

**Q.29**

Topic:	The housing problem of the low-income group in Hong Kong
Relevant economic topics:	demand and supply, market intervention, efficiency, income distribution, equity, GDP, aggregate demand and aggregate supply
Types of material:	bar chart, news excerpts, statistical table
Question design: (total marks: 30 marks)	Elementary-level questions (16 marks); Advanced-level questions (14 marks)

- (a) Among the working population living in subdivided units, the proportion of the population whose monthly income from main employment is less than HK\$14,999 is higher than that of the whole working population in Hong Kong, indicating that the working population living in subdivided units are mainly in the low-income group. (1 mark)

Most of the persons living in subdivided units aged 15 and over have a secondary level education, and the percentage of persons with a post-secondary education or above was much lower than that in the whole population aged 15 and over in Hong Kong. Workers who have received less education in general have less human capital and are less productive. Employers tend to offer lower pay for workers with less education. (2 marks)

OR

Any reasonable answer (2 marks)

- (b) The allowance will increase the income of applicants for public rental housing. If people regard subdivided units as inferior goods, when income increases, their demand for subdivided units will decrease. (2 marks)

- (c) (i) No, because the allowance does not involve production. (2 marks)  
(ii) Applicants for public rental housing are mainly low-income people. The allowance can increase the income of the low-income group while the income of the high-income group remains unchanged. The income gap between the high-income and low-income groups will be narrowed, improving income inequality. (3 marks)

- (d) Verbal elaboration:

The actual production of public rental housing is much lower than the number of general applications for public rental housing, showing that under the current rent level, the quantity demanded of public housing is greater than the quantity supplied, and there is excess demand in the market. (2 marks)

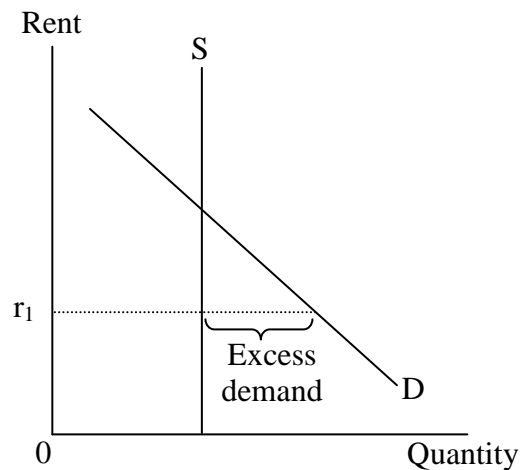
Illustrate in the diagram:

- rent ( $r_1$ ) level is lower than the equilibrium

(1 mark)

- excess demand (shortage)

(1 mark)



(e) Marks award for effective communication (EC: max 2 marks)

Marks	Performance
2	<ul style="list-style-type: none"> <li>● Arguments supported with the source/data and appropriate economic theories</li> <li>● Relevant materials presented</li> <li>● Well-organised and coherent answers presented without repetition of ideas</li> <li>● Ideas clearly and fluently expressed with appropriate use of language/words/terms/symbols</li> </ul>
1	<ul style="list-style-type: none"> <li>● Arguments presented with some support of the source/data and economic theories</li> <li>● Some irrelevant materials presented</li> <li>● Answers presented in a less organised way with some repetition of ideas</li> <li>● A clear message conveyed with some inappropriate use of language/words/terms/symbols</li> </ul>
0	<ul style="list-style-type: none"> <li>● Arguments presented with no support of the source/data and economic theories</li> <li>● Materials unrelated to the gist of the question presented</li> <li>● Inconsistent arguments presented</li> <li>● Limited ideas expressed with inappropriate use of words/terms/symbols</li> </ul>

The maximum marks for content is 12 marks. Answers may include the following:

**Aggregate output**

Measure 1:

Implementing the rent control will reduce the income of the high-income group from leasing out their units. Private consumption expenditure will decrease and aggregate demand will decrease. Aggregate output will decrease.

Measure 2:

The impact of raising the statutory minimum wage level on aggregate output will be uncertain.

The income of some people from the low-income group will increase as a result. Private consumption expenditure will increase and aggregate demand will increase. Aggregate output will increase.

Raising the statutory minimum wage level may push up the unemployment rate, causing some people's income to decrease. Private consumption expenditure will decrease. Aggregate demand will decrease. Aggregate output will decrease.

Evaluation:

Measure 2 may be better than measure 1, as it is less likely to lead to a decrease in aggregate output than measure 1.

**Equity**

Measure 1:

Implementing the rent control will help equalise income. The rent control acts like a subsidy-in-kind and mainly benefits the low-income group. Meanwhile, the high-income group will generate less income from renting out their units. This will help enhance equity.

Measure 2:

Raising the statutory minimum wage level will raise the income of the low-income group while the income of the high-income group will remain unchanged. The income gap between the high-income group and the low-income group will be narrowed.

Raising the statutory minimum wage level may push the unemployment rate up. Income inequality may not be improved because the income of some people will decrease due to unemployment.

Evaluation:

Measure 1 is better than measure 2, as measure 1 can enhance equity.

### **Economic efficiency**

#### Measure 1:

The rent control is a kind of price ceiling. Setting a price ceiling will cause the output to fall below the efficient output level. The marginal benefit will be higher than the marginal cost. There will be a deadweight loss.

#### Measure 2:

Raising the statutory minimum wage level will reduce the number of workers employed. The number of workers employed will move further away from the efficient output level. Therefore, the difference between marginal benefit and marginal cost will be widened. Deadweight loss will increase/Total social surplus will decrease, worsening efficiency.

#### Evaluation:

Both measures may worsen efficiency.

(f) Measures:

- Changing the land use planning to make more land available for the construction of public rental housing can increase the supply of public rental housing.
- Building more Home Ownership Scheme (HOS) flats and selling them at a greater discount rate can make some public rental housing applicants afford to buy them and thereby reduce the demand for public rental housing.
- Building more Home Ownership Scheme (HOS) flats and selling them at a greater discount rate can make some existing public rental housing tenants afford to buy them and thereby free up more public housing units.
- Any reasonable answer

(Mark the FIRST point only, 2 marks)