CATHOLIC JUNIOR COLLEGE
JC2 Preliminary Examinations
Higher 2

ECONOMICS 9757/01

Paper 1 **20 Aug 2018**

Additional Materials: Writing Paper **2 hour 15 min**

READ THESE INSTRUCTIONS FIRST

Write your name, class and question number 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 highlighters, glue or correction fluid.
Begin each section on a new sheet of paper.

Answer **ALL** questions.

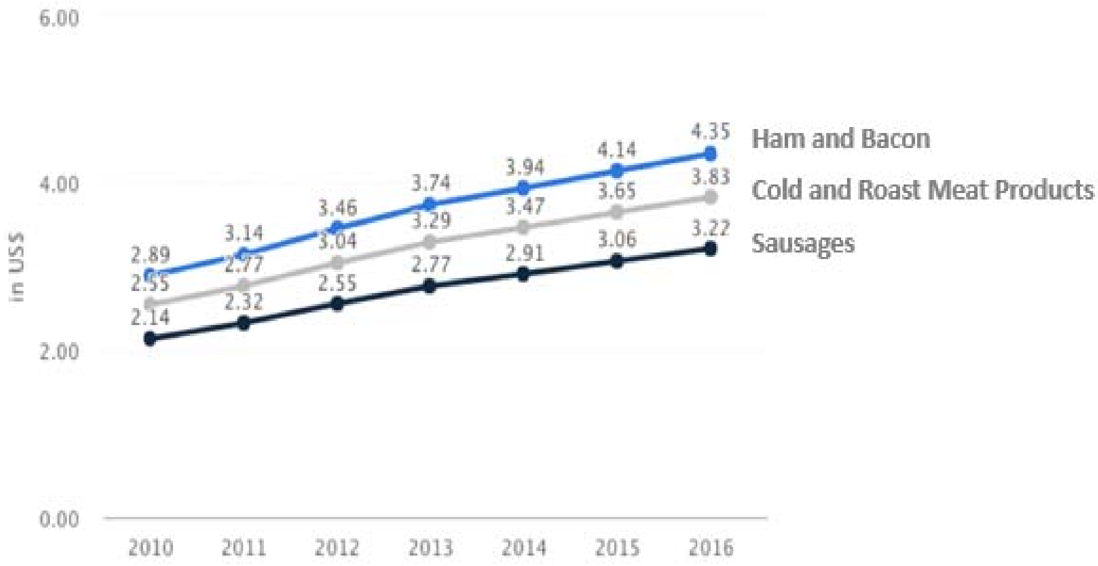
At the end of the examination, fasten your work securely together.
Submit each section **separately**.
The number of marks is given in brackets [ ] at the end of each question or part question.

Answer **all** questions

Question 1

The Market for Meat Products in India

Figure 1: Prices of various meat products in India from 2010 to 2016



Source: *Statista*, accessed 26th June 2018

Extract 1: Here's what is in store for the meat industry in India

India's per-capita consumption of meat products stands at 4.4 kg per person, which puts it at the second position on the list of countries with the least meat consumption per-person. However, this distinction can be attributed to its 2000-year-old tradition of vegetarianism. And like all old cultures, this one is changing as well.

The demand for meat products is expected to grow faster in India with sustained economic growth, strengthening urbanisation trends and increasing awareness of the nutritive value of meat and meat products. By 2020, the demand for milk is estimated to reach 143 million tonnes and that of meat and eggs eight million tonnes.

This increase in demand called for capitalisation on the part of producers. This primarily occurred in the form of increased development of technology which hastened the processing of livestock based products. The increase in production has however picked on rather dismally.

Livestock rearing serves as a much better alternative for millions to earn a livelihood. Hence, the government has introduced subsidies and exemption on excise duty for meat products to further the cause of employment.

Source: *World Economic Forum*, December 2017, accessed 1st July 2018

Table 1: Income elasticities of demand for various type of meat products in India

Beef	0.327
Mutton	2.265
Chicken	1.165

Source: *National Center for Agricultural Economics and Policy Research*, accessed 27th June 2018

Extract 2: PETA asks government to tax meat, other animal derived foods

In India, the consumption of beef, chicken, eggs, dairy and other animal derived foods is on a rapid rise. While vegetarian and vegan eating is also increasing between 2004 and 2014, the amount of meat, eggs or dairy foods consumed per person in India is the highest it has been in history and it is projected to grow further.

People for the Ethical Treatment of Animals (PETA), an Indian Animal Rights Organization, has asked the Indian government to levy a tax on meat and other animal derived foods for their damaging effects on environment and public health in a letter addressed to the Finance Minister.

The animal rights body asserted that this extraordinary upsurge in the consumption and production of these foods in India adversely impacts animals, of course, but also the health of its citizens, water availability, air and water pollution, greenhouse gas emissions and climate change and food supply to the poor in colossal ways.

In its letter, PETA also said that cattle transfer almost 12 million tonnes of methane -which traps 25 times as much heat as carbon dioxide does - into the atmosphere via flatulence every year. It added that "taxing meat could discourage citizens from consuming these damaging products and could bring in revenue that could help support costs related to the damage to public health and the environment because of meat, eggs and dairy foods."

Source: *The Economic Times,* January 2018, accessed 27th June 2018

Extract 3: The future of jobs: Why India must embrace the new era of artificial intelligence, block chain and robots

The fourth industrial revolution is being driven today by technologies that are transforming industrial production, for example, autonomous robots, simulation, additive manufacturing and artificial intelligence (AI). These technologies are impacting the entire production value chain from design to productivity, speed and quality of production.

Traditional manufacturing and service oriented industries are being disrupted in a manner we have never seen before. One example would be Impossible Foods Inc., a fourth industrial revolution technology company that makes a plant based food that smells, tastes, looks like real meat. It threatens the future of the $90 billion meat industry. If only 20% of world population switches from eating real meat to alternative proteins it would free up 12% of total fresh water, free 400 million hectares of land and 960 megatons of CO_2 emission.

Studies have shown that the fourth industrial revolution has the potential to add $957 billion to India's economy by 2035, lifting it by 15%. However, there is widespread concern over its potential impact on the employment, especially in the Indian meat industry. A vast range of jobs are at risk of extinction and rapid scaling could lead to accumulation of job losses. The other fear is that new technologies would lead to increase in inequalities and lack of social cohesion. There will thus be considerable need for re-skilling and training. India needs massive upgradation programmes in new technologies. It must redefine itself as an institute driving cutting edge technologies for the fourth industrial revolution.

Source: *The Times of India*, February 2018, accessed 1st July 2018

Questions

1 **(a)** **(i)** Compare the relative price changes of different meat products in India from 2010 to 2016 shown in Figure 1. **[2]**

(ii) With the help of a diagram, explain the factors that contributed to the above overall trend of meat product prices in India. **[4]**

(b) Analyse the likely impact of the subsidies and exemption on excise duty on employment in the Indian meat industry. **[4]**

(c) Given the information in Table 1, explain which type of meat product may be considered more of a luxury by Indian consumers. **[2]**

(d) To what extent is the fourth industrial revolution likely to lead to an improvement in standard of living of Indian meat producers? **[8]**

(e) Discuss the factors that could influence the government's decision to levy a tax on meat and other animal related products. **[10]**

[Total: 30]

Question 2

Challenges and opportunities in China

Extract 4: Three things that weakened China's economy in 2016

Bringing about growth was tough for Chinese policy makers throughout 2016. Even with loosened liquidity and government intervention, annual growth fell to a consistent 6.7% in the first three quarters of this year, the slowest rate seen in 25 years.

These numbers belie three important weaknesses in the large economy that threaten China's role as a major global growth driver:

- Fixed asset investment is no longer coming from the private sector.
- Overcapacity is acting as a burden on the government.
- The services sector is not competitive enough to make up for lost growth elsewhere.

First, fixed asset investment grew 9% year-on-year in the first half of this year, but slowed thereafter. The figure was down from 10% last year. Government-ordered investment by state-owned enterprises also helped boost numbers, but private investment, a reflection of market sentiment, lagged behind due to lack of confidence in growth prospects.

Second, overcapacity in heavy industrial sectors, like steel, aluminium, cement and coal, remains a problem. As international and domestic demand for construction materials and production inputs have dropped off, factories are left with excess supply. The steel industry in particular is locked in a conflict between flooding excess supply to international markets and angering Western nations, or hoarding large inventories and facing losses while averting the fury of the United States and Europe. China has chosen the former option, and the surplus has resulted in backlash among foreign importers of steel.

Third, reform in the services sector lags behind. The bulk of the services sectors, such as transportation, healthcare, information technology and transmission, scientific research, education, and entertainment, remain mostly restricted to state-controlled firms, which are often uncompetitive and mired in inefficiencies. Even though China's transformation to a service-based economy is in nascent stages, not enough energy has been devoted reforming the tertiary economy, resulting in ongoing lagging growth.

In the face of these weaknesses, China's economic first-aid tactics—liquidity provision and government stimulus—are not working. China has repeatedly aimed to use monetary policy to jumpstart the economy, with benchmark interest rates set at the lowest levels in over two decades. Officials have also cut the reserve ratio to provide more funds to the real economy.

Stimulus has not worked either. China’s government has attempted to inject funds into the economy through various means, without directly labelling them as stimulus measures. State-owned enterprises have been urged to invest in fixed assets to bolster GDP growth. Tax rebates were given to Chinese steelmakers and oil refineries for exporting their goods to foreign markets. These measures have not stimulated real economic growth. In fact, they have supported inefficient aspects of the economy.

To generate long-term domestic growth and remain a driver of global growth, China needs to get serious about reforming its services sector, allowing for increased competition and reducing inefficiencies in government-heavy industries such as healthcare and telecommunications. Its leadership needs to focus less on stimulus and more on production and efficiency.

China also needs to accept more short-term pain for long-term gain and let go of weak firms, bringing about market incentives that reward productivity, efficiency and innovation. Right now, too many weak firms remain operational, and banks are going through the motions in issuing loans without stimulating real economic growth.

Source: *Forbes*, 13 December 2016, accessed on 2 Jun 2018

Extract 5: China to reduce steel overcapacity by 2020

China will achieve major progress in the steel sector's structural overhaul by 2020 and “fundamentally bail out” the industry, the Ministry of Industry and Information Technology said. China plans to reduce crude steel output by 100 million tonnes to 150 million tonnes by 2020 and ease the uneven supply-demand situation in the sector, according to the ministry's 2016-2020 plan on upgrading the steel sector. The whole sector will be modernised and its energy consumption and pollutant emissions will be maintained within the nation’s standard by 2020.

The ministry stressed the central government's resolution to continue to shed unnecessary production capacity in the steel sector, and underscored that it will not allow the addition of new steel capacity, adding that any investment that would increase steel capacity should stop. Intelligent and green manufacturing in the steel sector will be encouraged, as well as mergers and acquisitions.

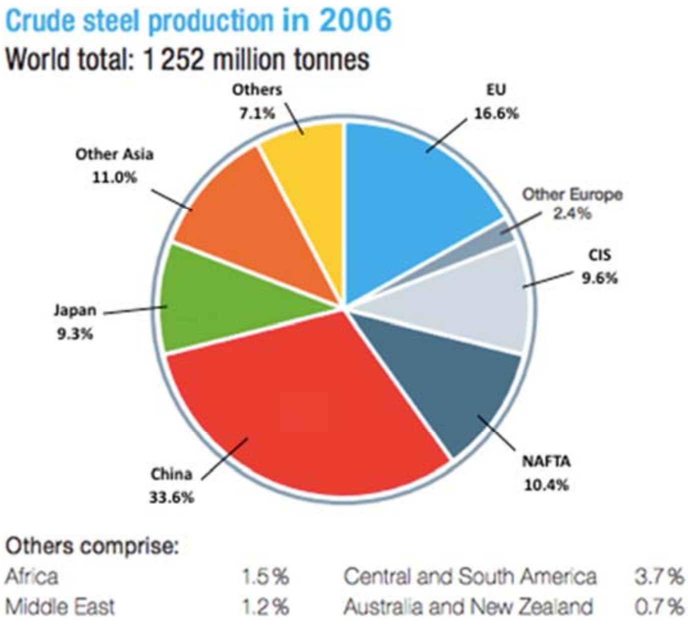
However, notwithstanding the changes, the European Union (EU) has decided to impose provisional anti-dumping duties on seamless pipes and tubes of iron and steel coming from China. This product is typically used in power plants, in construction, and in the oil and gas industry.

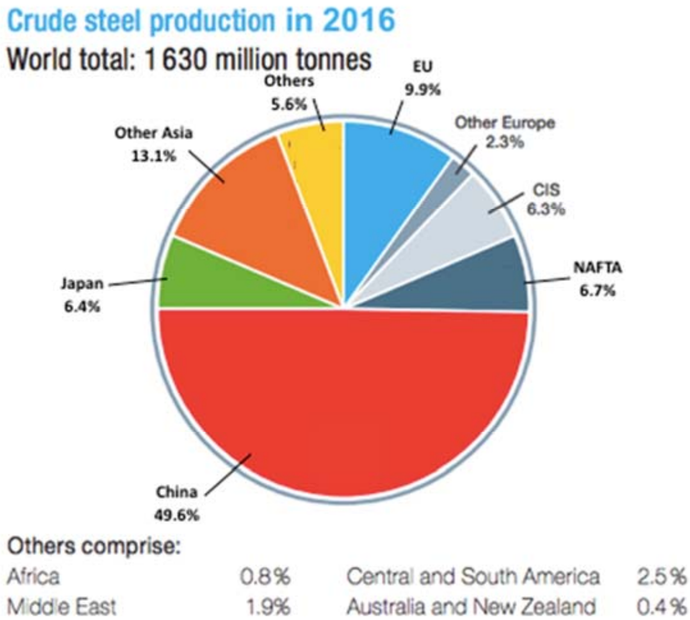
Investigations confirmed that the Chinese products had been sold in Europe at heavily dumped prices. To provide EU companies with necessary breathing space, the EU imposed duties ranging between 43.5% and 81.1%. This should prevent damage to the European companies involved in the production of the steel tubes and pipes.

The EU currently has an unprecedented number of trade defence measures in place targeting unfair exports of steel products from other countries, with a total of 40 anti-dumping and anti-subsidy measures - 18 of which are on products originating from China.

Source: *Europost*, 18 November 2016, accessed 2 June 2018

Figure 2 Crude steel production by country, 2006 versus 2016





Source: www.worldsteel.org, accessed 2 June 2018

Questions

2 (a) Compare the change in share of crude steel production by China, Other Asia, and the EU as a proportion of world total between 2006 and 2016. **[2]**

(b) With the use of a diagram, explain why overcapacity in China's heavy industrial sectors might be a problem for China. **[4]**

(c) With the use of a diagram, explain the effects of anti-dumping duties on consumers and producers in the EU. **[4]**

(d) (i) Explain the principle of comparative advantage. **[2]**

(ii) Comment on the validity of EU's decision to impose anti-dumping duties on Chinese steel products. **[8]**

(d) Discuss the extent to which Chinese policymakers should replace its economic first-aid measures with alternative measures to promote growth. **[10]**

[Total: 30]

[END OF PAPER]

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