

**TEMASEK JUNIOR COLLEGE**

**2024 JC2 PRELIMINARY EXAMINATIONS**

**Higher 1**



**ECONOMICS**

**8843/01**

Paper 1

**22 August 2024**

**3 hours**

Additional Materials: **two 12-page** answer booklets

**READ THESE INSTRUCTIONS FIRST**

Answer booklets will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.

Indicate the question number clearly in your answers.

Start Question 1 and Question 2 on separate answer booklets.

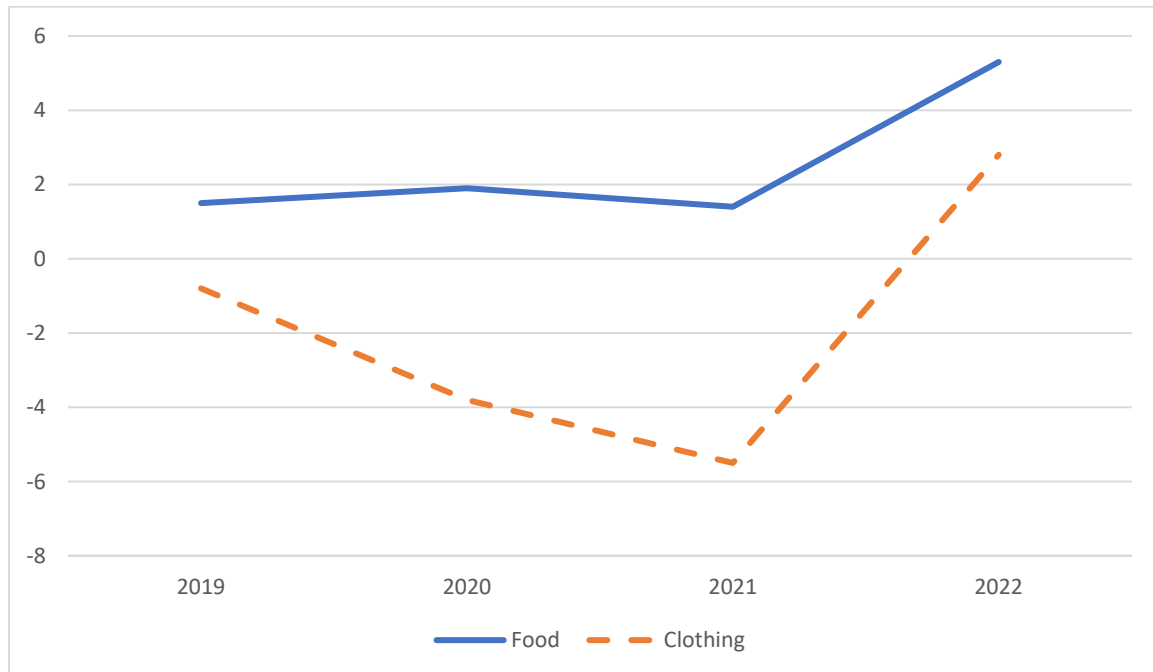
The number of marks is given in brackets [ ] at the end of each question or part question.

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This document consists of **9** printed pages and **3** blank page.

### Question 1: The clothing and textile industry

**Figure 1: Percentage change in price index of selected consumption categories in Singapore**



Source: Singstat, 2024

#### Extract 1: Rising prices of clothing

Dressing the kids to go back-to-school, not to mention yourself to get back-to-work, will cost more this year. Steve Lamar, president and CEO of the American Apparel and Footwear Association, sees a double-whammy in “the current shipping crisis on top of oppressive tariffs on apparel, footwear and fashion.” His association is calling on the Biden administration to remove tariffs and provide more oversight to the maritime industry to “help now and avert the next shipping crisis,” which is sure to come. The employment costs to move products around, get them on the shelves and rung up at the cash register are going up too.

Fashion retailers also have to factor in the effect their price increases will have on consumers already facing escalating costs across the board. In the past year, the CPI for all items tracked by the Bureau of Labour Statistics went up by 5.4%.

However, industry leaders have warned that retailers can’t expect the price increases to translate into higher profits as in normal times. “If the wallet is fixed and the price of clothing is going up, consumers’ income will be squeezed”.

*Adapted from: Forbes, 10 December 2021*

### **Extract 2: Is government intervention required in the clothing industry?**

The clothing industry has many adverse effects on the environment, including the pollution of water, usage of toxic chemicals, and generation of excessive waste. Industrial waste is produced during the process of dyeing textiles, where chemicals, often harmful to humans, are released into the environment. Another danger to the environment is caused by the widespread use of polyester, a material often used in the production of cheap clothing. Polyester sheds microfibers that add to the already increasing levels of plastic. These microfibers can easily enter our water systems and seriously threaten aquatic environment.

Australia's Environment Minister Tanya Plibersek is currently considering whether to intervene in the sector through mandating fashion brands to contribute to a green fund for every piece of clothing they make or import and put to market. Alternatively, there has also been discussions about regulating the production process to minimise the harm to the environment.

In response to fashion trends, a government-funded consortium led by the Australian Fashion Council in June last year launched Seamless. Under the scheme, members must pay a 4-cent contribution to the Seamless program for every piece of clothing they make or import. Seamless funding would then go towards measures such as research projects to help coordinate the industry's green efforts.

Adapted from: Business Review at Berkeley, 11 November 2023 and *ABC News*, 20 February 2024

### **Extract 3: Bangladesh, a hotspot for investments in the textile industry**

Bangladesh has been turning into a hotspot for foreign direct investment (FDI) in the textile and garment sector as the competing countries are losing the appetite in this trade. The investors of many other countries are investing in textile and garment in the countries like Bangladesh, Vietnam, India, Indonesia, Thailand and Cambodia. Bangladesh has been becoming an attractive destination because of wage benefits and for its lower cost of production compared with other countries. Also because of higher production capacity of textile and garment in Bangladesh, the international clothing investors are preferring this country for their valuable investment decision.

As of September 2023, the stock of FDI in textile and garment reached at \$3870.03 million, according to government data. This FDI inflow in textile and garment is higher than the other sectors as the opportunity in Bangladesh has been growing. This FDI can also transfer the knowhow for the local entrepreneurs on which they can flourish the sector.

Source: *The University of Sydney*, 21 June 2022

### **Extract 4: Harms of the textile industry**

A study reveals high levels of toxic PFAS chemicals in surface and tap water samples collected near industrial areas that are centers of the textiles industry throughout and around Dhaka, Bangladesh. PFAS, or per- and polyfluoroalkyl substances, are a class of chemicals often called "forever chemicals" because of their accumulation and persistence in the environment. They are a threat to human health — having been associated with negative impacts on fertility, fetal development, and thyroid hormone function. Certain PFAS have been linked to weakened immunity, liver damage, and cancer.

Besides the environmental impact, there are also concerns on the role the textile industry plays in perpetuating inequality. The textile industry contributed the greatest share of Bangladesh's foreign earnings, about 84.6%, in Fiscal Year 2022 to 23. There are over 4.2 million employees overall in this industry, and more than 80% of them are Bangladeshi women who live in rural regions.

Unfortunately, there are violations of labour laws and social norms in this industry, making it difficult for women to work comfortably. This results in a worse-off situation for the females. Therefore, even having a larger share in the industry, most women get stuck with the lower grades and lower pay structures. There is enough evidence to support this statement. Based on a survey conducted in 2020, only 4.3% of women were found to be receiving a salary of more than 128 USD compared to men, for whom the rate was 15.1%.

Source: Adapted from *IPEN, 28 May 2024 and Dhaka Tribune, 2023*

**Questions**

- (a) With reference to Figure 1, compare the percentage change in price index of food to that of clothing from 2019 to 2022. [3]
- (b) With reference to Extract 1,
- (i) Explain why the value of price elasticity of demand (PED) of clothing will change. [2]
  - (ii) Using a demand and supply diagram and given the relationship that exists between PED and total revenue, explain why “retailers can’t expect the price increases to translate into higher profits” (Extract 1). [4]
- (c) A public good has the characteristics of non-rivalry and non-excludability.  
Comment on the extent to which a clean aquatic environment (Extract 2) fulfils these characteristics. [6]
- (d) (i) With reference to Extract 2, explain the negative externalities from the production of clothing. [2]
- (ii) With the aid of a diagram, explain why the market fails from the production of clothing. [5]
- (e) Discuss whether mandating that clothing brands contribute to a green fund would be the most appropriate policy to address the market failure. [8]
- (f) Discuss the impact of the growing textile industry on Bangladesh’s attainment of inclusive and sustainable economic growth. [10]

**[Total:40]****[Turn Over]**

## Question 2: Labour, skills and productivity – The stories of Serbia and Singapore

**Table 1: Serbia, selected economic indicators (2019 – 2022)**

	2019	2020	2021	2022
Nominal GDP per capita (USD)	7,417.21	7,733.80	9,232.96	9,537.68
Nominal GDP growth rate (%)	0.73	18.26	3.58	1.73
Inflation rates (%)	0.57	-0.18	2.31	6.12
Unemployment rates (%)	10.39	9.01	10.06	8.68
Life expectancy (years)	75.94	74.48	72.78	75.48
Fertility rate (number of born children per woman)	1.52	1.48	1.52	1.63

Source: Statista, accessed April 2024

**Table 2: Singapore, selected economic indicators (2019 – 2022)**

	2019	2020	2021	2022
Nominal GDP per capita (USD)	66,070.49	61,273.99	77,710.09	82,807.63
Nominal GDP growth rate (%)	-0.01	-7.55	21.64	10.14
Inflation rates (%)	1.85	1.58	4.08	11.98
Unemployment rates (%)	3.10	4.10	4.64	3.59
Life expectancy (years)	83.6	83.54	83.09	82.9
Fertility rate (number of born children per woman)	1.14	1.1	1.12	1.04

Source: Statista, accessed 2 Aug 2024

### Extract 5: Reversing the brain drain in the Western Balkans

Youth brain drain is one of the most worrisome problems for the six countries of the Western Balkans (WB6) — Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Kosovo, and Serbia. In the last three decades, as a result of massive emigration, Serbia has lost 9 percent of its citizens, North Macedonia 10 percent, Bosnia and Herzegovina 24 percent, and Albania 37 percent. These are mostly young, educated, and skilled people who decided to “vote with their feet. The pace and intensity of the problem rank the WB6 among the top brain drain leaders in the world, with estimates that the region will lose a quarter to half of its youth talent in the forthcoming decades.

The repercussions of youth brain drain are major, especially the loss of human capital and GDP. The annual education costs lost as a result of educated, young people leaving the region vary from a minimum of €840 million to €2.46 billion. This implies a decrease in consumption and welfare for the WB6 economies, costing them around €3 billion of yearly GDP growth. The massive outflow of people in certain professions exacerbates the problems related to the availability and accessibility of basic services. The most critical sector is public healthcare with a huge portion of young doctors and nurses leaving the WB6, but lack of services is also evident in lower-skilled professions such as repair, maintenance, and construction, leading to higher service costs and lower quality.

To reverse the brain drain, it has been argued that the issue needs to be reframed as a viable opportunity for socioeconomic development. This narrative change can be achieved by following the Estonian model, rebranding the WB6 as a fertile ground for investment and innovation to attract foreign direct investment as a new driver of growth.

Source: *The German Marshall Fund of the United States*, 19 Oct 2022

#### **Extract 6: Serbian job market: The growing ICT sector**

In 2012, Serbia reported a 24% unemployment rate. Just 10 years later, this statistic dropped 14.8% – a 9.2% unemployment rate reported in Q2 of 2022, and the Serbian export of information and communications technology (ICT) definitely played a role. According to the International Trade Administration (ITA), Serbia generates as much as 10% of its GDP from its ICT sector. More than 3,300 ICT businesses employ almost 50,000 Serbs, and although that is just a small percent of the Serbian population of almost 6.9 million, it is evident that the Serbian economy is growing to rely more on ICT. Serbian tech companies produce software for everything from medicine to agriculture, games and testing. They run call centers and customer service centers. To meet the increasing demand for ICT exports, however, Serbia needs at least 15,000 more engineers in the tech sector. That is why the Serbian government spent 70 million euros in technical infrastructure, supporting start-ups and mandating software programming classes in elementary schools to boost productivity. This is particularly important because Serbia's youth unemployment is 40%, and often young people will leave a country if they cannot find jobs there.

Source: *The Borgen Project*, 19 Dec 2022

#### **Extract 7: Serbia's robust post-pandemic recovery jeopardised by global crises**

Serbia's economic growth is projected to slow down. "Despite a strong rebound from the pandemic, Serbia now face a new set of challenges, compounded by the war in Ukraine, including rising energy and food prices, high inflation, and slowing trade and investment," said Linda Van Gelder, World Bank Country Director for the Western Balkans. "Careful policy support will be needed to navigate the Western Balkans through these crises and protect the important gains made in 2021, including poverty reduction." Serbian Prime Minister, Ms. Ana Brnabić, said, due to the recession in some European economies to which Serbia is directly connected, major challenges for Serbian economy are expected. Given that a recession is expected in a large number of European countries this year, a further slowdown in economic activity in Serbia probably is inevitable in 2023.

The report argues that sustained growth cannot happen in Serbia without structural reforms to boost productivity, increase competition, invest in human capital, and strengthen governance. Measures to reduce business regulatory costs, increase market competition, support labour market participation, and strengthen the independence of public institutions would all be supportive of growth in an uncertain environment.

Adapted from: *World Bank Group*, 4 May 2023

**Extract 8: Singapore unveils SkillsFuture overhaul and Workfare enhancements**

To bolster the nation's workforce resilience and tackle economic inequalities, Singapore's Deputy Prime Minister Lawrence Wong, has unveiled a series of significant updates to Singapore's SkillsFuture programme. The cornerstone of the announcements made as part of Singapore's Budget 2024 is the introduction of a new SkillsFuture Level-Up Programme aimed at supporting mid-career employees.

Under this initiative, all Singaporeans aged 40 and above will receive a S\$4,000 (US\$2,971) SkillsFuture credit top-up in May, with younger citizens set to receive the same amount upon reaching 40. This top-up is earmarked for selected training programmes, emphasising part-time and full-time diploma, post-diploma, undergraduate courses, and training for sectors adhering to the Progressive Wage Model.

The revamped SkillsFuture initiative comes at a crucial juncture as Singapore grapples with ongoing technological disruptions and a changing employment landscape. Wong stressed the importance of adapting to rapid technological advances, highlighting the necessity for employees to refresh their skills and embrace new technologies effectively.

Adapted from: *HRM Asia*, 19 Feb 2024



**Questions**

- (a) Calculate and compare the real GDP growth rate (%) for Serbia and Singapore in 2022. [2]
- (b) Using an aggregate demand and aggregate supply diagram, explain a possible relationship between unemployment and inflation. [5]
- (c) Comment on the extent to which a country should be concerned with a 'youth brain drain' (Extract 5). [6]
- (d) Explain an opportunity cost faced by a youth leaving his country and using **one** other example of your choice, explain what might be an opportunity cost of an economic decision. [4]
- (e) Assess the extent to which national income indicators like real GDP per capita can be used to compare living standards between Serbia and Singapore. [8]
- (f) With the aid of a diagram where appropriate, explain **two** likely causes of unemployment in Serbia. [5]
- (g) Discuss whether increasing productivity is the best way to address unemployment in a country. [10]

**[Total: 40]**