DUNMAN HIGH SCHOOL
Year 6 Preliminary Examinations 2008

ECONOMICS **9732/1**
Higher 2

Paper 1 Case Study 18 September 2008

2 hours 15 minutes

Additional Materials: 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 a soft pencil for diagrams, graphs or rough working.

Answer **ALL** questions

The number of marks is given in brackets [ ] at the end of each question or part question.
At the end of the examination, fasten all your work securely with the cover page given.
Fill in the necessary information on the cover page.

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

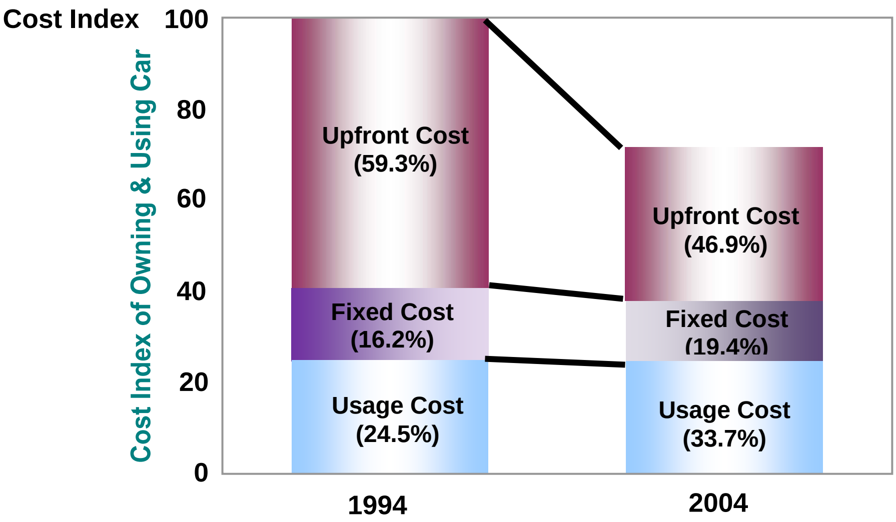
Question 1: Land Transport Policies in Singapore and the UK

Extract 1: FY2002 Budget Speech – Motor Vehicle Taxes

Fiscal disincentives have been a very effective means of controlling car ownership and usage in Singapore. They have kept our roads smooth-flowing and congestion free. However, our current vehicle taxes are excessively skewed towards ownership costs rather than usage charges. High ownership cost is a blunt tool for controlling traffic congestion and has distorted usage patterns by encouraging car owners to drive frequently, since the car has already been paid for. The Government aims to strike a better balance between the ownership and usage costs of a car. The additional registration fee, excise duty and road tax which are payable regardless whether or not the car is actually used will be lowered. Car Park charges will be revised to ensure proper costing in land-scarce Singapore. The Electronic Road Pricing (ERP) system will also be expanded to keep our roads free flowing. More Certificates of Entitlement (COE) will be issued if the ERP system proved effective in managing congestion.

Source: Adapted, MOF Website

Figure 1: Cost of Motoring for a Typical Medium-Sized Car



Source: Land Transport Authority, Statistics in Brief 2005

Extract 2: Off the Road onto Rail

The ERP system was launched in April 1998 to replace the former Area licensing Scheme that was introduced in the Restricted Zone in 1975, and the manual Road Pricing Scheme that was implemented on major expressways in the 1990s. The Land Transport Authority undoubtedly has refined the ERP system to a science after a decade of data evaluation and tinkering with charges, operating hours and studying which new problem roads require gantries to be planted on. What these standardised processes cannot measure is the Singaporean motorist's mindset: the entrenched thinking that cars bought at great cost should be used to the maximum. Success is not to be measured solely by improved journey speeds, but also by how many car owners are converted to taking bus and rail to work as a habit (Table 1). To move more motorists onto public transport, the rail network is being expanded. This will take years. Park-and-ride facilities should be expanded, if physically possible, and their use eased. Concurrent improvements in bus frequencies are also required. By the time new rail lines are ready in about 15 years, the hope must be that rail commutes will have overtaken driving as a workaday habit.

Source: The Straits Times, 21 Jun 2008

Table 1: Public Transport Ridership Vs Car Population

Year	Total Population ('000)	Public Transport Average Daily Ridership ('000 passenger-trips)		Car Population ('000)
		MRT	Bus	
1998	3,927.2	949	3,158	375.2
2002	4,176.0	1,080	3,123	404.3
2006	4,401.4	1,435	2,853	472.4
2007	4,588.6	1,564	2,969	514.7

Source: Land Transport Authority Website

Extract 3: Stuck in a Jam

Approval for the Manchester plan in United Kingdom to charge motorists for road usage to cut jams, should be applauded. The case for road pricing is clear: every driver on the road imposes a cost on others, through congestion, pollution, greenhouse gas emissions and the risk of accidents. The attractions of a well designed scheme are the market mechanisms that encourage drivers to travel when road capacity is cheapest and most available. By paying more for longer journeys through heavily built-up areas, motorists are encouraged to find other, quieter routes to get around or travel at less busy times. A small response from drivers can greatly improve traffic flows. In London, a 15 per cent reduction in journeys reduced delays due to congestion by 30 per cent. Since the rich drive more than the poor, road pricing is also progressive.

Naturally, many motorists hate the idea, and the obvious compromise is to pay them off by cancelling taxes on fuel. While politically tempting, this is the wrong approach. We face two big problems: climate change and congestion. Fuel taxes encourage efficient cars. Road pricing fights congestion. With two aims, we need two incentives. Road pricing revenue could instead be used to reduce other taxes. It could replace three or four pence of the basic rate of income tax. We should encourage earning income rather than burning fuel and sitting in frustrating traffic jams.

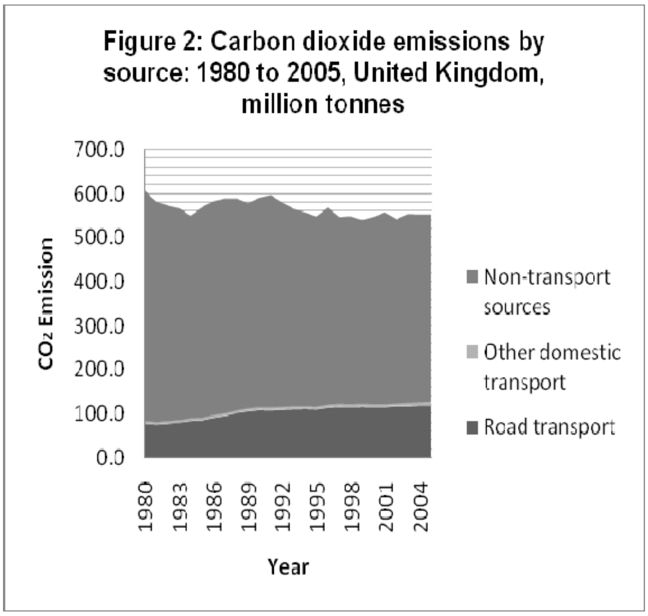
Source: The Financial Times, 10 June 10 2008

Extract 4: Are taxes the best means to cut greenhouse emissions?

A major concern is the environmental impact of transport, which accounts for roughly 25% of total carbon dioxide emissions (Figure 2). A pending Commission proposal would introduce a CO_2-dependent element in the tax base of registration and annual circulation taxes on passenger cars, encouraging car buyers to take energy efficiency and emissions into account. It is argued a CO_2-based taxation of cars will have a significant CO_2 reduction potential by shaping consumer demand and setting economic incentives to which vehicle manufacturers and fuel suppliers will respond." It is noted that the road pricing systems introduced in a number of EU cities, such as London and Stockholm, to improve traffic conditions and reduce congestion have also significantly reduced CO_2 and other emissions within the charged area.

In contrast to regulatory or administrative approaches, these market-based instruments such as taxes and tradable permit schemes offer several advantages as a means of achieving environmental objectives. Whether by influencing prices or setting absolute quantities, they improve price signals, allow industry greater flexibility in meeting objectives, and give firms a longer-term incentive to pursue technological innovations that further reduce adverse impacts on the environment.

Source: The Economist Intelligence Unit, 23 Apr 2007



Source: Transport Trends 2007, Department for Transport, United Kingdom, http://www.dft.gov.uk

ai) With reference to Figure 1, describe the trend in the 'cost of motoring' between 1994 and 2004. [2]

aii) Account for the trend observed in a(i). [4]

bi) Using economic reasoning, explain the rationale for 'charging motorists for road usage'. [4]

bii) Discuss the effectiveness of Singapore's land transport policy to move more private motorists onto public transport. [8]

ci) Describe the trend of CO_2 emissions caused by 'non-transport sources' in the United Kingdom (UK) between 1980 – 2005. [2]

cii) In the light of the data provided, if that you were an economic advisor to the UK government, would you recommend using 'market-based instruments' to reduce the environmental impact of transport? [10]

Question 2: Vietnam's Economy – Grappling with Success

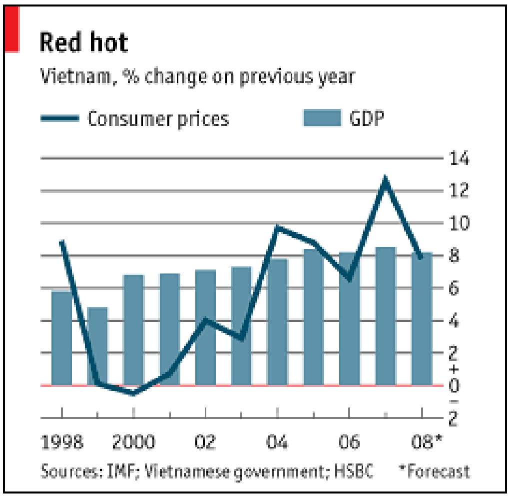
Extract 5: Good morning at last for Vietnam

Before starting its *doi moi* market-oriented reforms in the mid-1980s, the Socialist Republic of Vietnam flirted with real communism and came close to famine. Since then, a reform process that was uneven at first has gathered momentum. Recent economic growth, though not quite as stellar as China's, has been remarkable. In 2001-05 it averaged over 7.5%, reaching a peak of 8.4% last year. This year the government is going all out to hit an 8% target (See Figure 3).

Since 1990, Vietnam's exports have increased faster than China's. Their growth shows no signs of slackening. Between January and July they amounted to $22 billion, a year-on-year rise of over 25%. Having alarmed the Brazilians by becoming their main competitor in coffee growing, Vietnam is now ramping up its exports of everything from shrimps to ships to shoes. It has just become the world's largest exporter of pepper and aims soon to overtake Thailand in rice. It is even selling tea to India.

Source: The Economist Print Edition, 3 Aug 2006

Figure 3: Vietnam's GDP Growth and Inflation Rates



Source: The Economist Print Edition, 31 Jan 2008

Extract 6: Leveraging on the Singapore-Vietnam Advantage

Singapore has been an early partner in Vietnam's growth story, with Singapore consistently being one of Vietnam's top investors and trading partners. To assist Singapore-based companies explore Vietnam's business and investment opportunities, International Enterprise Singapore has two offices in the market, Ho Chi Minh City and Hanoi, which provide market facilitation services. Singapore-based companies have invested in a wide range of industries in Vietnam, making inroads particularly into the real estate, infrastructure services and logistics sectors.

Source: EDB Website

Extract 7: WTO and Vietnam

Vietnam shortly is set to join the World Trade Organisation (WTO), after the WTO's General Council on November 7th approved the country's accession. Membership of the WTO should ultimately benefit Vietnam's economy but this does not mean that in the short term the country's export boom will continue unabated. The WTO says key commitments from Vietnam include: eliminating agricultural export subsidies; lowering import duties on goods; and raising foreign-ownership ceilings in services sectors. Indeed, it is far from certain whether the net impact of accession will be positive in the first few years.

Source: The Economist Intelligence Unit, 8 Nov 2006

Extract 8: Inflation hits 25.2 percent in June, highest in a decade

Vietnam's inflation rate is among the highest in Asia, and higher food prices in particular are hurting the country's poor. Overall food costs were up 42.4 percent from a year ago, driven by a 67.8 percent jump in the price of grain, including rice, the staple food. Housing and construction materials rose 22.9 percent over last year. Analysts say Vietnam's surging inflation is being driven by both domestic and global forces, including soaring fuel and food costs. Rapid economic growth and looser lending policies in recent years, which has spurred investment, also have contributed.

Figure 4: Vietnam Consumer Price Inflation

The government has made fighting inflation its top priority. The central bank raised interest rates by 3 percentage points to restrain borrowing and encourage saving. In the past few months, the government has also postponed public investment projects and ordered state agencies to cut spending by at least 10 percent. As such, the authorities foresee slower growth ahead. Earlier this month, Vietnam slashed its annual growth target to 7 percent from 8.5 percent.

Source: International Herald Tribune, 27 May 2008

Extract 9: Vietnam may be heading towards financial crisis

FEARS are rising that Vietnam may be headed for a financial meltdown after a rapid reversal of its economic fortunes. A heady mix of runaway inflation, a ballooning trade deficit and a possible banking sector blow-up is sparking a growing cacophony of warnings by economists. They say Vietnam, recently the darling of international investors as an emerging 'tiger' economy, is at risk of a severe crisis, as overheating symptoms emerge similar to those seen before Thailand's 1997 crash. Many predict a steep fall in the country's currency - the dong - is all but inevitable. Some say external help, possibly from the International Monetary Fund (IMF), may be needed to restore economic confidence. Critics blame government failures. Other experts say, however, the economy can avert a hard landing if the authorities make the right decisions soon.

Source: The Straits Times, 5 June 2008

Extract 10: Flu symptoms

EVEN by the standards of Asia's booms and busts, the turnaround in Vietnamese investors' sentiment has been remarkable, veering from wild optimism a few months ago to deep pessimism today. From worrying about upward pressure on the dong, the authorities now fear a currency collapse.

The central bank has announced a 2% devaluation. It also raised its base interest rate from 12% to 14%. The government is also trying to curb currency speculation by restricting foreign-exchange booths from selling dollars. To reduce imports, it is said to be allowing the central bank to sell dollars only to businesses that have its approval for their foreign purchases (such as buying capital goods).

Optimists believe that inflation could peak later this year and that the government's measures could restore the economy back to health.

Source: The Economist print edition, 19 Jun 2008

ai) Compare the rate of change of consumer prices with the rate of economic growth in Vietnam from 2000 to 2007. [2]

aii) Suggest how the changes in the rate of consumer prices and the change in economic growth in Vietnam may have come about. [2]

bi) Explain any evidence in the data that suggest that the partnership between Singapore and Vietnam reflect the Law of Comparative Advantage. [4]

bii) Discuss whether joining WTO will benefit the Vietnam economy. [6]

ci) Explain why 'a heady mix of runaway inflation and a ballooning trade deficit' will lead to a steep fall in a country's currency? [6]

cii) Assuming that you are an economic advisor to the Vietnam government, discuss whether the measures adopted can help restore the economy back to health. [10]

End of Paper