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# **DUNMAN HIGH SCHOOL** **Preliminary Examination** **Year 6**

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## **Economics (Higher 2)**

Paper 1 Case Study Questions

**9570/1**

**20 September 2023**

**2 hours 30 minutes**

No Additional Materials are required

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### **READ THESE INSTRUCTIONS FIRST**

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.

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

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This document consists of **9** printed pages including this cover page.

**[Turn over**

## **Question 1: US Healthcare and Pharmaceutical Industries**

### **Extract 1: US government's responsibility for public health**

Public health promotes and protects the health of all people and their communities. While the healthcare industry treats people who are sick, public health aims to prevent people from getting sick or injured in the first place. While healthcare industry focuses on individual patients, public health focuses on entire populations.

Every day, the public health field is working – often behind the scenes – to prevent hazards and keep people healthy. Examples of public health programmes include tracking disease outbreaks to reduce the spread of infectious disease, setting safety standards to protect workers and developing school nutrition programmes to ensure kids have access to healthy food.

Governmental responsibilities for public health extend beyond voluntary activities and services to include additional authorities such as quarantine, mandatory immunisation laws, and regulatory authorities. The state's partnership functions by encouraging residents to do things that benefit their health (e.g., physical activity) or creating conditions to promote good health, and requiring certain actions (e.g., food safety).

*Source: Community Health Services Administration Handbook, 3 May 2023*

### **Extract 2: US healthcare industry**

The healthcare industry is in many ways the most consequential part of the United States economy. It is a fundamental part of people's lives, supporting their health and well-being. Early prevention, which is relatively inexpensive, can prevent dire and expensive healthcare problems later in life. This can reduce the long-term healthcare costs for both individuals and society. Moreover, improved healthcare can lead to healthier individuals who are less likely to be absent from work due to illness. This enhances overall workforce productivity and economic output.

Healthcare is growing as a share of the economy and government budgets in ways that appear unsustainable. As healthcare has become a larger part of the economy, a higher share of healthcare funding has been provided by government. This increase comes from the rising share of the population enrolled in both Medicare and Medicaid. Medicare provides health insurance for older adults and those with disabilities, while Medicaid subsidises healthcare costs for people with low incomes. If health expenditures continue to increase as a share of government spending, the increase will eventually necessitate either tax increases or reduced spending on other important government functions like public safety, infrastructure, research and development, and education.

*Source: Ryan Nunn, Jana Parsons and Jay Shambaugh, The Brookings Institution,  
March 10 2020*

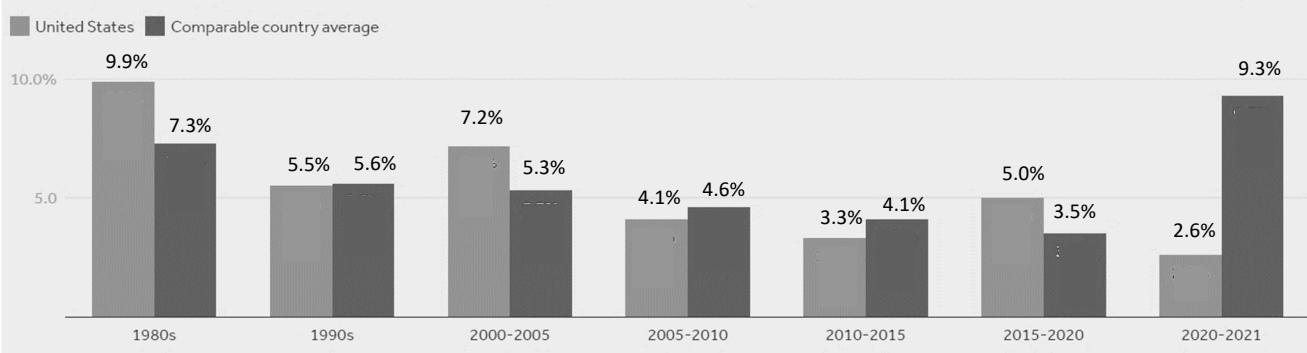
**Fig. 1: US Healthcare Spending Compared to Other Countries in 2021**

Health consumption expenditures per capita, U.S. dollars, PPP adjusted, 2021 or nearest year



**Fig. 2: Annual Growth Rate of US Healthcare Spending Compared to Other Countries**

Average annual growth rate in health consumption expenditures per capita, 1980-2021, U.S. dollars, PPP adjusted



Source: [healthsystemtracker.org](https://www.healthsystemtracker.org)

### Extract 3: The biggest problems with the U.S. healthcare system

**High Prices of Medical Services** - High price is the primary reason that prevents Americans from accessing healthcare services. Americans with below-average incomes are much more affected, since visiting a doctor when sick, getting a recommended test, or follow-up care has become unaffordable.

**Lack of Insurance Coverage** - Health insurance coverage is uneven; minorities and deprived families lack insurance coverage. The United States Census Bureau annually reports that around 27.5 million lower-income workers did not have health insurance. Lack of health insurance is associated with increased mortality, ranging from 30 - 90 thousand deaths per year.

**Difficulty in finding physicians and specialists** - With a lack of accessible doctor credentials and accomplishments, health consumers cannot easily find a good doctor. Instead, consumers rely on uninformed online reviews that can help with assessing traits like staff friendliness and wait times. But these platforms do not evaluate a physician's skill level in helping people with their health disorders.

*Source: Johonniuss Chemweno, Managed Healthcare Executive, 27 July 2021*

#### **Extract 4: Pharmaceutical companies: A conglomerate of monopolies**

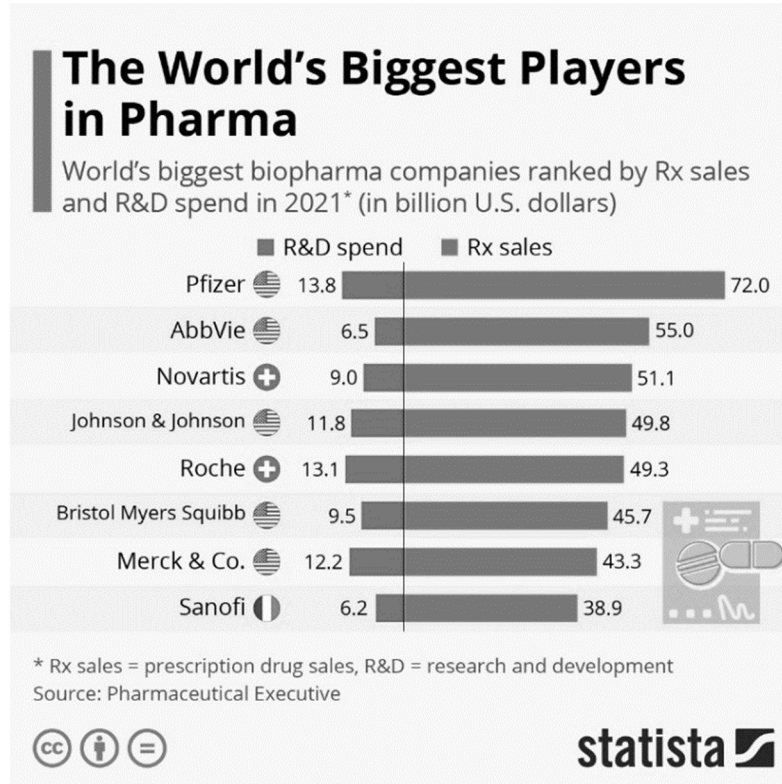
Pharmaceutical companies employ a slew of powerful tactics to gain and keep monopolistic market control and gain profits: from legislative protections such as patents to gaining exclusive rights of production. For instance, this was what Nostrum Laboratories did with nitrofurantoin, first created in 1953 to treat bladder infections. Nirmal Mulye, CEO of Nostrum Laboratories, bought the rights and raised the medication's price 400% without any additional R&D investments.

The rising price of prescription drugs has sparked outrage for more than a decade. That's largely because medications aren't like other expensive products. Take a \$250,000 sports car or a \$20,000 handbag. Both are exorbitantly priced - their retail prices far exceed the cost of production. At the same time, if people are willing to pay—despite a near-endless array of less-expensive options—then these prices are market driven and, therefore, fair. By contrast, monopolistic pricing in healthcare is both excessive and unfair, leaving millions of patients with only one choice: pay up or suffer. Drug companies know that's not really a choice, and they take full advantage. Last year, Americans paid US\$60 billion for prescription drugs, accounting for 16.7% of all healthcare expenditures.

But don't assume that the large (and ever-rising) price tag for U.S. medications reflects massive improvements in drug efficacy. When the Institute for Clinical and Economic Review (ICER) studied price increases for some of the most expensive drugs, it found 70% of those increases (accounting for US\$805 million) were unsupported by clinical evidence. Yesterday's model of drug development is a rarity nowadays. Most drug companies' strategies are aimed at minimising risk. Rather than engaging in grueling, expensive and risky R&D processes for product innovation, today's biopharma giants focus on monetising easy wins. In fact, a recent report found 9 in 10 major drug companies spend less on R&D than on marketing and sales.

*Source: Robert Pearl, Forbes, 31 January, 2023*

**Figure 3: World's Biggest Pharmaceutical Companies**



Source: statista.com

- Would public health programmes to track disease outbreaks and set safety standards be considered as public goods? Justify your answer. [4]
- Using Figures 1 and 2, describe the main features of US healthcare spending per capita, both over time and compared with other countries. [2]
- Explain two likely sources of market failure in the healthcare industry. [6]
- A rising share of the US population are enrolled in Medicaid which subsidises healthcare costs for people with low incomes (Extract 2). [8]

Discuss whether government subsidy is the best policy to ensure healthcare are allocated desirably in US.

- Discuss the extent to which pharmaceutical companies' competitive strategies worsen inefficiency. [10]

**[Total: 30]**

## Question 2: The pursuit of inclusive growth in India

**Table 1: Selected economic indicators for India, 2020-2021**

Indicators	2020	2021
Real GDP growth (%)	-6.6	8.3
CPI Growth (%)	6.6	5.1
Population Growth (%)	1.0	0.8
Unemployment Rate	8.0	7.3
PM2.5, average particulate matter concentration in air ( $\mu\text{g}/\text{m}^3$ )	55.7	58.1

*Source:* United Nations Conference on Trade and Development

### **Extract 5: The unevenness of India's growth**

On paper, India's economy has had a banner year. Exports are at record highs. Profits of many large companies have doubled. A vibrant middle class, built over the past few decades, is now shelling out so much on movie tickets, cars, real estate and vacations that economists call it post-pandemic "revenge spending."

Yet even as India is projected to have the fastest growth of any major economy this year, the rosy headline figures do not reflect reality for hundreds of millions of Indians. The growth is still not translating into enough jobs for the waves of educated young people who enter the labour force each year. A far larger number of Indians eke out a living in the informal sector, and they have been battered in recent months by high inflation, especially in food prices.

The disconnect is a result of India's uneven growth, which is powered by the voracious consumption of the country's upper strata but whose benefits often do not extend beyond the urban middle class. The pandemic has magnified the divide, throwing tens of millions of Indians into extreme poverty while the number of Indian billionaires has surged, according to Oxfam.

The concentration of wealth is in part a product of the growth-at-all-costs ambitions of Prime Minister Narendra Modi, who promised when he was re-elected in 2019 to double the size of India's economy by 2024, lifting the country into the US\$5 trillion-or-more club alongside the United States, China and Japan. The government reported late last month that the economy had expanded 8.7 percent in the last year, to US\$3.3 trillion. But with domestic investment lackluster, and government hiring slowing, India has turned to subsidized fuel, food and housing for the poorest to address the widespread joblessness. Under a national scheme, free grains for consumption now reach two-thirds of the country's more than 1.3 billion people.

Those handouts, by some calculations, have pushed inequality in India to its lowest level in decades. Still, critics of the Indian government say that subsidies cannot be used forever to paper over inadequate job creation. This is especially true as tens of millions of Indians — new college graduates, farmers looking to leave the fields and women taking on work — are expected to seek to flood the non-farm work force in the coming years.

*Source: Emily Schmall and Sameer Yasir, New York Times, 13 June 2022*

#### **Extract 6: India's response to inflation**

According to Mahesh Vyas, the chief executive of the Center for Monitoring Indian Economy, a data research firm, the government was far more concerned with inflation than unemployment, as inflation affects all voters. India's central bank, the Reserve Bank of India, and the finance ministry have tried to tackle inflation, which is battering many countries because of pandemic-related supply chain problems and the war in Ukraine, by restricting exports of wheat and sugar, raising interest rates and cutting taxes on fuel. The bank, after raising borrowing rates in May for the first time in two years, increased them again on Wednesday, to 4.9 percent. As it did so, it forecast that inflation would reach 6.7 percent over the next three quarters.

"We are committed to containing inflation," said India's reserve bank's governor, Shaktikanta Das. "At the same time, we have to keep in mind the requirements of growth. It can't be a situation where the operation is successful and the patient is dead."

*Source: New York Times, 13 June 2022*

#### **Extract 7: India's budget to address inclusivity**

Inclusive growth in its essence sounds like a fairly easy concept to understand, however a government's ability or inability to effectively realise the goal of inclusive growth determines whether or not the society is an equitable one. The pathway to achieve economic growth may include approaches like skill development, technological advancements and economic growth.

India's Gini coefficient had risen from 0.321 in 1983 to 0.357 in 2019. While India is well on its path to become one of the largest economies, economic inequalities are still a reality in India, much like many countries globally. The government has to put in place welfare measures that ensure a level playing field for all sections of society. More importantly, COVID-19 has further worsened the pre-existing inequalities in the society.

According to a report by the McKinsey Global Institute, the belief that inclusion and economic growth are inversely proportional and hence need to be addressed separately is inaccurate. On the contrary, it is almost impossible to ensure economic mobility and equitable distribution of resources without complementing the same with an increase in the overall size of the economy. Hence, economic development and inclusivity through access to resources go hand in hand.

This year's budget addresses the idea of inclusivity in a very holistic and phased manner, making sure that various aspects ranging from employment, education, skill development and sanitation to connectivity, through roads and optic fibres, is attained for all sections of society.

The following are some measures from the Budget that could address inclusive growth:

1. **Increased focus on agricultural technologies:** The push for technology driven agriculture would be beneficial for Indian farmers to ensure high quality yield. Agriculture is the primary source of livelihood for about 58 per cent of India's population, thus making reforms in agricultural sector pivotal for development. The government has focused on giving farmers the necessary support to help them increase their yields using high-end technology on a rental basis.
2. **Digitisation of education and skill development:** The pandemic has adversely affected every sector, however the overnight shift from an offline to a completely online school system was a very difficult transition for many students and teachers alike. Taking this into consideration, the Budget discussed various new measures in both education and skilling. To impart supplementary teaching and create a resilient mechanism for education delivery, the 'one class-one TV channel' programme will be expanded from 12 to 200 TV channels, helping all states to deliver supplementary education in local languages for classes 1-12. Additionally, to equip Indian students with world class education, which can be accessed anywhere across the country, a Digital University will also be set up. Further, to empower citizens to improve their skills with specific focus on "reskilling" or "upskill", an e-portal for skilling will be established.
3. **Piped drinking water for all households:** As part of the government's aim to provide piped drinking water to every rural household by 2024, the government has allocated US\$7.3 billion to cover 38 million households. Access to tap water is a much-needed necessity for rural households and will specially be beneficial to aid women in rural areas who travel for miles together to fetch water needed for basic every day needs.

*Source: Invest India, 11 February 2022*



- (a) With reference to Table 1
- (i) Explain what is meant by real GDP growth. [2]
  - (ii) Explain **one** indicator of material living standards and **one** indicator of non-material living standards [4]
- (b) (i) With reference to Extract 6, explain **two** measures that are used to address the effects of inflation in India [4]
- (ii) Extract 6 highlights that India is “committed to containing inflation” but the government needs to “keep in mind the requirements of growth”. [2]
- Explain the trade-off involved in the above statement.
- (c) Discuss the effectiveness of **two** policies from Extract 7 that can achieve inclusive economic growth in India. [8]
- (d) Discuss whether India should continue to pursue a “growth-at-all-costs” (Extract 5) strategy. [10]

**[Total: 30]**