H

St Andrew's Junior College
JC2 Preliminary Examinations for General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8843/01

Paper 1

23 Aug 2024

3 hours

No Additional Materials are required.

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.

ST ANDREW'S JUNIOR COLLEGE
Economics Department

Answer **all** questions.

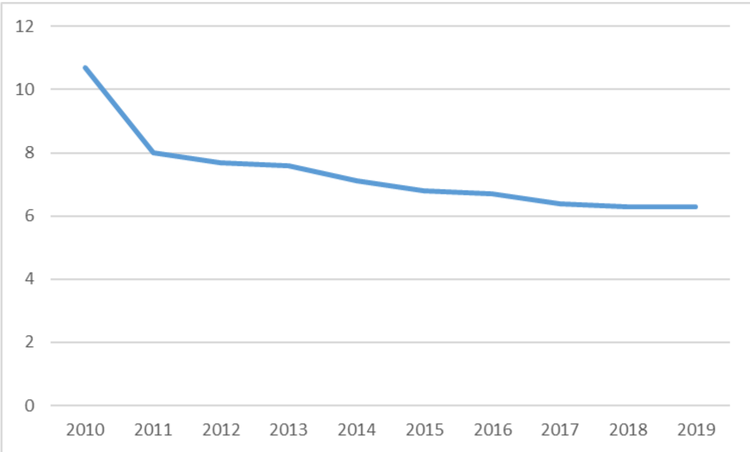
Question 1: E-books - a tale of digital disruption, and the expansion of Integrated Resorts

Extract 1: E-book prices and consumers' willingness to pay more

Electronic books, one of the representative digital goods, has recently come into wide use with the developments in technology and proliferation of mobile devices including smart phones, tablet PCs, and dedicated e-book readers like Kindle. As a result, the e-book market has grown dramatically in the last few years alone.

The perception of benefits and thus willingness to pay has increased over the last ten years, with the acceptable price premium for e-books rising significantly over that time span. It is all the more surprising that publishers do not tap into this potential.

Figure 1: Average e-book price in Germany (€), 2010 to 2019



Source: statista.com, 11 December 2023

However, this trend of prices for e-books in the past years might be reversed in the future. According to the German industry association for booksellers, the average price level for e-books increased by 4.9 percent to 6.63 Euros in 2020, attributed to 'gross profiteering' from e-book publishers. These publishers trawled through university reading lists, identified the commonly used textbooks, classified them as essential and raised the price of these e-books.

Source: Simon-Kucher.com, 9 March 2021

Extract 2: The high costs of e-books, and the knowledge it holds

The way people choose to get lost in a book is changing, and it's costing public libraries and the local governments that fund them a lot of money. To meet demands for these changes in literary habits, most public libraries have expanded their print collections to include digital versions of popular titles. However, not all library systems can afford to invest as much funding in digital books, with the amount a local government spends per capita on its library system varying dramatically.

Citizens can only take heart that when knowledge is accessible through books, friends, or teachers, efforts to prevent people from learning are often ineffective. It is difficult to exclude people from gaining insight in, for instance, Newton's theory of universal gravitation, once it has been discovered and publicised. Yet, this example refers only to the knowledge and formulae found in reading Newton's Principia – not to the book itself which would be classified as a private good, to be bought and sold on the market. Furthermore, unlike material things, the consumption of knowledge by one individual does not detract from that of another. One can use a piece of knowledge at the same time as others are learning about it without any loss of utility for either party.

Source: Govtech.com, 15 June 2023

Extract 3: Public Libraries and the digital onslaught

The National Library Board (NLB) nurtures readers for life, develops learning communities, builds a knowledgeable nation and encourages appreciation of Singapore's history and heritage through a network of 26 public libraries. As part of the National Library Board's (NLB) ongoing efforts to systematically rejuvenate existing libraries, libraries are expanding and being slated for a revamp. In 2023, an operating budget of $308.01 million has been provided to NLB in for embarking on its functions, an increase from previous years. Though often underappreciated, libraries remain valuable to individuals and the communities they serve but sustained funding is crucial if they are to continue to be a vital part of the community.

How much and how well a country invests in its resources and people often makes the difference between economic success and stagnation. Where there is strong commitment to human capital investment – for the broad majority of the population – skills and wages improve, along with living standards. This sees the emergence of a middle-class that supports consumption demand and in turn invests in educating the next generation. Investing in people is important not just for developing countries, but also for advanced economies pursuing the next bound of development.

This overall picture in Singapore stands in stark contrast to some other countries which are struggling to get citizens to visit their public libraries. In the US, six in 10 residents reported they seldom or never visit their local public library. There, libraries have also recently been embroiled in a slew of disputes pertaining to funding cuts, censorship and copyright issues. The Build America's Libraries Act would dedicate $5 billion to libraries nationwide and an estimated $105 million to Washington state for their modernization and renovation. The bill would pave the way for all communities to build back better, not just those with the most financial resources. Nevertheless, the high levels of debt held by the public in the United States can crowd out private investments in the economy, make it more difficult to respond to economic crises, and increase volatility within the economy.

Source: Adapted from Channel News Asia, 24 November 2023 and Lee Kuan Yew School of Public Policy, 12 November 2023

Table 1: Singapore Government Revenue and Expenditure, Annual ($billion)

Financial Year	Total Revenue	Total Expenditure
2023	130.71	134.29
2022	115.60	113.89
2021	103.50	101.63
2020	85.62	137.19
2019	91.31	90.47
2018	90.15	86.81

Source: Ministry of Finance, Singapore

Extract 4: Singapore begins second phase of integrated resort development

In 2004, Singapore policymakers proposed a new tourism concept: the integrated resort (IR). An IR would include attractions like convention facilities, restaurants, shops, theatres and tourist destinations such as theme parks and aquariums. The IR concept allowed for the subsidy of US$10 billion to revive economic growth. These resorts have since become major tourist attractions, enriching the local economy by drawing both local and international visitors.

Twenty years on, the economic impact of the 2 IRs has been transformative. They have not only increased Singapore's Gross Domestic Product (GDP) but also generated substantial revenue through tourism. Attractions such as Universal Studios Singapore and Adventure Cove attract valuable tourism dollars, while convention centers at Marina Bay Sands draw MICE (Meetings, Incentives, Conferences, and Exhibitions) visitors, a key tourist demographic for Singapore. This influx of tourists has led to an overall growth in the local economy, benefiting Singaporeans through improved public services and reduced government debt.

The Integrated Resorts have also created significant employment opportunities. According to figures from Channel News Asia in 2019, the resorts directly employ about 20,000 people, with more than 65 percent of these employees being locals. This job creation has helped lower the unemployment rate, boosting citizens' morale and contributing to a safer environment. While structural challenges such as skills and jobs mismatches continue to be one of the main causes of unemployment, the presence of these resorts has thus been instrumental in providing economic stability and growth, offering numerous job opportunities to Singaporeans.

Nonetheless, the Singapore government has since approved the expansion plans of both IRs in 2019. Both resorts' development have planned massive expansions, such as new hotel towers, and an expansion of the casino portion of both resorts, a major source of revenue. Marina Bay Sands was granted 2,000 sq. meters of additional floor space, and Genting was granted 500 sq. meters.

The two operators had been trying to expand into other countries but have found it challenging. For example, Sands had planned to expand into Japan as the government moved to legalize casinos but abandoned the plan in 2020 amid the pandemic. Thailand is also considering legalizing casinos, but operators appear to be cautious. Asked about interest in Thailand and other markets during a shareholders' meeting in April, Genting Chairman Lim Kok Thay said the bidding process is "a very long one".

Source: Adapted from Theworld.org, 30 May 2010 and Nikkei Asia, 1 June 2024

(a) With reference to Extract 1, Figure 1 and using a supply and demand diagram, account for the change in pricing of e-books in Germany from 2010 – 2019. [5]

(b) "According to the German industry association for booksellers, the average price level for e-books increased by 4.9 percent to 6.63 Euros in 2020, attributed to 'gross profiteering' from e-book publishers. These publishers trawled through university reading lists, identified the commonly used textbooks, classified them as essential and raised the price of these e-books."

Explain how the above strategy led to 'gross profiteering' and comment on whether the strategy is the only reason for the increase in e-book publishers' profits. [6]

(c) Using the information in Extract 2, explain whether knowledge possesses the characteristics of a public good. [4]

(d) 'Though often underappreciated, libraries remain valuable to individuals and the communities they serve ….' (Extract 3)

Identify and briefly explain two sources of market failure with regards to library services. [5]

(e) Extract 3 mentions that with a 'strong commitment to human capital investment – for the broad majority of the population – skills and wages improve, along with living standards.'

Evaluate the impact of government investments in libraries aimed at improving the standard of living of residents. [8]

(f) **(i)** Describe Singapore's fiscal balance from 2018 to 2023. [2]

(ii) Discuss the view that investing in integrated resorts rather than developing human capital is more beneficial to the Singapore economy. [10]

[Total: 40]

Question 2: Europe's Economic Woes

Table 2: Selected economic data from European Union

	2019	2020	2021	2022	2023
Real GDP growth rate (%)	1.98	-5.56	5.91	3.61	0.71
Annual Inflation Rate (%)	1.5	0.7	2.9	9.2	6.4
Unemployment Rate (%)	6.8	7.2	7.1	6.2	6.1

Source: ec.europa.eu and statista.com

Table 3: Selected economic data from Singapore

	2018	2019	2020	2021	2022
Real GDP growth rate (%)	3.58	1.33	-3.9	8.88	3.65
CPI (base year = 2019)	99.43	100	99.82	102.12	108.37
Unemployment Rate	2.1	2.3	3.0	2.7	2.1

Source: Singstat.gov.sg

Extract 5: Russia's invasion of Ukraine impedes global economic recovery

The ongoing war in Ukraine has dimmed prospects of a post-pandemic economic recovery for emerging and developing economies in the Europe and Central Asia region, says the World Bank's economic update for the region. So far, the region has weathered the storm better than previously forecast. Regional output is now expected to contract by 0.2% this year, reflecting above expectation growth in some of the region's largest economies due to the reopening of borders and the prudent extension of pandemic-era stimulus programs by some governments. However, Ukraine's economy is projected to contract by 35% although economic activity is scarred by the destruction of productive capacity, damage to agricultural land, and reduced labor supply as more than 14 million people are estimated to have been displaced.

The global economy continues to be weakened by the war through significant disruptions in trade and food and fuel price shocks amid large reductions in Russian energy supply. Hardest hit will be countries with medium to high reliance on natural gas imports for heating (which accounts for 30% of energy demand), industry, or electricity, as well as countries closely connected with EU energy markets. These countries must prepare for gas shortages and put in place emergency plans to mitigate the worst impacts on households and firms.

Source: World Bank, Oct 2022

Extract 6: EU works together to limit the impact of rising gas prices

The European Union Monday concluded two months of heated talks over how to protect households from rising energy prices — but some analysts argue the bloc's solution is unsustainable and might not withstand the realities of a 2023 gas supply crunch. The level at which the cap is triggered was set at 180 euros per megawatt hour.

Janko Lukac, senior analyst at Moody's Investors Service, raised his concerns: "The efficiency of an unilateral cap on purchase prices from the EU is highly uncertain. LNG markets globally and structurally will be short for the next couple of years. Hence, if an international buyer is willing to pay a higher price, Europe runs the risk that the respective volumes will go to another buyer."

Energy Minister Rob Jetten said it was more important for the EU to focus on its electricity savings targets, on joint gas purchasing agreements and on issuing faster permits for renewable energy schemes. "The solution for Europe will be to diversify its energy mix away from fossil fuels entirely. As it stands, about 20% of Europe's electricity comes from natural gas, 10% comes from coal. Both commodities are up dramatically as a result of the war. Energy transition solutions — such as wind, solar and green hydrogen, as well as increasing energy efficiency and removing coal from the electricity mix — could be put on an accelerated timetable to rid Europe of natural gas concerns within five years."

Source: CNBC, Dec 2022

Extract 7: ECB buckles down to tackle inflation

The eurozone's central bank intends to make spending more expensive to bring down prices. The European Central Bank (ECB) has announced a new jumbo hike of interest rates in a bid to bring down record inflation in the eurozone.

The ECB "expects to raise interest rates further" and will base its future moves on the "evolving" economic outlook, the organisation said in a statement after a meeting of the Governing Council. "Inflation remains far too high and will stay above the target for an extended period," it noted. Annual inflation in the eurozone reached 9.9% in September, an all-time high figure and almost five times the 2% target pursued by the ECB.

ECB President Christine Lagarde told reporters that economic activity in the eurozone likely "slowed significantly in the third quarter of the year and we expect a further weakening in the remainder of this year and beginning of next year." Additionally, "demand for services is slowing after a strong performance in previous quarters" and surveys show that "new orders in the manufacturing sector are falling", she added. The labour market, which has so far proved resilient and is now at a historically low level of 6.6%, could also start to be impacted with Lagarde warning of "somewhat higher unemployment in the future."

In her first speech before lawmakers, Italy's new prime minister, Giorgia Meloni, criticised the ECB's successive hikes of interest rates, arguing they "have created additional difficulties for those member states which, like us, have a high public debt." Meloni also spoke of "rash" choices made by the Frankfurt-based bank. French President Emmanuel Macron, whose country carries a 113% debt ratio, has also expressed reservations about rising interest rates. "I'm concerned to see lots of experts and certain European monetary policymakers explaining to us that we need to break demand in Europe to better contain inflation," Macron told a national newspaper.

Lagarde brushed off the criticism when specifically asked about it on Thursday, arguing that "we have to do what we have to do." "A central bank has to focus on its mandate. Our mandate is price stability and we have to deliver that" using the "tools that are most appropriate and most efficient," she went on. She stressed that the central bank is not "oblivious to the risk of recession" but that under the current circumstances "the decision we made today is the most appropriate".

Source: Euronews.com, Oct 2022

Extract 8: MAS tightens monetary policy

The Monetary Authority of Singapore (MAS) has tightened monetary policy for the fifth time since October last year to dampen persistent price pressures, which are expected to last until the first half of next year. The central bank said on Friday (Oct 14) that it will re-centre the midpoint of its Singapore dollar nominal effective exchange rate (S$NEER) policy band "up to its prevailing level", while maintaining the slope and width of the band. This allows the Singapore dollar to appreciate, making imports cheaper.

"While Singapore’s growth momentum was expected to slow, MAS had assessed that it was prudent to tighten monetary policy further and lean against price pressures becoming more persistent," the authority said on Monday. “The policy stance will help dampen inflation in the near term and ensure medium-term price stability, providing the basis for sustainable economic growth.”

MAS manages monetary policy by adjusting exchange rate settings, rather than through interest rates as other central banks do. By adjusting the slope, mid-point and width of the S$NEER, the Singapore dollar is allowed to rise or fall against and an undisclosed basket of currencies of Singapore's main trading partners.

The major contributor was the inflation for goods and services, in the midst of robust demand conditions that supported the pass-through of higher imported and domestic costs, MAS said. The hike in global energy and agricultural costs has also caused a rise in electricity and gas and non-cooked food inflation, while private transport and accommodation inflation accelerated, causing headline inflation to further rise to 7.3 per cent in the July to August period, up from 5.9 per cent in April to June.

For the whole of 2022, core inflation will average around 4 per cent while headline inflation will average around 6 per cent. The central bank highlighted upside risks to these forecasts, including fresh shocks to global commodity prices and second-round effects associated with a prolonged period of high inflation.

Source: Todayonline.com, Oct 2022

(a) With reference to Tables 2 and 3, compare the changes in real GDP of the European Union to that of Singapore over the period 2019 to 2022. [2]

(b) With the aid of a production possibilities curve, explain how the invasion by Russia would affect Ukraine's growth. [4]

(c) With reference to Extract 5 and the use of a diagram, explain the causes for the increasing inflation in the European Union. [4]

(d) With the use of a diagram, explain how the EU gas price cap could benefit households and comment on the appropriateness of this measure. [6]

(e) Extract 7 states that the EU could experience 'somewhat higher unemployment in the future.'

Explain **one** possible consequence of high unemployment in the EU. [2]

(f) Discuss whether ECB's decision to 'do what we have to do' (Extract 7) is justified. [8]

(g) Explain why Singapore chooses the control of its exchange rates instead of interest rates as its tool of monetary policy. [4]

(h) Discuss whether the Singapore government should rely solely on monetary policy to address its economic challenges. [10]

[Total: 40]

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