



**JURONG JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS 2012**

**ECONOMICS
Higher 1**

8819/01

30 August 2012

3 hours

READ THESE INSTRUCTIONS FIRST

Write your name and class 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, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions.

Section B

Answer **one** question.

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.



JJC Economics

This document consists of **8** printed pages.

[Turn over

Section A

Answer **all** questions.

Question 1 Metal Minerals

Extract 1: Consumerism drive demand for metals

Rising consumerism in affluent cities especially in the developing economies of China, India, and Vietnam has spurred an increase in consumption of consumer products such as electronics and smartphones over the years. The final end user, the consumer has caused thousands of tons of materials such as metals and rare earth metals to be extracted from the ground to feed the needs of industries. Also electromagnets made from rare earth metals such as Beryllium, Cobalt and Fluorspar are used in everything from the motors that power hybrid vehicles and electric windows to windmills, computers and hundreds of consumer goods that touch our lives every day.

Despite the strong demand for metals, world's supply cannot expand fast enough to keep up with the demand. When orders increase, new supply takes up to a year to be adequate and when orders decline producers are unwilling to shut production down. It's not like mining companies can just flip a switch; it takes time to make mine sites suitable for extracting metal. Production remains constrained and there's been an underinvestment in extraction technology and capacity. Thankfully the global economic downturn has eased the pressure on these commodities and allowed production output to catch up with the orders. This gave governments some breathing space and time to bring inflation down briefly for their economies.

Source: Popular Science New Technology, Oct 2011 and *Canadian press*, May 2011

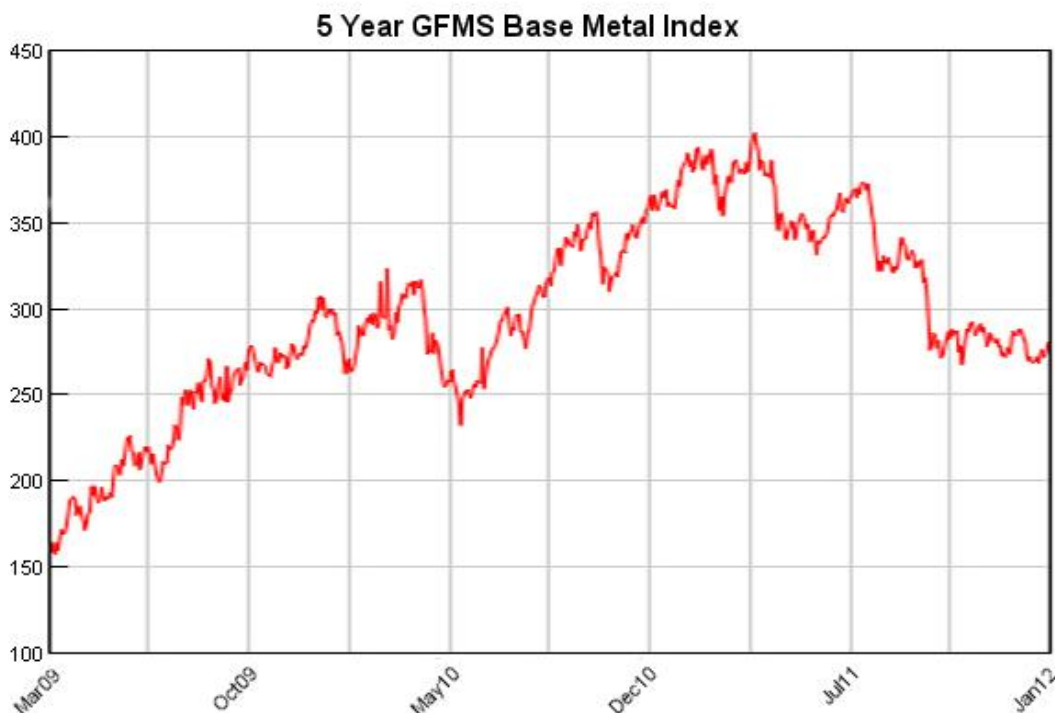


Figure 1

Source: www.kitco.com

Extract 2: Chinese embargo of rare earth metals

Extraction and mining activities and production are often associated with severe environmental damage. The environmental problems include air emissions with harmful elements, such as fluorine and sulphur, wastewater that contains excessive acid and radioactive materials too. Although China only has 30% of global rare earth metals deposits, it accounts for 95% of total world production. Thus China has a monopoly on the global production of rare earth metals and they sought to tighten their grip on exports by eliminating all export sales to its major buyers, the US, Japan, and Europe from October to November 2011. The Chinese government cited mainly environmental reasons for restricting the production and exports of rare earth metals.

The US, Europe and Japan have filed complaints to the World Trade Organisation (WTO) against this embargo. The US claims the embargo will raise their cost unnecessarily for a very wide range of industries ranging from consumer based to telecommunications and even precision weaponry. The US government will be the hardest hit as rare metals is an important input in the manufacture of smart bombs and missiles. Unlike consumer durables, the US government can only purchase weapons from US firms for strategic reasons.

Source: *Popular Science New Technology*, July 2011 and *Bloomberg News*, March 2010

Extract 3: UK inflation rate rises to 4% in January 2011

The UK Consumer Prices Index (CPI) annual inflation rate rose to 4% in January, up from 3.7% in December, as the effects of the value-added tax (VAT) rise on goods and services implemented in January were felt. Higher oil prices also meant inflation remained well above the 2% target. The CPI measure has now been one percentage point or more above target for 14 months.

Bank of England governor Mervyn King has now written to the government, after sending three such letters last year, explaining the outlook for inflation and what will be done to tackle it.

In his letter he says inflation is likely to rise towards 5% in the coming months. Mr. King said the rise in inflation was due to the VAT rise, the past weakness of the pound and recent rises in commodity prices.

Source: *BBC News*, 15 February 2011

Extract 4: Trade war escalating

The US announced the imposition of antidumping tariffs of more than 31 percent on solar panels from China. This is in response to accusations that Chinese authorities have been providing cheap credit and excessive subsidies to the solar panel industry. The subsidies will allow Chinese firms to undercut and export cheap solar panel products which will 'force' foreign firms out of business.

However, for US companies that purchase solar panels, this trade dispute threatens thousands of American jobs. Many solar panel installers in the United States have opposed tariffs on Chinese panels, contending that inexpensive imports have helped spur many homeowners and businesses to put solar panels on their rooftops. Many of these jobs depend on affordably priced solar panels, and companies would have to lay off workers if panel prices rose as a result of this tariff. Estimates are that a tariff will effectively shut the

majority of Chinese imports out of the US and result in job losses of 15,000 to 50,000, even accounting for production gains in the US solar panel industry.

Opponents of the tariffs also say that the US benefits from cheap Chinese production. They point out that Chinese companies often turn to American companies to buy the factory equipment and polysilicon they need to make solar panels. Now Chinese companies would “certainly” retaliate by filing a trade case at China’s commerce ministry accusing big American chemical companies of dumping.

The priority now is to keep cost low and expand the usage of solar power as a source of energy in US. Some 93,500 Americans are employed in the US solar industry in 2011, and more than half of the country’s solar companies are planning to expand hiring in 2012.

Source: *Greentech Media*, January 2012 and *New York Times*, May 2012

Questions

- (a) (i) Describe the trend in Base Metal prices between March 2009 and December 2011. [2]
- (ii) Explain possible reasons for the trend above. [4]
- (b) Using the concept of price elasticity of demand, analyse how a cut in export sales of rare earth metals by China affects the total revenue of consumer-based and precision weaponry firms in US. [6]
- (c) Explain why the restrictions on the production of rare earth metals by China can be justified on grounds of efficiency. [4]
- (d) With reference to Extract 3, comment whether rising inflation in UK is due to rising commodity prices. [6]
- (e) Discuss the economic case for US in imposing protectionist measures on Chinese solar panels. [8]

[Total: 30 marks]

Question 2 Eurozone's woes and its Global effects

Extract 5: Singapore can cope with rising inflationary pressures

Singapore's inflation rate held above 5 percent for a fourth month as housing and transportation costs surged. Singapore's central bank, Monetary Authority of Singapore (MAS), which uses the island's dollar to manage prices, said this month it will slow gains in its currency, joining other Asian policy makers in trying to juggle inflation pressures with protecting growth amid a faltering global recovery. The trade ministry cut its growth forecast for 2011 and the MAS said the expansion may slow further next year.

The Singapore dollar had reached unprecedented levels since MAS said in April that it would allow further appreciation to tame price gains, trading below S\$1.20 in July. Subsequently, the Singapore dollar fell more than 7 percent against its US counterpart in September, along with most other Asian currencies, as a deepening European debt crisis prompted investors to shun emerging-market assets.

Source: *Bloomberg BusinessWeek*, 24 October 2011

Extract 6: Eurozone and its impact on Asia

The impact of the Eurozone debt crisis on Asian countries like Singapore should be "manageable" due to an increase in regional trade and a greater reliance on regional banks, Fitch Ratings said Thursday. "The first route by which the Eurozone crisis could be transmitted to Asia is reduced demand for Asian exports. But those companies primarily reliant on exports to European countries represent a relatively small group," it said. "That's because a significant amount of trade in Asia, and particularly growth in that trade over the last few years, has been within the region." The ratings firm added that large domestic markets in countries such as China, India and Indonesia would also help cushion any impact on companies if the Eurozone crisis escalates.

Apart from weaker export demand, another way the Eurozone crisis could affect Asian firms is through reduced access to funding. But Fitch said Asian companies "are in a stronger position now" than when they were going into the global economic downturn in 2008 and that most of these firms rely on local or regional lenders for their funding needs.

Source: *Channel News Asia*, 24 November 2011

Extract 7: UK's policy options in response to the Eurozone crisis

Despite not adopting the Euro, United Kingdom is not spared from the Eurozone woes. The EU is Britain's largest trading partner and the expected slowdown in the Eurozone's growth forecast is likely to slow down UK's growth. Business confidence is also low as a survey by the Confederation of British Industry (CBI) of 122 businessmen and women found that seven out of 10 were less optimistic about the economic outlook than they were in August. Firms were revising their workforce plans and relooking at how far they could invest and expand, with many adopting a "wait and see" attitude before reaching decisions.

Earlier this year, UK embarked on cutting its public sector debt to restore confidence in its economy. Britain has a deficit that is of the same size as Greece and Spain and Portugal - the ones that are in trouble. But Britain's Prime Minister, Mr. Cameron, said that although other countries in the Eurozone were struggling to deal with their deficits, the UK was not as they have a plan to deal with it. Chancellor George Osborne said earlier this month: "We will

stick to the austerity measures that aim to reduce the fiscal deficit that we have set out. It is the rock of stability on which our economy is built.”

Business leaders believed that the Government should continue with its deficit reduction plans, one saying: “The most important thing is to demonstrate that we continue to be committed to deficit reduction – maintaining credibility is absolutely key to protecting the UK economy and making sure it remains a relative safe haven in the face of international instability and uncertainty in the euro zone.”

The right conditions need to be created in the long term for strong and sustainable growth. “The Chancellor needs to boost business confidence with game-changing new ideas as the UK’s growth is forecasted to slow down,” said Mr. Cridland, the CBI leader. Businesses are not calling for more public spending, but believe that the government could bring forward schemes such as infrastructure projects, which would then “leverage” billions of pounds of private sector investment.

There are also calls for the government to reduce the top income tax rate from 50 percent to 40 percent to attract wealth generators to the UK and support the entrepreneurs that help grow the economy and provide jobs. Alternatively, a reduction in the Value-Added Tax could help spur consumer spending.

Meanwhile, the Bank of England's (BoE) monetary policy committee has agreed to keep interest rates unchanged at 0.5 percent, the rate set after the global financial crisis was triggered. That will keep interest rates at the same level as Germany. BoE is also embarking on a second round of quantitative easing to inject money supply into the weak economy. That would cause a depreciation of the Sterling Pound and hopefully help stimulate growth.

Source: *The Telegraph*, 20 November 2011

Table 1: Singapore: Selected economic indicators

| | 2008 | 2009 | 2010 | 2011 |
|---------------------------|---------|---------|---------|---------|
| Current Account (S\$m) | 37,275 | 43,836 | 75,686 | 71,679 |
| Capital Account (S\$m) | -21,860 | -32,985 | -17,626 | -50,360 |
| Balance of Payment (S\$m) | 18,531 | 16,456 | 57,480 | 21,487 |
| Real GDP growth (%) | 1.7 | -1.0 | 14.8 | 4.9 |
| Inflation rate (%) | 6.6 | 0.6 | 2.8 | 5.2 |

Source: Singstat

Table 2: Singapore: Exports by destination

| | 2008 | 2009 | 2010 | 2011 |
|-----------|------------------|------|------|------|
| | % of total share | | | |
| China | 9.2 | 9.7 | 10.3 | 10.4 |
| Hong Kong | 10.4 | 11.6 | 11.7 | 11.0 |
| EU | 10.2 | 9.5 | 9.8 | 9.4 |
| Malaysia | 12.1 | 11.5 | 11.9 | 12.2 |
| Indonesia | 10.6 | 9.4 | 9.4 | 10.4 |
| USA | 7.0 | 6.5 | 6.4 | 5.4 |

Source: Economic Survey Singapore, Ministry of Trade and Industry

Questions

- (a)** Describe Singapore's Balance of Payments account between 2008 and 2011. [2]
- (b)** Explain whether the evidence from Table 1 is sufficient to account for an improvement in living standards in Singapore from 2008 to 2011. [4]
- (c)** Explain why MAS may find it difficult to use exchange rate policy to 'juggle inflation pressures with protecting growth amid a faltering global recovery'. [6]
- (d)** Explain how austerity measures can benefit the UK economy. [4]
- (e)** Comment on the extent to which Singapore's Balance of Payments account will be affected by the Eurozone debt crisis. [6]
- (f)** Discuss the policies that the UK government may adopt to achieve 'strong and sustainable growth' (Extract 7). [8]

[Total: 30 marks]

Section B

Answer **one** question from this section.

- 3** **(a)** Explain why some goods and services produced and consumed in the market require government intervention. [10]
- (b)** Discuss whether the use of subsidies by the government should be restricted to achieving efficiency in an economy. [15]
- 4** The economic performance of an economy is assessed by her ability to achieve economic growth, low unemployment, price stability and a healthy balance of payment.
- (a)** Explain the importance of achieving a healthy balance of payment and sustained economic growth in an economy. [10]
- (b)** Discuss the extent to which the threats of globalisation would impact the economic performance of Singapore. [15]