

Candidate Name: \_\_\_\_\_

Class	Adm No



## 2013 Promotional Examination 2

### Pre-university 2

**H1 ECONOMICS**

**8819/ 01**

Paper 1

**17 September 2013**

Additional Materials: Writing Paper

3 hours

### **READ THESE INSTRUCTIONS FIRST**

Write your name, class and admission number in the spaces at the top of this page and on all pages of 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 or graphs.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

Begin answers on a fresh sheet of writing paper.

At the end of the examination, hand in all answers scripts.

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

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

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**This question paper consists of 8 printed pages.**

**[Turn over**

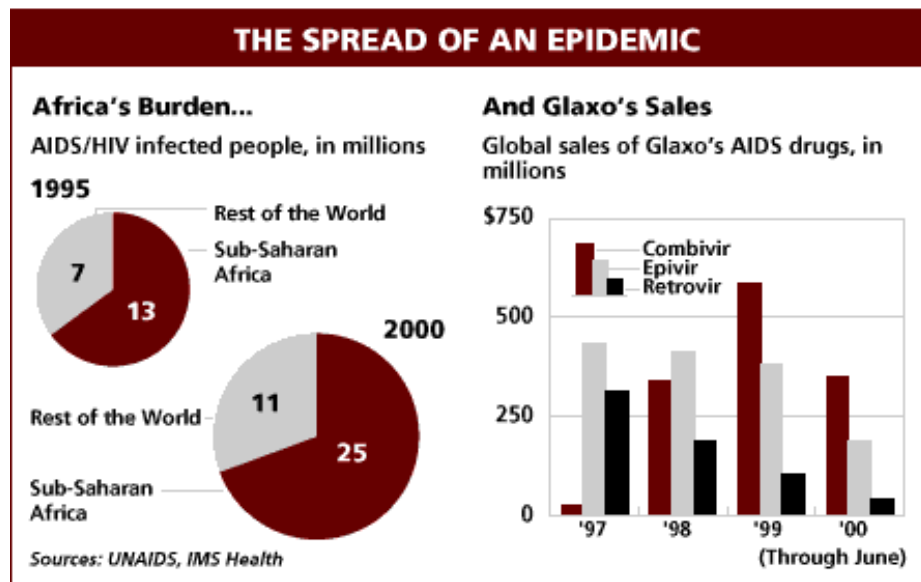
## Question 1

## The Pharmaceutical Industry

**Extract 1: AIDS: Branded and Generic anti-HIV drugs**

Roche, the pharmaceutical giant, recently announced a price of \$20,424 for a year's supply of its anti-HIV drug Fuzeon in U.S. This was almost three times the price of the most expensive AIDS drug. Roche claimed that Fuzeon is more expensive to produce than other anti-HIV drugs, claiming that it spent \$600 million developing the drug. However, many HIV drugs that cost up to \$15,000 a year in the U.S. can be made for less than \$300 a year by generic manufacturers overseas. These generic firms are allowed to enter the market and sell copies of the original drug when the pharmaceutical patent expires. As generic drugs contain exactly the same active chemical substances, these are considered as strong substitutes to the original branded drugs.

Figure 1



Sources: World Street Journal, 1 Dec 00 and ACT up press release 13 Mar 03

**Extract 2: Regulation of branded drugs**

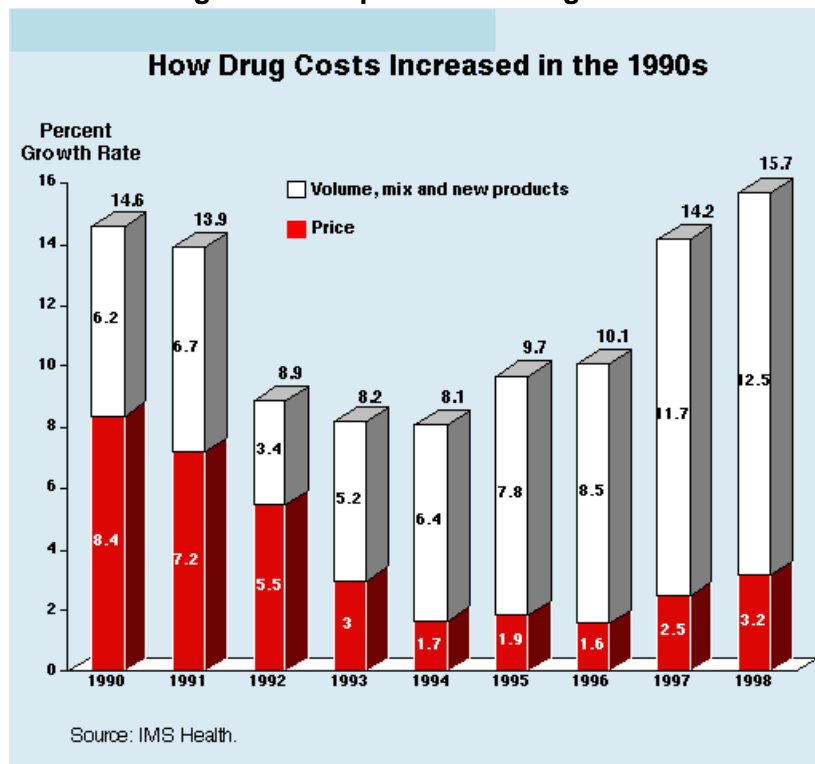
In the past year, critics have complained that prescription drugs are contributing to escalating health care costs in the developed countries. Some also assail drug manufacturers, contending that drug prices are too high. They propose price controls as a way to lower drug prices. Price controls have a consistent history: they don't work. Whether they apply to air fares, gasoline, telecommunications or medicines, they discourage innovation, create shortages and fail to keep prices in check. Further, they harm the poor by making whatever is controlled more difficult and more expensive to obtain.

[Turn over

However, according to leading prescription drug price and sales database information company, IMS Health, drug costs are rising primarily because of rising costs of innovation that contributed to record sales of new products and a changing mix of available products. Price increases have been relatively modest over the past 10 years.

Sources: National Centre for Policy Analysis Policy Report No. 23 Oct 99 and Focus 16 Apr 04

**Figure 2: Composition of Drug Costs**



Sources: National Centre for Policy Analysis Policy Report No. 23 Oct 99 and Focus 16 Apr 04

### **Extract 3: Under-consumption of drugs in developing countries**

The major communicable diseases of poverty, especially AIDS, TB and malaria, cause over six million deaths annually, with devastating social and economic impacts. The global community has recognised the causal links between ill-health, poverty and weak economic growth. Historically, efforts to tackle the major diseases affecting developing countries have been poorly coordinated, resulting in under-consumption of drugs that can cure these diseases.

OECD governments and international bodies such as the World Bank have stepped up investments in these areas. In response, new private sector allies— especially the pharmaceutical companies are forging partnerships with governments to undertake a wide range of activities, such as distributing donated or subsidised products, strengthening health service delivery and access to drugs and educating the public.

*Adapted from <http://www.eldis.org>*

**[Turn over**

**Questions**

- (a) (i) Describe the changes in sales of Glaxo's AIDS drugs from 1997 to 2000 using Figure 1. [2]
- (ii) Illustrate, using demand and supply diagrams, how the change in the number of AIDS patients and entry of generic AIDS drug producers affect the market for branded AIDS drugs. [4]
- (b) (i) Using an appropriate diagram, explain the type of price control that can be used to regulate the price of branded drugs. [4]
- (ii) Discuss the effectiveness of price controls in the regulation of branded drugs prices. [6]
- (c) (i) Using relevant economic analysis, explain why the market fails to allocate sufficient resources to the consumption of drugs in developing countries. [4]
- (ii) Evaluate, with reference to Extract 3, the policies that governments in developing countries have undertaken to address the under-consumption of drugs. [10]
- [Total 30m]**

**Question 2****The Chinese Economy****Extract 4: China and Currency Manipulation**

The subject of whether China undervalues its currency to gain a trade advantage on the United States is a longstanding point of contention between Washington and Beijing.

Critics in the U.S. claim that currency manipulation has cost about 2 million U.S. jobs and hurt manufacturers. China claims that its exchange rates are not the reason for the trade gap and has accused the U.S. of using Beijing as a "scapegoat" for its greater economic woes.

A wide coalition of US trade unions and members of Congress is stepping up pressure on President Barack Obama to confront China over alleged illegal currency manipulation.

*Source: Adapted from The Guardian, 20 May 2009 and <http://worldnews.about.com>*

**Extract 5: China's Exchange Rate Reform**

China's fixed exchange system was discontinued from 2005 and a managed float system was adopted. A move that would increase the value of the Chinese Yuan against the dollar and help ease a trade imbalance, which has cost U.S. jobs. The move would come amid growing complaints that China's undervalued Yuan has made it difficult for manufacturers in the United States and other countries to compete with China's exports.

However, He Weiwen in the Global Times news article states that the US trade woes shouldn't be blamed on the Yuan. He points out that from 1998-2004, the Yuan was fixed at 8.28 to the dollar and China's exports to the U.S. varied from year to year stressing that the Yuan exchange rate doesn't play a significant role in affecting US exports. China also continued to record trade surpluses against the United States after it initiated exchange rate reform in 2005 to allow the renminbi to appreciate 20 percent against the US dollar.

*Source: Adapted from <http://www.epi.org/news/china> and EPI News, April 9, 2010, "China Reportedly Close to an Agreement to Revalue Yuan"*

**Table 1: Growth of U.S. trade in goods with China (%)**

<b>Before Chinese Yuan's reform</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Growth of China Exports to US (%)	14.9	22.3	22.3	22.4	21.8	29
Growth of US Exports to China (%)	7.9	23.4	18.5	15.4	28.2	21.4
<b>After Chinese Yuan's reform</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Growth of China Exports to US (%)	23.8	18.2	11.7	5.1	-12.3	23.1
Growth of US Exports to China (%)	31.3	30.3	17.3	10.8	-0.3	32.3

**[Turn over**

### **Extract 6: China's Economic Growth to Benefit All of Asia?**

Foreign direct investment (FDI) into the mainland saw its strongest surge in more than two years last month with the US\$14.4 billion of capital committed leaving the world's second biggest economy firmly on track to meet the government's target of US\$120 billion of inflows this year. It is one of the principal drivers of mainland's breakneck economic growth in the past three decades.

But foreign investment has grown elsewhere too. The ten ASEAN countries saw a record \$37 billion of investment in 2005. For some manufacturers, South-East Asia (or India) serves as a hedge against something going wrong in their China operations – be it social unrest, economic problems or a business climate that turns against foreign investment.

However, much investment outside China is in fact dependent on the China boom. So supercharged has the Chinese export machine become that it has sucked in vast quantities of parts and components for final assembly from other parts of Asia – Thailand, Malaysia, Singapore, the Philippines and Indonesia, as well as richer Taiwan and South Korea. Everybody has benefited by Chinese demand for top-notch components and capital goods. In China, the processing and assembly of imported parts and components now accounts for more than half of all exports. It has recently recorded phenomenal growth in exports of high-tech products, principally notebook and desktop computers, DVD players, mobile phones and the like.

For South Korea, Taiwan, Hong Kong and Singapore, trade has also turned from the rich world towards China. So has Philippines and Thailand. Their export to China has increased and that the country at present enjoys surplus trade balance with China. Meanwhile, Chinese tourists made 83 million overseas travels, of which more than 90 percent were to other Asian countries, among which Malaysia, Singapore, Thailand and South Korea were their favorites.

However, the economic growth is not only relying on export. Instead, domestic consumption is going to drive the economy, which will provide other countries with numerous business opportunities. Wang Chuanfu, chairman and president of China's largest rechargeable battery maker, said that his company is a good example of China's vigorous economy. Wang's company had only 20-odd persons when it was first founded but now has more than 30,000 workers. When China becomes rich, the country will create a large amount of business opportunities and make inconceivable contribution to the world economy, said Wang.

With China's rising consumption in recent years, this huge domestic demand is now growing at 9% a year and starting to act as a regional engine of growth, sucking in imports to feed its increasing consumption for products it has no comparative advantage in. The World Bank forecasts that this will be the first year in which China's imports will be growing and becoming the biggest source of import growth in the world. Goldman Sachs, an investment bank, reckons that China's imports for domestic use are now roughly the same as those used in assembling exports, whereas five years ago they were only half as big.

China's reform and opening-up drives over the past two decades have produced one of the most dynamic economies in the world, offering the rest of the world a huge potential market.

*Source: Adapted from The Economist, "The export juggernaut" and <http://www.china.org.cn>*

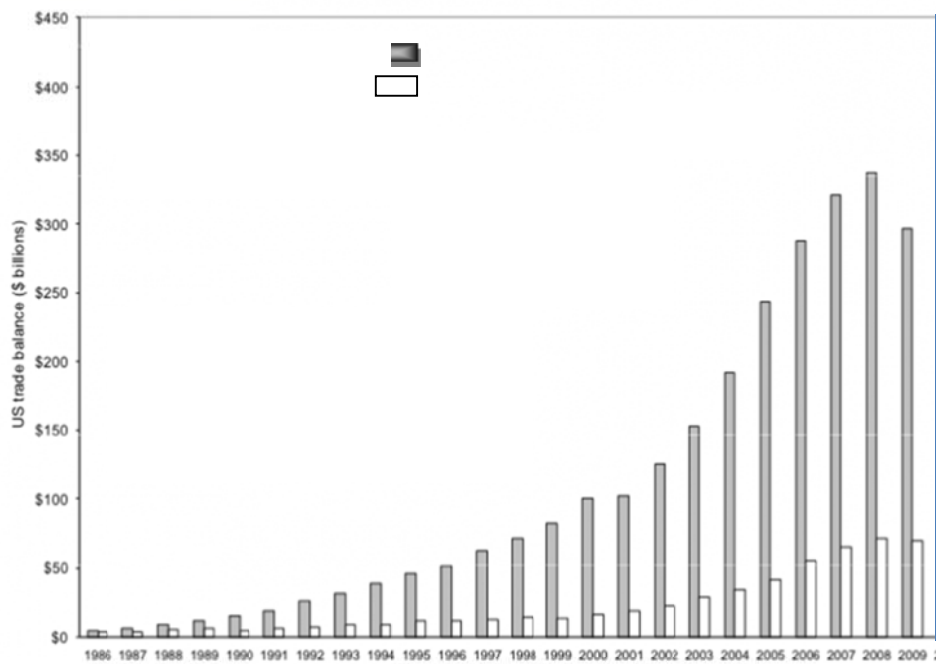
**[Turn over**

**Table 2: Singapore-China Bilateral Trade (\$\$ Thousands)***Source: IE Singapore*

	<b>2008</b>	<b>2009</b>
Imports from China	47,594,565	37,585,345
Exports to China	43,817,922	38,125,119

**Table 3: Exchange Rate of Singapore Dollar (SGD) vs. Chinese Yuan (CNY)**

<b>Year</b>	2008	2009	2010	2011
<b>SGD/100CNY</b>	21.09	20.55	19.53	20.61

*Source: Monetary Authority of Singapore***Figure 3**

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*Source: Goldman Sachs Global Markets Institute, Bureau of the Census.***[Turn over**

**Questions**

- (a) (i) Explain the meaning of balance of payments of a country. [2]
- (ii) Explain the impact of foreign direct investment on China's balance of payments. [4]
- (b) (i) With reference to Figure 3, describe the trend of US trade balance with China. [2]
- (ii) Discuss the effects of the "2005 China exchange rate reform" on the US trade balance with China. [8]
- (c) Using Table 3, identify the trend of exchange rate between Singapore dollar and Chinese Yuan from 2008 to 2011. [2]
- (d) Consider the impact of China's growth on the Singapore economy. [12]

**[Total 30m]****Section B**Answer **one** question from this section.

- 3** (a) Using appropriate examples, explain why the existence of negative externalities and public good causes market failure. [10]
- (b) Discuss the various policies which the Singapore government adopts in correcting the market failures above. [15]
- 4** (a) Explain the causes of a current account deficit. [10]
- (b) Assess the effectiveness of the policies that a government can implement when faced with a current account deficit. [15]

- End of Paper -

**[Turn over]**