



MERIDIAN JUNIOR COLLEGE
Preliminary Examination
Higher 1

Economics

8819/1

Paper 1

13 September 2011

3 Hours

Additional Materials: Answer Booklet/Writing Paper

READ THESE INSTRUCTIONS FIRST

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

Write your name, civics group and register number on all the work you hand in.

Write in dark blue or black pen.

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.

Section A
Answer all questions in this section.

Question 1: Renewable Energy

Extract 1: Asian economies using oil subsidies

In the global financial crisis, worldwide energy consumption paused. But Asia continues to grow, despite the dour economic outlook in the United States and Europe, and so does its energy needs.

Yet supply has been hit by uncertainties in the Middle East. Although we have not seen major disruptions, prices for crude oil are fluctuating, ranging up to US\$120 per barrel, and most predict the long-term trend will be upwards.

To ensure affordability, Vietnam, Indonesia and Malaysia continue to subsidise energy, increasing government burdens as oil prices rise. Their artificially low energy prices increase waste and destroy incentives to invest in alternative technologies.

Studies suggest that energy efficiency measures can achieve at least the equivalent savings in power needs with safe, off-the-shelf technology at a much lower cost. Renewable energy currently costs more but with technological advances, may prove viable in the medium term.

Source: Today Online, 27 July 2011

Extract 2: UK's green revolution

Thousands of new wind turbines could be built across the UK as part of a £100bn investment in renewable energy that could create hundreds of thousands of new "green collar" jobs, Gordon Brown announced today.

The prime minister unveiled what he described as a "green revolution" and "the most dramatic change in energy policy since the advent of nuclear power". He wants to build up Britain's clean power supply in order to reach the EU-imposed target of producing 15% of the country's energy from renewable sources by 2020.

In a speech to an energy summit at the Tate Modern art gallery in central London, Brown said that the North Sea, which has passed its peak in terms of oil and gas supplies, will be turned into "the equivalent for wind power of what the Gulf of Arabia is for oil". Wind turbines will also be built inland, but with sensitivity towards local communities.

The government will also shortly begin a new advertising campaign showing people what steps they can take to reduce their energy and fuel bills – steps such as turning appliances off rather than leaving them on standby, and fitting new shower heads.

The prime minister also said that he was prepared to take on public opinion over green taxes, insisting that a low-carbon society would not emerge from a "business as usual" approach.

Source: The Guardian, June 2008

Extract 3: China's plans for solar power

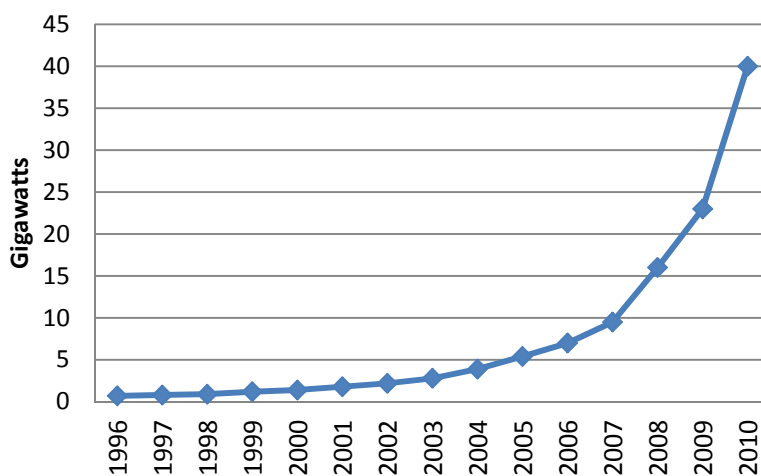
China is to throw its economic might behind a national solar power plan that could result in it becoming one of the world's biggest harvesters of the sun's energy. The government body responsible for overseeing energy policy has finalised a proposal for billions of pounds of subsidies for solar farms and rooftop panels.

The central government and the five major utilities have deemed solar power too expensive, particularly compared with coal, which generates electricity for between an eighth and a tenth of the cost. But the global economic crisis and increasing concerns about climate change and energy security have prompted a change in attitudes. China is the world's leading manufacturer of solar panels, which turn sunlight into electricity and 95% of these are exported.

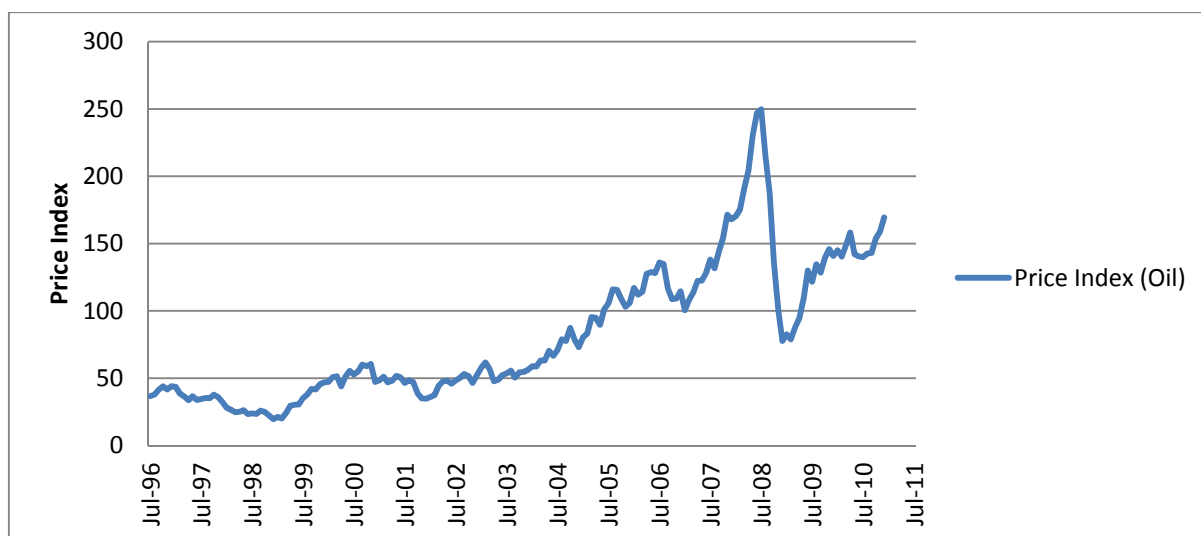
Despite the infusion of cash and government support for renewable sources of energy, China is expected to remain dependent on coal for about 70% of its energy needs for at least the next two decades, meaning it will remain the world's biggest emitter of CO₂, a major greenhouse gas. Also, China's programme has been criticized for poor planning as a significant part of power generating capacity installed around the country has been left idle due to insufficient grid connection.

Source: The Guardian, May 2009

Figure 1: Existing World Solar Energy Capacity, 1996-2010



Source: PV news, EPIA

Figure 2: World Oil Price Index, 1996-2010 (2005=100)

Source: International Monetary Fund

Table 1: Wind Energy Capacity in UK 2000-2010 (MW=Megawatts)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
MW	406	474	552	648	888	1,353	1,962	2,406	2,974	4,245	5,204

Source: Global Wind Energy Council

Questions

- a** (i) Compare the changes in the world price of oil between 1996 to 2010 with the changes in solar energy capacity over the same period. [2]
- (ii) Using a supply and demand diagram, account for the changes in the world price of oil. [5]
- b** Explain how subsidies hinder the working of the price mechanism as seen in Extract 1. [5]
- c** Using the production possibility curve, analyse the macroeconomic impact of the 'Green Revolution' on the UK. [6]
- d** (i) Explain one source of market failure in the market for renewable energy. [4]
- (ii) In light of the data provided, if you were a consultant economist, would you recommend that the Singapore government leave the production of renewable energy to the market? Justify your answer. [8]

Total Marks: 30

Question 2: The Road to Recovery

Extract 4: Post-crisis Recovery

Six months ago the Asian economies were among the hardest hit in the world, as exports to the rich world plunged. How can they be bouncing back when demand in America and Europe remains feeble? Domestic demand seems to be the key, thanks to the biggest fiscal stimulus of any region of the world. On the other hand, Singapore's bounce, for example, was partly due to a big increase in pharmaceuticals production, which is notoriously volatile.

Sceptics argue that China alone cannot ignite economic recovery across the region because a large portion of Asia's exports to China are just intermediate goods, which are processed into exports to developed economies. The Asian Development Bank calculates that 60% of the region's exports eventually end up in the rich world. However, this ignores the huge boost that China's rebound is giving to business and consumer confidence across the region.

Source: The Economist, 30 July 2009

Extract 5: China building its domestic engine

China is fulfilling the long-standing demand of Western governments that it shifts its engine of growth from exports to domestic demand, which according to some economists, is better for boosting emerging economies' economic growth. China's real domestic demand is likely to grow by at least 10% this year.

The problem in China is more that the mix of domestic demand between consumption and investment is unbalanced, and becoming even more so. This year the bulk of the government's stimulus is going into infrastructure, further swelling investment's share. Chinese capital spending could exceed that in America for the first time, while its consumer spending will be only one-sixth as large. This is China's most glaring economic imbalance. Spending lots of money on building railways, roads and power grids is the most effective way for the government to prop up demand in the short term—especially since China, as a poor country, needs better infrastructure. However, the pace of investment is unsustainable.

Chinese households have been saving a bigger slice of their income because of an inadequate social safety net. However an inadequate welfare state does not fully explain why consumption has fallen as a share of GDP. The more important reason why consumption has fallen is that the share of national income going to households (as wages and investment income) has fallen, while the share of profits has risen. Growth has been capital-intensive, focusing on heavy industries such as steel rather than more labour-intensive services.

Last but not least, China needs to allow its exchange rate to rise. This would lift consumers' real purchasing power, discourage excessive investment in manufacturing and help to reduce the trade deficit further. It would also alleviate the risk of a protectionist backlash abroad.

China's recent efforts to boost domestic spending have helped to maintain robust growth and reduce its trade surplus. But excessive levels of investment are not a recipe for sustained rapid growth.

Source: The Economist, 30 August 2009

Extract 6: Preference for export-led growth

However, some economists do not accept that there should be an emphasis on domestic demand. They argue that trading links are the strongest evidence of the emerging economies' ability to grow. They state 'no emerging market that adopted an export-led growth model has subsequently needed to break away from it – including China'. China's exports as a percentage of GDP are 32% compared with only 13% for the US. Smaller Asian countries are even more dependent on exports; Singapore's ratio of exports to GDP is 234%. Hong Kong's is 169%. It will be difficult for economies such as these to increase domestic demand and reduce their dependence on export-led growth.

Source: The Financial Times, 12 June 2009

Extract 7: China's rapid growth is due not just to heavy investment, but also to the world's fastest productivity gains

Productivity growth is perhaps the single most important gauge of an economy's health. Nothing matters more for long-term living standards than improvements in the efficiency with which an economy combines capital and labour.

The most important determinants of longer-term productivity growth are the rate of adoption of existing and new technologies, the pace of domestic scientific innovation and changes in the organisation of production. These, in turn, depend on factors such as the openness of an economy to foreign direct investment and trade, education and the flexibility of labour markets.

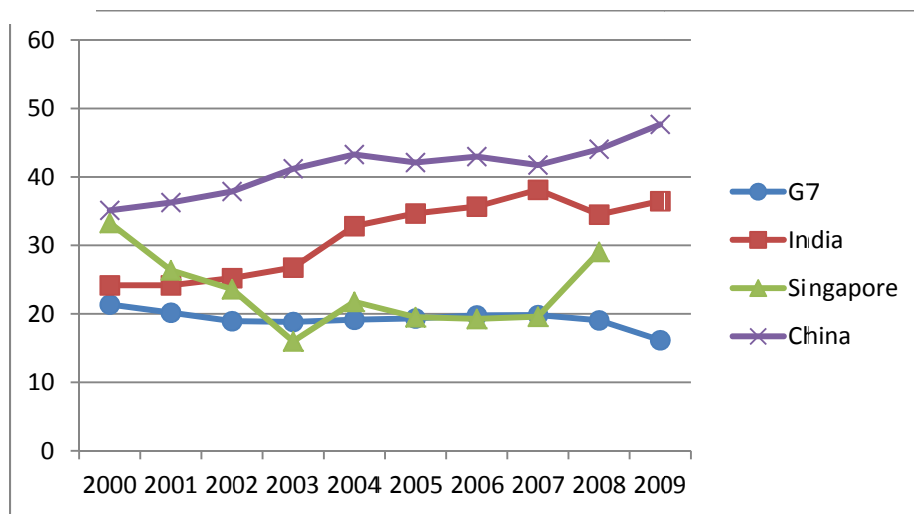
China's productivity growth is likely to slow unless the government pushes ahead with bolder reforms such as opening up the service sector to private firms and making it easier for workers to shift from rural to urban areas. This would result in a better allocation of labour and capital which would help sustain rapid growth but make it more job-intensive.

Source: The Economist, 12 November 2009

Table 2: Forecast growth rate in GDP for selected countries

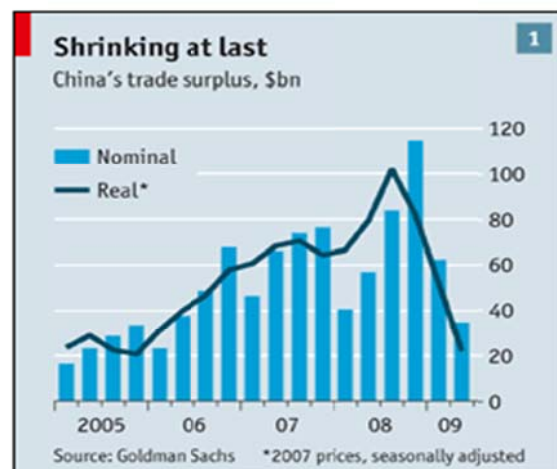
		2010 (%)
G7 Countries	US	+1.4
	UK	+0.3
	Germany	+0.3
	Japan	+0.4
Asia countries	China	+7.0
	Singapore	+1.9
	India	+6.4

Source: *The Economist*, April 2009

Figure 3: Investment (%GDP) for selected countries

Source: *World Bank*

US



Bank

Source: *The Economist*

Questions

- a** (i) Summarize the growth rates in GDP for selected countries in Table 2. [2]
- (ii) With reference to data, explain one possible reason why growth rates differ from country to country. [2]
- (iii) Is there enough evidence to support the view that there has been an improvement in the economic situation of Asian countries? [2]
- b** “Chinese households have been saving a bigger slice of their income.” (Extract 5)
Explain the impact of the above change on China’s circular flow of income. [4]
- c** To what extent does the data suggest that the Chinese government should allow the currency to appreciate in 2010? [6]
- d** “Excessive levels of investment are not a recipe for sustained rapid growth.” (Extract 5) Comment. [6]
- e** In light of the issues raised in the data, discuss the desirability of globalisation. [8]

Total Marks: 30

Section B

Answer **one** question from this section

- 3** **(a)** Explain the need for government intervention in the case of public goods and merit goods. [10]
- (b)** To deal with the problem of pollution from factories, some countries have chosen to use tradable permits while others have used legislation. Discuss the relative merits of the above policies. [15]
- 4** In light of the trend towards globalization, achieving a healthy balance of payments is the top macroeconomic objective for governments.
- (a)** Explain the domestic and external effects of a change in exchange rates on the macroeconomy. [10]
- (b)** Assess the view that the Singapore government should focus on achieving a healthy balance of payments as its main macroeconomic goal. [15]

END OF PAPER



MERIDIAN JUNIOR COLLEGE
JC2 PRELIMINARY EXAM 2011

COVER SHEET

ECONOMICS HIGHER 1

8819/01

Section A: Case Study Question

Question 1

Name: _____

Civics Group: _____

Register Number: _____

Economics Tutor: _____

13 September 2011

READ THESE INSTRUCTIONS FIRST

Write your name, civics group and register number in the spaces at the top of this cover page and on all the work you hand in.

At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 1 with the string provided before submission.

QUESTIONS ATTEMPTED	MARKS
a(i)	
a(ii)	
b	
c	
d(i)	
d(ii)	
TOTAL	/30



MERIDIAN JUNIOR COLLEGE
JC2 PRELIMINARY EXAM 2011

COVER SHEET

ECONOMICS HIGHER 1

8819/01

Section A: Case Study Question

Question 2

Name: _____

Civics Group: _____

Register Number: _____

Economics Tutor: _____

13 September 2011

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QUESTIONS ATTEMPTED	MARKS
a(i)	
a(ii)	
a(iii)	
b	
c	
d	
e	
TOTAL	/30

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MERIDIAN JUNIOR COLLEGE
JC2 PRELIMINARY EXAM 2011

COVER SHEET

ECONOMICS HIGHER 1

8819/01

Section B: Essay Question

Name: _____

Civics Group: _____

Register Number: _____

Economics Tutor: _____

13 September 2011

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QUESTIONS ATTEMPTED		MARKS
Question _____	(a)	
	(b)	
Total:		/25