



RAFFLES INSTITUTION
2021 YEAR 5 PROMOTION EXAMINATION
Higher 2

ECONOMICS

9757/01

Paper 1 Case Study

22 September 2021

1 hour 10 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name, index number and civics class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Answer **all questions**.

The number of marks is given in brackets [] at the end of each question or part question.

Attach this cover sheet to answers for Paper 1.

Name: _____

Civics Class: _____

Economics Tutor: _____

Question	Marks
1	/30

This document consists of **4** printed pages and **1** blank page.



Raffles Institution

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Question 1: The Rise of Ecommerce

Extract 1: The rise of ecommerce during COVID around the world

The COVID-19 pandemic has dominated global economic development during 2020, with the global economy predicted to shrink by at least four percent over the year. Restrictions on movement and other interventions to protect public health reduced economic activity in most sectors and most countries, affecting production, distribution and consumption. One positive impact within this, however, has been a growth in the market share of trade and retail taken by ecommerce.

It seems likely that the accelerated trend towards ecommerce seen during the pandemic will be sustained during recovery. Even as traditional brick-and-mortar stores open their doors again, more shoppers would be shopping online.

Various sources, October 2020

Table 1: Quarterly growth rates of retail sales in the US by segment 2019Q1 – 2021Q1

% change in retail sales

	Ecommerce	Non-ecommerce
2019Q1	11.6	0.20
2019Q2	13.6	1.50
2019Q3	17.3	2.40
2019Q4	16.4	1.60
2020Q1	19.1	0.60
2020Q2	23.0	-29.30
2020Q3	17.2	-20.50
2020Q4	14.0	-5.50
2021Q1	7.7	-0.90

Source: Adapted from eMarketer

Extract 2: The US ecommerce market during COVID-19

In the first quarter of 2020, Amazon said that its net sales jumped 26% year-on-year to \$75.5 billion as people flocked to its site. Amazon's large product selection, low prices, and reliable delivery are factors that make it a clear beneficiary of ecommerce acceleration during the coronavirus pandemic. In April, Amazon had to prioritize the stocking of essentials, like household staples and medical supplies, as it struggled to deal with a sudden surge in demand for online orders from customers avoiding stores. It temporarily stopped sales of non-essential goods like flat-screen TVs and toys while hiring 175,000 additional workers to keep up with the heightened demand.

Similarly looking to capitalize on the digital sales surge, Walmart announced that it was rolling out its Express Delivery service. The company accelerated the development of the service to meet growing demand for delivery, while also announcing plans to hire an additional 200,000 people.

Although many major companies in the US ecommerce space have seen a jump in sales, Amazon still reigns over the others by a wide margin with roughly 40% of the market while Walmart, the second largest player, occupies around 5.3% of the market. This is followed by eBay with 4.7% and Apple with 3.7% market shares respectively.

Many expect Amazon's jump in sales during the pandemic to lead to significant longer-term gains, with growth driven by the acceleration of consumer adoption of ecommerce across all demographic groups and the company's investments in fulfilment and infrastructure.

Various sources, May 2020

Extract 3: Ecommerce and personalised pricing

Personalized pricing is a growing trend in online retail. Many online retailers have been seen charging different prices to different customers for the same product, including Amazon. In 2000, a customer complained that, after erasing the cookies from his computer's browser, he obtained a lower price for a particular DVD on Amazon.com. Orbitz, a booking website, is known to show higher hotel prices to users of more expensive computer models like Mac. Other websites have features that show discounted rates to users based on their home address.

Ecommerce retailers use algorithms to target individual customers and collect data about their personal characteristics and behaviours to estimate how much they are willing to pay for a product or service. This big data and algorithm-based pricing model is, however, complicated for companies to implement.

Various sources, 2018

Extract 4: The downside of ecommerce

Americans love online retail – the speed, the convenience and the 'just-got-a-gift' feeling of boxes turning up on the doorsteps. But this love can be blind. Many consumers turn a blind eye to the environmental cost of online retail, particularly when it comes to delivering and packaging.

Prior to the Internet, the logistics for traditional retail were simple and linear – goods were shipped in bulk to a warehouse and then to the store. The system for e-commerce is much more complex and involves many more change of hands. E-commerce has about four times as many touchpoints as regular retail, and shipments are broken down into individual packages for delivery, leading to more traffic and pollution.

Retailers also want to ensure that goods arrive in perfect condition, resulting in over-packaging. Typically a package is "dropped 17 times" on average before it is delivered. Consumers often receive small packages inside a relatively large box filled with "air-bags" – retailers are literally "shipping air" to protect the goods. Effective, but wasteful.

To battle the negative effects of online shopping, countries like the UK have been discussing a tax on all goods bought online. In China, the government has been actively promoting green packaging in the delivery industry. Consumers are also encouraged to sort and recycle their garbage, but the amount of unsorted trash is still growing. Perhaps the most effective way to curb the surge in packaging may be to encourage people to consume less.

Various Sources

Questions

- (a) With reference to Table 1, distinguish the trend in retail sales by ecommerce and non-ecommerce in the US from 2019Q1 to 2021Q1. [2]
- (b) Use the concept of opportunity cost to explain **one** effect on Amazon as a result of “prioritizing the stocking of essential, like household staples and medical supplies” as referred to in Extract 2. [2]
- (c) Discuss the impact the COVID-19 pandemic has on the profits of an ecommerce company in the US. [8]
- (d) Explain why Amazon's personalised pricing strategy might be a form of price discrimination. [4]
- (e) (i) With reference to **Extract 4**, explain why, in the absence of government intervention, resources may not be efficiently allocated in the market for ecommerce. [4]
- (ii) Evaluate the policies a government can implement in view of the **above** source of market failure in the ecommerce market. [10]

[30 marks]

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