Name:		Index Number:		Class:	

DUNMAN HIGH SCHOOL
Preliminary Examination
Year 6

Economics

8819/1

Higher 1
Section A Case Study
Section B Essay

25 September 2013
3 hours

Additional Materials:
Writing Papers

PLEASE READ THE FOLLOWING 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.

Please start on a fresh sheet of paper for a new question.

Section A
Answer **all** questions.

Section B
Answer **one** question.

At the end of the examination, fasten all your work securely into three separate bundles, one for each question.

The number of marks is given in brackets [ ] at the end of each question or part question. Circle the question number you have attempted in Section B.

Section A		Section B	
Q1	Q2	Q3	Q4

This document consists of **8** printed pages including this cover page.

[Turn over

Section A

Answer **all** questions in this section.

Question 1 Disasters across Southeast Asia

Extract 1: Thai Prime Minister to Take Command of Flood Control Efforts

The Prime Minister said that she would take direct command of flood control in Thailand as criticism of the government mounted after days of conflicting messages. The continued confusion added to analysts' fears that Thailand's performance and a lack of adequate infrastructure to handle flooding would lead to a long-term loss of foreign investment.

With more than 300 lives claimed and about 14,000 companies employing more than 600,000 workers forced to shut down, Thailand's floods have brought steep costs not only to the country's own economy but also to foreign investors and export markets, principally Japan. Being the leading exporter of computer disk drives, the floods were expected to cause a temporary worldwide shortage. Its automotive industry, the biggest in the region, is also one of the hardest hit industries.

Although most factories are expected to reopen, analysts said the harshest long-term toll of the floods would be to Thailand's reputation as a stable and reliable home for foreign investors. In a survey compiled before the floods, the World Bank ranked Thailand, despite last year's political turmoil, as the world's 17th most attractive country to do business.

To salvage its reputation, the government will have to spend heavily on a system of canals and set up an efficient flood control system, a good that cannot be confined to those who have paid for it.

Adapted from *New York Times*, 21 October 2011

Table 1: Statistics for Thailand 2008 – 2012

	2008	**2009**	**2010**	**2011**	**2012**
GDP (constant 2005 US$, billions)	199.5	194.9	210.1	210.3	223.8
Components of GDP (% of GDP)	%				
Private consumption expenditure	56.0	54.8	53.7	55.6	52.7
Government consumption expenditure	12.3	13.4	13.0	13.3	13.2
Gross fixed capital formation	27.4	24.1	24.7	26.3	28.0
Exports of goods and services	76.4	68.4	71.3	76.9	78.0
Imports of goods and services	73.9	57.8	63.9	72.4	75.3
Net inflows of foreign direct investment (% of GDP)	3.1	1.8	2.9	2.3	2.4

Source: *World Bank*, 2012

Extract 2: Food Price Inflation – Slaying the Hydra

Catastrophic flooding and crop losses in Thailand, the world's leading rice exporter, are raising concerns that another food crisis may loom. There are worrying signs that food price fluctuations are now taking place within a much higher bandwidth than before. When food prices rise, it will reduce families' expenditure on other goods and services such as healthcare and education, especially for Asia's poor, who already spend 60 percent of their household budget on food.

Much of the sharp increase in the region's food prices is due to production shortfalls caused by extreme weather events – such as droughts and floods across Southeast Asia like Thailand, Cambodia, Laos, Philippines and Vietnam – and subsequent export bans by some food-producing countries. Growing appetites for grains, oil, seeds, sugar and livestock in emerging economies such as China and India are exerting further upward pressure on supply. And then there is high oil prices, which raise costs at almost every step of the food supply chain, from fertiliser and animal feed, to fuel for bringing food from the farm to the kitchen table.

With persistently high and volatile food prices here to stay, what are policymakers to do? There are some levers policymakers can pull, including a broad range of supply-side policies to reduce bottlenecks in commodity-based industries, reduction of trade barriers between countries – to counter local food shortages through imports from surplus producers, and increasing productivity.

Adapted from *The Straits Times*, 29 October 2011

Extract 3: Singapore Vulnerable to Global Price Rises

Singapore imports more than 90 percent of its food and is, therefore, vulnerable to global price increases. Hence it has always adopted a strategy of source diversification – that is, to import from various food sources. This helps to ensure a resilient supply of food, and, to a certain extent, minimise volatility in food import prices caused by short-term supply shortages.

Last year, Singapore imported 310,135 tonnes of rice. Some 53 percent came from Thailand, 26.2 percent from Vietnam and 13.8 percent from India. The rest came from countries such as Myanmar, the United States and China.

Since April last year, the Monetary Authority of Singapore has allowed the Singapore dollar (SGD) to appreciate against the currencies of our major trading partners, which has helped to dampen the rise in prices of our food imports. However, DBS economist cautioned that the strong SGD could have played a significant part in July's poor figures, where electronics exports dived 16.9 per cent in July from the same month last year.

Adapted from *The Straits Times*, 15 and 18 August 2011

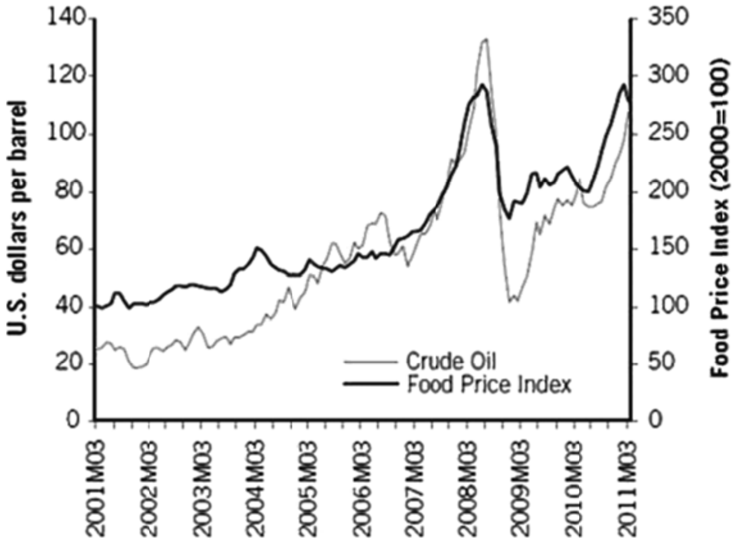
Extract 4: The Slow and Steady Way to Grow

Amidst the slow projected economic growth between 1 per cent and 3 per cent next year largely due to problems in Europe and the United States, inflation in Singapore will continue to be high. The high inflation is fuelled by persistently high prices of commodities, higher prices of cars and housing as well as higher wage demands due to tight labour markets.

Said DBS economist, "Every economy and country has physical limits, especially for a small economy like Singapore**.** There is only so much that technological innovation and the Internet can do to push Singapore's production frontiers."

Adapted from *The Straits Times*, 16 December 2011

Figure 1: Food and Fuel Price Trends, March 2001 – March 2011



Source: *World Bank*, April 2011

Questions

(a) Using Figure 1, compare the trend in food and fuel prices between March 2001 and March 2011. [2]

(b) With reference to Extract 1, explain why the Thai government must intervene in setting up infrastructures as such canals and flood control systems for a more efficient allocation of resources. [4]

(c) With reference to Extract 1 and Table 1, to what extent will the flood bring about harmful effects on the macroeconomic performance of Thailand? [6]

(d) **(i)** What is meant by price elasticity of demand? [1]

(ii) Comment on whether rising food price 'will reduce families' expenditure on other goods and services' (Extract 2). [3]

(e) Using supply and demand analysis, identify and explain reasons to account for the 'sharp increase in the region's food **price**s' (Extract 2). [6]

(f) As a consultant economist, what options would you present to the Singapore government in response to the high inflation in Singapore as described in Extract 4, and what would you recommend? Justify your answer. [8]

Question 2 Emerging Economies as Engines of Growth in the Global Economy

Extract 5: BRIC Economics as Future Powerhouses

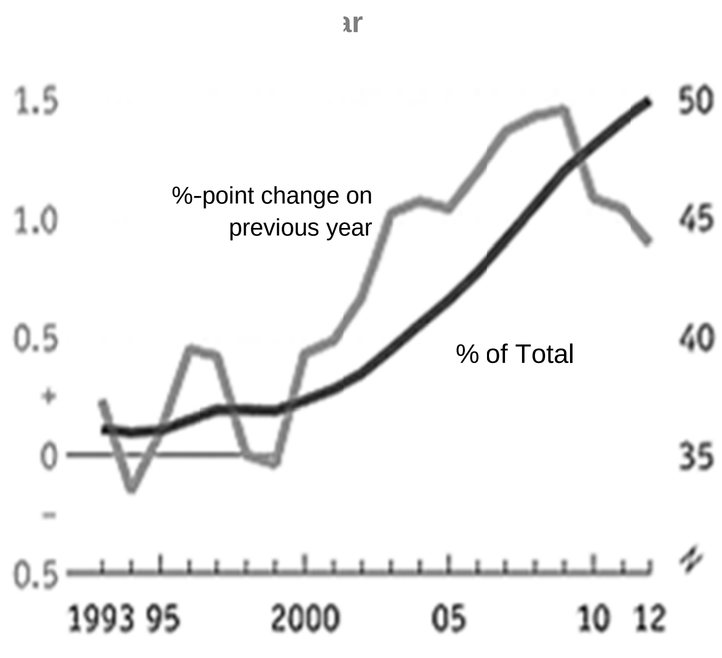
Following the global economic slowdown in 2009, emerging economies are leading the recovery with high rates of economic growth and increasing consumer demand. It is predicted that emerging markets will account for more than half of world GDP, according to the International Monetary Fund (IMF).

Among them, the four BRIC countries — Brazil, Russia India and China — are identified as the future economic powerhouses. These countries are propelling the global recovery as their economic growth rates exceed global averages. With the 42% of the global population that reside within them becoming more affluent and seeking higher living standards, the rise of the BRIC consumer will only become more marked over the next decade.

A new trend which has influenced the flow of goods and services is that of intra-BRIC trade. Previously, the BRIC countries were seen as the factories and commodity supplies to the world, but now they are working together as consumers and producers and trading with one another. Should we see a slowdown in the developed world, the BRIC countries are well-positioned to ride out the storm.

Adapted Source: *The Telegraph,* 11 Nov 2011

Figure 2: Emerging Market Share of World GDP



Source: *IMF Website*

Table 2: Real Economic Growth (Annual %)

	2009	2010	2011	2012
World	-2.2	4.0	2.8	2.2
Brazil	-0.3	7.5	2.7	0.9
Russia	-7.8	4.5	4.3	3.4
India	8.5	10.5	6.3	3.2
China	9.2	10.4	9.3	9.4

Source: *World Trade Organisation Website,* accessed on 7 August 2013

Table 3: Selected Economic Statistics, 2011

	Annual real % growth in GDP	GDP per capita at 2005 market price in US$	Total Trade as a % of GDP	Exports as % GDP	Imports as % of GDP
USA	1.8	43,063	32	14	18
Singapore	5.2	33,983	387	207	180
Brazil	2.7	5,721	25	12	13
India	6.3	1,107	54	24	30
China	9.3	3,348	67	31	37

Source: *The World Bank* Website

Extract 6: BRIC Nations Rocked by Aftershocks of Eurozone Crisis

The devastating slowdown in the European economies has shown that 'decoupling' – the idea that emerging countries would go on growing despite problems in the west -- is a myth. Plunging demand from the markets of Europe, many of which remain deep in recession, and collapsing global confidence in politicians' ability to stop the rot, has ruthlessly exposed the weaknesses of emerging markets.

The rupee plunged as investors take flight and head for the safety of the US dollar. China slowed most alarmingly. If the slowdown in its manufacturing output is serious enough to hit China's demand for imported oil, iron ore and industrial components, it could create problems for Brazil too.

Most analysts expect the radical shift of economic power from the west to the emerging markets to continue but as Europe and the US turn inwards to tackle their own crises, it could be a tough couple of years for the BRICs.

Adapted Source: *The Observer*, 24 June 2012

Extract 7: New-wave Economies Going for Growth

Economists say there are a number of key factors that will allow emerging countries to grow more quickly than the mature markets of the west. Firstly, they must have sound macro-economic policies, including control of inflation and budget deficits. Secondly, they must invest in human capital and improve their educational standards. Thirdly, they must be able to import new technologies from the west. Finally, they must have young and growing populations.

Source: *The Guardian*, 18 December 2012

Questions

(a) (i) Compare the growth rates of the BRIC countries between 2009 and 2011 in Table 2. [2]

(ii) Using Extract 5, explain how the growth rates in the BRIC countries affect the pattern of trade. [4]

(b) Comment on whether Table 3 and Figure 2 support the view that emerging economies will be the 'Engines of Growth in the Global Economy'. [6]

(c) (i) With reference to Table 3, which indicator would you use to assess the standard of living in a country? Justify your answer. [2]

(ii) Explain two other pieces of information that would be useful in assessing the standard of living in a country. [4]

(d) With reference to Extract 6 and using appropriate diagrams, explain why the rupee fell in value as investors took flight and headed for the safety of the US dollar. [4]

(e) Discuss the extent to which the factors highlighted in Extract 7 can help emerging countries sustain their economic growth. [8]

Section B

Answer **one** question from this section.

3 **(a)** Using the production possibility curve (PPC) diagram, explain the central economic problem that all societies have to address. [10]

(b) China is moving towards investment in clean technology and tradable pollution permits system. These policies also address rising concerns of China's air pollution blown eastward over to Japan.

Adapted from *Asahi Shimbun, AJW*, 4 February 2013 [15]

Discuss the view that tradable pollution permits is the best policy to correct China's air pollution problem.

4 There are gains from globalisation as world trade and global production networks create opportunities for Singaporeans and domestic firms. However, globalisation could potentially lead to an increase in unemployment.

Adapted from *The Straits Times*, 23 September 2010

(a) Explain the benefits of globalisation. [10]

(b) Discuss the policy options that the government can adopt to reduce unemployment in Singapore. [15]