



HWA CHONG INSTITUTION
JC2 Preliminary Examinations
Higher 2

**CANDIDATE
NAME**

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CT GROUP

10A/S

**CENTRE
NUMBER**

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**INDEX
NUMBER**

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ECONOMICS
Paper 1

9732/01
12 September 2011
2 hours 15minutes

Additional Materials: Answer Paper

INSTRUCTIONS TO CANDIDATES

Write your **name** and **CT class** clearly in the spaces at the top of this page and on every page 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 and tape.

Answer **all** questions.

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

You are to fasten the answer sheets to Question 1 and Question 2 separately together with the respective cover page.

INFORMATION FOR CANDIDATES

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

You are advised to spend several minutes reading through the data before you begin writing your answers.

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

This document consists of **8** printed pages and **2** blank pages.

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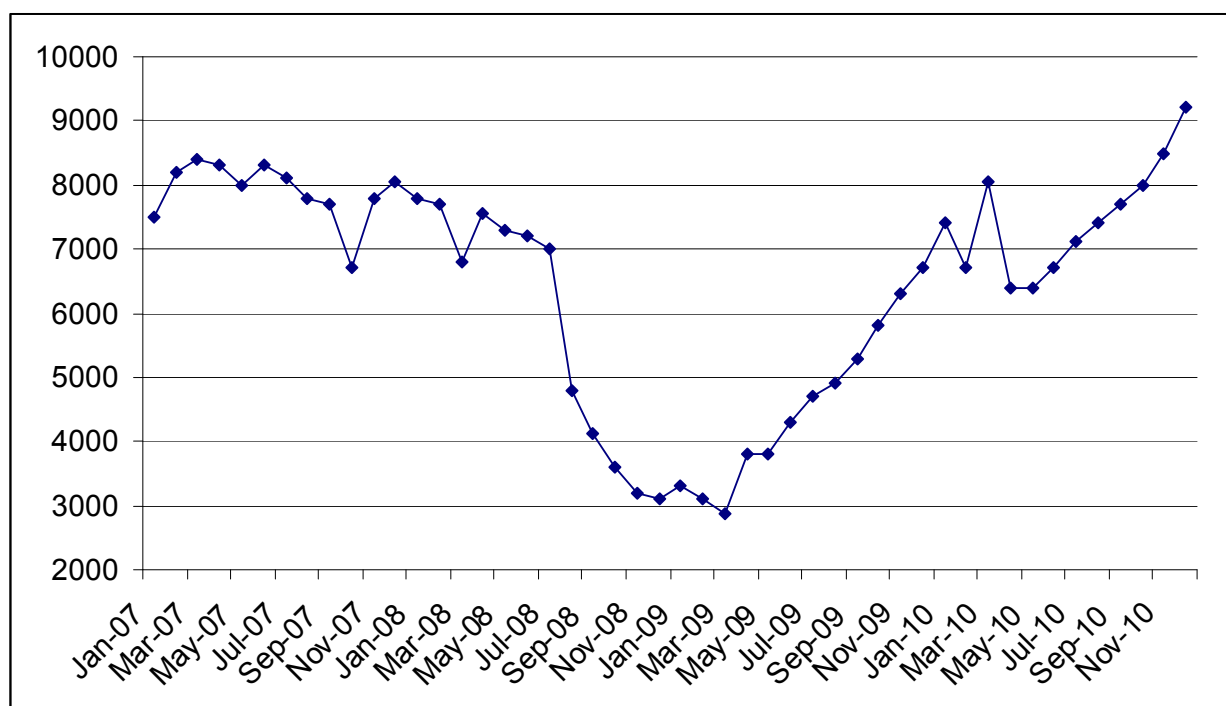
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Answer **all** questions.

Question 1

World Copper Market

Figure 1: World Prices for Copper, 2007-2010 (US\$ per tonne)



Source: adapted from London Mercantile Exchange

Table 1: World Copper Mining Output, 2007-2010 (million tonnes)

	2007	2008	2009	2010
Chile	6,125	5,873	5,941	5,968
Peru	1,312	1,398	1,407	1,375
United States	1,288	1,444	1,302	1,223
China	1,043	1,205	1,171	1,313
Australia	960	974	941	922
Other Countries	6,329	6,233	6,777	6,917
World Total	17,057	17,127	17,539	17,718

Source: Copper Development Association

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Extract 1: Uses of Copper

Copper is one of the oldest metals ever used and has been one of the important materials in the development of civilization. Due to its properties, especially in its resistance to corrosion, copper has become a major industrial metal, ranking third after iron and aluminum in terms of quantities consumed. Building construction is the single largest market, followed by electronics and electronic products, transportation, industrial machinery, and consumer and general products. Copper byproducts from manufacturing and obsolete copper products are readily recycled and contribute significantly to copper supply. Copper is greatly demanded by developing countries such as China and India and industrialized ones like US and EU.

Source: United States Geological Service

Extract 2: Copper Cartel for Chile and Peru?

President Alan Garcia of Chile proposed that Peru and Chile, two of the world's top three copper producers, should work together to boost sagging metal prices as the world economic crisis slashes demand for copper.

An OPEC-like copper cartel would aim to stem a steep slide in copper prices that has reduced mining profits and investment and boosted unemployment, slowing both countries' economies. Prices have dropped more than 60 percent since last year as economic turmoil slows global demand for the metal. In Chile, although the mines are working at near capacity, some mine workers have called for world largest copper producer Codelco, to control copper shipments to the market to help bolster the price.

Peru had no plans to form a copper industry cartel with neighbour Chile, the world largest producer of the red metal. Deputy mine minister Juan Felipe Isasi said that it is difficult to control international prices and there a need for coordination of policies among copper producing countries.

Source: www.andina.com, 2 Feb 2009

Extract 3: Environmental Concerns in Chile

While copper contributes a third of Chile's government income and 55% of all exports, the impact of copper production in Chile on the country's environment is real and is growing at an alarming rate. Most threatened is the atmosphere in the immediate vicinity of the copper mines. The production of copper is a long and dangerous process. Workers heat copper at high temperatures as many as fifteen times before the metal is ready for export. The refiners at the factories emit high quantities of arsenic and carbon-monoxide.

Local farming and fishing communities fear that loading operations in Port Caldera will pollute the bay. Some of these farmers and fishermen have already defeated Codelco, the state owned mining company, in court. To comply with environmental regulations Chuquicamata, the largest copper mine in the world, closed its furnaces for a month in July, 1994. The miners, who work in copper mines like Chuquicamata and La Escondida, are at risk because of the fumes they inhale while they are at work. Farmers and animals in the area are also in danger because the smelting of copper releases noxious chemicals that seep into the soil.

The Chilean government only began to study the effects of the copper production process on the environment in the late 1980s. This concern led, in 1991, to new environmental regulations regarding sulfur dioxide and particulate matter emissions. Currently, the most important environmental challenge for the public mining industry is meeting the new environmental standards by solving the pollution problem in the copper smelters.

Within the framework of Chilean air quality regulations, all of the smelters have submitted cleanup plans that will eventually ensure compliance with the new air quality standards. These plans involve the installation of efficient gas collection systems, electrostatic precipitators and sulfuric acid plants to reduce the amount of pollutants emitted into the atmosphere. Only some of these plans are being implemented.

The total expected cost of these plans is approximately US\$1.3 billion, most of it going to install sulfuric acid plants and electrostatic precipitators. This is not an amount most producers are willing to fork out. Copper will continue to be an important part of Chile's exports and the economy, so there is little doubt that concerns about copper production's effect on the environment will continue.

Source: Adapted from Trade and Environmental Database, 2009

Questions

- (a) (i) Summarise what happened to the world prices for copper between 2007 and 2010. [1]
- (ii) With the aid of a diagram, account for the change in the world prices for copper in 2008. [6]
- (b) (i) Explain how the proposed cartel for Chile and Peru would benefit the copper producers. [2]
- (ii) With reference to Table 1, explain why even with the formation of the cartel, it would be difficult to 'control international prices'. [3]
- (c) Assess whether high copper prices would benefit Chile's economy. [8]
- (d) In the light of the copper industry contribution to Chile's economy, discuss the policy options available to the government to control environmental degradation. [10]

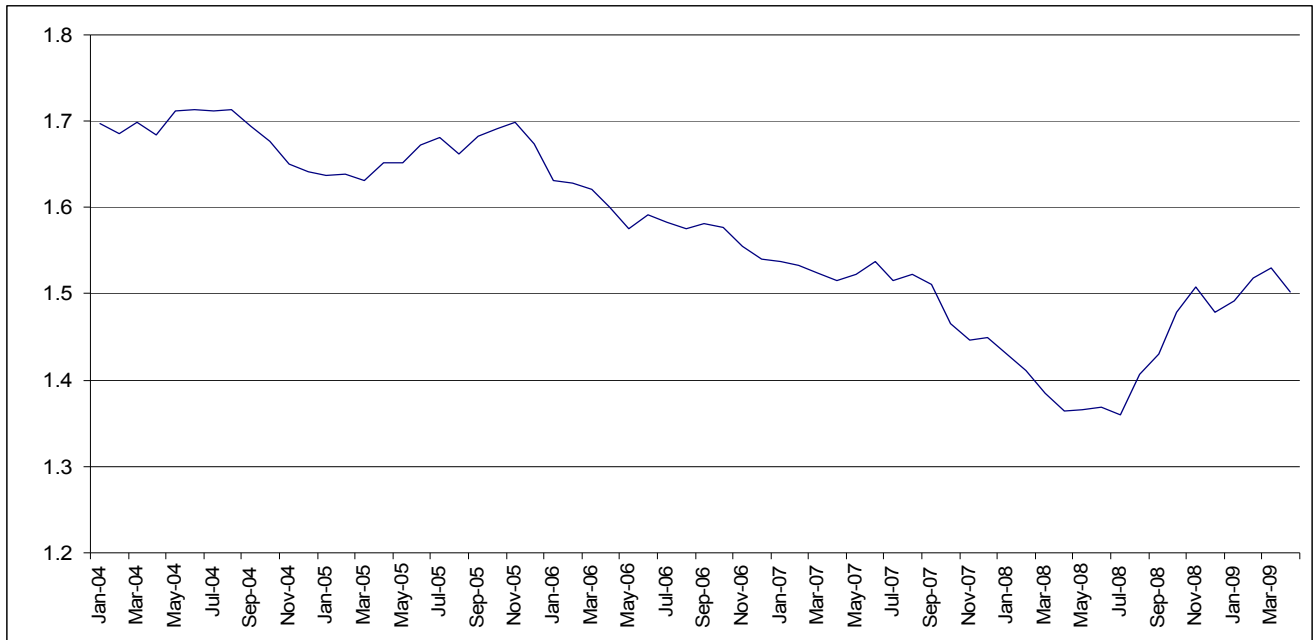
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Question 2

Economic Recession and Recovery

Figure 2: Value of Singapore Dollar (per unit of US Dollar), 2004 - 2009

Source: <http://www.singstat.gov.sg/>

Extract 4: IMF gives Singapore the thumbs-up

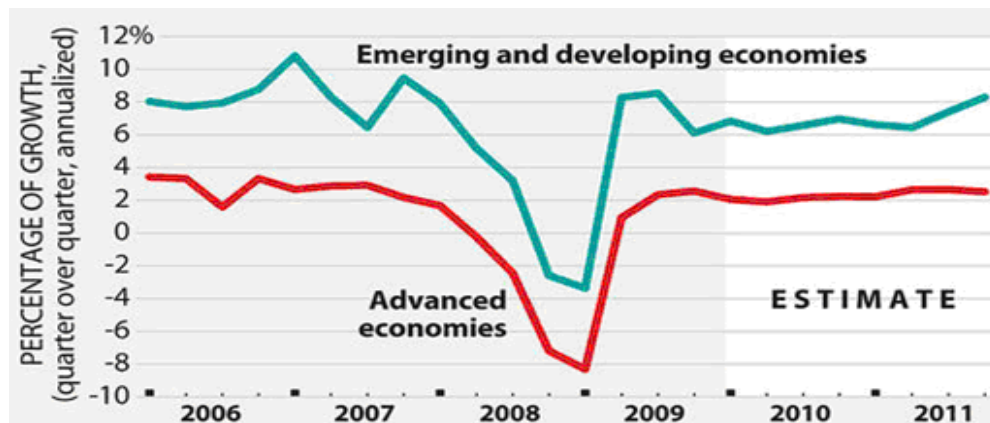
The International Monetary Fund (IMF) noted that the Singapore Government had responded 'forcefully with a large fiscal stimulus package, monetary policy easing and measures aimed at ensuring financial stability'. As the recession took hold in November 2008, Singapore moved from a gradual and modest appreciation to a neutral exchange rate policy of zero appreciation and then shifted down the band in April 2009. With inflation not a concern, Singapore's monetary policy of shifting down the band is appropriate, the report said. But it added that Singapore should return to a policy of allowing the currency to strengthen gradually once economic recovery is 'well established'. The Government's \$20.5 billion fiscal resilience package was also described as 'timely, appropriately large and diversified'.

Source: *The Straits Times*, 2 September 2009

Table 2: Selected Macroeconomic Indicators: Singapore, 2007 – 2009

Economic Indicators	2007	2008	2009
% change in GDP at constant prices (year-on-year)	8.5	1.8	-1.3
Inflation (annual % change)	2.1	6.6	0.6

Source: World Economic Outlook (October 2010)

Figure 3: Two-speed global recovery**Major Advanced Economies**

Comprised 7 countries: Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

Emerging and Developing Economies

Comprised 7 countries: Africa, Brazil, China, India, Mexico, Middle East and Russia.

Source: The International Monetary Fund, 2010

Extract 5: Multi-speed Recovery

In its latest forecasts, released on April 21st, the International Monetary Fund (IMF) predicts that global output will grow by 4.2% this year. In its half-yearly World Economic Outlook (WEO), IMF said the triggers for this rebound were strong public policies across advanced and emerging economies and central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional measures to inject liquidity and sustain credit.

The trouble is that the good fortune has not been shared equally. This time around countries that were least affected by the recession (primarily the largest emerging economies) are seeing the fastest acceleration in growth. In contrast, developed nations are expected to grow modestly.

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One reason for this multi-speed recovery is that the financial crisis was largely confined to the rich world, and recoveries after such crises tend to be slow. Another factor is the differences in the scope for, and effectiveness of, policy stimulus. Thanks to their low debt levels and the high reserves accumulated, many big emerging economies used fiscal and monetary stimulus vigorously and effectively. The pump priming also worked better because modest corporate and household debts mean that tax cuts or cash handouts are more likely to be spent than saved. For the advanced countries, the lag is primarily due to underlining weaknesses such as high debt, and low savings. In the US and Britain, in particular, high unemployment combined with high household debt and continuing home-mortgage foreclosures means that consumers simply are not in a position to drive recovery. The quantitative easing in advanced countries such as US and Britain also did not seem to work. And in the euro zone, individual countries lack an independent monetary policy.

A multi-speed global recovery is, unfortunately, less stable than a synchronized one and both sets of policymakers can do more to prevent the more extreme outcomes. To achieve sustainable growth, alternative measures have to be used. Rich economies where public debt burdens are soaring urgently need bold and credible plans for medium-term deficit-reduction. They also need supply-side measures that boost economic growth, from corporate and personal tax reform (in America) to freer job markets (in Europe). The urgency is especially great in Asia. To prevent overheating, emerging economies need to have better infrastructure and more flexible exchange rates. Highways, modern bridges, world-class airports, reliable power, and clean water are in desperately short supply in India. China needs to allow the yuan to strengthen soon. For now, booming growth in emerging economies explains the rosiness of the global recovery. But its sustainability will depend, in large part, on how that prosperity is controlled.

Source: *The Economist*, 22 Apr 2010

Table 3: Selected Macroeconomic Indicators: United States, 2007 – 2010

Economic Indicators	2007	2008	2009	2010 [†]
% change in GDP at constant prices (year-on-year)	2.0	0.0	-2.6	2.7
Unemployment rate (% of total labour force)	4.6	7.2	9.3	9.7
Inflation (annual % change)	4.1	0.7	1.9	1.4
Current account balance (US\$ billion)	-718.1	-668.9	-378.4	-470.2

Table 4: Selected Macroeconomic Indicators: China, 2007 – 2010

Economic Indicators	2007	2008	2009	2010 [†]
% change in GDP at constant prices (year-on-year)	14.2	10.0	9.1	10.5
Unemployment rate (% of total labour force)	4	4.2	4.3	4.1
Inflation (annual % change)	6.6	2.5	0.7	4.7
Current account balance (US\$ billion)	371.8	436.1	297.1	269.9

[†] Projected/ Estimates

Source: World Economic Outlook (October 2010)

Extract 6: Trade Barriers Rise as Slump Tightens Grip

The pressures caused by faltering economies and lost jobs have put protectionism on the march. It has provoked nasty trade disputes and undermined efforts to plot a coordinated response to the deepest global economic downturn since World War II, despite after repeated pledges by world leaders to commit to protecting world free trade and avoid erecting trade barriers.

Many countries have raised import duties or passed stimulus measures with trade-distorting subsidies which aimed at restricting trade. Russia has raised tariffs on used cars. China has tightened import standards on food, banning Irish pork, among other things. India has banned Chinese toys. Argentina has tightened licensing requirements on auto parts, textiles and leather goods and the United States is subsidizing automobile manufacturers. A trade spat is all too plausible.

However, changes in trade policy have not all gone one way. Several countries, from Australia to Ecuador and Paraguay, have moved in a liberal direction, reducing import duties or removing non-tariff barriers since the beginning of March.

Source: *The New York Times*, 22 March 2009

Questions

- (a) (i) Using Figure 2, describe the trend in the value of Singapore dollar between 2004 and 2009. [2]
- (ii) Explain why 'Singapore moved from a gradual and modest appreciation to a neutral exchange rate policy of zero appreciation in November 2008'. [4]
- (b) Explain why the use of fiscal and monetary stimulus by the advanced and emerging economies had led to the multi-speed recovery from the global economic downturn. [6]
- (c) Extract 5 suggests alternative measures for the advanced and emerging economies to achieve sustainable growth. Discuss the effectiveness of these proposed measures. [8]
- (d) Assess the extent to which protectionist measures are appropriate in managing an economy in the midst of a global recession. [10]

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