



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

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## **ECONOMICS**

Paper 1

**9757/01**

**22 August 2022**

**2 hour 15 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 **7** printed pages and **1** blank page.



NATIONAL JUNIOR COLLEGE  
Economics Department

Answer **all** questions.

### Question 1: A winner in the pandemic – Amazon

**Table 1: Retail revenue of the top ten largest Public Retailers (2010 and 2020)**

US Retailer	Retail Revenue in 2010 (in US\$ billion)	Retail Revenue in 2020 (in US\$ billion)
Amazon	50	1,400
Walmart	179	339
The Home Depot	47	267
Costco	24	134
Lowe's	29	102

*Source: visualcapitalist.com, accessed 29 June 2020*

### Extract 1: Market strategy of Amazon

Amazon is interesting not just because of its competitive scope, but also because of its market strategy. Michael Porter of Harvard Business School suggested in 1985 that companies need to choose not only whether to have either a broad market/ product focus or a narrow one, but also either a differentiation or cost leadership strategy. Other strategists would contend that you can mix the two as a hybrid.

A differentiation strategy is where the product or service is either perceived to be, or is, of superior customer value and has a definite price premium. A cost leadership strategy is where the price may be similar or usually lower than the competition, but costs are certainly lower.

In Amazon's case, the core strategy is clearly more a cost leadership one when compared with brick and mortar retailers. Amazon has massive warehousing facilities and processing capability, which give it physical economies of scale. That in turn gives it cost advantages. But in its service, it is differentiated – so it is something of a hybrid.

Amazon is ultra-keen on customer feedback, and Jeff Bezos, founder and chief executive officer of Amazon.com, Inc. has spread customer focus as a mantra throughout the organisation. Such service differentiation does not just bring loyalty but also encourages customers to buy more from Amazon.

The company is venturing into some perhaps unexpected new areas, for example, by exploiting its distinctive capability in handling large amounts of data and for new types of customer, sending a shiver down the spines of many large information technology (IT) companies.

*Source: accaglobal.com, accessed 14 July 2022*

### Extract 2: Amazon charged with abusing EU competition rules

The European Commission has charged Amazon with abusing its dominant position in online retail to gain an unfair advantage over competitors. It said Amazon had used data on third-party sellers that use its marketplace to boost sales of its own-label goods. Third-party sellers are independent sellers who offer a variety of new, used, and refurbished items on Amazon's platform. The steps to

place an order with a third-party seller are the same as placing any other order on Amazon.com. You add items to your cart and complete your order through the Amazon checkout process. The Commission also launched a fresh probe into the possible preferential treatment of sellers that use the technology giant's logistics services.

Amazon rejected the charges, saying no firm 'cared more' for small businesses. It faces a potential fine as high as 10% of its global turnover if it is found guilty of breaching competition law – about US\$19 billion. In a statement, the European Union's (EU) Competition Commissioner Margrethe Vestager said it was vital that platforms with 'market power' did not 'distort competition'.

'Data on the activity of third-party sellers should not be used to the benefit of Amazon when it acts as a competitor to these sellers,' she added. 'With e-commerce booming, and Amazon being the leading e-commerce platform, a fair and undistorted access to consumers online is important for all sellers.'

In a statement Amazon insisted that – far from being anti-competitive – its own private-label products were good for customers and offered more choice. 'Amazon represents less than 1% of the global retail market, and there are larger retailers in every country in which we operate,' it said. 'No company cares more about small businesses or has done more to support them over the past two decades than Amazon.' It also pointed out that there are more than 150,000 European businesses selling through its online marketplace.

The charges come as the coronavirus crisis has driven huge sales for the retailer, as people increasingly turn to online shopping. In August, boss Jeff Bezos became the richest man in the world with a fortune of more than US\$200 billion after the firm's share price rocketed in the early months of the pandemic.

*Source: bbc.com, accessed 19 November 2020*

### **Extract 3: China's online shopping addiction is killing its green packaging drive**

The e-commerce industry is trying to reduce plastic waste from the millions of packages it ships every day. If you worry about all the waste generated by the annual rush of holiday shopping and gift giving, it is nothing compared to the mountains of discarded packaging that comes from a single event in China.

On 11 November each year, the world's biggest consumer market goes into overdrive as e-commerce giants like Alibaba Group Holdings Ltd. and JD.com Inc. lure shoppers with huge bargains during the Singles' Day bonanza. Alibaba reported almost 500 billion yuan (US\$76 billion) of sales this year, nearly four times United States (US) Black Friday and Cyber Monday spending combined. Greenpeace, an independent global campaigning network that acts to change attitudes and behaviour to protect and conserve the environment, estimates that Singles' Day generated 52,400 metric tons of carbon dioxide (CO<sub>2</sub>) from manufacturing, packaging and shipping in 2017. The national railway has to employ hundreds of high-speed trains to help with deliveries every year.

As President Xi Jinping pushes for stronger environmental protection and consumers grow more eco-conscious, the nation's e-commerce giants are under pressure to find greener ways to handle the annual extravaganza, starting with plastic. China's soaring use of the material has become one of the world's most pressing environmental issues but switching to other materials is costly for smaller businesses and the government has struggled to implement a plan to phase out single-use plastics.

E-commerce companies are trying to stem the tide. For Singles' Day this year, Alibaba's logistics arm Cainiao designed recyclable corrugated cardboard boxes that do not have to be sealed with plastic tape. The company offered the packaging to more than 500 sellers on Tmall, including brands like Nestle SA and Procter & Gamble Co. The so-called zipper boxes cost twice as much as their usual packaging. Cainiao says it used 190,000 plastic-free boxes and 3 million biodegradable bags to package Singles' Day orders this year. While that is a step forward, it is just a fraction of the total increase in packaging this year. Cainiao emblazons the boxes with dolphin images to 'raise awareness of how plastic pollutes the oceans'.

Still, without government regulation, companies are left to decide if they want to use more sustainable packaging. Online shopping has become such a key driver of China's domestic economy, especially during the pandemic, that authorities have been reluctant to institute rules that could hurt the industry. The environment ministry, which drives climate policies, doesn't have the power to mandate greener packaging.

*Source: Bloomberg News, 21 December 2020*

- (a) Compare the relative change in the retail revenue for Amazon, Walmart and Home Depot in 2010 and 2020. [2]
- (b) Using a diagram and a relevant elasticity concept, explain how the Amazon's differentiation strategy (Extract 1) may have contributed to the change in its revenue. [5]
- (c) With reference to Extract 1, explain a source of cost advantage experienced by Amazon. [2]
- (d) Identify and explain two possible barriers to entry faced by the potential competitors into the e-commerce market that Amazon is in. [3]
- (e) Discuss the likely impact of Amazon's dominant position in the industry on society. [8]
- (f) The 'mountains of discarded packaging' (Extract 3) that comes from online shopping addiction leads to economic inefficiency in resource allocation.

Assess the most appropriate measures to deal with this economic inefficiency in resource allocation. [10]

[Total: 30]

## Question 2: Trade Policies between Singapore, ASEAN and China

### Extract 4: India has good reason to reject the Regional Comprehensive Economic Partnership

India dropped out of the Regional Comprehensive Economic Partnership's (RCEP) negotiations in November 2019 after participating in 28 of 31 rounds of talks over a six year period. India's withdrawal, announced last year in a joint leader's statement issued at the end of an Association of Southeast Asian Nations (ASEAN) summit in Bangkok, said that India had 'significant outstanding issues which remain unresolved.'

Indian textiles, agriculture and dairy sectors, which employ hundreds of millions of workers, are seen as the most vulnerable to Chinese and other RCEP signatory imports. Under the pact, India would have been required to steadily drop tariff levels. China already enjoys a huge trade surplus with India, which hit US\$48.6 billion in the 2019 – 2020 fiscal year period, according to Indian official statistics.

RCEP proponents say it will help signatory nations to emerge faster from the pandemic's economic devastation including through greater participation in and access to regional supply chains. But Indian political leaders counter that they are protecting domestic interests from cheap and, in China's case, often state-subsidised cheap imports.

Indian industry is already vexed by a sharp increase in imports from China that have adversely impacted small and medium-sized factories in particular. At the same time, India's exports are often blocked by non-tariff barriers imposed by China, Indian trade groups and associations claim. Indian textile, steel and tire industries, all protected in varying degrees from foreign imports, would likewise face sudden stiff competition from RCEP nations.

*Source: Asia Times, 15 November 2020*

**Table 2: Current account balance as % of GDP, 2016 – 2020**

	2016	2017	2018	2019	2020
China	1.7	1.5	0.2	0.7	1.7
India	-0.5	-1.5	-2.4	-1.1	1.3
Singapore	17.7	17.3	15.2	14.5	17.1

*Source: World Bank national accounts data, and OECD National Accounts data files*

### Extract 5: Easier, cheaper for Singapore companies to do business regionally with RCEP

Companies will soon find it easier and cheaper to conduct business in the region when the newly-linked, region-wide free trade pact takes effect, said Trade and Industry Minister Chan Chun Sing. Speaking to reporters after signing the RCEP, Mr. Chan said the agreement provides businesses with better intellectual property protection and enables them to consolidate their production across participating countries, which will lead to cost-savings and time-savings. Consumers, too, will see benefits with a more competitive range of products to choose from, as well as cost-savings passed down from the elimination of tariffs on most goods traded among participating countries, said Mr. Chan.

The RCEP was signed virtually by all ten ASEAN members and key partners Australia, China, Japan, South Korea and New Zealand on the last day of the annual year-end ASEAN Summit hosted by Vietnam, which also handed over the chairmanship of the grouping to Brunei. Together, the RCEP countries account for 30% of the global economy and one-third of the world's population. Singapore's trade value with the other 14 RCEP members has grown steadily over the years, reaching 50.4% or S\$515.2 billion of the Republic's global trade last year.

The agreement's key benefits include tariff elimination for at least 92% of goods traded among members, and allowing businesses to invest in fellow RCEP countries without having to meet conditional performance requirements. As a result, businesses handling chemicals, plastics and processed food could see cost savings for their exports especially to China, Japan and South Korea. Express consignments and perishable goods also have to be cleared by customs within six hours of arrival.

There will also be greater clarity and transparency for firms seeking government projects, with members agreeing to publish laws, regulations and procedures on such opportunities. RCEP members are also obliged to share information that may be relevant to small and medium enterprises so that they can benefit from the agreement.

As for concerns some have raised about benefits being tilted in favour of larger economies, like China, Mr. Chan said the signing of the RCEP will bring about mutual benefits for both Chinese companies venturing beyond the domestic market, as well as for non-Chinese companies who want to enter China. It will also allow for both the Chinese and regional markets to be seen as an integrated market, which will make the grouping more attractive to global investors and enhance the competitiveness of its exports to the rest of the world, he added.

*Source: The Straits Times, 15 November 2020*

#### **Extract 6: Singapore to be a reliable node in global supply chain and build internal resilience**

Singapore has to build its reliability as a node in the global supply chain, while also keeping an eye on the resilience of its own internal supply networks, said Senior Minister of State for Trade and Industry Chee Hong Tat. This is especially so since the coronavirus pandemic has affected many businesses and employees around the world.

'The global economy is experiencing both a supply and demand shock. Supply chains have been disrupted, as countries imposed lockdowns and export bans. Even as countries are gradually reopening their economies, travel restrictions remain,' Mr. Chee said. 'To enhance supply chain resilience, some countries may respond by restricting exports – especially for essentials, such as food and medical items – while others will strengthen their interdependence with other economies. As a small and open economy, Singapore's response cannot be the former. We must continue to look outward and find our relevance in the new world.'

He added that Singapore is keeping its ports and production lines open to ensure that trade flows unimpeded, which shows that it is reliant in times of crisis. He brought up the example of mask manufacturer Medicom, which is headquartered in Montreal. It announced in June that it would locate its new surgical mask manufacturing facility here. Mr. Chee said: 'These investments will create a diversity of good jobs in research, product development, manufacturing and commercial functions.'

But internally, Singapore also needs to constantly review its sources for essential items, he added. For instance, it is establishing new networks and diversifying supply sources and markets in food to ensure long-term food security. Singapore is also working on building local capabilities, such as in urban farming and agri-food technology, he added.

But ultimately, workers and companies have to prepare for changes in the global supply chain by taking advantage of opportunities in the digital economy. Businesses can go overseas through e-commerce platforms, for instance. Workers can also upskill themselves through continual training.

*Source: The Straits Times, 2 July 2020*

- (a) With reference to Extract 4 and Table 2, explain two reasons why India is against the removal of import tariffs. [4]
- (b) Using a diagram and Extract 5, explain how the removal of import tariffs would impact consumer surplus. [3]
- (c) With reference to Extract 6:
  - (i) Explain how an increase in foreign direct investment may impact the balance of payment in Singapore in the short run and the long run. [3]
  - (ii) Explain why an increase in foreign direct investment may lead to an increase in the rate of unemployment in Singapore. [2]
- (d) Discuss the relative benefits of diversification for a resilient supply chain as compared to specialisation of exports to an economy engaging in international trade. [8]
- (e) Discuss whether participation in the RCEP would likely enhance the living standards of an economy. [10]

[Total: 30]

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