National Junior College
Humanities Department (Economics)

Preliminary Examinations for General Certificate of Education Advanced Level
2008 JC2 H2 Economics (Syllabus 9732)

ECONOMICS **9732/1**

Higher 2

Paper 1 Case Study 27 August 2008

2 hour 15 min

Additional Materials: Answer Booklet / Paper

READ THESE INSTRUCTIONS FIRST

Write your name and subject 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.

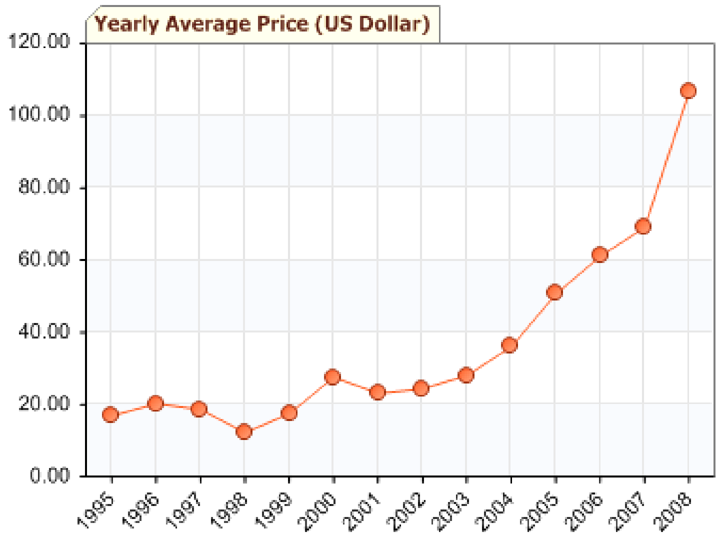
Answer **ALL** questions

The number of marks is given in brackets [ ] at the end of each question or part question.
At the end of the examination, fasten all your work securely with the cover page given.
Fill in the necessary information on the cover page.

You are reminded of the need for good English and clear presentation in your answers.

Case Study 1 – Answer ALL the Questions

Figure 1: Price of Oil (US$ per barrel)



Source : OPEC website www.opec.org

Table 1 : Price of Rice (Thai A1 super grade)

Year	2002	2003	2004	2005	2006	2007
Price of rice per tonne (US$)	150	151	207	219	217	275

Source: International Rice Institute Research website www.irri.org

Extract 1: Don't Panic, Don't Hoard And Don't Overbuy

"Don't Panic, Don't Hoard And Don't Overbuy." This message comes from Ms Sopan Manathanya, the vice-president of one of Thailand's top rice exporters. She is in Singapore on a 3-day visit to assure rice distributors here that Thai rice conglomerates like hers are taking steps to increase the number of crops harvested in a year and are also negotiating prices with farmers.

According to Ms Sopan, factors pushing up the price of rice include the growing number of farmers switching from producing rice to biofuels, weather conditions and higher overheads.

Source: Adapted from The New Paper, 29 Apr 2008

Extract 2: Targeted Price Controls in United Arab Emirates

A black market for rice has emerged in inflation-hit United Arab Emirates. An Abu Dhabi-based food trader said: "The price you pay a black market dealer could be as much as 20% more than what you pay normally."

The United Arab Emirates (UAE) government has reportedly tried to limit inflation through targeted price controls. This measure has pushed rice supplies off store shelves. As a result of this, people took to panic buying, thereby causing Thai rice prices to nearly treble.

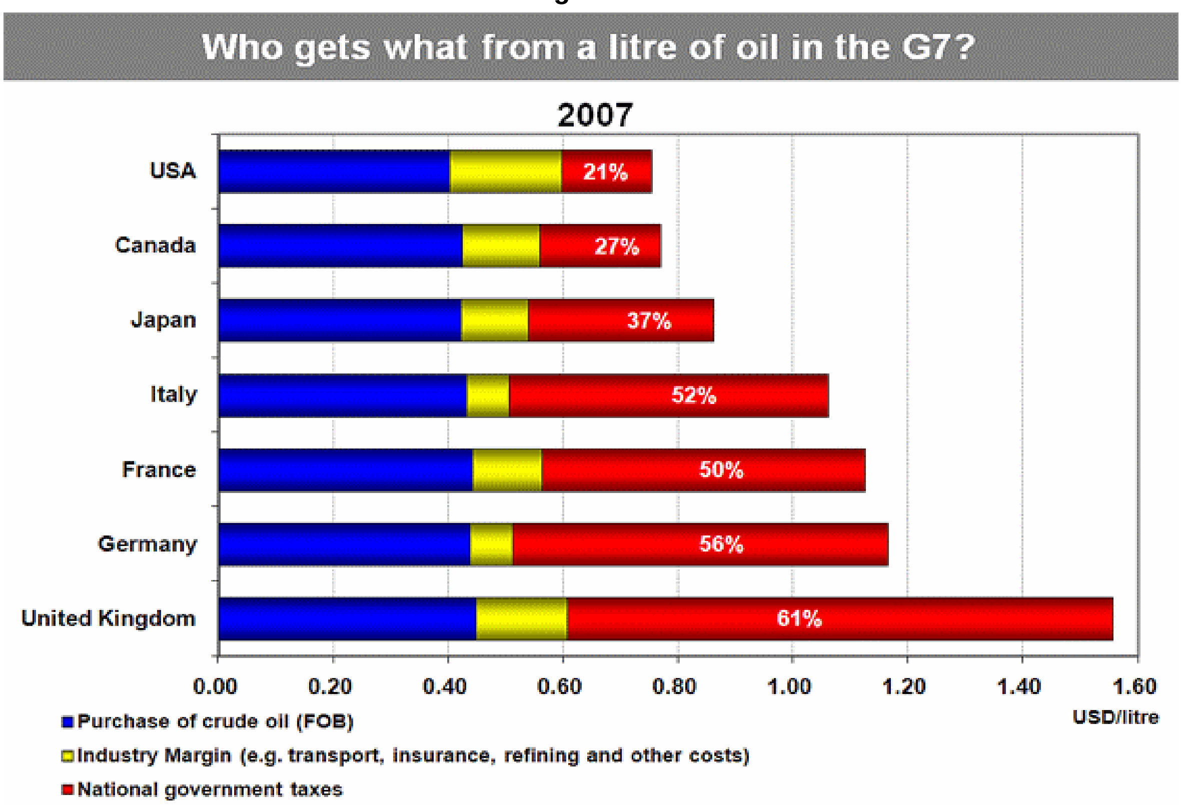
According to traders, the UAE will continue to encounter a shortfall in rice supplies. A rice trader said: "The number of traders who stopped importing rice in the last couple of months is scary. They want subsidies and compensation and the government is not giving any. We cannot import and make losses, if the countries we are importing from like Pakistan, demand higher prices and sell their output to other destination."

With the implementation of price controls, food and commodity inflation is likely to come down. Nevertheless, prices may still remain high due to global trends.

UAE is a member of the Organization of the Petroleum Exporting Countries, OPEC, which is the source of about a third of the globe's oil supply. OPEC is widely regarded as the greatest beneficiary of the global oil price hike.

Source : Adapted from Reuters, Jun 2008

Figure 2



Source: www.opec.org

Extract 3: Proposed Tax on Windfall Profits of Oil Companies

At a time when Americans are finding they're having to give up a host of things just to fill their gas tanks, they read news stories about record oil company profits. To address America's anger over $4 a gallon gasoline, Democratic leaders have proposed a tax on the windfall profits of oil companies. The Democratic energy package would have imposed a tax on any "unreasonable" profits of the five largest U.S. oil companies.

Exxon Mobil, one of the five largest oil companies, fired back at the call to counteract skyrocketing energy costs by hiking levies on producers. Exxon Mobil said that U.S. energy companies already pay record taxes and that the high oil prices is due to oil market speculation.

"Proposals to increase taxes on the industry would discourage the sustained investments needed to safeguard U.S. energy security and are not in the interests of American consumers," Exxon Mobil said. Other market analysts interviewed also urged for long term solutions to protect consumers' welfare

Adapted from Reuters, Jun 2008

Questions

(a) **(i)** With reference to Figure 1 and Table 1, compare the trend of prices of rice and oil in the period 2004 to 2007. [2]

(ii) With reference to Extract 1, provide a possible explanation for the relationship between the price of rice and that of oil between 2004 and 2007. [2]

(b) With reference to Extract 2, explain, with the aid of a diagram, how price controls implemented by the UAE government may affect

(i) the market for rice. [3]

(ii) the consumers. [2]

(c) Using economic analysis, assess the possible impact on the macroeconomy of UAE, as a result of persistent increases in the price of oil worldwide. [8]

(d) With reference to Figure 2, identify the form of government intervention in the oil markets in G7 countries and explain a possible economic reason for your answer. [3]

(e) Critically examine how the proposal of **"**a tax on any "unreasonable" profits of the five largest US oil companies**"** (Extract 3), is effective in protecting consumers' interests. [10]

[30m]

Case Study 2 – Answer ALL the Questions

Extract 1 - A glimmer of light at last?

A recent report by the Organisation for Economic Co-operation and Development (OECD) estimates that Africa's economy grew by almost 5% last year, and is expected to do even better this year and next. Is Africa, often dubbed the hopeless continent, finally taking off?

The perky figures are partly due to a global hunger for oil, minerals and other commodities, whetted by demand from China and India. Africa produces much of what China wants, boosting trade and fuelling interest in the continent. Soaring commodity prices (oil up by more than 90%, minerals and metals by about 70%, since 2000) have brought windfalls for oil-producers such as Angola and Nigeria.

Africa itself deserves credit for the upswing. Most of its economies have been better run: inflation, now averaging 8% a year, is at its lowest level in many countries since soon after independence 40-plus years ago; governments have been tightening the purse strings. With the striking exception of such dismal places as Côte d'Ivoire, Somalia and Zimbabwe, which now has the highest inflation in the world, politics in most African countries is better handled and violence less prevalent.

Emboldened by this good news, foreign investors have again turned their gaze to the continent. Good returns from Africa's small stock exchanges have lured in fund managers. Foreign direct investment (FDI) has also gone up: $18 billion flowed into the region in 2004, three times the annual average rate in the 1990s.

For all this happy news, will the region weather the next global dip better than before? *Sub-Saharan Africa has sometimes perked up a bit, only to slump again when commodity prices drop and the world economy falters*. These boom-and-bust cycles have stymied real progress.

The region's total of 48 countries contains very few large, diverse or industrial economies. Most economies still depend hugely on rain-fed agriculture and on commodities. Most foreign investment in Africa still goes to oilfields or mines, rather than factories, services or farming. Mineral riches provide governments with cash but do not create many jobs. Those economies that have managed to build a textile industry have suffered from Chinese competition and the end of the Multi-Fibre Agreement, which set quotas for exports from poor countries. The OECD argues that, though the oil and metal boom is a bonanza for African producers, it risks pushing the region back into a commodity corner, harming efforts to foster other parts of the economy.

Above all, despite improvements here and there, it still sorely needs accountable and honest governments that people can freely eject when they fail. African countries are generally perceived as being the most corrupt. The current economic upturn, from a very low base, offers a rare chance for governments to build for the future while the going is a bit better.

Adapted from The Economist, Jun 22, 2006

Extract 2 – China's African Adventure

The People's Republic of China has declared 2006 "The Year of Africa." At a summit meeting in Beijing attended by political leaders from all but five African states (the ones that recognize Taiwan), the Chinese president, Hu Jintao, announced that China would provide $5 billion in preferential loans and credits over the next three years, effectively doubling aid to Africa, while cancelling many outstanding debts.

China is now one of Africa's largest customers not only for oil but also for timber, minerals, cotton, and other natural resources. China in turn has flooded Africa with cheap consumer goods. Two-way trade has quadrupled in the last five years to $40 billion in 2005, making China, Africa's third largest trading partner after the European Union and the United States. The I.M.F. forecasts that China's trade with Africa could reach $100 billion by 2010. Over the last five years, sub-Saharan Africa's growth rate has almost doubled, to 5.8 percent from 3 percent; economists attribute much of the increase to trade with China and other Asian countries.

While China's voracious demand for commodities has driven investment priorities, it is diversifying into apparel, food processing, telecommunications and construction. At $1.2 billion, Chinese foreign direct investment in Africa is small compared to the $29 billion total recorded last year, but if the influx of Chinese firms is any guide - a ten-fold increase since 2003 - future capital inflows likely will multiply.

Politically, China's "hands-off politics" approach was initially a welcome change for many African leaders who bristled over the conditions imposed by the United States, Europe and multilateral institutions.

On another front, Beijing's unwillingness to press its state-owned firms on good governance and social responsibility is producing a backlash in several African countries. Last month, Gabon ordered the Chinese energy firm, Sinopec, to halt exploration in Loango national park after a U.S. conservation group accused it of damaging the forest and operating without an environmental-impact study.

Anecdotal evidence also suggests simmering grass-roots resentment of the growing Chinese presence. Legal and illegal Chinese immigrants are moving to Africa by the hundreds of thousands to work in extractive industries, construction and manufacturing, prompting charges that Chinese investors are taking rather than creating jobs.

Adapted from International Herald Tribune, Nov 1, 2006
and The New York Times, Nov 19, 2006

Table 1 : Sub-Saharan Africa Indicators

	2001	2002	2003	2004	2005
GDP (current US$m)	335836	351718	436932	534493	631321
GDP growth (constant price, annual %)	4	3	4	5	6
Foreign direct investment, net inflows (current US$m)	15104	10484	14378	12485	17289
Exports of goods and services (% of GDP)	32	33	32	33	34
Imports of goods and services (% of GDP)	32	34	33	34	35
Inflation, GDP deflator (annual %)	6	6	5	6	8
Population, total (m)	690	708	726	744	762
Population growth (annual %)	3	3	3	2	2
Fixed line and mobile phone subscribers (per 100 people)	4	5	6	9	14
Immunization, measles (% of children ages 12-23 months)	55	57	62	66	69
Life expectancy at birth, total (years)	..	49	..	..	49
Primary school completion rate, total (% of relevant age group)	53	56	56	57	60

Source: www.worldbank.org

Questions

(a) **(i)** With reference to Table 1, describe the trend of the real GDP per capita for Sub-Saharan Africa from 2001 to 2005. [2]

(ii) Using the data given, consider whether the standard of living for Sub-Saharan Africa has improved over the years. [4]

(b) Explain why keeping inflation low will help countries in Africa “take off”. [4]

(c) Discuss whether Sub-Saharan Africa will “slump again when commodity prices drop and the world economy falters” (extract 1, paragraph 4). [8]

(d) Using the data given, critically examine the impact of globalisation on Africa and China. [12]

[30m]

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