



MERIDIAN  
JUNIOR COLLEGE

**JC 2 PRELIMINARY EXAM 2008**

**8816/01**

**ECONOMICS HIGHER 1**

**12 September 2008  
3 hours**

Additional materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

**Do not open this booklet until you are told to do so.**

Write your name, class and register number on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

**Section A**

Answer **all** questions.

**Section B**

Answer **one** question.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

**[Turn Over]**

## Section A

Answer **all** questions in this section.

### Question 1

### The Price of Growth

#### **Extract 1: Tackling the pollution problem**

According to the World Bank, China has 16 of the world's 20 most polluted cities. Estimates suggest that 300,000 people a year die prematurely from respiratory diseases. The main reason is that around 70% of China's mushrooming energy needs are supplied by coal-fired power stations, compared with 50% in America.

In 2002, the State Environmental Protection Administration (SEPA) found that the air quality in almost two-thirds of 300 cities it tested failed World Health Organisation standards – yet emissions from rocketing car ownership are only just becoming an issue. Hopes that China will “leapfrog” the West with super-green cars are naive, since dirty fuel messes up clean engines and the high cost of new cars keeps old ones on the road.

Adding it all up, the World Bank concludes that pollution is costing China an annual 8-12% of its \$1.4 trillion GDP in direct damage, such as the impact on crops of acid rain, medical bills, lost work from illness, money spent on disaster relief following floods and the implied costs of resource depletion.

In 2001, the 10th Five-year Plan for Environmental Protection by SEPA set ambitious emission-reduction targets and boosted environmental spending to 700 billion yuan (\$85 billion) for 2001-05 – equivalent to 1.3% of GDP, up from 0.8% in the early 1990s. A legal framework has been created. Beijing's good intentions, however, have so far had only limited impact, thanks to the vast, decentralised bureaucracy through which it is forced to govern such a huge country.

Around the country, SEPA's branches, known as Environmental Protection Bureaus, are supposed to monitor pollution, enforce standards and collect fines. But they are more in thrall to local governments – whose priorities are to maintain growth and employment in their jurisdiction – than to head office in Beijing. It is no rarity, therefore, to find a bureau imposing a fine on a dirty local enterprise (thus fulfilling its duty), but then passing the money on to the local administration, which refunds it to the company via a tax break.

SEPA's impotence is one reason why penalties, even when it can impose them, remain laughably light. Mr Sun says the maximum he can fine a polluting company in Shanghai is 100,000 yuan or about \$12,000. But just as fundamental is that China lacks an understanding of the concept that the polluter should pay.

*Adapted from The Economist, 19 Aug 2004*

### Extract 2: Clean air spells competitive edge

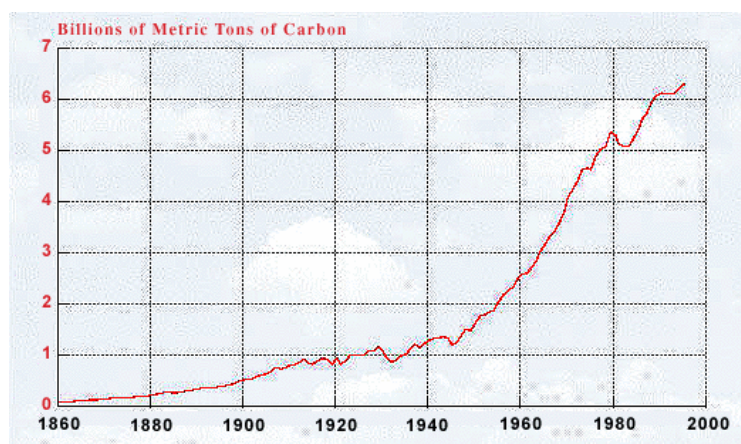
Some newly arrived business executives and their families are chocked by what they find in many Asian Cities: traffic-clogged streets, fume-belching vehicles and noxious smog limiting visibility and making the air unpleasant to breathe.

However, a minority of cities, including Singapore that manages to maintain a pleasant, pollution-free environment at least most of the time are finding that being 'clean and green' can be significant part of the overall comparative economic advantage that determines where the international flow of talent and investment goes. For example, the Financial Times reported earlier this month that Hong Kong's worsening air pollution is prompting managers of some major hedge and asset funds to move to Singapore, reflecting a trend that could undermine the territory's status as a regional financial hub while enhancing the competitive position of Singapore.

Singapore has imposed tough vehicle fuel emission standards and regulations to limit industrial pollution. The government has also made it expensive to own private cars while offering alternative public transport, including pollution-free, electric-powered mass rapid transit rail system with extensive and convenient connections. Japan has long adopted a similar approach while the South Korean capital, Seoul, has recently launched a similar strategy.

*Adapted from The Straits Times, Aug 12, 2006*

**Figure 1: Global Carbon Dioxide Emissions from Fossil-fuel Burning**



*Source: World Resources Institute*

**Table 1: Annual Growth Rates in Carbon Dioxide (CO<sub>2</sub>) Emissions and GDP per head, 1992-2002**

Country / Grouping	GDP per head (%)	CO2 Emissions (%)
China	8.5	3.7
India	3.9	4.3
UK	2.4	-0.4
USA	1.8	1.4
EU	1.8	0.2
OECD	1.8	1.2
Japan	0.7	0.7

*Source: World Resources Institute*

**Questions:**

- (a) (i) With reference to Figure 1, describe the trend of global carbon dioxide emissions from fossil burning over the stated period. [2]
- (ii) Suggest possible reasons for the trend observed. [3]
- (b) To what extent does Table 1 support the view that higher growth results in greater pollution? [3]
- (c) (i) With the aid of a diagram, explain the market failure in China based on Extract 1. [4]
- (ii) Assess the need for the Chinese government to change its current policy to bring about cleaner air. [8]
- (d) With the help of the data given, discuss the possible impact of a reduction of carbon dioxide emissions upon an economy. [10]

## Question 2

## The Tale of Two Deficits

### Extract 1

The trade deficit in UK is giving cause for concern again. Official figures show that Britain's trade in goods balance was in deficit by £3.6bn in October 2002. In the 305 years of data, stretching back to 1697, it was the worst month on record. So far in 2002, the deficit has been £27bn and, according to the statisticians, there is worse to come.

Do the figures, in conjunction with Europe's trade surpluses tell us that the pound is uncompetitive with the euro? A little, but the main reason Britain's trade position with the EU has worsened is the weakness of demand in Europe. Unlike other European consumers, the UK consumer has continued to spend, sucking in imports from elsewhere. You might even argue that, as long as we can finance the trade deficit with ease, Britain's consumers are doing themselves a favour by spending, and doing the rest of Europe some good by being a source of demand. So why worry? The reason is that the deficit tells us that Britain's economy is dangerously reliant on the consumer, as it has been for the last six years. Not since the 1870s has there been a period in which strongly rising domestic demand has run ahead of overall economic growth for so long.

*Source: Adapted from The Sunday Times 15 December 2002*

### Extract 2

The Yuan isn't the cause of the U.S. trade deficit and a "large" appreciation would hurt China's economy, Vice Premier Wu Yi said, signaling the nation won't cave in to demands for faster gains.

"China will continue to reform its exchange rate on its own initiative, gradually," Wu said at a dinner in Washington after two days of talks with U.S. Treasury Secretary Henry Paulson that yielded no agreements on the currency and failed to quell calls in Congress for sanctions against China.

About 85 percent of China's trade surplus with the U.S. is generated by foreign companies such as Wal-Mart Stores Inc. exporting products from China that are no longer made in the U.S., Wu said, citing textiles, shoes and furniture. Imposing protectionist measures to cut last year's record \$232.5 billion U.S. deficit with China would harm both nations, she said.

"The U.S. government also doesn't want a trade war with China," Chen Xingdong, chief China economist at BNP Paribas SA in Beijing. "If that really happens, the losses for the Americans might not be lower than those for the Chinese."

The Yuan closed little changed at 7.6527 against the dollar in Shanghai from 7.6519 late yesterday, completing its second - biggest weekly gain since February. China has allowed the currency to rise 8.2 percent since abandoning a fixed link to the dollar in July 2005.

*Source: Adapted from Bloomberg News 25 May 2007*

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Real GDP growth (%)	3.8	2.4	2.1	2.8	3.3	1.8
Unemployment rates (%)	3.56	3.15	3.06	2.98	2.7	2.71
Current Account Balance (% GDP)	-2.6	-2.2	-1.6	-1.3	-1.6	-2.5
Government Budget (% GDP)	4	0.9	-1.7	-3.3	-3.3	-3.5

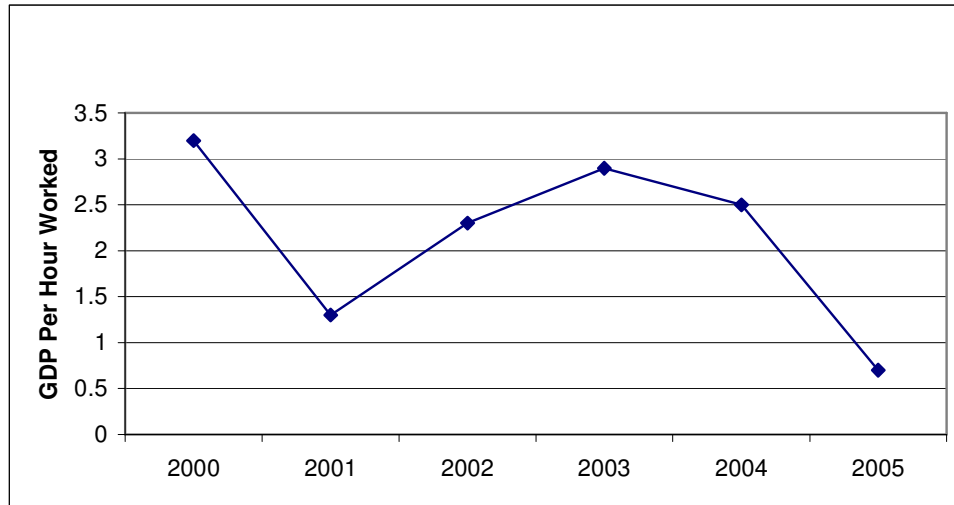
**Table 1: Selected economic indicators, UK Economy**

**Table 2: Selected economic indicators, US Economy**

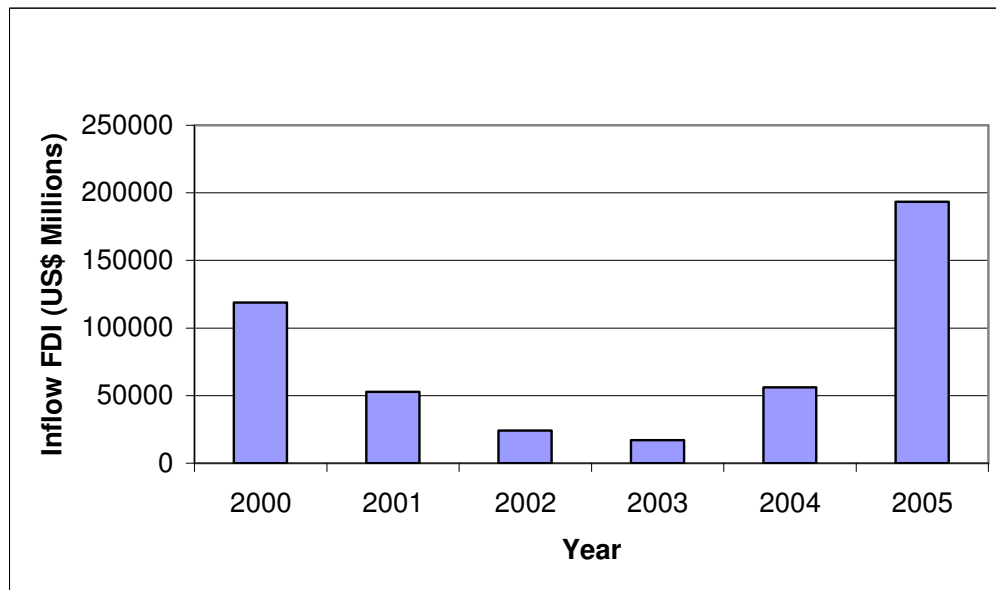
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Real GDP growth (%)	3.7	0.8	1.6	2.5	3.6	3.1
Unemployment rates (%)	4.0	4.7	5.8	6.0	5.5	5.1
Current Account Balance (% GDP)	-4.3	-3.8	-4.4	-4.8	-5.5	-6.1
Government Budget (% GDP)	1.6	-0.4	-3.8	-4.8	-4.4	-3.6

*Source: Organization for Economic Co-operation and Development*

**Figure 1 Labour Productivity in UK**



**Figure 2 Inflow of Foreign direct Investment in UK**



**Questions:**

- (a) (i) Summarize the relationship between labour productivity and growth in UK. [2]
- (ii) Account for the relationship above. [4]
- (b) To what extent do US protectionist measures solve her unemployment problem? [6]
- (c) “The trade deficit in UK is giving cause for concern again”. Discuss whether UK’s government budget was the main cause of her trade deficit with EU. [8]
- (d) In light of the data provided, assess the relative abilities of UK and US economies in solving their respective trade deficits. [10]



## Section B

Answer **one** question from this section

- 3 (a) Explain the impact of rising oil prices on the Singapore economy. [10]
- (b) Discuss the view that the price of petrol should be determined by government intervention rather than free market forces. [15]
- 4 (a) Explain how monetary and fiscal policies can be used to increase aggregate demand. [10]
- (a) In recent years in Singapore, much greater emphasis has been given to the supply-side effects of fiscal policy. Evaluate the view that fiscal policy is only useful for its impact on the supply side of the economy. [15]

END OF PAPER