CATHOLIC JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATIONS
In preparation for
General Certificate of Education Advanced Level
Higher 2

ECONOMICS **9732/01**

Paper 1

19 August 2016

1400 - 1615

2 hours 15 minutes

Additional Materials : Writing Paper

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 highlighters, glue or correction fluid.
Begin each question on a new sheet of paper.

Answer **ALL** questions.

At the end of the examination, **hand in EACH question separately**.
The number of marks is given in brackets [ ] at the end of each question or part question.

Answer **all** questions

Question 1

Globalisation and the Economy

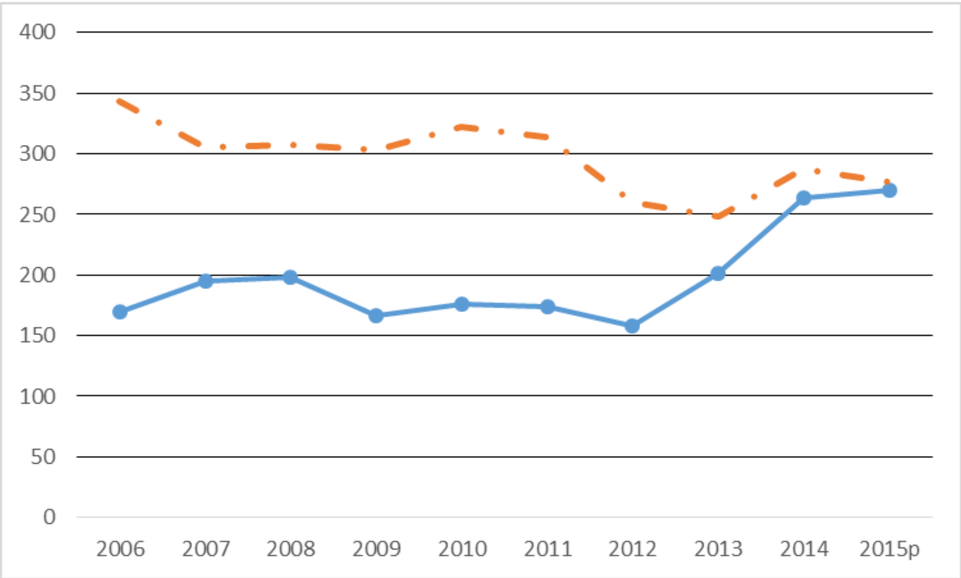
Extract 1: Too many immigrants, too quickly

The story of Brexit is a complex one, but one thread may be familiar to some developed countries today, including Singapore: too many immigrants, too quickly. As the European Union (EU) expanded in 2004 from 15 member states to include 10 more countries - mostly poorer ones from Eastern Europe - then Prime Minister Tony Blair opened Britain's doors to job seekers from these countries. Free to move to Britain to work, many from the new EU countries did, attracted by the prospect of better jobs or higher pay than back home. Some parts of Britain's working class felt the competition and the squeeze. Much of the fury of the 'Leave' campaigners focused around accusations that EU migrants were taking British jobs and depressing wages. Meanwhile, the big businesses and their consumers are gaining from this flow of cheap labour.

Perhaps Britain had not fully considered the evolving ramifications of EU membership and the allowing of sudden mass movement of populations to an island nation. One pressure from mass movement is how immigration is changing the identity of the country and putting pressure on services like the National Health Service. The undoubtable truth is that developed countries need to find better strategies to manage the impacts of migration and promote integration.

Source*: The Straits Times,* July 2016

Figure 1: Labour flow into the United Kingdom (UK), 2006 – 2015p (provisional)



Legend:
Labour Flows from Non-EU countries
Labour Flows from EU countries

Source: *Office for National Statistics*

Extract 2: Will globalisation make everyone better off?

Globalisation has made the planet more equal. As communication gets cheaper and transport gets faster, developing countries have closed the gap with their rich-world counterparts. Basic theory predicts that inequality falls when developing countries enter global markets, especially in the exchange of goods and services. With a larger proportion of their labour force being unskilled, this means that developing countries tend to produce goods that require labour-intensive processes. This increases their trade and thus, increases their wages. But the high inequality seen today in poor countries is prompting new theories. One emphasizes the recent pattern of outsourcing which deviates from the usual practice of creating low-value jobs overseas — rich countries are increasingly shifting parts of the high-value production process to poor countries, creating a larger demand for skilled labour as compared to unskilled labour in the developing countries.

Similarly, in developed countries the heavy costs to industries exposed to cheaper foreign imports offset most of the benefits to consumers and to firms in less vulnerable industries. Economists' assumption that workers would easily adjust to the upheaval of globalisation seems to have been misplaced. Manufacturing activity tends to be geographically concentrated. So the disruption caused by cheaper imports from developing countries was similarly concentrated, in certain hubs of the developed countries. The displaced workers were neither absorbed in the region due to a lack of growing industries, nor were they willing to look for jobs in other prosperous regions.

Immigration and jobs were hot-button issues in Singapore's general election in 2011. The public anger seen then was partly a response to the surge in foreign workers, due to a generous foreign worker policy in the boom years of 2004 to 2007. Deputy Prime Minister Tharman said: "The politics of the centre must stay connected to the challenges that ordinary people face - and address their need for jobs and security, and a balance in immigration that preserves a sense of identity." Tackling this without turning inward, and weakening jobs and society further, is the central challenge everywhere.

Sources: Adapted from *The Economist,* 2014 *and The Straits Times,* 2016

Extract 3: The economic impact of sharing economy platforms

The 'sharing economy' matches people who want to share assets online. Such convenience may come at cost for the traditional economy. Providers of traditional economy might see profits shrink due to the drop in demand and may even be driven out of the market. However the costs and benefits associated with sharing economy platforms depend on the business models in place.

One such 'sharing economy' platform is Uber which is one of the fastest growing start-ups worldwide. Taxi industries tend to be heavily regulated by the governments in order to ensure safety and quality standards. Uber, founded in the United States, used the sharing economy platform to circumvent these regulations by allowing private car owners to become ad-hoc taxi drivers. Furthermore, with countries becoming increasingly connected, Uber has found it easy to succeed commercially in many other countries as well, reducing the market share of the traditional taxi drivers. Uber's success can be attributed to the passengers who prefer diversity in payment options and for lowering their transportation cost. As a result, the incumbent taxi service providers are facing a crisis. Some taxi drivers in Canada complained losing business to the relatively cheap Uber services. Additionally, the government is concerned about drivers not declaring or paying taxes on their income.

In other businesses, homeowners internationally have earned extra cash by using another popular sharing service, Airbnb. Since the recession, more and more people have been looking for economical alternatives, increasing the demand for Airbnb. Likewise, the recession pushed significantly more segments of the American workforce into positions where they must string together part-time gigs and find alternative ways to bring in income. The leading businesses that are advancing the concept of the "sharing economy" are in many aspects no longer insurgents and newcomers.

The 'sharing economy' has managed to capture the market through great apps, social media marketing and aggressive links to the asset owners who are attracted by the minimal requirements to work for the likes of Uber and Airbnb. With the economic power of these technology-driven firms growing, there needs to be considerations as to whether regulation is needed.

Source: Adapted from *Time,* November 2014

Questions

(a) Describe the trend of labour flow from EU countries into the UK between 2006 and 2014. [2]

(b) (i) Explain why poor countries tend to specialise in and export goods that require large amounts of unskilled labour. [2]

(ii) Discuss if globalisation will always be beneficial for workers in different countries. [8]

c (i) What can you conclude about the income elasticity of demand for the services offered by Airbnb? [2]

(ii) Using economic analysis, explain the impact of the recession on the market for Airbnb. [4]

d) Explain one possible impact of globalisation on the level of competition in the market for transport. [2]

e) Discuss the factors that determine the need for regulation of the growing technology-driven firms in the 'sharing economy'. [10]

[Total: 30]

Question 2

Oil and the Venezuelan Economy

Extract 4: Venezuela, a nation in a state

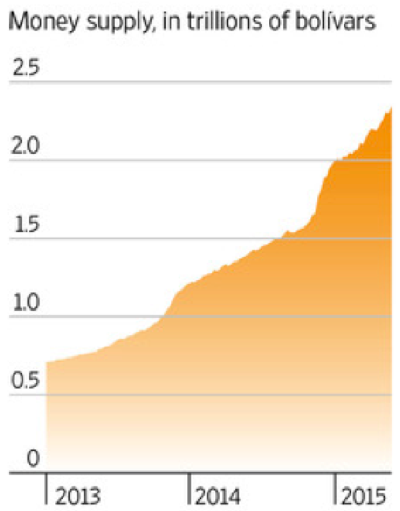
Under the watch of Venezuela’s president, the nation has entered a steep decline. A global oil boom, which provided money to lavish on Venezuela's once neglected poor, is over. Venezuela sits on the world’s largest proven oil reserves. Oil makes up 96% of the country’s export earnings and 25% of its GDP. The government's income from oil in the year to November 2015 was two-thirds lower than during the same period the year before. The oil price has fallen further since then. With less money coming in and demand for imports still strong, the value of Venezuela's foreign-exchange reserves has dropped alarmingly.

The current oil slump would be painful, whoever was in power. The regime has greatly compounded the damage with policies that, though designed to favour the poor, end up impoverishing them and the state. Price controls have led to acute shortages of basic goods, forcing people to queue for hours to buy necessities. Although the official price of goods is correspondingly cheap, many are available only at inflated prices in the black market.

Inflation is officially running at 121.7% last year. Analysts believe the true figure is at least 200% a year; some predict hyperinflation in 2016 as the Central Bank continues to print money to finance the massive budget deficit.

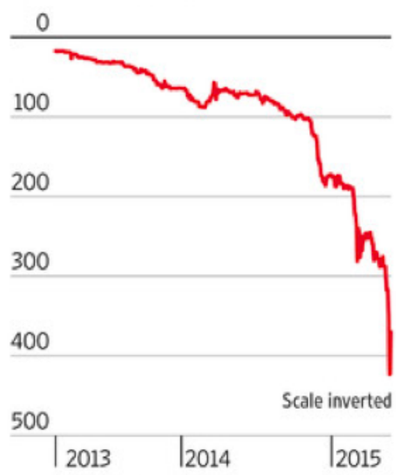
Source: Adapted from *Time*, December 2015 and *The Economist*, February 2016

Figure 2: Venezuelan money supply



Source: *Wall Street Journal*, May 2015

Figure 3: Venezuelan bolivar per US dollar



Source: *Wall Street Journal*, May 2015

Table 1: Venezuela: Selected economic indicators 2011 – 2015

Economic Indicators	2011	2012	2013	2014	2015
Gross Domestic Product (GDP) Growth (annual %)	4.2	5.6	1.3	-3.9	-5.7
Exports of goods and services (% of GDP)	29.9	26.2	24.8	-	-
Imports of goods and services (% of GDP)	19.7	24.2	29.5	-	-
Gross capital formation (% of GDP)	23.1	26.6	27.3	-	-
Inflation, consumer prices (annual %)	26.1	21.1	40.6	62.2	121.7
Unemployment, total (% of total labour force)	8.3	8.1	7.5	8.6	-

Source: *World Bank*, July 2016

Extract 5: Oil price plunge continues

The price of oil continued its precipitous fall on Friday, hitting five-and-a-half-year lows after the International Energy Agency (IEA) predicted demand next year would be lower than expected.

The oil price has plummeted in response to a massive build-up of shale-derived oil in the US, reduced fears of fighting in Iraq disrupting supplies, and slower growth in demand as the world economy falters. The IEA warned: "The resulting downward price pressure would raise the risk of social instability or financial difficulties if producers found it difficult to pay back debt."

The Paris-based IEA singled out oil-producing countries such as Russia and Venezuela as potential flashpoints for trouble and the warning came as the rouble, which has lost 40% in value against the dollar so far this year, hit a fresh record low. One dollar now buys more than 57 roubles, compared with 35 in the summer.

But while the oil-producing countries face lost revenues and budget shortfalls, lower energy prices are expected to have a beneficial impact on the world economy.

Many countries, particularly in Asia, are desperately dependent on foreign oil and gas imports, so cheaper prices should cut inflation and give impetus to manufacturing output and consumer spending. Analysts at investment bank ING said: "The recent fall in oil prices may not be sustained but, in the meantime, it provides a very welcome boost to real incomes for most major economies."

Lower energy prices will cause havoc in the UK North Sea, where companies such as BP and Shell are cutting jobs at a time when exploration levels have already dropped to very low levels.

But households will welcome the falling gas price cutting heating bills, while motorists will be glad of lower costs at the pump. High home and transport costs are a big influence on inflation and affect the production and distribution of food and other items.

There are strong signs in the US that lower energy prices are having a big effect on consumer spending with store and restaurant sales rising by 5% in November against the same month the previous year.

Tom Kloza, co-founder of the US-based Oil Price Information Service, has warned that the world could be heading for $45 per barrel oil, although he maintained that this kind of price was not sustainable long term.

Source: *The Guardian*, December 2014

Extract 6: The true cost of oil production

Every link in the chain of oil production, from exploration through consumption, generates profound damage to the local environment and communities. As the industry moves towards increasingly risky forms of fossil fuel production, the impacts become more pronounced.

A notable Harvard Medical School study identifies impacts from many aspects of oil production. Exploration for new oil and gas often brings seismic explosions and the clearing of huge swaths of forest; drilling produces toxic drilling muds and waste waters; oil extraction still often results in routine gas flaring at the point of extraction. Oil transport creates additional hazards, as oil spills from pipelines, tankers and tank farms are still routine, despite industry claims of safety measures.

Source: Adapted from *Oil Change International*, April 2014

Questions

(a) (i) Using Table 1, describe the trend of Venezuela's general price level between 2011 and 2015. [1]

(ii) Explain the statement: 'Although the official price of goods is correspondingly cheap, many are available only at inflated prices in the black market'. [3]

(b) Explain the inefficiency in resource allocation in the market for oil. [4]

(c) Explain how the change depicted in Figure 2 may have led to the outcome in Figure 3. [4]

(d) Given the challenges in the oil exporting market, discuss if Venezuela should respond by being less globalised. [8]

(e) Assess whether, on balance, lower oil prices can be beneficial. [10]

[Total: 30]

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