

NATIONAL JUNIOR COLLEGE
SH2 Preliminary Examinations for General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

Paper 1

3 September 2013

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your student registration number and 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 paper clips, highlighters, glue or correction fluid.

Section A: Case Study Questions

Answer **ALL** questions. You are advised to spend some time reading through the data before you begin writing your answers.

Section B: Essay Questions

Answer **ONE** question.

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

Start each question on a new piece of paper.

At the end of the examination, fasten all your work securely with the cover pages given.
Fill in the necessary information on the cover pages.

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

This document consists of **11** printed pages; including 3 cover pages.

Section A

Answer **all** questions in this section.

Question 1 Cooling the Public Housing Market

Extract 1: HDB resale prices hit record highs, even with supply ramped up

The Housing and Development Board (HDB) resale prices have soared to a record high, even as HDB ramps up the supply of new flats to keep a lid on prices.

Resale prices went up by 2 per cent - the largest increase since the third quarter of last year, according to latest estimates.

This news comes even as HDB is launching more new flats with its Build-To-Order exercises in areas such as Queenstown, Bedok, Toa Payoh, Sengkang and Choa Chu Kang, which will be put on the selling block next month.

Unfortunately, it takes time for supply to catch up with demand because of the period required for construction.

Source: Adapted from *The Straits Times*, 1 October, 2012

Extract 2: Second half of Government Land Sales creates more housing and commercial sites

The second half of the 2013 Government Land Sales Programme with 11 confirmed list sites and 20 reserve list sites was announced on Tuesday. Together with pending projects, the supply is assessed to meet continued demand for private housing and commercial space.

Each year, Urban Redevelopment Authority acts as agent for the State in carrying out land sales, which are earmarked for competing uses such as for commercial, hotel and private residential developments. The objective of Government Land Sales programme is to meet the demand for properties by the private sector, supporting the economic growth and implementing key development plans of Singapore.

This year, the confirmed list is composed of one commercial site and 10 private residential sites - of which five are executive condominium sites.

Source: Adapted from *The Straits Times*, 25 June, 2013

Extract 3: Property fever – Band-Aid not the cure

Seven rounds of property cooling measures later, the market is still lively. There's a need for holistic measures that go beyond loan limits and stamp duty hikes.

The previous rounds of cooling measures from September 2009 slapped on additional stamp duty for buyers that sold the properties too quickly to deter speculative demand and tightened home loan restrictions. Thus, home sales dipped immediately after each round. Some buyers even forfeited options to buy, in anticipation of price falls.

But in January, despite another round of cooling measures, the property market rebounded. New private home sales were up 43 per cent in January from December, propelling home sales to more than 2,000 units.

This is because some analysts say the underlying demand for property remains strong, explaining the uptick in sales volumes in the last quarter.

The biggest factor fuelling property demand is a healthy economy and low interest rates.

Many households have amassed cash reserves which can be put down as a deposit for a property. The shallow capital markets here also make property investments the easiest and most accessible avenue for an investor to park his cash to generate returns.

Then there are lifestyle changes. More single professionals are now moving out of their parents' homes before they are married, creating more demand for homes.

While prices are at a plateau, they are still at an all-time high, after recovering 60 per cent from the global financial crisis in the second quarter of 2009.

Deputy Prime Minister Tharman Shanmugaratnam said in an interview with Bloomberg in February that "some correction in prices will not be out of order".

But rather than more of the same kind of measures - loan curbs or more stamp duties - analysts say there is a need for a new approach. More rounds of cooling measures centred on loan limits and stamp duties can, at best, be just a short-term Band-Aid. They have the advantage of course of being easy to remove when the market does cool. But they do not fundamentally shift the underlying demand for property.

A buoyant property market is a sign of confidence in the economy and the future. But the line between confidence and over-exuberance is a thin one. When demand and prices streak ahead of growth fundamentals and defy repeated cooling measures, it may be time for more fundamental action.

Source: Adapted from *The Straits Times*, 9 April, 2013

Extract 4: Beyond Building & Renewing Homes: HDB Brings Greener Homes to More Residents

HDB plans and develops public housing towns that provide Singaporeans with quality homes and living environments.

One key priority of HDB is the building of cohesive communities within its towns. Living environments are provided with community spaces for residents to mingle and interact. Public housing policies and schemes are formulated not only to meet changing needs and aspirations, but they also support national objectives such as maintaining racial harmony and stronger family ties, and focus on the needs of elderly and those who may be in financial difficulty.

In November last year, HDB announced the Roadmap to Better Living in HDB Towns – to build well-designed, sustainable and community centric towns. The HDB Greenprint is an important initiative in this Roadmap - to build "Sustainable Towns". HDB will therefore create sustainable homes in partnership with the community.

The pilot "Green Neighbourhood" in Jurong East will test-bed a slew of sustainable initiatives within the estate. Some of the features include:

- Energy and water-saving solutions.
- Pneumatic Refuse Collection System that allows refuse to be automatically sucked to a centralised collection area.
- Integrated and Eco-Friendly Urban Transport Infrastructure.
- Improved covered walkways to provide shade, thus promoting walking as a commuting mode within the town and neighbourhoods.

Source: Adapted from *HDB Press Release*, 21 April, 2012

Table 1: Property Price Indices By Type of Property

	2006	2007	2008	2009	2010	2011
Residential						
HDB Resale	103.6	121.7	139.4	150.8	172.0	190.4
Private Residential	130.2	170.8	162.8	165.7	194.8	206.2
Commercial						
Office Space	89.3	118.4	110.1	92.0	109.4	124.5
Shop Space	101.3	114.7	112.5	105.6	114.7	120.8

Source: Urban Redevelopment Authority

Questions

- (a) With reference to Table 1 and Extract 1:
- Compare the change in prices of HDB Resale Residential property and Commercial Shop Space from 2006 to 2011. [2]
 - Explain how the supply of new flats might help to 'keep a lid on prices' of resale flats. [2]
- (b) (i) Describe the trend in Private Residential property prices over the period 2006 to 2011. [2]
- (ii) Using economic analysis, account for the trend in Private Residential property prices identified in (b)(ii). [4]
- (c) With the aid of diagrams, explain how the change in the prices of Residential property could cause changes in the prices of Commercial property. [4]
- (d) With reference to the data, evaluate the measures to address the increasing property prices in Singapore. [8]
- (e) Discuss the view that government provision of public housing is necessary. [8]

[Total: 30 marks]

Question 2 Looming Threats to Global Recovery

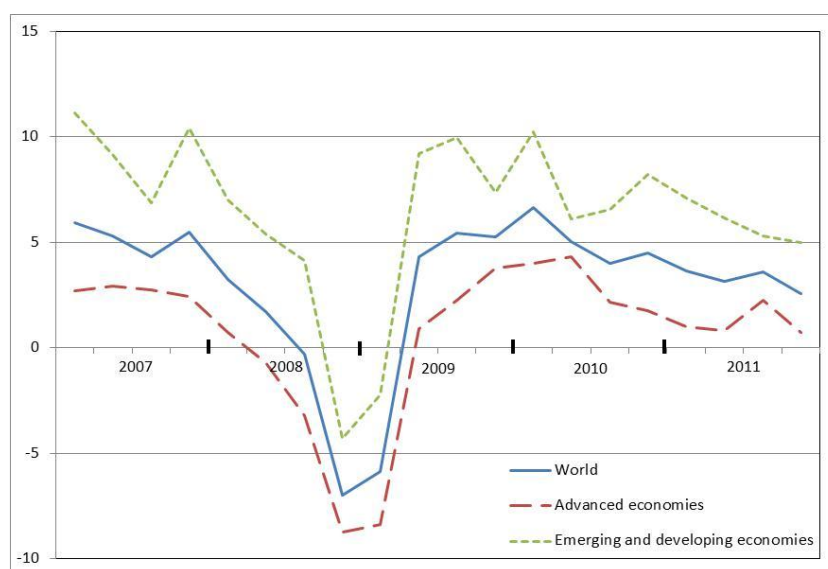
Extract 5: Signs of overheating in emerging markets

Emerging market economies that powered the global recovery may be growing too fast for their own good as inflation pressures build, a top International Monetary Fund (IMF) official said. China, Brazil and other fast-growing nations have struggled to contain inflation and control heavy inflows of investment money.

After the global economic slump of 2008 and 2009, the recovery took divergent paths, with emerging markets powering ahead while advanced economies merely trudged along. With growth and interest rates remaining unusually low across the developed world, investors have flocked to emerging markets, bringing much-needed capital but also a risk of inflation. Rising oil prices have compounded the inflation problem. The latest worries about supply disruptions due to the Middle East unrest created a "fear factor" that drove oil above \$100 a barrel, which if sustained would pose a bigger threat to growth. For emerging markets, cooling growth without inflicting too much damage on the global economy will require some delicate manoeuvring.

Source: Adapted from Lesley Wroughton and Chrystia Freeland, *Reuters*, 7 March 2011

Figure 1: Quarter-on-Quarter Annualised Global GDP Growth (Percent)



Source: International Monetary Fund

Extract 6: Rising oil prices pose new threat to U.S. economy

The American economy just can't catch a break. Last year, as things started looking up, the European debt crisis flustered the fragile recovery. Now, under similar economic circumstances, comes the turmoil in the Middle East.

Energy prices have surged in recent days, as a result of the political violence in Libya that has disrupted oil production there. Prices are also climbing because of fears the unrest may continue to spread to other oil-producing countries. If the recent rise in oil prices sticks, it will most likely slow a growth rate that is already too sluggish to produce many jobs in this country. Even if energy costs don't rise higher, lingering uncertainty over the stability of the Middle East could drag down growth, not just in the United States but around the world.

Though the initial panic from last year has faded, Europe's deep debt problems remain, creating another wild card for the global economy. Protests turned violent in Greece this week in response to new austerity measures.

Budget and debt problems at all levels of American government also threaten to crimp the domestic recovery. Struggling state and local governments may dismiss more workers this year as many face their deepest shortfalls since the economic downturn began, and a Congressional stalemate over the country's budget could even lead to a federal government shutdown.

Source: Adapted from *The New York Times*, 24 February 2011

Extract 7: China's economy grows at 9.1%

China's red hot economic growth cooled slightly from July through September, but remains the envy of many western countries still struggling to recover from the global economic meltdown. China's GDP grew at an annual pace of 9.1% during the third quarter, down from 9.5% growth in the second quarter and 9.7% growth in the first three months of the year. This compares with just 1.3% growth in the United States and 0.2% growth in the 17-country eurozone during the second quarter.

China's government is fighting to rein in high inflation without pushing the economy into a so-called hard landing. As part of that effort, the People's Bank of China has tried to tighten credit markets by raising interest rates five times since last October and also imposing higher reserve requirements on many of the nation's banks. But the effect on inflation has been slow to take hold as consumer prices are still rising at breakneck speed. In September, prices increased 6.1% annually, compared with just 3.6% from a year earlier.

Economists are expecting demand for Chinese exports to weaken in coming months, as the U.S. and European economies struggle to grow at even a modest pace. At the same time, they don't expect weaker exports to pose a significant threat to China's overall economy, since the government there is also focused on promoting more domestic demand.

Source: Adapted from *CNNMoney*, 18 Oct 2011

Extract 8: If the eurozone implodes, Britain will go with it

Britain's economy may already have dipped back into recession, but thanks to developments in Italy over the past few days, the chances of it being pushed into something very much worse just got a whole lot bigger. Economic contraction, reinforced by repeated rounds of austerity, has put Italian sovereign debt on an unsustainable path. Italy needs growth to climb out of the hole it is in, but it is getting the very reverse. Italy, the eurozone's third largest economy, is not just "too big to fail", but it may also be too big to bail. The crisis is again spiralling out of control. A debt default by Italy could well push the eurozone into a financial crisis, and British banks which own part of Italy's debt would not be spared.

It is hard to find anyone of sound mind who now thinks that the single currency was a good idea. These days, the project is held together not by the dream of what it might one day achieve, but only by fear of the consequences if it were allowed to fail.

If the euro is unsustainable in its current form, would it not be better just to get the whole thing over with and let distressed members peel off? It's a seductive argument, but regrettably also a wrong-headed one. It's not for nothing that the Americans and the Chinese are almost as terrified as the Europeans at the prospect of a messy end to the single currency.

A eurozone implosion would amount to the biggest bankruptcy in history. There could be no benign outcome to such an event. Banking systems would collapse, credit would dry up, and world trade would go into freefall. The consequences would be felt everywhere, including in the US and China. But for Britain, which is on the front line, it would be much worse. An already likely home-grown recession would be multiplied several times over.

Source: Adapted from *The Telegraph*, 9 November, 2011

Table 2: Government Budget Balance and Government Debt

	Budget Balance (% of GDP)				Central Government Debt (% of GDP)			
	2008	2009	2010	2011	2008	2009	2010	2011
Greece	-9.9	-15.6	-10.6	-9.8	121.3	136.9	129.2	106.5
India	-4.9	-5.4	-3.6	-3.7	56.1	54.3	50.4	48.5
Italy	-2.3	-5.0	-3.8	-3.5	107.2	119.1	117.7	110.9
United Kingdom	-4.7	-11.0	-10.1	-7.7	57.3	73.0	86.6	101.2
United States	-5.4	-10.5	-10.4	-9.3	55.5	67.7	76.8	81.8

Source: The World Bank

Questions

- (a) (i) With reference to Figure 1, describe the trend in GDP growth of emerging and developing economies over the period 2007 to 2011. [2]
- (ii) Suggest two possible reasons why the recovery of advanced economies and of emerging economies after the global economic slump of 2008 and 2009 'took divergent paths'. [4]
- (b) Using the information in Table 2, compare the patterns of budget balance in the UK and India, between 2008 and 2011. [2]
- (c) (i) State the theoretical relationship between the government budget balance and the government debt. [1]
- (ii) Explain one reason why the above relationship might not be observed from the data in Table 2. [2]
- (d) Using a relevant diagram, analyse the effect of rising oil prices on economic growth of the US. [3]
- (e) With reference to the data, assess the appropriate policy options for the US government to keep the economy growing amidst the threats it is facing. [8]
- (f) It is said that 'Italy, the eurozone's third largest economy, is not just "too big to fail", but it may also be too big to bail'. Discuss the possible impact of an unsustainable Italian government debt on the economies of the UK and China. [8]

[Total: 30 marks]

Section B

Answer **one** question from this section.

3. In 2010, Singapore emitted around 43 million tonnes of greenhouse gases that cause global warming. If nothing is done, its output in 2020 would reach 77.2 million tonnes. The government has pledged to cut emissions.

- *Adapted from The Straits Times, 3 June 2013*

- (a) With the use of examples, explain how the presence of positive and negative externalities may lead to market failure. [10]
- (b) Discuss the view that the use of tradable permits is the best solution to correct the problem caused by carbon emissions in Singapore. [15]
4. (a) Explain the factors that may result in sustained economic growth in Singapore. [10]
- (b) Discuss the view that globalisation is largely beneficial to the Singapore economy. [15]

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