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|  | PRELIMINARY EXAM 2011 |
| | Economics JC 2 H2 (9732/01) |

Paper 1 - Case Study

Monday
12 September 2011
0800 - 1015

Total Marks: 40%

TIME 2 hour 15 mins

INSTRUCTIONS TO CANDIDATES

Do not open this paper until you are told to do so.

Write your name, class and name of economics tutor in the space provided on the writing paper.

Answer **all** questions. The number of marks is given in the brackets at the end of each question. Write your answers on the writing papers provided. If you use more than one sheet of paper, fasten the sheets together.

You are advised to spend several minutes per question reading through the data before you begin writing your answers.

There are 8 printed pages including this cover page

Question 1

Income Inequality in China and Singapore

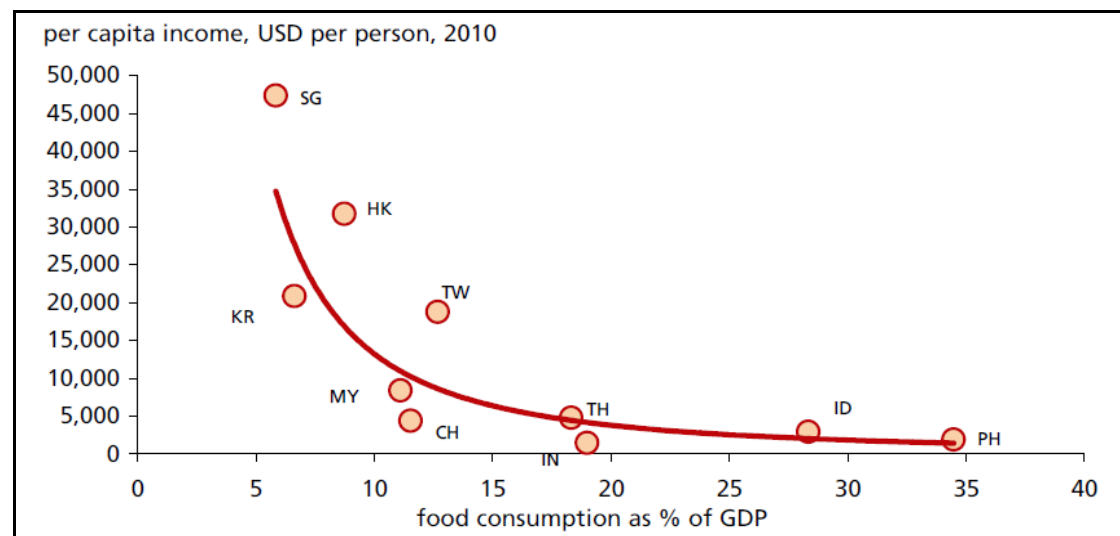
Extract 1: Bank Warns of Effects of Rising Food Prices on Asia

According to Asian Development Bank, sharp rises in food prices are a threat to economic growth in Asia and could push millions of people into extreme poverty. Food prices in Asia have increased an average of about 10 percent so far this year, which the bank calculates could force 64 million people below the poverty income threshold of US\$1.25 per person a day if prices remain at current levels.

Asia is a major contributor to global inflation and is vulnerable to its effects. Economic growth in China and India is blamed for pushing up prices of many commodities. The region's population density and uneven income distribution make people there especially susceptible to spikes in food prices, Mr Changyong Rhee, the chief economist of the bank said. The poor in Asia typically spends about two-thirds of their income on food.

Source : Adapted from The New York Times, 25 April 2011

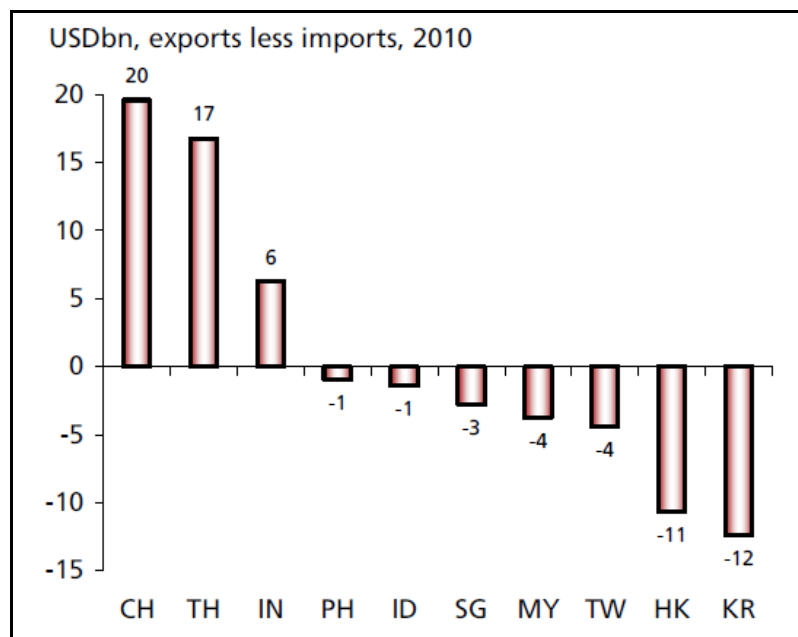
Figure 1: Asia 10* – Per Capita Income and Food Expenditure



*Asia 10 – SG: Singapore, HK: Hong Kong, KR: Korea, TW: Taiwan, MY: Malaysia, CH: China, IN: India, TH: Thailand, ID: Indonesia, PH: Philippines

Source: DBS Group Research

Figure 2: Asia 10* – Food Trade Balance



*Asia 10 – SG: Singapore, HK: Hong Kong, KR: Korea, TW: Taiwan, MY: Malaysia, CH: China, IN: India, TH: Thailand, ID: Indonesia, PH: Philippines

Source: DBS Group Research

Extract 2: Chinese Government Promises to Close Income Gap

BEIJING: A Chinese government report on effective measures to smooth the redistribution of social wealth by increasing the income of rural and needy people was handed to the legislators on Friday.

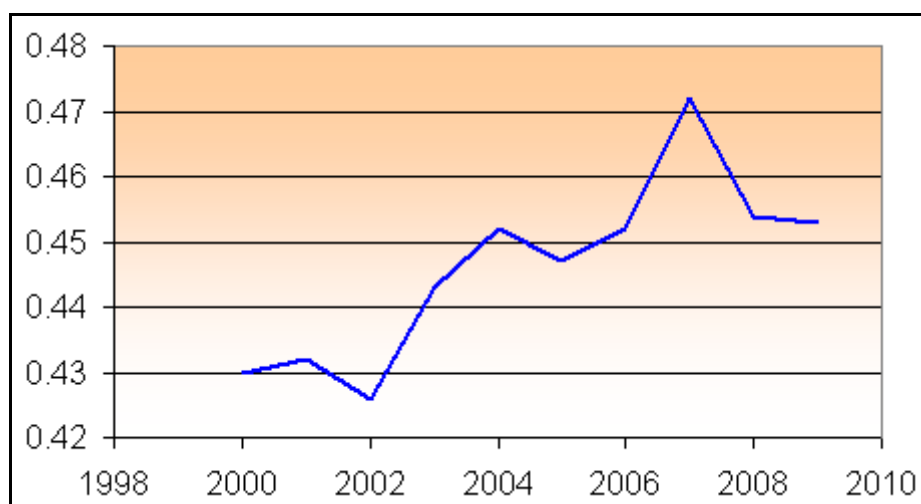
The government expects to raise farmers' income by increasing the minimum purchasing price of farm produce offered by the state reserve. In 2010, the minimum purchasing price for every 50kg of wheat will be raised by 3 yuan (0.44 US dollars) and that for rice will also be raised accordingly. The government will also provide subsidies for farmers to buy new farming equipment and offer more loans to rural people.

This year, more assistance will be provided to families without a bread-winner. Moreover, workers who lose their jobs because of their employers' difficult financial situation will also receive more assistance. The government will also raise living subsidies in both rural and urban areas based on the economic situation and consumer prices.

By the end of 2010, 30 provincial-level regions are expected to raise the standard for minimum wage. The government will also tighten supervision of company benefits. State-owned utility companies, such as telecom firms and power, water and gas companies will be banned from providing free or preferential services to their employees. Debates on whether the minimum wages should be raised have put the government in dilemma: to improve the life of low-income people and to reduce income disparity or to maintain enterprises' profits and ensure employment.

Adapted from China Daily, 26 February 2010

Figure 3: Gini Coefficient - Singapore



Source: The Straits Times, Singapore

Extract 3: Minimum Wage Not a Solution

Sharing the fruits of Singapore's economic prosperity with low-skilled and low-wage workers remains a key priority for the Government, but an overwhelming majority of the Members of Parliament yesterday reiterated the stand that the best way to do this is not through a minimum-wage law.

Instead, the consensus was that more concentrated efforts must be made to look into the various ways to help the less privileged in society, in order to narrow the widening income disparity. Manpower Minister Gan Kim Yong also argued that a minimum-wage policy runs counter to the Singapore work ethic and culture of self-reliance. "A guaranteed level of income may remove the incentive for training for less-productive workers," he said.

Instead, the MPs were strongly supportive of stepping up efforts to enhance workers' skills and raise productivity under current programmes like Workfare.

The 2011 budget will focus on the lower and middle income groups. Workfare Income Supplement (WIS) has been increased and the Workfare Training Schemes have been enhanced to help older, low skilled workers while the Workfare Bonus will be distributed to the low wage workers. Services and conservancy charges rebates, HDB rental rebates and utility rebates will also be given to help the lower income group cope with the rising cost of living. The lower income groups will also be receiving top-ups to Edusave, Medifund, Comcare fund and other public assistance schemes.

Adapted from Asiaone, 13 January 2011 and DBS Group Research, 17 January 2011

Questions

- (a) (i) With reference to Figure 1, state the relationship between per capita income and food consumption as percentage of GDP. [1]
- (ii) Explain a possible reason for the above relationship. [2]
- (b) With reference to Extract 1 and using a diagram, explain the main causes of the **sharp** rise in food prices. [4]
- (c) With reference to the data and using your own relevant knowledge, assess the economic impact of sharp rises in food prices on the Asia 10 economies. [8]
- (d) (i) Summarise the trend in income inequality in Singapore between 2002 and 2009. [2]
- (ii) Account for the trend identified above. [3]
- (e) Discuss and compare the measures undertaken by China and Singapore in closing the income gap. [10]

[Total: 30]

Question 2

Is Growth Sustainable for Asia?

Extract 4: Asian Economies Heading Towards Full Recovery in 2010

The global recession, which started late 2008, hit Asia hard as its economies were mainly powered by manufacturing sector that exports most of the products to industrialized economies. Thanks to swift government response -- including reduction of interest rates, decreasing bank reserve requirements and stimulus spending -- Asian economies led the global recovery from the worst recession in decades. The Asian Development Bank (ADB) said the region's GDP would grow by 4.5 percent last year, a rate higher than many other parts of the world.

Experts, however, also warned that early signs of growth will not necessarily translate to a long term recovery, especially as export-reliant Asian economies were still hinged on the performance of developed countries in 2010. And there are no indications yet that the crisis that crippled the U.S. and Europe is finally over. The raft of weak economic data released in the United States this week points to a prolonged patch of slow growth in the world's largest economy.

Dominique Strauss-Kahn, chief of International Monetary Fund (IMF) said China and India will continue to drive the regional economy. Indonesia is expected to lead the recovery for ASEAN countries. The IMF has raised its estimation for Indonesia's GDP growth rate to 5.5 percent this year. Malaysia, the Philippines and Thailand will record GDP growth around 3 percent in 2010 and Singapore around 4 percent. A question is thus raised for Asian governments in 2010 on how and when to implement their exit strategies – the unwinding of previous policy and regulatory guidelines.

Adapted from English.news.cn, 2010

Extract 5: Rebalancing Growth

Asia must look at boosting domestic demand to cut its reliance on foreign consumers, especially in the hard-hit United States, IMF chief Strauss-Kahn said. "Asian countries themselves have a big enough market to generate the demand now developed countries fail to," said Zhao Xiaoyu, Vice-President of ADB, "but this requires countries to make concerted efforts under regional cooperative platform."

On Jan. 1, China's Free Trade Agreement (FTA) with ASEAN came into effect, an important step for Asian's cooperation that could spur much-needed regional investment. The China-ASEAN Free Trade Area (CAFTA), the world's largest free trade area of developing countries, covers a population of 1.9 billion and accounts for about 4.5 trillion U.S. dollars in trade volume.

China's Deputy Commerce Minister Yi Xiaozhun said China's investment in Southeast Asia would rise rapidly as firms become more eager to go abroad to invest.

Under the FTA, the average tariff on goods from ASEAN countries to China is reduced from 9.8 percent to 0.1 percent. The six original ASEAN members -- Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand -- slashed the average tariff on Chinese goods from 12.8 percent to 0.6 percent. "Both China and ASEAN should make full use of investment funds and other resources and step up infrastructure construction to meet the need of further trade cooperation," Yi said.

Adapted from English.news.cn, 2010

Table 1: GDP Growth Data for Selected Countries

| | Nominal GDP (US\$ billions) | | | GDP Growth (%) | | Forecasted GDP growth (%) |
|----------------|--------------------------------|---------|---------|-------------------|------|---------------------------------|
| | 2008 | 2009 | 2010 | 2009 | 2010 | 2011 |
| United States | 14296.9 | 14043.9 | 14582.4 | -2.7 | 2.9 | 2.5 |
| United Kingdom | 2567.5 | 2173.2 | 2246.1 | -4.9 | 1.3 | 1.5 |
| Japan | 4879.9 | 5033.0 | 5479.9 | -6.3 | 5.1 | -0.6 |
| China | 4521.8 | 4991.3 | 5878.6 | 9.2 | 10.3 | 9.0 |
| India | 1213.8 | 1380.6 | 1729.0 | 9.1 | 9.7 | 8.6 |
| Malaysia | 221.8 | 193.1 | 237.8 | -1.7 | 7.2 | 5.5 |
| Singapore | 189.4 | 183.3 | 222.7 | -0.8 | 14.5 | 4.8 |
| South Korea | 931.4 | 834.1 | 1014.5 | 0.3 | 6.2 | 4.2 |
| Thailand | 272.6 | 263.7 | 318.8 | -2.3 | 7.8 | 4.3 |

Source: The World Bank Data (various years)

Table 2: Price and Job Data for Selected Countries (2009)

| | United States | Japan | China | Singapore | Malaysia | South Korea | Thailand |
|-----------------------|---------------|-------|-------|-----------|----------|-------------|----------|
| Consumer Prices (%) | -0.4 | -1.4 | -0.7 | 0.6 | 0.6 | 2.8 | -0.8 |
| Unemployment Rate (%) | 9.3 | 5.0 | 4.3 | 5.9 | 3.7 | 3.6 | 1.2 |

Source: The World Bank Data (various years)

Extract 6: Emerging Markets 'Risk' Overheating

Emerging market economies*, growing almost three times faster than their developed counterparts, need to speed up spending cuts and interest rate increases as they fight inflation and overheating, the World Bank said yesterday. While developed nations contended with high unemployment and a European debt crisis that poses risks to global growth, many emerging economies have not yet taken advantage of their strong expansion to remove the fiscal stimulus enacted to cushion the global recession.

Emerging economies now account for almost half of global crude-oil demand and China absorbs 40 per cent of the world's metal supplies, contributing to the increase in prices observed since the recovery. In addition, China contributed the largest national increment in global oil consumption of about 10.4%. The rise in commodity prices and the strong capital inflows have contributed to faster inflation, which in developing countries was close to 7 per cent in April from a year earlier, more than 3 percentage points higher than in July 2009, according to the report.

Adapted from My Paper 9 June 2011

*An *emerging market economy (EME)* is defined as an economy with low to middle per capita income. These economies have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene. EMEs are considered to be fast-growing economies.

Questions

- (a) Explain the difference between nominal Gross Domestic Product and real Gross Domestic Product. [2]
- (b) Using Extract 6, account for the difference in the growth rates between the emerging market economies and the developed nations. [4]
- (c) To what extent can it be concluded from Tables 1 and 2 that Singapore's economy performed worse in 2009 than South Korea? [5]
- (d) With the help of AD/AS diagram, explain how the 'swift government response' helped the Asian economies to recover from the global recession in 2009. [5]
- (e) Assess the need for Asian economies to focus on 'exit strategies' after 2010 as mentioned in Extract 4. [6]
- (f) Do you agree with the advice given by the IMF chief in Extract 5 on what the Asian economies should do to achieve sustainable growth? [8]

[Total: 30]