

# Chapter I Business Environment

## Case Questions



1. A    2. A    3. A    4. D    5. C    6. D    7. A    8. C    9. B    10. D  
11. A    12. A    13. C    14. A    15. D

1. **A**
  - (1) is correct. Hong Kong is famous for its well-established legal system, in which laws protect the private property rights of individuals. Thereby, investors gain confidence in investing in Hong Kong.
  - (2) is incorrect. The lack of primary industry is merely a characteristic of Hong Kong's economy. However, it cannot attract foreign companies to enter Hong Kong's market.
  - (3) is incorrect. If the software market in Hong Kong is already saturated, it is difficult, if not impossible, for EAGLE to penetrate the market, reducing the company's potential profits. Hence, EAGLE's incentives to enter the market are lowered. In such a case, market saturation is a push factor instead of a pull factor.
2. **A**
  - (1) is correct. It is a technological factor. A well-established information and communications system is essential to the company as the system helps transmit the latest market information and customers' responses. It assists the company to develop pieces of software which cope with customers' needs.
  - (2) is correct. It is a social factor. These workers possess the required technical knowledge of software development. To put it in another way, the company can employ these workers to help with production.
  - (3) is incorrect. The policies limit the emission of pollutants of computer hardware fabricating and assembling factories only. It does nothing to software development as software development does not involve any fabricating and assembling processes. Therefore, the implementation of these policies is not a factor to be considered by the company.
3. **A**
  - (1) is correct. It is a fact that the members of a joint venture can either be sole proprietorships, partnerships or limited companies.
  - (2) is incorrect. Both partners in a joint venture can be involved in the management of the business. The right to manage the business lies not in the size of venturers.
  - (3) is incorrect. Joint ventures are merely agreements between co-venturers. Unless their members agree to register as a new limited company, they are just contracts among several separate entities without own legal statuses.
4. **D**
  - (1) is correct. As the venturers in a joint venture collaborate closely to manage the business, there is a risk of leakage of financial information from EAGLE to SKY, which is disadvantageous to EAGLE.
  - (2) and (3) are correct. The business decisions of the joint venture can only be made upon reaching an agreement by all the venturers. Therefore, the dispute between EAGLE and SKY may hinder decision-making.
5. **C**

Hong Kong serves as a funding centre for China. According to the statistics released by HKEx, China-related stocks accounted for more than 40% of total stock market capitalisation in 2015.

A is incorrect. In 2014, the USA was the largest trading partner of China (in terms of trade-in goods and services) with Hong Kong being the second largest.

B is incorrect. The population of Hong Kong is much smaller than that of China. It is China herself which supplies abundant unskilled labour to support its rapid industrial development, but not Hong Kong.

D is incorrect. In fact, CEPA promotes bilateral trade between Hong Kong and the Mainland instead of unilateral trade.

6. **D**

(1) is correct. It is a fact that a bank brings in capital to a region once it enters the market.

(2) is correct. A bank provides various banking services including but not limited to fund management, underwriting shares and offering syndicated loans.

(3) is correct. Mercury Bank has to employ workers in Hong Kong to operate, as labour is also one of the factors of production.

7. **A**

(1) is correct. In general, MNCs have a larger production scale than a local company. It often implies that MNCs have more capital to finance larger projects which require huge investments.

(2) is incorrect. Local companies also include limited companies, both private and public. Public limited companies can issue shares and bonds to the public. To put it in another way, public issuance of shares and bonds is never an exclusive right of MNCs. Under such circumstances, the sources of capital of MNCs and local companies (public limited companies) may be equally wide.

(3) is incorrect. Local companies can also employ professional managers to improve business performance.

8. **C**

If Mr. Yu wants to hand over his business to his son after his retirement, the business should have lasting continuity so that the business will not collapse when Mr. Yu withdraws from it. It means that the business should be in form of a limited company, so the answer should be either C or D. As the financial information of a public limited company is required to be disclosed to the public every year while that of a private limited company is not, the form of ownership of Mr. Yu's business should be private limited company.

9. **B**

From Q.8, we know that Mr. Yu's business should be a private limited company. Thus:

(1) is incorrect. Owners of a limited company enjoy limited liability, which means that the liability of the owner is limited to his investment amount. Mr. Yu needs not repay the firm's debts using his personal assets when the firm winds up.

(2) is correct. Mr. Yu's business, a limited company, is a separate legal existence independent of its owner. Thus, it can engage in lawsuits in its own name.

(3) is incorrect. Mr. Yu's business is a private limited company instead of a public limited company. It cannot issue shares or bonds to the public.

10. **D**

(1) is correct. Providing free lunch boxes to students from poor families is regarded as bearing social responsibilities towards society as it really helps reduce the food expenses of these students, lifting the financial burden of their families.

(2) and (3) are correct. Providing safe and healthy food to primary students can be regarded as fulfilling social responsibilities towards customers as it reflects that the company also cares about the health of customers.

11. **A**

(1) is correct. In support of the company's practice, customers (primary schools) are likely to choose the company as their lunch box suppliers. In such cases, fulfilling corporate social responsibility helps the company attract more customers.

(2) is incorrect. Bearing social responsibility will increase the production cost, which is a drawback.

(3) is incorrect. Although the company's profits surpass the additional costs in the long run, the short-term profits would likely drop as there are additional costs. Therefore, the company will not earn more profits immediately.

12. **A**

(1) is not a reason. Not all government departments are involved in political reforms, e.g. Water Supplies Department. Dealing with political reforms is not a reason for the low efficiency of government departments in general.

(2) is not a reason. Government departments are wholly financially supported by the government instead of self-financing.

(3) is a related reason. As mentioned above, government departments are financially supported by the government, so they do not have to compete with other companies operating on a commercial basis to attract more customers to maximise profits. As a result, government departments have low incentives to improve its efficiency and respond slowly to market changes.

13. **C**

(1) is correct. Government departments do not only consider citizens' demand, but also political policies implemented by the government. Thus, sometimes policies may affect departments' decisions and lower the autonomy of the departments.

(2) is incorrect. Government departments provide essential goods and services to the public at an affordable price. The expenditures on these essential goods and services constitute a larger proportion of the income of the poor, as compared with that of the rich. Thereby, income gap should be narrowed with the presence of government departments.

(3) is correct. Operating costs of government departments have to be borne by taxpayers.

14. **A**

(1) is correct. Setting up government departments ensures that a stable number of job positions are offered to citizens. It protects the employment of the city.

(2) is incorrect. Government departments cannot withhold important economic information from other cities. Usually, the information regarding the operation of the government, such as the origins of raw materials and the number of employees, should be transparent to the public to gain confidence of its citizens.

(3) is incorrect. Although government departments usually provide exclusive services to people, thus reducing competition, it may not be a benefit as government departments tend to produce at a higher cost due to the lack of competition which is likely to foster cost minimisation.

15. **D**

(1), (2) and (3) are government departments in Hong Kong.