ANGLO-CHINESE JUNIOR COLLEGE

2017 JC2 PRELIMINARY EXAMINATIONS

ECONOMICS **8819/01**

Higher 1

Paper 1

14 August 2017

3 hours

Additional materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name 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 / tape.

Section A
Answer **both** questions.
Begin each case study question on a **fresh** sheet of paper.

Section B
Answer **one** question.
Begin the essay question on a **fresh** sheet of paper.

At the end of the examination, fasten your answers for **each** question **separately** to the cover sheets provided.

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

This document consists of **7** printed pages.
Please check that your question paper is complete.

Section A

Answer **all** questions in this section.

Question 1

The Market for Higher Education

Table 1: Singapore government's expenditure per student (Singapore Dollars)

	2012	2013	2014	2015
Primary	7396	8549	9123	10,160
University	20,777	21,870	22,181	22,058

Source: Education Statistics Digest 2016, Ministry of Education

Extract 1: Singapore government's spending on higher education

There are compelling reasons to heavily subsidise higher education.

Firstly, there are private returns such as higher employability and wages as well as positive social returns to higher education, in terms of lowering poverty and crime rates. Societies that have better educated populations tend to have lower crime rates, enjoy greater social cohesion and a well-educated labour force that is needed for long-term economic development.

Secondly, there is a case for the government to intervene to ensure that there are equal opportunities. While it is generally feasible for individuals to fund their own tertiary education through loan schemes, the lower-income group may face credit constraints. Others may have heavy financial responsibilities that compel them to enter the labour market as soon as possible, rather than contemplate further education. Evidence also suggests that the lower-income group tend to underestimate the returns to education, due to lack of information and poor community role models. To encourage this group to take up higher education, the government provides financial assistance for higher education. There are also student and tuition fee loan schemes provided for the middle-income group at low interest rates.

The Singapore government has always invested heavily in education and will continue to do so in future, with greater emphasis on developing higher education. This requires a careful balancing between strategic considerations, equity, and efficiency.

Source: Singapore Budget, 2010

Extract 2: Reduction in subsidies for university education in the UK

A generation ago, students paid nothing for university education. In 2006, the fee cap for university education was £3,000. In 2012, the fee cap was raised further to £9,000. However, the vice-chancellor of Oxford University had recently expressed that the fee cap of £9,000 is insufficient to reflect the true cost of an Oxford degree at £16,000. Even with the raised fee cap, Oxford still faced an annual funding gap of £70 million. Moreover, Sir Christopher Snowden, president of Universities UK, says a £9,000 fee cap is still "not sustainable" for universities.

Universities UK will publish a report on the future of university financing. It will examine how universities will respond to rising birth rates, which means that the number of university places required will grow from 368,000 to 460,000. The cut in the level of government subsidies for universities will lead to students paying higher tuition fees but also eases the large government debt.

However, the government said these changes would put the higher education sector on a more sustainable footing. They believe the £9,000 fee allows universities to deliver high-quality teaching, with many institutions now planning to invest more in improved teaching facilities for students.

Adapted from BBC, 1 Nov 2013

Extract 3: Higher education benefits the UK economy

The higher education sector has significantly benefited the UK economy in many ways.

Firstly, international students studying in London bring in far more money than they use in public services. Students coming to study in UK universities from outside the EU pay an average of £12,000 a year for an undergraduate degree. A 2015 report from London First, an organisation representing London businesses, showed that international students in the capital used £540 million of public services such as the NHS (National Health Services), but brought in over £2.8 billion to the economy through tuition fees, spending and hosting family and friends coming to visit – a net contribution of £2.3 billion.

Secondly, four in ten young adults have a degree – and they can earn £9,000 more than those without a degree. The government's latest statistics show the employment rate for working-age graduates, aged 25-34, is 87.5% – the highest level since the end of 2007.

Thirdly, research collaborations between UK universities and business are worth more than £3.5 billion. There are currently 12,240 collaborative research projects between universities and businesses, including 368 in the arts and humanities, and 6,260 in engineering. The UK ranks fourth in the world for university-industry collaboration in research and development.

Source: The Guardian, 9 July 2015

Extract 4: Huge increase in number of graduates 'bad for UK economy'

The huge increase in number of graduates is bad for students and employers, suggests Chartered Institute of Personnel and Development (CIPD).

The government is being urged to end the political drive to get more people into university after research showed that the huge increase in the supply of graduates over the last 35 years has resulted in more occupations and professions being dominated by graduates. These include the banking, education, police and estate agency sectors in which jobs were mainly occupied by non-graduates in the past.

The CIPD said the notion of a tertiary education premium is being called into question by graduates' average debt of £44,000 and estimates that 45% of student loans would never be paid off. Noting that its research had shown more than half of the graduates take non-graduate jobs, the CIPD said the current system was not just bad for many of those who had been to university but also for non-graduates who were overlooked for jobs that did not require a degree.

Governments have been encouraging more and more students to pursue graduate qualifications. However, the research showed that for many graduates, the costs of university education outweigh its personal economic benefits. This is also undesirable for employers and the economy as mismatches, where graduates take up non-graduates' jobs, can be associated with lower levels of employee engagement and loyalty. Firms may then incur greater hiring and training costs. Lower levels of engagement will also undermine the government's attempts to boost productivity.

There is the need for a much stronger focus on creating more high-quality alternative pathways into the workplace, such as higher level apprenticeships. CIPD called on ministers to improve the quality of careers advice to ensure young people are better informed about their future careers; a shift in emphasis on apprenticeships to make quality of courses a higher priority.

Source: The Guardian, 11 October 2016

Questions

(a) With reference to Table 1, compare the government expenditure per student for primary and university education from 2012 to 2015. [2]

(b) With the aid of a diagram and using demand and supply analysis, explain two reasons for the expected increase in UK's university tuition fees. [4]

(c) **(i)** With the aid of a diagram and with reference to Extract 1, explain how social outcomes associated with higher levels of educational attainment can lead to market failure. [6]

(ii) Comment on whether Singapore should follow the UK's cut in subsidies for university education. [6]

(d) **(i)** With reference to Extract 4, explain how the increasing number of graduates is "bad for (graduate) students and employers". [4]

(ii) Discuss the view that the huge increase in number of graduates is undesirable for the UK economy. [8]

[Total: 30]

Question 2:

Imbalances in the United Kingdom and China economies

Table 2: GDP Composition breakdown by percentage in 2015

	China	UK
Consumption Expenditure	37%	65%
Government Expenditure	14%	19%
Gross Capital Formation	45%	17%
Export Revenue	22%	28%
Import Expenditure	18%	29%

Source: World Bank

Extract 5: Is the game up for China's much emulated growth model?

From the early 1990s, China adopted an export-led strategy that delivered continuously increasing shares of the world market, fed by relatively low wages and very high rates of investment, enabling massive increases in infrastructure. It led to big increases in inequality and even bigger environmental problems, but the strategy seemed to work – until 2008-09, when exports were hit by the global financial crisis.

Yet even then, China, India and other large emerging markets continued to grow. The talk at the time was that they were already dissociated from the west. In reality, China (and much of developing Asia) had simply shifted to a different engine of growth without abandoning the focus on exports. The Chinese authorities could have generated more domestic demand by stimulating consumption through rising wage shares of national income, but this would have threatened their export-driven model. Instead they put their faith in investments to keep growth rates buoyant.

So the "recovery package" in China essentially encouraged more investment, which was already nearly half of GDP. Provincial governments and public sector enterprises were encouraged to borrow heavily and invest in infrastructure, construction and more production capacity. To utilise the excess capacity, a real estate and construction boom was instigated, fed by lending from public sector banks. Total debt in China increased fourfold between 2007 and 2014, and the private debt-GDP ratio nearly doubled to more than over 280%.

All this comes in the midst of an overall slowdown in China's economy. Exports fell by around 8% in 2014. Stimulus measures such as interest rate cuts do not seem to be working. As such, the recent devaluation of the yuan is clearly intended to help revive the economy.

However, it will not really help. Demand from the advanced countries – still the driver of Chinese exports and indirectly of exports of other developing countries – will stay sluggish. Meanwhile, China's slowdown infects other emerging markets across the world as its imports fall even faster than its exports.

A weaker yuan is bad news for export-oriented economies like Singapore, Hong Kong, South Korea and Taiwan as their exports will be more expensive to Chinese buyers. Their exports to other countries will also have to compete against Chinese rivals who have the advantage of a weaker currency.

This is not the end of the emerging markets, but is – or should be – the end of this growth model. Relying only on exports or debt-driven bubbles to deliver rapid growth cannot work for long. For developing countries to truly “emerge”, a more inclusive strategy is essential.

Sources: The Guardian, 23 August 2015 and The Straits Times, 7 January 2016

Extract 6: New economic crash fears as British families run £40 billion deficit.

British families are on course to spend £40 billion more than they earn this year, fuelling fears that the country’s economic growth is based on soaring levels of debt and could easily collapse.

The forecast by the independent Office for Budget Responsibility (OBR) led to warnings that the UK could be heading towards a credit crunch similar to that of 2008 because of unsustainable levels of borrowing and household spending.

Five years ago, UK households were comfortably not in debt, running a surplus of £70 billion as Britons tightened their belts in the wake of the financial crash and put money aside to save.

But the new OBR figures show households are now deeply in debt, as growing economic confidence has led to a national spending spree. There is a real risk that millions of families will face serious hardship if interest rates start to rise.

A Bank of England study found that the average mortgage debt in Britain rose from £83,000 in 2014 to £85,000 this year. Unsecured debt, which includes credit card charges, personal loans, student loans and utility bills, stands at around £8,000 per household.

Source: The Independent, 21 December 2015

Extract 7: UK trade deficit widens to four-year high.

UK’s trade deficit last year was the widest since the alliance of political parties came to power, dealing a blow to the government’s drive to rebalance the economy away from consumer spending.

Forecasting the outlook for this year, economists said exports would come under pressure from a stronger pound and a slowdown in important markets, especially the UK’s main trading partner, the Eurozone.

The Eurozone remains unlikely to see much of an acceleration in growth in 2015, particularly given the uncertainty being generated by the prospect of a Greek exit from the single currency area. In addition, economic expansion is expected to continue cooling in China over the medium term, weighing down on export prospects there.

Chris Leslie, the shadow chancellor, said: “Britain needs a serious strategy to help exporters – this means redoubling efforts to boost productivity, tackling infrastructure obstacles, addressing the skills deficit and ensuring innovators can access the funds they need.”

Source: The Guardian, 6 February 2015

Table 3: UK Government debt (percentage of GDP)

Year	2010	2011	2012	2013	2014	2015
Government debt (% GDP)	76.0	81.6	85.1	86.2	88.1	89.0

Source: IMF

Questions

(a) **(i)** With reference to Table 2, which component of GDP contributed the most for UK and for China in 2015? [2]

(ii) With reference to Extract 5 and 6, account for your answer in a(i). [4]

(b) Explain what determines the impact of a devaluation in Yuan on a Chinese exporting firm's revenue. [4]

(c) With reference to Extract 5, explain how an interest rate cut could have helped to revive China's economy and suggest one possible reason why it did not work. [4]

(d) With the help of an AD/AS diagram, explain why attempting to increase consumption in China would "threaten their export-driven model". [6]

(e) With reference to Extract 6, explain how households' standard of living in the UK may be affected if interest rates were to rise. [2]

(f) Assess the effectiveness of the UK government's proposed strategy of boosting exports to reduce the trade deficit. [8]

[Total: 30]

Section B

Answer **one** question from this section.

Begin this section on a **fresh** sheet of paper.

3 **(a)** Explain the demand and supply factors that affects the price of alcohol. [10]

(b) Discuss the view that governments should ban the consumption of alcohol. [15]

4 **(a)** Explain the main causes of high inflation rates in Singapore. [10]

(b) Discuss whether fiscal policy is the best policy for the Singapore government to achieve low and stable inflation rates. [15]