National Junior College
Humanities Department

JC 2 Preliminary Examinations for General Certificate of Education Advanced Level
2008 JC2 H1 Economics (Syllabus 8816)

ECONOMICS 8816

Higher 1

Section A: Case Study
Section B: Essay

August 2008

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Do not open this booklet until you are told to do so.

Write your name and subject 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.

Section A:
Answer ALL questions

Section B:
Answer ONE question.

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

At the end of the examination, fasten all your work securely with the cover page given.

Fill in the necessary information on the cover sheet and **circle** the **essay** question chosen.

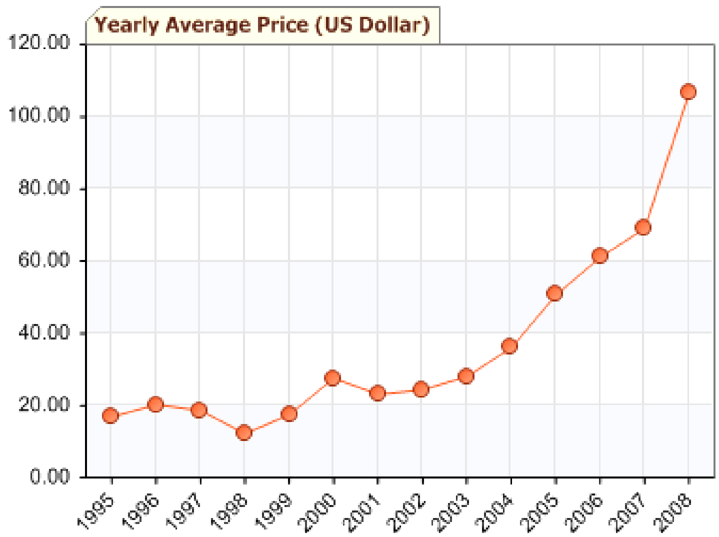
You are reminded of the need for good English and clear presentation in your answers.

Section A

Answer all questions in this section.

Question 1

Figure 1: Price of Oil (US$ per barrel)



source : OPEC website www.opec.org

Table 1 : Price of Rice (Thai A1 super grade)

Year	2002	2003	2004	2005	2006	2007
Price of rice per tonne (US$)	150	151	207	219	217	275

Source: International Rice Institute Research website www.irri.org

Extract 1: Don't Panic, Don't Hoard And Don't Overbuy

"Don't Panic, Don't Hoard And Don't Overbuy." This message comes from Ms Sopan Manathanya, the vice-president of one of Thailand's top rice exporters. She is in Singapore on a 3-day visit to assure rice distributors here that Thai rice conglomerates like hers are taking steps to increase the number of crops harvested in a year and are also negotiating prices with farmers.

According to Ms Sopan, factors pushing up the price of rice include the growing number of farmers switching from producing rice to biofuels, weather conditions and higher overheads.

Source: Adapted from The New Paper, 29 Apr 2008

Extract 2: Targeted Price Controls in United Arab Emirates

A black market for rice has emerged in inflation-hit United Arab Emirates. An Abu Dhabi-based food trader said: "The price you pay a black market dealer could be as much as 20% more than what you pay normally."

The United Arab Emirates (UAE) government has reportedly tried to limit inflation through targeted price controls. This measure has pushed rice supplies off store shelves. As a result of this, people took to panic buying, thereby causing Thai rice prices to nearly treble.

According to traders, the UAE will continue to encounter a shortfall in rice supplies. A rice trader said: "The number of traders who stopped importing rice in the last couple of months is scary. They want subsidies and compensation and the government is not giving any. We cannot import and make losses, if the countries we are importing from like Pakistan, demand higher prices and sell their output to other destination."

With the implementation of price controls, food and commodity inflation is likely to come down. Nevertheless, prices may still remain high due to global trends.

UAE is a member of the Organization of the Petroleum Exporting Countries, OPEC, which is the source of about a third of the globe's oil supply. OPEC is widely regarded as the greatest beneficiary of the global oil price hike.

Source : Adapted from Reuters, Jun 2008

Table 2: Tax as a percentage of petrol price in G7 countries

Country	Tax* as a percentage of petrol price (%)
France	50
Britain	61
Germany	58
Italy	52
Japan	37
Canada	27
USA	21

*Includes value added tax and fuel tax

Adapted from : www.opec.org

Extract 3: Proposed Tax on Windfall Profits of Oil Companies

At a time when Americans are finding they're having to give up a host of things just to fill their gas tanks, they read news stories about record oil company profits. To address America's anger over $4 a gallon gasoline, Democratic leaders have proposed a tax on the "unreasonable" profits of the five largest U.S. oil companies.

Exxon Mobil, one of the five largest oil companies, fired back at the call to counteract skyrocketing energy costs by hiking levies on producers. Exxon Mobil said that U.S. energy companies already pay record taxes and that the high oil price is due to speculation in the oil market.

"Proposals to increase taxes on the industry would discourage the sustained investments needed to safeguard U.S. energy security and are not in the interests of American consumers," Exxon Mobil said. Other market analysts interviewed also urged for long-term solutions to protect consumers' welfare.

Adapted from Reuters, Jun 2008

Questions

(a) (i) With reference to Figure 1 and Table 1, compare the trend of prices of rice and oil in the period 2004 to 2007. **[2]**

(ii) With reference to Extract 1, provide a possible explanation for the relationship between the price of rice and that of oil between 2004 and 2007. **[2]**

(b) With reference to Extract 2, explain the UAE government's choice of using price controls over subsidy in the rice market. **[6]**

(c) Using economic analysis, discuss the possible impact on the Singapore economy as a result of persistent increases in the price of oil worldwide. **[6]**

(d) With reference to Table 2, explain 2 possible economic reasons for the government intervention in the petrol market. **[4]**

(e) With reference to Extract 3, critically comment on the proposal of a tax on any "unreasonable" profits of the five largest US oil companies to correct the market failure present. **[10]**

[30m]

Question 2

EXTRACT 1 - Inflation in Singapore may hit 6.5% this month

Consumer prices in Singapore may surge a staggering 6.5% this month, bringing full-year average inflation to an equally eye-popping 5%, according to Citigroup. A lethal combination of surging food and oil prices worldwide, coupled with higher housing and transport costs at home are likely to cause the spike in price levels this month, while lower interest rates may stimulate property prices later in the year, said Citigroup economist, Kit Wei Zheng yesterday.
Mr Kit said his higher estimate stems from "pent-up price pressure from the strong economic growth of the past two years". According to another source quoted by Mr Mirza Baig, a strategist at Deutsche Bank in Singapore, annual inflation is expected to peak around the middle of this year as oil prices continue to rise despite the talk of a slump in global growth and as bottlenecks persist in food supplies.

The prospect of a recession in the United States has barely stopped the run-up in oil prices, which are at record levels above US$100 a barrel and are still rising. Across Asia, there is no let-up in rents or food prices, which are feeding into a general inflation – at a 26-year high in Singapore and an 11-year high in China – and are pushing up wages. Among the soft commodities, wheat prices are at record highs after a 120% surge in 14 months.
Some analysts argue that the spike in prices is seasonal. They believe food supplies will improve in the summer as China's disruptive winter storms abate and oil demand in the northern hemisphere weakens when heating becomes unnecessary. Nomura economist Tomo Kinoshita said exported inflation from China's double-digit expansion would add to pressures, particularly next year, as rises in wages and materials such as steel generate higher prices in the rest of Asia. Another inflationary factor that will not simply disappear with winter is a structural shift stemming from the growing middle class in Asia, especially China and India which will spur demand for goods.

The upshot for policy is that monetary conditions may have to be tightened, or at least not loosened, and currencies allowed to appreciate, even though global demand for goods from Asia, which relies heavily on its exports, may be waning.

Adapted from The Straits Times, January 15th & March 7th 2008

Extract 2 – Sing $ rises to new high against the greenback

The Singapore dollar has soared to its highest-ever level against the United States dollar, as speculators kept dumping the greenback on US recession fears. Just 6 months ago, it was about S$1.51 to the US$, but the local currency hit S$1.3864 to the weakening US$ yesterday. US recession worries have led to sharp cuts in interest rates, prompting currency speculators to flood foreign exchange markets with the US currency in search of better returns. And the trend is unlikely to change any time soon, said Fortis currency strategist Joseph Tan. The Singdollar has risen 2.2% against the US dollar in the past month alone. Experts expect it to get even stronger by the end of this year – going as high as S$1.35 then.

Economists say the strong Singdollar will be a key weapon in the fight against inflation in Singapore, which hit a 25-year high in January. The Monetary Authority of Singapore (MAS) uses the Singdollar exchange rate as a tool of monetary policy – mainly in the important fight against inflation. Last October, the MAS tweaked its policy stance to allow for a slightly steeper appreciation of the Singdollar, as inflation escalated to record levels.

Economists, however, warn that even though most Asian currencies are strengthening, Singapore's exporters could still lose out in terms of competitiveness, as the Singdollar is appreciating faster than most regional currencies, except the Malaysian ringgit and the Taiwanese dollar. It is also important to note that inflation and rising business costs would further hurt Singapore's export competitiveness.

Adapted from The Straits Times, March 7th & 14th 2008

Table 1: Singapore's Key Economic Indicators, 2002-2008

	2002	2003	2004	2005	2006	2007	2008 (est)
GDP at 2000 prices (Change in %)	4.18	3.50	8.99	7.29	8.17	7.72	3.98
Consumer Price Index (2000 = 100)	100.6	101.11	102.80	103.29	104.29	106.48	110.01
Current Account Balance (US$ bn)	11.12	21.58	18.24	22.28	29.77	39.16	38.07
S$ per US$	1.791	1.742	1.690	1.665	1.589	1.5071	1.403

Source:www.imf.org

Extract 3: Fairy-tale Economy no more?

Singapore has enjoyed an impressive run over the past four years, averaging 7.7% annual GDP growth, together with an average of 1% annual Consumer Price Index (CPI) inflation in 2007. However, there seems to be some moderation in growth this year, with growth expected to be between 4.5% to 6.5%. Together with the pick-up in the November CPI to 4.2% year-on-year, it suggests some erosion from the fairy-tale combination of high growth and low inflation of the past few years.

Although still healthy, with unemployment remaining near the lowest in a decade, the economic performance is likely to falter somewhat this year. Not coincidentally, this slippage comes in the face of a murky outlook for the global economy this year due to the turmoil in the financial markets and the threat of a slowdown in the US economy, the traditional engine of growth. Together with a drag from higher oil prices, there are fears this could weigh upon US consumer spending, potentially pulling down export demand.

While fears are mounting of a global economic slowdown, some analysts predict that the ongoing momentum in developing giants like China and India can help cushion the impact on Singapore. Standing at the heart of the world's 2 highest-growth regions – with China registering a scorching expansion of 11.4%, closely followed by India's 9.4% last year – Singapore would be able to ride out this storm. Also, the massive foreign as well as local investments pouring into the island, especially in the construction sector, is believed to be able to "mitigate" the problems that might surface in the Singapore economy.

Adapted from The Straits Times, January 11th & February 12th 2008

Questions:

(a) i) With reference to Table 1, summarise the trend in consumer prices between 2002 and 2008. [1]

ii) To what extent does the data suggest that inflation in Singapore is cost-push in nature? [6]

(b) With reference to Table 1, to what extent does the data support the relationship between inflation rate and current account balance in Singapore? [5]

(c) With reference to the data where relevant, discuss the impact of the change in the strength of the US dollar on Singapore. [8]

(d) Against the backdrop of globalisation and the economic downturn in US, critically examine the use of policies other than the exchange rate in helping Singapore achieve its macroeconomic aims. [10]

[30m]

Section B

Answer **one** question from this section.

3 "Beijing has settled on a plan to ground half of its cars to alleviate air pollution and traffic congestion in the Chinese capital during the August Olympic Games. The temporary limit barred cars with licence plate numbers ending in odd or even numbers from entering the city on alternate days."

The Straits Times, 24th January 2008

(a) Explain how the situation described above is an example of market failure. [10]

(b) Discuss whether this partial banning of cars from entering the city is the best solution to alleviate air pollution and traffic congestion in Beijing. [15]

4 "On the trade front, Singapore's network of 13 Free Trade Agreements (FTAs) with countries ranging from USA to China has exposed Singapore to a myriad of benefits like tariff concessions and faster entry into markets."

Adapted from www.iesingapore.gov.sg

(a) Analyse the impact of Free Trade Agreements on Singapore. [12]

(b) To what extent can the policies currently adopted by the government help Singapore cope with the negative impact of such Free Trade Agreements? [13]

END OF PAPER