YISHUN INNOVA JUNIOR COLLEGE
JC 2 PRELIMINARY EXAMINATION
Higher 2

CANDIDATE NAME			
CG		INDEX NO	

ECONOMICS **9570/01**

Paper 1 **28 August 2023**

Case Study Questions **2 hour 30 minutes**

Additional Materials: Writing Papers
Cover Pages

READ THESE INSTRUCTIONS FIRST

Write your name, CG and index number on the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid/tape.

There are **two** questions in this paper. Answer **all** questions.
Start **each question** (not each part) on a **fresh answer booklet**.

At the end of the examination, fasten your work for each question **separately**.

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

This document consists of **7** printed pages and **3** blank pages.

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Answer **all** questions.

Question 1: Healthcare and Health insurance in Singapore

Table 1: Healthcare Inflation Rate in Singapore

Year	2017	2018	2019	2020	2021	2022
Healthcare Inflation Rate (%)	2.49	2.04	1.11	-1.54	1.13	2.18

Source: Singapore Department of Statistics

Extract 1: Challenges within the healthcare sector

The principal challenge facing the healthcare sector today is cost. As medical costs continue to grow, a basic social need becomes increasingly inaccessible to much of the population. Additionally, as we emerge from the pandemic, there will be immense pressure on governments to rein in their spending, of which healthcare plays a large role. In Singapore, the cost of healthcare has increased and the average healthcare inflation rate was 2.3 per cent. All these factors point to the conclusion that the current model is not sustainable. This collision of ballooning healthcare costs and strained budgets leaves hard choices for policymakers. Governments must decide what therapies they can afford to subsidise, while insurers, as the healthcare payers, are left to determine treatment access restrictions in order to protect their own profitability.

Source: The Business Times, 16 June 2021

Extract 2: Drivers of rising healthcare costs

Rising healthcare costs to consumers are expected increase in the years ahead, a Ministry of Finance (MOF) paper said, attributing it to three major factors. First, an ageing population means older patients are more likely to have multiple medical conditions and complications and require more medical attention and longer hospital stays. Second, there are higher utilisation rates of healthcare, after adjusting for the impact of ageing. This is due to rising incomes and greater accessibility of high-quality healthcare services. Third, the cost per unit of healthcare has increased. Newer treatments that improve life quality and lifespan cost more per treatment. The manpower costs of healthcare staff are also expected to continue rising.

Source: The Straits Times, 9 February 2023

Extract 3: Keeping healthcare costs sustainable for both consumers and government

To moderate the increase in healthcare costs for consumers, the government has continued to subsidise healthcare substantially, which is the key reason why additional revenue from GST and top marginal personal income tax rate increases, as well as changes to property tax, etc. are needed. Also, it was announced that the government will implement changes to its subsidy frameworks across healthcare settings to target and increase subsidies to those who need them most, to manage healthcare cost growth sustainably. Even so, this may not be sufficient.

The more fundamental way, as noted by Health Minister Ong Ye Kung, is to tackle cost at its roots. One way is to make Singapore healthier. "It won't reverse the impact of an ageing population, but it can reduce the rate of increase, and 'bend the cost curve' downwards in the long run. There is a need to shift the strategy towards greater preventive care," he said. For example, the Healthier SG initiative by the government seeks to empower people to take charge of their own health through the promotion of physical exercise and health screening. This shift hopes to improve the population's health, reduce disease burden for the long term and put Singapore's healthcare system on a more sustainable financial footing.

Source: The Straits Times, 12 October 2022

Extract 4: Singapore insurers' revenue to benefit from digital distribution

The top insurance companies in Singapore are set to witness a revenue growth over coming years, as digital distribution enables them to enhance their offerings amidst a positive environment created by easing COVID-19 restrictions and a recovery in global economic activity to pre-pandemic levels. By providing insurance products through digital means, it may enhance product experience, and reach out to greater number of consumers.

The Singaporean insurance industry is dominated by the top five insurers in terms of gross written premiums (GWP) in 2021, while the top 10 players occupied a share of 89.2%. The market share of the top five and top ten insurers increased by 3.2% and 0.6% in 2021 compared to 2020, respectively.

Table 2: Market Share of Top 5 Insurers in Singapore in 2021

Insurance Companies	Great Eastern Life	Manulife	Prudential	AIA	NTUC
Market Share	25.7%	15.7%	15.2%	11.5%	7.8%

Source: Insurance Business 10 December 2022

Extract 5: Singlife's merger with Aviva Singapore

After a merger with Aviva Singapore, digital insurer Singapore Life has been busy setting up an investment team, reworking policies, and creating a sense of cohesion across its insurance policies. In a statement issued by Singlife, the merger has brought its protection solutions to Aviva's 1.5 million strong consumer base while offering existing Singlife customers a deeper product range and advisory capabilities, bringing up its assets significantly to $11 billion from an undisclosed sum. With this, the business will also be rolling out new policies to attract policyholders. For example, the insurer launched a new cancer coverage plan that covers treatments not covered by government-backed insurance plans.

The insurer has also been working to create cohesiveness across all policies by developing a mobile application that allows its policyholders to access their policies on one single app, catering to changing consumer demands and preferences towards on-demand financial advice. Singlife noted that they will be creating a brand that will go far beyond insurance and deliver on these ambitions by creating innovative financial products with intuitive technology and independent advice.

While mergers of insurance companies can provide various benefits such as economies of scale, enhanced market presence, and improved financial stability, they also come with potential downsides and challenges. For example, one of the challenges the Singlife faced with the merger, as with most mergers, was the integration of IT systems. "In our case, the two companies had a number of legacy policy systems that take time to integrate. Once completed in the coming months, we will have a single view of our policyholders and a more effective way to serve them," said Richard Vargo, group head of products, propositions and transformation.

Source: Adapted from the Straits Time, 11 September 2020

Questions

(a) **(i)** With reference to Table 1, describe the change in healthcare prices in Singapore from 2017 to 2022. [2]

(ii) With reference to Extract 1, explain one demand and one supply reason for the above trend in healthcare prices. [4]

(iii) "To moderate the increase in healthcare costs to consumers, the government has continued to subsidise healthcare substantially".

Discuss whether subsidies is the most appropriate policy to increase accessibility of healthcare. [10]

(b) Identify the market structure in the Singapore insurance market and justify your answer. [2]

(c) With the aid of a diagram, explain how digital distribution might impact the profits of insurance companies. [4]

(d) Discuss the extent to which the merger between Aviva and Singlife is likely to benefit consumers. [8]

[Total: 30]

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Question 2: A globalised world in transition

Table 3: United Kingdom (UK) Selected Indicators

	2018	2019	2020	2021	2022
Real GDP growth (%)	1.7	1.6	-11	7.6	4.1
UK Trade (% of GDP)	64	64	58	59	69
UK Exports of goods and services (billions)	922.47	938.29	824.91	843.43	926.86
UK Import of goods and services (billions)	954.28	979.12	821.98	872.88	988.9
UK Government Budget balance (billions)	-46.95	-49.83	-274.4	-187.43	-155.39

Source: Worldbank and Statista

Extract 6: UK's September 2022 Mini-Budget sent British pound sterling falling

The new United Kingdom administration under chief finance minister, Kwasi Kwarteng, presented on 23 September 2022 an expansive economic policy based on wide-ranging tax cuts and investment incentives for businesses will be put in place, to be paid for by higher government borrowing and higher future taxes. He believes the extra cash will be used to fund investment and improve the UK's productivity.

Investors are also concerned that extra borrowing will not be recouped through higher growth and improved tax receipts, leaving the UK with worsening debts over the long term. It has only heightened fears of inflation shooting up again. Many economists noted current rate of inflation is at 9% and said this will only going to worsen in future.

The pound fell below $1.09 for the first time since 1985 as investors took fright at the prospect of a surge in government borrowing to pay for tax cuts in Kwasi Kwarteng's mini-budget. The US investment bank JPMorgan said it exposed a broader loss of investor confidence in the government's approach.

If the tax cuts are sustained, the depreciation of the currency and the surge in sovereign borrowing costs will have important broad-based implications for the economic outlook.

Source: The Guardian,23 Sep 2022

Extract 7: What does falling British pound sterling mean?

A sudden and sharp drop in sterling creates uncertainty, throwing the plans of UK businesses that import and export goods and services into disarray. They expect to pay a specific sum for imports and get a certain price for goods and services they sell abroad. All that changes when the currency falls. The cost of importing goods from overseas goes up. Oil is one of the key goods Britain imports and a weak pound will make filling up a car with diesel or petrol more expensive. The UK also imports more than 50% of its food, so the cost of everything from artichokes to bananas goes up.

A weaker pound means price rises for UK consumers who buy foreign goods, and it means their money won't go as far if they travel to the US or countries that use the US dollar. Tourists visiting the UK will also have more money to spend and can take advantage of the improved exchange rate.

Source: The Guardian, 26 September 2022

Extract 8: The pandemic adds momentum to the deglobalisation trend

The ongoing pushback against globalisation in the West is a defining phenomenon of this decade. This pushback is best exemplified by British vote to leave the EU ('Brexit') amid rising domestic unemployment and foreign firm competition while US embark on trade war with China in attempt to reduce budget and trade deficits. In both cases, it is a step back from the long-standing process of global integration where there are cross-border flows of trade, investment, data, ideas, and technology and labour flow. It also seems to reject the belief that reducing barriers to trade and creating global supply chains, would continue to aid in growth, reduce poverty and help economies achieve higher standard of living.

COVID-19 pandemic simply adds further momentum to the deglobalisation trend. Policymakers are now questioning whether global supply chains have been stretched too far. Many countries are now rethinking trade dependence. National security and public health concerns are providing new rationales for protectionism, especially for medical gear and food, and an emphasis on domestic sourcing. Fear leads countries to turn inwards. Export bans have been imposed over concerns about inadequate domestic production of medical equipment, personal protective equipment, and pharmaceuticals. Such policies will exacerbate shortages, the opposite of their intended effect. Experience suggests that when some countries start restricting trade in critical goods, others are likely to follow suit. Japan has begun investigating how to break its supply-chain dependence on China and produce more at home.

The world economy is at a critical inflection point in history in which fears about dependence on others are growing. An inward turn would not spell the end of globalisation, only a partial reversal. But undoing the resulting damage is likely to prove difficult.

Source: Adapted from Peterson Institute for International Economics, 23 April 2020

Extract 9: Four things Singapore can do in the face of deglobalisation

Deglobalisation where slowing down of trade and investment across economies, is a growing trend that greatly affects small and open economies such as Singapore. Given Singapore's size and openness, it is unsurprising Singapore is hard hit by these external factors and rising geopolitical risks and wave of populism worldwide.

What can Singapore do given these global headwinds? Namely we can focus on enhancing long-term competitiveness through regulatory and business tax reforms and by boosting product and process innovations as well as entrepreneurship rather than undertaking short-term fixes to boost demand.

One, it is especially important that Singapore uses period of global downturn to continue with its ongoing restructuring efforts which will help better position itself to take advantage of the next upswing in global growth. This also involves fostering a spirit of lifelong learning among the populace.

Two, Singapore businesses should continue to be highly proactive in exploring new markets and opportunities to expand the city state's trade and investment networks.

Three, the government must give renewed emphasis to the task of designing fiscally-sustainable compensatory measures to assist those who may have been left behind by the growth process.

Four, Singapore leaders should take on a more proactive role regionally and globally to champion the virtues of an open global trading system. Trade is after all, the lifeblood of Singapore's economy.

Source: Lee Kuan Yew School of Public Policy, 8 August 2023

Questions

(a) With reference to Table 3, compare UK's trade balance and government budget balance from 2018 to 2022. [2]

(b) Using an aggregate demand and aggregate supply diagram, explain how "expansive economic policy based wide-ranging tax cuts and investment incentives for businesses" might lead to concerns of inflation worsening in future. [4]

(c) With the aid of a diagram, explain how the "loss of investors' confidence in government's approach" would lead to the fall in British pound sterling. [3]

(d) With reference to Extract 7, explain the likely impact of a fall in British pound sterling on producers in the UK tourism industry. [3]

(e) Extract 8 highlights the ongoing deglobalisation trend, and how the pandemic has added to its momentum.

Discuss the factors a government would consider in deciding whether to continue its "pushback against globalisation". [8]

(f) Assess the view that Singapore should focus on "enhancing long-term competitiveness…rather than undertaking short-term fixes to boost demand" in light of the deglobalisation trend as outlined in Extracts 8 and 9. [10]

[Total: 30]

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