



# CATHOLIC JUNIOR COLLEGE

## JC2 PRELIMINARY EXAMINATIONS

In preparation for  
General Certificate of Education Advanced Level  
Higher 2

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### ECONOMICS

Paper 1

9732/01

13 September 2011

1300-1515

Additional Materials : Answer Paper

2 hrs 15 minutes

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### READ THESE INSTRUCTIONS FIRST

Write your name, class and question number 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 paper clip, highlighters, glue or correction fluid.

**Begin each case question on a new sheet of paper.**

Answer **ALL** questions.

At the end of the examination, fasten your work securely together.

Submit each case question **separately**.

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

Answer **all** questions.

### Question 1

#### Bus transport systems

##### Extract 1: Bus system in Singapore

The public transport system in Singapore consists of heavy and light rail systems, public buses and taxis. The rail and bus services are provided by two operators: SBS Transit Ltd and SMRT Corporation. These companies are run as private firms, within the maximum fares adjustments approved by the regulator, the Public Transport Council, with no direct operating subsidies from the government. The fares, advertisement and rental revenues earned by these firms thus cover operating and maintenance expenditure and depreciation. However, government funds the capital cost of public transport infrastructure.

The two companies are expected to deliver satisfactory bus services to meet the mobility needs of commuters. While provision of concessionary travel for students, senior citizens and national servicemen is mandatory, the shortfall in revenue is borne solely by the operators. All buses are diesel powered rather than petrol powered. Due to their higher efficiency and reliability, diesel engines are usually the dominant power source for heavy duty buses. Petrol pump prices include taxes while diesel pump prices do not, but diesel vehicles pay a diesel tax. However, buses are exempt from paying this diesel tax.

A bus monopoly can lead to deterioration of services and inefficiency, with the public suffering insufficient coverage, poor frequency, poorly maintained buses affecting safety and comfort or even high fares. The two companies are now two mutually-exclusive monopolies created by artificially carving up the market into non-competing segments, except in the popular destinations such as the city. It merely broke up one natural monopoly into two smaller monopolies. There is only a limited amount of cross-territorial competition.

But, there may be sound economic reasons for granting the two bus operators the duopoly status for bus services. First, each large operator can enjoy better economies of scale. Second, this best protects the interest of commuters along unpopular routes (e.g. less densely populated estates). Currently, the companies run these routes at affordable fares because they have the ability to balance the profitable routes with the unprofitable ones.

Competition, however, is necessary to improve operational efficiency and quality of bus services. Wasteful competition has to be avoided and a balance must be struck somewhere in between. Ultimately, the decision should be one that does not put the commuters at a great disadvantage.

Source: A P G Menon, Low CK, "Lessons from Bus Operators", Land Transport Authority

##### Extract 2: Bus systems in England

The franchised, regulated London network is very different to the largely deregulated structure of bus service provision elsewhere in England. London Buses, owned by the government manages bus services in London. It plans routes, specifies service levels and monitors service quality. The bus services are operated by private operators. They work under contract to London Buses. This system is similar to the Singapore bus system.

Outside London, bus operators choose the routes and levels of service that they wish to provide on a commercial basis. Local authorities then determine where the gaps are and can choose to provide support for services to fill these gaps. Around 80% of bus services outside London are operated on a commercial basis. The remaining 20% are operated with support from local authorities, generally secured through a system of competitive tendering.

Source: London Buses, Transport for London

### Extract 3: Bus industry competition queried

The Office of Fair Trading released evidence that suggested anti-competitive behaviour may be leading to higher prices for users in England (except London). These include:

- The majority of local routes are operated by a small number of large bus companies, with prices high due to fear of price war or tacit collusion
- There were higher fares in areas where operators with a strong market position are not challenged by a large, well-resourced rival
- Many complaints alleged "predatory" behaviour by incumbent firms designed to eliminate competition from new entrants

So-called predatory tactics can include upping the frequency of buses to "crowd out" rivals or timing buses to run just in front and sometimes also just behind a rival's buses. Buses are also known to be altering their routes to pick up long queues on other routes. It also said bus groups could hit competition by cutting fares significantly or running buses for free, or by refusing to take part in multi-operator ticketing schemes to limit the scope for entry or expansion by smaller operators.

John Major, of the Confederation of Passenger Transport UK, which represents the bus industry, said they would be studying the report. "Bus companies operate in highly competitive local markets and it is always in our interests to keep prices competitive to attract passengers out of their cars and onto our services," said Mr Major. "There is a great deal of competition between bus operators, large and small, although the biggest competitor for the bus industry is the car."

Source: BBC News, 20 August 2009

**Table 1: Indices of Ridership (2000=100)**

Year	Bus Ridership outside London	Bus Ridership inside London	Bus Ridership in Singapore
2000	100	100	100
2001	98.5	105.5	100.9
2002	97.7	113.3	98.3
2003	96.0	125.5	92.0
2004	91.0	138.7	86.3
2005	92.0	142.3	85.5
2006	94.5	154.1	87.1
2007	96.1	168.8	90.2
2008	94.8	179.3	95.0
2009	94.1	178.9	93.7

Source: Various Sources

**Table 2: Fare adjustments from 2005 to 2008**

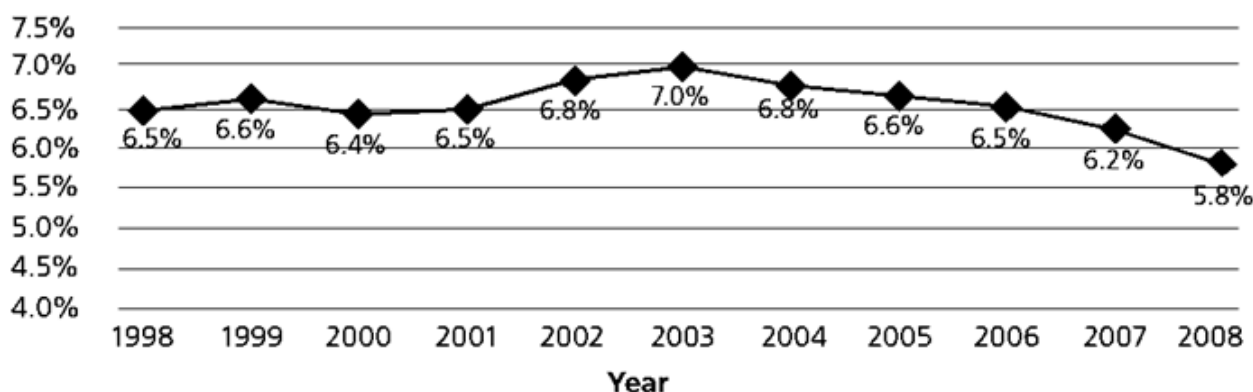
Year	2005	2006	2007	2008
Fare adjustment	2.4%	1.7%	1.1%	0.7%

Source: Public Transport Council

**Table 3: Household Income Changes from 2005 to 2008**

Year	2005	2006	2007	2008
Change (%)	4.9%	4.9%	10.1%	12.6%

Source: Singapore Statistics

**Figure 1: Monthly Public Transport Expenditure as a Percentage of Household Income**

Note: Fare revisions took place in 2000, 2001, 2002, 2005, 2006, 2007 and 2008

Source: Public Transport Council

**Questions**

- (a) Compare the changes in bus ridership between the three areas from 2000 to 2009. [2]
- (b) (i) Define price discrimination. [2]
- (ii) Explain whether the act of bus companies charging concessionary travel for students, senior citizens and national servicemen is an example of price discrimination. [4]
- (c) To what extent do Tables 2, 3 and Figure 1 support the view that bus travel is price inelastic in demand? [4]
- (d) In Extract 3, it was described that existing bus companies outside London conduct anti-competitive behaviour. Discuss the effectiveness of such behaviour in increasing the profits of bus companies. [8]
- (e) In light of the issues mentioned, discuss if Singapore should follow the policy of deregulation of the bus industry outside London. [10]

**[Total: 30]**

Answer **all** questions.

## **Question 2**

### **Trade in Asian Economies**

#### **Extract 4: WTO sees 9% global trade decline in 2009 as recession strikes**

The collapse in global demand brought on by the biggest economic downturn in decades will drive exports down by roughly 9% in volume terms in 2009, the biggest such contraction since the Second World War. Economic contraction in most of the industrial world and steep export declines already posted in the early months of this year by most major economies — particularly those in Asia — makes for an unusually bleak 2009 trade assessment, said the WTO.

“Many thousands of trade related jobs are being lost. Governments must avoid making this bad situation worse by reverting to protectionist measures which in reality protect no nation and threaten the loss of more jobs. We are carefully monitoring trade policy developments. The use of protectionist measures is on the rise. The risk is increasing of such measures choking off trade as an engine of recovery. We must be vigilant because we know that restricting imports only leads your trade partner to follow suit and hit your exports. Trade can be a potent tool in lifting the world from these economic doldrums. In London G20 leaders will have a unique opportunity to unite in moving from pledges to action and refrain from any further protectionist measure which will render global recovery efforts less effective,” Director-General Pascal Lamy said.

A notable aspect of the current slowdown in world trade is its synchronized nature. Monthly exports and imports of major developed and developing economies have been falling in unison since September 2008. With the growing share of developing countries’ trade in the global total, and increased geographical diversification of these flows, it was assumed by some commentators that a “decoupling”<sup>1</sup> effect would have made developing countries less vulnerable to economic turmoil in developed countries. This has not turned out to be the case.

Source: World Trade Organisation Press Release, 23 March 2009

#### **Extract 5: East Asia’s Small Edens of Trade Wilt as Need for Exports Dries Up**

As trade withers around the world and freighters sit empty at anchor, some of the most vulnerable economies are proving to be small, extremely globalised trading centers like Singapore, Hong Kong and Taiwan — and that is prompting a rethinking of their economic development strategies.

Half a century of swiftly growing exports, accompanied by an expansion into international services like finance, has transformed all three economies’ urban areas into some of the world’s most modern cities. But that progress has now been thrown into reverse with some of the world’s steepest plunges in economic activity. In all three, the ever rising wave of global economic troubles is known as the “financial tsunami”. But it is the collapse of exports, not financial markets, that is prompting questions about how to limit vulnerability in the future.

The standard policy prescription for most Asian countries in the current downturn is to build up domestic demand and reduce their dependence on exports for growth. But that may not be so easy. Stimulating consumption has long been difficult in East Asia, and seldom more so than when citizens are especially apprehensive of borrowing and worried about losing their jobs. Taiwan, Hong Kong and Singapore have the added problem of aging populations with strong traditions of saving a lot and consuming little.

<sup>1</sup>decoupling- the term refers to the situation that emerging economies will become less dependent of the economic performance of developed economies, such as the United States.

In the face of sharp slowdowns, large developed economies typically spend heavily on government stimulus programs, as the United States and Japan are trying to do. All three Asian economies are in fact trying some form of stimulus, but for them extra spending on roads and subways can easily translate into more imports of steel and other materials. In addition, their dependence on trade and opposition to protectionism make them reluctant to impose any version of the "Buy American" provision in the United States stimulus plan so as to keep more of the spending at home.

With multinationals running into difficulty, Singapore is shifting its strategy to luring more but smaller foreign investments from medium-size companies. It has also accelerated the construction of a government-financed town of facilities such as research labs, offices and apartments for the biomedical, materials sciences and new media industries, after putting the brakes on construction a year ago because of high steel and cement prices.

Small economies are trying in different ways to snuggle up to China, the last economy in East Asia that combines a large domestic market and a faint glow of growth. Taiwan is in the earliest stages of negotiating a free trade pact with the mainland, while Singapore signed one on Oct. 23 and Hong Kong has signed a series of six increasingly broad trade agreements with the mainland since 2003.

But few in the region now want to see further expansion of the role of exports in their economies. "The tsunami won't last forever, so we will still attach a lot of importance to exports," said President Ma of Taiwan. "But perhaps the percentage won't be that large."

Source: New York Times, 5 March 2009

**Table 4: GDP Growth (Annual %)**

	2006	2007	2008	2009	2010
Singapore	8.7	8.8	1.5	-0.8	14.5
Hong Kong SAR China	7.0	6.4	2.3	-2.7	7.0
Taiwan	5.4	6.0	0.7	-1.9	10.8
United States	2.7	1.9	0.0	-2.7	2.9

**Table 5: Current account balance (% of GDP)**

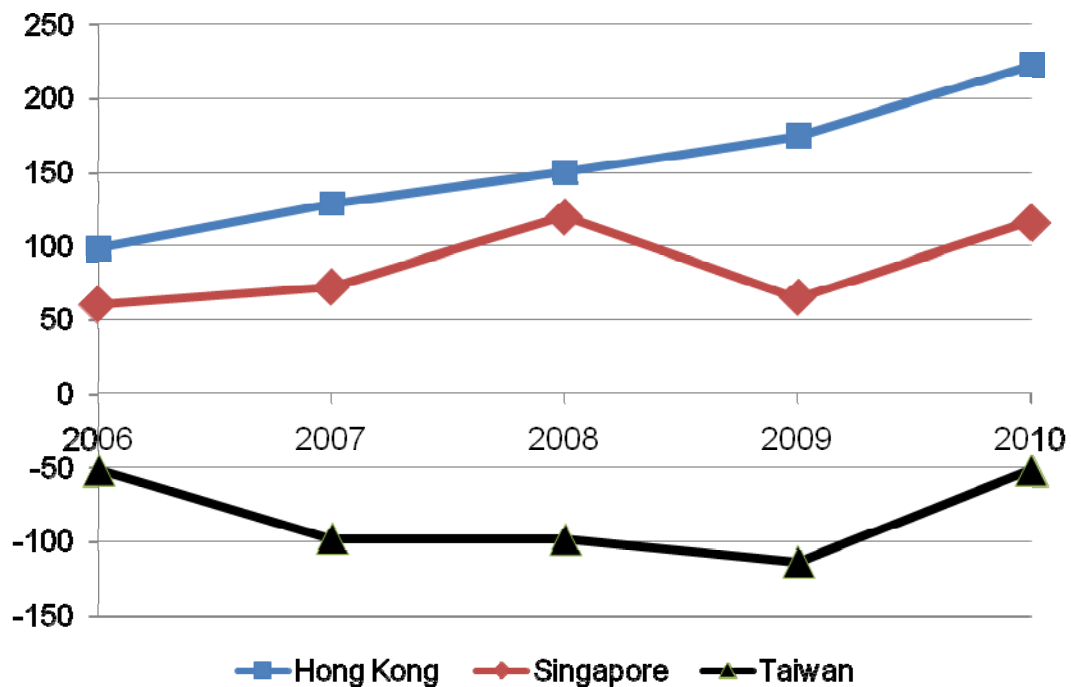
	2006	2007	2008	2009	2010
Singapore	24.8	27.3	14.6	19.0	22.0
Hong Kong SAR China	12.1	12.3	13.7	8.6	6.6
Taiwan	7.0	8.9	6.9	11.4	9.4
United States	-6.0	-5.1	-4.7	-2.7	-3.8

**Table 6: Exports (% of GDP)**

	2006	2007	2008	2009	2010
Singapore	234.8	218.6	234.3	198.7	211.1
Hong Kong SAR China	205.5	208.0	212.4	195.1	222.9
Taiwan	67.2	71.2	72.9	62.3	73.2
United States	10.8	11.7	12.8	11.1	12.5

Sources: World Bank & Australian Department of Foreign Affairs & Trade

**Figure 2: US trade balance with various countries (in nominal US\$, billions)**



### Questions

- (a) (i) Using Table 4, compare the trend of GDP growth of all countries from 2007 to 2010. [2]
- (ii) How far does the data support the case for decoupling? [4]
- (b) (i) Define Free Trade Agreements. [2]
- (ii) Using economic analysis, explain the case for small economies signing free trade agreements with China. [4]
- (c) Assess the effectiveness of 'Buy America' policy in tackling rising unemployment in the United States. [8]
- (d) As a member of the Economics Strategies Committee, discuss whether 'extremely globalised trading centers like Singapore' should rethink their economic development strategies. [10]

**[Total: 30]**





# CATHOLIC JUNIOR COLLEGE

## JC2 PRELIMINARY EXAMINATIONS

In preparation for  
General Certificate of Education Advanced Level  
Higher 2

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### ECONOMICS

9732/02

Paper 2: Essay Questions

1 September 2011

0800-1015

Additional Materials : Answer Paper

2 hrs 15 minutes

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### READ THESE INSTRUCTIONS FIRST

Write your name, class and question number 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 paper clip, highlighters, glue or correction fluid.

Answer **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from **either** Section A or Section B.

**Begin each essay question on a new sheet of paper.**

At the end of the examination, fasten your work securely together.

Submit each case question **separately**.

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

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This document consists of **3** printed pages.

Answer **three** questions in total.

### Section A

One or two of your three chosen questions must be in this section.

- 1 The H1N1 pandemic in 2009 has reduced the demand for travel. The volcanic eruption in Iceland has resulted in disruptions in airline traffic over Europe for many days. At the same time, inflation has led to rising wage calls across the global economy.

Assess the impact of the above events on related markets. [25]

- 2 ‘Barriers to entry enable firms to grow big to pursue market power. So a reduction in competition & a rise in consumer exploitation are inevitable in any capitalist economy.’

(a) Explain how barriers to entry affect the market power of firms. [10]

(b) Discuss whether it is in society’s best interest for firms to grow big. [15]

- 3 “The Cabinet has decided to develop two Integrated Resorts (IR) comprising museums, convention spaces, theme parks and casinos. The Singapore government continues to be involved in the development and operation of the IR, including the building up of infrastructure supporting the IR and controlling access to the casino.”

Adapted from PM Lee Hsien Loong Parliamentary Seating, 18 April 2005

(a) Explain the reasons why the government is involved with the development and operation of the IR. [10]

(b) Discuss the effectiveness of the government policies undertaken to ensure efficient allocation of resources in the case of the IR. [15]

### Section B

One or two of your three chosen questions must be in this section.

- 4 “The Economic Strategies Committee set up in May 2009 recommends that in order to grow our economy, we will need to do so not only through increased efficiency, but restructuring our economy to provide more room for rapidly growing and innovative enterprise.”

Ministry of Finance

Discuss whether this emphasis on supply-side policies is the reason why Singapore has remained relatively unaffected through this global economic crisis. [25]

- 5 Higher labor costs in China have prompted companies to move production to lower-wage countries like Bangladesh, Vietnam and Indonesia.

Financial Times, "China's Era of Cheap Goods Over", 24 March 2011

- (a) Show how changing factor endowments can affect a country's trading pattern. [10]
- (b) Assess whether free trade brings about greater benefits to large economies like China and Vietnam than small economies like Singapore. [15]

- 6 "So far the pace of recovery from the 2008-2009 recessions has been agonizingly slow, leading to jobless recovery in many economies. There is barely enough to absorb the monthly growth in the labor force and not nearly enough to offset the job losses that have occurred. Weak demand, rather than supply side troubles, is the primary cause of continued high unemployment."

The New York Times, 17 January 2011

- (a) Explain the various forms of unemployment. [10]
- (b) Discuss the relative effectiveness of demand-side policies and supply-side policies in tackling jobless recovery of the economy. [15]