VICTORIA JUNIOR COLLEGE
PRELMINARY EXAMINATIONS 2018

H1 ECONOMICS
8823/01 **13 September 2018**
3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class on every answer sheet that you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips or correction fluid.
Do not write in the margins.

There are 2 questions in this paper. You are to answer **all** questions.

At the end of the examination, fasten all your work securely together.

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

This document consists of **9** printed pages including the cover page

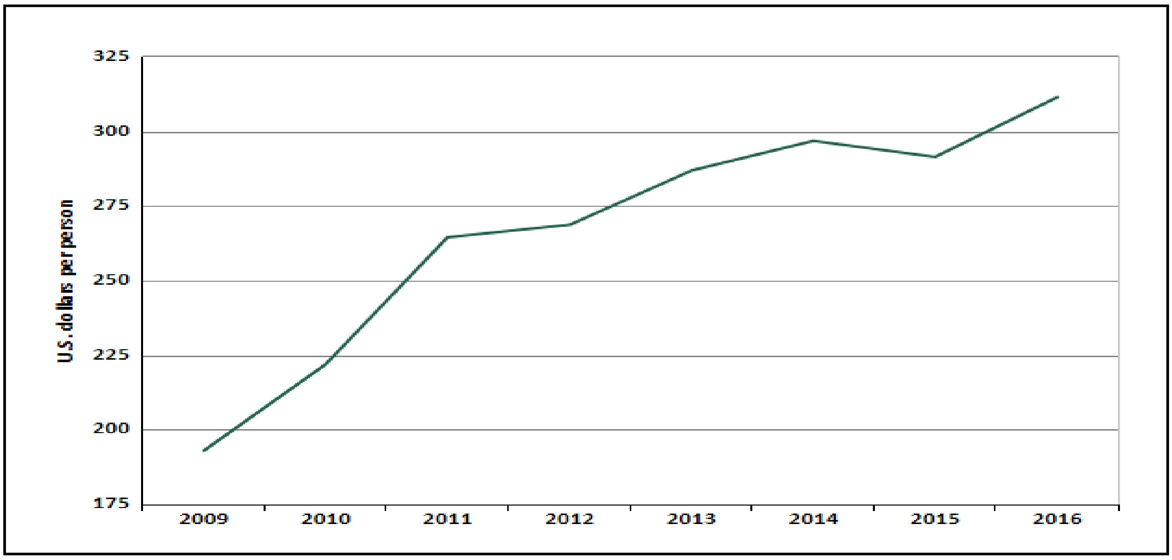
[Turn over

Question 1: India's Troubles

Figure 1: Food price changes in India

Source: Trading Economics, accessed 26 July 2018

Figure 2: India's food expenditure (USD per capita)



Source: Knoema, accessed 7 August 2018

Extract 1: Rising food prices to hit rural India

India's villages will face a sharp spike in food prices in 2016, as a second year of drought drives up the cost of ingredients such as sugar and milk, and poor transport infrastructure stops falling global prices from reaching rural areas.

Prices of vegetables like onions, tomatoes and potatoes have already been rising, with some staples up as much as 20 percent in a month. Palm oil prices have also climbed in the last two months, while milk prices have risen by 10 percent. Food accounts for more than 50 per cent of rural consumer price inflation in India, compared with a third of urban inflation, while categories like fuel, which has seen a considerable price drop, has a much smaller impact in rural areas, where families use firewood or biogas from manure.

Source: Reuters, 10 November 2015

Extract 2: Rising food prices push India's December retail to 17-month high

Rising food prices pushed India's retail inflation to a 17-month high in December, breaching the central bank's medium-term target for the second straight month, which could intensify pressure for it to raise interest rates in the next few months.

India's measure of consumer price inflation, the CPI index, rose 5.21 percent in December from a year earlier, against a backdrop of faster economic growth, the Ministry of Statistics said on Friday. Annual retail food inflation rose 4.96 percent in December from 4.35 percent in the previous month.

The Reserve Bank of India (RBI) held its interest rate steady at 6.0 percent last month and said all possibilities were on the table, depending on how price pressures and growth panned out. The RBI, which has a medium-term inflation target of 4 percent, has raised its inflation estimate to 4.7 percent for the six months through to March 2018. But some analysts feel inflation could overshoot its estimates, forcing the central bank to change its policy stance.

Analysts said any sharp rise in government spending in the budget that fuels inflation could force the central bank to raise rates earlier than expected. The world's seventh largest economy is expected to grow at 6.5 percent in the current fiscal year ending in March but a continued rise in inflation has alarmed policymakers in New Delhi. To make matter worse, crude prices have rallied, sending Brent crude above $70 a barrel on Thursday for the first time since December 2014, which is a worry since India imports most of its energy needs.

Source: Reuters, 12th Jan 2018

Extract 3: Pollution in India

A recent report from the World Health Organization (WHO), drawing on measurements and calculations as of 2016 from air monitoring stations in 4,300 cities, establishes clearly that air pollution is a global problem. A whopping nine in ten people on Earth breathe highly polluted air, and more than 80 percent of urban dwellers have to endure outdoor pollution that exceeds health standards, according to the WHO's World Global Ambient Air Quality Database.

But there are certain places on the planet where the air is now consistently, epically terrible. India, for instance, is home to 11 of the 12 cities with the highest levels of particulate pollution.

Two-thirds of India's population lives outside of cities, and 80 percent of these households rely on biomass like wood and dung for energy needs. The smoke released from these activities then waft over major cities such as Chennai and Mumbai, where it mixes with traffic exhaust, factory emissions, and construction dust. India's hills and mountains also act as basins that trap such toxic air over the country, leaving few areas in the country where Indians can breathe easy.

An emergency air-quality warning system was created in 2016 to warn citizens residing in the capital territory of Delhi of hazardous levels of air pollution. Delhi residents would receive an alert, warning them that air quality index (AQI) readings were breaching danger levels and that they ought to safeguard their health.

Source: adapted from Vox, 9th June 2018

Extract 4: India to clean up its air

According to Veerabhadran Ramanathan, professor of Atmospheric and Climate Sciences at Scripps Institution of Oceanography at University of California, there are three main solutions that can have maximum impact on air pollution in India. One, cleaner sources of energy need to be subsidised, two, pollution rights need to be issued and three, banning open burning of fossil fuels and biomass. It may take a long time but Ramanathan thinks that this would greatly reduce the air pollution in India, if done correctly.

Source: Adapted from World Health Organisation, 7th July 2016

Extract 5: Singapore not on track to achieve WHO targets

Singapore is not on track to achieve its air quality targets by 2020 which are benchmarked against the guidelines set by the World Health Organization (WHO). According to figures from the Ministry of the Environment and Water Resources (MEWR), in the past two years, Singapore fell short in meeting its targets for pollutants such as fine particulate matter (PM2.5), particulate matter (PM10) and ozone. Industries, power stations, and motor vehicles are the main sources of air pollution. However, these are essential functions we cannot forego. Speaking at a pre-Budget focus group discussion, Minister for the Environment and Water Resources, Mr Masagos Zulkifli, said Singapore is committed to finding ways to address air pollution.

To ensure good air quality, Singapore sets emission standards which have been progressively tightened over the years. Before industries are allowed to operate in Singapore, they are screened to ensure that they do not pose un-manageable pollution problems and health and safety hazards. In addition, they have to incorporate pollution control measures to comply with the National Environment Agency's (NEA) air emissions standards and regulations. All new vehicles in Singapore have to meet minimum emission standards while existing vehicles on the road are required to undergo regular inspections to ensure that they do not emit excessive smoke.

The carbon tax is an important step to sustain Singapore's clean, green and liveable environment. The Minister for Finance announced at Budget 2017 plans to introduce a carbon tax from 2019. The tax will be applied on facilities that emit 25,000 tCO_2e or more of greenhouse gas (GHG) emissions annually. To give the industry more time to adjust and implement energy efficiency projects, the tax will start at \$5/tCO_2e in the first instance, from 2019 to 2023. The first payment of the carbon tax will be in 2020, based on emissions in calendar year 2019.

Source: www.channelnewsasia.com, 26 January 2017 & National Climate Change Secretariat, 19 February 2018

Questions

(a) **(i)** Describe the trend in India's food prices from 2012 to 2018. [2]

(ii) What might Figure 1 and 2 suggest about the price elasticity of demand for food in India? [3]

(b) With the aid of a diagram, explain and comment on how a food subsidy might affect the consumers, producers and the government in India. [8]

(c) In the light of rising inflationary pressure, discuss whether the Indian government should raise interest rates. [10]

(d) **(i)** Explain how the activities mentioned in Extract 3 results in market failure. [6]

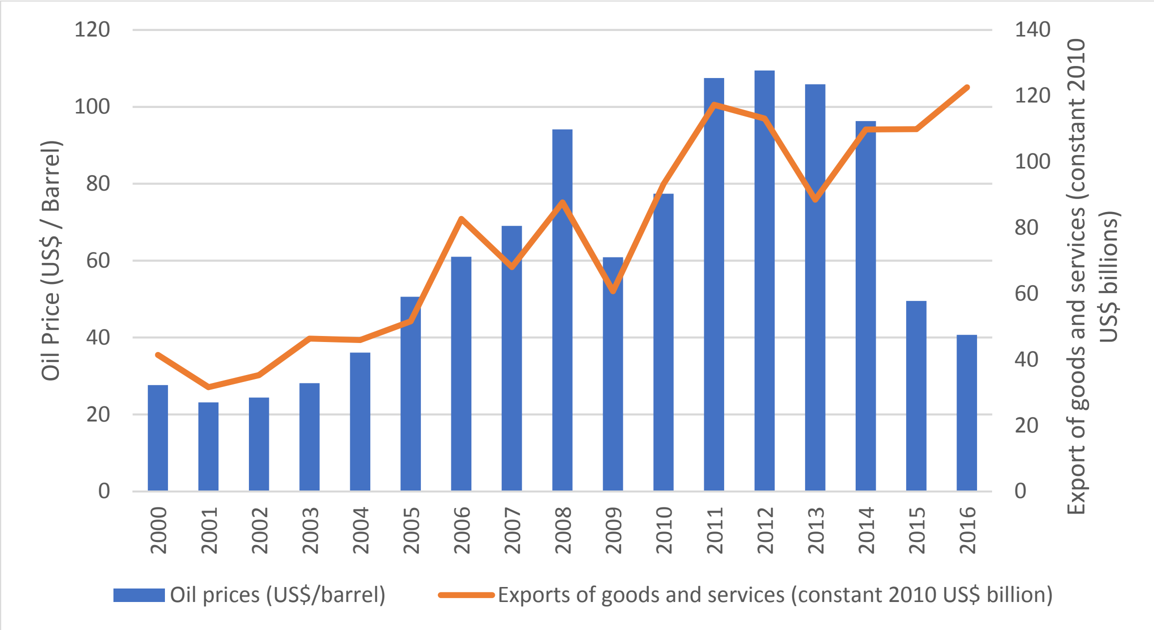
(ii) Clearly explain why, if left to market forces, "air quality warning services" will not be provided. [4]

(e) Using evidence from the case study and your own knowledge, discuss whether the Indian government should adopt Singapore's policies to improve air quality. [12]

[45 marks]

Question 2: Africa, out of the ashes into the fire?

Figure 3 – World oil price and Nigeria's export revenue



Source: World Bank & Statista, accessed 25 July 2018

Table 1 – Selected macroeconomic indicators of Nigeria and South Africa

	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			Nigeria			
Real GDP growth (annual %)	4.28	5.39	6.31	2.65	-1.62	0.81
CPI (annual %)	12.22	8.48	8.06	9.02	15.70	15.37
Total unemployment (% of total labour force)	3.76	3.70	4.56	4.31	7.06	7.04
Public Debt* (% of GDP)	10.53	10.60	10.71	11.63	14.32	16.16
			South Africa			
Real GDP growth (annual %)	2.21	2.49	1.85	1.28	0.57	1.32
CPI (annual %)	5.65	5.75	6.07	4.59	6.33	4.40
Total unemployment, (% of total labour force)	24.73	24.57	24.90	25.16	26.55	27.72
Public Debt (% of GDP)	41	44.1	46.98	49.31	51.57	53.04

*Public debt refers to the debt owed by the government (usually in the form of bonds)

Source: World Bank, accessed 25 July 2018

Extract 6: Nigeria and South Africa, recovering but headwinds aplenty

Nigeria's economy is exiting a painful recession. Although growth in Nigeria recovered to 0.8 percent in 2017 following rising oil prices, but policy implementation needs to move quickly and comprehensively to facilitate economic recovery and help the country reap its longer-term potential. Similarly, growth seems to be returning to South Africa, riding on the change in political leadership, reducing some of the political uncertainty which brought back investors, says the International Monetary Fund (IMF) in its latest economic health check of the continent's top two economies.

However, IMF warned that growth in both countries might be hampered by structural bottlenecks and challenging economic situations. As crude oil accounts for more than 90% of its export revenue, Nigeria's economic performance remains highly dependent on the price of this precious commodity. However, there is a growing movement towards developing the agriculture sector within Nigeria to diversify its economy. Inflation, especially of food prices, remains high. Low tax revenues are keeping the fiscal deficit high, leading to more government borrowing that is crowding out private sector activity. Distortions in foreign exchange markets are slowing efforts to attract longer-term investment and diversify the economy. These issues are more deeply entrenched in South Africa where the corruption level is a primary concern for businesses. The IMF says weak educational attainment "contributes to wide income disparities and high unemployment, perpetuates the intergenerational transmission of poverty, and constrains economic growth."

Source: Adapted from International Monetary Fund and BBC, 2018

Extract 7: Growing with a growing burden

On the face of it, 2018 is going to be a good year for Nigeria. Much of her growth will still rely on improving commodity prices and executing economic reforms. But it's all rather delicately balanced. The World Bank thinks a drop in commodity prices, higher-than-expected global interest rate rises and the ongoing debt mismanagement could set the country back.

The World Bank warned that many of Africa's economies—regardless of size or growth rate—need to pay more attention to debt management in 2018. Public debt is approaching critical levels in some countries in the region. Debt was at 56% of GDP on average in 2017 versus 40% in 2013. It exceeded 25% in oil-dependent countries last year.

Christine Lagarde, managing director of the International Monetary Fund, believes there will be tighter monetary policies introduced in advanced economies through rising interest rates, over the coming months, which will have an impact on African economies with both unfavourable foreign exchange rates and existing and future debt becoming more expensive.

Source: Adapted from Quartz, 2018

Extract 8: The road to a better life

A plush new rail service from the capital Ajuba to the northern city of Kaduna was just launched in Nigeria. The new £1 billion commuter service was built with Chinese money as part of its One Belt and One Road (OBOR) initiative, known more colloquially as the new silk road.

In Africa, where China is investing $52 billion in 10 major infrastructure projects, the vision is to create ‘silk roads’ that stimulate trade by connecting Senegal on the west coast to Sudan on the east coast and strengthening links between Nigeria and South Africa, two of the continent’s most powerful economies. OBOR is already redesigning the global economy: China’s trade with Africa has doubled in the past five years – and could double again in the next five. Chinese President Xi Jinping has taken a personal interest in Nigeria, Africa’s largest economy and energy producer. In April 2016, at a summit in Beijing, he promised Nigerian President Muhammadu Buhari a $6 billion infrastructure loan, an $80 billion investment in oil and gas, and a $15 million grant to stimulate innovation in agriculture.

China’s generosity will improve the daily lives of millions of Nigerians if, invested and managed properly, it modernises a railway system that had been neglected for decades. The heart of this programme is to build three major railway lines – starting with that route from Abuja to Kaduna, which opened in July 2016. To help Nigeria upgrade its infrastructure, China is lending funds to Nigeria on advantageous terms and in return, Chinese companies win the bulk of the construction contracts. Rotimi Amaechi, the Minister of Transport, says the country’s poor transportation network is making goods and services more expensive. Nigeria spends around $90bn a year importing food – better infrastructure could cut that bill substantially.

Having been promised such improvements so often, many Nigerians are sceptical about the latest plans. Corruption is still rife – the UK’s Department for International Development (DFID) estimates that the country lost $32 billion to fraud during the six-year presidency of Jonathan Goodluck.

Source: Adapted from Chartered Institute of Procurement and Supply, 2017

Questions

(a) **(i)** Describe the relationship between global oil prices and the export value of Nigeria from 2000 to 2016. [2]

(ii) Account for the relationship observed above. [4]

(b) Explain the possible relationship between a country's public debt and economic growth. [4]

(c) **(i)** Compare the trend in GDP growth between Nigeria and South Africa from 2012 to 2017. [2]

(ii) With reference to Extract 7, how likely will the economic growth continue beyond 2017 for Nigeria? [4]

(d) Discuss if the data is sufficient to conclude that the standard of living in Nigeria has improved. [7]

(e) Evaluate how "tighter monetary policies introduced in advanced economies" (Extract 7) will impact Nigeria's and South Africa's economic recovery. [10]

(f) In view of the rising public debt, discuss the appropriateness of various policies the South African government could adopt to achieve sustained and inclusive growth. [12]

[45 marks]

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