



ANDERSON SERANGOON JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION
Higher 1

ECONOMICS

8843/01

Paper 1

23 August 2024

Additional Materials: Answer Booklet

3 hours

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.

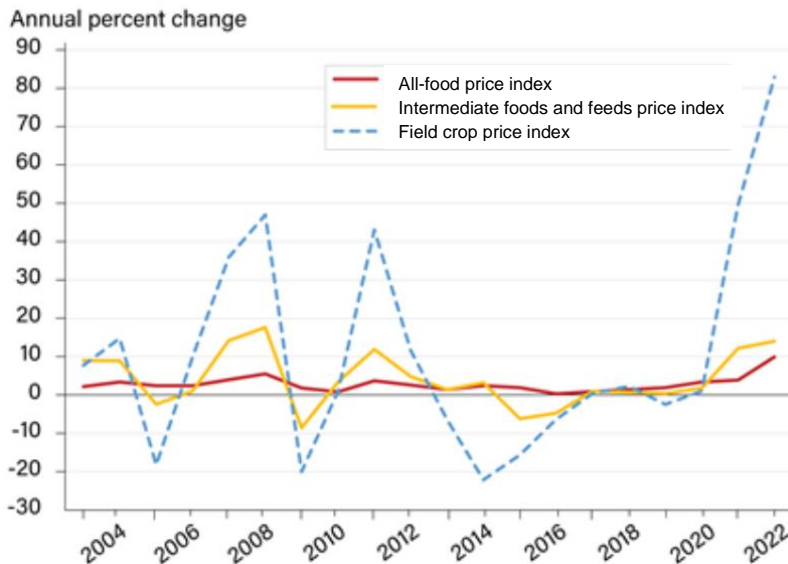
The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **9** printed pages and **3** blank pages.

Answer **all** questions

Question 1: Agriculture and food

Figure 1: Annual change in field crop prices, intermediate foods and feeds prices, and all-food prices from 2003-2022



Note: Examples of intermediate foods and feeds are processed products such as wheat flour and soybean oil.

Source: Economic Research Service, US Dept of Agriculture, 27 June 2024

Extract 1: Agriculture R&D and technology adoption

INCREASING R&D SPENDING ON AGRICULTURE

Doubling government funding for agricultural research and development (R&D) would have tremendous environmental and economic benefits according to a new commission paper in the *Journal of Agricultural and Applied Economics*. However, increasing R&D funding would require a significant new commitment from policymakers. After reaching a peak in 2002, spending on the United States (US) public agricultural R&D has fallen by one-third over the past two decades.

With a doubling of R&D spending, agriculture productivity is expected to rise by 62% in the US and 44% globally. This, in turn, would reduce crop and livestock prices and make US farmers more competitive internationally. Greater R&D funding and productivity can significantly slow farmland expansion. Doubling R&D spending is projected to reduce global emissions by about 213.4 million metric tons of carbon dioxide equivalent per year. This is largely driven by avoiding deforestation and other conversion of land to cropland. Emissions from fertiliser, fuel use, livestock, and other sources are also projected to be lower as scientific advances and technological innovation enable farmers to use inputs more efficiently.

Substantial new investments in agricultural research will yield extensive dividends. Such funding is pivotal to maintaining US dominance in global agricultural exports, curbing future food inflation, and positioning the agriculture sector as a leader on climate change and other environmental issues.

AGRICULTURE TECHNOLOGY ADOPTION

Agriculture technology (agtech) has an adoption challenge. Farmers' responses reveal that agtech adoption varies markedly across geographies, and the hesitant adopters are particularly wary of unclear rate of returns (ROI) and high prices.

European and North American farmers lead global agtech adoption, with about 61% currently using or planning to adopt one agtech product in the next two years. North American farmers cite high costs and unclear ROI as their biggest challenges to adopting farm-management systems. Farmers in Europe, while also most concerned about high costs, report complexities in setup and use as an additional major barrier to adoption. Agtech product adoption is lowest in Asia, with only about 9% of farmers using or planning to use at least one agtech product; adoption varies between countries in this region as well.

Source: The Breakthrough Institute, 11 January 2024

Extract 2: How China's insatiable demand is changing the durian industry in Southeast Asia

China's "craze" for durian has been the driving force behind the 400% surge in global demand for the fruit between 2021 and 2022. China accounted for 91% of global demand, importing US\$6 billion worth of the fruit, in those two years. At the forefront of sustaining China's hunger for durian are Thailand and Vietnam, with Malaysia also being a top supplier.

Thailand, the first country permitted to export fresh durian to China, saw its durian exports to China surge to \$3.75 billion last year, according to Thailand government data. This is an increase from \$128 million in 2012. Durian now accounts for 25% of the export of the country's four main agricultural products, the other three being rice, rubber and cassava. The high demand from China has prompted Thailand's farmers to consider growing durian instead of other crops such as rice and maize. The area used for durian cultivation has risen by 80% over the past 12 years and durian is now grown everywhere instead of being concentrated in a few eastern provinces as in previous years. The agriculture ministry has warned that the massive surge in durian production could lead to an oversupply and export quality control issues.

Source: VN Express International, 25 June 2024

Extract 3: Higher grocery bills for Canadian families

Every year, Canada's Food Price Report tabulates what an annual healthy grocery basket would cost for a family of four. Last year, it forecasted that a typical family would end up paying \$1065 more for food in 2023, bringing the annual family tally to \$16,288.

But while the Report correctly forecasted the increase in food prices, it was off in terms of what ended up going into the grocery basket — mostly because consumers cut corners and ate less or downgraded to cheaper alternatives in order to pay for other higher family expenses.

As it turned out, the typical family ended up spending \$15,595 on food this year, even as the prices of individual items in their grocery cart increased. "In other words, despite higher food prices, they spent \$693 less due to changes in shopping habits," the Report says.

Source: CBC News, 7 December 2023

Extract 4: True cost of cheap food is health and climate crises

The true cost of unhealthy food is a spiralling public health crisis and environmental destruction, according to a high-level commission. It said the food and farming system in the United Kingdom (UK) must be radically transformed and become sustainable within 10 years. The commission criticised decades of government policy aimed at making food cheaper, fuelling rising obesity and other health problems. "The true cost of cheap food is simply passed off elsewhere in society – in a degraded environment, spiralling ill health and impoverished high streets," said the commission.

The UK had the third cheapest basket of food in the developed world, but also had the highest food poverty in Europe, in terms of people being able to afford a healthy diet. Type 2 diabetes, a diet-related illness, costs the UK £27 billion a year. The commission also said agriculture produced more than 10% of the UK's climate-heating gases and was the biggest destroyer of wildlife. It noted that the number of key species has fallen 67% since 1970 and 13% of key species are now close to extinction.

Source: The Guardian, 16 July 2019

Extract 5: UK food giant calls for higher fat, sugar and salt taxes

One of the country's biggest food firms has said ministers should consider taxing products high in fat, sugar or salt to combat the obesity crisis. James Mayer, president of Danone UK & Ireland, said: "The UK food industry's efforts to improve the health profile of its products have not moved fast enough. We've reached a point where meaningful intervention from the government is a necessary course of action." It's the first time a major food company has called for urgent government action in the face of rising rates of obesity. The Health Survey for England for 2021 reported 64% of adults were overweight or obese.

The company says it does not want overall shopping costs to rise, but believes there should be a review of taxes to consider whether healthier products could be incentivised and sugar and fat-laden products taxed.

The government says businesses are to phase out their offering of multibuy promotions such as 'buy one get one free' or '3 for 2' offers on high in fat, sugar and salt (HFSS) products. Promotions of unhealthy products will also no longer be featured in key locations, such as checkouts, store entrances, aisle ends and their online equivalents. Free refills of sugary soft drinks will also be prohibited in the eating-out sector.

*Source: The Guardian, 11 June 2023, and
Department of Health and Social Care, 21 July 2021*

Questions

- (a) (i) With reference to Figure 1, identify the difference in the change in prices between field crops and intermediate foods and feeds. [1]
- (ii) Using a relevant elasticity concept and with the aid of a diagram, explain how an increase in demand could account for this difference in the change in prices between field crops and intermediate foods and feeds. [4]
- (b) With reference to Extract 2, use a supply and demand diagram to explain the possible effect on the market for durians of both
- China's insatiable demand for durians, and
 - farmers of other crops switching to growing durians instead. [5]
- (c) Comment on how far the price elasticity of demand (PED) concept explains the change in household expenditure on food given the increase in food prices mentioned in Extract 3. [6]
- (d) With reference to Extract 1, discuss whether increasing spending on agriculture research and development (R&D) is likely to benefit the macro-economy. [8]
- (e) (i) With reference to Extract 4, explain what is meant by "the true cost of cheap food" to the society. [2]
- (ii) Explain how the overconsumption of high in fat, sugar and salt (HFSS) products causes the market to fail. [4]
- (f) Discuss the view that the best way for government to reduce consumption of HFSS products is to increase regulation of the food industry. [10]

[Total: 40]

Question 2: Effects of exchange rate on Malaysia and the United States (US)

Extract 6: Fed raises interest rates to highest in 22 years

The US central bank has raised interest rates to the highest level in 22 years as it fights to stabilise prices in the world's largest economy.

But the economy in the US has held up better than many expected so far especially in the labour market, where jobs continue to be added at a robust pace and wages are rising.

Source: BBC, 27 July 2023

Table 1: Gross Domestic Product (GDP) growth and inflation rates of US and Malaysia

	2020	2021	2022	2023
US's GDP Growth (%)	-2.8	5.9	1.9	2.5
US's Inflation, consumer prices (annual %)	1.2	4.7	8.0	-
Malaysia's GDP Growth (%)	-5.5	3.3	8.7	3.7
Malaysia's Inflation, consumer prices (annual %)	-1.1	2.5	3.4	-

Source: World Bank Group, accessed 20 June 2024

Extract 7: Why the Malaysian ringgit has stayed weak

In June, Malaysia's Deputy Finance Minister Ahmad Maslan said that the government maintains its position to not peg the ringgit to the US dollar as the pegging will force its central bank to raise interest rates to the same level as that in the US, which are high.

Higher interest rates are a hinderance for borrowing and lending activities between businesses and banks in Malaysia, given that businesses have to take higher interest rates for loans. Furthermore, this steep increase in interest rates also makes it more expensive for consumers, businesses, and even the government to borrow money for consumption or development, all of which makes pegging the Malaysian ringgit an undesirable option.

Experts say that the weakening of the ringgit could be attributed to a combination of domestic and external factors.

Associate Professor Chia Wai Mun, an economics lecturer from Nanyang Technological University (NTU), said that factors such as political uncertainty and geopolitical tensions could affect investors' confidence and in turn affect the currency. Moreover, the divergence in interest rates between Malaysia and other major economies may affect financial flows as well.

Higher interest rates abroad would attract foreign investors seeking better returns, leading to financial outflows from Malaysia, thereby weakening the ringgit.

More recently, China's weaker growth and the weakness of its yuan have also weighed on the ringgit. China has been Malaysia's top trading partner, especially in the export of palm oil and palm-based products.

Source: Today Online, 3 September 2023

Extract 8: Making palm oil more sustainable

Palm oil has long been a major economic backbone of Southeast Asian economies, notably Indonesia, Malaysia and Thailand. But the undeniable environmental impact of extensive deforestation, haze and forest fires caused by oil palm plantations has given the industry a bad reputation that has been hard to shake.

Malaysia has experienced the most severe and persistent pollution problems amongst the Southeast Asian nations. Agricultural slash-and-burn techniques and forest fires carried by breeze from Indonesia have been the main causes of pollution in the nation. The State of Global Air 2020 report states that in the previous 10 years, PM2.5-related fatalities in Malaysia climbed by almost 30%.

To pave the way for greener practices and greater economic benefit from the palm oil sector, policymakers, businesses and consumers have key roles to play in supporting sustainable palm oil by demanding it, experts say.

Adapted from: Bernama, 20 September 2023, and Bangkok Post, 11 January 2021

Extract 9: Decline of the ringgit: Amid strain on people, businesses, is there hope for a rebound?

The ringgit has fallen, and as Malaysia imports around 60% of its food, this has translated into imported inflation. Local suppliers such as clothing manufacturer Domain and Range have encountered increased expenses when purchasing intermediate inputs from abroad. Consumers are also stretching their budgets by opting for local goods instead of foreign brands.

A soft ringgit is not without its advantages, however. Affordability also helped propel Malaysia into the top ranking among South-East Asian travel destinations last year. The country recorded almost 29 million visitor arrivals which is a 100% increase from 2022. There is an expectation that the upward trend will continue.

Maintaining export competitiveness comes at a cost. There are worries that a declining ringgit could speed up Malaysia's brain drain as workers seek better pay in stronger currencies.

Moreover, with the ringgit's lower value, Malaysian products have become more cost-competitive on international markets. Still, Associate Professor Teo Wing Leong from the University of Nottingham Malaysia urged the country to "work harder to gain efficiency" for a more competitive edge.

Source: CNA, 19 May 2024

Extract 10: Weaker ringgit draws more Johoreans to work in Singapore, leaving manpower shortages in key sectors

Deputy Minister Liew told CNA that Johor will be better able to retain its manpower if it is able to offer salaries that are around two-thirds what is being offered across the Causeway.

"But the employers need to provide upskilling and reskilling to their employees; and adopt sustainable and inclusive business practices. The employees must commit to self-development to upskill and enhance their employability," he added.

However, Mr Thomas Mathew, chief executive of Talent Corporation Malaysia, told CNA that it may be unrealistic to expect Johor companies to raise local employees' wages to two-thirds of what Singapore businesses are offering. Sunway University economics professor Yeah Kim Leng suggested instead that employers unable to raise wages should look to recruit employees from other states in Malaysia "that are facing youth unemployment and underemployment issues".

Source: CNA, 1 Oct 2023

Extract 11: Malaysia to unveil bigger budget to spur economic growth

Prime Minister Anwar Ibrahim is set to unveil a larger national budget on Friday, surpassing the RM372.3 billion (S\$112 billion) plan proposed by the previous government last October, in a bid to address Malaysia's slowing growth and higher cost of living.

According to an official source, Mr Anwar, who is also Finance Minister, will be able to spend more on the back of higher revenue from an economy that recovered better than expected in the past year.

"We can expect a larger 2023 budget," said the source, as revenue this year will remain elevated despite growth expected to slow to between 4% and 5%.

"Domestic demand will remain the key driver of economic growth in 2023, bolstered by higher tourism, continued recovery in the labour market, and implementation of new and existing investment projects," Malaysia's central bank governor Nor Shamsiah Mohd Yunus said.

With the projected larger budget, the government will likely spend on cash aid to vulnerable groups, upskilling and reskilling programmes, digitalisation of the economy and investment allowances for businesses, especially small and medium-sized enterprises.

Other measures, such as cutting personal income tax by 2 percentage points for those earning between RM50,000 and RM100,000 a year in the initial budget presented by the previous government, are likely to be maintained to ensure sustainable domestic demand, said economists.

Source: The Straits Times, 23 February 2023

Questions

- (a) With reference to Table 1, compare the trends in GDP for both United States (US) and Malaysia from 2020 to 2023. [2]
- (b) With reference to the Extract 6 and 7, explain why the authorities in Malaysia does not want to raise interest rates while the authorities in the US have increased them. [5]
- (c) Explain how the information in Table 1 and Extract 8 reflect the standard of living in Malaysia in 2020. [4]
- (d) (i) Explain how upskilling increases the demand for labour. [1]
 (ii) Using wage elasticity of supply concept, explain why it is difficult to obtain large increase in wages in Johor's labour market. [4]
- (e) With reference to Extract 7, comment on the view that external rather than domestic factor is a more likely cause of the weaker ringgit. [6]
- (f) Discuss the impacts of depreciation of the ringgit on standard of living in Malaysia. [8]
- (g) Discuss the view that the best way for Malaysia's government to achieve inclusive growth is through reducing income taxes rather than upskilling. [10]

[Total: 40]

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