ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATION - 2008

ECONOMICS **8816**
Higher 1

10 September 2008

3 hours

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write your Centre number, index number and name 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.

Section 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.

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

Section A

Answer **all** questions in this section

Question 1 Healthcare & Ageing Population

Table 1: Total Health Expenditures Per Capita in US$ PPP, U.S. and Selected Countries, 1970, 1980, 1990, 2006

	1970	1980	1990	2006
Canada	299	783	1,737	3,678
France	205	697	1,532	3,449
Switzerland	351	1,031	2,029	4,311
United Kingdom	163	480	987	2,760
United States	352	1,072	2,752	6,714

Source: OECD 2006 & 2007 Online Database; accessed on 30th July 2008

Table 2: Total Health Expenditures as a Share of GDP, U.S. and Selected Countries, 1970, 1980, 1990, 2006

	1970	1980	1990	2006
Canada	7.0	7.1	9.0	10.0
France	5.3	7.0	8.4	11.1
Switzerland	5.5	7.4	8.3	11.3
United Kingdom	4.5	5.6	6.0	8.4
United States	7.0	8.8	11.9	15.3

Source: OECD 2006 & 2007 Online Database; accessed on 30th July 2008

Extract 1: Medical price inflation to blame?

Price insensitivity on behalf of customers, lack of competition, technological complexity -- they all adds up to immense inflationary pressures on health-care costs. Technological advances go hand in hand with productivity gains in most industries, but in medicine, better technology almost always means higher expenses in most countries.

The California Healthcare Foundation says medical price inflation, not increased use, drives 51% of the growth in health-care spending. The federal Agency for Healthcare Research & Quality [AHRQ] found that from 2000 to 2004, the mean cost of a hospital stay per patient rose 15%.

Source: Adapted from BusinessWeek Website, 15th July 2008

Extract 2: United Nations report on world ageing

Population ageing is unprecedented, without parallel in the history of humanity. Increases in the proportions of older people, those 60 years or older, are accompanied by declines in the proportions of the young under the age of 15. The number of older people in the world will exceed the number of young in the near future. This historic reversal in relative proportions of young and old had already taken place by 1998 in the more developed regions of the world.

Population ageing is pervasive, a global phenomenon affecting every man, woman and child. The steady increase of older age groups in national populations, both in absolute numbers and in relation to the working-age population, has profound consequences and implications for all facets of human life such as the economic area, social sphere and political arena.

Globally the population of older people is growing by two per cent each year, considerably faster than the population as a whole. This will require far reaching economic and social adjustments in most countries.

As the pace of population ageing is much faster in developing countries than in the developed world, they will have less time to adjust to the consequences. Population ageing in developing countries is also taking place at much lower levels of socio-economic development than was the case in the developed world.

Source: Adapted from www.un.org; accessed on 30th July 2008

Extract 3 : Impact of an ageing global population

An ageing global population will force governments worldwide to revisit the services they provide.

By 2011, the first wave of the Baby Boom generation will reach retirement age meaning the dependency ratio (the ratio of working age people to children and elderly) will rise in most developed countries, demanding a new era for governments across the globe. While Japan, Germany, US and the European Union-14 countries are likely to be hardest hit, many other countries' demographics indicate similar patterns towards a rising dependency ratio.

The consequences of shifting demographics force governments to rethink how they will finance government services as there will be significant changes to tax revenue and government expenditure. In addition , governments will have to examine how the growing number of elderly will impact the design and mix of services they offer.

The ageing population will also demand changes in the country's workplaces as strong biases remain in some businesses against older workers. Workplaces that are able to expand their thinking and adaptability towards flexibility and part-time work as well as tap into ways older and younger workers can cooperate and work together are likely to emerge as winners.

The higher burden from rising costs in the health, welfare and justice systems as a result of an ageing and longer living population means that much more thinking and collaboration, within government and with the private sector, will be needed.

Source: Adapted from Delottie website, 1st August 2007

Questions

(a) (i) With reference to Tables 1 and 2, compare the trends in healthcare expenditures among countries from 1970 to 2006. [2]

(ii) Account for the changes in healthcare expenditures among countries. [4]

(b) (i) Identify the sources of market failure in healthcare sector of a country. [2]

(ii) Explain **one** source of market failure identified in (b) (i) [4]

(c) Assess the measures that a government can adopt to correct the sources of market failure in healthcare sector of a country. [8]

(d) Discuss the impact of an ageing population on US economy. [10]

[30 marks]

Question 2 Contributions to Economic Growth

Extract 4: Japan's Economy

If Japan's economy has been pulled steadily out of the slough into which it had fallen for more than a decade, Japan's corporate sector has been doing almost all the pulling. Ever since the recovery that began in 2003 started to look solid, economists have predicted that households would soon take over the running, by starting to spend again after years of deflation and tightened belts. Yet every prediction of a consumption boom has proved premature, causing some to question the sustainability of the recovery as a whole. In February deflation, which last year had been declared vanquished, even made an unwelcome return.

The corporate recovery has been remarkable. Companies have repaid huge amounts of debt incurred during the 1980s and 1990s. Demand for Japanese goods from overseas, notably China, gave the initial boost to company profits, which have grown for four consecutive years to record levels. Companies have ploughed back much of the cash they have earned into investment to replace neglected capital stock, from factory machines to computers to buildings. The latest quarterly Tankan survey of business prospects carried out by the central bank, the Bank of Japan, suggests that the recovery in capital expenditure is now spreading from big manufacturing companies to smaller ones, and from manufacturing into services. But sooner or later Japanese companies will have finished most of their upgrading, and worries about the American economy are growing among Japanese exporters, led by carmakers.

Source *:* The Economist print edition, Apr 19th 2007

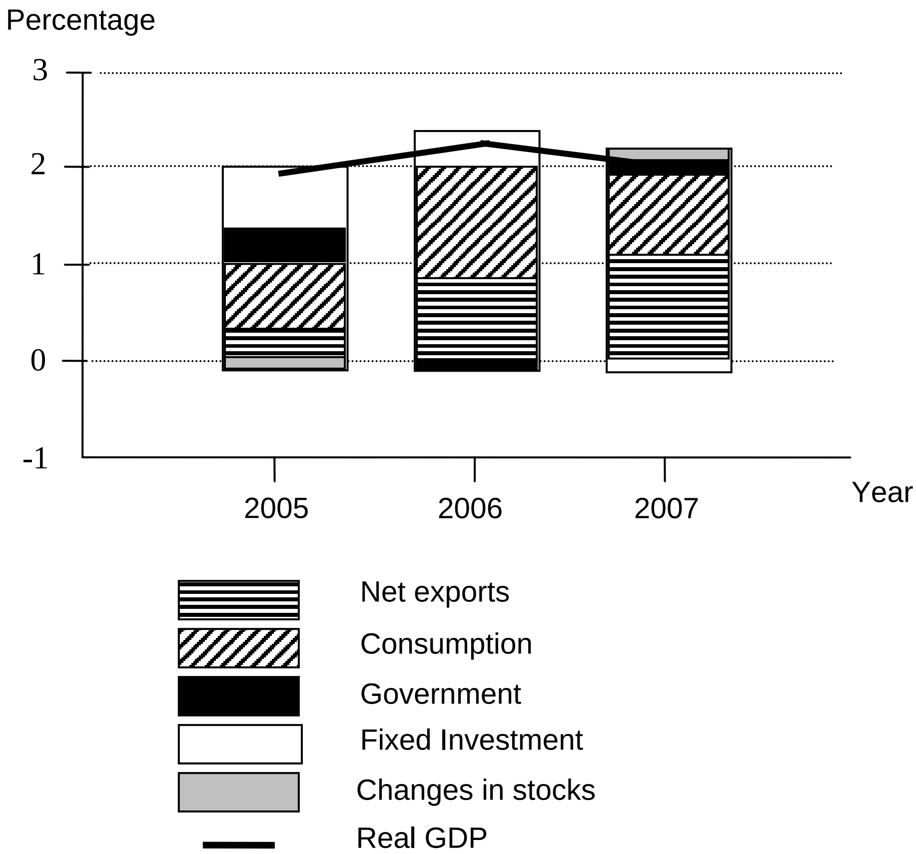
Extract 5 : The cheap yen is dangerous

The yen is perhaps the world's most undervalued currency. Last week the Japanese currency hit an all-time low against the euro and its real trade-weighted value fell to its lowest since at least 1970, according to an index tracked by JPMorgan. But do not expect the G7 finance ministers and central bankers meeting in Essen, Germany, on February 9th and 10th to spend much time discussing the yen, let alone to do anything to support it.

American and European policymakers do not see eye to eye on the yen. The Europeans would like some action to push up the currency, which, they say, is not bearing its fair share of the dollar's decline. Our latest update of *The Economist*'s Big Mac index suggests that the yen is a massive 40% undervalued against the euro. America's big carmakers have also complained that the weak yen makes imported Japanese cars unfairly cheap. However, neither the American nor the Japanese government thinks there is a problem. Hank Paulson, America's treasury secretary, says he is not worried about the yen's weakness because it is market-driven and reflects economic fundamentals—namely low interest rates and a fragile economy.

Source *:* The Economist print edition*,* Feb 8th 2007

Figure 1 : Contribution to Japan's real GDP growth



(Source: ddp-ext.worldbank.org dated 05/08/08)

Table 3 : Selected Economic Indicators in 2006

	Singapore	Japan
GDP (current US$) (billion)	132.2	4,368.4
GDP growth (annual %)	7.9	2.2
Inflation (annual %)	0.2	-0.9
External Balance of goods and services (% of GDP)	32.0	2.0
Merchandise Trade* (% of GDP)	386.0	28.0
Gross Capital formation (% of GDP)	19.0	23.0
Population growth (annual %)	3.2	0.0

(Source: ddp-ext.worldbank.org dated 05/08/08)

(**Note:** *Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars.)

Extract 6 : Booming, bustling and bursting at the seams

The strong global economic tide has lifted the boats of most South-East Asian countries, but perhaps the most impressive performer is Singapore. Yet in the year to the third quarter, its economy grew by 9.4%.

The signs of a boom are unmissable. The shopping malls along Orchard Road are bustling. Fancy hotels are full of wealthy tourists despite cranking up their room rates. Marina Bay, by the financial district, is a forest of cranes as a $3.6 billion casino resort goes up. The Singapore Flyer, a giant Ferris wheel, looks down on the vast expanse of building site. Office rents have risen by 50% in the past year, while the price of homes is up by 28%.

Any downturn in America, which buys a fair chunk of Singapore's exports, is bound to have an effect. But a slackening of foreign demand might be just what Singapore needs to avoid the only danger to its sizzling economy: overheating. Inflation hit a 12-year high of 2.9% in the year to August, though it fell to 2.7% in September.

Singapore’s manufacturing still accounts for around 25% of GDP. However, anticipating the competitive threat from China, it has moved up the value chain, away from low-end electronics, and found lucrative new niches. Its marine-engineering and biomedical firms are growing at around 40% annually. Its finance industry has cornered the regional market in private banking for the wealthy.

Indeed, until recently, consumer spending was lacklustre. But it has gathered pace in the past few months and, with employment and wages each growing at around 9% annually, there is plenty of domestic spending power to help the economy survive any export downturn.

There are plans to accommodate the growth in population and new businesses. One is to continue reclaiming land from the sea. it could be increased to about 760 sq km by closing gaps between Singapore's main island and lesser ones although its close neighbour, which has become reluctant to sell Singapore sand for its reclamation projects

Such schemes are hugely costly but Singapore has massive financial reserves for its size. In creating enough space to continue its breakneck expansion, money will be no object.

Source: The Economist print edition, Oct 25th 2007

Questions

(a) With reference to figure 1:

(i) Explain the meaning of real GDP. [2]

(ii) Identify the GDP growth trend from 2005 to 2007. [1]

(iii) Describe the changes of contribution of the GDP throughout the period. [2]

(b) Using the data in Table 3, explain which country

(i) was the more open economy, [2]

(ii) has a lower standard of living [5]

(c) Refering to Extract 5:

(i) What do you understand by an “undervalued currency”. [4]

(ii) Explain why an undervalued Japanese Yen can be both dangerous and non dangerous to the economies mentioned in Extract 5. [6]

(d) Comment on the different policy options that the Japanese and Singapore governments have possibly undertaken in achieving their economic growth. [8]

[30 marks]

Section B

Answer **one** question from this section.

3 **(a)** Explain how resources can be efficiently allocated through price mechanism. [10]

(b) Discuss under what circumstances would government intervention be necessary. [15]

4 **(a)** Explain how specialisation and trade can lead to economic development of developing countries. [10]

(b) Discuss the view that developing countries should not implement protectionistic measures. [15]