



CATHOLIC JUNIOR COLLEGE

JC2 Preliminary Examination

Higher 2

ECONOMICS

9570/01

Paper 1

22 August 2024

No Additional Materials are required.

2 hours 30 minutes

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 an 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.

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

[Turn over

Question 1: Security, sustainability, and competition in the food industry

Extract 1: Fertiliser supplies and threatening global food security

The war in Ukraine is having a major impact on the global supply of agricultural fertilisers, potentially undermining food security around the world. Russia, together with Belarus, is one of the world's largest sources of mineral fertilisers. After Russia's invasion of Ukraine in February 2022, many nations, including the United States and the European Union (EU), imposed sanctions on the country. Although there were specific exemptions in the sanctions regime to permit Russian and Belarus to continue to supply fertilisers, exports have fallen foul of other measures designed to isolate the region.

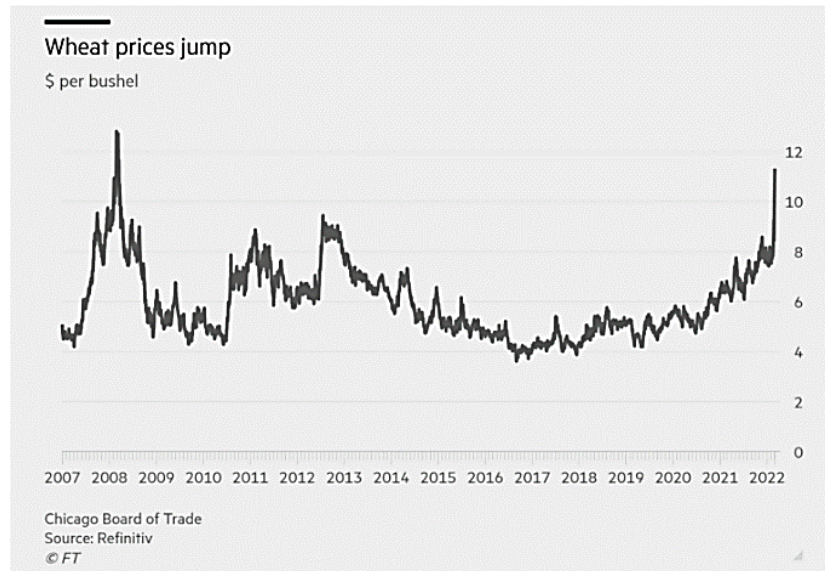
Russia said that its fertiliser was being prevented from reaching customers in the global south. Shortages have been compounded by export restrictions imposed by China, which accounts for 30% of global phosphate fertiliser supplies. Because of measures to protect its domestic market, China's exports shrunk by 50% in 2022, the World Bank says.

The World Economic Forum's 2023 Global Risks Report ranked a looming food supply crisis as one of the top four threats facing the world, predicting that the lagged effect of a price spike in fertiliser would hit food production across the world in 2023, once the stocks of fertilisers at the previous transacted lower price wind up.

Source: Adapted from <https://www.weforum.org> 1 March 2023

Figure 1: Fertiliser Price Index



Figure 2: Wheat price (\$ per bushel)

Source: The Financial Times, 21 March 2022

Extract 2: Excess fertiliser uses and its environmental impact

Fertilisers have transformed the way the world produces food. Beyond large benefits for food security, they also bring environmental benefits through higher yields (and therefore less land use). But there can be a downside. When we overapply fertilisers – no matter whether they are natural ones like manure or synthetic fertilisers – excess nutrients are washed off and pollute the natural environment.

Nitrogen and phosphorus are the two main fertilisers that farmers add to their fields. Research presented here shows that nearly two-thirds of the nitrogen we use on our crops becomes a pollutant; more than half of applied phosphorus does. There are large differences in how much pollution countries generate through their agricultural practices. Some produce almost none; others produce hundreds of kilograms per hectare of cropland.

Source: Adapted from ourworldindata 7 Sept 2021

Extract 3: China's Luckin Coffee makes Singapore debut at Marina Square, Ngee Ann City

China's giant coffee chain, Luckin Coffee, made its debut in Singapore with a double shot: Two stores – at Marina Square and Ngee Ann City – opened on Friday, with more in the works. Nicknamed the Starbucks of China, the brand has more than 8,000 stores in its home country.

Singapore is the first market in its overseas expansion. Singapore was picked for its “mature coffee consumer market” with people who drink coffee daily, adds the spokesman.

Luckin Coffee sets itself as a disruptor with its use of big data, as well as mobile ordering and cashless payment via its mobile app, says the brand’s spokesman. This eliminates the need to queue if orders are placed in advance. The coffee beans, roasted in China, are sourced directly from coffee farms in Yunnan province, Colombia, and Ethiopia. New products tailored for the Singapore market will be rolled out in the future.

Founded in 2017, Luckin Coffee burst onto the Chinese coffee scene to challenge Starbucks through affordable coffee options and mobile ordering. China is Starbucks’ second-largest market after the U.S. Luckin Coffee grew to 10,829 stores in China at the end of June, surpassing Starbucks as the largest coffee chain brand in the country following what one analyst calls an “aggressive” expansion. In comparison, Starbucks operated 6,480 stores in mainland China at the end of the second quarter.

“They are very aggressive in store expansion and, in China, it is very common to buy a drink from Luckin for \$2 or less after heavy discounts,” said Jianggan Li, founder and CEO of tech research company Momentum Works.

Source: The Straits Times and CNBC.com

Extract 4: A sustainable food system for Singapore and beyond

Singapore is vulnerable to supply shocks and disruptions as we import more than 90 per cent of our food. For greater food security and affordability, we have set a “30 by 30” goal – to be able to produce 30 per cent of our nutritional needs by 2030. And the challenge is to achieve this with less than 1 per cent of land set aside for farming to ensure Singapore can have a reliable access to sufficient supply of affordable and nutritious food.

This requires us to grow more with less in a highly productive, climate-resilient, and resource-efficient way. Long-term strategic planning is critical in achieving our goal in food security and this will be achieved from both production and consumption aspect. In Singapore, we are re-developing the Lim Chu Kang area, where many of our farms are currently located. Our vision is to transform it into a vibrant, high-tech agri-food cluster to boost the domestic food production.

Technology and innovation are key enablers as we journey towards our goal. We are now at the cusp of the fourth agricultural revolution. With climate change posing challenges to the production of food, the industry needs to adopt technology to overcome the challenges and produce more, in a sustainable manner. By using Internet of Things automation systems and rainwater collection for irrigation and fertigation, it can potentially produce 33 tonnes of fresh, produce annually, within a 750sq metres compact facility.

On the consumption front, we conducted engagement sessions last year with various stakeholders ranging from farmers, educators, and nature groups. A public education campaign on reducing food waste through buying what we need and not hoarding were the main ideas

proposed – effectively addressing the excessive demand by changing mindsets towards responsible food purchase.

Source: Adapted from *Reuters*, 25 Sep 2021

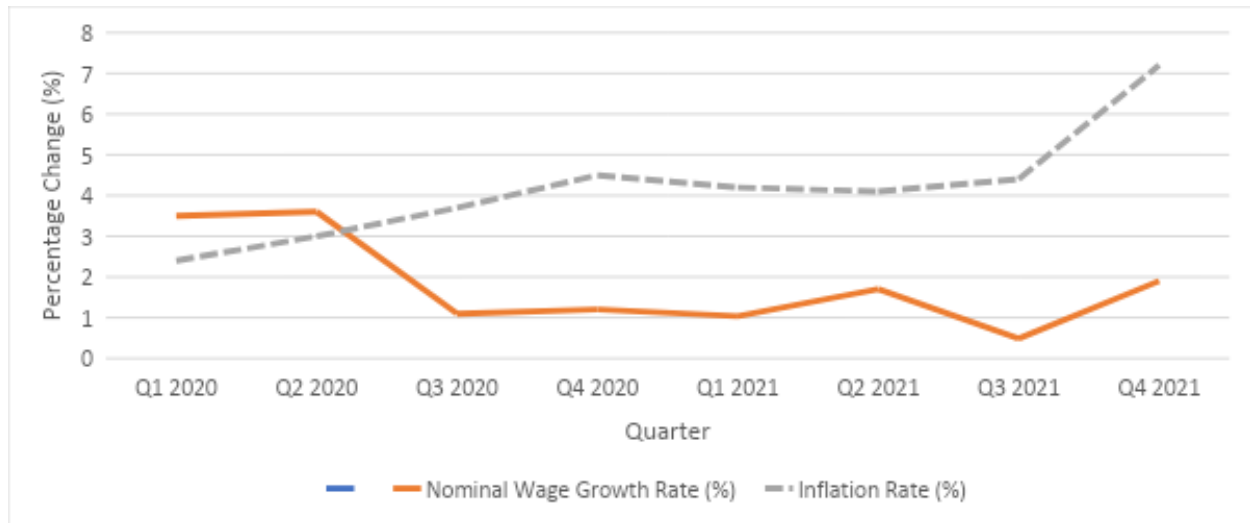
Questions

- (a) Using Figures 1 and 2, explain how the price of fertilisers has affected the price of wheat, and why this effect was predicted to be lagged.
[3]
- (b) Using a diagram, explain how the imposed sanctions on Russia could negatively affect the US economy.
[3]
- (c) With reference to Extract 2, explain **one** factor a government can consider when deciding if it should intervene in the market for fertilisers.
[2]
- (d) Using Extract 3,
 - (i) explain **two** reasons why Luckin Coffee chose to expand its branches beyond China.
[4]
 - (ii) discuss whether the introduction of mobile app is likely to benefit Luckin Coffee.
[8]
- (e) Discuss whether the use of technology or public education is the more effective way to achieve food security and affordability in Singapore.
[10]

[Total: 30]

Question 2: Sri Lanka's financial crisis

Figure 3: Nominal wage growth and inflation rate, Sri Lanka



Source: Central Bank of Sri Lanka, 2022

Figure 4: Sri Lankan rupees per one US dollar



Source: Times of India, May 2022

Extract 5: Reasons for Sri Lanka's Financial Crisis

Years of economic mismanagement and weak governance coupled with the impacts of external shocks, such as the COVID-19 pandemic and the Russian invasion of Ukraine, plunged Sri Lanka into its worst-ever crisis in 2022. Sri Lanka faced unsustainable debt and a severe balance of payments crisis in 2022. The country's Gross Domestic Product contracted by an estimated 8.7 percent in 2022 and is expected to contract further by roughly 3 percent in 2023 before returning to positive growth in 2024, according to the International Monetary Fund (IMF). The rate of inflation rose to 50% a year. The economic crisis in 2022 resulted in the

country to run out of foreign reserves. Trade and commercial activities were significantly curtailed due to lack of foreign exchange, restrictions by banks and lowering of country credit limits.

Many experts blame the crisis on former President Mr Rajapaksa's economic policies. At the end of its civil war in 2009, Sri Lanka chose to use import substitution as a policy which often involved tariffs on foreign imports. Import substitution is a policy which is aimed at reducing a country's dependence on imported goods by promoting the production of these goods domestically. At the same time, income from exports to other countries remained low. However, the bill for imports kept growing as import substitution was not successful. Sri Lanka now imports \$3 billion more than it exports every year, causing it to run out of foreign reserves. At the end of 2019, Sri Lanka had \$7.6 billion in foreign reserves, which have dropped to around \$250m.

Source: International Trade Administration, 2023

Extract 6: Sharp Inflation and Crippling Debt

Sri Lanka's central bank has raised its key interest rates to their highest levels in more than 20 years to try to contain inflation that has added to the country's economic woes. Soaring prices, shortages of essential goods and crippling international debts sparked nationwide protests last year. Sri Lanka has been unable to buy the goods it needs from abroad. Poverty nearly doubled in Sri Lanka between 2021 and 2022, climbing from 13% to a staggering 25% and is projected to increase by more than 2 percentage points in 2023. In the same timeframe, urban poverty tripled from 5% to 15%. In 2022, at least half a million people lost their jobs, most of which were in the industry and services sectors.

In May 2022, Sri Lanka failed to make an interest payment on its foreign debt for the first time in its history. This damaged its reputation with lenders, making it even harder to borrow money on the international markets. In the face of massive protests, President Gotabaya Rajapaksa resigned in June last year and Prime Minister Ranil Wickremesinghe became acting president. The new president is trying to deal with a huge financial crisis. Sri Lanka owes about \$7 billion to China and around \$1 billion to India. These loans had financed a string of large infrastructure projects, including highways, an airport and a port in the country. Last month, both these countries agreed to restructure their loans, giving Sri Lanka more time to repay them. Thanks to this, IMF has agreed to lend Sri Lanka \$3 billion. That is on top of a \$600 million loan that the World Bank made last year.

Acting President Wickremesinghe implemented bold tax reforms to bolster its empty coffers. The country introduced income taxes for higher earners, ranging from 12.5% to more than 36%, while also increasing corporate tax from 24% to 30%. It also raised Value Added Tax, from the current 15% to 18%. In addition, the government says it will raise funds to repay its debts through supply side measures like privatization of state-owned enterprises like Sri Lankan Airlines, Sri Lanka Telecom, and by increasing infrastructure spending to attract investments.

Source: Various

Extract 7: Balancing growth and inflation

With Singapore's growth set to slow in 2023 even as inflation remains high, economists are split on whether the Monetary Authority of Singapore (MAS) will press on with further monetary tightening moves to control inflation or begin to loosen its grip so as to not hurt growth. Government actions here to combat inflation will dampen its pace over the next year but the Republic cannot completely insulate itself from global rising prices, said Mr. Ravi Menon, managing director of the MAS. "Inflation is expected to get worse before it gets better," he said.

Mr. Menon explained that MAS allows the trade-weighted exchange rate to appreciate faster when inflationary pressures build up to reduce imported inflation and restrain export demand, providing relief to labour market pressures. The Government also helps Singaporeans cope with the rising cost of living by offering financial support to vulnerable groups who are less able to bear the sharp price increases. Examples of this include the S\$1.5 billion support package unveiled last month, which will give 1.5 million adults in Singapore S\$300 in a one-off cash payment and utilities credits to all households among other measures. "The Government has been careful that fiscal support does not add stimulus to the economy that could exacerbate inflationary pressures," said Mr. Menon. "A period of inflation is not the time for expansionary fiscal injections that could add to tightness in labour, land, and product markets. Fiscal support has therefore been targeted at the more vulnerable groups and designed to avoid stoking inflation or distorting price signals."

Source: Today Online, 2023

Questions

- (a) Using Figure 3, explain how the overall trend in real wages could have affected the standard of living of people in Sri Lanka. [2]
- (b) Using Extract 5, explain how importing "\$3 billion more than it exports every year" caused Sri Lanka to "run out of foreign reserves". [2]
- (c) With reference to Extract 5, explain how the Sri Lankan government's import substitution approach was intended to improve the country's trade balance. [4]
- (d) Using Figure 4, explain how the high inflation in Sri Lanka in 2022 is likely to have affected the value of the Sri Lankan Rupee. [4]
- (e) With reference to Extracts 6 and 7, discuss whether both the Sri Lankan and Singapore governments should prioritize inclusive economic growth over price stability. [8]
- (f) Discuss whether "bold tax reforms" (Extract 6) are better than privatization in helping Sri Lanka to pursue sustained economic growth whilst maintaining fiscal sustainability. [10]

[Total: 30]