

Candidate Name: _____

Class Index No

--	--



Preliminary Examination 2008

Pre-university 3

ECONOMICS 9732
PAPER 1

9732/01

Monday

15 September

2h 15m

Additional materials:
Answer paper

READ THESE INSTRUCTIONS FIRST

Write your name, class and index number in the spaces at the top of this page and 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 or graphs.

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

Answer **all** the questions.

At the end of the examination, fasten your answers to the two questions separately.

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

You are reminded of the need for clear presentation in your answers.

Answer all questions

Question 1

Extract 1: Battle brewing in the drug store business

Longs Drug stores with its 520 branches is a key player in the drug retail business in California. Another key player in this region is Walgreens, a national drugstore chain. But the Longs Drug store chain is to be taken over by Walgreens' main rival, CVS Caremark, later this year.

For CVS, which has no stores in California, the proposed \$2.9bn deal for Longs is the latest stage in a national battle being waged neighbourhood by neighbourhood with Walgreens to drive nationwide market share. CVS, based in Rhode Island, and Walgreens, from the Midwest, are now running neck and neck in the push to achieve national leadership through local dominance, with about 6,800 drugstores each. Pennsylvania-based Rite Aid, the third largest national chain, has about 5,800 stores.

Source: Adapted from *The Financial Times*, August 15, 2008.

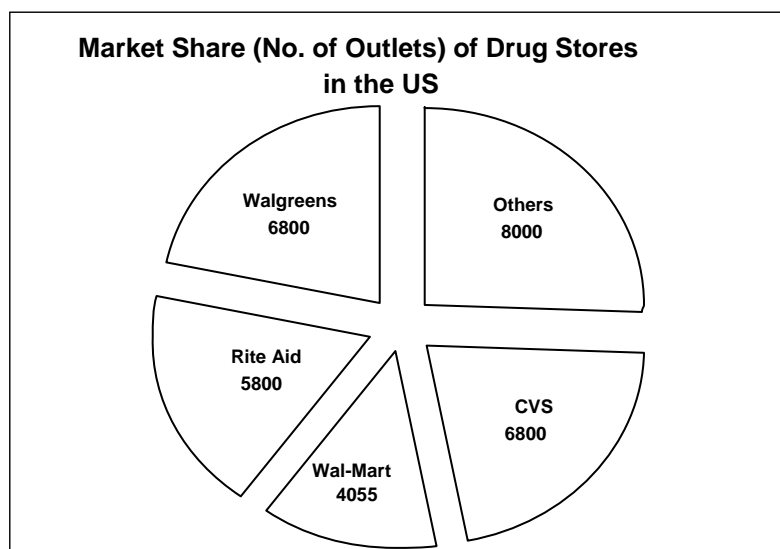
Extract 2: Mergers vs. Organic Growth

A retail analyst at Citigroup, says the purchase of Longs "is excellent and is one that would take a decade or more for CVS to replicate through organic growth". CVS is confident about its ability to integrate the Longs stores, pointing to the successful integration of the Savon and Osco stores it acquired two years ago and the 1,800 Eckerd stores in Texas and the south that it bought from JC Penney in 2004.

Walgreens, in contrast, continues to focus on expanding organically by opening its own new stores. Rite Aid has been less successful in its efforts to keep pace, struggling to integrate 1,800 Brooks and Eckerd brand stores that it acquired in 2006 in an attempt to build scale. As they have grown, all three chains have used their scale to reduce overheads and to market higher-margin private label products such as over-the-counter medications. They have also sought to reinforce their retail business by expanding into new areas, such as "walk-in" in-store clinics, operated by nurses who dispense basic medical treatment, and developing their specialty pharmacy businesses, which offer enhanced management services for patients with chronic conditions.

Source: Adapted from *The Financial Times*, August 15, 2008.

Figure 1



Source: *The Financial Times*, Reuters.

The category "Others" includes over 3000 outlets that are individually owned. The remainder includes chains with 2 or more outlets.

Extract 3: Is Wal-Mart the future?

Wal-Mart, the largest US retailer, operates more than 4,000 pharmacies at its superstores and warehouse clubs across the US. There is growing evidence that its two-year-old drive to reduce the costs of generic drugs has lured business away from the traditional stores and its pharmacy division is already the most profitable among the drug store chains.

More significantly, Wal-Mart has also indicated that it is interested in exploring the creation of smaller format stores focused on health, potentially joining the drugstores in their battle for market share. Wal-Mart is also encouraged by its successful foray into cyberspace and sees online retailing as its biggest growth area.

Source: Adapted from *Reuters*, June 30, 2008.

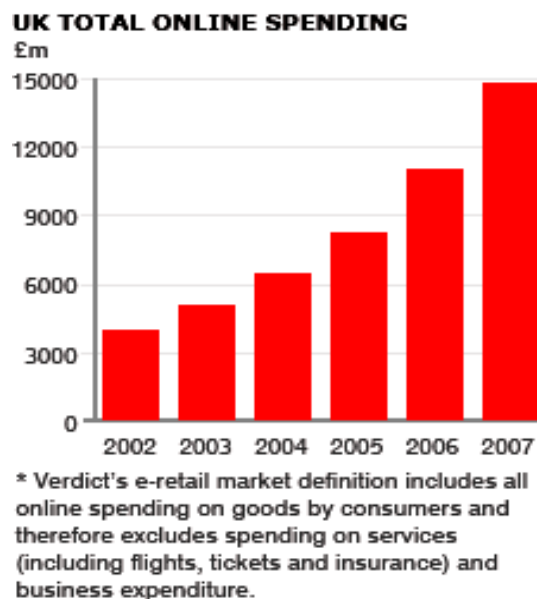
Extract 4: Online shopping 'defies slowdown'

Online retailing is continuing to boom in the UK despite pessimism about the economy, according to a survey. The amount of money spent by consumers shopping online increased by 35% to £14.7bn last year, retail analysts Verdict Research said. The growth rate - the fastest in six years - is about 10 times that of the UK's retail market as a whole. The growth in internet access and users making more regular and expensive purchases online meant the growth would continue. It is forecast that online retail sales would reach £44.9bn by 2012, about 13.8% of total spending.

The development of faster broadband in the internet had made the process of shopping quicker and easier for many people while many saw it as a way of finding lower prices and bargains in most sectors.

Source: Adapted from the *BBC News*.

Figure 2



SOURCE: Verdict Research

Questions

- a) Describe and account for the trend in UK total online spending from 2002 to 2007. [2]
- b) Using demand and supply analysis, explain why Wal-Mart is becoming more successful compared to its rivals. [4]
- c) Using data from the extracts,
 - i) Identify and explain the type of market structure in which drug stores in the US are likely to fit in. [4]
 - ii) Using economic analysis, show how the drug retail industry achieves its equilibrium within the identified market structure. [4]
- d) Suggest reasons why some firms in the drug retail industry are unable to remain competitive even though others enjoy the scale economies. [6]
- e) Discuss the likely impacts of the CVS takeover of Longs Drug on itself, its competitors and consumers. [10]

Total [30 marks]

Question 2

A Study of Vietnam

Extract 5: Asia's other miracle

Not so long ago, the word “Vietnamese” was almost inevitably accompanied by the phrase “boat people”. For two decades after the fall of Saigon in 1975, the defining image of Vietnam was the waves of refugees washing up on its neighbours' shores, fleeing oppression and poverty back home. How things have changed. Today, many former refugees are returning to seek new careers and start businesses in a transformed Vietnam. It is now one of Asia's fastest-developing countries, with annual growth averaging 7.5% over the past decade. Although this is less stellar than China's growth, Vietnam has made more impressive progress in cutting poverty than its vast northern neighbour. Although the government's initial hopes for 9% growth this year may be dashed, as the country struggles with double-digit inflation and a yawning trade gap, the long-term outlook remains promising.

Source: Adapted from *The Economist*, April 24, 2008

Extract 6: World trade body admits Vietnam

World Trade Organisation (WTO) member states have voted in favour of Vietnam's entry, which would make it the 150th member of the trade body in 2007. The move will give it more access to overseas markets but force it to cut high import tariffs. It will have to reduce import duties from the current average rate of 17.6% to 13.8% within five to seven years of joining the WTO. The lowering of import tariffs is expected to cut the state budget by some 21%.

After Vietnam joins the WTO, its textile, rice and coffee exporters will no longer be subject to other countries' import quotas. But banking, insurance and telecommunications industries have expressed some reservations over the prospect of increased international competition. Restrictions on foreign ownership of firms inside the country will be also be lifted. Foreign competition is bitter medicine for Vietnamese enterprises, but it will help them become stronger.

Source: *BBC News* - Nov 7, 2006

<http://news.bbc.co.uk/2/hi/business/6122668.stm>

Extract 7: Shooting out of poverty

Vietnam's cities are bright and bustling and the countryside, where most of its 85m people still live, seem hardly less developed than that of much richer countries. A country once on the brink of famine has turned itself into one of the biggest exporters of farm produce. By the early 2000s, Brazil, the world's largest exporter of coffee, was astounded to find itself being overtaken by Vietnam. More recently, it surpassed India as the world's second-largest rice exporter after Thailand. Vietnam's farmers have become important competitors in all sorts of agricultural produce, from nuts to peppers to rubber. They are even selling tea to the Indians. Its fishermen and foresters are also doing well by feeding the world's growing demand for seafood and timber. Vietnam's exports of farm, forest and fisheries produce rose by 21% last year, to \$12.5 billion, and further growth is expected.

The success of Vietnam's economic transformation is often measured by the falling share of agriculture in the country's gross domestic product. Industry and services are indeed growing even faster than farming and absorbing its surplus labour. Agriculture, forestry and fisheries now provide barely half of all jobs in Vietnam, compared with over two-thirds only ten years ago. A successful rural economy will remain the key to maintaining Vietnam's impressive progress on cutting poverty. It has also become one of the fastest-growing destinations for multinational firms and holidaymakers.

Other countries in transition could benefit from its advice on how to set aside old enmities, open up to the world and reform defunct economies. It is a country that has escaped deep poverty by embracing free trade. Vietnam wants to go all the way to become a rich, high-tech country and has set a target date of 2020 for getting there.

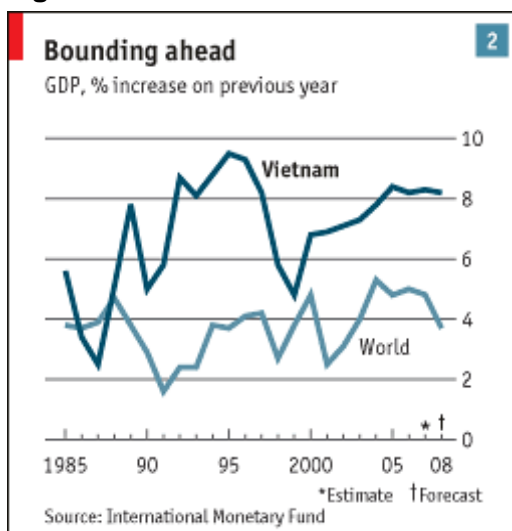
Vietnam began to be a success only after its ruling Communists accepted that capitalism, free markets and free trade were the surest route to riches. Collectivisation was scrapped, farmers were given their own land to till and agricultural prices were freed. In 2000, private business - until then strictly curbed - was legalised and a stock market created. Market freedom and self-interests are powerful economic incentives. Trade barriers were lowered, exports and imports soared, and Vietnam is now among the world's most open economies. It is hard to run a thriving market economy with the methods that suited a planned economy.

The flow of cheap labour from the countryside means that costs are low - not only for construction companies but also for the multi-national corporations who are now flocking to Vietnam. Canon makes half of its printers in Vietnam. At the factory gates, big containers bring in components from overseas - but there are also little trucks and they are more significant for Vietnam because they are transporting locally-made supplies. Gradually Vietnam is becoming more than a place to assemble products cheaply - some higher-skilled work is being transferred here - meaning more investment and better pay for workers.

The privatisation programme has caused the number of state firms, about 12,000 in the early 1990s, to drop spectacularly. Only about 2,000 are still fully owned by the state. By 2010 only some 500 will be left, mainly in sensitive areas such as defence.

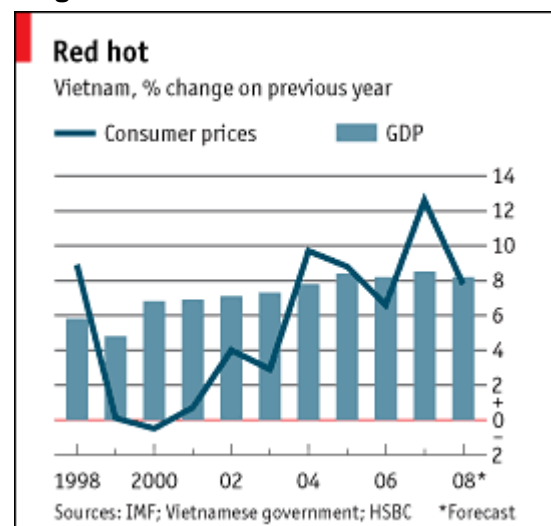
Source: Adapted from *The Economist*, April 24, 2008 & *The Economist Intelligence Unit*, ViewsWire April 4, 2008

Figure 3



The Economist print edition, Apr 24th 2008

Figure 4



The Economist print edition, Jan 31st 2008

Table 1: A Forecast of Vietnam's Performance

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	8.5	6.2	5.9	7.9	8.0	8.2
Consumer price inflation (%)	8.3	25.0	15.2	7.7	7.3	7.1
Budget balance (% of GDP)	-1.5	-1.7	-1.6	-1.4	-1.3	-1.0
Current account balance (% of GDP)	-9.9	-13.6	-9.5	-6.0	-3.0	-2.0
Interest rate (%)	11.2	21.3	19.0	12.1	11.7	11.6
Exchange rate (Dong/US\$)	16,179	16,839	18,055	18,384	18,622	18,847

Adapted from *The Economist Intelligence Unit*, Aug 27 2008
Source: Country Data

Questions

- a) (i) Compare Vietnam's Gross Domestic Product (GDP) performance with the world GDP over the period 1990 to 2008. [2]
- (ii) Describe the changes in real GDP growth for Vietnam over the period 1998 to 2007. [2]
- b) Using economic analysis, explain why there are benefits from
- (i) the transition from a planned economy to a market economy; and
- (ii) being a member of the World Trade Organisation (WTO). [8]
- c) Vietnam aims to be a high-tech country by 2020. Discuss the possible measures which could be used to realise this objective. [8]
- d) With reference to the given data, discuss the challenges that are likely to affect the forecast of Vietnam's economic performance from 2008 to 2012. [10]

Total [30 marks]

End of Paper