ANDERSON JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION 2017

Higher 1

ECONOMICS 8819/01

Paper 1 **29 August 2017**

Additional Materials: Answer paper **3 hours**

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided on all the work you hand in.

Write in dark blue or black ink.

You may use a soft pencil for any diagrams, graphs or rough working.

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

Answer **all** questions.

Begin your answer to each question on a fresh sheet of writing paper.

Fasten your answer to each question **separately.**

Fasten **this cover page** in front of your answers **to Question 1.**

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

Name ______________________________ (   )

PDG ______/16

Question Number	Marks Awarded
1	/ 30
2	/ 30
3 / 4	/ 25
Total Marks	

This document consists of **8** printed pages and **1** blank page.

[Turn over]

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Section A

Answer **all** questions in this section.

Question 1

Challenging times ahead

Extract 1: UK economic growth has slowed dramatically, latest survey suggests

Britain's economy is losing momentum, knocked by weaker household spending and worries about the global outlook, according to the latest in a string of downbeat business surveys.

Business activity grew at the slowest pace for more than two years in Britain's dominant services sector last month, according to the closely watched Markit CIPS PMI report. "Weakness is spreading from the struggling manufacturing sector, hitting transport and other industrial-related services in particular. There are also signs that consumers have become more cautious and are pulling back on their leisure spending, such as on restaurants and hotels," said Chris Williamson, chief economist at survey compilers Markit.

"Wider business service sector confidence has meanwhile also been knocked by global economic worries and financial market jitters." The pound weakened against the euro and the dollar after the report, which economists saw as providing further reason for the Bank of England to hold off raising interest rates from 0.5%.

Source: The Guardian 5 October 2015

Table 1: Key Economic Indicators in 2015

Indicators	UK	China	Singapore
Nominal GDP growth (annual %)	2.2	6.9	1.9
Inflation rate	0.05	1.4	-0.5
Exports as a % of GDP	27.6%	21.9%	177.9%
Imports as a % of GDP	29.2%	18.4%	152%

Source: The World Bank Data

Table 2: UK's trade with selected countries in 2015

Countries	UK's exports to (£) (Rank)	UK's imports from (£) (Rank)
United States	96.4bn (1st)	59.3bn (2nd)
China	16.7bn (8th)	38.4bn (3rd)
Japan	10.5bn (11th)	9.6bn (14th)
Germany	48.5bn (2nd)	70.4bn (1st)
Singapore	7.1bn (17th)	3.9bn (27th)

Source: Office for National Statistics; www.visual.ons.gov.uk

Extract 2: China pledges policy support to economy, reform in 2016

China will make its monetary policy more flexible and expand its budget deficit in 2016 to support a slowing economy, state media said on Monday. It cited top leaders who wrapped up the annual Central Economic Work Conference, a meeting keenly watched by investors for clues on policy priorities and main economic targets for the year ahead.

The government will take steps to expand aggregate demand next year. The People's Bank of China has cut interest rates six times since November last year and reduced banks' reserve requirement ratios (RRR), or the amount of cash that banks must set aside as reserves. The government has also stepped up spending on infrastructure projects and eased restrictions on home buying to boost the sluggish property market. Top leaders also pledged to push forward "supply-side reform" to help generate new growth engines, while tackling factory overcapacity and property inventories.

Source: Reuters, 21 December 2015

Extract 3: Shedding light on slowing growth: What ails Singapore's economy?

Singapore's small, trade-dependent economy is under the weather. While the country has not yet sunk into a full-blown recession, its fortunes are tied closely to those of the world economy and the outlook there is far from cheery. The Sunday Times looks at four key contributors to slowing growth in Singapore.

1. Lacklustre Global Growth

The world economy has yet to completely shake off the vestiges of the global financial crisis and continues to lack a strong growth driver. Singapore’s key trading partners have all been grappling with their own sets of challenges.

2. Protracted Oil Price Slump

World oil prices had been fairly stable from 2010 until mid-2014, at around US$110 a barrel. But they have almost halved since, plunging the oil and gas industry into a crippling slump. Companies in Singapore have not been spared the effects of this protracted downturn. More than two years of tumbling oil prices have wiped over US$24 billion (S$33.5 billion) from the market value of Keppel, Sembcorp Marine and other listed oil-services companies - or about two-thirds of their pre-July 2014 capitalisation.

Tens of thousands of jobs have been axed and some companies have defaulted on bond payments - sparking concerns over banks' exposure to the sector. The drag from this important sector is predicted to feed through to the rest of the economy.

3. Shifting Trade Flows

International trade has fallen to its lowest level since 2009, alongside lacklustre economic growth. But some economists say the slowdown is not merely cyclical, and lower levels of global trade might become the new normal.

This is because growth in developed economies like the United States is increasingly driven by services rather than the trade in goods. China is also becoming less exposed to international trade as it shifts away from an industrial-led growth model towards consumption and services. This means Chinese companies are increasingly sourcing from within the country, instead of importing. This trend could weigh on regional trade even in the long run - a gloomy prospect for Singapore, which depends not just on its own exports but which also does a bustling trade in re-exports.

4. Disruptive Change

Prime Minister Lee Hsien Loong said in his National Day Rally speech in August that disruptive change is the "defining challenge" facing Singapore's economy.

Technology has transformed almost every industry - from food delivery to manufacturing. These developments have left both challenges and opportunities in their wake, most obviously in the labour market. There are thousands of jobs waiting to be filled in growing sectors like IT, precision engineering, education and healthcare. But many workers who have been laid off lack the necessary specialised skills required in these roles.

There is no easy solution to this - the ever-increasing pace of technological change means that jobs will more or less be in a constant state of flux. There is help available for laid-off workers - including the option to upgrade their skills with SkillsFuture, or programmes which help mid-career workers move to industries with the potential to grow. But companies and workers also have a part to play - both in terms of skills upgrading and shifting mindsets.

Source: The Straits Times, 30 October 2016

Questions

(a) Using data from Table 1,

(i) Compare the balance of trade position of UK, China and Singapore. [2]

(ii) Comment on the view that the Chinese economy performed well in 2015. [3]

(b) Using data from Extract 1 and Table 2, explain and compare how ’weaker household spending and worries about the global outlook’ in the UK may impact the balance of trade for China and Singapore. [4]

(c) **(i)** Explain what is meant by a budget deficit. [1]

(ii) Using the concept of the circular flow of income, explain how ‘expanding its budget deficit’ (Extract 2) will affect the equilibrium level of national income in China. [4]

(d) **(i)** Assess whether ‘disruptive change’ (Extract 3) is the most significant cause of unemployment in Singapore. [8]

(ii) Discuss the view that supply-side policy is the best way for the Singapore government to achieve low unemployment. [8]

[Total: 30]

Question 2

World Aluminium Market

Table 3: Global Production levels (thousand metric tons)

Year	Africa	Asia (Excluding China)	Gulf Cooperation Council	China	North and South America	Europe	OCEANIA	World Total
2010	1,742	2,500	2,724	16,131	6,994	8,053	2,277	40,421
2011	1,805	2,533	3,483	20,072	7,154	8,346	2,306	45,699
2012	1,639	2,535	3,662	23,534	6,903	7,928	2,186	48,387
2013	1,812	2,439	3,887	26,534	6,824	7,611	2,104	51,211
2014	1,746	2,429	4,832	28,317	6,128	7,360	2,035	52,847
2015	1,687	3,001	5,104	31,518	5,794	7,574	1,978	56,656

Source: The International Aluminium Institute

Extract 4: Consumption and Production of aluminium

The rapid increase in the production of aluminium was brought about by the improvement of production methods, and by the expansion of the scope of application of aluminium. The world's largest aluminium producers are, as a rule, vertically integrated holding companies comprising bauxite mines and aluminium refineries. The advantage of the vertical integration model for large companies is their independence from price fluctuations of factors of production as they can ensure the supply of raw materials in required volumes is secured for uninterrupted aluminium production. This leads to more flexibility in the production process and allows firms to be more responsive to changes in demand.

Demand for aluminium from carmakers is also expected to grow in 2015 as car sales combined with the aluminium content in cars rising significantly. Automakers consumed a record amount of aluminium last year as plummeting prices and technological breakthroughs made it a viable alternative to steel.

Source: adapted from www.aluminiumleader.com, accessed 28 July 2017

Extract 5: China's aluminium exports flood market

China's surging exports of aluminium are becoming a contentious issue as prices of the metal continue to hover just above their six-year low. China's aluminium exports are up 14.4% so far this year, as companies there take advantage of China's large labour force and lower wage cost than international rivals to seize market share. While major aluminium companies like US-based Alcoa have cut production this year, Chinese output has risen by 18% year to date, according to the International Aluminium Institute, a supply flood that has helped keep prices depressed.

Protests against China's aluminium export rise have been growing louder, with producers from the US to India demanding measures to protect employees in their domestic industries. "Due to a rise in imports from China, profits for domestic Indian producers are getting choked. The Chinese government has provided tremendous subsidies to aluminium production and India's import tax on aluminium should be increased to 10% on primary aluminium and aluminium scrap," said Abhijit Pati, chief executive officer of Vedanta Group's aluminium business.

China’s Non-Ferrous Metals Industry Association has hit back at suggestions that companies there are dumping aluminium on international markets although analysts say that Chinese smelters can withstand low international prices in part because of the government support they receive. Chinese producers often benefit from “opaque” tax rebates, or cheap loans made to them by local governments.

Source: adapted from The Wall Street Journal, November 12, 2015

Extract 6: Aluminium import tariffs in India

The aluminium lobby in India has been pressing for an increase in import tariffs for aluminium in the face of low-priced aluminium from foreign countries making its way into the Indian market. According to industry data, total aluminium imports in India had grown by over 159% between 2015 and 2011, mainly from China and Middle-Eastern countries. This has led to imports accounting for 56% of the Indian aluminium consumption in 2014-15, while products of Indian producers accounted for only 44%.

Some local aluminium producers, unable to keep up, have even slipped into losses. Vedanta Resources, in August, initiated the process to shut down its 1 million metric ton per year alumina refinery in Odisha. Interestingly, while the Indian government has taken the step to hike tariffs to protect local industry, some experts have argued against the move.

The government’s own report indicated that raising tariffs to quell imports of cheap aluminium would do harm to downstream producers such as carmakers and construction companies.

Source: adapted from www.agMetalMiner.com, accessed 28 July 2017

Extract 7: China’s production of aluminium is poisoning southeast Asia

Soaring Chinese demand for natural resources to produce aluminium is wreaking environmental havoc throughout Southeast Asia. Both Vietnam and Malaysia are major producers of bauxite, the ore required to create aluminium.

Vietnam is home to the world’s third largest natural deposit of bauxite, with 5.5 billion tons of crude ore reserves. However, the mining of these reserves has resulted in serious environmental issues. For instance, there has been reports of breakages and spills in waste management facilities, deforestation and river pollution.

Source: adapted from Asian Correspondent

Questions:

a) **i)** Compare the production levels of aluminium between China and the Gulf Cooperation Council between 2010 and 2015 shown in Table 3. [2]

ii) Using information from Extract 4, account for the change in world production levels for aluminium. [4]

b) **i)** Explain whether data from the extracts support the claim that 'Chinese companies are dumping aluminium on international markets' (Extract 5). [4]

ii) Assess the likely impacts of an increase in tax rebates given to Chinese aluminium producers on different producers in other countries like India. [8]

c) **i)** Explain **briefly** the reason for the Vietnamese government to intervene in the market for bauxite extraction. [2]

ii) Explain how changes in demand for aluminium may affect the market for bauxite. [2]

iii) Vietnam and India face different issues due to the increase in Chinese aluminium production.

Discuss whether increasing import tariffs on aluminium in India will address the issues faced by Vietnam and India respectively. [8]

[Total: 30]

Section B

Answer **one** question from this section.

3. Globalisation brings about increased trade and production activities, leading to a large increase in pollution in countries such as China.

(a) Explain why countries trade. [10]

(b) Discuss the extent to which globalisation is the main cause of market failure. [15]

4. **(a)** Explain what might cause a large and persistent deficit on a country's balance of payments. [10]

(b) Discuss the factors that a government should consider when depreciating its currency to reduce a balance of payments deficit. [15]

End of Paper