



EUNOIA JUNIOR COLLEGE
JC2 Preliminary Examination 2024
General Certificate of Education Advanced Level
Higher 1

ECONOMICS

Paper 1

8843/01

26 August 2024

3 hours

Additional Materials: Answer Booklet

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.

Answer **all** questions.

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

Question 1: Towards Sustainable Fashion

Table 1: World cotton production and consumption (in million bales)

| Year | Production | Consumption |
|------|------------|-------------|
| 2021 | 115 | 118 |
| 2022 | 120 | 110 |

Source: USDA Foreign Agricultural service, accessed 30 July 2024

Extract 1: Cotton prices tumble as Brazil's exports surge

Low prices for corn have pushed farmers in Brazil to plant cotton instead of a second corn crop, resulting in a sharp rise in production. In recent years, Brazil overtook the US as the world's largest cotton exporter. The South American country exported 12.4 million bales in the 2023-24 harvest season compared with 11.8 million bales that came out of the US, according to estimates by the US Department of Agriculture. Australia, the world's third-biggest exporter, shipped 5.8 million bales.

Brazil's soaring output has more than offset the impact of consecutive years of drought in the US. Meanwhile, global demand for cotton has fallen. Over the past few years, shoppers have increasingly opted for alternative fabrics like polyester and other man-made petroleum-based fabrics, which are cheaper and quicker to produce than to harvest cotton, but have a much larger environmental toll.

Source: Financial Times, 16 July 2024

Extract 2: Unfavourable plight of cotton farmers

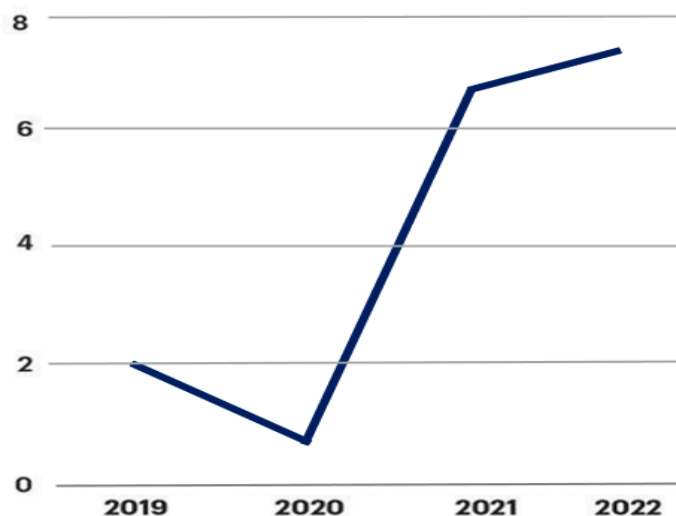
Cotton has been the most consumed fibre in the textile industry until 2002 where it was overtaken by polyester. Cotton farming provides direct livelihoods for 100 million households in 75 countries, of which 90% are located in lower-income countries. An additional 350 million people support cotton farming and basic processing by providing labour, transportation, ginning, baling, and storage. Cotton farming is essential to the global textile sector which employs around 25 million people, as about half of all textiles are made of cotton.

Farmers are at the end of a long and complex value chain, often receiving the lowest prices while bearing high production costs. They are generally at a disadvantage when it comes to price negotiations because they lack access to market information. In addition, many small-scale farmers do not belong to farmer organizations, which leaves them little bargaining power or influence on the prices offered.

Cotton farmers receive a small share of the retail price of a garment, not exceeding 10%. Small cotton farmers earn the least compared to large and medium-sized farmers in many producing countries. Some advocates argue that programs supporting farmers, such as establishing a minimum support price, are desirable for farmers.

Source: 2023 Global market report, Cotton prices and sustainability, 10 July 2023

Figure 1: Private Funding for sustainable fashion in India (\$ million)



Source: Business Today, 10 July 2022

Extract 3: A global hub for sustainable fashion

India is the world's second-largest producer of cotton, and an important sourcing country for major apparel and home furnishing global retailers. The textile industry, dominated by cotton fibre, accounts for nearly 60% of the total manufacturing and more than 2% of India's GDP. The sector is a significant forex earner, accounting for \$40 billion, equivalent to 12% of the total exports of the country. India has set an ambitious target of \$100 billion for cotton and textile exports by 2025-26, amid growing demand for sustainable cotton. This will require enhanced integration of India's cotton sector into global supply chains. India is an important sourcing country for major apparel and home furnishing global retailers. Furthermore, traditional supply chains have come under the scanner of global buyers due to sustainability concerns. A favourable environment is already being created through massive promotion via government investment in sustainable farming through the repurposing of the National Centre for Organic and Natural Farming, which promotes organic and natural farming.

Becoming a global hub for sustainable fashion will benefit the Indian economy, which includes spurring green job opportunities in the textile sector. Sustainable fashion refers to clothing that has been made in a way that is mindful of the environmental issues in the fashion industry. Despite post-Covid economic recovery in India, there has not been commensurate expansion in productive employment opportunities. Sustainable manufacturing involves a whole life cycle of the product and service, of which research and development becomes very important. Furthermore, new technological developments have led to significant changes in the labour market, such that jobs requiring high skills have been increasing while those requiring low skills have been contracting.

Adapted from Telegraph India, 5 December 2022

Extract 4: The challenge of sustainable fashion

Fast fashion may offer immediate affordability and trendy styles, but it perpetuates a cycle of environmental degradation and ethical concerns. On the other hand, sustainable fashion that currently tends to be less affordable aims to mitigate these impacts through ethical practices, technological solutions and eco-friendly materials. The National Climate Change Journal (2018) lists

textile manufacturing as one of the most polluting sectors of the economy. It emits 1.2 billion tonnes of greenhouse gases, which is more than international aircraft and maritime shipping combined. With intensifying adverse impact of the fashion industry in terms of carbon emissions and water use, the need for a shift to sustainable fashion is evident.

As the sustainable clothing market in India grows steadily, it is faced with several challenges. The biggest challenges for such a shift concern the sourcing of sustainable materials and the production process itself. Many sustainable materials, such as organic cotton and recycled polyester fibres, can be more expensive and harder to come by than traditional materials. Furthermore, sustainable production methods, such as using non-toxic dyes and reducing water usage, can also increase costs. To produce sustainable clothing, companies must shift to a more deliberate production process that prioritises quality over quantity, while harnessing the benefits of cost-saving technological solutions.

In addition, consumer sentiment and demand are major challenges for fashion brands, as many consumers may not take into account of the benefits of sustainable clothing on the environment. The growth of India's fashion industry, driven by an expanding middle class and strong manufacturing sector, is expected to contribute to the global fashion market, with the Indian apparel market projected to reach \$59 billion by 2022. However, a significant portion of India's population, particularly those in the Gen Z demographic (those born since 1997), have grown up with fast fashion as the norm and may not be concerned about the need for sustainable fashion.

Measures have been taken by the government to actively promote environmentally friendly practices across the value chain. For instance, policies to promote the use of technological solutions have been adopted to achieve the socially desired outcome in the market for sustainable clothing.

Adapted from The state of sustainability in the fashion industry, 29 August 2023

- (a) Using Table 1, explain how the world price of cotton would change from 2021 to 2022. [2]
- (b) Explain why cotton produced in Brazil is **not** likely to be a public good. [3]
- (c) With reference to Extract 1 and using a diagram, explain how a change in **one** supply factor might account for a rise in cotton production in Brazil. [3]
- (d) Using the concept of price elasticity of demand, discuss the view that 'establishing a minimum support price in the cotton market is desirable for farmers' (Extract 2). [8]
- (e) (i) With reference to Figure 1, explain how **one** component of aggregate demand might be affected by the change in private funding for sustainable fashion. [2]
- (ii) Comment on the likely impact on unemployment in India if the country develops into 'a global hub for sustainable fashion' (Extract 3). [6]

(f) (i) Explain why the production of sustainable clothing might be less than socially optimal. [6]

(ii) Discuss whether cost-saving technological solutions (Extract 4) adopted in India is the best method to achieve a socially optimal outcome in the market for sustainable clothing. [10]

[Total: 40]

Question 2: Economies of Brazil and the Philippines

Table 2: Selected macroeconomic data for Brazil and the Philippines

| | Brazil | The Philippines |
|---|---------------|------------------------|
| Inflation rate (%) | 9.3 | 5.8 |
| Real gross domestic product (GDP) (US\$ billion) | 1900 | 408 |
| Unemployment rate (%) | 9.2 | 2.6 |
| Population size (billion) | 0.215 | 0.116 |
| Gini coefficient | 0.52 | 0.42 |
| Annual average concentration of PM2.5 (micrograms per cubic meter) ¹ | 12.2 | 14.9 |
| Government debt ² as a percentage of GDP | 83.9 | 63.5 |

Sources: www.worldbank.org and iqair.com, accessed 13 August 2024

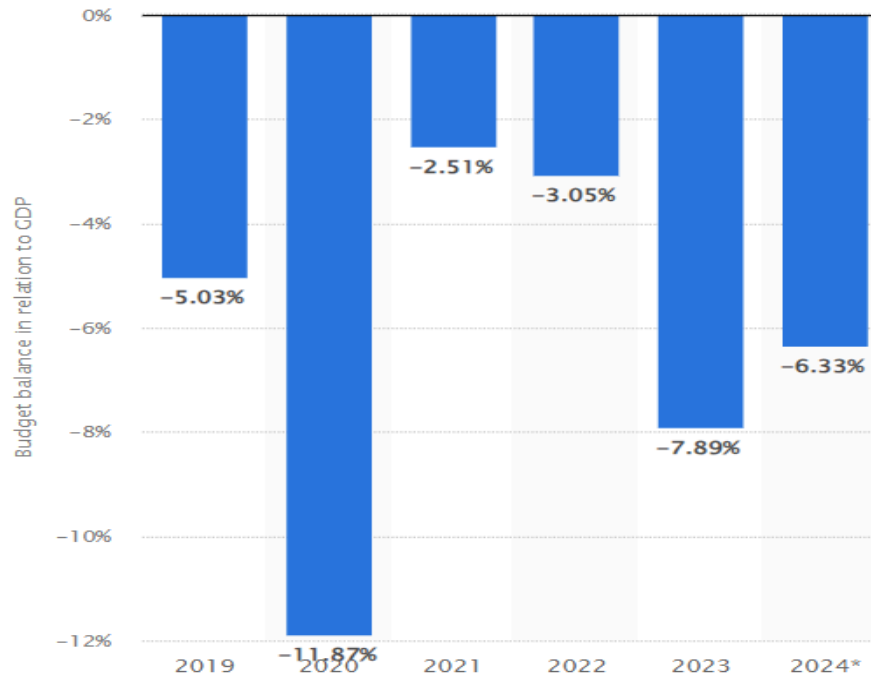
Extract 5: Fiscal budget balance in Brazil

Brazil's fiscal budget balance worsened from 2019 to 2023, driven by political instability and economic challenges. The Covid-19 pandemic led to increased government spending, and this further exacerbated the fiscal situation. By 2022, Brazil faced continued fiscal challenges, with efforts to reform public finances amidst economic recovery efforts.

Figure 2: Brazil's fiscal budget balance (% of GDP), 2019 to 2024

¹ PM2.5 – Indicator for air quality. Particulate matter, or PM, refers to particles found in the air, including dust, soot, dirt, smoke, and liquid droplets. PM2.5 pollution poses the greatest health threat.

² Government debt represents the sum of past annual budget deficits.



Sources: *focus-economics.com* and *statista.com*, accessed 12 August 2024

Extract 6: Brazil's inflation situation in 2022

Inflation in Brazil ended 2022 above the Central Bank's target for the fourth year in a row on the back of fiscal measures via the provision of fuel subsidies to producers and an aggressive monetary policy tightening by raising interest rates to 13.75% in August to battle inflation.

According to Brazil's Central Bank, the root causes of 2022 inflation were inertia from 2021 inflation; rapid increases in commodity prices, especially oil; imbalances between demand and supply on inputs and bottlenecks in global production chains; food price shocks resulting from climate issues; the resumption in the demand for services and the heating up of the job market after lifting Covid restrictions.

Adapted from: The Brazilian Report, 11 January 2023

Extract 7: The Brazil of the Future - towards Productivity, Inclusion, and Sustainability

For Brazil to succeed in building on the achievement of the past and tackle the challenges of the future, it needs to enter a virtuous cycle of productivity, inclusion, and sustainability. There are still many distortions in Brazil's economy undermining productivity. Unlocking economic potential will generate aspirations, the desire to plan and the propensity to save and to invest to acquire the necessary skills for the future. Better infrastructure will improve productivity for the labour. A more productive economy uses fewer natural resources. This implies less deforestation, which safeguards crucial resources like the Amazon rainforest that Brazil's future economy will heavily rely on.

The agriculture sector registered productivity gains (through investments in innovation, technology as well as sector-specific government incentives) and sustained Brazil's position as the world's third-largest agricultural and food exporter. Part of this success relied on extensive farming methods

that threaten its rich biodiversity. To promote sustainable growth, policy makers will have to rethink their current approach to improve on its existing infrastructure.

Adapted from: www.worldbank.org, 25 October 2023

Extract 8: Sustaining the Philippines' growth momentum

The Philippines is projected to grow at 5.7 percent in 2022. Growth will anchor on recovering domestic demand and sustained public investments. The easing of Covid-19 restrictions will benefit the services sector, especially transportation, restaurant and food services, and wholesale and retail trade.

While the Philippines has grown remarkably in the past decades, only a transformative solution will catapult the economy into reaching its aspiration of a prosperous society by 2040. Part of the solution lies in harnessing the digital economy. The benefits brought by the digital economy are extensive and can be shared by all sectors of society. Digitalization can enhance productivity by reducing firms' operational costs.

Digital occupations have featured disproportionately on the list of most in-demand jobs in the country. However, workers' digital skills and literacy have not caught up. Survey results reveal that over a quarter of Filipinos do not use the Internet because they do not know how to use it. While the government has started to address the skills gap, more can be done, including: (i) fostering digital competency through basic education to build the foundational skills for digital hardware and software use and (ii) adopting more upskilling and reskilling policies.

Digitalization faces a ceiling due to the low coverage of broadband service, despite the entrant of a third full-service operator in 2021. The country's fixed broadband, which is important for high volume data transmission and typically required by large businesses and institutions, continues to lag that of regional comparators such as Vietnam and Thailand. A key challenge is underinvesting decades of insufficient competition and outdated policy frameworks.

Sustained public investments and revived domestic activities will likely raise the demand for construction and industry. Public spending on infrastructure has spurred some growth in the economy, but it falls short of sparking much-needed structural transformation and in providing solutions for sustainable agriculture.

Source: The World Bank, June 2022

(a) With reference to Table 2:

- (i)** Calculate the real GDP per capita of Brazil and the Philippines in 2022. [2]
- (ii)** Explain the meaning of 'real' in the term 'real gross domestic product (GDP)'. [1]
- (iii)** Discuss whether sufficient information is provided to conclude that Brazil has a higher standard of living than the Philippines. [8]

(b) Using Extract 5 and Figure 2, explain why Brazil's fiscal balance worsened from 2021 to 2023 and comment on why it might be a concern to the government. [6]

(c) With reference to Extract 6:

(i) Using a demand and supply diagram, explain how 'the recovery in services and employment' led to 'rapid increases in commodity prices' in Brazil.
[5]

(ii) Explain how the 'provision of fuel subsidies to producers' can tackle inflation.
[4]

(iii) Explain how 'aggressive monetary tightening by raising interest rates' would help Brazil to battle inflation.
[4]

(d) With reference to Extracts 7 and 8, discuss whether Brazil or the Philippines would be more successful in their pursuit of sustainable growth.
[10]

[Total: 40]

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