



ST ANDREW'S JUNIOR COLLEGE

PRELIMINARY EXAMINATIONS 2020 (JC2)

General Certificate of Education Advanced Level

Higher 1

ECONOMICS

8823/01

Paper 1

31 August 2020

3 hours

READ THESE INSTRUCTIONS FIRST

Write your name and class 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.

Answer **all** questions.

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

This document consists of 9 printed pages.

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[Turn Over]

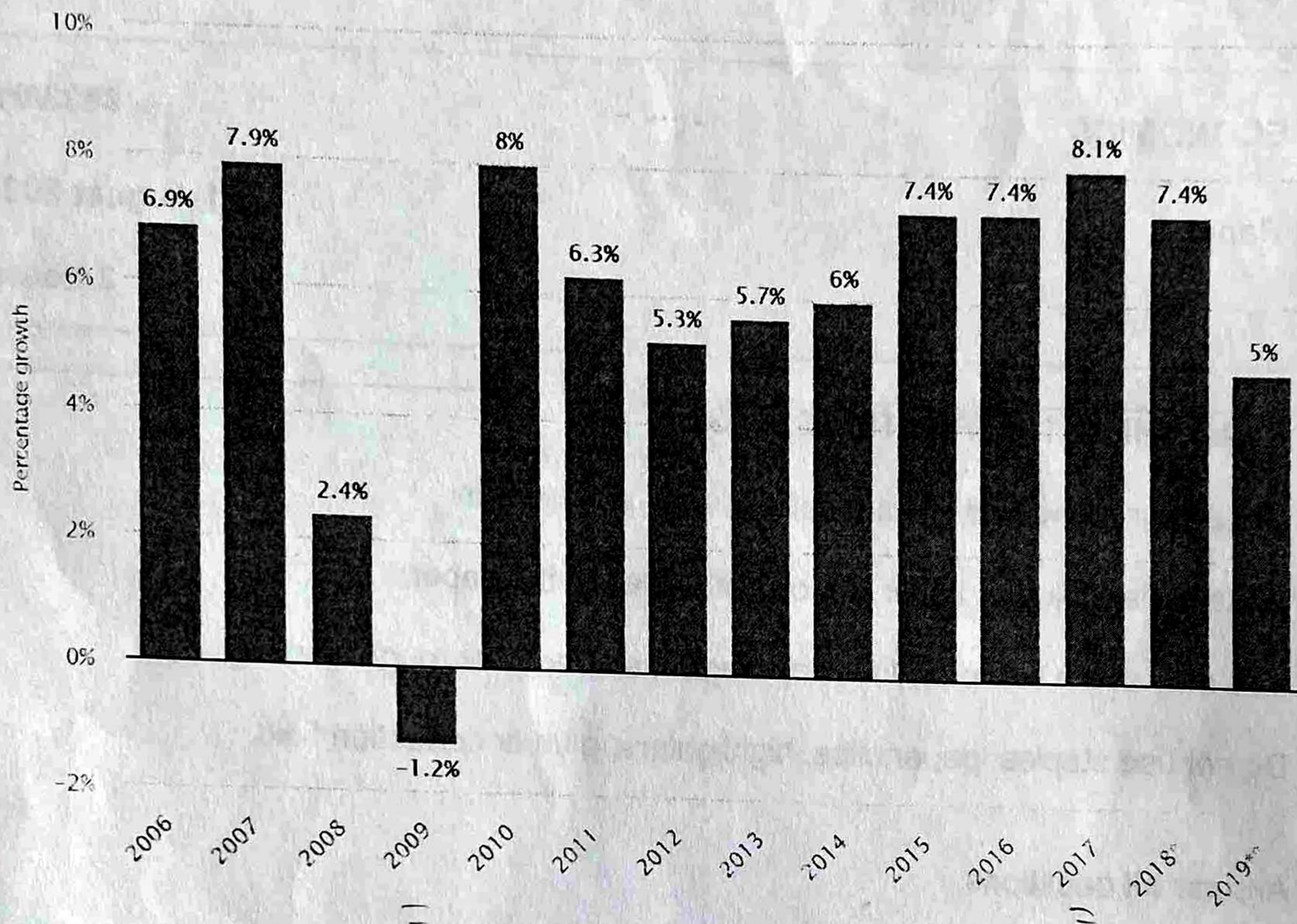
Answer all questions.

Question 1: Air travel and its related markets

Main change)

2009 2017

Figure 1: Annual growth in global air travel passenger numbers



[* Estimations; ** Projections]

Source: Statista 2019

Extract 1: Growth in global air passenger numbers

The aviation industry has seen **dramatic** growth over the past 20 years, with passenger numbers rising from 1.467 billion in 1998 to 3.979 billion in 2017, according to statistics from the International Civil Aviation Organization.

★ The main reason for such high volume of air travel is the **rapid rise in tourism**. *Demand factor*

Improvements in global economic growth and rise in wealth in countries such as China has resulted in tourism abroad. The rise in digital services such as online bookings has **reduced prices** but **increased consumers' experience and satisfaction**. \Rightarrow Quality \uparrow

Furthermore, the growth of budget airlines has made travelling more accessible than ever before. Major airlines are ramping up to serve more passengers by modernising their fleets, adding new generation fuel efficient aircrafts and adopting more cost effective measures to streamline bookings and ticket management process.

Source: Forbes.com, 2018



Extract 2: Aviation tax to combat climate change

Worldwide carbon (CO₂) emissions from commercial flights are rising up to 70% faster than predicted by the United Nations, according to an analysis.

Carbon dioxide emitted by airlines increased by 32% from 2013 to 2018, according to a study by the International Council on Clean Transportation.

Some countries such as Sweden has responded by introducing a new aviation tax that would add an extra charge to all passenger flights from the country in a bid to lessen air travel's impact on the climate.

works like carbon tax

"The objective of the tax is to minimise the carbon footprint of flights following a sharp increase in air travel," climate minister and Greens spokesman Isabella Lovin wrote in a Swedish newspaper.

All flights departing from Swedish airports will have an added charge of between 60 to 400 krona (S\$9 to S\$63), depending on the destination.

Source: The Straits Times, 1 April 2018

Extract 3: The Changi East Project – Terminal 5

The Changi East project or Terminal 5 (T5) is slated to be completed by 2030. This mega terminal is Singapore's most ambitious attempt to cement the Republic's status as a key aviation hub for regional and global traffic.

The stakes are high. *benefits* (The aviation and maritime sectors jointly account for about 10 per cent of Singapore's gross domestic product and provide nearly 250,000 jobs.)

Mrs Josephine Teo, a Minister in the Prime Minister's Office, told Insight recently: "Air hub development projects require heavy resource commitments. Because of the long gestation, our plans must also stand the test of time. The inter-agency Changi 2036 Steering Committee spent countless hours analysing data and trends, the costs and benefits. The time was needed for meticulous examination and assessment of different proposals on the future design and layout of T5." *macro goals*

Second Minister for Transport Mr Ng Chee Meng said: "First-mover advantage is vital in the aviation industry. Airport infrastructure takes time to plan and to complete. With sufficient capacity, airlines can grow and the Changi air hub can grow."

At the initial stage of the development, three huge tunnels will be dug to move bags and people between the future Terminal 5 and the current airport. Work is set to start in 2019 and should take two to three years, says Changi Airport Group's project director for the Changi East Terminal 5 development, Mr Leong How Yin.

It is understood that the Thomson-East Coast MRT Line - scheduled to open in stages from 2019 to 2024 - is likely to stop at the future T5 before terminating at the existing Changi Airport MRT station.

Other major infrastructure works at Changi East include constructing four new canals to prevent flooding, and getting a third runway ready for commercial flights.

Source: The Straits Times, 11 October 2018

Extract 4: Over-tourism in the Philippines

The Philippines has experienced a surge in tourists in recent years. Just over one million went there in 1990 – in 2018 it was 6.6m. And almost a third of those tourists - more than two million - visited Boracay, a tiny island tourist attraction.

A decade ago, Boracay certainly was worth visiting. However, it is currently being called as a "cesspool" due to sewage flowing directly into Boracay's blue waters.

The government placed a ban on tourism on the island for about six months from 26 April 2018 for its rehabilitation. [Rehabilitation work include improvements to wastewater management system, construction of new roads to decongest the island and enhancement to health and sanitation facilities.] Stratus

Source: The Telegraph, 13 September 2018;
Businessmirror.com, 30 May 2018

Extract 5: Sustainable air travel

Government policy is key to make air travel more environmentally friendly. Speed of change towards sustainable air travel will largely depend on speed of research and development (R&D) in aircraft technology and construction of relevant global infrastructure by governments.

In 2018, the UK government pledged £343 million grants for R&D into faster and cleaner aircraft and aircraft fuel. The government says a principle aim is for the UK to be at the forefront of the revolution in electric and hybrid planes, with £255 million going towards 18 new research and technology projects. A major beneficiary is an innovation project under development by Airbus, Rolls-Royce and Siemens which are big players in aircraft manufacturing. The development of quicker and cleaner aircraft through government support and industry investment will transform the UK's transport market and open up new and more sustainable ways for passengers to travel.

Source: greenaironline.com

circumstances
- aircrafts,
- direction
- rate of change
- distinctive, significant

- decrease in 2009

Questions:

- (a) Using Figure 1, summarise the main changes in global air travel passenger numbers from 2009 to 2017. [3]

- (b) Discuss the view that supply factors are likely to be more important than demand factors in explaining the dramatic growth in global air passenger numbers. [9]

- (c) Sweden introduced a new aviation tax in 2018.

- (i) Using a diagram, explain what determines the size of change in the price of airline tickets following such a tax. [4]

- (ii) Use the concept of opportunity cost to explain one effect each on consumers and firms arising from the change in the price of airline tickets. [4]

- (d) Explain and comment on the factors that are most likely to have influenced the government's decision to go ahead with the development of the Changi East Terminal 5. [7]

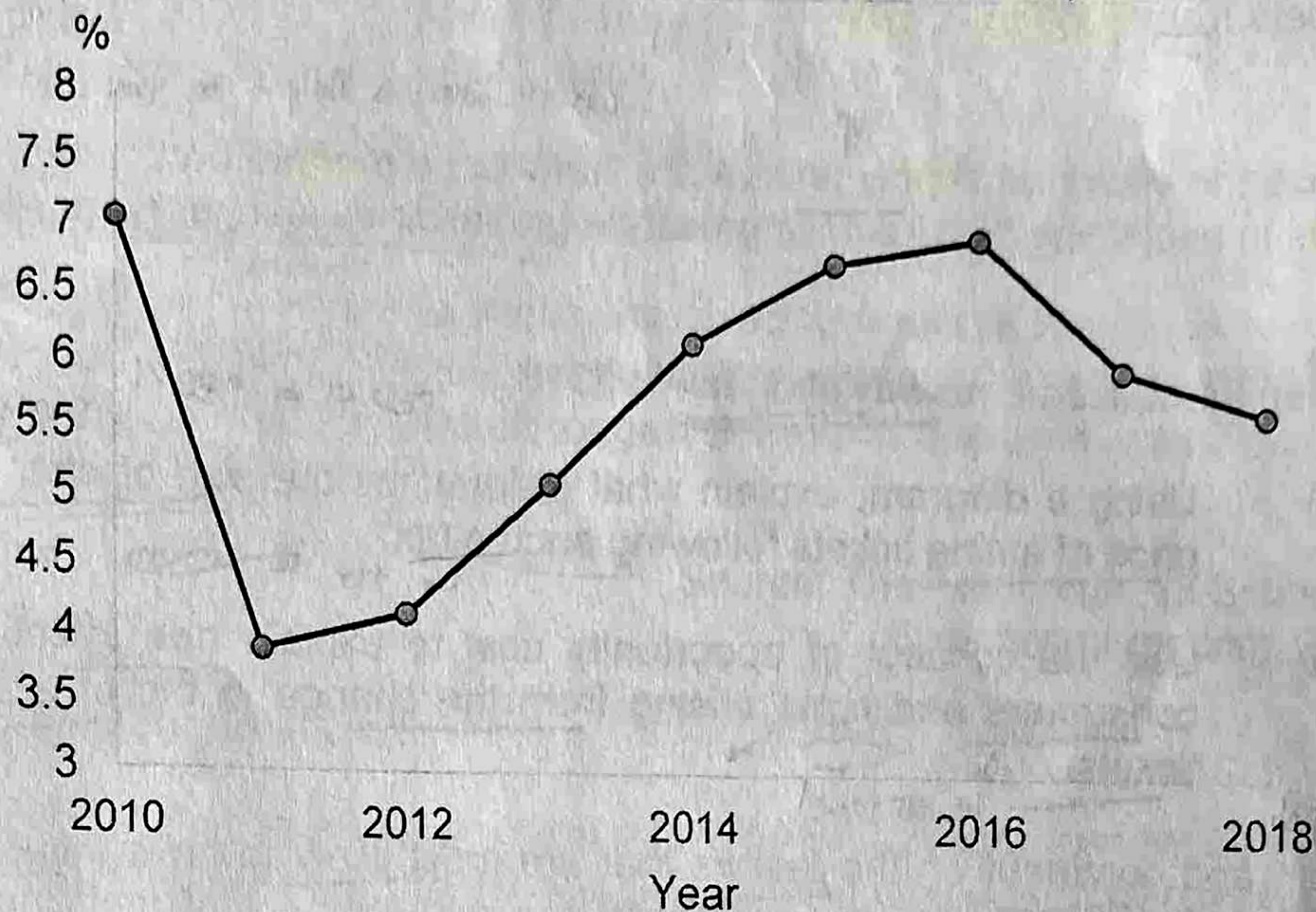
- (e) Explain how a temporary ban on tourism and rehabilitation work undertaken in Boracay is likely to affect the Philippines' unemployment rate in both the short-run and the long-run. [6]

- (f) Discuss whether grants for R&D is the key to achieving more sustainable air travel. [12]

[Total: 45 marks]

Question 2: The Future of India's Economy

Figure 2: Real GDP per capita growth (annual %) – India



Source: www.data.worldbank.org

Extract 6: India's Underground Economy

In 2016, the Indian government decided to stop using the 500 and 1000 rupee notes, the two biggest denominations in its currency system in an attempt to reduce the size of India's underground economy. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8, 2016 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 5000 rupee bills.

Chaos ensued in the cash-dependent economy (some 78 percent of all Indian customer transactions are in cash). The government's goal for the abrupt announcement was to combat India's thriving underground economy on several fronts: **eradicate counterfeit currency**, fight tax evasion (only 1 percent of the population pays taxes), and eliminate black money gotten from **money laundering and terrorist-financing activities**. Based on a recent report, India's underground economy was estimated to be as large as 26 percent of the country's gross domestic product. This implies that **almost one fourth of the Indian economy goes untaxed and unaccounted.**

Source: www.investopedia.com, 30 January 2019

Extract 7: India's Tax Reforms

The introduction of GST was a game changer for the Indian economy as it has replaced a **multi-layered, complex indirect tax structure** with a simple, transparent and technology-driven tax regime. The government said GST has integrated India into a single market by breaking barriers to inter-state trade and commerce. By eliminating **cascading of taxes** and reducing transaction costs, it will enhance ease of doing business for both local and foreign investors. With more companies and individuals declaring sales, profits and income figures that are closer to the real picture, it will **become much easier for foreign investors to judge the credentials of potential partners in India** and also be certain that the returns they are getting in terms of royalties, share of profits and other fees reflect the reality on the ground.

Source: economictimes.indiatimes.com, accessed 29Jan2020 and IndiaInc.Group, Aug2018

Extract 8: Inflation: Mirage or monster?

Days of prices of foodgrains, vegetables, fruits, television sets, automobiles and refrigerators pinching the pockets of consumers appear to be behind with hardly anyone complaining.

Every economy undergoes some structural changes that alter its dynamics - either for the better or for the worse. Having lived through double-digit inflation for the best part of the previous decade, is it different now? Although consumers have been beneficiaries of low inflation, there is a flip side to lower prices that may be playing out in the economy - farm incomes have been affected.

India like most emerging economies was often struck by soaring prices due to poor capacities and infrastructure bottlenecks. Agriculture was at the centre of it with over 60% of farmers depending on monsoon rains without sufficient irrigation. Poor weather conditions adversely affected crop yield. Food has been the main driver of inflation accounting for nearly half of consumer spending for most of the households. International developments such as crude oil prices also played a vital role in affecting general price levels.

While India's inflation is predominantly supply-side driven instead of demand-driven, there are also millions still below the poverty line, poor infrastructure and a growing reserve army of labour without jobs.

Source: economictimes.indiatimes.com, accessed 31 Jan 2020

Extract 9: Get women working for India's economic development

At 27 per cent in 2017, the participation of women in India's labour force is one of the lowest in the world. More alarmingly, India's female labour force participation is falling, from 37 per cent in 2005, despite the country's strong economic growth in recent years.

Women face several disadvantages. They may have limited education and skills, or face the need to balance work with household responsibilities. With limited opportunities, Indian women simply have not benefited from economic growth as much as men.

Recognising these problems, the Government of India has taken various measures to boost female labour force participation. These include subsidising or offering free higher education, an equal remuneration act, a maternity benefit act allowing child care leave, pushing for gender friendly work spaces, and a law against sexual harassment. The recently released 2019 interim budget emphasises women empowerment.

Narrowing the gender gap yields twin benefits: improved well-being for individual women and better use of human resources for the wider society. One study estimated that eliminating gender disparities in developing Asia would increase per capita income by 70 percent within 60 years.

In the labour market, we must address the gender divide along three lines: education, the institutional and legal framework, and career path. Better education and more skills training enable women to move up the career ladder. The legal and institutional framework must ensure equal opportunity for men and women regarding job placement; working hours; pay, and other benefits. Anti-discrimination laws should be rigorously enforced and complemented by awareness campaigns to prevent prejudice in the workplace. Bringing more women into the workplace will help India—and its 650 million women—unleash their full potential.

Source: www.eco-business.com, accessed 1 January 2020

Extract 10: Rising unemployment highlights economic weaknesses

India's unemployment rate hit a 3-year-high of 8.4 per cent in August 2019, reveals data released by think-tank Centre for Monitoring Indian Economy (CMIE).

The labour force participation rate, defined as the proportion of working population between ages 16-64 in the economy currently employed or seeking employment, is one of the factors behind unemployment rate. It has recovered from the combined shock of demonetisation and GST that led to a rise in unemployment rate in India, the report said. The increase in labour participation rate is a healthy sign as it hopefully reflects a confidence in labour that they may find jobs, CMIE said in its report.

"However, this increase in labour force participation rate is not matched with an increase in the employment rate. The difference between the two has been rising. More people are seeking employment but not as many people are finding employment," it said. "Investment conditions have been weak. New investments into large and modern enterprises are important to absorb the rising working age population into the labour markets. However, data from the annual financial statements of companies and from announcements by entrepreneurs do not show any pick-up in investments. Growth in good quality jobs is therefore very poor," added in its report.

According to CMIE, if labour continues to face a rising unemployment rate, and poor employment opportunities, it may start getting discouraged from entering the labour markets.

Source: [businesstoday.in](https://www.businesstoday.in), 11 September 2019

Questions:

- (a) (i) With reference to Figure 2, state the change in real GDP per capita in India from 2010-2018. [1]
- (ii) Explain and comment on whether the data from Figure 2 and Extract 6 is sufficient to conclude that the material standard of living of Indian nationals has improved. [5]
- (b) With reference to Extract 7 and using AD/AS analysis, explain how the reduction of transaction costs due to the tax reform could have affected the level of unemployment in India. [6]
 LRAS?
- (c) Explain how a country's inflation rate is calculated. [2]
- (d) With reference to Extract 8,
- (i) Explain why "India's inflation is predominantly supply-side driven" instead of demand-side driven. [4]
- (ii) Explain and comment on the likely impact of higher inflation rates on consumers and producers in India. [7]
- (e) Discuss the extent to which empowering women in the workforce would allow India to achieve inclusive growth. [8]
 growth + equity
- (f) In light of the case materials provided, discuss possible policies that the Indian government can undertake to address the problems mentioned. [12]

can push into
 - Dependency on
 ag. agriculture,
 food prices ↑

- crude oil at 120/\$
 4.0 = FOP

- Problem is no 2/3
 any way,

can't fiscal

- have to use ss-side

u/e
 lack of infrastructure
 ;
 Lack investment

[Total: 45 marks]