

TEMASEK JUNIOR COLLEGE
Preliminary Examination 2013
General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

18 September 2013

3 hours

Additional Materials: Answer Paper, Cover Sheet

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.

Section A

Answer **all** questions.

Section B

Answer **one** question.

Begin each question on a separate sheet of answer paper.
Fasten your work for Section B and the Cover Sheet together.
Hand in your answer to each question separately.
The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **8** printed pages

Section A

Answer **all** questions in this section.

Question 1

Tourism Barometer of Singapore

Table 1: Visitor Arrivals into Singapore by Country of Residence

Country	2008	2009	2010	2011
TOTAL	10,116.1	9,682.7	11,641.7	13,171.3
ASEAN	3,571.4	3,684.8	4,821.8	5,414.3
Japan	571.0	490.0	529.0	656.4
Hong Kong	278.1	294.4	387.6	464.4
China	1,078.7	936.7	1,171.5	1,577.5
United Kingdom	492.9	469.8	461.8	442.6

Source: Yearbook of Statistics Singapore, 2012

Extract 1: Singapore Tourism 2015 – Vision, Targets and Initiatives

By 2015, Singapore aims to be a destination of choice, a powerful tourism hub attracting visitors, business, and talents from across the world by 2015. The Singapore Tourism Board (STB) has identified three key areas of focus:

- (a) strengthening Singapore position as a Leading Convention & Exhibition City in Asia with a strong and dynamic business environment.
- (b) developing Singapore as a leading Asian leisure destination by providing an enriching experience that is Uniquely Singapore.
- (c) establishing Singapore as the Services centre of Asia – a place where visitors come to enjoy high end quality services such as healthcare services.

Table 2: STB's targets for 2015

Indicator	2004	2015 Target
Tourism Receipts	S\$10 billion	\$30 billion
Visitors Arrivals	8 million	17 million
Tourism Employment	150 000	250 000

Source: Adapted from <https://app.stb.gov.sg>

Extract 2: Should there be a lower F1 levy on hotel room rates?

Economists agree that Singapore must promote tourism and other services to counter a decline in some manufacturing industries, particularly the mainstay electronics sector. Tourism is seen as favourable in employing large numbers of low-skilled workers who have lost industrial jobs.

The inaugural Singapore F1 Grand Prix in 2008 was the only night race in the world. It costs \$150 million to organise, with the Singapore government footing 60 per cent of the bill. Hotel room rates typically rise sharply for the F1 period (especially at trackside hotels) due to significant demand for rooms as well as the imposition of a special F1 tax on hotels to defray some of the costs.

The tourism and hospitality sector would also need to focus its efforts on developing a skilled tourism workforce to fill the additional jobs created in the tourism industry. Efforts must not be spared in raising service standards because Singapore faces stiff competition as other countries in the region are also attempting to develop their own tourism sectors. In situations such as a global recession, sports tourism and other lifestyle industries would probably be the first few to experience the impact. Unforeseen events like the SARS epidemic would affect global tourism as people reduce their probability of being infected by staying home.

Source: Adapted from The Business Times, May 15, 2010

Extract 3: Singapore has reaped benefits from F1 race?

Singapore's Minister of State for Trade and Industry, Mr. S. Iswaran, who is spearheading the government's involvement in the F1 project, says F1 is needed to boost Singapore's tourism industry which accounts for 3 to 4 per cent of gross domestic product. The event would not only give a strong boost to the tourism sector, but also generate broader economic spin-offs. The Formula 1 race is expected to generate a total of S\$100 million in tourism receipts as well as bring Singapore closer to its goal of being a vibrant global city that is abuzz with high quality entertainment and events. The race has given Singapore good international exposure and it continues to enjoy strong support locally and internationally. The event also provided a networking platform for businesses with many taking up hospitality suites to host partners and clients at the race. For example, in 2010 the Singapore Exchange organised a conference at the sidelines of the race to bring together potential investors in the Asian motorsports industry.

However F1 will not get an A1 for environmental friendliness, given its high petrol consumption and the amount of carbon emissions. Then there is the pre-F1 construction mess as well as the noise pollution during the race. At full throttle, each car's noise level is louder than thunder. The F1 race is unpopular among some locals as road closures near the circuit cause jams. Even those outside the circuit vicinity can be frustrated by the traffic snarls because of the spillover effects. Those who are unhappy include some retailers in the Central Business District (CBD) who were affected by the detours enforced when F1 is in town, but even some of those in town say business doesn't spike up noticeably during this period.

Source: Adapted from various sources

Extract 4: Medical Tourism in Singapore

Thailand, India, Malaysia and Singapore have dominated the Asian medical tourism industry in recent years. Singapore's medical tourism is fast developing steadily to be on the major location for medical tourism in Asia because we are competing on skills and beneficial outcomes rather than merely on costs, said Health Minister, Mr. Khaw Boon Wan. Today Singapore attracts more than 200 000 patients every year to receive medical services from Singapore hospitals and clinics. This figure is estimated to increase to about 1 million medical tourists to Singapore by end of 2012.

Demand for health care in Singapore – which spends about 4 per cent of gross domestic product on health care – is being driven by an aging population, rising affluence as well as increasing awareness of healthcare standards.

Singapore started implementing a medical tourism scheme, the 'elective hospitalisation overseas option', on 1st March 2010 where patients who want to use Medisave to pay for private care abroad, will be able to do so at 12 hospitals and medical centres in Malaysia. The facilities, owned by two Singapore health-care groups, offer care which could cost as little as half what it does here. This scheme gives Singaporeans more choices especially for those who want to seek cheaper but good quality treatment from private hospitals overseas.

Source: Adapted from various sources

Questions

- (a) (i) Compare the trends in visitor arrivals in Table 1 between 2008 and 2011. [3]
- (ii) Explain the possible reasons for the above trends. [4]
- (b) With a relevant diagram, explain the burden borne by the trackside hotels and their guests as a result of the special F1 tax on hotel accommodation. [4]
- (c) Discuss the possible measures to manage the market failures generated by the Singapore F1 race. [8]
- (d) Explain the economic rationale behind the 'elective hospitalization overseas option' as mentioned in extract 4. [3]
- (e) Discuss the impact of promoting sports and medical tourism on the Singapore economy. [8]

[Total: 30]

Question 2**Global Imbalances in Trade and Growth****Extract 5: Demand at Home Aids China Growth**

Chinese growth data suggest a nation that has long relied on exports is getting more help from domestic demand—a potential positive for the global economy as Europe grapples with its debt crisis and U.S. growth sputters. China's domestic demand is partially making up for softening appetite for China's exports. That could leave China in a better position to weather moderate drops in exports, which have hit its economy hard in the past. It could also mean that China will remain a crucial support for global growth, as its rising consumption feeds demand for raw materials and other goods from around the world.

So far this year, growth in China's imports of goods and services has exceeded export growth. This shows that the contribution to the global recovery from China's economy is growing. China's status as the world's top exporter has long been both a strength and an occasional source of weakness. China's economic growth dipped below 7% in the fourth quarter of 2008 and the first quarter of 2009, during the worst of the global financial crisis, sparking worries in a country where growth of 8% or more is generally considered necessary to insure stability among the nation's rapidly urbanizing population. Since then, China's policy makers have renewed efforts to promote domestic consumption and have made progress in rebalancing the economy away from exports.

Source: Adapted from The Wall Street Journal, 19 October 2011

Extract 6: America's latest anti-China bill tackles a problem already being solved

Public support for free trade in US has been withering for a decade, tracking the decline in middle-class American manufacturing jobs due in part to cheap Chinese imports. America's resentment of China has grown as its economy sputters while China's has galloped ahead. Barack Obama has pinned his hopes for recovery on a doubling of exports, a goal that China's many barriers to trade, from discriminatory government procurement to the undervalued yuan, impede. However, the rules of the World Trade Organisation (WTO) generally do not recognise undervalued currencies as an illegal subsidy. The odds are that if America imposed tariffs on China, China could successfully bring a complaint against America at the WTO.

It has been argued that a flexible yuan could be in the interests of both China and its trading partners. It would hasten the reorientation of China's economy from exports to consumer spending, give its central bank more freedom to fight inflation, and divert demand to depressed Europe and America, catalysing an essential rebalancing of the global economy.

Since June last year the yuan has appreciated 7% against the dollar. The rise in China's relative costs has been even greater given its higher inflation rate. With stimulative fiscal and monetary policy bolstering domestic demand, China's current-account surplus has shrunk by two-thirds, from 10% of GDP in 2007. Meanwhile America's trade deficit has narrowed, and manufacturing employment has stopped falling. All this means the yuan is far less undervalued than it was a few years ago—if at all.

Source: Adapted from The Economist, 15 October 2011

Extract 7: EU and China: Trade Flows and Tension

The 27-member EU bloc is China's biggest trade partner, and China is the EU's second-biggest trade partner behind the US, and is its largest source of imports, from machinery to clothes and shoes.

The EU's bilateral trade deficit with China reached €168.8bn in 2010. That gap has prompted EU anti-dumping actions that have angered Beijing, and also fuelled persistent EU complaints that China maintains unfair barriers against European goods and services. The EU has also joined the US in complaining that China's yuan currency is undervalued, giving Chinese goods an unfair advantage and distorting trade flows. China says that EU anti-dumping measures amount to protectionist barriers against trade.

Source: Daily Telegraph, 24 June 2011

Extract 8: Germany rejects targeting of trade surplus

Export champion Germany said that trade surpluses should not be targeted in the same way as deficits. Like the G-20, the European Union is trying to even out trade flows, claiming large surpluses by some eurozone nations helped fuel bubbles in deficit countries and contributed to the debt crisis that has crippled the region over the past year.

The EU says surplus countries like Germany should boost internal demand which would raise exports from other countries. At the same time, many economists argue that German banks invested the huge capital surpluses amassed by savers and export companies in overheating economies such as Ireland or Spain, leaving the lenders with dangerous exposures to now-struggling countries.

But Germany, which like China has been exporting much more than it has been importing in recent years, rejects any claims that its strong export policies are fueling dangerous imbalances. German Finance Minister Wolfgang Schaeuble said that Germany's surplus was "not an obstacle to growth in other countries. Instead we are to some degree assuming the function of a locomotive for the euro area." Germany argues that rather than punishing countries with strong economies by trying to reduce surpluses, weaker states should make their economies more competitive -- something it is currently trying to achieve in the 17-country eurozone with a so-called "pact for competitiveness."

Source: Bloomberg Businessweek, 15 February 2011

Figure 1: China current account balance (% GDP)

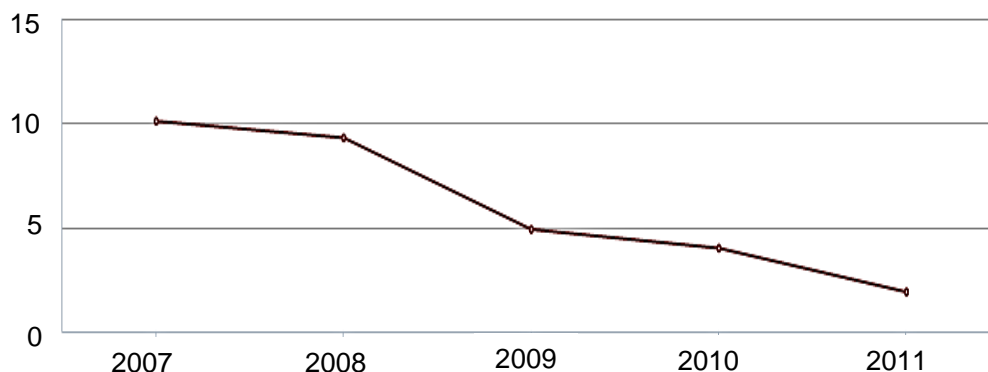
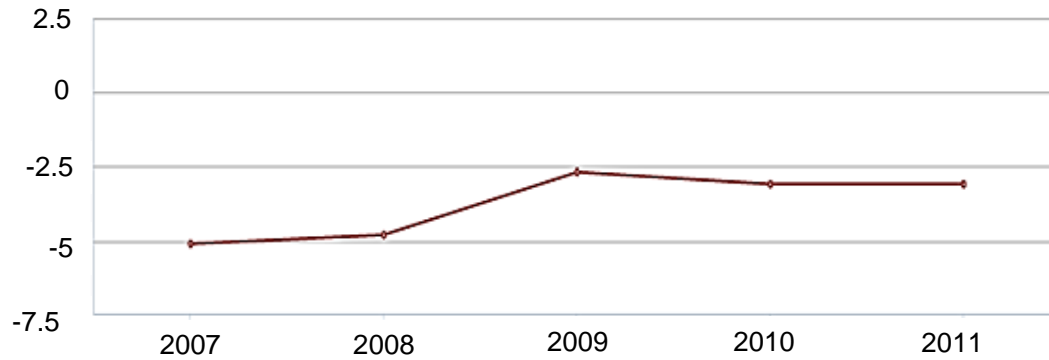


Figure 2: US current account balance (% GDP)

Source of Figure 1 and 2: World Development Indicators

Table 3: Growth in China's real GDP: % change per annum

2007	2008	2009	2010	2011
14.2	9.6	9.2	10.4	9.3

Source: World Economic Outlook

Questions

- (a) (i) Compare the current account balances of China and the US from 2007 to 2011. [2]
- (ii) How might China's current account balance show that the "yuan is far less undervalued than it was a few years ago"? [3]
- (iii) With reference to Figure 1 and Table 3, explain how far the data might show that China has made progress in rebalancing the economy away from exports. [5]
- (b) Explain the impact of trade surpluses on present and future living standards. [4]
- (c) Discuss whether Germany's trade surpluses hamper or promote growth in the other EU countries. [8]
- (d) According to Extract 5, the rebalancing of China's economy away from exports towards domestic consumption will benefit China and its trading partners. Assess the policies that China could implement to rebalance its economy. [8]

[Total: 30]

Section B

Answer **one** question from this section.

- 3 (a) Explain with examples, the difference between public and merit goods. [10]
- (b) Discuss the view that the Singapore government should only intervene in the provision of public goods. [15]
- 4 (a) Explain the relationship between inflation and the exchange rate. [10]
- (b) Discuss the view that managing the exchange rate is the most important macroeconomic stabilisation policy in Singapore. [15]