

## Unit 1: Efficiency and Equity in a Market Economy

### Objectives:

Students will be able to

1. understand the existence of income inequality in a developed market economy;
2. consider the role of government in reducing income inequality;
3. understand that income equality would be a concern of the Hong Kong society and the HKSAR Government;
4. understand and identify income inequality and related ideas from local news;
5. understand the impacts of income inequality on the society and the people;
6. review critically the impacts of income inequality on different stakeholders;
7. review critically the effects of public medical policy of the HKSAR Government on efficiency and post-tax post-social transfer distribution of income;
8. review the rental of public housing in Hong Kong in regard to efficiency;
9. explore the impacts of uneven income distribution (in Macau) on different stakeholders.

(Apart from the above aims, the activities of this Unit also try to develop students' skills in interpreting the underlying economic messages of mass media such as songs and pictures.)

### Time allocation:

160-170 minutes

### Learning activities:

Five learning activities

## Activity 1: The Issue of Equity in a Market Economy

### Study pictures of the poor and the rich and read the lyrics of a song

#### A. Objectives:

- To observe and examine income inequality in a developed market economy.
- After the lesson, students will gain a perspective on:
  1. the issue of economic equity;
  2. the role of government in achieving equity;
  3. the underlying message of economic equity of pictures and the song.

#### B. Time required: 25 minutes

#### C. Prerequisite knowledge: No

#### D. Materials needed: Some pictures of the poor and the rich, the song and lyrics of *Streets of London*, and a set of discussion questions (Teaching materials)

#### E. Teaching plan and instructional procedures:

Teacher Activities	Student Activities	Time (mins)	Target Content/ Skills	Remarks
1. Show pictures of the poor and the rich*;  <b>Ask:</b> “How do you feel about the people in the pictures? Why?”	Study the pictures; Share personal feelings.	4	Look into equity in an economy.	*Teacher may download pictures from internet or use the pictures in the Appendix on P.4.
2. Play and show lyrics of <i>Streets of London</i> ;  Briefly go over the discussion questions.	Listen to the song and read the lyrics;  Share views. (3 mins for sharing)	7	Think about income inequality in a developed market economy;  Relate economic equity to income distribution and consider the role of government in achieving equity.	<ul style="list-style-type: none"> <li>• 1-3 mins for sharing among students will be enough.</li> <li>• Ralph McTell, Streets of London.</li> </ul>
3. Randomly select a student from every two or three pairs to report on their views.	Listen and jot down relevant points.	5		

4. Comment on students' views and introduce different views on equity. **	Listen and jot down relevant points.	9		
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**\*\* Remarks: There are different interpretations of equity, income equality as the focus of this activity is only one of the interpretations.**

### F. Teaching Materials:

#### Questions for discussion after listening to the song and reading the lyrics

Q1: What kind of economic system is Britain?

It is a market economy.

Q2: What is your impression of the living standard of the people in London?

Apart from loneliness, some members in the community also suffer from economic inequality.

Q3: Do you find similar economic phenomenon elsewhere such as Hong Kong?

Students may give their own answers based on their observation. There are a lot of low-income people in Hong Kong living in districts like Shamshuipo and Tin Shui Wai.

Q4: What do you think about the responses of different members of an economy to such economic phenomenon?

The response of the poor, the rich, the government, the legislators, the academic and the businessmen may be different. But in general they consider a severe inequality undesirable and a greater equity is more desirable.

Q5: Do you think the Government should take action to change this phenomenon? Why?

Students may give different reasons. The key is "why" rather than "yes" or "no".

#### Remarks:

Other questions which suit the interest, needs and abilities of students may be included.

## G. Appendix: Pictures of the poor and the rich



**H. Teacher's Reference:**

1. EDWARD A. GARGAN, 1996, In Rich Hong Kong, Cages as Homes for the Poor, <http://www.nytimes.com/specials/hongkong/archive/960714in-rich-hong.html>
2. Mankiw, N. Gregory, *Principles of Economics*, 4ed. Ch. 1, P. 5 & Ch. 20, P.439-442.
3. More pictures about the poor in Hong Kong, <http://www.hku.hk/socsc/sssp/2005/album/Cage%20Homes/index.html>
4. Ralph McTell, Streets of London,
  - song of *Streets of London*: <http://www.youtube.com/watch?v=VmKMQ19bZ8>
  - lyrics of the song: [http://www.pinkart.com.hk/music/esong/streets\\_of\\_London.htm](http://www.pinkart.com.hk/music/esong/streets_of_London.htm)
  - more information about the song: [http://en.wikipedia.org/wiki/Streets\\_of\\_London](http://en.wikipedia.org/wiki/Streets_of_London)
5. Stephanie Wong, Hong Kong's "cage homes" reveal wealth gap. (<http://news.sawf.org/Lifestyle/39233.aspx>) for pictures of poor people living in "cage homes" in Hong Kong

## Activity 2: Group discussion on news reports on income distribution in Hong Kong

### A. Objectives:

- To look into the issue of income inequality and the action the government could and should take.
- After the lesson, students will gain an understanding of:
  1. the change of income distribution reported in local news;
  2. income distribution as a major social concern and a cause for social unrest;
  3. the duty of the Government in improving income distribution.

### B. Time required: 35 minutes

### C. Prerequisite knowledge:

1. Different interpretations of equity.
2. An understanding of equity as reflected by distribution of income.

### D. Materials needed: A set of discussion questions (Teaching materials) and two news reports (Learning materials adopted from Ming Pao, 13 April 2007 and 9 July 2007)

### E. Teaching plan and instructional procedures:

Teacher Activities	Student Activities	Time (mins)	Target Content/ Skills	Remarks
1. Form groups of four, each with two pairs of A and B.*	Form pairs, then form groups.	3		<ul style="list-style-type: none"> <li>• Two articles from Ming Pao.</li> </ul>
2. Go over the objectives and the discussion questions.	Listen to instructions.	5	Identify the issue of income distribution in local news report.	<ul style="list-style-type: none"> <li>• *If there is odd number of students, form trios and a few groups of three to six members. But the majority shall be groups of four.</li> </ul>
3. Assign reading to each pair (Pair A article 1; Pair B article 2).	Each pair find the main themes of the assigned article.	6		
4. Lead and encourage students to answer the discussion questions.	Answer the questions and come to conclusion.	5	Understand that income distribution is a social concern in a market economy that the government	

5. Randomly select one representative from a few groups to present group views.	Listen and respond to presentation.	7	should deal with.	
6. Comment on the presentations.	Reflect on teacher's comments.	9		

### F. Teaching materials

Newspaper articles for reading

#### Article 1

#### **Rich family and poor family on the rise**

The Legislative Council Panel on Financial Affairs yesterday discussed the results of the 2006 Population By-census. In the past ten years, households with monthly income less than \$8,000 had increased from 16.4% in 1996 to 21.2 % in 2006. Households with monthly income of \$40,000 or more had also increased from 15% to 17% for the same period.

Several members were concerned that there was in Hong Kong a huge gap between the rich and the poor, and Hong Kong might become an M-shape society (middle-class persons decreasing while low-income and highest-income persons increasing). They wondered why the Government so far had not published the latest 2006 Gini Coefficient of Hong Kong.

Source: Adopted from 13 April 2007, Ming Pao

**Article 2****Civic groups most satisfied with relationship between SAR and Central Government**

**Synergynet** appointed the Hong Kong Council of Social Service and the Policy 21 Ltd of the University of Hong Kong to conduct a survey of 703 civic community groups, to find out their views on the administrative performance of the Government in the last ten years since the return of Hong Kong.

The results were showed in the chart below. The handling of ‘relationship between the SAR and the Central Government’ scored the highest. On top of the dissatisfaction scores were ‘environmental protection’, ‘democratic political development’ and ‘distribution of social resources’.

**Synergynet** sees the above indicators as reflecting the opinion of the groups interviewed. It means that ‘economic growth’ adopted by the Government as the fundamental policy for development could not benefit all social classes and might not achieve social harmony with improved economic factors. **Synergynet** urges the Government to give first priority to such problems in the next five years.

Item	Satisfied (%)	Dissatisfied (%)	No Comment (%)
SAR and Central Gov't Relationship	88	10	2
Rule of Law	84	15	1
Economic Growth	79	19	2
Distribution of Social Resources	59	40	2
Democratic Political Development	57	40	3
Environmental Protection	56	44	1

Source: Adopted from Ming Pao, 9 July 2007



**Discussion questions: (Q1-2 for Pair A, Q3-4 for Pair B)**

Q1: How did income distribution in Hong Kong change as reported in the news? What is the evidence?

The income distribution has become worse/more uneven as the percentages of households of both the lower-income group and higher-income group have increased.

Q2: Why economic growth does not improve the income distribution?

Economic growth means an increase of the GDP, but it does not necessarily guarantee that the increase in income is evenly distributed.

Q3: What would be the social consequences and hence the cost to society of a worsening income inequality? Why?

There would be a number of social consequences, such as a greater social discontent, a lack of harmony and a drop of sense of belonging. These may further lead to social unrest if the issue is left unaddressed and gets snowballing. Evidently, the rich and the poor often have conflicting interests.

Q4: Who is expected to improve income distribution? What is the rationale behind such a claim?

Tackling poverty and promoting even income distribution require appropriate fiscal policy and legislation. The huge financial commitment and the power to carry out legislation are beyond any individual member. Since the Government is set up in the first place to deal with social issues, including income distribution, she is therefore expected to improve income distribution.

## Activity 3: Mini-role play: Consequences of income inequality

### A. Objectives:

- To look into the consequences of income inequality on society in general.
- After the activity, students will be able to gain:
  1. an understanding of the impacts of income inequality on different stakeholders;
  2. a critical thinking about the consequences of income inequality on different stakeholders.

### B. Time required: 35 minutes

### C. Prerequisite knowledge: Meaning of equity in terms of income distribution

### D. Materials needed: A set of discussion questions and two news articles (adopted from Ming Pao, 2 May and 17 October 2007)

### E. Teaching plan and instructional procedures:

Teacher Activities	Student Activities	Time (mins)	Target Content/ Skills	Remarks	
1. Form pairs, then groups of four.	Form pairs, then groups.	2	Find out the consequences of income inequality from local news reports.	Two articles from Ming Pao on 2 May and 17 October 2007.	
2. Go over the objectives and the discussion questions.	Listen to instructions.	5			
3. Assign reading to each pair (Pair A article 1, Pair B article 2).	Each pair read one article and find out the main themes.	5			
4. Supervise students and encourage them to share views.	Each pair briefly report on the consequences of income inequality.	5			Summarise the consequences of income inequality based on local news reports.
5. Assign roles (Government official, legislator, poor workers, family members of poor workers) to group members. The context will be a market economy in general.	Students determine the consequences (one to two points) borne by the assigned roles.	3			Look into the consequences of income inequality on different stakeholders.

6. Supervise the mini-role play.	Each role talks about the consequences on him/her and the possible action that he/she may take to maximise his/her interests. Others to challenge or respond.	10	Review critically the consequences on different stakeholders.	For more detailed working steps, refer to guidelines on mini-role play.
7. Collect feedback, comment on the consequences and action taken by different stakeholders, and highlight some possible costs to society due to these consequences and actions.	Hand in a brief report on the consequences on different stakeholders agreed by the group.	5	Understand the consequences of income inequality on different stakeholders.	Could be a home assignment.

**F. Teaching materials:****Article 1****Case of Macau**

The largest demonstration, in seven years since the handover, broke out in Macau yesterday on the 1 May Labour Day, despite the ongoing upturn of the economy. The police made several warning shots skywards, but that only caused a greater chaos.

The large scale confrontation between the demonstrators and the police points to conflicts at deeper levels. The economy in Macau has been blooming in the past seven years and revenue for the last year from the casino business surpassed that of the Las Vegas, becoming the world's number one. The GDP per capita increased to US\$28,436, higher than Hong Kong's US\$27,641. Yet, behind the prosperity in Macau, the problem of the widening gap between the haves and the have-nots gets worse and worse.

According to some statistics, a considerable number of families in the more densely populated districts are living on monthly income below the median figure of MOP\*\*7,300. At present, some 20% of the Macau population is living in leased properties and the pressure of rocketing rent on them is compounded. All such issues, plus news of corruption cases by senior civil servants from time to time, are adding fuel to the fire of grumble among the crowd of the lower class. And so, Macau is now facing 'three losses' – loss of balance of social development, leading to loss of orderliness of social mobility and finally leading to loss of control over law and order. The administration must be mindful of all these developments.

It is not good enough to rely on the popularity of the Chief Executive and the buoyant economy in the HK and Macau SAR where capitalistic system is implemented. If the Governments of the two places do not come up with a proper solution for the deep-down problems, they would face an explosive situation at any time.

\*\* MOP is the unit of currency in Macau

Source: Adopted from 2 May 2007, Ming Pao

**Article 2****Survey: 10,000 poverty children poor in body and mind (Hong Kong)**

The Boy's & Girl's Club Association (BGCA) of Hong Kong recently interviewed over 400 children of poverty. They found that 75% of them could not attend extra-curricular activities for financial reasons, 40% lacking self-confidence and 15% were underweight. In addition, over a half of the parents of these poor children said that they were 'not able to help their children with their homework and study'. Hence, these children were not doing as well as others. 43% of the parents admitted that they did not have parenting skills and had given physical punishment or heavy scolding to their children.

The survey also discovered that 10% of the children interviewed are living in deficiency in terms of financial support, study support, parent-children bonding, and social and emotional development. Wong Kwai Yau, chief supervisor of the BGCA, expressed that as there were currently 110,000 children receiving Comprehensive Social Security Assistance, some 10,000 children in Hong Kong fell under 'multiple-deficiency' (i.e. not having enough support in many ways).

Source: Adopted from 17 October 2007, Ming Pao

## Discussion Questions

### Article 1: for Pair A

Q.1 What are the consequences of income inequality on society and Government? Why?

The relationship between the members of society tenses up and even gets into conflict, resulting in a less harmonious society. The Government needs to spend more resources on helping the poor and mending a divided society, otherwise it may lose the trust and support of the people.

### Article 2: for Pair B

Q.2 What are the consequences of income inequality on the poor and the families of the poor? Why?

As the poor has far less to make ends meet, the health, development and education of their children suffer. So are their self-respect and self-image. All these issues are related as poor health leads to poor study, which leads to poor development, and which in turn leads to low-pay job. Once a vicious circle gets started, the ill effects would most likely go down the generations, unless some good measures are put in place to help the poor.

**Activity 4: Mini-Debate:**  
**“Hong Kong SAR Government should increase the fees  
for emergency medical services in public hospitals”**

**A. Objectives:**

- To critically review the effects of the Government policy on medical charges in relation to efficiency and post-tax post-social transfer distribution of income.
- After the activity, students will be able to gain:
  1. an understanding of the effects of the Government policy on efficiency and post-tax post-social transfer income distribution;
  2. a critical thinking about the effects of the Government policy on efficiency and post-tax post-social transfer income distribution.

**B. Time required:** 35 minutes

**C. Prerequisite knowledge:**

1. Meaning of efficiency and income distribution.
2. Meaning of post-tax post-social transfer distribution of income.

**D. Materials needed:** The information sheet on the background of Fees for Accident and Emergency Services in Public Hospitals.

**E. Teaching plan and instructional procedures:**

Teacher Activities	Student Activities	Time (mins)	Target Content/ Skills	Remarks
1. Form pairs, then form groups of four.	Form pairs, then groups.	2	Find out and critically review the effects of government policies on the efficient use of scarce resources and income distribution.	<ul style="list-style-type: none"> <li>• Reference:               <ul style="list-style-type: none"> <li>* Reports from Ming Pao on 14 June 2007.</li> <li>* Press Release of Food and Health Bureau, 5 November 2002.</li> </ul> </li> <li>• 2 mins for one presentation in the debate.</li> <li>• The debate can be optional.</li> <li>• This is a short version of mini-debate.</li> </ul>
2. Go over the objectives and procedures of the mini-debate (refer to the guidelines on mini-debate).	Listen to instructions.	5		
3. Assign the question to each pair. (Pair A Q1, Pair B Q 2)	Each pair read the article and discuss answers to the question.	6		
4. Supervise the preparation of debate.	Each pair formulate points for the debate.	5		
5. Oversee the debate.	Students debate within the group.	12		
6. Collect feedback and comment on the increase of the fees.	Hand in a brief report on the effects of fees increase for emergency services on efficiency and equity.	5		

**F. Alternative activity:** This activity may be adopted for group discussion or mini-role play.



**G. Teaching materials:****Fees for Accident and Emergency Services in Public Hospitals**

In 2000, the unit cost of emergency medical services at the casualty wards of public hospitals was about HK\$470. But the services recipients did not need to pay any fees. Patients needed to wait for about two to three hours for the services.

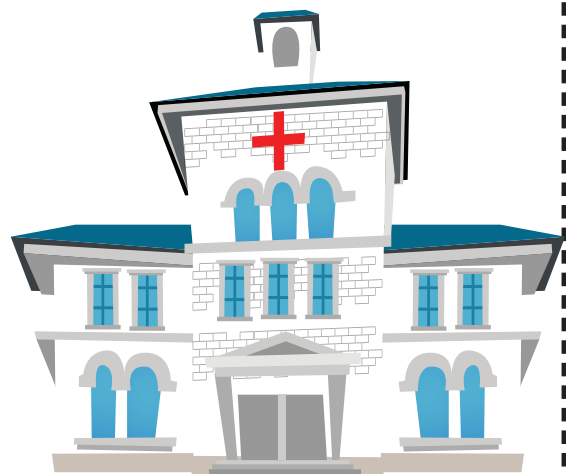
In 2001-02, the Hong Kong Hospital Authority (HKHA) found that there were 2.5 million patients receiving emergency medical services in public hospitals. The semi-urgent or non-urgent cases accounted for about 75%.

Starting from November 2002, HKHA charged HK\$100 for emergency medical services provided in public hospitals. Patients with financial difficulties may apply for a fee waiver.

In 2006-07, out of the about two million recipients of emergency medical services, 1.34 million (68%) were semi-urgent or non-urgent cases. The average waiting time of non-urgent cases ranged from 70 minutes to 98 minutes. Those non-urgent cases in the New Territories West would wait from 100 minutes to 102 minutes.

Sources:

1. Press Release, "SHWF assures the public of adequate medical care despite fees increase", Food and Health Bureau, 5 November 2002. ( <http://www.info.gov.hk/gia/general/200211/05/1105194.htm> )
2. Ming Pao, 14 June 2007.



**Discussion Questions:**

## Q.1 (Pair A)

Explain how the charge of \$100 for emergency medical services affects the efficiency of using emergency medical services in public hospitals.

- a. Given the casualty wards are at full capacity, people using emergency medical services will prolong the waiting time of the others and hence induce an external cost. Imposition of a service charge of \$100 will result in an internalisation of part of the external cost, and may enhance the efficiency. The total number of cases may decrease and the government (Hong Kong Hospital Authority) may allocate some scarce resources to provide services which are of higher value to society.
- b. The waiting time which can be used for productive activities may be shortened. Moreover, the services to the patients would be better.

To conclude, as the total social costs are reduced, but emergency cases receive better services, the efficiency is improved.

## Q.2 (Pair B)

Explain how the charge of \$100 for emergency medical services affects the post-tax post-social transfer income distribution of the patients receiving emergency medical services in public hospital.

- a. Some poor emergency patients need to pay the charge if they are not qualified for the fee wavier.
- b. Some poor non-emergency patients may visit private medical practitioners for consultation. Therefore, more poor patients need to pay more for medical services, resulting in a more unequal post-tax post-social transfer income distribution.

**Or:** The effect on the post-tax post-social transfer income distribution is uncertain because of the following reasons:

- a. More rich patients visit private medical practitioners, so they pay more for emergency medical services.
- b. But more poor emergency patients visiting public hospitals need to pay the charge if their financial situations are not too difficult. Therefore, some of the rich and poor patients pay more for medical services and the effect on the income distribution is not certain.

## **Activity 5: Rents of public housing and private housing in Hong Kong**

### **A. Objectives:**

- To review the rents of public housing in Hong Kong in relation to efficiency.
- After the activity, students will be able to explain:
  1. why the rent of public housing is set inefficiently;
  2. why the Housing Authority would charge public housing inefficiently.

### **B. Time required:** 30 to 40 minutes (depending on the type of activities)

### **C. Prerequisite knowledge:** Meaning of efficiency and consequences of income inequality

### **D. Materials needed:** One information sheet on rental of public housing in Hong Kong and guiding questions

### **E. Teaching plan and instructional procedures:**

Refer to the guidelines on small group discussion or mini-debate for detailed steps. The debate topic could be:

**“The Housing Authority charging public flats efficiently will benefit the Hong Kong society.”**

### **F. Alternative activity:**

This activity could be a small group discussion or home assignment.

**G. Teaching materials:****Rental of private and public housing in Hong Kong:**

1. The rent of a private housing estate is based on the following:
  - a. The location.
  - b. Public facilities provided in the estate.
  - c. Location of the flat in the building (including orientation and view).
  - d. Size of and household facilities provided in the flat.
  - e. The change of rent in accordance with the contract between the owner and the tenant.
  
2. The rent of a flat of a public housing estate owned by the Housing Authority (HA) has the following features:
  - a. The rent depends on the size of the flat, location, age and type of the housing estate.
  - b. The very low-income families receiving Comprehensive Social Security Assistance do not need to pay the rent. (The Welfare Department pays the rent for them.)
  - c. Tenants in temporary financial hardship can apply for rent assistance under the Rent Assistance Scheme. The successful applicants only have to pay 50% of the rent for a maximum of six months.
  - d. Tenants with high income/asset value need to pay double rent or even market rent.
  - e. The average waiting time for an eligible application is about two years. The HA may review the rent every two years. The maximum increment is 10% of the existing rent.

**Discussion Questions:**

Q1. Do you think the rent is more efficiently charged for private flats than that for the public flats? Explain your answer.

Some possible reasons that make the rent charged for private flats more efficient than that for public flats:

- a. The rent of a private flat is determined by the market demand and supply and fully reflects the quality of the flat. Hence, the flat is used by the user who is willing to pay the highest rent.
- b. If the existing tenant is not willing to pay the highest rent, he/she has to move out once the contract expires.
- c. The rent of a public flat is not set fully according to its quality. The rent may be the same for flats of different quality or for different demand. The public flat is therefore not used by user who could afford and is willing to pay the highest rent.
- d. The change of rent for public flat would not be affected by the demand of the potential tenants, so the use of the flat would not be transferred to another tenant who is willing to pay a higher rent.

Q2. Given that providing public housing is a means of evening post-tax post-social transfer income distribution, if you were the Chairperson of HA, what would you consider in setting the rent of public flats? (It is an optional question and may be left for group work.)

Some possible reasons that make the HA not to charge the public flat efficiently:

- a. The aim of providing public flats is to subsidise housing of low-income families who are unable to afford private accommodation, so that they could have reasonable living conditions.
- b. A highly uneven income distribution may cause social upheavals which are costly to society.
- c. The rent policy has to be approved by the Legislative Council which may not consider market forces nor efficiency. The Councilors may concern the interests of the people who vote for them more.
- d. The transaction cost (e.g. information cost and administrative cost) of charging efficiently would be very high for a complex organisation like HA, so it would be more “efficient” for the HA to charge rent in this way.

**H. Assignment:**

Study the information sheet and answer the questions:

**New medical fees and charges of Specialist Outpatient (SOP) Clinics**

Starting from 1 April 2003, the Hong Kong Government has increased the fees and charges of Specialist Outpatient (SOP) clinics as follows:

Items	Before 1 April (HK\$)	After 1 April (HK\$)
Fees for the first consultation	44	100
Fees for the subsequent consultation	44	60
Charges for medicine	0	10 per item

**Questions:**

Q1. What will be the effect of the new charges on the efficient use of medical facilities and medicine?

Refer to the suggested answer for Activity 4.

Q2. What will be the effect of the new charges on income distribution?

Refer to the suggested answer for Activity 4.