



TAMPINES MERIDIAN JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION

H1 ECONOMICS

8843/01

Paper 1

9 September 2024

3 hours

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 each Case Study Question on a **new** answer booklet.

Submit Question 1 and Question 2 **separately**.

Answer **all** questions.

Question 1: Education in ASEAN and Switzerland

Extract 1: Education in ASEAN

Education is a powerful transformative force in the lives of ASEAN¹ people. Inclusive and quality education leads to better health outcomes, higher social capital, peaceful and gender-equal societies, decent work opportunities and economic growth. It prepares ASEAN's human resources to be resilient, competitive and ready to face an ever-changing future.

With COVID-19 forcing schools to adopt remote learning, the educational gap is expected to widen. First, poorer households and remote or excluded communities and regions have limited access to the internet and the devices needed to access online classes. Take for example, the large percentage of the Rohingya population in Rakhine and Chin states in Myanmar who do not have internet, mobile phones, television, and radio access to remote teaching and learning.

In order to continue its post-pandemic recovery and growth, ASEAN countries will need to address gaps in important digital skills among the youth through means such as higher education. According to a study, young people in the region believe that digital literacy would improve their ability to learn better and improve other skills. However, while the majority of young people in the ASEAN region report having a moderate level of digital literacy, those from less developed economies like Myanmar and Vietnam, from rural areas, with an ethnic minority background, and from an older age group are more likely to report lower skill levels. Additionally, the share of youth currently engaged in enhancing their digital skills is shown to be lower for youth in the 15 to 24 age range, from rural areas, with ethnic minority backgrounds, and with disabilities. It has also been revealed that in 2022, only one in two young Southeast Asians perceived the need to improve their basic digital skills through education.

Source: *adapted from ASEAN Secretariat and The Diplomat, 2024*

Table 1: Selected indicators for selected ASEAN countries in 2022

	Indonesia	Myanmar	Singapore	Vietnam
Urban population (%)	56.6	30.2	100	37.6
Adult literacy rate (%)	96.4	89.1*	97.6*	96.1
Budget balance (% of country's gross domestic product)	-2.19	-5.96	1.21	0.26

*Adult literacy rates for Myanmar and Singapore are as of 2019 and 2021 respectively.

Source: *ASEAN Statistical Highlights, 2023*

¹ The Association of Southeast Asian Nations (ASEAN) is a regional organisation that aims to promote economic and security cooperation among its ten members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Extract 2: Automation and its impact on ASEAN

Trends toward greater automation are accelerating around the world, with significant implications for workers. In 2018, it was claimed that by 2030, up to 375 million people worldwide may forfeit their current jobs due to automation and technological disruption. ASEAN is especially likely to be affected as the impact of technological disruption on ASEAN is expected to be profound.

Presently, automation is not uniform across ASEAN countries or even across companies. For instance, Honda, a Japanese public multinational conglomerate manufacturer of automobiles, motorcycles, and battery-powered equipment, has not sought to significantly automate its manufacturing processes in ASEAN countries such as Vietnam because labour costs are low enough that the up-front costs of automation cannot yet be justified - both to produce and purchase - since the motorcycles produced in ASEAN are largely sold within the region. However, in Japan itself, Honda has begun the automation process at its Kumamoto factory. Moving forward, as labour costs increase in ASEAN, and the costs of automation decline, Honda may well choose to automate across its ASEAN plants too.

Some ASEAN countries have already begun to act. Singapore's heavy investment in lifelong learning has enabled its workforce to adapt and Singaporean companies are therefore able to take advantage of new technology. Indonesia has invested US\$719 million in vocational education to develop the skills of 2 million unemployed Indonesians in fields like coding, marketing, and hospitality. Today's technological disruption is larger in scope and magnitude than it was in the twentieth century during the advent of computers. The pace of innovation and adaptation is much faster. While technology complements some jobs, it renders others obsolete. ASEAN cannot avoid the disruption these new technologies will cause. Technological disruption can be positive, to the extent that ASEAN's governments and private sectors are able to interpret and adapt to them.

Source: Asia Pacific Bulletin, 2020

Extract 3: Ageing population in ASEAN and its impact on education and the economy

ASEAN is ageing rather quickly. In Vietnam, the number of 0 to 14-year-olds will decrease by 3.7 million between 2024 and 2050; in Indonesia, from 69.9 million to 61.6 million; in Myanmar, from 13.2 million to 11.5 million.

In some ways, this is good news. Fewer children could mean that governments spend more money per student so long as governments do not decrease their expenditure on education. But it is not just that ASEAN's youngsters are thinning in number; the number of elderly is set to spike. Sooner or later, all ASEAN states are set to face the same question: spend more money on the fewer children or on the growing number of elderly? The choice will not be easy. Just 40 per cent of Vietnamese aged over 60 are covered by social protection systems and that is a high percentage by regional standards. The figure stands at around 14 per cent in Myanmar. The implication of this is that states will have to develop their pensions and retirement schemes quickly.



Vastly more government money will have to be spent on healthcare. With less workers working due to ageing population, the governments in these regions might also see a compromise in their tax revenues.

Having an ageing population could impact the number of labour participants, as there is a decline in population growth. Depending on the countries' migration policies, this could drive up wages in the economy. An increase in the ageing population might also lead to a decline in the productivity of the workers as older individuals are less productive due to poorer health. However, arguments were made in support of the experience and efficiency that older workers bring. Therefore, the impact on the productivity of a country could be inconclusive.

Source: *adapted from The Diplomat*, 20 March 2024

Extract 4: Switzerland and its education system

Switzerland's education system is widely recognised as a driving force behind the nation's economic prowess and culture of innovation. Some key features that define Switzerland's outstanding educational approach include the following.

1. **Mandatory schooling:** Compulsory education in Switzerland covers a span of eleven years, including two years of kindergarten, six years of primary school, and three years of lower secondary school. During this period, students receive a comprehensive education in subjects such as languages, mathematics, sciences, arts, and social sciences.
2. **Accessibility and affordability:** Switzerland's predominantly publicly funded education system ensures that education is accessible and affordable for students. Additionally, scholarships and grants are available to both local and international students.
3. **Upholding high standards:** The Switzerland government maintains stringent quality assurance processes, including regular assessments, accreditations, and evaluations of educational institutions. This commitment to maintaining high standards ensures that Swiss educational institutions continue to uphold their prestigious reputation.

Source: *Various*



Questions

- (a) Explain one positive externality that could arise from education in ASEAN. [2]
- (b) Extract 1 states 'It was revealed that in 2022, only one in two young Southeast Asians perceives the need to improve their basic digital skills through education'.

Explain why this might be a case of information failure and how this could lead to an inefficient outcome in the market for digital skills. [5]
- (c) Comment on the extent to which remote learning possesses the characteristics of non-rivalry and non-excludability. [6]
- (d) With reference to Extract 2, explain how Honda might have come to its decision to not significantly automate its processes in the ASEAN region. [3]
- (e) With reference to Extract 3, explain
- (i) with the aid of a production possibility curve diagram, the impact of an ageing population on the potential growth of the country. [3]
 - (ii) how might an ageing population affect the country's fiscal balance. [3]
- (f) With reference to Extract 4, discuss whether ASEAN countries should adopt the Swiss government's approach to achieve efficiency and equity in the market for education. [8]
- (g) Extract 2 states that 'Technological disruption can be positive, to the extent that ASEAN's governments and private sectors are able to interpret and adapt to them'.

Discuss whether technological disruption can be positive for ASEAN countries' pursuit of inclusive growth. [10]

[Total: 40]



Question 2: Trouble in the United States and Singapore

Extract 5: Surging United States (US) inflation raises stakes

After the onset of the Covid-19 pandemic, consumers turned away from dining out and panicked shoppers stockpiled groceries. Then, in early 2022, Russia's invasion of Ukraine pushed up the prices of energy and agricultural chemicals such as fertilisers and pesticides since Russia is a major exporter of nitrogen, potassium and phosphorous fertilisers. Such situations raised the costs of producing and transporting food products. More recently, droughts and an avian flu outbreak have further strained food supplies.

The confluence of these events has made groceries more expensive as companies have passed along cost increases to consumers. Groceries are 12.2 per cent higher now than they were last summer — the biggest year-over-year spike in 43 years since 1979. Fruits and vegetables cost 8 per cent more, staples such as bread and cereal have jumped 14 per cent, and butter and margarine are up a whopping 26 per cent.

The Consumer Price Index rose by 8 per cent in 2022, the fastest pace of annual inflation in 40 years. Rising food and rent costs contributed to the big increase, the Bureau of Labor Statistics said. Rapidly climbing costs are hitting consumers in the pocketbook, causing confidence to fall and stretching household budgets. Rising wages and savings amassed during the pandemic have helped many families continue spending despite rising prices, but the burden is falling most intensely on lower-income households, which devote a big chunk of their budgets to daily necessities that are now swiftly becoming more expensive.

Source: *Various*

Table 2: Annual average inflation rate in US and Singapore as measured by the Consumer Price Index (CPI) (%)

Year	US	Singapore
2019	1.81	0.57
2020	1.23	-0.18
2021	4.70	2.31
2022	8.00	6.12
2023	4.11	4.82

Source: *US Inflation Calculator and Statista.com*,
accessed on 1 August 2024



Extract 6: US Federal Reserve holds interest rates at 22-year high

The inflation problem is posing a problem for the Federal Reserve (FED), which is in charge of achieving price stability. The FED has raised its interest rate to 4.5 per cent in 2022 as a move to increase the cost of borrowing and spending money with the hope of cooling the economy and slowing inflation, the rate at which prices rise. The FED's target rate remains at 5.25 to 5.5 per cent.

The FED had faced criticism, with some suggesting that holding interest rates at higher levels could put the US economy at risk of entering a recession. But the economy grew by a better-than-expected 4.9 per cent from July to September 2022.

According to Jerome Powell, chairman of the FED, its policy will be adjusted if risks emerged. A few months of good data on the economy does not necessarily mean that inflation is moving towards its target. There may only be so much that the FED can do with the tools it has available for the global supply chain. This is because a wide array of products has been severely constrained over the course of the pandemic, due in part to strict Covid-19 policies in China where many mass-produced goods are sourced. The ongoing war in Ukraine has negatively affected the global food supply in addition to the crude oil and natural gas resources that Europe largely depends on.

"Goods inflation is a trade and geopolitics issue that's controlled by government as a whole and not the FED," said Derek Tang, an economist at LH Meyer Inc., a macroeconomic consulting group.

"We'll have to look to the White House and Congress to act on those issues, whether that means brokering deals with other countries to make sure we have better supply, or have more access to supply," Tang said.

Sources: *NBC News*, 17 June 2022 and
BBC News, 2 November 2023

Extract 7: Rising inflation in Singapore and her monetary policy

Not letting up the fight against inflation, Singapore's central bank tightened monetary policy for the fifth time in 12 months. Unlike most central banks that manage monetary policy through the interest rate, the Monetary Authority of Singapore (MAS) uses the exchange rate as its main policy tool to help dampen inflation and ensure medium-term price stability. It lets the exchange rate float within an unspecified policy band, and changes the slope, width and centre of that band when it wants to adjust the pace of appreciation or depreciation of the Singapore dollar.

But the fight against rising prices is not over, as seen from the latest adjustments in the central bank's inflation forecasts.

The MAS now expects core inflation— which excludes private road transport and accommodation costs — to reach 4.1 per cent in 2022, the fastest rate of increase since 2008. The dramatic rise in inflation was driven by several shocks to demand and supply in the global and Singapore economies. Demand in Singapore grew strongly



as the impact of the pandemic waned. The Singapore economy staged a robust rebound in 2021, expanding by 8.9 per cent. Singaporeans were eager to resume shopping and dining out in larger groups. Households were able to draw on the savings they accumulated during the pandemic. At the same time, fresh shocks to global energy and food supplies arising from the ongoing conflict between Russia and Ukraine—both major producers and exporters of oil and gas, food grains and industrial metals—disrupted their supply and generated considerable uncertainty, causing commodity prices to spike and contributing to the inflationary pressures. Indeed, businesses costs rose more quickly in 2022 compared to the pre-pandemic period. With consumer demand still strong, firms were able to pass on these rapidly rising costs to their customers by increasing the prices of their goods and services across the economy.

Moving into 2023, core inflation is seen at 3.5 to 4.5 per cent, reflected in part the scheduled Goods and Services Tax (GST) hike to 8 per cent. There are both upside and downside risks to inflation. The central bank warned of “upside risks” to these forecasts, including fresh shocks to global commodity prices and second-round effects associated with a prolonged period of high inflation.

Sources: *ChannelNewsAsia*, 14 October 2022 and
Monetary Authority of Singapore, 2024



Questions

- (a) With reference to Table 2,
- (i) Describe what happened to the rate of inflation and the price level in the US between 2019 and 2022. [3]
 - (ii) Explain why a nominal rate of interest of 4.5 per cent in the US in 2022 would be described as being 'negative' in real terms. [2]
- (b) Explain how a negative real interest rate is likely to affect the exchange rate in the US. [3]
- (c) With reference to Extract 5 and using a supply and demand diagram, comment on the likely effects on the food market in the US. [6]
- (d) With reference to Extract 7 and using aggregate demand and supply analysis, explain **two** causes of Singapore's inflation in 2022. [4]
- (e) Explain **two** reasons why Singapore uses the exchange rate as its main policy tool to achieve price stability instead of interest rates. [4]
- (f) Using the information provided and AD/AS analysis, assess the extent to which appreciation of exchange rate can achieve price stability for Singapore. [8]
- (g) Discuss whether the inflationary problem is more damaging for the US or the Singapore economy. [10]

[Total: 40]



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