



PIONEER JUNIOR COLLEGE, SINGAPORE
JC2 Preliminary Examination 2017
Higher 1

ECONOMICS

8819/01

Paper 1

14 September 2017

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your Centre number, index number and name 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.

Please begin your answer to each question on a fresh piece of writing paper.

At the end of the examination, fasten your work for Questions 1, 2 and 3 or 4 separately.

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

This document consists of **6** printed pages.



Pioneer Junior College

Section A



Ministry of Education

Answer **all** questions in this section.

Question 1

The impact of climate change

Table 1: Food Price Index (2002-2004 = 100)

The table below shows an index of food prices over the period of 2006 to 2015.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Index	127.2	161.4	201.1	160.3	188.0	229.9	213.3	209.8	201.8	164.0

Source: *Food and Agriculture Organisation of the United Nation*

Extract 1: The Paris Agreement

A historic, legally binding climate deal that aims to hold global temperatures to a maximum rise of 1.5 degrees celsius above pre-industrial levels, starving off the worst effects of catastrophic global warming, has been secured.

The culmination of more than 20 years of fraught United Nations (UN) climate talks has seen all countries agree to reduce emissions, promise to raise \$100 billion a year by 2020 to help poor countries adapt their economies, and accept a new goal of zero net emissions by later this century.

Source: *The Guardian*, 13 December 2015

Extract 2: Climate change and the continual demand for economic growth

The agreement reached at the climate change talks in Paris is certainly a great improvement on anything that has gone before. Whether it is enough to save the planet is questionable. It was suggested that the agreement will create more jobs and economic growth driven by investment in clean energy sector. But growth, even “green growth”, is precisely the problem. In order to reduce the consequences of climate change such as rising carbon emission, growth could be sacrificed. We live on a finite planet with finite resources which we are already exploiting to the limit and beyond. The aim must be to achieve a steady-state economy, with resources fairly shared, but that is incompatible with conventional growth strategy, which was to simply raise output.

Adapted from: *The Guardian*, 14 December 2015

Extract 3: Climate change and food prices

Due to climate change, extreme weather events that impact food production could be happening in seven years out of ten by the end of this century. Poor harvests and low stocks of grains in 2008, combined with a host of other factors resulted in a spectacular rise in food prices. In 2010, a heat wave in Russia led to the country's worst drought in 40 years, destroying the grain harvest and leading indirectly, to food riots in North African countries as prices of bread rose rapidly.

In addition, increasing population will drive demand for food up by 60% by 2050 in any case, so there is going to be significant pressure on food production. The biggest impact of these production shocks were likely to be felt across Africa and the Middle East.

Countries like the UK and the US would be able to cope because more processed food is consumed in the wealthier regions so the changing price of basic commodities was less of a factor in the final price of the product. The most vulnerable countries that are going to be worst affected are low income food-deficit countries, predominantly those in sub-Saharan Africa. This is because the poorest households in these sorts of countries are spending about 50% of their income on food. So if food prices increase by 50-100%, it would leave the citizens in sub-Saharan Africa in an almost unbearable position. The researchers say that international trade worked well when food was in

plentiful supply but when global demand increased, countries often imposed export controls which usually made the situation worse.

Hence, governments must try to understand the risks, rather than simply stockpiling food and grains. There should be efforts to reform world trade so that countries don't retreat behind barriers when crops fail. Significant research on agriculture must be carried out to ensure it can cope with increased demand and increasing temperatures.

Source: *BBC*, 14 August 2015

Extract 4: Is there an economic case for tackling climate change?

What is the economic case for tackling climate change? Economists have been wrestling with the question since the early 1980s.

There are externalities: emissions produced by a person or business lead to costs - and sometimes benefits - for others which the emitter has no incentive to consider. The mainstream economic view of how to deal with an undesirable externality is that you tax it. In this case it is greenhouse gas emissions that would be taxed. This approach is generally known as a carbon tax or sometimes as a carbon price.

There are alternatives, notably emissions caps with tradable permits. The idea is that the curbs in emissions would be made by those businesses that could do it at the lowest cost. There have been experiments with this approach, notably in the European Union. If implemented effectively, the approach does have much in common with a carbon tax. Emitters have to pay and in doing so are in effect forced to take account of the externality. The other main approach has been to use regulation or subsidies to promote particular low emissions technologies, especially in electricity generation. Markets are generally seen as more effective than governments, although needing a bit of a nudge in cases of market failure, such as climate change. Moderate warming might actually be beneficial at least for some, with reduced heating costs and cold weather related health problems, and increased crop yields in some places.

Source: *BBC*, 28 November 2015

Questions

- (a) Using Table 1, compare the overall change in food prices between 2006 and 2010 with that between 2011 and 2015. [3]
- (b) With reference to Extract 2, define opportunity cost and give an example. [3]
- (c) With reference to Extract 3, explain whether supply or demand factors are likely to be more important in explaining changes in the price of food. [6]
- (d) With reference to Extract 3, explain why countries like the UK and the US are able to cope better compared to Africa and the Middle East in view of the significant rise in food prices. [4]
- (e) With reference to Extract 3, explain whether the use of export controls by governments to prevent rising food prices is justified. [6]
- (f) Discuss the view that the problem of negative externalities caused by carbon emission from firms can best be solved by using a policy of tradable permits. [8]

[Total:30]

Question 2 Economic Performance, Prospects and Lessons

Extract 5: The Rise of Anti-Globalisation and its Impact in Asia

There is no question that globalization has been a good thing for many developing countries who now have access to more markets and can export cheap goods. However, globalization has become deeply discredited in parts of the developed world. The general complaint about globalization is that it has made the rich richer while making the non-rich poorer. In developed countries, jobs are lost and transferred to lower cost countries. Workers in developed countries like the US and EU face pay-cut demands from employers who threaten to export jobs.

Globalization is an economic tsunami that is sweeping the planet. We can't stop it but there are many policies and strategies we can use to make it more equitable. We can enforce the trade laws, force the competition to play by the same rules, and stop giving our competitors the tools (technology and R& D) to ultimately win the global war. The anti-globalists claim that globalization is not working for the majority of the world. The United Nations Development Program reports that the richest 20 percent of the world's population consume 86 percent of the world's resources while the poorest 80 percent consume just 14 percent. Wage stagnation, insecure jobs and widening inequality between rich and poor are just some of the factors that led to rising anti-globalisation and increase protectionism sentiment seen in the West.

The increase in protectionist measures have profound implications for cross border global flows and negatively impact Asia that have built their fortunes on exports.

Adapted from Forbes, 6 May 2015

Extract 6: EU slaps anti-dumping duties on China stainless steel

The EU announced that it will impose anti-dumping duties on imports of flat-rolled stainless steel used to make products like washing machines, dishwashers, medical tools and automobiles from China. Duties of around 25% will be imposed for the targeted Chinese firms including industrial giant Baosteel.

This came about after European industry complained of stainless steel products being dumped on the market at below cost price, putting thousands of jobs at stake. In the absence of measures, the dumped imports from the China will continue to force EU industry to sell at loss-making prices. The EU industry concerned suffered a production volume decline of five percent, which led to an eight percent drop in capacity utilisation.

Adapted from Eurativ, 26 March 2015

Extract 7: Economic Review for China

In 2015, China's economy grew 6.9 percent, one of the slowest growth rates among the recent years.

Facing shrinking external demand, expanding overcapacity, increasing competition, intensifying trade protectionism and growing trade disputes, China is in the midst of a fundamental transition. She is moving from an investment-intensive, export-led model of growth, to a consumption and innovation-driven one. Last year, China's outbound foreign direct investment (FDI) surpassed its inbound FDI for the first time. More investments were made in North America, Europe and other developed economies, where there are more high-quality targets to obtain advanced technologies that can be deployed domestically. For example, Haier, a Chinese consumer electronic appliances multinational corporation, announced the acquisition of General Electric's Appliances business for USD 5.4 billion, which will not only allow Haier to expand its presence in the US market, but also provide Haier with great products, state-of-the-art manufacturing facilities and a talented team. China's FDI are also going into developing countries such as India as Chinese manufacturing sector is struggling with rising wages at home.

Back home, e-commerce is turning into a pillar of growth: reducing costs and other barriers to entry, increasing competition, driving down prices, and unlocking new demand. The role of e-commerce has become a dominant feature in the consumer spending landscape. In 2015, the online retail sales of goods and services totalled RMB 3.8 trillion, an increase of 37.2 percent. Recent economic data shows that the contribution from consumption as a percentage of GDP in China is rising, accounted for 52.7 percent of China's GDP in 2015, up from 51.4 percent in 2014. By comparison, consumption expenditure in the US accounted for 68.4 percent of the US GDP in 2015.

To meet the challenges of China's rapid rate of urbanisation such as traffic congestion and poor regional connectivity, the government has implemented a series of initiatives. The 'New-type Urbanization Plan' aims to connect ecological progress, urbanisation quality, expanding domestic demand and rural-urban coordination while the 'Belt-and-Road Initiative' is an infrastructure development plan proposed to improve the connectivity of the country.

Adapted from *China Outlook 2016*, KPMG's *Global China Practice*, March 2016

Table 2: China: Selected Economic Indicators 2011 – 2015

	2011	2012	2013	2014	2015
Real GDP growth (Annual %)	9.5	7.9	7.8	7.3	6.9
Inflation (annual % change in CPI)	8.2	2.4	2.2	0.8	0.1
Government budget balance (% of GDP)	1.53	1.27	0.76	0.84	-
Unemployment rate (%)	4.3	4.5	4.5	4.6	4.6
PM2.5 air pollution (micrograms per cubic meter)	57	57	57	58	58
Internet users (per 100 people)	38.3	42.3	45.8	47.9	50.3

Source: *Various*

Questions

- (a) Describe the change in China's real GDP between 2011 and 2015. [2]
- (b) Extract 7 suggests an increase in China investment overseas.
Comment on the likely effects of this on China's balance of payments. [4]
- (c) Explain the case **for** the use of protectionist measures by the EU government. [4]
- (d) With reference to Extract 7, using AD/AS analysis, explain how the 'Belt-and-Road Initiative' impacts the Chinese economy. [4]
- (e) Discuss whether the data provided are sufficient to assess changes in standard of living of China over the period of 2011 and 2015. [8]
- (f) In view of the anti-globalisation sentiments, discuss whether globalisation should be the driver of growth for emerging economies such as China. [8]

[Total: 30 marks]

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Section B

Answer **one** question from this section.

- 3 (a)** Explain what might cause price elasticity of demand to be different for different products. [10]
- (b)** Profits are earned when revenue exceeds costs of production. Discuss whether it is both possible and beneficial for producers to change the price elasticity of demand for their products. [15]
- 4 (a)** Explain how weakening of a country's foreign exchange rate can cause inflation rates to rise. [10]
- (b)** Discuss whether the use of supply side policy as a means of solving the problem of inflation is likely to be effective. [15]