows that the "Individual Visit Scheme" of mainland tourists has brought economic benefits to Hong Kong. However, more and more Hong Kong residents have called on the government to reduce the number of mainland tourists to Hong Kong under the Scheme.

How would the current account of Hong Kong be affected if the government limited the scale of the Scheme so that the number of tourists from the mainland would drop? Explain your answer. (2 marks)

2016/DSE/II/13(b)(i)

The airport corporation plans to build an additional runway. There are two proposals to finance the runway.

Proposal A: the government increases the income tax
Proposal B: the airport corporation charges a lump-sum fee on every departing traveller

Discuss the effects of the two proposals on the current account in the balance of payments of Country H. (5 marks)

2017/DSE/II/12(c)

Before the British people voted against staying in the European Union (EU), i.e. Brexit, workers from the EU were free to work in Britain and vice versa. Brexit has shocked the economies in Europe and the following table shows some views on Brexit:

<i>British politicians:</i> Low-skilled EU workers should be required to apply for a visa to work in Britain.	<i>British firm owners:</i> The new visa requirement for EU workers affects most of the firms in the British economy.
<i>Global investors:</i> Political uncertainty in Britain increases the risk of investment projects there.	<i>EU officials:</i> British citizens may require a visa to visit or to work in the EU countries.

Referring to the view of the *EU officials*, which **TWO** components of current account in the balance of payments of Britain may be affected? Explain your answer. (4 marks)

2018/DSE/II/11

To develop nuclear weapons and increase the military power, Country Z has raised the proportion of government spending on national defence from 10% to 20%. All males aged from 20 - 25 are also required to join the military force for 2 years.

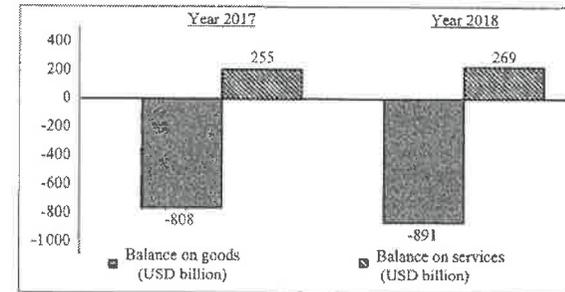
In response to the increasing military threat from Country Z, the United Nations has passed a bill to embargo most of the goods exporting from Country Z.

Analyse the effects of the above situation on Country Z's balance of payments.

(4 marks)

2020/DSE/II/10A

The following source shows the current account data of the US in 2017 and 2018.



- (a) (i) Describe the changes of current account data of the US in the above source. (2 marks)
- (ii) 'Based on the above source, we can conclude that the current account deficit of the US in 2018 necessarily increased.' Do you agree? Explain. (2 marks)

MARKING SCHEME

1990/CE/11/36 B	1994/CE/11/56 D	1998/CE/11/46 D	2004/CE/11/49 B (43%)	2009/CE/11/47 B (34%)
1990/CE/11/46 B	1995/CE/11/54 D	1998/CE/11/53 C	2004/CE/11/50 B (63%)	2010/CE/11/48 A (42%)
1990/CE/11/60 A	1995/CE/11/56 C	1999/CE/11/47 A	2005/CE/11/44 D (56%)	2010/CE/11/49 A (51%)
1991/CE/11/49 C	1995/CE/11/57 D	1999/CE/11/53 A	2005/CE/11/47 A (63%)	2012/DSE/11/40 A (52%)
1991/CE/11/50 D	1995/CE/11/58 D	1999/CE/11/54 A	2006/CE/11/45 C (23%)	2014/DSE/11/43 D (38%)
1991/CE/11/60 C	1996/CE/11/48 C	2000/CE/11/50 C	2006/CE/11/48 D (68%)	2015/DSE/11/43 D (54%)
1992/CE/11/52 B	1996/CE/11/49 C (deleted)	2000/CE/11/51 A	2007/CE/11/48 C (69%)	2015/DSE/11/44 D (19%)
1992/CE/11/60 B	1996/CE/11/50 A	2001/CE/11/41 B (deleted)	2007/CE/11/50 C (57%)	2016/DSE/11/43 B (48%)
1993/CE/11/40 D	1996/CE/11/51 B	2001/CE/11/45 D	2008/CE/11/46 B (57%)	2017/DSE/11/41 B (48%)
1993/CE/11/54 B	1997/CE/11/50 C	2002/CE/11/48 A (31%)	2008/CE/11/47 A (70%)	2018/DSE/11/42 X (deleted)
1994/CE/11/51 B	1997/CE/11/51 D	2003/CE/11/43 B (67%)	2008/CE/11/48 C (47%)	2018/DSE/11/44 A (46%)
1994/CE/11/55 A	1997/CE/11/52 C	2003/CE/11/48 C (15%)	2008/CE/11/49 B (40%)	2019/DSE/11/44 C
2021/DSE/11/42 D				
1990/CE/11/3(a)(i) Domestic exports of goods + Re-exports of goods - Imports of goods = \$(218 + 275 - 501) bn. = -\$8 bn.				(1) (2)
1991/CE/11/4(b) (i) Yes, because it is trading of physical goods. It worsens Hong Kong's balance of payments. / This item represents a payment in HK's b.o.p. account.				(1) (1) (1)
(ii) No, because it is trading of service. It favours Hong Kong's balance of payments. / This item represents a receipt in HK's b.o.p. account.				(1) (1) (1)

1992/CE/11/4(c) <u>Balance of invisible trade</u> (i) no effect (ii) favourable	<u>Balance of payments</u> unfavourable favourable	(2) (2)
1993/CE/11/2(b)(i) Re-exports increase, because more raw materials and machine to China via Hong Kong. OR more Chinese exports via Hong Kong.		(1) (2)
1993/CE/11/4(a) (ii) Yes, because the ratios of both exports and imports to total GDP increased		(1) (2)
(iii) Trade deficit in 1980 Trade surplus in 1990 <u>Reasons:</u> - re-exports ↑ e.g. expansion of China trade - exports ↑ due to China factor, etc. - expansion of tertiary sector service related to trade, e.g. bank service, insurance service, tourism - expansion of infrastructure service related to trade, e.g. container port, airport, communication network [Mark the FIRST TWO points only.]		(1) (1) (2@, max: 4)
1994/CE/11/8 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)
1995/CE/11/9(b) (i) Souvenirs imported from HK ⇒ the US current account / trade account was unfavourably affected --- A Souvenirs bought by tourists ⇒ the US current account / invisible trade account was favourably affected --- B A effect < B effect ⇒ favourable to the US balance of payments		(2) (2) (1)
(ii) It affected the US capital account favourably. ⇒ favourable to the US b.o.p.		(1) (1)
1996/CE/11/9 (a) \$(24 - 35 + 17 - 19) mn. = -\$13 mn. (b) No, because there is a balance of payments deficit of \$28 mn. / the credit entry in the foreign exchange & gold account represents a decrease in reserves.		(1) (1) (2)
1997/CE/11/6 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)
1997/CE/11/11(a)(i) (I) No, because there is no export of goods but an import of \$1m. (II) No, because total payments (= \$1 m.) > total receipts (\$0.6 m.)		(1) (1) (1) (1)

- 1998/CE/I/8
No, because (1)
no information on other items, such as the invisible trade account (, net current transfers, net factor income from abroad,) (2)
and the capital account.
- 1998/CE/I/11(c)
(ii) Current account (1)
OR
Visible trade account / Invisible trade account (2)
- (iii) The fall in the local demand for Japanese cars will improve HK's visible trade balance. (2)
The fall in the re-export demand for Japanese cars will worsen HK's invisible trade balance. (2)
The combined effect on HK's balance of payments is uncertain, depending on the relative strength of the above two forces. (1)
- 1999/CE/I/6(b)
Not included, because (1)
this \$10 000 is not the value of a service. (1)
- 2001/CE/I/8
(a) (i) Goods (1)
Services (1)
(ii) E.g. interest (other examples are: dividend, rental income, wages) earned from / paid to foreign countries (2)
- (b) The capital and financial account (2)
- 2004/CE/I/8
Re-exports = visible trade surplus + import of goods = domestic exports (1)
= \$(40 + 30 - 10) m (1)
= \$60 m (2)
- 2006/CE/I/11(a)
(i) 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, (1)
[other things being equal or assuming no change in value of exports of goods.]
- (ii) The condition is: (1)
Increase in the value of exports of goods < increase in the value of imports of goods (2)
- 2008/CE/I/11(c)
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)

- 2009/CE/I/8
(a) P is services. (1)
- (b) Q Account is Capital and Financial Account. (1)
- (c) (i) Visible trade balance = -130 billion dollars (1)
(ii) Re-export of goods = 2323 billion dollars (1)
- 2010/CE/I/9(d)
Imported souvenirs will decrease (the visible trade balance and hence) the balance of HK's current account. (1)
Souvenirs sold to inbound tourists will increase (the invisible trade balance of) HK's current account. (2)
The decrease in the current account balance is smaller than the increase in the current account balance. (1)
There is value added to the souvenirs by local service providers. (1)
- 2013/DSE/II/6
(a) Balance of current account = \$[35 - 50 + 47 - 27] million = \$5 million (1)
- (b) No, because (1)
the BOP balance is -\$10 million, which implies a BOP deficit. (2)
- 2015/DSE/II/12(a)
A drop in the export of services to mainland tourists (1)
would reduce HK's current account surplus (or enlarge its deficit). (1)
- 2016/DSE/II/13(b)(i)
Proposal A on current account:
An increase in income tax would lower disposable income (1)
and result in a drop in consumption, AD, as well as output level. (1)
Import would fall, implying (1)
a bigger surplus or smaller deficit in the current account balance. (1)
- Proposal B on current account:
A fee charged on departing travellers would result in an increase in the cost of using the airport. (1)
Travelling industry would be adversely affected, reducing the number of both incoming and outgoing travellers. (1)
Both import and export of services would drop, (1)
causing an ambiguous change in the current account balance. (1)
- 2017/DSE/II/12(c)
Invisible trade: the increase in cost of travel would result in a fall in the number of British citizens visiting the EU and hence the import of services. (1)
Factor income: with fewer British workers working in the EU, there would be a drop in total wage payment to such workers. (1)
Unilateral transfer: with fewer workers working in the EU, there would be a drop in their remittance back to Britain. (2@, max: 4)
- 2018/DSE/II/11
Balance of payments would be worsened, because (1)
export of goods would fall because of the embargo; (1)
export of services would also fall as fewer tourists would want to visit Country Z because of the threat of war; and (1)
foreign investors would withdraw their investments in Country Z, so capital may flow out of the country. (1)

10 a1) The balance of current account in 2017 = $-808 + 255 = -533$

The balance of current account in 2018 = $-891 + 269 = -622$

According to data of source A, the current account worsen (increase in deficit) by 89.

ii) Not necessarily. As the other two components of current account (income and current transfer) are not given in data, there is no conclusion can be drawn about the change of current account.

8.2 EXCHANGE RATES

Multiple Choice Questions

1990/CE/II/38

Which of the following would make depositors in Hong Kong transfer their local currency deposits to foreign currency deposits?

- A. The interest rate in Hong Kong has increased relative to other countries.
- B. There is a widespread belief that the Hong Kong dollar is overvalued.
- C. The local political development is favourable.
- D. The value of Hong Kong's exports has increased.

1990/CE/II/43

Suppose that the Japanese yen appreciates against the Hong Kong dollar and the Italian lira depreciates against the Hong Kong dollar. The demand for Italian cars in Hong Kong will

- A. increase.
- B. decrease.
- C. remain unchanged because there is only a change in the quantity demanded.
- D. either increase or decrease depending on the extent of price changes.

1991/CE/II/51

The appreciation of the Japanese yen may cause

- A. a decrease in the price of Japanese goods in Hong Kong.
- B. a decrease in the number of Hong Kong tourists visiting Japan.
- C. an increase in the quantity of goods exports by Japan.
- D. a decrease in Japanese investment abroad.

1993/CE/II/55

The below change in the exchange rate of the Hong Kong dollar against the Japanese yen would lead to

Year	Exchange rates
1990	HK\$576 = 10 000 Japanese yen
1991	HK\$622 = 10 000 Japanese yen

- A. a slower growth rate of imports from Japan.
- B. a smaller volume of Hong Kong garments exported to Japan.
- C. less Japanese investments in Hong Kong's real estates.
- D. a trade surplus in Hong Kong against Japan.

1993/CE/II/57

If the Hong Kong dollars depreciates against the Japanese yen,

- A. fewer Japanese tourists will be willing to come to Hong Kong
- B. the price of imports from Japan will fall.
- C. the competitive power of Hong Kong products in Japan will fall.
- D. those who hold Japanese yen deposits will gain

1995/CE/11/55

Under the linked exchange rate system, if the US dollar depreciates against the Japanese yen sharply,

- A. more US tourists will visit Japan.
- B. more Japanese tourists will visit Hong Kong.
- C. fewer Hong Kong products will be exported to the US.
- D. fewer Hong Kong products will be exported to Japan.

1997/CE/11/54

When the HK dollar appreciates against the British pound,

- A. the volume of the exports of Hong Kong to the UK will increase.
- B. the volume of the imports to Hong Kong from the UK will increase.
- C. the volume of the imports to Hong Kong from the US will increase.
- D. the capital inflow to Hong Kong from the UK will increase.

1998/CE/11/48

What will be the effect on Hong Kong's trade with Canada if the exchange rate changes from C\$1 = HK\$5.7 to C\$1 = HK\$5?

- A. The volume of Hong Kong's exports to Canada will increase.
- B. The volume of Hong Kong's imports from Canada will increase.
- C. Hong Kong's imports from Canada will be more expensive.
- D. Hong Kong's expenditure in Hong Kong dollars on imports from Canada will increase.

2003/CE/11/47

What would result from the following change in the exchange rate between the HK dollar and the Japanese Yen?

15 th February	HK\$6.4 = 100 yen
15 th March in the same year	HK\$6.1 = 100 yen

- (1) The volume of imported goods from Japan to Hong Kong would increase.
 - (2) The number of Japanese tourists to Hong Kong would increase.
 - (3) The prices of exported goods from Hong Kong to Japan in terms of Japanese yen would increase.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2004/CE/11/48

In which of the following situations will the export volume of a country increase?

- (1) an increase in the tariffs on imports
 - (2) a depreciation of the domestic currency
 - (3) an appreciation of the domestic currency
 - (4) an increase in income for the trading partners
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (4) only
 - D. (3) and (4) only

2005/CE/11/49

Year X	Exchange rate
January	US\$1 = 120 Japanese yen
May	US\$1 = 105 Japanese yen

Under the linked exchange rate system, the above change in the exchange rate between the US dollar and the Japanese yen will lead to

- A. a decrease in the number of Hong Kong people visiting the US.
- B. an increase in the number of Hong Kong people visiting Japan.
- C. a decrease in the quantity of Japanese electrical appliances exported to Hong Kong.
- D. a decrease in the quantity of Hong Kong made fashions exported to Japan.

2007/CE/11/49

In which of the following situations will the import volume of Hong Kong from Japan increase?

- A. The income of Hong Kong falls.
- B. The national income of Japan rises.
- C. The exchange rate of the Hong Kong dollar to the Japanese yen changes from HK\$6.7 = JP¥100 to Hk\$6.9 = JP¥100.
- D. The Hong Kong economy is in the recovery stage.

2008/CE/11/50

The table below shows a change in the exchange rate between the US dollar and the Japanese Yen.

Date	Exchange rate
11 th July 2007	US\$1 = ¥122
14 th November 2007	US\$1 = ¥111

Under the linked exchange rate system of Hong Kong, the above change in exchange rate would lead to

- (1) an increase in the competitiveness of Hong Kong exports to Japan
 - (2) a decrease in the number of Hong Kong tourists to Japan
 - (3) a decrease in the total value of Hong Kong imports from Japan (in terms of the Hong Kong dollar)
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2009/CE/11/49

Date	Exchange rate
1.12.2007	US\$1 = 930 KRW
1.12.2008	US\$1 = 1 468 KRW

Under the linked exchange rate system of Hong Kong, the above change in the exchange rate of the South Korean Won (KRW) with the US dollar would lead to

- A. more Korean tourists visiting Hong Kong
- B. more Hong Kong tourists visiting Korea.
- C. fewer US tourists visiting Hong Kong.
- D. fewer US tourists visiting Korea.

2010/CE/11/50

Under the linked exchange rate system, when the British pound depreciates against the US dollar, there would be

- A. an increase in the quantity of Hong Kong electrical appliances exported to Britain.
- B. a decrease in the quantity of British souvenirs bought by Hong Kong people.
- C. an increase in the number of Hong Kong people visiting the US.
- D. a decrease in the number of British people visiting Hong Kong.

2012/DSE/1/39

Date	Exchange rate
September 2010	HK\$10 = 1 Euro
July 2011	HK\$11.3 = 1 Euro

The above change in the exchange rate between HK\$ and the Euro will result in

- A. a drop in the number of tourists from Europe to Hong Kong.
- B. a drop in the price (in terms of HK\$) of imports from Europe.
- C. a drop in the total value (in terms of the Euro) of imports from Europe.
- D. a drop in the exchange rate of the US dollar against the Euro.

2013/DSE/1/37

A country's currency appreciates against its trading partners' currencies. If the country's demand for imports is _____, the appreciation of its currency will lead to _____ in the total import value (in terms of domestic currency).

- A. unitarily elastic a rise
- B. inelastic a rise
- C. elastic a fall
- D. inelastic a fall

2014/DSE/1/42

Suppose South Korean Won depreciates against the US Dollar. Under the linked exchange rate system of Hong Kong, which of the following would be results of the above change in the exchange rate?

- (1) The volume of imported goods from South Korea to Hong Kong would increase.
- (2) The price of exported goods from Hong Kong to South Korea in terms of HK dollar would increase.
- (3) The number of tourists from South Korea to Hong Kong would decrease.

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

2016/DSE/1/44

Suppose the countries in a certain region are competitors of exporting goods to the U.S. The currencies of the countries in the region except that of Country X depreciate against the US dollar. As a result, the volume of Country X's exports to the U.S. will

- A. decrease.
- B. increase.
- C. remain constant.
- D. be indeterminate.

2016/DSE/1/45

Date	Exchange rate
15 February 2015	US\$1 = € 0.8773
15 August 2015	US\$1 = € 0.8965

Under the linked exchange rate system of Hong Kong, the above change in the exchange rate of Euro (€) to the US dollar would lead to _____.

- A. an increase in the number of European tourists to Hong Kong
- B. an increase in the total value (in terms of Hong Kong dollar) of European exports to Hong Kong
- C. a decrease in the volume of Hong Kong exports to the U.S.
- D. a decrease in the total value (in terms of Hong Kong dollar) of Hong Kong exports to Europe

2017/DSE/1/44

Date	Exchange rate
22 November 2015	US\$1 = RMB¥6.39
22 November 2016	US\$1 = RMB¥6.89

The above change in the exchange rate between the US Dollar and the Renminbi would lead to

- (1) a decrease in the number of Chinese tourists to the US.
- (2) a decrease in the competitiveness of US exports to China.
- (3) an increase in the total value of US exports to China (in terms of the US Dollar).

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

2018/DSE/1/45

	Exchange rate
Day 1	1 HKD = 0.83 RMB
Day 2	1 HKD = 0.77 RMB

Mr Wong used \$10 000 Hong Kong Dollars (HKD) to buy Renminbi (RMB) at Day 1 and sold the sum at Day 2 to obtain HKD at the exchange rates shown in the table below.

Mr Wong _____ approximately in the above transactions.

- A. lost HK\$779
- B. lost HK\$600
- C. gained HK\$600
- D. gained HK\$779

1993/CE/11/33

Which of the following about the linked exchange rate (聯繫匯率) in Hong Kong is correct ?

- A. It is determined by market forces.
- B. It has been changed several times by the government.
- C. The linked rate system is used to stabilize the exchange rate of the Hong Kong dollar.
- D. It is an exchange rate between the Hong Kong dollar and a basket of foreign currencies.

1993/CE/11/36

Which of the following will lower the value of the Hong Kong dollar?

- A. The US dollar appreciates against other currencies.
- B. The government issues new \$10 coins to replace \$10 notes.
- C. The money income increases.
- D. The GDP deflator increases.

1996/CE/11/52

Hong Kong practises a linked exchange rate system. In the foreign exchange market the exchange rate of the Hong Kong dollar relative to the US dollar is _____ and that relative to other currencies is _____.

- A. fixed at US\$1 = HK\$7.8 fixed
- B. fixed at US\$1 = HK\$7.8 not fixed
- C. not fixed fixed
- D. not fixed not fixed

1999/CE/11/49

Under the linked exchange rate system of Hong Kong, which of the following statements is true?

- A. The exchange rate of the HK dollar relative to Renminbi is fixed.
- B. The market exchange rate of the HK dollar relative to the US\$ is fixed at US\$1 = HK\$7.8
- C. The competitiveness of Hong Kong exports decreases when the US dollar appreciates against other currencies.
- D. Hong Kong will not have a balance of payments problem.

2000/CE/11/52

Suppose the Japanese Yen appreciates greatly against the US dollar. Due to the linked exchange rate system.

- A. The HK dollar will depreciate greatly against the Japanese Yen.
- B. The US dollar will depreciate greatly against the Japanese Yen.
- C. The US dollar will depreciate greatly against the euro.
- D. The HK dollar will depreciate greatly against the euro.

2001/CE/11/46

Under the linked exchange rate system in Hong Kong,

- A. the market exchange rate of the HK dollar relative to the US dollar is fixed.
- B. the market exchange rates of the HK dollar relative to currencies other than the US dollar are fixed.
- C. The HK dollar will depreciate against the Australian dollar if the US dollar appreciates against the Australian dollar.
- D. The HK dollar will appreciate against the Japanese yen if the US dollar appreciates against the Japanese yen.

2006/CE/11/47

Under the linked exchange rate system of Hong Kong, which of the following statements is correct?

- A. The exchange rate of the Hong Kong Dollar (HKD) relative to the US dollar (USD) is fixed at USD1=HKD7.8 on the foreign exchange market.
- B. If Mainland China has a visible trade surplus, Hong Kong will also have a visible trade surplus.
- C. When the USD depreciates against the Euro, the HKD will also depreciate against the Euro.
- D. All of the above.

2009/CE/11/50

Under the linked exchange rate system of Hong Kong,

- A. the exchange rate of the Hong Kong dollar with the US dollar in the foreign exchange market is fixed.
- B. the Hong Kong government need not hold a large amount of foreign exchange reserves.
- C. Hong Kong citizens can give the Hong Kong government Hong Kong dollars in exchange for US dollars at the linked rate.
- D. the Hong Kong dollar banknotes are fully backed by foreign exchange reserves.

2013/DSE/1/40

Which of the following statements about the linked exchange rate system of Hong Kong is correct?

- (1) Hong Kong dollar banknotes are fully backed by Renminbi and the US dollar.
 - (2) The Hong Kong Monetary Authority holds a considerable amount of foreign exchange reserves.
 - (3) All note-issuing banks can exchange for US dollars at the linked rate with the Hong Kong Monetary Authority.
 - (4) The exchange rate of the Hong Kong dollar to the US dollar in the foreign exchange market is fixed.
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only

2015/DSE/1/42

Under the linked exchange rate system of Hong Kong, which of the following statements is correct?

- A. The money supply (M1) of Hong Kong has to be fully backed by the US dollar.
- B. The market exchange rate of HK dollar to the US dollar is fixed at 1USD to 7.8 HKD by the Hong Kong Monetary Authority.
- C. Hong Kong's import volume will increase when US dollar appreciates against other currencies.
- D. A current account deficit in the US will lead to a current account deficit in Hong Kong.

2017/DSE/1/45

Under the linked exchange rate system of Hong Kong, which of the following statements is correct?

- A. The non-bank public can sell their Hong Kong dollars to the Hong Kong Monetary Authority in exchange for US dollars at any time.
- B. It enables the Hong Kong Monetary Authority to carry out an expansionary monetary policy to stimulate private investment.
- C. The market exchange rate of the US Dollar against the HK Dollar is fixed at US\$1 = HK\$7.8.
- D. There would be a downward pressure on the consumer price indices of Hong Kong when the Renminbi continuously depreciates against the US Dollar.

2019/DSE/1/45

Study the prices of iPhone X in Hong Kong in terms of Hong Kong dollar (HKD) and in the Mainland in terms of Renminbi (RMB).

Hong Kong	The Mainland
HKD 8588	RMB 8316

Given the exchange rate of HKD 1 = RMB 0.875, which of the following statements is correct?

- A. Travellers tend to buy an iPhone X in the Mainland instead of in Hong Kong.
- B. RMB is under-valued as the price of an iPhone X in the Mainland is lower than that in Hong Kong.
- C. If the transportation cost is HKD 950, buying an iPhone X in Hong Kong and re-selling it in the Mainland will no longer gain.
- D. The potential gain from 'buy low, sell high' will disappear when the price of iPhone X in Hong Kong is higher than HKD 9504.

2020/DSE/1/44

The following table shows the change in the exchange rate of Euro against the US dollar.

Date	Exchange rate
22 September 2018	1 EUR = US\$ 1.176
22 August 2019	1 EUR = US\$ 1.109

The above change in the exchange rate will lead to a decrease in

- the number of European tourists visiting the US.
- the volume of goods exported from Europe to the US.
- the total value of US exports to Europe (in terms of Euro).
- the total value of European exports to the US (in terms of the US dollar).

2020/DSE/1/45

Under the linked exchange rate system of Hong Kong, which of the following statements is correct?

- The money supply M1 of Hong Kong has to be fully backed up by the US dollar.
- Hong Kong's export volume will increase when the US dollar depreciates against other currencies.
- The market exchange rate of the HK dollar relative to the US dollar is fixed.
- Hong Kong citizens can sell 1 USD to the three note-issuing banks for 7.8 HKD.

2021/DSE/1/45

Study the following table.

	Exchange rate
3 December 2019	HKD 1 = RMB 0.902
3 December 2020	HKD 1 = RMB 0.923

On 3 December 2019, Mr Chan exchanged a total of RMB 300 000 from Hong Kong dollar and deposited the sum to a bank as time deposits at an annual interest rate of 0.8%. Suppose he withdrew the sum on 3 December 2020 and exchanged it back to Hong Kong dollar.

From the above transactions, Mr Chan _____

- lost about HK\$4 967
- lost about HK\$7 570
- gained about HK\$6 300
- gained about HK\$8 515

1992/CE/1/2(c)

Some garment manufacturers in Hong Kong import raw materials from Japan. Explain how a depreciation of the Hong Kong dollar against the Japanese yen affects the unit cost of production of these firms. (4 marks)

1998/CE/1/11(b)

Suppose Japanese Yen depreciates against the Hong Kong dollar, and that Hong Kong people's demand for Japanese cars is elastic. With the aid of a diagram, explain how these factors would affect the sales revenue (in HK\$) of Japanese cars in Hong Kong. (8 marks)

1999/CE/1/9(b)

The Japanese Yen depreciated sharply against the Hong Kong dollar. Other things being equal, what would be the effect on the sales revenue of French cars in Hong Kong? Explain your answer with the aid of a supply-demand diagram. (9 marks)

1999/CE/1/10(d)

The table below shows changes in the exchange rates between the Hong Kong dollar and some other Asian currencies:

Date	HK\$100 equals		
	Japanese 日圓	Indonesia Rupiah 印尼盾	Thai Baht 泰銖
15/10/1996	1 448	2 9412	324.7
10/10/1998	1 515.15	166 666.7	512.82

Explain the effect of such changes on the exports of Hong Kong to the US market and explain further the effect on Hong Kong's unemployment. (6 marks)

2002/CE/1/12(a)(ii)

Mr Wong runs a bookstore in Hong Kong. He sells books imported from Britain. Suppose the exchange rate between the US dollar and the British pound changes as follows:

April	US\$1 = £0.75
May	US\$1 = £0.70

Suppose the price of books imported from Britain remains unchanged in British pound and the demand for these books is inelastic.

With the aid of a diagram, explain how Mr Wong's sales revenue of these books in HK dollars would change. (7 marks)

2004/CE/1/11(b)

In Hong Kong, many fashion items are imported from Europe. Suppose the US dollar depreciates against the Euro.

(i) Explain how the import price (in terms of HK\$) of European fashion items would change under the linked exchange rate system. (2 marks)

(ii) With the aid of a diagram, explain under what condition the total import value (in terms of HK\$) of European fashion items would decrease. (6 marks)

2006/CE/1/10

A change in the exchange rate of the Euro (€) is shown below:

Date	Exchange rate
1 December 2005	€1 = HK\$9.07
18 January 2006	€1 = HK\$9.37

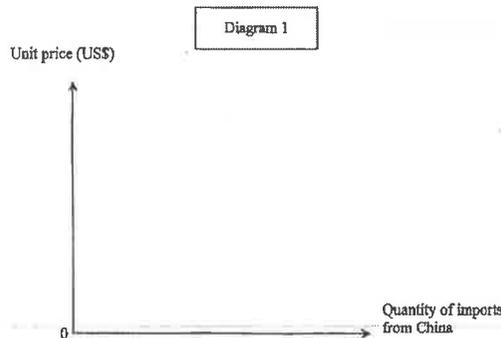
- (a) Suppose that during this period of time, the price of European cars (in terms of €) imported into Hong Kong did not change.
- Explain how the above change in the exchange rate would affect the price (in terms of HK\$) of European cars imported into Hong Kong. (2 marks)
 - With the aid of a diagram, explain why the above change in the exchange rate could lead to an increase in total expenditure (in terms of HK\$) on European cars imported into Hong Kong. (6 marks)
 - Explain how the above change in the exchange rate would affect the total value (in terms of €) of European cars imported into Hong Kong. (2 marks)
- (b) Through a commercial bank, Mr Chan bought 10 000 Euros on 1 December 2005 and sold them on 18 January 2006 at the rates shown in the above table.
- Calculate Mr Chan's gain / loss (in terms of HK\$) in the above transactions. Explain whether this gain / loss should be included in the calculation of Hong Kong's GDP. (4 marks)

2008/CE/1/11(a)

Trade deficit is a concern of many countries. The US government is trying to reduce the value of its imports from China. Two methods are suggested:

- To press the Chinese government to revalue the Renminbi (RMB)
- To impose a quota restriction on the imports from China

Explain under what condition the value of US imports (in terms of US\$) from China will decrease due to a revaluation of RMB. Illustrate your answer in Diagram 1 below. (7 marks)



2010/CE/1/8

Suppose from 2008 to 2009, the price of jeans exported to Japan from Hong Kong in terms of Hong Kong dollars (HK\$) remained unchanged. In the same period of time, the price of computers exported to Hong Kong from Japan in terms of Japanese Yen (¥) also remained unchanged. However, there was a change in the exchange rate between HK\$ and ¥ as follows:

Date	Exchange rate
13 August 2008	HK\$7.1 = ¥100
18 August 2009	HK\$8.2 = ¥100

What would be the effect of the above change in the exchange rate on the following items (a), (b) and (c)? For each item, fill in the blank by selecting the correct answer from one of the four choices:

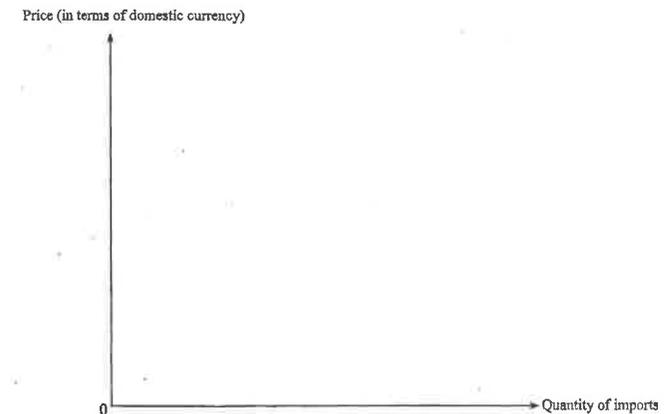
increased decreased remained unchanged uncertain

Item (In terms of HK\$)	Effect
(a) the price of Japanese computers exported to Hong Kong	
(b) the total value of Japanese computers exported to Hong Kong	
(c) the total value of Hong Kong jeans exported to Japan	

(3 marks)

2012/DSE/11/8

A country's currency depreciates against its trading partners' currencies. Will the depreciation necessarily lower the total import value of this country (in terms of domestic currency)? Explain with the aid of the diagram below. (7 marks)

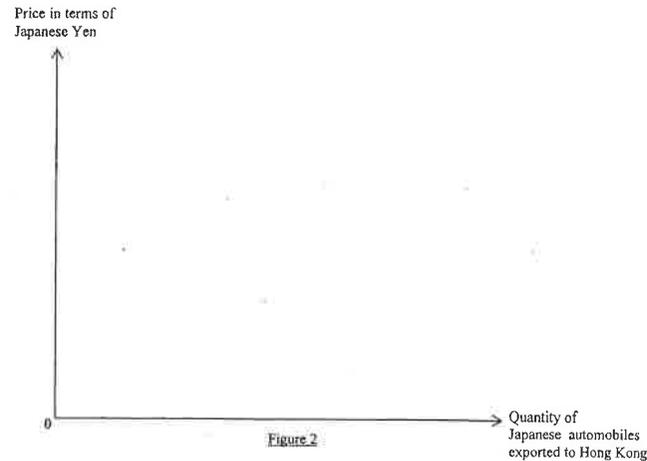


2014/DSE/II/11(a)

The following table shows the change in the exchange rate of the Hong Kong dollar against the Japanese Yen.

Date	Price of 1 unit of Hong Kong dollar
1 st August 2012	10.2 Yen
1 st August 2013	12.5 Yen

Suppose the price of Japanese automobiles (in terms of Yen) does not change. With the aid of Figure 2, explain why the above change in exchange rate would lead to an increase in the total export value (in terms of Yen) of Japanese automobiles to Hong Kong. (7 marks)

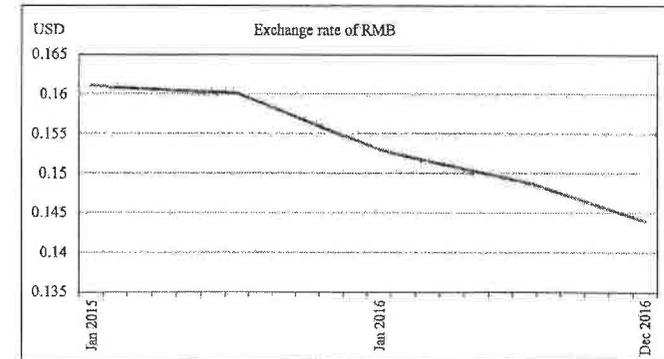


2018/DSE/II/12(d)

Source 2: Statistical data about tourism in Hong Kong in 2016

	2016	Compared with 2015 (%)
Mainland visitors	42.8 billion	-6.7%
Total visitors	56.65 billion	-4.5%
Total tourism expenditure associated to inbound tourism	HK\$296.2 billion	-10.1%

Source 3: exchange rate of the Renminbi (RMB) to the US dollar (USD) between 2015 and 2016



A reporter stated, 'The change in the exchange rate of the Renminbi to the US dollar was a major factor contributing to the change of the total tourism expenditure associated to inbound tourism.' Based on Sources 2 and 3, justify his statement. (6 marks)

2019/DSE/II/11

The Guangzhou-Shenzhen-Hong Kong Express Rail Link (High Speed Rail) was launched in September 2018.

Suppose the fares of the High Speed Rail in terms of RMB are fixed. The fares of High Speed Rail tickets sold in Hong Kong, in terms of Hong Kong dollar (HKD), will be adjusted according to the exchange rate of RMB against HKD.

(c) 'A depreciation of RMB against the US dollar (USD) will result in an increase in total revenue (in terms of HKD) of High Speed Rail tickets sold in Hong Kong.' With the aid of Figure 2, explain under what condition this statement will be correct. (8 marks)

Mr Chan, a Hong Kong retired footballer, was employed as a consultant by a football club in the United Kingdom in January 2020. Seven months later, he quitted his position and returned to Hong Kong.

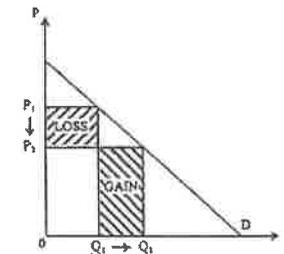
- (a) Explain whether the salary received by Mr Chan from the football club in the United Kingdom would be included in the calculation of
- (i) gross domestic product (GDP) in Hong Kong. (2 marks)
 - (ii) gross national income (GNI) in Hong Kong. (3 marks)
- (b) If Mr Chan could choose to receive his salary in either British Pound (GBP) or US Dollar (USD), which currency would you recommend him to choose? Explain your answer. (2 marks)

MARKING SCHEME

1990/CE/II/38 B	1998/CE/II/48 B	2010/CE/II/50 D (70%)	2018/DSE/II/45 D (57%)	2006/CE/II/47 C (63%)
1990/CE/II/43 A	2003/CE/II/47 B (67%)	2012/DSE/II/39 C (37%)	1993/CE/II/33 C	2009/CE/II/50 D (29%)
1991/CE/II/51 B	2004/CE/II/48 C (66%)	2013/DSE/II/37 D (52%)	1993/CE/II/36 D	2013/DSE/II/40 C (70%)
1993/CE/II/55 A	2005/CE/II/49 C (52%)	2014/DSE/II/42 B (59%)	1996/CE/II/52 D	2015/DSE/II/42 C (62%)
1993/CE/II/57 D	2007/CE/II/49 D (49%)	2016/DSE/II/44 A (52%)	1999/CE/II/49 C	2017/DSE/II/45 D (40%)
1995/CE/II/55 B	2008/CE/II/50 A (37%)	2016/DSE/II/45 D (56%)	2000/CE/II/52 A	2019/DSE/II/45 C
1997/CE/II/54 B	2009/CE/II/49 B (84%)	2017/DSE/II/44 A (69%)	2001/CE/II/46 D	2020/DSE/II/44 A
2020/DSE/II/45 B	2021/DSE/II/45 A			

1992/CE/II/2(e)
Depreciation of HK\$
⇒ import prices/cost of imported raw materials (in HK\$) ↑ (2)
⇒ unit cost of production ↑ (2)

1998/CE/II/11(b)
Price of Japanese cars (quoted in HK\$) 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 (i.e. revenue loss < revenue gain) (1)

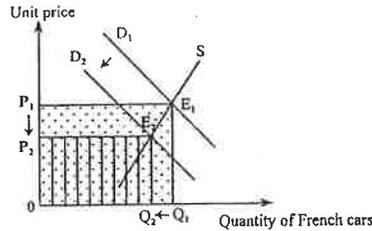


Indicate in the diagram:
- P ↓ and Qd ↑ (1)
- Correct position of 'Gain' and 'Loss' (1)

1999/CE/1/9(b)

The devaluation \Rightarrow price (in HK\$) of Japanese cars \downarrow (\Rightarrow quantity of Japanese cars demanded \uparrow)
 Japanese cars and French cars are substitutes
 \therefore demand for French cars \downarrow
 \Rightarrow both the equilibrium price and quantity of French cars \downarrow
 \Rightarrow sales revenue of French cars \downarrow (from $0P_1E_1Q_1$ to $0P_2E_2Q_2$)

- (1)
- (1)
- (1)
- (1)+(1)
- (1)



Indicate in the diagram:

- D shifts to the left
- P \downarrow and Q \downarrow
- TR \downarrow (area $P_1E_1Q_1E_2P_2$)

- (1)
- (1)
- (1)

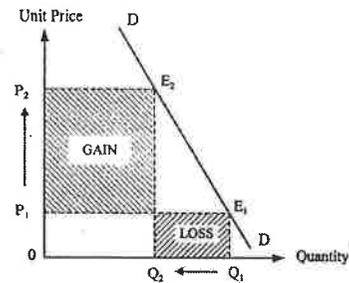
1999/CE/1/10(d)

HK\$ appreciates against these Asian currencies.
 \Rightarrow these Asian countries' exports become relatively cheaper than HK exports in the US market.
 \Rightarrow as there are (cheaper) substitutes, demand for HK exports \downarrow
 \Rightarrow derived demand for labour in HK's export sector \downarrow , so HK's unemployment is very likely to increase.

- (1)
- (1)
- (2)
- (2)

(Note: In the context of AD-AS, you may argue that a decrease for HK's exports will lead to a decrease in Hong Kong's aggregate demand, which would result in a (larger) deflationary gap. It represents the existence of (more) unemployed workers in the factor market.)

2002/CE/1/12(a)(ii)



Indicate in the graph:

- selling price \uparrow and quantity demanded \downarrow
- gain $>$ loss

- (1)
- (2)

Verbal explanation:

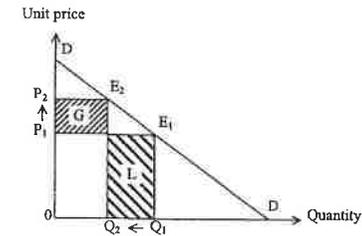
The selling price increases (due to the depreciation of the HK\$ against the British Pound).
 The quantity demanded decreases.
 The percentage change in quantity demanded is smaller than the percentage change in price.
 Total revenue increases.

- (1)
- (1)
- (1)
- (1)

2004/CE/1/11(b)

- (i) Increase, because
 HK\$ depreciates against the Euro dollar under the linked exchange rate system
- (ii) (The rise in price leads to) a fall in quantity demanded.
 Elastic demand for imports
 $\% \text{ change in } P < \% \text{ change in } Q_d$

- (1)
- (1)
- (1)
- (1)
- (2)



Indicate in the diagram:

- gain in total import value (G) $<$ loss in total import value (L)

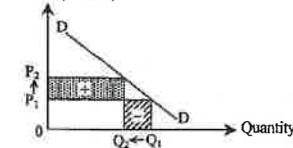
- (2)

2006/CE/1/10

- (a) (i) Increased, because
 Euro appreciated against the Hong Kong dollar.
- (ii) With an increase in import price in terms of HK\$, the quantity of imported cars decreased.
 If demand is inelastic, $\% \text{ change (increase) in } P > \% \text{ change (decrease) in } Q_d$.

- (1)
- (1)
- (1)
- (2)

Unit Price (in HK\$)



Indicate in the diagram:

- P \uparrow and Qd \downarrow
- Correct position of 'Increase' and 'Decrease' in total expenditure
- 'Increase' $>$ 'Decrease'

- (1)
- (1)
- (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.

- (1)
- (1)

- (b) (i) $\$(9.37 - 9.07) \times 10\,000$
 $= \$3\,000$. He gained \$3 000.

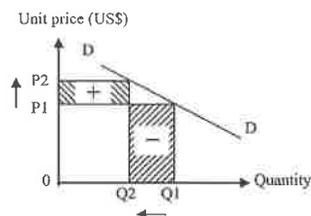
- (1)
- (1)

- No, because
 the capital gain does not involve production.

- (1)
- (1)

2008/CE/11(a)

Import price increases as a result of revaluation and the import quantity decreases.
Condition: elastic demand
% change in price < % change in quantity demanded



Indicate in the diagram:

- price increases and quantity decreases
- correct position of 'increase in import value' and 'decrease in import value'
- area of 'increase in import value' < area of 'decrease in import value'

- (1)
- (1)
- (2)

2010/CE/1/8

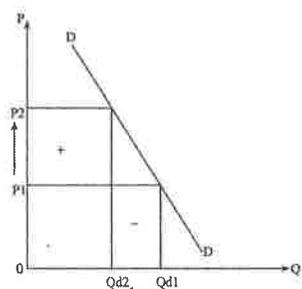
- (a) increased
- (b) uncertain
- (c) increased

- (1)
- (1)
- (1)

2012/DSE/11/8

No, because
if the demand for import is inelastic, the import value will not decrease
as the percentage increase in price will be greater than percentage decrease in quantity demanded.

- (1)
- (1)
- (2)



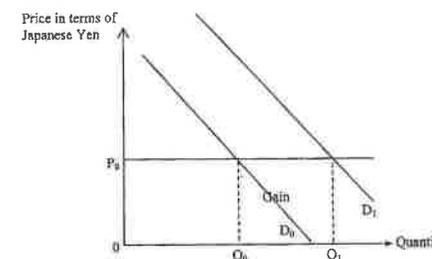
Indicate in the diagram:

- P ↑ and Qd ↓
- 'gain in import value' > 'loss in import value'

- (1)
- (1)

2014/DSE/11/1(a)

Japanese Yen depreciated against Hong Kong dollar. (1)
As the price of Japanese automobiles does not change, the automobiles become cheaper in terms of HKD and Hong Kong importers will buy more Japanese automobiles. (1)
The demand for Japanese automobiles by HK people increases. (1)
Quantity transacted increases. (1)
(Therefore, total export value of Japanese automobiles increases.)



Indicate on the diagram:

- demand curve shifts to the right (1)
- a higher quantity transacted (1)
- gain in total value (1)

2018/DSE/11/12(d)

During 2015-16, RMB depreciated against USD. Under HK's linked exchange rate system, the value of HKD would follow that of USD, so RMB depreciated against HKD as well.
Depreciation of RMB implies that goods in HK became more expensive in terms of RMB. Therefore fewer mainland tourists would come to HK, and those who came would spend less in HK.
As mainland visitors were the major source of tourists in HK, a significant drop in "total tourism expenditure associated to inbound tourism" would result. (6)

2021/DSE/11/5

- (a)
 - (i) No, the football club is a resident-producing unit of the United Kingdom but not Hong Kong.
 - (ii) Yes, Mr. Chan is a resident of Hong Kong so his income is regarded as factor income from abroad of Hong Kong.
- (b) USD

Reasons:

It is a more generally accepted medium of exchange in the international market.
It is a common unit of account in international trade.