



NATIONAL JUNIOR COLLEGE  
SH2 Preliminary Examinations for  
General Certificate of Education Advanced Level  
Higher 2

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## **ECONOMICS**

Paper 1

**9570/01**

**22 August 2023**

**2 hour 30 minutes**

No Additional Materials are required.

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### **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.

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This document consists of **8** printed pages.



NATIONAL JUNIOR COLLEGE  
Economics Department

Answer **all** questions.

### **Question 1: Changes in the coffee market**

#### **Extract 1: Coffee beans price slump as consumers stay home over coronavirus fears**

The effects of the coronavirus (COVID-19) have spread to the world's coffee growers as consumers shun coffee shops and stay home. China is the biggest importer of coffee beans from Brazil, the world's largest producer and exporter of various coffee beans varieties including arabica and robusta. But the COVID-19 outbreak has caused a dramatic fall in demand, with Starbucks closing more than 2,000 outlets in China late January. The decision 'will lead to a decline China's coffee consumption', said a Japanese trader.

Chinese consumers have warmed to coffee-drinking in recent years, with Starbucks opening outlets throughout the country and homegrown rival Luckin Coffee becoming increasingly popular. But the spread of COVID-19 is beginning to hinder that growth. 'People have refrained from nonessential dining out due to COVID-19, resulting in a sharp decline in coffee consumption at cafes and restaurants,' said Shiro Ozawa, adviser for Tokyo-based specialty coffee trader Wataru & Co.

While coffee consumption is expected to decline globally, coffee-producing countries are forecast to have a record crop year due to favourable weather. Many research companies expect that Brazil will produce coffee beans that would exceed the record of 64.8 million bags of coffee beans. Vietnam, the world's second largest producer and exporter of coffee beans varieties including arabica and robusta, is also expected to yield a healthy crop in that period with the planting of new high yield varieties.

*Source: Nikkei Asia, 12 March 2020*

#### **Extract 2: Vietnam's coffee farmers fear profit squeeze**

Almost all of the coffee grown in Vietnam is robusta, the bitter-tasting bean used in instant coffee, of which the Southeast Asian country accounts for about 40% of global output. Unlike in Brazil – the second-biggest grower of robusta – most of Vietnamese producers are small scale farmers with farms in the Central Highlands – the country's primary coffee growing area.

Small scale farmers account for 95% of Vietnam's coffee beans produce, have limited access to capital and technology and little power to influence prices set in the international market for coffee beans. When faced with falling prices, these farmers diversified into more profitable crops such as durians.

Coffee beans crop yield has fallen on average, in part due to poorer soil quality brought about by soil erosion caused by rising temperatures and erratic rainfall, the effects of climate change. As fertiliser costs continue to rise, heaping high production costs on farmers amid their stifled income, this makes the cultivation of the coffee crop unattractive.

*Source: Financial Times, 21 August 2018*

#### **Extract 3: Opportunities for Foreign Investors in Vietnam's Coffee Industry**

Despite the COVID-19 pandemic, Vietnam's coffee industry saw over US\$3 billion worth in coffee export revenue in 2021, which accounted for 3% of the country's Gross Domestic Product (GDP) and

10% of its agricultural exports. As the country looks to step up its coffee production industry, total exports are expected to reach US\$6 billion by 2030. While this growth has made a significant contribution to the Vietnamese economy, it has not come without cost.

Maintaining high levels of production for the many farms located in Central Highlands have generated a series of environmental challenges including deforestation and groundwater depletion. The continuation of old-fashioned but outdated irrigation as the primary method by small scale farmers caused inefficiency in water usage; some crops get more water while some crops get less. Rising temperatures meant that water evaporates quickly leading to farmers watering their coffee trees more often, depleting water levels in underground wells. Vietnam's dry months have also led some farmers to adopt the practice of migrating to higher altitudes to access suitable conditions to grow their coffee trees. However, such migration has increased deforestation.

Vietnam's coffee industry is at a crossroad. With Vietnam among the most affected coffee-growing country if predictions of a 2-degree Celsius temperature rise by 2050 hold true, total arable land for coffee cultivation is predicted to fall from 32,558 square miles by almost half to 17,943 square miles. At the same time agriculture land is increasingly under pressure from rapid urbanisation and industrialisation as Vietnam transits from a largely agricultural based economy towards manufacturing and services powered by a young and growing youthful population where 98.3% aged 25 years old and above have completed primary school education while 58.1% completed upper secondary school education.

The government is looking to embrace the concept of sustainability and is reaching out to foreign businesses to improve coffee crop yields and make it more resilient. Japanese beverage company Kirin Holdings is one company who responded, stepping up support for small scale farmers as it looks to cash in on growing consumer demand for sustainable products. The company is training farmers in sustainable production methods including soil management, water conservation, protecting rivers from pollution and introduce better cultivation methods, and in the process helping small scale coffee farmers obtain agriculture sustainability certification. Environmentalists on the other hand are calling for taxes as an immediate action to reduce the detrimental effects of coffee farmers practices.

*Source: Asean Briefing, 17 March 2022*

**Table 1: Coffee greenhouse gas emissions measured in carbon emissions-equivalents (CO<sub>2</sub>-eq) per kilogram, 2018**

The different stages of coffee production	CO <sub>2</sub> -eq per kg, 2018
land use	3.82kg
farming	10.75kg
processing	0.61kg
transport	0.13kg
retail	0.05kg
packaging	1.69kg

*Source: Ourworldindata.org, accessed 22 June 2023*

**Extract 4: Starbucks gave China a taste for coffee, now must brew growth in pandemic-altered market where rivals smell opportunity**

China is one of the biggest markets for coffee consumption by volume. Starbucks opened its 6000th coffee shop in September since its arrival in 1999, setting the industry benchmark for pricing and products to include an expansive tea menu and food items. Starbucks offers a cozy environment – comfortable chairs and art – where people can stay and socialise after ordering their handcrafted beverage such as common offerings cappuccino and caramel macchiato to seasonal brews professionals say. After two decades, the global giant coffee shop now faces ferocious competition.

Starbucks accounts for 4.4% of coffee shops in China, behind global rival KFC's K-coffee 8,500 shops which accounts for 6.2%. Convenience stores Lawson and Family Mart's Par Cafe are also among the top five. 'Convenience stores provide consumers high accessibility to coffee given their large network of locations,' said Bernie Gao, a China-based food and drink analyst with market research firm Mintel.

'Coffee consumption in China continues to grow, although it has lost some of the initial momentum it benefited from over 20 years,' said Mario Zaccagnini, the director of retail with CBRE East China. China's market uncertainties have made companies more nimble in sales channels and store sizes as competitors grow rapidly in numbers. COVID-19 lockdowns have had a negative impact on every retailer. Coffee shops are no different unless the business model relied mostly on takeaways and deliveries. In 2019, Starbucks introduced an express retail store, Starbucks Now, which allows customers and delivery riders to pick up pre-ordered coffee. Earlier this year, the company partnered Chinese food delivery giant Meituan to provide mobile-order and delivery service. Starbucks still operates its own loyalty rewards program and ordering app.

Homegrown Chinese coffee shop chain Luckin Coffee is rapidly catching up with its bigger United States rival Starbucks, operating more than 5,323 coffee shops in less than three years, capitalising on low prices. One 34-year-old man in Shanghai, who buys coffee every day, recently switched from Starbucks to Luckin. He said Luckin offers good coffee.

Unlike Starbucks, most Luckin stores only have a cash register and a space where employees make the coffee as their business model specialises in delivery and takeout. Luckin's emphasis is on the quality of its coffee beans and milk used and that their coffee making is supervised by a barista who won the World Barista Championship. There is also a focus on the design of its cups and logo to attract younger customers.

*Source: South China Morning Post, 23 October 2022*

- (a) (i) Using information in Extract 1, identify and explain **one** demand factor that caused the change in volume of the coffee beans over the period January 2020 to March 2020. [2]
- (ii) Using information in a(i) and with the aid of a diagram, explain how the change in demand in the coffee beans market has had an impact on the durian market. [4]
- (b) Using information in Extract 2, explain why coffee farmers took the decision to shut down production in the short run and leave the market. [3]
- (c) Explain why Vietnam is likely to see a change in its comparative advantage away from the production of coffee beans. [3]
- (d) Discuss the extent to which coffee shop chains like Starbucks and Luckin are likely to engage in non-price competition. [8]
- (e) Discuss the extent to which indirect taxation is better than agriculture sustainability certification in eliminating the impact of negative externalities arising from coffee beans cultivation. [10]

[Total: 30]

## **Question 2: Singapore's economic challenges and trade partnership with the European Union (EU)**

### **Extract 5: Singapore set for slow recovery from pandemic after worst recession**

Singapore marked its worst ever recession in 2020 due to the COVID-19 pandemic, although contraction moderated in the fourth quarter as the city-state lifted more coronavirus-related curbs, putting the economy on path to a slow and patchy recovery. The financial and transport hub was hit hard last year by local virus-related restrictions, border closures around the world and sluggish global economy.

Recovery going forward in 2021 will probably continue to be quite gradual and a lot of it will depend on the speed at which the government can distribute the COVID-19 vaccines and whether this can allow us to reopen the borders more quickly. The Singapore dollar strengthened to S\$1.32 against the United States dollar from S\$1.45 in March 2020.

The Singapore government has spent about S\$100 billion or 20% of its GDP, on virus-related relief to support households and businesses.

The central bank left the exchange-rated centered monetary policy unchanged at its last meeting in October and said its accommodative stance would remain appropriate for some time. 'We don't expect any changes in the monetary policy for now,' said Jeff Ng, senior treasury strategist at HL Bank. 'The main bulk will still remain in fiscal policy in order to support the economy to recovery in 2021.'

*Source: Reuters.com, 4 January 2021*

### **Extract 6: Five challenges for Singapore's continued economic recovery**

As the year draws to a close, Singapore's recovery is still on track, with economic growth expected to stay above trend in 2022 as well. However, headwinds and downside risks remain, and the different sectors remain uneven leading to a 'K-shaped' recovery. In a 'K-shaped' recovery, some parts of the economy may experience strong growth while others continue to decline. Here are five challenges to watch out for as we approach the new year.

#### **1. Inflationary pressures**

The Monetary Authority of Singapore's (MAS) surprise move to increase the exchange value of Singapore dollar in October attests to the perceived seriousness of these upward price pressures. Imported inflation is likely to endure into 2022 as global disruptions to food production and supply chains persist, said the MAS in its latest Macroeconomic Review. At home, rising wage costs are already being passed on to consumers.

#### **2. Labour market divergence**

Resident employment is up, while unemployment rates and retrenchments have been easing from their peaks in late 2020. Yet beneath the healthy topline figures is a 'K-shaped' recovery.

While resident employee headcount is rising in export-oriented sectors – such as manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services, domestic sectors hit by COVID-19 curbs – such as food and beverage (F&B) services, retail trade, and accommodation – are continuing to trim their workforce. With displaced workers from the latter domestic sectors not necessarily being suited for openings in the former export-oriented sectors, labour market mismatch may have intensified in recent quarters. Going into 2022, the task is to ensure that such mismatches do not harden into structural unemployment.

### 3. COVID-19 flare-ups at home...

Throughout 2021, domestic services – particularly F&B – have bemoaned the on-again off-again nature of COVID-19 restrictions. Prolonged uncertainty has also restrained consumer and business sentiments.

### 4. ...and abroad

Many countries in Europe are already seeing the beginnings of a fresh winter wave of infections. Worsening conditions abroad could directly threaten Singapore's border reopening efforts and jeopardise established or planned Vaccinated Travel Lanes, as well as cause supply chain disruptions.

Indirectly, if renewed infections and lockdowns in other countries impede the growth of major trading partners, Singapore will feel the effects of such dampened demand as well.

### 5. Geopolitical risks

The global pandemic may have overshadowed bilateral tensions, but these tensions have not dissolved, the MAS noted. The ongoing trade war between the United States and China, for instance, had already taken a toll on the international economy in the years before COVID-19.

Though not citing that precise example, Singapore's central bank said that the underlying issues of pre-COVID-19 geopolitical tensions 'remain substantially unresolved' and could weaken business confidence if such hostility flares up even as the pandemic recedes.

Source: *The Business Times*, 10 November 2021

**Figure 1: Singapore's International Trade in Services**

Exports of Services				Imports of services			
Trading Partners	2020	2021	Year-on-Year Change	Trading Partners	2020	2021	Year-on-Year Change
	\$Billion		%		\$Billion		%
 European Union (EU-27)	39.6	49.1	↑ 24.0	 United States	73.2	80.4	↑ 9.8
 United States	32.9	44.8	↑ 36.4	 European Union (EU-27)	29.5	31.9	↑ 8.1

Source: *Singstat.gov.sg*, accessed 22 June 2023

### Extract 7: EU-Singapore trade pact an anchor for both economies amid COVID-19

The free trade agreement (FTA) between the European Union (EU) and Singapore, which came into force in November 2019, has served as an anchor for both economies amid the COVID-19 pandemic and protectionist sentiment worldwide, President Halimah Yacob said. She pointed out that both sides had given a strong signal by undertaking some very substantive commitments in tariff elimination, on rules of origin and on market access with the landmark deal, the first between the EU and an Asean member state.

'It also signals a strong commitment to upholding free, fair global trade, as well as serves as a pathfinder for an EU-Asean agreement in the future,' she said. The EU has a sizeable positive balance for trade in goods with Singapore, as well as for trade in goods and services combined.

Singapore is a major destination for European investments in Asia, and the second-largest Asian investor in the EU (after Japan). At the end of 2021, EU foreign direct investment (FDI) stocks in Singapore amounted to €263 billion. In the reverse direction, total FDI stocks held by Singapore in the EU reached €171 billion.

Madam Halimah called on both sides to sign a digital economy agreement to complement the FTA, strengthen digital connectivity between the two economies, and develop new opportunities. Digitalisation of trade processes make it cheaper and easier for Singapore companies to engage in cross-border business activities. Such an agreement would enable them to tap new opportunities arising from the ballooning of Internet users in South-east Asia following the pandemic, said Madam Halimah, noting that Singapore has set aside \$1 billion in its Budget this year to help businesses do so.

The President noted the 'strong economic relationship' between Singapore and the EU and said both continued to work closely on 'a broad range of areas' despite the pandemic. She singled out sustainability as one area. 'Singapore and the EU share the view that trade and sustainability are not at odds with each other. On the contrary, they mutually support each other,' said Madam Halimah. She noted that both economies recognise the need for trade to contribute positively to the fight against climate change and had discussed ways to work towards a sustainable and resilient economy.

EU Ambassador to Singapore Barbara Plinkert, who was present at the event, said the pandemic has highlighted the benefits of countries cooperating at a global level 'to avoid a deeper economic recession or disruptions in trade flows and supply chains'.

'As we embark on the path towards recovery, working together between the EU and Singapore is only natural as like-minded partners in making green, sustainable and digital recovery a priority for the future,' she added.

*Source: The Straits Times, 5 March 2021*

- (a) With reference to Figure 1, compare the balance of trade in services for Singapore with the EU and US in 2020 and 2021. [2]
- (b) Explain what might be the opportunity cost of the Singapore government having spent about S\$100 billion on virus-related relief to support households and businesses (Extract 5). [2]
- (c) (i) With reference to Extract 5, explain a factor that led to the change in exchange rate of the Singapore dollar observed in Extract 5 from March 2020 to January 2021. [2]
- (ii) With reference to Extract 6, explain how Singapore government's adjustment of its exchange rate can achieve price stability. [3]
- (d) Using a production possibility curve diagram, explain the impact of digitalisation in an economy such as Singapore. [3]
- (e) Using AD and AS analysis, discuss the reasons that may cause recovery in Singapore going forward from 2021 'to be quite gradual' (Extract 5). [8]
- (f) Discuss whether the EU-Singapore trade pact is likely to have beneficial impact on the Singapore economy. [10]

[Total: 30]