

THE HONG KONG POLYTECHNIC UNIVERSITY  
HONG KONG COMMUNITY COLLEGE

**Subject Title** : Economics and Society

**Subject Code** : CCN1042

**Session** : Semester Two, 2016/17

**Numerical Answers**

**Question B5**

(i)  $(1/.20) \times \$100 = \$500$ .

**Question C3**

(a)

Q	P (\$)	TC (\$)	TR (\$)	MR (\$)	MC (\$)
0	50	\$0	0	-	-
10	45	150	\$450	\$45	\$15
20	40	300	800	35	15
30	35	450	1,050	25	15
40	30	600	1,200	15	15
50	25	750	1,250	5	15

(b) When output is 40 units, marginal revenue and marginal cost are equal i.e.  $MR = MC = \$15$ . Thus, the profit maximizing level of output is 40 units and the price is \$30.

Profit is total revenue minus total cost, which is  $\$1,200 - \$600 = \$600$ .

**Question D1**

- (a)  $GDP = C + I + G + NX$   
 $= \$500 + \$40 + \$100 + (\$20 - \$10) = \$650$  billions
- (b)  $GNP = GDP + \text{Net factor income from the rest of the world}$   
 $= \$650 + (\$30 - \$20) = \$660$  billions
- (c)  $NNP = GNP - \text{Capital consumption allowance}$   
 $= \$660 - \$50 = \$610$  billions
- (d)  $\text{Statistical discrepancy} = NNP - \text{National income}$   
 $= \$610 - \$604 = \$6$  billions
- (e)  $\text{Net investment} = \text{Gross investment} - \text{capital consumption allowance}$   
 $= \$40 - \$50 = -\$10$  billions.

**Question D2**

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

- (a) The bank must maintain minimum reserves of \$160 against its deposits of \$2,000. It can therefore make additional loan totalling \$240.
- (b) The deposit expansion multiplier  $= 1/0.08 = 12.5$ . The maximum amount that the money supply can increase is  $\$240/0.08 = \$3000$ .

**Question D3**

- (a) The opportunity cost of cheese is  $1/2$  unit of bread in England and  $1/4$  unit of bread in Spain. The opportunity cost of bread is 2 units of cheese in England and 4 units of cheese in Spain.