H

ST. ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2014
General Certificate of Education Advanced Level
Higher 2

ECONOMICS **9732/01**

Paper 1: Case Study Questions **1 September 2014**

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and 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 any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions in this section.

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.

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Answer all questions

Question 1

The Olympics: The London Model

Extract 1: Pricing Strategy by London Organising Committee of the Olympic Games

The London Organising Committee of the Olympic Games (LOCOG) has revealed the ticket pricing structure across the 26 sports of the Olympic Games. There will be a range of prices.

"Spectators are a vital part of every Olympic Games, providing the atmosphere that inspires athletes to perform, with the range of tickets on offer, people of different ages and preferences will have the chance to attend London 2012." said Hugh Robertson, Olympics Minister.

Demand was greatest for the Opening Ceremony as well as the popular sports of track, swimming and artistic gymnastics. LOCOG had provided a world-class hub to hold various sport events. One of the sporting venues, the Aquatics Centre, offered two 50-meter pools and a diving pool. Given the large size and the huge turnout for swimming events at the Aquatic Centre, the cost of maintaining the facilities and security were expected to be particularly high.

Pricing of the tickets also depended on allocation of tickets. Some seats were allocated to selected group of people such as the accredited press and broadcast working at the event. They were entitled to seating privileges and hence they did not need to pay. This reduced the number of seats for sale to the public. This applied to some sessions, which include the Finals.

Adapted from *gov.uk*, 15 Oct 2010, and *The ticketing arrangements for the London 2012 Olympic Games and Paralympic Games,* www.london.gov.uk/, Mar 2011

Table 1: London Olympic Ticket Price to Fencing and Swimming

Sport Event	Venue	Session Type	Premium Seats	Standard Seats
Fencing	ExCeL London	Preliminary	£65	£20
		Final	£95	£30
Swimming	Olympic Park Aquatic Centre	Preliminary	£150	£40
		Final	£450	£95

Source: Ticketmaster.com

Extract 2: Hotels matching up with the golden sporting legacy

Over the seven week period, international visitors are expected to spend a total of £709 million in the UK, an 18% increase on what would be expected if the Olympics Games were not taking place. Overall, the retail, hotel and travel industry look set to be the biggest winners from the Games, benefiting from a combined spending injection of £508.4 million in seven weeks.

Hotels, with a direct reliance on tourists, arguably have more to gain, or lose, from any Olympic effect.

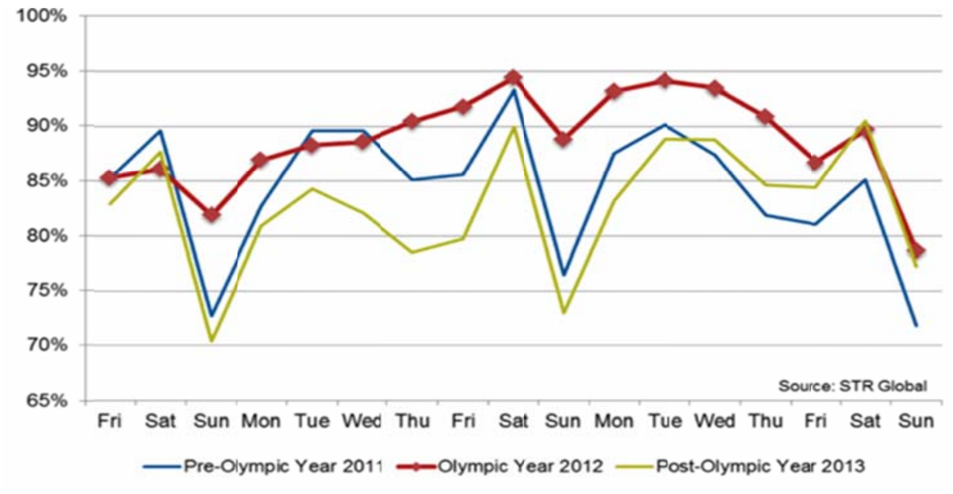
Hoteliers have taken the view that if they have a good business case for building, operating or refurbishing in London, they may as well invest and showcase that new investment to the world during the Olympic and Paralympic Games. According to a recent analysis in 2011, there are around 2,400 rooms in 18 hotels under construction or planned in London for 2011 and 2012.

The capital will see several new brands and/or operators joining the current luxury hotel industry. These will include the restored "Gothic St Pancras Renaissance" from the Marriott Hotel Group, the "Shangri-La Hotel at the Shard" and many others.

Holiday Inn, a hotel brand name under a major hotel group named Intercontinental Hotel, has been signed up as main hotel sponsor and the official hotel services provider to London 2012. The deal will mean the company will be able to use the 2012 logo in its advertising in exchange for help and accommodation for the athletes as well as for LOCOG.

Adapted from *Visa Europe's London 2012 Olympic Expenditure and Economic Report*, 11 July 2011, *instituteofhospitality.org*, March 2011 and *bighosptiality.com*, 1 Jun 2009

Figure 1: London daily hotel occupancy (day to day) for the same weeks in the Pre-Olympic year, Olympic year and Post-Olympic Year



Source: STR Global

Extract 3: **How big a party for hotels in 2012?**

London hoteliers have questioned the assertion from the Government and tourism agencies that the hospitality industry will see a boost in trade from the Olympics in the next two years as hotels begin to assess the impact of the Games.

While one of the upmarket hotels, The Hempel Hotel, had secured a booking for exclusive use of the hotel during the Games, other luxury hoteliers suffered from lower travellers' interest because of travel warnings to avoid the Olympics-sized hassles and not being so close to the capital. Business had been good in terms of occupancy and average room rate, as was to be expected with the proximity to the Olympic Park, but the events and weddings bookings have disappeared.

When there is a drop in demand and an increase in supply, hoteliers start doing silly things with price. They either have to join the others or stand to their grounds and live with the consequences. Only the smartest hoteliers and operators are going to be successful in 2013

Adapted from *bighospitality.com*, 5 Sep 2012

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Extract 4: London Strives for Zero Waste Olympics 2012

Approximately 80% of Games-time waste was expected to be food packaging. Some of these food packaging waste were made up of non-biodegradable products such as plastics, which would be buried in landfills or incinerated. Such waste disposal methods would

1. harm marine life due to the plastic residual in the landfill
2. create hazardous emissions from plastic incineration

As such, the aspiration of LOCOG is to stage a zero waste Games – to eliminate waste through the design of products and the way waste is handled. Targets have been established that no waste produced during the Games will be sent to landfill and that 70% of Games time waste will be reused, recycled or composted.

Adapted from: The Environmental Sustainability of the London 2012 Olympic and Paralympic Games, https://www.london.gov.uk, 1 June 2008

Extract 5: Sustainable waste management to maximise recycling

LOCOG would work with all catering suppliers, including international sponsors Coca-Cola and McDonald's, to have a look at the types of alternative materials used for packaging in order to maximise the potential for recycling and composting.

Encouraged by the Olympics, Coca-Cola made a business decision to invest in removing materials which do not comply with the LOCOG's packaging guidelines, in order to improve recyclability of the packaging and make it 100% recyclable. This packaging format has been permanently adopted and continues to be used after the Olympics.

Another road to achieving zero waste to landfill target is waste segregation. A bin system where spectators could separate the waste into three sections: recyclable, residual and compostable was implemented. The bins were different colours with matching bin bags and the residual waste bin was designed to be the smallest. The most innovative idea was that the food packaging was colour-coded to match which bin they should go into.

However, there was a shortage of residual waste bins across all venues, which led to high contamination levels. There were either recyclable materials in the residual waste bins or residual waste in the recyclable bins. A number of factors that contributed to the contamination of bins included the lack of assistance for spectators and potential confusion caused by items which were neither recyclable nor compostable.

Furthermore, in order to ensure that any food packaging used at Games Venues was in line with the waste management infrastructure used, it was important that suppliers met certain criteria when it came to the use of food packaging.

Adapted from *London 2012 Legacy Transfer Report: Packaging*, http://www.wrap.org.uk/, Nov 2012 and *GPT, the waste solution*, http://www.thewastesolution.co.uk/, last accessed on 11 Aug 2014

Questions

(a) **(i)** With reference to Table 1, compare the prices of Premium tickets for Fencing and Swimming. **[2]**

(ii) Explain two possible reasons to account for your observations in (a)(i). **[4]**

(b) With reference to Table 1, explain whether the differences in price charged for the same session of each sport event could be considered to be an example of price discrimination. **[4]**

(c) **(i)** What can you conclude from the information contained in Figure 1 about the impact of the 2012 London Olympic Games on London's daily hotel occupancy rate? **[2]**

(ii) Using the data where appropriate, discuss the short term and long term impact of the London Olympics on a dominant hotelier in the oligopolistic luxury hotel industry in London. **[8]**

(d) Do you agree that the promotion of waste segregation is a sufficient measure to achieve an efficient allocation of resources in the market for plastic food packaging? **[10]**

[Total: 30 marks]

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Question 2

Economic Slowdown in US and India

Extract 6: US economic recovery is a dangerous mirage

While the risk of a disorderly crisis in the Eurozone is well recognised, a more positive view of the United States has prevailed. For the last three years, the consensus has been that the US economy was on the verge of a robust and self-sustaining recovery that would restore growth.

The reality however is the opposite:

- Growth in the second quarter has decelerated from a mediocre 1.8% in January-March, as job creation – averaging 70,000 a month – fell sharply,
- Expectations of the "fiscal cliff" – tax increases and spending cuts (which would result in large spending cuts to education and infrastructure) set for the end of this year – will keep spending and growth lower through the second half of 2012, resulting in a 4.5%-of-GDP drag on growth in 2013
- Private consumption growth in the last few quarters has been slower than growth in real wages. In 2013, as transfer payments are phased out, however gradually, and as some tax cuts are allowed to expire, disposable income growth and consumption growth will slow.
- External forces may further impede US growth: a worsening Eurozone crisis; an increasingly hard landing for China; a generalised slowdown of emerging-market economies, owing to cyclical factors (weak advanced-country growth) and structural causes and the risk of higher oil prices in 2013 as negotiations and sanctions fail to convince Iran to abandon its nuclear program.

Adapted from *The Guardian*, 20 July 2012

Extract 7: Recovery slowed by 'ill-designed' cuts

The International Monetary Fund (IMF) said on Friday that an "excessively rapid and ill-designed" deficit reduction plan had hampered the "tepid" recovery in the US economy.

The IMF warned against an early ending to the massive economic stimulus programme being undertaken by the Federal Reserve. In a scheme known as quantitative easing (QE) the Fed is buying $85bn of treasuries and mortgage-backed securities every month in an effort to hold interest rates at record lows and spur employment growth.

But IMF also warned of the downside of continued QE, saying: "A long period of exceptionally low interest rates may entail potential unintended consequences for domestic financial stability and has complicated the macro-policy environment in some emerging markets."

Source: *The Guardian*, 14 June 2013

Table 2: Some Economic Statistics for United States, 2009-2013

	2009	2010	2011	2012	2013
Real GDP growth rate	-2.8	2.5	1.8	2.8	1.9
Inflation rate	-0.4	1.6	3.2	2.1	1.5
Unemployment rate	9.3	9.7	9.0	8.1	-
Budget Balance (% of GDP)	-9.8	-8.8	-8.4	-6.8	-4.1

Table 3: Some Economic Statistics for India, 2009-2013

	2009	2010	2011	2012	2013
Real GDP growth rate	8.5	10.3	6.6	4.7	5.0
Inflation rate	10.9	12	8.9	9.3	10.9
Unemployment rate	3.9	3.5	3.4	3.4	-
Budget Balance (% of GDP)	-9.3	-6.9	-8.1	-7.1	-7.8

Source: World Bank, 2013

Extract 8: A Rough 2012 for India

"India Shining" has been the unofficial slogan for India since the turn of the 21st century. India averaged 8% annual GDP growth in the three years before the recent global financial crisis.

Over the past 12 months, the optimistic mood within India's economy has taken a sharp dip. GDP growth slowed to 6.3% in 2011-12; the worst it has been in 9 years, and the first quarter of 2012 India grew a measly 5.3%, according to some estimates. While a slowdown in GDP growth has been relatively recent, India has been battling with a rising inflation for the past two years, which included food inflation at between 15-25%.

Although a weakening external demand, due to the Eurozone crises and US economic slowdown has contributed to the slowdown, India's economy is very much based on internal demand, which has slowed recently partly because of private consumption dropping from 5.5% in 2011/12 from 8.1% the previous year. Low business confidence has also resulted in a sharp decline in the growth of private investment including FDI. India's economy is showing signs of overheating with a growing demand and inability to match it with supply.

India's biggest challenge is its infrastructure deficit. If you have travelled to India, you have experienced tremendous traffic on poor roads burdened with bottle necks. The problem is exacerbated by an increased gap between supply and demand for electricity. India's infrastructure deficit problem is nothing new, and the government has been trying to catch up for years.

Source: The Internationalist, 2013

Extract 9: Indian Economic Reforms

On September 13th came an announcement of a small, but politically important, reduction in diesel subsidies. Through state-owned firms the government has long kept the price of diesel artificially low. But as market prices have soared, the subsidy bill has exploded. The 12% increase in the price of diesel that Indian drivers (and those with generators) are now enduring will be politically difficult, but it is essential. It was the better-off who gained most from costly fuel subsidies, while the fiscal problems hurt the economy as a whole. In the short term, however, the rise in diesel prices will nudge up inflation too.

The next day, September 14th, brought more welcome changes. Once again the government is pushing the idea that foreign supermarkets, like Wal-mart, will operate in India resulting in better logistics, competitive shops, foreign expertise and technology. The arrival of

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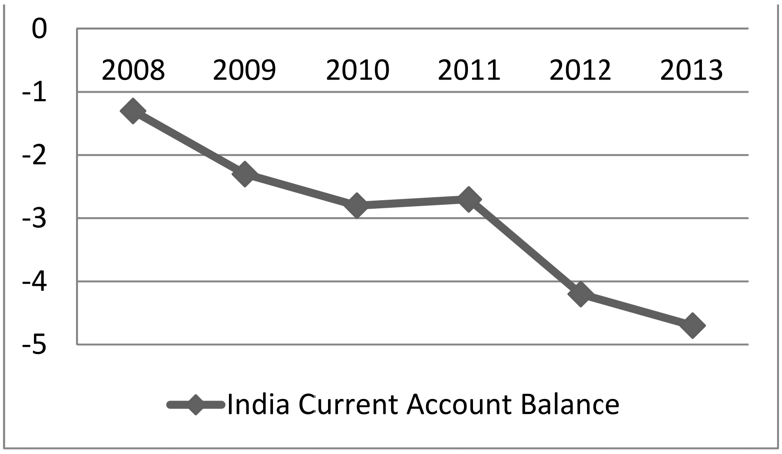
supermarkets can be presented as helping Indian farmers too. Supermarkets may cut out the long chains of inefficient middlemen. The result could be welcome: higher prices for farmers, and lower prices for consumers.

In other areas, too, investors should be pleased. The government will now let foreigners invest more in India's power sector, in domestic broadcasting, and in domestic aviation. To raise funds, too, the government plans a slew of privatisation, selling off government-owned chunks of equity in Hindustan Copper, in Oil India, and other firms.

India's expansionary fiscal policy, intended to fight the 2008 global credit crisis, has led to a dramatic deterioration in the country's fiscal situation. The high central fiscal deficit of around 6% creates a level of vulnerability for India that is a cause for concern. A persistently high fiscal deficit will raise interest rates for the private sector and constrain the government's ability to implement any stimulus measures to prop up the economy when growth slows, as is happening now.

Adapted from *The Economist*, 14 Sept 2012 and www.*voxEU.org*, 15 Sept 2012

Figure 2 Current Account Balance of India (% of GDP)



Source: Reserve Bank of India, 2013

Figure 3 Exchange Rate of Indian rupee (INR) per US dollar (USD)

Source: Reuters, 2013

Questions

(a) **(i)** Describe the trend in the current account balance of India between 2008 and 2013. [2]

(ii) How might your observation in (a)(i) explain the change in the external value of Indian rupee against the US dollar between 2008 and 2013? [2]

(b) With reference to Table 2, what conclusion would you draw about the economic performance of the US between 2009 and 2012? [4]

(c) Using the concept of circular flow of income, explain how the fiscal cliff would affect the equilibrium level of national income in the US. [4]

(d) Assess whether the benefits of attracting foreign direct investments into India outweigh the costs. [8]

(e) Using both the case study and your own relevant knowledge, discuss the relative importance of factors that might limit the effectiveness of the policies put in place by the US **or** India to address the slowdown in economic growth. [10]

[Total: 30 marks]