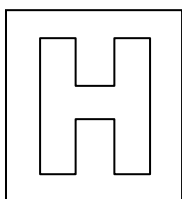


Candidate Name: \_\_\_\_\_

Class    Adm No

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## 2011 Promotional Examination II Pre-university 2

**ECONOMICS**

**8819/01**

Paper 1

**13 September 2011**

**3 hours**

Additional Materials: Answer Paper

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### **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 or graphs.  
Do not use paper clips, highlighters, glue or correction fluid.

#### **Section A**

Answer **all** questions.

#### **Section B**

Answer **one** question.

Start each question on a fresh sheet of paper.  
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.

At the end of the examination, hand in your answers to the three questions separately.

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

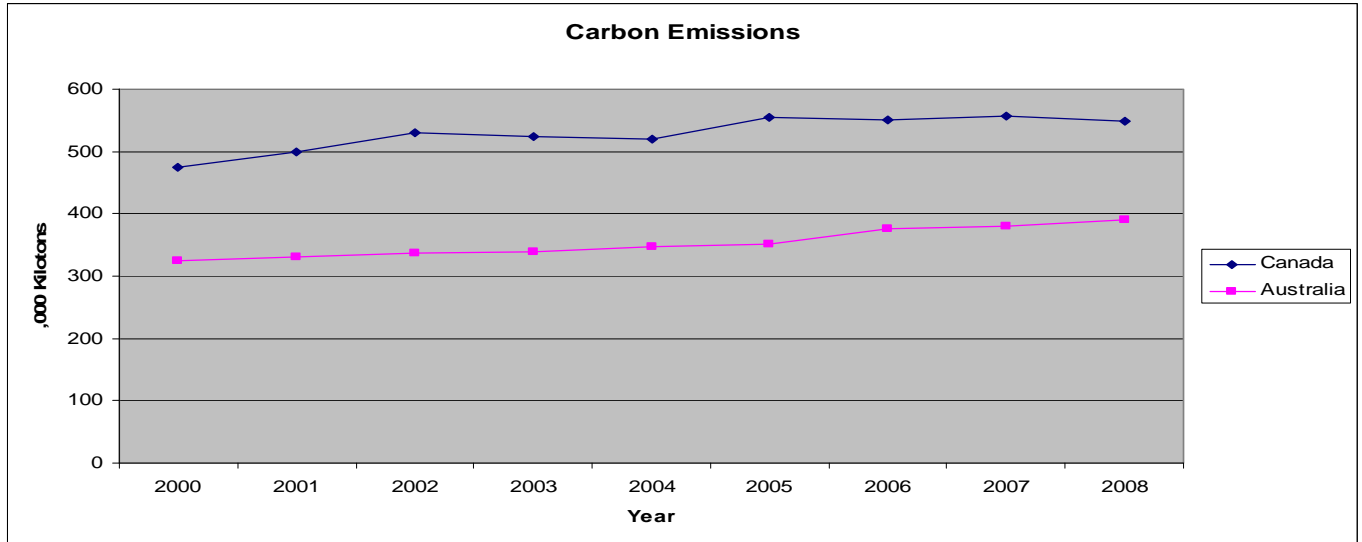
**[Turn over**

## Section A

Answer **all** questions in this section.

### Case Study Question 1: The Fight against Carbon

**Figure 1: Total Carbon Emissions**



Source: *tradingeconomics.com*

**Table 1: Carbon Emissions from Electricity Generation**

Country	Present CO2 Emission (KT)	Electrical Energy (MWH)	% Fossil	% Hydro	% Nuclear	% Renewable
Australia	224,000	228,000,000	90.04	6.82	0	1.53
United Kingdom	227,000	4,190,000,128	71.35	1.33	20.34	5.28
Japan	414,000	1,030,000,000	33.23	7.57	27.74	2.75
Germany	429,000	636,000,000	62.11	3.05	24.36	7.46
China	3,120,000	3,260,000,000	82.51	14.51	2.02	0.12
Canada	172,000	732,000,000	26.29	49.91	11.95	4.28

Source: *CARMA Database*, Aug 2011

\* 1mwh = 1000 kilowatt hours

\* 1kt = 1000 tons

#### Extract 1: Australia introduces carbon emission tax

Australia unveiled its most sweeping economic reform in decades on Sunday with a plan to tax carbon emissions from the nation's worst polluters, reviving hopes of stronger global climate action with the largest emissions trade scheme outside Europe. Prime Minister Julia Gillard said 500 companies including steel and aluminium manufacturers would pay a A\$23 per ton carbon tax from next year, rising by 2.5 percent a year.

Australia is the developed world's worst per-capita greenhouse gas emitter because of its heavy reliance on cheap coal for power generation. Emissions are set to rise in the booming economy with more people travelling, the government says. As carbon emission is a prevalent source of global warming, the scheme is aiming to cut national emissions by 5 percent of 2000 levels by 2020, which would mean a cut of about 160 million tons.

The danger is that a vigorous campaign by the conservative opposition and business groups opposed to the tax could erode public support. Major concerns were raised as the tax may impose

the highest carbon price in the world, compromising the competitiveness of Australia's export and import competing sector without much environmental benefits.

To neutralise opposition, Gillard said more than A\$24 billion to be raised from pollution permit sales over the next three years would go to households through generous tax cuts worth more than A\$15 billion.

Source: *www.reuters.com*, 10 July 2011

### **Extract 2: Qantas Airways warns of increase in fares**

Qantas Airways claims the new carbon tax is likely to increase the cost of its operations by as much as 115m Australian dollars (£76.7m). However, the airline says the extra cost will be passed on to passengers as it increases fares. Qantas expects the price on a single domestic flight to rise by about A\$3.50 in 2013.

"In the context of the significant challenges facing the global aviation industry, the Qantas Group will be unable to absorb the additional costs associated with the carbon price and there will be a full pass-through to customers," the Australian airline said in a statement.

Meanwhile, Virgin Australia said the cost of the carbon tax to the company is likely to be about A\$45m. The carrier said it will also pass the extra costs on to the customers, with average domestic fares increasing by A\$3 per ticket.

Source: *BBC Business News*, 11 July 2011

### **Extract 3: UK energy firms to get new low-carbon incentives**

The government is to guarantee prices for electricity to persuade the private sector to invest in new low-carbon forms of generation. The move is part of a range of proposals outlined by Energy Secretary Chris Huhne. He also mentioned that the measures "were a once-in-a-generation chance to lay the foundations for the sustainable economy of the future".

Opposition MPs said they welcomed the proposed measures, but said the government must ensure that consumers did not bear their costs. Mr Huhne responded by saying that subsidies would be available for all forms of low carbon power generation, whichever proved to be the most attractive.

The aim of the new framework is to ensure the UK has the electricity generating capacity it needs, while still meeting its climate change targets. In the next 10 years a quarter of UK's generation capacity is due to come off line. Roughly half of that is due to tightening environmental regulation. The government wants industry to build a new generation of power plants using low-carbon technologies including renewables, nuclear, and clean coal and gas. So it is proposing a range of incentives to give investors the certainty they will need, saying its plans represent the biggest reform of the electricity generation market in 25 years. To limit the amount of carbon emissions, new coal power stations are also required to incorporate carbon capture and storage.

There would be extra support for what are described as younger technologies like offshore wind and wave power. There will also be capacity payments to ensure there is back-up plant available on those days when the wind doesn't blow. There will be disincentives too. These will include support for the carbon price - which would make it expensive to generate power using dirty coal.

Source *BBC Business News*, 16 Dec 2010

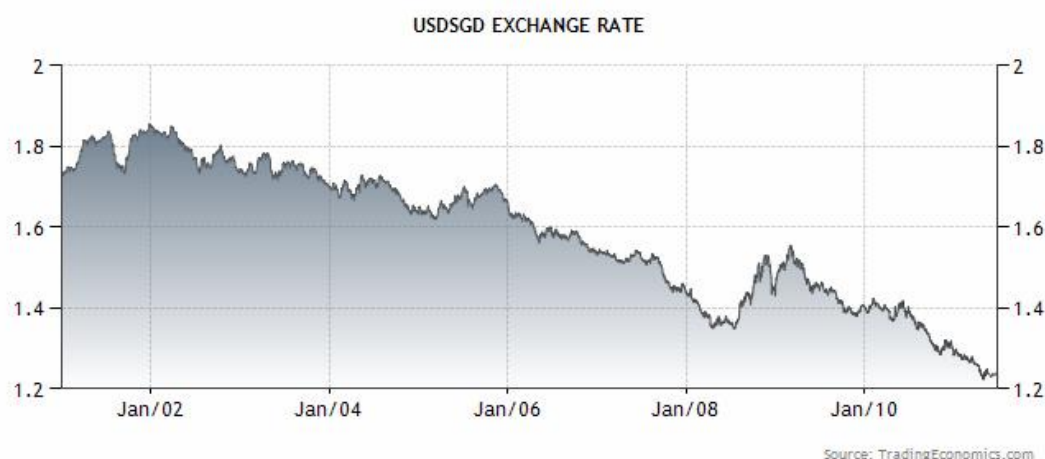
## Questions

- (a) i) With reference to Figure 1, compare the trends for Australia's and Canada's carbon emission between 2000 and 2008. [2]
- ii) Give 2 possible reasons for the trend observed. [2]
- iii) Using Table 1, explain why Australia is a worse polluter compared to Canada. [4]
- (b) i) Based on extracts, identify two changes taking place in the airline industry. [2]
- ii) Using demand and supply analysis, explain the impact of these changes on Australia's airline industry? [4]
- (c) i) Define market failure. [2]
- ii) With the aid of a diagram, explain why electricity generation is a source of market failure. [6]
- iii) With reference to the extracts, discuss the effectiveness of two measures mentioned which are used to correct market failure. [8]

**[Total: 30 marks]**

## Question 2: Effects of the US 2008 Economic Crisis

Figure 2: US Dollar to Singapore Dollar Exchange Rate



Source: *TradingEconomics.com*

### Extract 4: Asia and the financial crisis

Countries in Asia are increasingly worried about what is happening in the US. The financial crisis has shown that in an increasingly inter-connected world, Asia has had more exposure to problems stemming from the West. Many Asian countries have seen their stock markets suffer and currency values going on a downward trend. Asian products and services are also global, and a slowdown in wealthy countries means increased chances of a slowdown in Asia and the risk of job losses and associated problems such as social unrest.

China and Japan are two of the largest economies in Asia. China has experienced a sharp slowdown and its growth is expected to slow down to 8%. This is still a good growth figure as China's domestic economy is growing. However, China also has a growing crisis of unrest over job losses. With China concerned about its economy, it has been trying to encourage its companies to invest more overseas, hoping it will reduce the upward pressure on its currency, the Yuan. Japan, which has suffered its own crisis in the 1990s, also faces trouble now. While their banks seem more secure compared to their Western counterparts, it is very dependent on exports. Japan's output for the first 3 months of 2009 plunged at its quickest pace since records began in 1955, mostly due to falling exports. With high unemployment and general lack of confidence, optimism for recovery has been dampened.

Source: *Globalissues.org*, 11 Dec 2010

### Extract 5: Singapore's economy in recession

Singapore's trade-sensitive economy has declined for a second straight quarter, the government said Friday, meaning the city-state has entered a recession for the first time in six years. The Ministry of Trade and Industry also revised downwards Singapore's full-year growth forecast to around three percent, citing a slowdown in the global economy and key domestic sectors. In a move to confront the downturn, the Monetary Authority of Singapore - its de facto central bank - said it was easing monetary policy for the first time in more than four years.

Singapore is Southeast Asia's wealthiest economy in terms of gross domestic product (GDP) per capita but is heavily dependent on trade. This makes it sensitive to hiccups in developed economies, particularly key export markets the United States and Europe. The ministry said the impact of the worsening US financial crisis and the deepening credit crunch had weakened US consumer sentiment, which will affect demand from Asia and the rest of the world.

Source: *AseanAffairs.com*, 10 Oct 2008

#### **Extract 6: IMF tells US to put house in order**

In the US, the peak unemployment rate in post-war recessions averaged 7.6%, while the unemployment rate in May 2009 was 9.4% and still rising. The severe recession that followed the financial crisis in US has resulted in heavy governmental bailouts of insolvent financial companies and that government spending has contributed to the high debt problem.

The International Monetary Fund called on the United States to resolve its huge debt crisis fast. The US dollar lost ground in Asian trading, hitting a fresh record low against the Swiss franc, and was lower against the yen. Gold also hit a record high on Monday, touching \$1,622 an ounce, in the race for investment safe havens.

"The country can ill-afford to lose the confidence of large foreign holders of US Treasury bonds, overseas manufacturers with factories here, those that use the dollar as the reserve currency, and the many who have outsourced here the intermediation of their hard-earned savings and pensions," an economic commentator wrote.

Having reached its current debt ceiling of US\$14.3 trillion, America is likely to run out of money on 2 August unless the government is able to raise it. A compromise plan proposed was significant spending cuts and, crucially, no new taxes.

Source: *The Guardian*, 25 July 2011

#### **Extract 4: IMF gives Singapore the thumbs-up**

Singapore's central bank sets policy by managing the Singapore dollar in a secret trade-weighted band against a basket of currencies, instead of setting interest rates. A normal stance of the Monetary Authority of Singapore (MAS) is a strong Singapore dollar policy.

As the recession took hold last November, Singapore moved to a neutral exchange rate policy, where the currency neither appreciates nor depreciates, and then shifted down the band within which it trades in April this year. Singapore's monetary policy is appropriate, the International Monetary Fund (IMF) report said, and should remain so for some time. But it added that Singapore should return to a policy of allowing the currency to strengthen gradually once economic recovery is 'well established'.

The Government's \$20.5 billion fiscal resilience package was described as 'timely, appropriately large and diversified'. \$4.9 billion of that would be funded by the past reserves, which have never been drawn on. A key plank of the Budget is a novel \$4.5 billion Jobs Credit Scheme through which the Government will pay a portion of employers' wage bill. To help Singaporeans upgrade their skills so that they can stay employed or seek re-employment, the Government launched the Skills Programme for Upgrading and Resilience (SPUR) which provided higher course fee support for companies and individuals.

Sources: MOF January 2009, *The Straits Times*, September 2009

## Questions

- (a) (i) Describe the trend of the Singapore dollar as shown in Figure 2. [2]
- (ii) Using demand and supply analysis, explain what accounted for the trend. [4]
- (b) (i) Compare the effects of the US recession on a large economy like China and a small economy like Singapore. [4]
- (c) (i) Explain how the financial crisis of the US has affected its government. [2]
- (ii) Should the US government be unable to repay its debt on time, explain how such a default in its debt repayment will affect the US economy. [4]
- (iii) Suggest and evaluate at least 2 ways in which a government can solve its national debt problem. [6]
- (d) Using case information and your economic understanding, comment on the effectiveness of using exchange rate policy and one other policy to help overcome Singapore's economic problem of recession. [8]

**[Total: 30 marks]**

## Section B

Answer **one** question from this section.

- 3 a) Explain the factors which determine the price of housing in Singapore. [10]
- b) Comment on the ways that the Singapore government intervenes in the market for housing to bring about a better allocation of resources. [15]
- 4 “Policymakers have said recently that they will use a stronger Singaporean dollar to combat inflation, but they don’t want to strengthen the currency too much because that could undermine the city-state’s export competitiveness.”

Source: *Taipei Time*, 15 Apr 2011

- a) Explain how the exchange rate of a country is determined. [10]
- b) Discuss whether this policy of strengthening the exchange rate alone is adequate to control inflation in Singapore. [15]

**End of Paper**