TAMPINES MERIDIAN JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION

H2 ECONOMICS **9570/01**

Paper 1 **12 September 2023**

2 hours 30 minutes

Additional materials

Two Answer Booklets

READ THESE INSTRUCTIONS FIRST

Write your name and Civics Group on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, glue or correction fluid.

Answer **all** questions.

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

Begin Question 1 and Question 2 on a **new** answer booklet.

Hand in Question 1 and Question 2 **separately**.

Answer **all** questions.

Question 1: Global warming and the ice cream industry

Extract 1: US ice cream industry sees bright future ahead

The ice cream category saw sales increase less than 1% to US$6.79 billion in US multi-outlets for the year 2022, according to Chicago-based Information Resources Inc. (IRI) data (Table 1). An increase in sales is positive news as this category suffered a decline in sales during the prior year.

Table 1: US ice cream sales, 2022

Product	Dollar sales		Unit sales	
	(million US$)	% change vs. year ago	(million)	% change vs. year ago
Ben & Jerry's	$917	- 3.1%	182	- 10.5%
Haagen Dazs	$785	9.9%	168	2.4%
Blue Bell	$657	4.5%	126	- 4.8%
Breyers	$498	- 0.7%	120	- 4.1%
Tillamook	$251	19.4%	52	21.6%
Category total*	$6 789	0.2%	1 629	- 4.5%

*Includes brands not listed

Source: IRI, for the 52 weeks ending 4 September 2022

On an individual dairy processor basis, Tillamook had the best year. According to IRI, its dollar sales increased by more than 19% to US$251 million.

"Our ice cream business has been very successful and has grown enormously over the past few years. Although our organisation is over 110 years old, it is only recently that we have expanded our ice cream distribution outside Pacific Northwest, and that has been the biggest driver of our growth in the last year," Ty Holden, assistant category growth manager, Tillamook County Creamery Association, tells *Dairy Foods*. "We know that we make the best ice cream (due to adding extra cream), so our focus is making it available to as many people as possible by expanding into new regions, channels, and retailers. In the future, we will continue to grow by increasing our assortment with exciting new flavors and by introducing new formats and platforms that reach incremental consumers."

"Just like many other ice cream brands, despite supply-chain disruptions that had many businesses scrambling for inputs such as raw materials and labour, we saw an increase in consumption during the height of the pandemic as people spent more time at home as ice cream shops and other public venues were closed. Everyone loves ice cream. It's nostalgic and delicious and great to share with loved ones, so it wasn't surprising to see demand spike during such a time that was difficult for so many people," reveals Holden. "As things have slowly returned closer to normal, we have seen some of that demand drop from the pandemic's peak levels. However, demand is still well above pre-pandemic levels, and we only expect it to keep growing," adds Holden, echoing similar sentiments from other ice cream processors.

Source: Dairy Foods, 22 November 2022

Extract 2: Japan's heat will impair Olympic athletes' performance

The Tokyo Games that are postponed from 2020 because of the COVID-19 pandemic are scheduled to run from 23 July to 8 August 2021.

According to a report, there are concerns about the climate in the run-up to the event. The mean annual temperature in the region has risen by 2.86 degrees Celsius since 1900 - three times as fast as the world average. In 2018, a July heatwave was called a natural disaster by Japan's weather agency, while in 2019 more than 5000 people were hospitalised in around a week because of similar weather conditions.

Mara Yamauchi, who competed in the marathon for Britain at the 2008 and 2012 Olympics, backed the report. She said: "We risk potentially far-reaching consequences for sport as we know it if climate change continues apace. "We can all do our bit, even in a small way, to mitigate the effects of climate change arising from greenhouse gas emissions due largely to the burning of fossil fuels for energy, and conserve sport and the Olympics in viable forms for future generations."

Along with the marathon being moved to Sapporo, organisers have looked at other options such as cooling mist machines and surfacing roads along the route with a heat-reducing reflective material. "There will be cooling stations not just for human beings but also for horses," Games delivery officer Hidemasa Nakamura said. "For volunteers, we have salt candies, tablets and ice cream."

And as temperatures soar, so do sales of a snack for which the Japanese notoriously have a sweet spot — ice cream. Baskin-Robbins is even bringing back a crowd favourite perfectly timed with the Tokyo 2021 games: the Gold Medal Ribbon ice cream.

Source: BBC News, 26 May 2021

Extract 3: Serving up Aussie ice cream to the world

The Australian government is helping Australian-made ice cream reach taste buds around the world, with record exports worth A$46 million in 2020-2021. The A$72.7 million Agribusiness Expansion Initiative is supporting Australian exporters, including ice cream makers and dairy producers, to reach new international markets.

Minister for Trade, Tourism and Investment, Dan Tehan said Australia was recognised as a world-leading producer of premium dairy products. “A cold ice cream on a hot summer's day is one of life's simple pleasures, and one we're exporting to the rest of the world,” Mr Tehan said. “Our grass-fed cows produce high-quality cream and milk, so it's no surprise that international customers are lapping up our ice creams and dairy products. Australian dairy farmers are overcoming challenges posed by the pandemic and global trade settings, and the Australian Government is right behind them as they display their wares to the world and in turn support more jobs across Australia.”

Australian dairy company Bulla Dairy Foods doubled its exports to Malaysia in 2020 and employed an additional 200 people to meet the demand for its products both domestically and overseas. Bulla International Business Manager Sam Zhang said: “Our international growth has no limit. Austrade[1] has been and will be pivotal to our export business. They've helped us find new customers and sell on major platforms.”

However, Australia has not just made a name for itself internationally as a producer of premium dairy products; it also has one of the world’s highest skin cancer rates – a result of ultraviolet radiation due to the reduction in its ozone layer since the 1970s. The growth of Australia’s exports leaves a carbon footprint, as do its 28.8 million methane-belching cows; the milk of which Australia’s dairy products owe its premium Aussie taste to.

And in the meantime, while Australia’s dairy products experience a boom, its minerals industries have somewhat lost their shine as competition in world markets intensifies, often from countries with previously insignificant minerals industries. With the world catching up on mining technology and stricter regulations on mineral extraction due to its environmental damage, staying competitive has become more challenging.

Sources: Various

[1] The Australian Trade and Investment Commission—Austrade—promotes Australian trade, investment, tourism and education to the world

Questions

(a) Using Table 1, explain why the demand for Blue Bell's ice cream is likely to be price-inelastic. [3]

(b) Explain how the production of fossil-fuel-generated energy can be a source of negative externalities. [2]

(c) "And as temperatures soar, so do sales of a snack for which the Japanese notoriously have a sweet spot — ice cream." (Extract 2)

Using a demand and supply diagram, explain the role of prices in restoring equilibrium in the Japanese ice cream market when 'temperatures soar'. [5]

(d) Using an example, explain a benefit to an Australian ice cream maker of producing on a larger scale for international markets. [2]

(e) With reference to Extract 1, discuss the factors that Tillamook would have considered in its decision to add extra cream in its production of ice cream during the pandemic. [8]

(f) International trade can have both positive and negative effects on a country.

Using the theory of comparative advantage, discuss how engaging in international trade might affect Australia's living standards. [10]

[Total: 30]

Question 2: Economic challenges arising from external imbalances

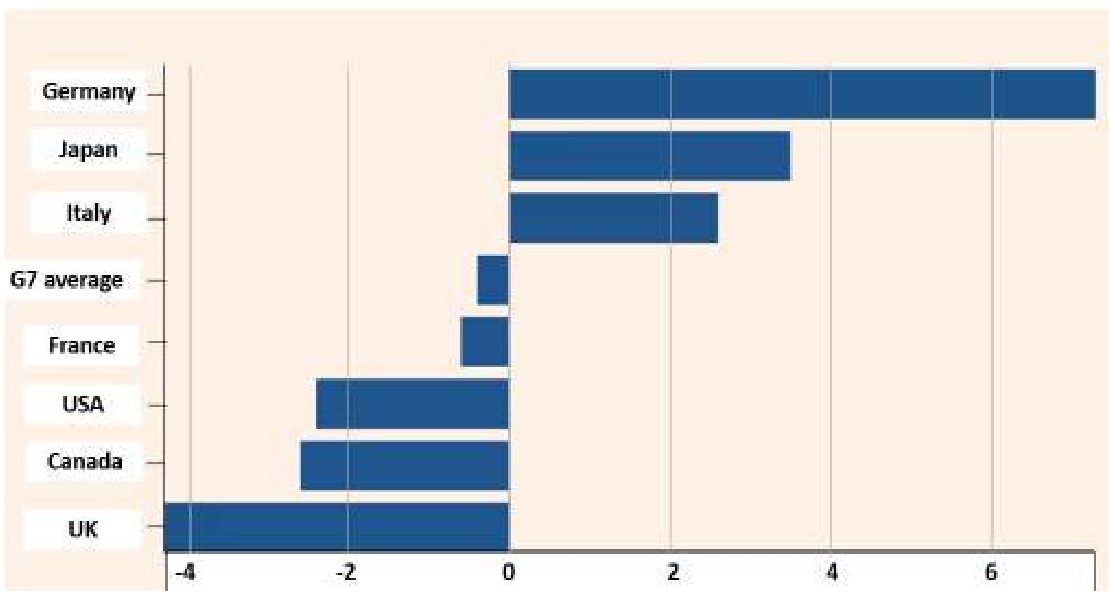
Extract 4: Current account imbalances

Excessive current account balances – both deficits and surpluses – pose risks for individual countries, and for the global economy. Economies that borrow too much from abroad by running current account deficits that are too large may become vulnerable to sudden stops in capital flows that can be destabilising not only at the country level, but also globally, as proven by the long history of financial crises. Countries with large current account deficits should therefore reduce fiscal deficits and encourage household saving. They should also undertake reforms that improve productivity and workers' skill base.

On the other hand, countries with excessive surpluses face different challenges, as they may become targets for protectionist measures by trading partners.

Source: Maurice Obstfeld, IMF Blog, 24 July 2018

Figure 1: Current account balance (% of GDP) in the G7[2] countries, 2018



Current Account Balance (% of GDP)

Source: The Office for National Statistics

Table 2: Current account balance, 2018 – 2022, US$ billions

	2018	2019	2020	2021	2022
UK	-117.321	-80.872	-86.613	-46.918	-170.439
Singapore	59.231	60.877	57.316	76.374	90.239

Source: International Monetary Fund

[2] Group of Seven (G7) countries consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States

Extract 5: Current account deficit of UK

The current account deficit which includes the UK trade balance and the net income from foreign investment and transfers deteriorated to a record 8.3% of GDP in the first quarter of 2022, as the country's imports far exceeded the value of its exports.

Some argue that a current account deficit is not a problem since it could be a sign of strength. If the UK is growing faster than its main trade partners, UK demand for foreign goods and services will be higher than foreign demand for UK goods and services. However, current account deficits also pose a risk. The deficit needs to be financed through capital inflows. These are recorded in the UK's capital and financial accounts, which completes the balance of payments (BOP) along with the current account.

With such a gap between the country's consumption and its production, the pound can only maintain its value if foreigners want to lend to Britain or buy up assets such as land, housing, or companies across the country. With the current account deep in the red and dependent on foreign funding, the UK needs to be seen as an attractive location for short term capital or foreign direct investments (FDI).

This could be a problem because investors are worried about the government's ballooning pile of debt. UK government borrowing surged as the public finances came under mounting pressure from rising debt-interest payments and the huge cost of subsidising energy bills for consumers and businesses as a result of surging energy imports following the war in Ukraine.

The UK had been running a capital and financial account surplus. If foreigners suddenly lost interest in UK assets the UK would be unable to fund its current account deficit. While an adjustment to the exchange rate could correct that, it would also fuel imported inflation and damage living standards.

Source: Financial Times, 21 September 2022

Extract 6: Impact of Brexit on UK's trade deficit and FDI

Brexit, the withdrawal of the UK from the trading bloc, European Union (EU) on 31 January 2020 has reduced UK trade openness, FDI inflows, and immigration growth.

The total annual trade balance in goods and services, excluding precious metals, widened by £85.3 billion to a deficit of £108 billion in 2022 compared with 2021.

The Office of National Statistics explained that several factors such as the UK leaving the EU and the Brexit transition period that followed, the COVID-19 pandemic and the subsequent supply chain disruptions, and the looming global recession have caused higher levels of volatility in trade statistics in the past two years.

While this negative impact on overall trade is consistent with pre-Brexit forecasts, a shift from EU to non-EU trade as predicted is not observed. This remains a puzzle, given the new non-tariff barriers to trade with the EU. Some analysts attributed this to a lack of competitiveness and low productivity causing UK's poor export performance.

Trade is not the only casualty of Brexit. For decades, the UK was a privileged gateway to the EU's Single Market, especially for American companies. They benefited from the combination of a stable business environment, world-class infrastructure and educational institutions, and ease of doing business. With higher costs of trade faced by businesses following Brexit, FDI project numbers in the UK declined by 17% between 2020 and 2021.

The effects of this shrinkage in trade, FDI, and immigration still remain to be seen and will depend on the UK government's response. Reduced trade openness can limit competition for domestic firms, hindering innovation. A less diverse workforce and lower FDI levels can also hamper productivity growth.

Since leaving the EU, the UK has negotiated and agreed to only two new trade deals – with Australia and New Zealand – and a new digital trade deal with Singapore, adding on to the extensive network of Free Trade Agreements (FTAs) and Digital Economy Agreements that the small and open economy driven by trade in goods and services as well as inward FDI, has forged.

Overall, the UK seems likely to be worse off than it would have been if it had not left the EU.

Sources: UK trade tracker & BBC news, accessed 16 June 2023

Extract 7: Current account deficit of Sri Lanka

The current account of Sri Lanka has historically been in deficit. On the other hand, Sri Lanka has seen capital and financial account surpluses, which had previously added some relief to the BOP situation.

The government sought to bring in foreign investment by employing measures such as providing tax incentives for investors who were putting money into projects inside the Colombo Port City built by China. The government had to resort to such measures to restore investor confidence which had been shaken by the economic uncertainties surrounding the widening current account deficit. The surging BOP deficits and a floating exchange rate resulted in the nation being unable to pay for basic supplies such as fuel, food, and educational materials.

While it is true that the COVID-19 pandemic resulted in economic pressures that were unprecedented, the policies adopted by successive governments also contributed to its current situation. The BOP crises were left unchecked for decades and the government aggravated the problems by pursuing ill-advised policies such as the sudden shift to organic farming where the government banned the import of synthetic fertilisers. The government had hoped that this would save the nation the US$400 million it had been spending annually to import synthetic fertilisers and pesticides over the last few years, but farmers in Sri Lanka could not afford the cost of organic farming after the ban, and the yield was much lower than expected. The production of rice, the key driver of growth in the country, fell by 20% in the next six months. Sri Lanka lost its self-sufficiency in rice production and had to import it from other countries.

Source: Soumya Bhowmick, The Asia Times, 19 October 2022

Questions

(a) With reference to Figure 1, compare the current account balances of the G7 countries in 2018. [2]

(b) Explain a possible problem (Extract 4) that Singapore could face as a result of its current account balances as shown in Table 2. [3]

(c) With reference to Extract 7:

(i) Explain how surging BOP deficits and a floating exchange rate could have resulted in Sri Lanka's inability to import basic supplies. [3]

(ii) Explain how an import ban on synthetic fertilisers and pesticides could possibly contribute to inflation in Sri Lanka. [4]

(d) The current account deficits experienced by the UK can be financed by creating capital inflows via their capital and financial accounts (Extract 5).

Assess the impacts that such capital inflows can have on the UK economy. [8]

(e) Discuss whether the UK should adopt supply-side policies rather than pursue free trade agreements to reduce its trade deficit. [10]

[Total: 30]

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