



**ANDERSON JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATIONS 2011
HIGHER 1**

ECONOMICS

8819/01

Paper 1

13 September 2011

3 hours

Additional Materials: Answer paper

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number 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 your answers to each question separately.**

Fasten **this cover page in front of your answers to Question 1.**

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

Name _____ ()

PDG _____/10

| | Marks |
|--------------------|-------------|
| Question 1 | / 30 |
| Question 2 | / 30 |
| Question 3 | / 25 |
| Total Marks | / 85 |

This document consists of **8** printed pages, including **1** "blank page".

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Section A
Answer **all** questions.

Question 1 **A look at Japan**

Extract 1: Japan

The severe recession triggered by the global crisis has bottomed out, thanks in part to a rebound in exports, although production remains well below capacity. Growth is projected to pick up gradually to around 3 per cent in 2010 on a year-average basis, but to slow somewhat in the second half of the year. Nevertheless, the unemployment rate is likely to stay around 5 per cent through 2010 and deflation will persist, indicating that consumers will be reluctant to spend and business confidence will remain weak.

The Bank of Japan should fight deflation through a strong commitment to keep interest rates at their very low current levels and to implement quantitative measures effectively until underlying inflation is firmly positive. Given Japan's very high public debt, the government should scale back expenditure increases in Financial Year 2011 and develop a credible and detailed medium-term fiscal consolidation programme, including tax reform, to bring the budget into balance. The Growth Strategy should focus on reforms that will boost productivity growth, particularly in the service sector, to improve living standards in the face of a shrinking working-age population.

Table 1: Japan's Macroeconomic Indicators

| | 2006 | 2007 | 2008 | 2009 | 2010* |
|---|-------|-------|-------|-------|-------|
| GDP (US\$ billion, PPP) | 4080 | 4297 | 4358 | 4146 | 4310 |
| Real GDP growth (annual % change) | 2.0 | 2.4 | 0.7 | -6.3 | 2.9 |
| Gross fixed capital formation (% of GDP) | 23.3 | 23.4 | 23.1 | 22.8 | 22.7 |
| Inflation rate (%) | 0.2 | 0.1 | 1.4 | -1.4 | -0.7 |
| Unemployment rate (%) | 4.1 | 3.5 | 4.0 | 5.1 | 5.2 |
| Current account balance (% of GDP) | 3.9 | 4.8 | 3.2 | 3.4 | 3.8 |
| General government debt (% of GDP) | 172.1 | 167.1 | 172.1 | 192.8 | 197.5 |
| Public expenditure on health (% of GDP) | 6.6 | 6.6 | 6.7 | 6.5 | 6.6 |
| CO ₂ emissions from fuel combustion (million tonnes) | 1202 | 1236 | 1247 | 1261 | 1279 |

[*Projected]

Source: Organisation for Economic Co-operation and Development, Economic Outlook 2010

Extract 2: EU and Japan in trade dispute

The European Union sent its dispute with Japan over subsidies to a World Trade Organization arbitration panel, saying efforts to negotiate an amicable solution failed. The EU has sought for years to force Japan to stop giving what the EU considers to be unfair subsidies in the form of export financing of various industries including shipping, semi-conductors and electronics by the government. In the case of rice farming, the Japan government has shielded rice farmers from international competition by paying farmers four times the market value for their rice. This costs Japanese tax payers nearly US\$2 billion a year. While the opposition is quick to highlight the burden on the people, the government insists that such measures are current and necessary, given the global fears of food contamination from radiation and a looming global recession.

Source: Various, 2011

Extract 3: Japan's market for renewable energy

Japan's the latest country tying itself in knots trying to figure out how to promote clean energy and not break the bank in the process. The country's government is squabbling internally over whether to offer even more subsidies to all Japanese firms that produces renewable energy. As a result, the future of the renewable market is unknown especially in the wake of the Fukushima nuclear disaster. With the government struggling to fund the estimated US\$300 billion disaster recovery, some 447 out of more than 3000 programmes that receive some form of subsidy in Japan will be scrutinized by a special committee with the aim of cutting the fat.

Japanese officials at the Ministry for Economy and Trade insist that subsidies for renewable energy are necessary. Without them, solar-power companies and wind farms do not have a long-term incentive to invest and produce more. And that is bad news for a country that strongly believes that renewable energy can supply a significant proportion of Japan's energy needs, creating many public benefits for the nation and its regions, including regional economic development benefits such as the rise of renewable energy industries which leads to jobs creation and even opportunities for export growth. Furthermore, they also expand work indirectly in local support industries, like banks and construction firms.

On the other side of the globe, the western countries such as the US have also struggled with their own set of problems in promoting renewable energy. In the US, the Senate has tried and failed six times to extend tax incentives for renewable energy like wind and solar power; the drive keeps getting derailed by wider fights over the budget. But even without fresh government support, some clean energy like wind power is still going ahead. Not enough, though, counter many clean-energy advocates. They say long-term government support is crucial if the US hopes to jumpstart an alternative energy sector that can help fight global warming.

Adapted from The Wall Street Journal, 25th September 2010

Questions

- (a) (i) Describe the trend in unemployment rate for Japan from 2006 to 2010. [2]
- (b) Extract 1 mentioned that "deflation will persist".
- (i) Explain the term "deflation". [1]
- (ii) Explain how deflation can affect Japan's economy negatively. [5]
- (c) With reference to Extract 2, discuss the extent to which subsidies improve Japan's balance of trade. [6]
- (d) (i) Explain why the market under-produces renewable energy. [6]
- (ii) With reference to the case study, discuss how the use of subsidies and other appropriate policies can correct this market failure. [10]

[Total: 30 marks]

Question 2

Freer trade and investment: Beneficial or not?

Figure 1: Brazil's Current Account

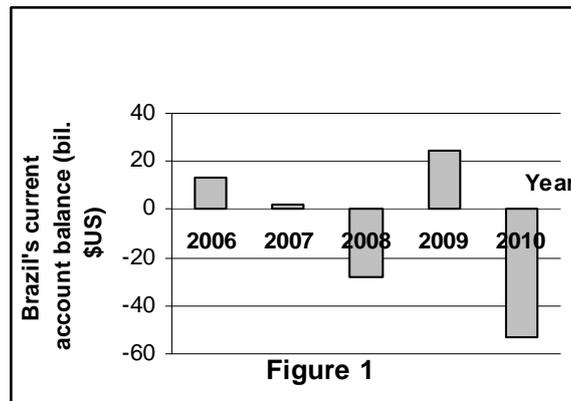
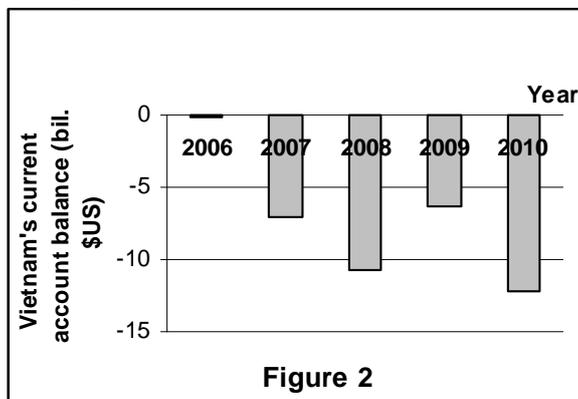


Figure 2: Vietnam's Current Account



Source: The World Bank

Extract 4: Trade and investment between Singapore and Brazil

Trade ties between Singapore and Brazil will get a boost, after the two countries signed an agreement on trade. Singapore is Brazil's sixth trading partner in Asia. Trade between both sides has grown steadily over the years, benefitting consumers in both countries as they are able to buy greater variety of goods. In the past five years, trade volume has surged by 230 per cent, making Brazil Singapore's largest trade partner in South America. Meats continued to contribute with the greatest number of products exported among the ten leading ones, with four categories. This was due, mostly, to a growing effort of Singapore to diversify its markets towards new continents, with the aim of curbing the restrictions of the regional supply. There were also significant efforts on the Brazilian side to expand its market, which comes to amount in some months to over 80 per cent of the chicken consumed in the island.

Singapore is also looking towards Brazil for its expertise in areas such as renewable clean energy. The science and technology agreement will see both sides collaborating in areas such as microbiology and dengue control, with a view to develop a vaccine against the disease.

It is known that Singapore is the second largest investor from Asia in Brazil, after Japan. In recent years, these investments have expanded, notably with the acquisition of the national shipyards by Singaporean companies. Keppel Offshore & Marine acquired the former Verolme shipyard, with facilities in Niterói and Angra dos Reis, employing more than five thousand workers. In addition, there are significant investments in the area of paper and pulp, electric and electronic items as well

as shipment and storage of commodities, which will boost Brazil's export sector in the future. Although these investments created more job opportunities, there are concerns that the local workers are not used to the different working cultures such as the hectic and long working hours.

Recently, Temasek, holding for governmental assets with a portfolio superior to US\$100 billion, announced that it will open a branch in Brazil in June 2008. In addition, there is also a growing number of Brazilian companies that have their regional office based in Singapore, covering the operations in Southeast Asia or in the overall Asia-Pacific region.

Adapted from Channel NewsAsia, 26 November 2008 and Embassy of Brazil in Singapore, 2008

Extract 5: Coffee prices expected to jump

Coffee prices may jump as much as 26 per cent in 2009 as Brazil, the biggest producer and exporter, harvests less of the bean and boosts consumption. A global credit crunch prompted Brazilian farmers to use less fertilizer after prices for the additive surged, worsening the outlook for a coffee crop that is already likely to be lower because of a slower growth cycle and dry weather. The decline will come just as Brazil runs out of stocks, while domestic demand grows to match sales in the United States, the biggest consumer of the beverage, as early as next year.

Output may drop as much as 20 per cent this year as most trees enter the slower half of a two-year growth cycle and farmers use less fertilizer to cut costs, according to the government. Coffee growers will harvest between 36.9 million bags and 38.8 million bags, down from 46 million last year. Brazil's consumption of coffee will likely rise to 21 million bags in 2010, up from 19.2 million this year, matching little-changed demand in the United States.

Coffee is a very popular drink in Asia and many consumers from Vietnam and Singapore are wondering how this might affect the price of a cup of coffee.

Adapted from Bloomberg, 14 January 2009

Extract 6: Vietnam trade deficit drops

Vietnam's trade deficit dropped to an estimated US\$2.1 billion (\$3 billion) for the first half of 2009 as imports dived, according to official figures released Thursday. Vietnam's trade deficit hit a record of US\$17 billion in 2008. In the first six months of 2009, exports fell by 10.1 per cent year-on-year to US\$27.61 billion, while imports totalled US\$29.72 billion, down by 34.1 per cent. In the six-month period, Vietnam - a low-income but booming economy where the gross domestic product grew by 6.18 per cent last year - spent US\$2.12 billion on steel imports, down more than half compared with the same period last year.

Source: Agence France-Presse, 25 June 2009

Extract 7 : Fostering Vietnam-Singapore relationship

Relations between Vietnam and Singapore have fared well since both countries established diplomatic ties in 1973. During a visit to Singapore in March 2004 by the then Prime Minister Phan Van Khai, the two countries signed a joint statement on the framework of comprehensive cooperation in the 21st century, laying the legal foundations for promoting bilateral friendship and cooperative ties.

Singapore is Vietnam's third largest trading partner, with two-way trade in 2008 reaching US\$12 billion, up 23 per cent against 2007. However, from January to October 2009, bilateral trade only

fetched US\$4.9 billion due to the adverse effects of the global economic recession. In addition, Vietnam is one of Singapore's key investment destinations in Southeast Asia. By November 2009, Singapore had invested in 763 operational projects amounting to US\$17 billion in Vietnam, ranking fifth amongst foreign investors in the country. These projects, which focus mainly on industry, infrastructure construction, services and real estate, have paid off, helping Vietnam to generate jobs, increase exports and stimulate its economy. The Vietnam-Singapore Industrial Park in the southern province of Binh Duong has also become a role model for investment and cooperation between Vietnam and foreign businesses. However there is a growing concern about how the deteriorating quality of air might affect residents who are staying within the vicinity. In addition, some economists are concerned that the pace of growth in Vietnam may be too fast such that there may be overheating, impacting the lives of the low-wage workers.

The Singapore economy depends heavily on exports and services, which make up 40 per cent of its GDP. The manufacturing industry is well-diversified and includes electronics, petroleum refining, chemicals, mechanical engineering and biomedical science sectors. Singapore is taking the lead in shifting its economy to a knowledge-based one and the country aims to become a diverse economic hub globally in 2018. This will ensure that Singapore's export sector is able to remain competitive and continue to grow, hence allowing her citizens to enjoy greater job opportunities and higher income.

Adapted from Voice on Vietnam, 12 January 2010

Questions

- (a) (i) Compare the change in the current account balance between 2006 to 2010 for Brazil and Vietnam. [2]
- (ii) With reference to Figure 2 and Extract 6, account for difference between trade balance and current account balance in Vietnam in 2008. [2]
- (b) "Singapore had invested in 763 operational projects amounting to US\$17 billion in Vietnam."
- (i) Explain how this investment may affect Vietnam's current and capital account balances. [4]
- (ii) Analyse how Vietnam's national output and inflation rate may be affected by this investment. [6]
- (c) Using demand and supply analysis, explain why coffee prices are expected to "jump". [6]
- (d) With reference to the data and your own relevant knowledge, discuss whether the increasing trend towards freer trade necessarily improves standard of living. [10]

[Total: 30 marks]

Section B

Answer **one** question from this section.

- 3 (a) Explain why economic theory stresses the importance of efficiency in the allocation of resources. [10]
- (b) Discuss whether efficient allocation of resources is only possible with the presence of government intervention. [15]
- 4 (a) If you were asked as an economist to evaluate the performance of an economy, explain what information you would need. [10]
- (b) Discuss the possible policy options that a government could adopt to improve the performance of an economy. [15]

– End of Paper –