



**VICTORIA JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION 2018
HIGHER 2**

H2 ECONOMICS

9757/01

Paper 1

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class 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 diagram or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.
DO **NOT** WRITE IN ANY BAR CODES.

Answer **all** questions.

Start each question on a FRESH piece of paper.

At the end of the examination, fasten your work securely, by question, using the strings provided.

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

This document consists of **7** printed pages

[Turn over

Answer **all** questions.

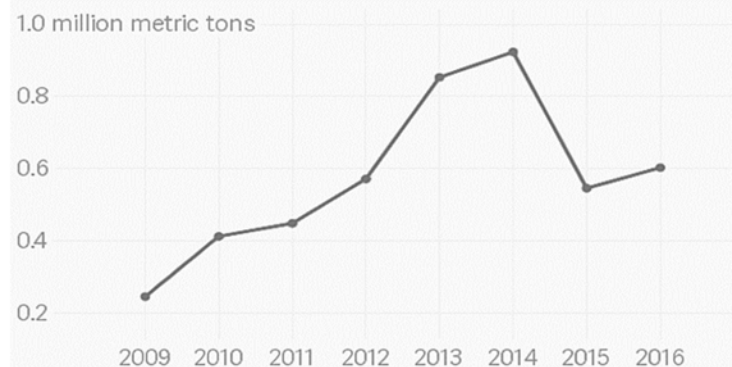
Question 1: Infant Formula Milk

Figure 1 – Singapore Infant Formula Milk Prices (S\$ per 900g tin)



Source: Singapore Department of Statistics

Figure 2 – Volume of China's Infant Formula Milk Import



Source: Dairy Association of China

Extract 1: Fear of tainted infant formula milk in China

Ten years after China's infant formula milk tragedy, parents still won't trust their babies with local formula. The national disaster took the lives of six infants and sickened more than 300,000 babies in China. The chemical compound called melamine, used in plastic and fertilizer production, had made its way into infant formula milk; shattering the confidence of people in Chinese-made infant formula milk; and in the entire local food supply.

Parents in China have been paying double to buy infant formula milk from Singapore, and are willing to pay up to S\$200 to have the product couriered to their home as they believe the products from Singapore are of higher quality.

Adapted from Asiaone.com, Feb 2018

Extract 2: Rising prices of infant formula milk

Infant formula milk prices in Singapore have more than doubled over the last decade to become among the highest in the world. Parents remain loyal to their chosen brands of milk powder even as the average price of infant formula milk continues to rise. They are willing to spend on good-quality infant formula milk because infant formula milk constitutes the sole source of nutrients for their young child if breast milk is not available. Moreover, infant formula milk is a short-term spending item. As a result, they are willing to incur high expenses in the short-term to buy good quality infant formula milk.

Adapted from The Straits Times, 8 Feb 2018

Extract 3: Government steps in to regulate the infant formula milk market in Singapore

According to the Competition Commission of Singapore (CCS) study, new entrants into the infant formula milk market will find it extremely difficult to convince parents that they are similar or even superior to other brands within their decision pool, especially given the market power and branding that the incumbents currently enjoy. New entrants will not be able to compete with the incumbents as the latter invest heavily on research and development so that they can introduce new infant formula milk products with modified formulations or packaging.

The aggressive marketing and promotion campaigns of the incumbents like Nestle, Abbott and Mead Johnson which holds 72% of Singapore market share, tend to encourage parents to make bulk purchases. In addition, they also invest a disproportionate share of their marketing expenditures on hospitals. These brands of infant formula milk being placed as the default brand in the hospital wards helps to expose the brand to new parents. Securing such customers at the very beginning of their parenting journey was critical to reinforce their brand loyalty.

To encourage more competition, the Singapore government will also simplify and streamline import requirements as well as remove unnecessary barriers to entry in order to bring in more options for parents without compromising food safety. Regulations to curb excessive marketing and encourage greater price competition have also been amended to prohibit health and certain nutrition claims by infant formula milk manufacturers, as well as texts and images that idealise the use of infant formula milk in Singapore.

Consumer education is also key. The Health Promotion Board (HPB) has recognised the lack of awareness around infant formula milk where some parents were unaware that infant formula milk can be stopped after the age of one. A multi-year marketing programme by HPB will also cover the nutritional composition of infant formula milk to help parents make more informed decisions.

With an increase in consumer awareness and the availability of more affordable infant formula milk options, prices should become more affordable. However, it will take time for consumer behaviour to shift, and for the market to react accordingly.

Extract 4: Australia to cash in on China's infant formula milk boom

Australia's reputation as a producer of high-quality foods is a blessing for Australian infant formula milk producers. A free trade deal between Australia and China could set Australia up to take advantage of China's addiction to Western milk powder. There are tariff savings, investment opportunities, more exports and more profit. With the trade deal, the current 15% tariff China imposes on Australian infant formula milk is set to be phased out within four years.

The China infant formula milk market is potentially "a massive opportunity" for capable Australian infant formula milk companies, especially given the baby boom stemming from the relaxation of China's one-child policy and the growing spending power of China's growing middle class. The rise of the Internet and social media in China is also playing a role, making it easier for Chinese consumers to buy their preferred infant formula milk via e-commerce websites.

But it's not all milk and honey. There are thousands of infant formula milk companies in China so it is a very competitive space. The market is serviced by international brands with deep pockets and vast experience. The infant formula milk scandal has also prompted the Chinese government to implement stricter regulation for baby formula food. The ingredients, food additives, formula and labels of baby formula food must be recorded and registered with the China Food and Drug Administration (CFDA).

Adapted from BBC, 14 January 2015

Questions

- (a) (i) Using Figure 1, compare the change in infant formula milk prices for the periods 2007 to 2014 and 2014 to 2017. [2]
- (ii) Explain whether the data in Figure 2 is able to support the observed change in infant formula milk prices for the period 2007 to 2014. [4]
- (b) What can you conclude from the evidence in Extract 2 about the price elasticity of demand for infant formula milk? [2]
- (c) With reference to the data, justify the market structure for the infant formula milk market in Singapore. [4]
- (d) Discuss the factors Australian infant formula milk companies are likely to consider when deciding whether to enter the Chinese infant formula milk market. [8]
- (e) To what extent can the measures adopted by the Singapore Government mentioned in Extract 3 increase the affordability of infant formula milk for Singaporeans? [10]

[Total: 30]

Question 2: Brexit Consequences for the UK & Singapore

Table 1: UK Consumer Price Index & Labour Productivity (annual % change)

	2013	2014	2015	2016	2017
Consumer Price Index	2.3	1.5	0.4	1.0	2.6
Labour Productivity Growth	0.6	1.8	-0.1	1.4	0.3

Source: Office for National Statistics, UK

Table 2: Economic Indicators in Singapore & UK (% of GDP)

	Singapore		UK	
	2016	2017	2016	2017
Gross Savings	46.2	48.1	11.8	13.2
Exports of Goods and Services	168.2	173.3	28.3	30.5
Import of Goods and Services	142.1	149.1	30.3	31.9
Government Budget Balance	-1.2	0.3	-0.4	0.1

Source: MAS, World Bank

Extract 5: Pound sterling slumps with news of Brexit

Uncertainty over the outlook of the UK economy after the Brexit vote (Britain's vote to leave the European Union (EU)) in June 2016 has sent the pound sterling plummeting to levels not seen since the 1980s. However, the sharp fall in the pound sterling has yet to bring about the expected improvement in the trade deficit.

A year after the sharp depreciation of the pound sterling, household spending growth has virtually stalled. It was a response to the squeeze on living standards caused by the sterling-induced jump in the cost of living.

Meanwhile, net trade did not contribute to growth in the three months from April 2017 to June 2017. Britain is now the slowest growing economy in the G7 courtesy of weak investment, cautious consumers and its failure to exploit the opportunity afforded by the pound sterling's depreciation. Some attributed the flat growth in net trade to the time lags arising from importers and exporters having to honour pre-existing contracts.

Adapted from The Guardian, 24 August 2017

Extract 6: UK economy slips down competitiveness ranking

Competitiveness of an economy can be considered from three perspectives – export competitiveness, attractiveness as a Foreign Direct Investment destination, and labour competitiveness.

The World Economic Forum's (WEF) annual competitiveness index ranked the UK as the eighth best economy in the world, down from seventh last year. Experts are warning that

Brexit could see the country slip further. The WEF said Brexit is "likely to further undermine the country's competitiveness" in future.

The organisation has previously warned that Brexit is likely to have negative effects on the UK in both the short and long term. In the short term, prior to any changes to the law, increased uncertainty will reduce investment, consumption, and foreign trade as consumers and investors become more cautious. Beyond that, the UK is likely to face the full negative impact of a lack of access to the single market, which will increase the cost of trade, investment, and the movement of labour, all of which will eventually be reflected in the economy's overall efficiency.

Adapted from The Independent, 27 September 2017

Extract 7: Staying competitive amidst Brexit

According to the British Chambers of Commerce (BCC), the biggest challenges facing businesses in the UK are to do with "fundamentals" rather than Brexit. "The best possible Brexit deal will not matter to the UK's competitiveness if the roads remain potholed and congested, if you can't get mobile phone coverage around the UK, if business broadband is poor and companies can't get the people they need because the training system isn't working to deliver for them," says Adam Marshall, the director general of the BCC.

Policy makers have wrestled with low UK productivity growth since the financial crisis in 2008. The UK is also one of the most unequal developed countries in the world and reports suggested that the rising income inequality was a key factor that contributed to the UK's vote to leave the EU.

The UK government said it was committed to its Industrial Strategy, a long term plan to boost the productivity and earning power of people throughout the UK. In addition, its £1.7bn Transforming Cities Fund which aims to improve productivity through investment in transport infrastructure will address weaknesses in city transport systems, improving connectivity and reducing congestion.

The negative impact of Brexit on UK's competitiveness may push the UK to be more aggressive in its tax offer. Corporate tax in UK is currently at 19% and due to be cut to 17% by 2020. UK's Prime Minister Theresa May has suggested that it could be lowered further in an effort to encourage businesses to invest in Britain.

Adapted from BBC, 8 March 2018

Extract 8: Brexit and Singapore

Brexit isn't bad news for everyone in Singapore. Companies like Hart Technologies, a Singapore-based dealer of fire protection equipment who imports products from the UK will benefit from the pound sterling's sharp drop against the Singdollar.

But the pound sterling's volatility cuts both ways. In the near term, the pound sterling's free fall against most currencies is expected to hurt Asian exporters with strong exposure

to UK markets, or with earnings denominated in pound sterling. But that is broadly manageable unless Brexit drags down demand across the EU as well.

Economists are also concerned that Singapore's overall economy will be affected if British companies here start to pull back on investment in manufacturing due to the weaker pound sterling against the Singdollar. That in turn, could also have a knock-on effect on local support services like advertising, business and professional services, and financial services.

Britain is No. 22 on the list of Singapore's trading partners - its non-oil domestic exports to Britain account for less than 1 per cent of total shipments, while imports from Britain constitute about 2 per cent of Singapore's total imports.

Adapted from The Straits Times, 29 June 2016

Questions

- (a) Describe the change in consumer prices in the UK between 2013 and 2017. [2]
- (b) Explain how the 'squeeze on living standards' of UK households could be caused by the 'sterling-induced jump in cost of living' (Extract 5). [3]
- (c) Explain possible reasons why the UK trade deficit did not improve despite the depreciation of the pound sterling. [4]
- (d) With reference to Table 2, explain how you would expect the size of the multiplier to differ between the UK and Singapore. [3]
- (e) Discuss the possible consequences of Brexit on households and firms in Singapore. [8]
- (f) Assess the measures the government should adopt to address the loss of competitiveness in the UK. [10]

[Total: 30]

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