INNOVA JUNIOR COLLEGE
JC 2 PRELIMINARY EXAMINATIONS 2
in preparation for General Certificate of Education Advanced Level
Higher 1

ECONOMICS 8816/01

Paper 1

15 September 2008

3 hours

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.
Write in dark 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.

Section A
Answer **all** questions.
Section B
Answer **one** question.

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

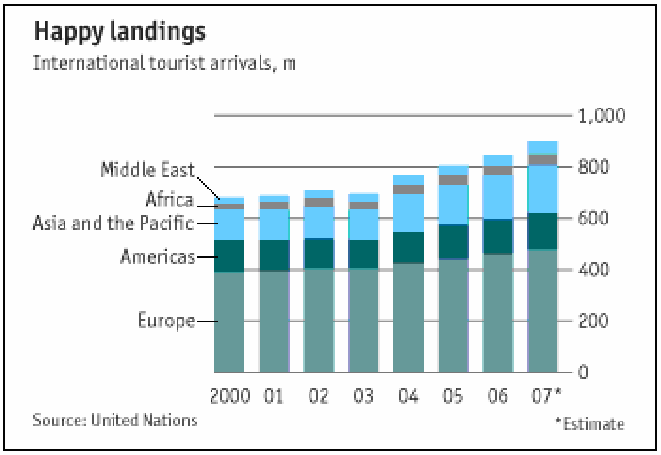
This document consists of **6** printed pages.

Section A

Answer **all** questions in this section

Question 1 Tourism and global warming

Figure 1: International tourist arrivals from 2000 to 2007



Source: *The Economist*, 15 May 2008

Extract 1: Ready for take-off

The rise of emerging economies marks the third revolution the travel industry has undergone in the past 50 years. The first came in the 1960s, in the shape of cheap air travel and package tours. Rising incomes enabled people of modest means to travel more, to farther-flung parts of the globe, and to take advantage of "all-in" offers that may have included sightseeing trips, scuba diving or camel rides. The second was the advent of the internet, which has allowed millions to book flights, hotels, hire cars and package tours without going near a travel agent.

Now fast-growing emerging economies are changing the world of travel once again, either as destinations or as sources of newly affluent travellers. The World Travel & Tourism Council (WTTC), the industry's main lobby group, claims that travel and tourism is the world's biggest industry in terms of its contribution to global GDP and employment. They forecast that global travel and tourism will account for US$5.9 trillion of economic activity in 2008, or about 10% of global GDP, employing 238m people. It expects employment to rise to 296m in the next decade. When all travel and tourism is lumped together, so that everything from airlines to cafés counts, it is no surprise. It accounts for a large part of many countries' foreign-exchange earnings. For many developing countries, it offers an important route out of poverty.

The Chinese government for example is racing to build roads, railways and airports to speed up the development of tourism and other industries. In January it said that it planned to add 97 airports by 2020 to the 142 China had at the end of 2006.

According to the state media, investment in infrastructure will see double-digit growth every year for the rest of the decade. Between 2006 and 2010, US$200 billion is expected to have been invested in railways alone, four times more than in the previous five years. In June the world's longest sea-crossing bridge, a 36km six-lane highway across Hangzhou Bay, is due to open. This will halve the travel time between Ningbo and Shanghai, two of China's busiest ports, to about two hours.

Adapted from: *The Economist,* 15 May 2008

Extract 2: A dollar won't stretch that far

For the next year or two, the travel industry is likely to find its long-standing customers in rich Western countries a less than reliable source of growth. As American families plan their holidays, many will be worrying about the frailty of their country's economy; the rising cost of petrol which has left them less money to spend on other goods and for those venturing outside the United States – the weakness of the dollar.

The Europeans are also likely to feel the slowdown of the economy and the impact of the high price of oil. British Airways recently upped its fuel surcharge, which now stands at US$312 for a return long-haul flight to Britain. On May 7th easyJet, a low-cost airline, unveiled a US$113.5m loss for the six months to the end of March. The trouble was the rising cost of fuel, which now accounts for 28% of easyJet's cost per seat. Fuel costs comprise a major portion of operating expenses in the airline industry. For most airlines, it is the second largest expense category behind labour.

For faster growth, the industry will have to look to emerging economies. These are becoming increasingly well established as places to visit. Now they are starting to provide more visitors too. Consumers' spending power in emerging economies is estimated to rise from US$4 trillion in 2006 to more than US$9 trillion – nearly the spending power of western Europe today.

Some of that extra purchasing power will go on travel. Western companies are flocking into the developing world to prepare for these new tourists. “The Middle East, India and China are the next big thing,” predicts Bill Marriott, the Chairman and Chief Executive of Marriott – an American hotel chain which has planned to build 65 hotels in the Middle East by 2011.

Adapted from: *The Economist,* 15 May 2008

Extract 3: Clouds on the horizon

What might stop tourism's latest revolution? One possible obstacle is the growing concern, especially in Western countries, with the environment. During the 1960s and 1970s, when tourism was growing explosively in American and Europe, few gave much thought to the consequences for the planet. That has now changed. The industry, which contributes 5-6% of all carbon emissions, seems worried. Green strategies are multiplying. Hotels are keen to show that they conserve water (do you really need a clean towel every day?), recycle rubbish, and save electricity by using low-energy light bulbs. Airlines order less thirsty planes. Eco-spas powered by wind turbines and solar panels, and safaris based on conservation are vying for the customer with a green conscience.

Adapted from: *The Economist,* 15 May 2008

Extract 4: Concern grows over pollution from jets

With the projected explosion in worldwide travel, air pollution from aviation is a growing concern. Air traffic controllers are expected to handle 95 million flights by all types of aircraft in 2025, compared with 63 million last year. Worldwide, a growing middle class with the means to travel is spawning new airlines and big orders for new planes.

Jet engines emit many pollutants into the atmosphere, including nitrogen oxides, carbon dioxide, and even water vapor. Carbon dioxide and water vapor are called greenhouse gases, because they trap heat and contribute to global warming. Scientists say planes' engines emit up to 3% of all carbon dioxide that contributes to global warming and the figure appears to be on the rise.

Scientists studying global warming are most concerned about pollutants emitted when a plane is airborne. Jets are the major source of emissions deposited into the upper atmosphere, where some pollutants have a greater warming effect than when they are released in the same amount from the ground. So do climate concerns require limits on the growth in aviation? There's great economic value in aviation. Society has to decide where to cut emissions and how to retain the lifestyle we enjoy.

Adapted from: *USA TODAY*, 19 Dec 2006

Questions

(a) **(i)** Using **Figure 1**, compare the trend for international tourist arrivals from 2000 to 2007. [2]

(ii) Explain possible reasons for this trend. [4]

(iii) Discuss the possible impact of this trend on an economy. [6]

(b) In the light of **Extracts 1 and 2**, assess the impact of rising global oil prices on the airline industry. [6]

(c) **(i)** Explain how negative externalities can arise in the airline industry. [4]

(ii) Discuss one policy that might be used to correct the negative externality in the airline industry, and its likely effect on global warming. [8]

[Total: 30]

Question 2 Race between Finland and United Kingdom

Extract 5: Global Competitiveness

The US tops the overall ranking in “The Global Competitiveness Report 2007-2008”. Next are Switzerland, Denmark, and Sweden followed by Germany, Finland, Singapore and Japan, with UK and then the Netherlands completing the top 10.

The Global Competitiveness Index (GCI) is based on 12 pillars of competitiveness, namely, Institutions, Infrastructure, Macroeconomic Stability, Health and Primary Education, Higher Education and Training, Goods Market Efficiency, Labor Market Efficiency, Financial Market Sophistication, Technological Readiness, Market Size, Business Sophistication and Innovation (as shown in Table 1). This year, over 11,000 business leaders were polled in a record 131 countries. The rankings are calculated from both publicly available data and the Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum together with its network of Partner Institutes (leading research institutes and business organizations) in the countries covered by the Report.

Table 1: 2007 Ranking of Global Competitiveness Index between Finland & United Kingdom

Rank (Out of 131 countries)	Finland	United Kingdom
Ranking of Global Competitiveness Index	6	9
1st pillar: Institutions	1	15
2nd pillar: Infrastructure	10	13
3rd pillar: Macroeconomic stability	9	46
4th pillar: Health and primary education	1	21
5th pillar: Higher education and training	1	15
6th pillar: Goods market efficiency	10	13
7th pillar: Labor market efficiency	29	7
8th pillar: Financial market sophistication	17	2
9th pillar: Technological readiness	11	16
10th pillar: Market size	49	6
11th pillar: Business sophistication	11	13
12th pillar: Innovation	3	14

Adapted from: world economic forum, 2008

Extract 6: United Kingdom

A report by the Ernst & Young Item Club found that the influx of cheaper foreign workers had helped to boost demand while also bearing down on growth in wages and on interest rates. Peter Spencer, Chief Economic Adviser to the Item Club said that without any immigration over the next 10 years, the economy's long-term trend rate of growth would fall from 2.4% to 2.2%. By contrast, should migration continue at the high levels seen in 2005 and 2006, the economy's growth rate would rise to 3%.

Spencer said that the economic benefits of immigration were clear even if the political implications were not. "What is apparent is that in the last five years while over a million jobs have been created in the UK, over two thirds of them have gone to foreign-born workers. "Without a million and a half foreign workers since 1997, the UK economy would have suffered slower GDP growth, higher inflation and interest rates."

Item said that typically the average economic migrant in the last decade was as skilled as his UK-born counterpart - if not more so - and earned a comparable wage. However, it is possible that over the last couple of years the immigrants from the eight eastern European countries that joined the European Union in 2004 were less skilled than those previously, earning only 60% of the average UK wage.

Adapted from: *The Guardian*, 18 Dec 2007

Extract 7: Finland

Today Finland is one of the world's most competitive, innovative economies. Since the start of the new millennium, its annual growth has exceeded the EU average, growing 5% in 2006.

It is no coincidence that in the globalised world the most competitive nations are also nations that invest heavily in their people, particularly their education. It has the world's best education according to the OECD's ranking, and is near the top of many international rankings on research and development expenditure.

Competitiveness and social welfare systems are not mutually exclusive. The so-called Nordic welfare state model combines the dynamism of the market economy with strong sense of shared responsibility and social justice. People are willing to pay taxes to maintain them, if they feel they get in return quality services from the public sector, backed by a safety net that leaves no one behind.

A cornerstone of Finland's welfare system includes public day care, a family leave system and free school meals. This has made it possible for both women and men to work full time, and use their talent for the benefit of the whole society. Its approach enables people to take "softer solutions" in combining family lives and other social requirements with working lives.

Adapted from: *The Guardian*, 17 Oct 2007

Table 2: Economic Indicators: Finland

	2000	2001	2002	2003	2004	2005	2006
Real GDP growth rate (%)	5	2.6	1.6	1.8	3.7	2.8	4.9
Inflation (%)	3	3	1	0	1	0	1
Government budget balance (% of GDP)	6.9	5.0	4.1	2.4	2.2	2.7	4.0
Exports of goods and services (% of GDP)	44	41	40	39	40	42	44
Imports of goods and services (% of GDP)	33	31	30	30	32	36	38
Annual % change in labour productivity per hour worked	3.6	2.1	1	2.1	3.1	1.9	3.2

Table 3: Economic Indicators: United Kingdom

	2000	2001	2002	2003	2004	2005	2006
Real GDP growth rate (%)	3.8	2.4	2.1	2.8	3.3	1.8	2.9
Inflation (%)	1	2	3	3	3	2	2
Government budget balance (% of GDP)	1.4	0.7	-1.9	-3.2	-3.3	-3.3	-2.5
Exports of goods and services (% of GDP)	28	27	26	26	25	27	29
Imports of goods and services (% of GDP)	30	30	29	28	28	30	33
Annual % change in labour productivity per hour worked	3	1.2	2.6	2.9	2.5	0.3	n.a.

Extracted from: Eurostat & World Bank on 11 August 2008

Questions

(a) **(i)** Compare the trend in **nominal** GDP growth rates between Finland and UK economies from 2000 to 2006. [2]

(ii) Evaluate two ways in which nominal GDP growth rates may be increased. [6]

(b) **(i)** Compare the annual percentage change in labour productivity between Finland and UK from 2000 to 2006. [2]

(ii) What would have been the minimum annual change in nominal wages needed to give Finland a greater rise in real wages than UK in 2000? Explain your answer. [2]

(iii) To what extent does the influx of foreign workers in UK slow down its labour productivity growth? [8]

(c) Assess whether the data provided are sufficient to justify why Finland was ranked above UK for overall competitiveness by World Economic Forum in 2007? [10]

[Total: 30]

Section B

Answer **one** question from this section.

3 **(a)** Explain how the price system achieves efficient allocation of resources. [10]

(b) Comment on the appropriate policies the Singapore government might adopt to achieve a more efficient allocation of resources where merit goods and demerit goods exist in the markets. [15]

4 "…. But globalisation brings with it challenges for Singapore. We face a worsening of our income distribution and slow or no growth in wages at the lower end. Not just over the last few years or for now, but this will be with us for several years to come."

Source: *Budget Speech 2007*

(a) Analyse the impact of globalisation on the components of aggregate demand in an economy. [12]

(b) Discuss whether exchange rate-centred monetary policy is the most appropriate measure to achieve economic growth in the face of the above challenges. [13]

-End of Paper-