ST ANDREW'S JUNIOR COLLEGE
Preliminary Examinations
Higher 2

ECONOMICS 9732/01

Paper 1 **10th September 2008**

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name 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 any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **9** printed pages and **1** blank page.

Answer **all** questions.

Question 1 **The Tourism Industry**

Extract 1: Emerging economies are transforming the travel industry

The rise of emerging economies marks the third revolution the travel industry has undergone in the past 50 years. The first came in the 1960s, in the shape of cheap air travel and package tours. Rising incomes enabled people of modest means to travel more, to farther-flung parts of the globe, and to take advantage of “all-in” offers that may have included sightseeing trips, scuba diving or camel rides. The second was the advent of the internet, which has allowed millions to book flights, hotels, hire cars and package tours without going near a high-street travel agent.

Now fast-growing emerging economies—not just Dubai but also the BRICs (Brazil, Russia, India and China) and others, such as South Korea and Vietnam—are changing the world of travel once again, either as destinations or as sources of newly affluent travellers. According to McKinsey, a consulting firm, by the middle of the next decade, almost a billion people will see their annual household incomes rise beyond $5,000—roughly the threshold for spending money on discretionary goods and services rather than simple necessities. Consumers' spending power in emerging economies will rise from $4 trillion in 2006 to more than $9 trillion—nearly the spending power of Western Europe today.

For the next year or two, the travel industry is likely to find its long-standing customers in rich Western countries a less than reliable source of growth. As American families plan their holidays, many will be worrying about the frailty of their country's economy, the rising cost of petrol and—for those venturing outside the United States—the weakness of the dollar. Some European travellers, by contrast, will at least have the benefit of a strong Euro. Even so, Europeans are likely to feel the slowdown of the economy and the impact of the high price of oil.

What might stop tourism's latest revolution? Political violence is one possibility. Developed countries are no strangers to terrorism, but the dangers in emerging economies are greater. Another possible obstacle is the growing concern, especially in Western countries, with the environment. The industry, which contributes 5-6% of all carbon emissions, seems worried. Green strategies are multiplying.

Source: *The Economist*, 15th May 2008

Extract 2: Singapore’s Tourism Sector Performance

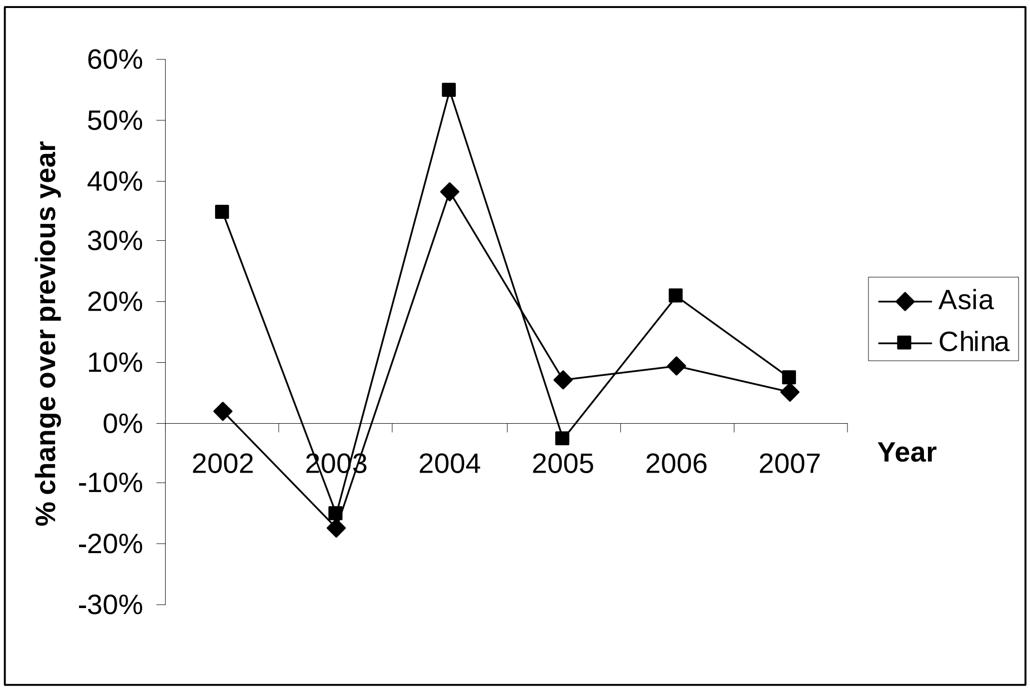
In June 2008, visitor arrivals to Singapore were at 816,000, representing a decline of 4.1% compared to June 2007. Indonesia (153,000), India (83,000), Australia (74,000), P R China (70,000) and Malaysia (53,000) were Singapore’s top five visitor-generating markets. These markets accounted for 53% of total visitor arrivals for the month.

10 out of the top 15 markets experienced a dip in visitor arrivals in June 2008 compared to June 2007. The likely factors for this decline in visitor arrivals include the global economic slowdown, as well as rising inflation and oil prices, which in turn may have impacted consumers' discretionary spending.

Singapore gazetted hotels were estimated to reap S$177 million in room revenue, representing a growth of 7.5% versus June 2007. The Average Room Rate (ARR) in June 2008 was estimated to be S$251, representing an increase of 20.1% over June 2007. The Average Occupancy Rate (AOR) for hotels was estimated to reach 82% in June 2008, posting a 5.0 percentage point decrease over June 2007. Revenue per Available Room (Revpar) grew by 13.1% to reach S$205 for June 2008.

Source: *Singapore Tourism Board* Monthly Fact Sheet, 2008

Figure 1: Visitors' arrivals from Asia and China



Source: Singapore Tourism Board, 2007

Extract 3: An Integrated Resort-Casino for Singapore

Gaming revenues for East Asia are expected to reach US$23 billion by 2010. Singapore is not the only country in Asia that is eyeing a slice of the gaming industry. Macau has already ended the local monopoly on the casino industry, and has issued new licenses in 2002. Besides Macau, South Korea, the Philippines and Vietnam have also announced plans to expand existing operations while Japan, Taiwan and Thailand have also contemplated legalising casinos.

The potential gains from allowing casino gambling can be grouped into three areas. First, for those individuals who gamble in moderation and receive enjoyment from the overall entertainment experience, the gain in utility arising from the presence of an additional recreational facility is a benefit. However, this aspect of the social gain is typically discounted in the overall calculation of the social cost and benefits. A second level of economic gains is the creation of jobs, stimulation of investment and tourism development, as well as potential for urban or waterfront redevelopment. Finally, for many governments, a third benefit from the legalisation of casino gambling is the creation of an additional source of revenue to the public sector.

Evidence from economic impact studies conducted in other countries such as Australia and United States suggests that tourist numbers and spending do increase with the development of casino-resort. In Singapore's case, proponents argue that having a casino might increase the average length of stay of tourists, entice them for repeat visits as well as attract a new group of high-rolling tourists to Singapore. In light of plans by Macau and South Korea to liberialise the gaming sector further, there are concerns that Singapore would see further erosion in tourist arrivals and lose out if the integrated resort-casino is not developed.

A substantial amount of tax revenue is generated from casino-gambling activities. The total amount of gambling duties collected by the Inland Revenue Authority of Singapore (IRAS) in the fiscal year 2003-2004 amounted to $1.524 billion, or 9.22% of the total tax revenue.

Source: Winston Koh, *Institute of Policy Studies*, 17 November 2004

Extract 4: Government Measures to Tackle Gambling Problem

As part of the national framework to address problem gambling, a National Council on Gambling will be set up in the second half of this year which includes public education on problem gambling and working with the community to reach out to those who need help. In addition to the national framework which will apply to all forms of gambling, stringent social safeguards for casinos will be put in place. A levy of $100 per day or $2,000 a year for membership will be imposed on all citizens and permanent residents. The entry levies collected will be channeled to the Singapore Totalisator Board for charitable and worthy causes.

The following provisions have been put in place to exclude local residents from casino premises: Spouses and family members will be empowered to exclude persons with gambling problems. Persons on publicly funded social assistance programmes, bankrupts and those with poor credit record will be excluded from the casino.

The casino operator will not be allowed to accept credit cards and post-dated cheques from local residents and will also not be permitted to extend credit to local residents. All forms of advertising of the casino in the local mass media will be prohibited. MCYS will work with the Ministry of Home Affairs, which will set up the casino regulatory agency, to ensure the strict enforcement of all the safeguards.

Source: *Singapore Government: Ministry of Community Development, Youth and Sports (MCYS) Webpage*, 18 April 2005

Questions

(a) Compare the change in visitors' arrivals from Asia with those from China over the period 2002-2007. [2]

(b) In Extract 2, Singapore Tourism Board announced that "Revenue Per Available Room (Revpar) grew by 13.1% to reach S$205 for June 2008". Using a demand and supply diagram, explain the rise in Revpar. [4]

(c) Explain the rationale for government intervention in the gambling industry. [6]

(d) Evaluate the effectiveness of the measures implemented by the Singapore government to solve the market failure in the gambling industry. [8]

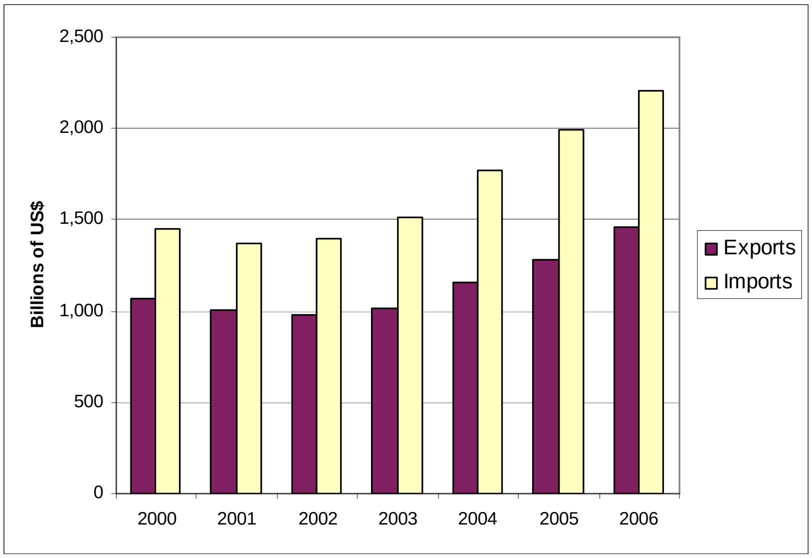
(e) Identify the present challenges in Singapore's tourism industry and assess to what extent Singapore's upcoming integrated resorts is effective in dealing with these challenges. [10]

[Total: 30]

Question 2

US Trade Deficit

Figure 2: US Trade in Goods and Services



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 3: Trade Weighted Exchange Index of US$

Source: Federal Reserve Bank of St Louis, USA

Extract 5: Competitiveness of the US Economy

Last year, 11,375 U.S. workers were laid off because their jobs were moved overseas, according to the Bureau of Labor Statistics. In many of those cases, Mexico and China were cited as the place where the jobs were going, a bureau official said. In 2004, 16,197 workers were laid off because their job was moved overseas. The figures don't capture all layoffs – only the bigger ones, the official said.

For American companies seeking to compete on a global scale, India is a magnet – especially for white-collar, service-sector employees –because of the lure of lower-wage, highly educated workers who also are fluent in English, experts say. India's outsourcing industry alone is expected to bring in $22 billion in revenue this fiscal year, much of that generated by U.S. companies. Blue-collar factory jobs in the United States, meanwhile, have been more likely to be moved to China or Mexico, experts say.

Another perspective is provided by reviewing the investments by foreign car companies in the United States. The Japan Automobile Association reports that its members have opened 28 plants in the United States with more than 55,000 employees. If the employment created by their dealerships is added in, these firms account for more than 415,000 U.S. jobs. Korean automakers Hyundai and Kia are next in line to follow suit in the United States. Farther back in line (but not all that far back) are China, Malaysia, and Vietnam.

Sources: *Associated Press*, 03 March 2006
Supply Chain Management Review, 01 March 2006

Extract 6: How Free Trade Hurts

The new mobility of capital and technology, coupled with the revolution in information technology, makes production of goods possible throughout much of the world. The result has been a global race to the bottom as corporations troll the world for the cheapest labor, the fewest health, safety and environmental regulations, and the governments most unfriendly to labour rights. U.S. trade agreements paved the way for this race: While rejecting protections for workers or the environment, they protected investors and corporate interests.

The results of such trade agreements are skyrocketing trade deficits -- more than $800 billion this year alone -- and downward pressure on income and benefits for American workers. Why? Because these agreements enable countries to ship what their low-wage workers produce to the United States while blocking many U.S. products from entering their countries.

Equally important, by enabling this kind of trade, the agreements force U.S. workers to accept cuts in their pay and benefits so their employers can compete with low-wage foreign producers. And those workers are the lucky ones. Millions of others have lost their jobs as corporations moved overseas to build the same products with cheap foreign labour.

Free-trade agreements have protected drug companies, international investors and Hollywood films, yet failed to protect our communities, our workers and our environment. We believe there is a better way. Fair trade is not the enemy of more trade. It's how we expand international trade without reversing U.S. economic progress.

Source: *Congressional Research Service* (CRS) Reports and Issue Briefs, 01 August 2006 and *Washington Post Online*, 23 December 2006

Extract 7: China's exchange rate - Yuan step from the edge

It is worth examining the case for a big revaluation of the Yuan. China has accounted for only one-third of the increase in America's total deficit over the past five years, making the focus on China alone unfair. Moreover, the main reason for the increase in America's deficit with China is that since joining the World Trade Organization in 2001, China has become an attractive place in which to assemble goods that were previously made elsewhere in Asia. Chinese exports have replaced those from countries such as South Korea and Taiwan, and so America's widening deficit with China has been offset by a falling deficit with the rest of Asia.

Not only would a rise in the Yuan fail to dent America's trade deficit, but imposing tariffs on Chinese goods would hurt America's economy by more than China's. Consumers who enjoy cheap clothes and televisions would be the biggest losers, along with multinational companies. Two-thirds of all China's exports come from non-Chinese firms—including American ones. China would retaliate with countervailing duties on American products, and American firms in China could face sanctions. Even if tariffs shut down the trade with China, America's trade deficit would still loom large as imports shifted to a higher-cost producer.

The main reason why neither a revaluation of the Yuan nor trade restrictions will slash America's external deficit is that the real cause of that deficit is that the country consumes too much and saves too little. It has done little to boost national saving by addressing its reckless fiscal policy. America would be in a much stronger position to lecture China over its currency if its own economic policies were in good order.

Source: *The Economist*, 30 March 2006

Questions

(a) (i) Compare the trend of US trade deficit and US$ exchange rate from 2000 to 2006. [2]

(ii) Explain **one** reason for the trend of US trade deficit. [2]

(iii) Examine the impact of the US trade deficit on US$ exchange rate. [3]

(b) To what extent can the Theory of Comparative Advantage explain changes in investment inflow and outflow from the US? [5]

(c) (i) Explain how a government can maintain a fixed exchange rate system. [2]

(ii) Discuss whether a revaluation of the Yuan will improve the US trade deficit. [6]

(d) Based on the information given, should the US government adopt a protectionist approach towards trade? [10]

[Total: 30]

Copyright Acknowledgements:

Extract 1	The Economist, 15th May 2008
Extract 2	Singapore Tourism Board Monthly Fact Sheet, 2008
Extract 3	Winston Koh, Institute of Policy Studies, 17th November 2004
Extract 4	Singapore Government: Ministry of Community Development, Youth and Sports Webpage, 18th April 2005
Figure 1	Singapore Tourism Board, 2007
Extract 5	Associated Press, 3rd March 2006 & Supply Chain Management Review, 1s March 2006
Extract 6	Congressional Research Service (CRS) Reports and Issue Briefs, 01 August 2006 and Washington Post Online, 23 December 2006
Extract 7	The Economist, 30 March 2006
Figure 2	Bureau of Economic Analysis, US Department of Commerce
Figure 3	Federal Reserve Bank of St Louis, USA

ST ANDREW'S JUNIOR COLLEGE
Preliminary Examinations
Higher 2

ECONOMICS **9732/02**

Paper 2 **26th August 2008**

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and civics group code 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 any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from **either** Section A or Section B.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **2** printed pages.

Answer **three** questions in total.

Section A

One or two of your three chosen questions must be from this section.

1 Discuss the importance of the various elasticity concepts to a government's economic policies. [25]

2 Large firms enjoy lower costs thus they can charge lower prices.

(a) Explain why large firms may enjoy lower costs. [12]

(b) Discuss the view that large firms are beneficial in view of the cost-savings they enjoy. [13]

3 **(a)** Explain why market dominance lead to market failure. [10]

(b) Discuss the view that the Singapore government should always intervene in correcting the above market failure. [15]

Section B

One or two of your three chosen questions must be from this section.

4 In recent years, Singapore has been developing new sources of economic growth, such as biomedical sciences, digital and interactive media, environmental and water technology and attracting high-profile events such as the F1 Formula race and winning the bid to host World Youth Olympics.

(a) Using a relevant economic theory, explain how these industries and events can affect Singapore's equilibrium level of national income. [10]

(b) Discuss the extent to which their resultant economic growth conflict with other macroeconomic objectives. [15]

5 "If budget deficit is a problem, then a budget surplus is not a problem". Discuss. [25]

6 **"**With asset prices falling in many key markets, soaring energy and commodity prices stoking inflation, and global growth on a downturn, the world faces some difficult policy choices".

- IMF First Deputy Managing Director John Lipsky, 22nd July 2008

(a) Explain the macroeconomic impact of the above on Singapore. [12]

(b) Assess the policies that the Singapore government can adopt to reduce the harmful effects of these problems. [13]