



ST. ANDREW'S JUNIOR COLLEGE  
PRELIMINARY EXAMINATIONS – 2017 (JC2)  
General Certificate of Education Advanced Level  
Higher 1

---

**ECONOMICS**

**8819/01**

**28 August 2017**

Paper 1

**3 hours**

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 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 your answers for each question separately.**  
The number of marks is given in brackets [ ] at the end of each question or part question.

---

This document consists of **8** printed pages.

© SAJC 2017

**[Turn Over]**

**Section A**  
**Answer all questions**

**Question 1**

**Global Food Market and Potato Problems**

**Table 1: Food and Agriculture Organization (FAO) Food Price Index (2002 - 2004 = 100)**

Year	2011	2012	2013	2014	2015
Index	230	215	212	207	179

*The FAO Food Price Index is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices, weighted with the average export shares of each of the groups for 2002-2004.*

Source: *Food and Agriculture Organization of the United Nations*, 2015

**Extract 1: Global Food market**

Cheap oil contributed to abundant global supplies of food in 2014 and prospects of a bumper crop for wheat, maize, potatoes and rice in 2015—factors that are driving the sharp decline in international food prices. The agriculture and food sector continue to benefit from less expensive chemical fertilizer, fuel and transportation costs brought on by the previous year's oil price declines.

Falling oil prices have also affected the demand for biofuels, made from crops like maize and potatoes, while the developments in rice support policies for the needy are other factors that could impact food prices. However, unexpected domestic food price fluctuations remain a possibility so it is crucial that countries are prepared to address dangerous food price hikes when and if they unfold.

Source: *World Bank*, 1 July 2015

**Extract 2: Potatoes facts around the world**

The potato has risen to become the third most important food crop in the world after rice and wheat in terms of human consumption, with fewer alternative food crops available. More than a billion people worldwide eat potato, and global total crop production exceeds 300 million metric tons.

It is a major food crop that is grown in over 100 countries across the world. China, Russia, India, the United States and Ukraine are the largest producers of potatoes. Although many countries across the globe are boosting their potato production, China and India are emerging as the clear world leaders. China is aiming to have 6.66 million hectares on which to grow potatoes by 2020, as the crop is set to become the nation's fourth food staple after rice, wheat and corn, and the government strongly supports this move. The development of the potato industry and the government's push for consumption of potatoes as a staple food is an important step in China's agricultural development

For years, growers have grappled with the problem of getting too good at what they do. Enhanced technology and growing techniques, especially when it comes to controlled irrigation, have allowed potato farmers to be more productive with the same amount of land, year after year. The average potato farmer is able to produce 1.5% more per year thanks to these advances. The Brazilian Agricultural Research Corporation has been carrying on a breeding program to develop well adapted and market quality varieties, targeting to obtain high-yielding, improved tolerance to crop diseases and harsh environment conditions

Source: *Adapted from USA Today*, 10 Feb 2016

**Extract 3: Happy Problems in the Potato Market**

Potato growers in the key growing regions of India are set for a long wait for better return of their crop. Total potato production is at a record 44.89 million tonnes for 2014-15, which is about 8% higher than the 41.55 tonnes produced in 2013-14. The decline in food prices is welcome, because more poor people can potentially afford to buy food for their families.

However, over the past one month, prices have started firming up as farmers hold back their produce. Farmers, who could stock their produce in the cold storages, have already done it. But still there is a large quantity lying in the fields with the farmers. They will first bring that to market and cold storage stock will get released. Small quantity is also stored by the growers in temporary storages, which have to be disposed of within 2-3 months of harvesting.

There are a total of 240 cold storages in Agra, a city in India, that can store 45 million packets of potatoes, but since there are no buyers of potatoes currently and the farmers could not pay the transporters to take the potatoes to other states for selling due to cash crunch, the cold storage owners were dumping the potatoes out of their units as the farmers were unable to pay them. This, even as a production glut has forced farmers of this starchy tuber to dump their crop on roadsides.

Source: *The Hindu Business Line*, 16 June 2015

**Extract 4: Environmental Impacts Associated with Major Food Crops**

In countries like India, agricultural intensification (involving the adoption of modern irrigation, fertilizers, improved seeds, and pesticides) has contributed to dramatic gains in food yields since the 1960s. However, increasing evidence suggests that intensive farming systems, if not properly managed, can cause serious environmental harm by reducing soil fertility, polluting soil and water, depleting groundwater, using large amounts of fossil fuels for water pumping, and contributing to climate change. All agriculture inevitably changes the natural environment. However in many instances, harm to natural ecological systems is either unnecessary or outright undesirable.

India, as the largest groundwater user in the world, with an estimated usage of around 230 cubic kilometers per year, more than a quarter of the global total, is severely affected by such environmental issues that are inevitable for an economy that is reliant on agriculture. With more than 60 percent of irrigated agriculture and 85 percent of drinking water supplies dependent on it, groundwater is a vital resource of clean water for both rural and urban areas.

This era of seemingly endless reliance on groundwater for both drinking water and irrigation purposes is now approaching an unsustainable level of exploitation. Many governments have considered the merits of policy measures, including environmental taxation, pollution permits, subsidies for innovation into curtailing usage and subsidies to encourage firms to recycle water.

Source: *Adapted from World Bank*, 6 March 2016

**Extract 5: Brazil imposes anti-dumping duty on imported frozen potatoes**

Brazil may be tempted to enforce a temporary 'anti-dumping rule' for imported frozen french fries sometime this month. The tax would mainly hit Belgian and Dutch potato product manufacturers.

Brazil is an important export market for the Belgian and Dutch potato manufacturers. The Dutch exported some 83,000 tons of frozen food to Brazil, which equates to about 166,000 tons of potatoes. That means the Netherlands are the second largest exporter to Brazil, following Argentina. Belgium, with 71,000 tons (which represents 142,000 tons of potatoes) is third in the list. Overall, Belgium process nearly 4 million tons of potatoes into cooled and frozen French fries, puree, chips, cooked potatoes, flakes and granulates.

The strong import numbers did not please Brazilian potato manufacturers. They accused European exporters (Belgium and the Netherlands, but also France and Germany) that they were dumping their products onto the Brazilian market. To support their claim, they refer to the pricing between July 2014 and June 2015, which were 18% to 41% below the prices used by those same four European countries to export to the United Kingdom. Belgian prices apparently differ nearly 25%.

The European potato manufacturers deny the accusation and feel the complaint is merely an attempt to protect local production. Even though there is still an ongoing investigation, Brazil could decide to enforce a temporary anti-dumping tax which might mean import costs could grow 40%. That would basically price the European frozen french fries out of the market.

The European potato industry is currently examining how it can fight back: one of the options is to create an interest group with local parties like importers, retailers and processors which could then point to how import helps the local economy and populace. One possible explanation could be that an additional import tax could cause price hikes, which could then spur inflation.

Source: *The EU Retail Detail*, 6 April 2016

**Questions**

- (a) (i) Describe the trend in world food prices from 2011 to 2015. [2]
- (ii) Using a diagram and Extract 1, explain one demand and one supply factor that could support the trend in world food prices from 2011 to 2015. [4]
- (b) From Extract 2, explain how the price elasticity of demand and price elasticity of supply of potatoes have changed over the years. [4]
- (c) (i) Using Extract 4, explain the source of market failure. [4]
- (ii) Comment on the options available to the Indian government as possible responses to the above market failure. [6]
- (d) (i) Explain what is meant by dumping as seen in Extract 5. [2]
- (ii) Discuss whether the Brazilian government should impose 'anti-dumping duty' on frozen potatoes. [8]

**[30 marks]**

## Question 2

### United Kingdom and European Union

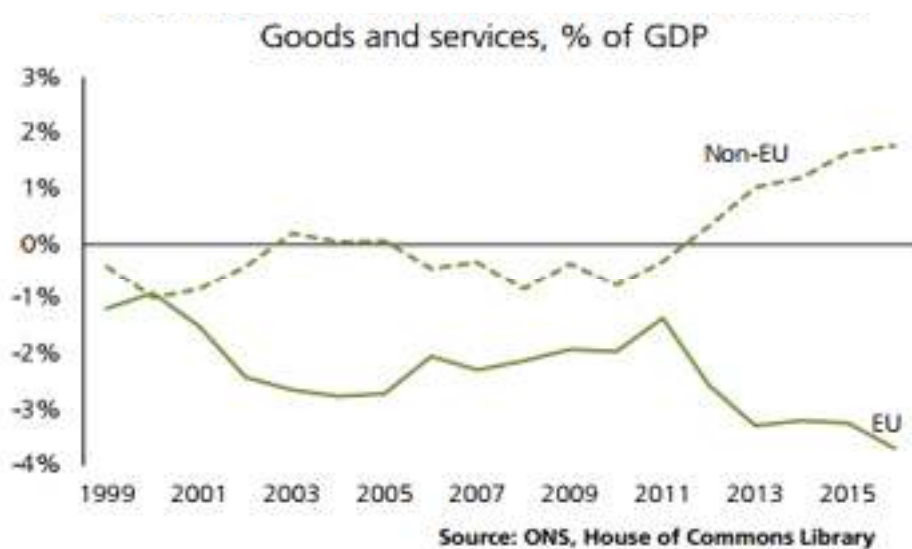
#### Extract 6: How worrying is Britain's large current account deficit?

Hear any UK politician talk of “the deficit”, and he or she will now always be referring to the balance of budget. Britain has been facing a budget deficit from 2010. In the same period the current-account deficit, has also widened. Weak export performance is partly to blame for Britain's large current account deficit. Although disappointing net income from foreign investment is another cause of the deterioration in the current account, it is an extremely attractive investment destination for foreigners as they believe UK is a good bet given its credible governance amid trouble in emerging economies.

In one way, though, Britain looks less solid. Its appeal to investors might diminish markedly if it looked like leaving the European Union, in other words, if there were to be Brexit. Britain has been an attractive destination for FDI given its preferential trade access to the EU. European investors hold most of Britain's short-term liabilities; plugging the current-account gap might become harder without a big fall in sterling, if sentiment soured on Britain.

Source: *The Economist*, 15 October 2015

**Figure 1: UK's Balance of Trade with EU and non-EU countries**



#### Extract 7: Net immigration is up in UK

Net immigration is on the up with 298,000 which is the highest since the record level of 320,000 in 2005. Research reveals there is a brain drain of thousands of talented workers leaving the UK for lucrative jobs abroad, while six times as many migrants with low numeracy skills are arriving. These migrants tend to depress wages in low wage sectors and at the same time are entitled to a range of benefits such as housing, healthcare and financial assistance.

Source: *The Telegraph*, 5 March 2015

**Table 2: 2015 UK's Export and Import Data**

Top Export Partners	Top Export Products	Top Import Partners	Top Import Products
USA	Precious Metals	Germany	Mechanical Appliances
Germany	Mechanical Appliances	China	Motor vehicles
China	Motor Vehicles	USA	Electronic Equipment
France	Electronic Equipment	France	Mineral Fuels
	Pharmaceutical Products		Pharmaceutical Products
			Precious Metals

Source: *HM Revenue & Customs Overseas Trade Statistics*

#### **Extract 8: What would happen if Britain left the EU?**

The 'Brexit'- Britain leaving the European Union (EU) is a major concern and David Cameron, the prime minister of UK, has promised a 2017 referendum on whether Britain should leave the EU. Results of early surveys show while those wishing to leave the EU just outnumber those likely to vote to remain in the EU, there are still many UK citizens who are undecided.

The arguments for leaving the EU include Britain regaining control over migrants flows especially slamming doors on Eastern European migrants abusing UK's welfare system, stopping of annual contribution of small fortune to EU budget and to minimise the impact of the Eurozone crisis on UK. Factors such as remarkable growth of emerging markets outside Europe like China and the relative success of the United States when compared with Europe also support the leave decision as it opens up new avenues of global economic co-operation and integration with UK able to strike better deals on its own. It would also prevent proposed EU regulation such as tax on financial services from harming UK's key sectors one of which is financial services. It would also open up Britain's food market to the world.

On the other hand, those wishing to remain in the EU argue that deep integration of UK and the EU in terms of economic, military and culture could mean that Brexit would lead to a loss of market access to EU, plummeting stock markets, weakening the pound and the UK economy. Even, the argument about control over immigration has its flaws as research shows that over longer term immigration boosted wages and employment.

Brexit would also be a source of concern to EU citizens who are all absolutely terrified by the prospect of the referendum due to uncertainty arising from the potential Brexit, diminished image of the EU and possible rise in trade barriers. More than 50% of Britain's trade flows are with the EU and UK is the second largest economy in Europe. The restriction of labour flows to the UK from the EU into the UK could have negative impact on Eastern European countries but might benefit more affluent Western European countries such as Germany which could see higher inflows of EU migrants.

Source: *The Guardian*, 19 April 2015

### **Questions**

- (a) (i) Compare the trend in the balance of trade between UK and EU between 2012 and 2015 with that of UK and non-EU over the same period. [2]
- (ii) Using economic analysis, explain one possible reason for the trend observed in balance of trade between UK and EU between 2012 and 2015. [2]
- (b) Explain how a change in UK's trade balance could affect UK's budget balance. [4]
- (c) Use the concept of opportunity cost to explain **one** effect on each of firms and the government arising from the inflow of migrants in UK. [4]
- (d) Using the information and your own knowledge, explain how Britain benefits from free trade with EU. [4]
- (e) To what extent can theory of comparative advantage be used to explain UK's pattern of trade? [6]
- (f) Discuss whether the potential problems faced by UK are likely to be more serious than problems faced by EU members' countries if Brexit were to take place. [8]

**[Total: 30 marks]**

## **Section B**

**Answer one question from this section.**

### **Question 3**

Plans to achieve a 'car-lite' society, which is to reduce the use of private cars in Singapore, will cost the government S\$36 billion. The Government is expected to invest this amount over the next five years, as it seeks to improve rail reliability and make public transport the preferred way to get around.

- (a) Explain how the use of private cars leads to market failure and consider whether public transport can be regarded as a public good. **[10]**
- (b) Discuss whether improvement to public transport alone is the best way to achieve a car-lite society. **[15]**

### **Question 4**

- (a) Explain the two possible conflicts in macroeconomic goals that a government may face. **[10]**
- (b) Assess the view that certain policies are better suited in attaining favourable balance of payments position than other policies. **[15]**

---

~ End of paper ~