



TEMASEK JUNIOR COLLEGE  
Preliminary Examination 2011  
General Certificate of Education Advanced Level  
Higher 2

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## ECONOMICS

9732/02

Paper 2: Essay Questions

Tuesday 20 September 2011  
2 hours 15 minutes

Additional Materials: Answer Paper, Cover Sheet

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### READ THESE INSTRUCTIONS FIRST

**Do not turn over until you are told to do so.**

Write your name and CG 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 staples, paper clips, highlighters, glue or correction fluid.

Answer **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from either Section A or Section B.

Begin each question on a separate sheet of answer paper.  
At the end of the examination, fasten your work for each question in Section A and Section B **separately**.  
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 **2** printed pages.



Answer three questions in total.

### Section A

**One** or **two** of your three chosen questions must be from this section.

- 1 Using the concept of price elasticity of demand, assess with relevant diagrams the usefulness of output taxes and subsidies in achieving a more equitable outcome for society. [25]
- 2 A regulated natural monopoly achieves allocative and productive efficiency in an equitable manner, hence it is better than all other market structures. Discuss. [25]
- 3 (a) Analyse, with examples, how demerit goods and negative externalities might lead to market failure. [10]  
 (b) Assess the need to change the current policies used by the Singapore government in dealing with the market failure arising out of demerit goods and negative externalities. [15]

### Section B

**One** or **two** of your three chosen questions must be from this section.

- 4 In December 2010, Singapore's inflation rate rose to the highest level in two years, adding pressure on MAS to dampen price gains by allowing the Singapore dollar to appreciate further.  
 (a) Explain the likely causes of inflation in Singapore. [10]  
 (b) Discuss whether an appreciation of the exchange rate is the best way to achieve price stability in Singapore. [15]
- 5 According to the WTO, restriction of trade is not the cure for economic problems such as trade imbalances and high levels of unemployment, but it could easily provoke retaliation, which would seriously threaten jobs and growth worldwide.  
 (a) Explain how and why countries engage in protectionism. [10]  
 (b) Protectionism is the only viable policy available for a country to reduce both a large trade imbalance and high unemployment. Discuss. [15]
- 6 Globalisation has allowed U.S. firms to capitalize on the rapid growth in emerging markets like China, India, and Latin America, and earn much stronger profits than if they had been totally dependent on the struggling U.S. economy.

Discuss the extent to which the US and the emerging economies benefit from **such** globalization. [25]

