

RAFFLES INSTITUTION
2013 YEAR 6 PRELIMINARY EXAMINATION
Higher 1

ECONOMICS

8819/01

Paper 1

4 September 2013

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name, index number and CT 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 diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions

Section B

Answer **one out of two** questions

At the end of the examination,

- Fasten Case Study 1 & 2 together with this cover sheet
- Indicate and fasten Essay question separately.

Name : _____
Civics Class : _____
Economics Tutor : _____

Question No.	Marks
1	/30
2	/30

This document consists of **12** printed pages and 2 blank pages.



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Section A

Answer **all** questions.

Question 1 Education

Table 1: Government expenditure per student (% of GDP per capita), Singapore

	2008	2009	2010
Tertiary student	28.9	29.8	30.8
Primary student	9.6	11.5	12.3

Source: The World Bank

Table 2: Government expenditure per student (% of GDP per capita), USA

	2008	2009	2010
Tertiary student	21.2	19.61	21.7
Primary student	22.5	22.6	22.9

Source: The World Bank

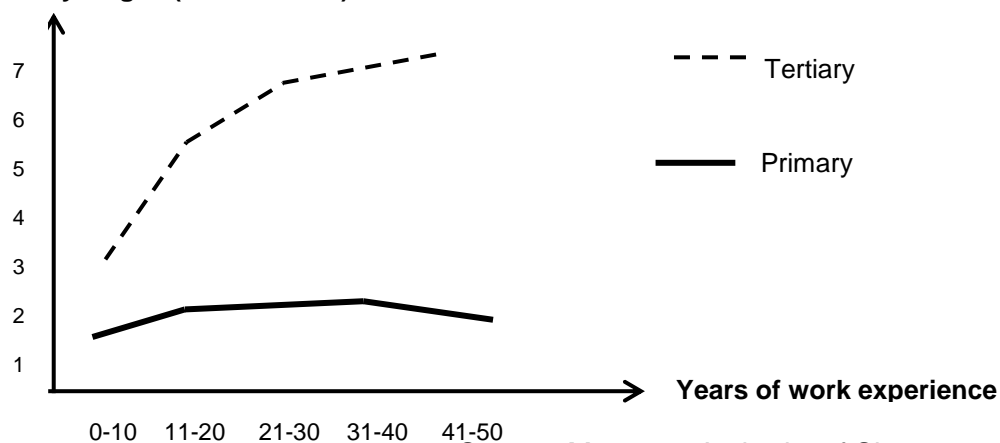
Table 3: Participation in Publicly Funded University Education, Singapore

	2005	2006	2007	2008
% of Primary One cohort who were admitted to universities	23.7	23.8	23.8	24.8

Source: Ministry of Education, 2004

Figure 1: Monthly Wage Profiles of Workers by Educational Attainment, Singapore

Monthly wages (\$\$ thousand)



Source: Monetary Authority of Singapore, 2004

Table 4: Selected Economic Data, Singapore and USA 2012

Economic data	Singapore	USA
Unemployment rate	1.9%	8.1%
Adult literacy rate*	92.5%	99%
Gini coefficient**	0.414	0.378
GDP per capita (at 2012 PPP\$)	\$61,803	\$49,965

* % of total population aged 15 and above able to read and write.

** '1' represents complete inequality in income distribution while '0' represents perfect equality.

Source: Various

Extract 1: Higher Education in Singapore

In providing university education, Singapore's policy has always been to establish a more equitable and sustainable cost sharing formula between the state and the students. This would better reflect the balance between private and external benefits generated by university education. Currently, the government funds about 75% of the total cost of undergraduate education. Other than providing education subsidies, the government also plays a role in the distribution of places in tertiary education based on projected economic needs.

In an ideal situation, university students would select their courses of study based on interest and possibly earnings potential of their degrees. Universities would respond by supplying places in areas of demand. However, solely relying on student choices to determine university offerings may result in the needs of the economy being overlooked. For example, in developed countries like Japan, Europe and USA, students are losing interest in science, mathematics and engineering and putting more emphasis on self-actualization and humanistic concerns. This results in a glut in the administration and humanities fields while at the same time, employers are looking for mathematics and science graduates. The above has prompted the Singapore government to do some form of manpower planning instead of leaving the distribution of places in the state-funded universities to individual preferences.

Source: *Economics in Public Policies: The Singapore Story*, 2012

Extract 2: Master reading, Maths early for a good start in life

Researchers Stuart Ritchie and Timothy Bates from the University of Edinburgh in Scotland found that a child's mathematics and reading scores at age seven are key indicators of socio-economic status in adulthood. They established this connection using data that tracked the progress of more than 17,000 people born in the UK.

What the researchers found was a strong correlation between reading and Maths scores at age seven and socio-economic status 35 years later. Reading made such a difference that going up just one reading level at age seven was associated with a £5,000 (\$9,600) increase in income at age 42. The researchers concluded that basic childhood skills – literacy and numeracy – proved important throughout life, independent of how smart you are, how long you stay in school, or the social class you started off in. What can Singapore educationists and policymakers take away from the findings of this Edinburgh University study?

Source: *The Straits Times*, 7 July 2013

Extract 3: College Graduates Unemployment: Are Government Policies Helping?

The Obama administration has been promising increased economic growth and jobs for college graduates, but is it delivering on that promise? The statistics would say no, says Diana Furchtgott-Roth, a senior fellow with the Manhattan Institute.

In a commencement address at Morehouse College recently, President Obama told graduates, "Your generation is uniquely poised for success." Although President Obama's message is heart-warming, it is the opposite of true.

- Young adults have hardly benefited from declines in the unemployment rate.
- Between April 2012 and April 2013 the overall unemployment rate has declined from 8.1 percent to 7.5 percent.
- The unemployment rate in 2012 for newly graduated men and women with bachelor's degrees was 8 percent, far higher than the 5 percent rate such young adults experienced in 2006.

Young Americans who campaigned for Obama, voted for Obama, and turned out their friends for Obama are graduating from college. They might be poised for success, but most have not yet seen it.

Source: Diana Furchtgott-Roth, The National Center for Policy Analysis, May 2013

Extract 4: Is the problem one of subsidy?

The provision of higher education is one of the most expensive functions of state governments in the United States, with a tertiary enrolment rate of close to 80%.

Historically, states have attempted to provide their residents with access to high-quality tertiary education by providing large subsidies directly to public institutions with few directives for how the money was used. Public institutions, as opposed to private ones, in turn, charged all students a price well below cost, with very little price variation between in-state undergraduate students within institutions.

However, escalating tuition and tight state budgets have placed higher education institutions under scrutiny recently, as lawmakers debate what type of education government should be promoting and who should pay for it.

In the face of declining state support, many universities have introduced differential pricing by undergraduate program as an alternative to across-the-board tuition increases. This practice aligns price more closely with instructional costs. Price does appear to be a policy lever through which state governments can alter the field composition of the workforce they are training with the public higher education system.

The efficacy of many of the reform efforts depends on the responses of students and institutions to changes in major-specific prices. It has been argued that differential pricing should discourage students from entering the impacted fields, holding all else constant. However, if impacted programs use the additional revenue to improve quality, the net effect on demand (of the major in question) will be ambiguous since quality improvements will increase demand.

Source: Kevin M. Stange, *Differential Pricing In Undergraduate Education: Effects on Degree Production by Field*, National Bureau of Economic Research, June 2013

Questions

- (a) (i) With reference to Tables 1 and 2, compare the government expenditure on education between Singapore and the USA. [2]
- (ii) Explain 2 possible reasons for the difference observed in (a)(i). [4]
- (b) Explain the possible relationships between monthly wages and work experience. [4]
- (c) To what extent does an increase in education levels improve the standard of living in an economy? [8]
- (d) (i) Explain the term positive externality. [2]
- (ii) Discuss whether education subsidies in the USA and Singapore should be adjusted to better achieve the governments' micro-economic objectives. [10]

[30 Marks]

Question 2

Extract 5: The UK Economy

There is a danger Britain's long-awaited recovery once again be built on debt-fuelled, unbalanced growth. In June 2010, plans were made to cut the annual government deficit by nearly \$180 billion over the next five years, with the belief that sharp budget cuts - even during a recession - could restore market confidence in Britain's future. But in July 2011, the Bank of England again announced that it intended to extend its 'quantitative easing' (QE) programme by pumping in a further £75 billion, on top of the £200 billion programme initiated in early 2009.

Boardroom bosses may be feeling a warm glow, as the International Monetary Fund upgraded its forecast for growth in 2013, albeit to a measly 0.9%. Yet there is little sign in the hard data that the economy has turned the corner.

The chancellor, George Osborne, is hoping for a powerful revival in exports to help build up a more sustainable business model for the country but it is hard to detect much sign of it so far. Neither do companies appear to be making rapid inroads into profitable new markets. The list of top 10 destinations for UK exports looks depressingly familiar - with more goods dispatched to Belgium (population 11 million) during May than to the vast, fast growing, market of China (population 1.3 billion). Industrial change on the scale the government aspires to - from a spendthrift, consumer-led economy to an exporting powerhouse that can, "pay its way in the world," as Osborne puts it - was always going to take time.

Low interest rates and a cheap pound should help; and last week's statement from the Bank of England shows it is determined to keep both of those things in place for the time being. But the economies of the euro zone are likely to remain weak for the foreseeable future. And rock-bottom interest rates are not without risks. They work partly by punishing saving and encouraging borrowing.

Source: *The Guardian*, 9 July, 2013

Extract 6: The Greek Economy

Although everyone is an expert on Greece these days, it seems that they have missed the fact that the country had in the 1980s tried the path of expansionary fiscal policies and successive competitive devaluations. The result was average growth rate of 0.75% over the decade, average inflation at about 20%, interest rates at 33%, quadrupling of public debt and deficits of up to 16% of GDP.

Greece's main problem is not austerity, but uncertainty. For as long as Greeks and Europeans alike do not provide a definitive and convincing answer to the question of whether Greece will remain part of the eurozone and the EU, GDP will keep contracting and unemployment will be rising. Greece's dominant tourism industry and exporters simply cannot recover by lowering prices and wages. It has to be done by devaluation and therefore they need to leave the euro and introduce their own currency.

But even devaluation cannot solve the deep-seated problems of the Greek economy, namely, public finance mismanagement, over-reliance on public and private consumption, lack of medium and large export-oriented enterprises as well as an unbelievably weak administrative capacity.

Source: CNBC, 5 September 2012

Extract 7

How plausible are sightings of an economic recovery on the horizon for Greece? The European Commission forecasts a modest return to growth, of 0.6%, in 2014. The jobless rate has reached 27.2%, the highest in Europe. Pay has fallen sharply following a 22% cut in the minimum wage. Yet lower incomes are being squeezed by higher taxes.

Can exports help to restore growth? Two-thirds of the competitiveness lost in the decade before the crisis has been regained. That will help. But the outlook for goods exports (which account for nearly half of Greece's trade) is hindered by the weak euro area. What could transform the outlook is a surge in foreign investments. However negotiating Greek bureaucracy is a headache, though some failings are already being tackled. Export procedures are being simplified, halving the number of days that goods are stuck at ports. The time taken for a ship to be registered has been cut from seven months to ten days.

A litmus test will be the privatisation programme, which matters less for the revenues it will raise than for the wider opening-up of the economy it signals.

Source: *The Economist*, July 4, 2013

Table 5: Selected Economic Indicators

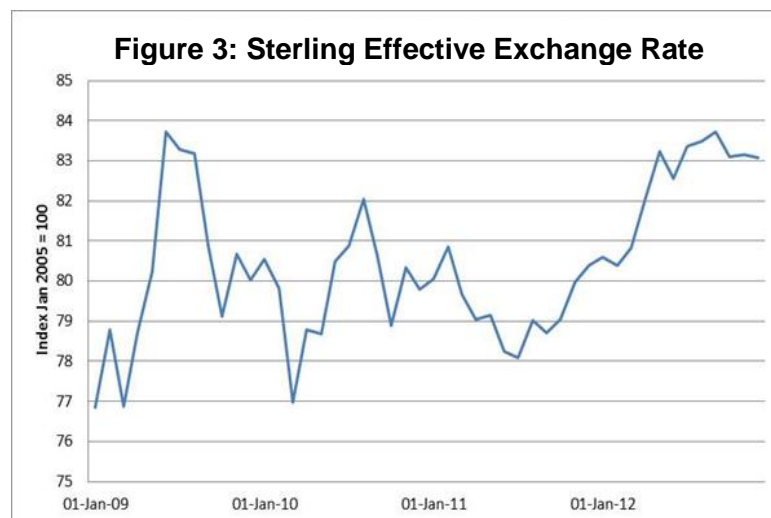
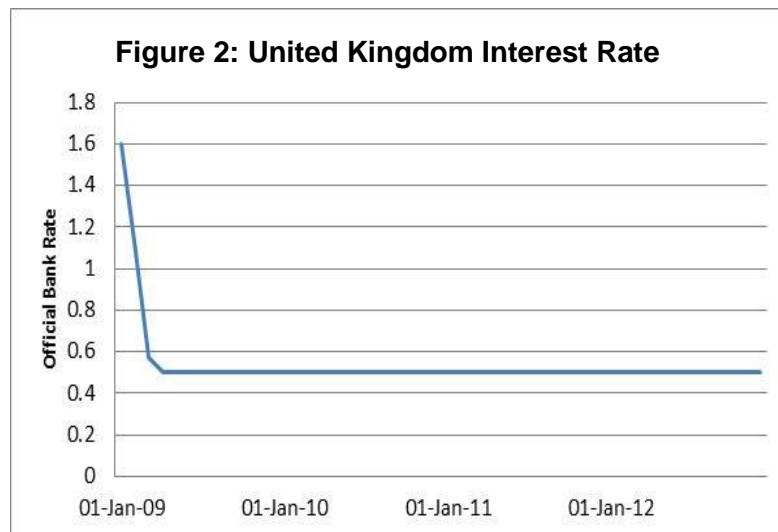
	Greece				UK			
	2009	2010	2011	2012	2009	2010	2011	2012
Real GDP growth (Annual %)	-3.1	-4.9	-7.1	-6.4	-4.0	1.8	1.0	0.3
Inflation Rate (%)	1.2	4.7	3.3	1.5	2.2	3.3	4.5	2.8
Unemployment Rate (%)	9.4	12.5	17.3	19.4	7.5	7.9	8.0	8.0
Current account (US \$ billion)	-\$35.91	-\$30.27	-\$28.58	-\$8.62	-\$37.05	-\$75.29	-\$32.76	-\$90.37
FDI (Net Inflows) (US \$ billion)	\$2.76	\$0.5	\$1.09	\$2.87	\$4.06	\$61.33	\$36.24	\$55.56
Labour productivity (% change)	- 4.9	-3.3	- 2.7	2.4	- 3.2	1.2	1.6	-2.7
Government Debt (% of GDP)	129.3	147.9	170.6	158.5	68.1	79.4	85.4	90.3

Source: The World Bank

Table 6: Components of GDP (%), 2012

	Greece	UK
Composition	%	%
Private Consumption	74	66
Gross Fixed Capital Formation	14	14
Government consumption	18	22
Exports of Goods and Services	27	32
Imports of Goods and Services	-33	-34

Source: The World Bank



Source: Bank of England

Questions

- (a) (i) In which year were consumer prices highest in Greece? [1]
- (ii) Calculate UK's real interest rate in 2012. [1]
- (b) To what extent were the changes in UK exchange rates affected by changes in its interest rates? [5]
- (c) (i) Compare the change in the balance on current account between Greece and UK from 2009 to 2012. [2]
- (ii) Identify and explain one reason for the difference observed. [3]
- (d) Given their current economic conditions, assess whether "exports can restore growth" in Greece and UK. [8]
- (e) To what extent does the evidence show a need for increased government involvement in both economies? [10]

[30 Marks]

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Section B

Answer **one** question from this section.

- 3** Analysts predicted that political instability in the Middle East and a possible recession in the European Union would result in greater price volatility in the oil markets.

Source: The Straits Times, 16 Feb 2013

- (a) Explain why prices fluctuate more significantly for some goods and services than others. [10]
 - (b) Discuss the usefulness of price elasticities to producers and governments to help them achieve their economic goals. [15]
- 4** (a) Explain how a high inflation rate can affect the economic performance of a country. [10]
- (b) To what extent is a reduction in government spending the best way to tackle the problem of rising inflation? [15]

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