



# SERANGOON JUNIOR COLLEGE

## JC2 Preliminary Examination

**ECONOMICS**  
**Higher 1**

**8816/01**

PAPER 1

20 August 2008

**3 hours**

Additional Materials: Writing paper

### READ THESE INSTRUCTIONS FIRST

Write down your name and civics group 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.

#### **Sections 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.

You are reminded of the need for good English and clear presentation in your answers.

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

**Section A**

Answer **all** questions in this section.

**Question 1****Extract 1: Still sky high**

There is no pleasing oil traders. Or so King Abdullah of Saudi Arabia must think. No sooner had he pledged to pump more oil in a bid to lower the price, than the price began rising. On Tuesday 24 June 2008, it approached US\$138 a barrel.

There were two main reasons for the market's sceptical response. Saudi Arabia has only offered to boost its output by 200,000 barrels per day which is about 0.2 percent of the world's current consumption of 87 million barrels per day. The latter is due to booming economic expansion in emerging economies such as China, the manufacturing factory of the world and India. Worse, its leaders had told various foreign leaders about their plans in the preceding weeks, so oil traders had already digested the news and were looking for more. Hedge funds and other traders were piling into crude oil to shield themselves against a weak US dollar. In addition, the markets see potential disruptions around every corner such as political tensions over Iran, the continued violence in Nigeria, Africa's largest oil producer and the impending hurricane season in the Gulf of Mexico; just the sort of news that makes oil traders jumpy.

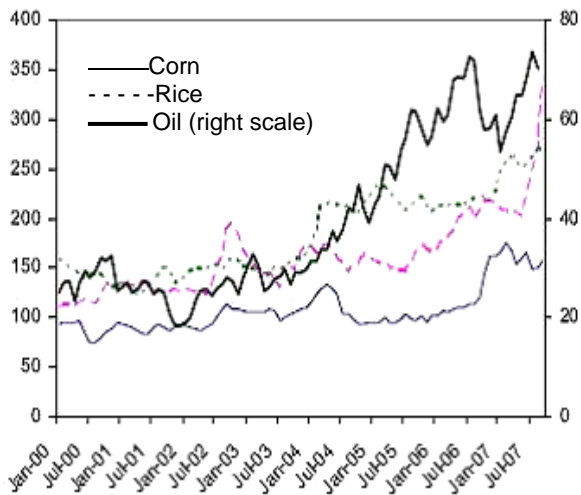
With the price of oil bouncing upwards amid predictions it could rise to US\$200, several Asian governments have already conceded they cannot continue subsidising fuel prices without worsening the inflation that is already a looming menace across the region. In addition, the resulting growing public debt from government subsidies could cause far more damage than high oil prices. Artificially low prices encourage waste, along with the costs in terms of pollution and traffic congestion.

Faced with ballooning subsidy bills, Malaysia recently raised fuel prices by 41 percent. The government's fuel subsidy bill of RM40 billion is roughly equal to the country's entire development spending.

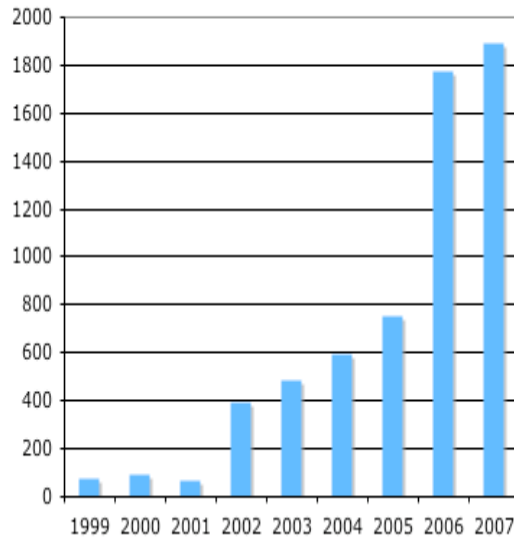
Indonesia also raised fuel prices by around 29 percent. The fuel subsidies on petrol, diesel and kerosene, the latter of which is used widely by the poorer Indonesians as a cooking fuel are projected to nearly triple this year to 126.8 trillion rupiah. That amounts to about 12 percent of the state budget. The ballooning subsidies are putting pressure on the budget and draining funds away from spending aimed at renewing poor and crumbling infrastructure. The Indonesian government has appealed to Indonesians to cut fuel consumption. President Yudhoyono also urged players to speed up the development of alternative energy sources such as biofuel production.

Adapted from *The Economist*, June 2008 and *The Straits Times*, May and June 2008

**Figure 1: Commodity prices (US\$/ton),  
January 2000 - September 2007**



**Figure 2: US ethanol production  
(millions of gallon per year)**



### Extract 2: Dilemma of increasing food production in China

Emerging and developing economies as a group have accounted for about 95 percent of the growth in demand for oil since 2003. The International Monetary Fund (IMF) attributes the climb in corn prices and rice prices to the increased demand for biofuels – energy processed from agricultural products such as corn. Currently most biofuels come in the form of ethanol, an alcohol typically produced from corn or fruit. Oil prices probably would have been higher in the absence of these biofuels.

The phenomenon of rising corn prices is an incentive to food exporting countries such as China to step up her production of corn. However, China's capacity to continue food export growth is constrained by intense competition for limited resources by non-agricultural industry and other sectors of the economy. In addition, the intensive use of chemical inputs has led to deteriorating environmental quality, which may affect China's future production capacity.

China's current exploitation of land and water resources is either at or beyond sustainable levels. The cultivation of steep hillsides is causing massive sedimentation loss estimated at over 2 billion tons per year, decreasing productivity in areas losing topsoil, reducing water storage capacity in reservoirs, and increasing the likelihood of floods. Agricultural practices, both crop cultivation and animal husbandry, on sensitive arid grasslands are partly to blame for the desertification of these areas. In the North China Plain, the groundwater table is falling rapidly in some areas, and several surface-water sources periodically dry up before reaching the sea.

Adapted from *The Straits Times*, 10 May 2008 and *Economic Research Service*, January 2007

### **Extract 3: Governments' strategies to ease impact of surging food prices**

Many emerging and developing countries which lack the technology that exists in developed countries have adopted policies that hinder the passing of international prices to domestic consumers by capping food prices.

India and Thailand have reacted by placing export taxes on certain foods, like rice. These countries are motivated by the desire to ensure that domestic populations have sufficient food. These restrictions though are having negative effects on countries that rely on food imports and to some extent, have contributed to increased food prices in both the domestic and world markets.

However, different measures have been adopted by the developed economies. Biofuel policies in some developed economies are the main contributory factors in pushing up the price of key food items. These countries are reacting through national policies to slow or stall progress into biofuel alternatives, to ensure adequate food supply. Some countries have resorted to removing or reducing duties and taxes on selected food items so basic foods are affordable to consumers particularly the poor.

Adapted from <http://www.fiji.gov.fj/publish>, 29 May 2008

### **Questions**

- (a) Explain why the price of oil continues to escalate despite the commitment by Saudi Arabia to increase the oil production. **[4]**
- (b) Consider the impact of a reduction in fuel subsidies on a country's microeconomic goals. **[6]**
- (c) (i) With reference to Figures 1 and 2, compare the trends of price of oil, price of rice and ethanol production between 2004 and 2007. **[2]**
  - (ii) With reference to Extract 2, explain the relationship between price of oil and price of rice as observed in (c) (i). **[4]**
- (d) "The phenomenon of rising corn prices is an incentive to food exporting countries such as China to step up her production of corn".  
In the light of the above statement, explain the benefits and costs of allocating more resources to corn production in China. **[4]**
- (e) Based on Extract 3, comment on the governments' measures to help their people cope with the rising food prices. **[10]**

**[30 marks]**

## Question 2

### Extract 4: Growth in jobless a problem for Asia as exports surge

Asia's economic boom may have generated formidable wealth in the region's most robust economies in recent years, but the surge in exports has resulted in a rise in inequality, higher unemployment, and persistent food insecurity, according to a United Nations Development Programme (UNDP) report published today.

The UNDP report says that trade liberalisation has resulted in "jobless growth" in some parts, particularly in East Asia, and has had a severe impact on agriculture.

The report found that despite formidable growth rates in China and the surge in exports from the region, young people still face chronic unemployment problems. Fewer jobs were created in the Asia-Pacific region in the 1990s as compared with the 1980s. As a result, overall unemployment in the region shot up from 3.9 percent to 6.3 percent, even though manufacturing output went up by almost 180 percent.

The main burden of unemployment has fallen on young people: in 2004, while those aged 15-24 made up one-fifth of the labour force, they constituted nearly half of the unemployed. Women too have lost out: in most countries their unemployment rates are higher than men's.

At the same time, the problem of jobless growth has been acute in the booming economies of East Asia, with the worst scenario in high-trade countries such as China and Singapore, where unemployment rates have increased substantially. The principal cause has been the shift in manufacturing from low-tech, labour-intensive industries, such as garments and leather, to hi-tech and more capital-intensive ones, such as electronics.

Another disturbing outcome of the rapid increase in trade has been the rise in income inequality. Countries which have grown faster have become unequal faster and in China, the rural-urban gap has increased phenomenally. In this context, the redistribution policies of governments become extremely important.

Nevertheless, the report shows a substantial decline in poverty. Between 1990 and 2001, the number of people living on less than \$1 a day dropped by nearly a quarter of a billion. But less developed countries such as Laos or Nepal have had less success on this front. 38 percent of the population in these countries lives below the poverty line, compared with 22 percent in the more developed ones.

The UNDP report calls for greater investment in rural development. It also says that the region's huge foreign exchange reserves - which are seen as protection against another Asian financial crisis - could be better invested in health, education and physical infrastructure.

Adapted from *The Guardian*, 29 June 2006

**Table 1: Trade Balance for Selected Asian Economies (US\$ million)**

Country	2003	2004	2005	2006
China	44,652	58,982	134,189	217,746
Singapore	29,427	31,040	37,084	43,397
South Korea	21,952	37,569	32,683	27,905
Taiwan	24,867	16,113	17,897	23,404

Source: Asian Development Bank *Outlook 2008***Table 2: Growth Rate of Real GDP for Selected Asian Economies (% per year)**

Country	2003	2004	2005	2006
China	10.0	10.1	10.4	10.7
Singapore	3.1	8.8	6.6	7.9
South Korea	3.1	4.7	4.0	5.0
Taiwan	3.4	6.1	4.0	4.6

Source: Asian Development Bank *Outlook 2007***Table 3: Unemployment Rate for Selected Asian Economies (% per year)**

Country	2003	2004	2005	2006
China	4.3	4.2	4.2	4.1
Singapore	4.0	3.4	3.1	2.7
South Korea	3.6	3.7	3.7	3.5
Taiwan	5.0	4.4	4.1	3.9

Source: Asian Development Bank *Outlook 2008*

### Extract 5: The welfare state

One in ten of those people who draw jobseeker's allowance has spent six of the past seven years on benefits, yet in many areas there are unfilled low-skilled jobs alongside high rates of unemployment. If the jobs are there, why don't the unemployed take them?

Things may not be as simple as they appear to be. Most of the work that is available is in part-time hotel and catering, bar work and waitering with unsocial hours. Those running programmes to help the unemployed into work say these are student jobs, or for young foreigners: the hardcore unemployed are simply not equipped to do this work. Many live on peripheral estates miles out of town with no night buses back - a taxi costs three hours' work at the minimum-wage. It was thoughtless of the UK's Secretary of State for Work and Pensions, John Hutton, to say of east European migrants: "If workers from Poland can take advantage of these vacancies in our major cities, why can't our own people?" Of course, employers would choose a perky young Polish graduate with no family to support, renting floor space in a communal flat, to wait tables, instead of the last remaining long-term claimants, depressed, lacking confidence and public face-to-face skills.

The UK government boasts of two million more jobs in a booming economy, yet British and EU policy lets more attractive workers roll in, undercutting wages without any balancing obligation on employers to give jobs and training to the unemployed. The government is in denial about the full impact of the migration that helps power the economy by keeping down wages. Meanwhile, the minimum wage is so low that it is possible for someone to be left worse off if he works.

Adapted from *The Guardian*, 19 December 2006

### Questions

- (a) (i) Compare the trends in trade balance for the Asian economies in Table 3. [2]
- (ii) How would you assess the impact of trade on an economy? [3]
- (b) With reference to Table 1, explain which country and with what confidence can you conclude is likely to face the least fall in unemployment rate in 2007. [4]
- (c) With reference to Extract 1, explain why there is rising inequity and one possible policy that a government can adopt to address this problem. [5]
- (d) Do you agree that low-wage migrant workers help to power the UK economy? [6]
- (e) With reference to Extract 2, justify the policies that you would recommend to lower the unemployment rate in the UK. [10]

[30 marks]

**Section B**

Answer **one** question from this section.

- 1 “China's booming economy is driving a rapid rise in water pollution so severe that densely crowded cities could be left without adequate supplies,” said a Cabinet minister on Tuesday. The government has tried in recent years to rein in environmental damage by imposing water quality standards. But such efforts have had only limited success.

Adapted from *China Daily News*, 30 March 2008

- (a) Explain how water pollution is an example of inefficiency in resource allocation. **[10]**
- (b) Assess the policies which a government can adopt to deal with inefficiency in resource allocation arising from water pollution. **[15]**

- 2 US trade deficit with China has led to two US senators proposing that imports from China be subjected to a tariff of 27.5%.

*The Guardian*, 17 May 2006

- (a) Explain the potential causes of a balance of payments deficit on current account and the significance of a satisfactory balance of payments. **[12]**
- (b) Discuss whether a policy of protecting the domestic market is the best way for a government to deal with a balance of payments deficit on current account. **[13]**

**End of Paper**