HWA CHONG INSTITUTION
JC2 Preliminary Examinations
Higher 1

CANDIDATE NAME		**CT GROUP**	**11A/S**
CENTRE NUMBER		**INDEX NUMBER**	

ECONOMICS **8819/01**
Paper 1 **30 August 2012**
3 hours

Additional Materials: Answer Paper

INSTRUCTIONS TO CANDIDATES
Write your **name** and **CT class** clearly in the spaces at the top of this page and on every page 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 and tape.

Section A
Answer **all** questions.

Section B
Answer **one** out of 2 questions.

Begin your answer to each question on a fresh sheet of writing paper.

At the end of the examination, fasten the answer scripts to Section A: Questions 1, 2 and Section B ***separately*** with the 3 cover pages provided.

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

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

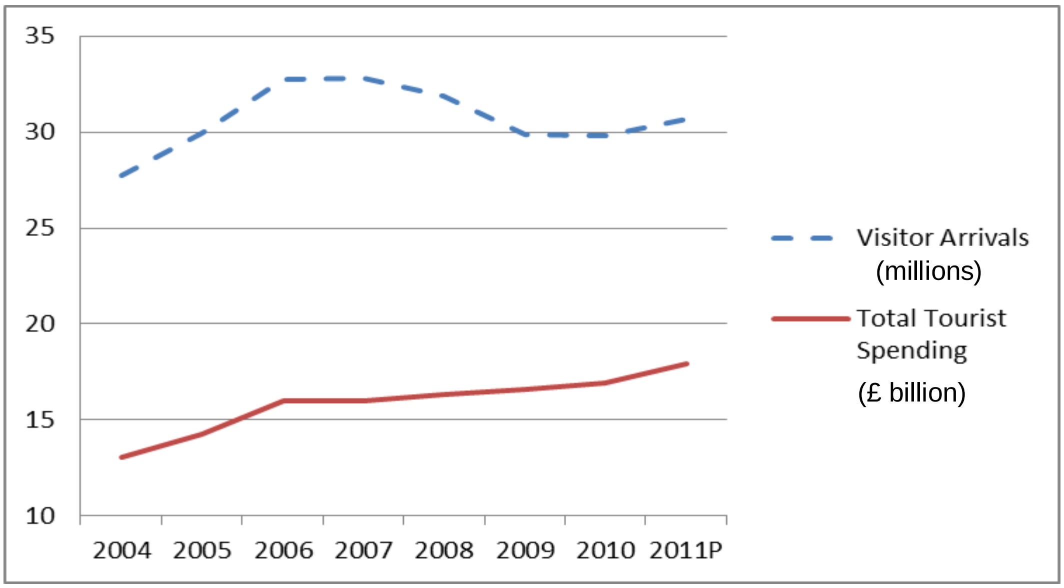
This document consists of **8** printed pages.

Section A

Answer **all** questions.

Question 1 London Olympics 2012

Figure 1: Visitor arrivals (in millions) and total tourist spending (£ billion) to the UK, 2004 to 2011 (projected)



[P] predicted

Source: Office of National Statistics, 2010

Extract 1: A cautious boost in tourist numbers

The trade body representing tour operators has warned that expectations of a boost in tourism from the London Olympics may not be met, after unveiling research that suggested previous games had a "toxic" effect on visitor numbers according to the European Tour Operators Association (ETOA).

The Sydney games in 2000 anticipated 132,000 visitors and received 97,000 for the games period, while Athens hoped for 105,000 per night in 2004 and received fewer than 14,000. In 2008, Beijing anticipated more than 400,000 foreign guests and received 235,000 for the whole month of August.

Lord Sebastian Coe, chairman of the London Organising Committee of the Olympic Games, has talked of 1 million "extra" visitors coming to the UK for the games, which may bring the total annual visitor figure to about 33 million.

But the ETOA report claimed that the perception that the host city would be crowded with tourists and expensive was likely to tarnish the view of the country as a whole. It said its members were already dealing with the perception that the UK would be crowded and so best avoided in 2012. Most believe the transportation system is unable to cope with the forecasted numbers. This is likely to create huge inconvenience to Londoners daily life.

Olympic organisers face an ongoing battle to convince overseas travellers that visiting London for the games will remain cost-efficient and have appealed to hotels not to try and cash in by increasing their prices. However, hotel operators are largely expected to raise their prices by an average of 300% more than the usual summer holidays. Some quarters fear that not all the rooms may be filled.

Source: The Guardian, 21 September 2010

Extract 2: The Olympic Park

When the International Olympic Committee voted for London to stage the 2012 Olympic Games, the British celebrated by pouring taxpayers money into the construction of the Olympic Park which included 7 major arenas. However, it was near to impossible to find land in London large enough to accommodate the Olympic Park and as a result, a proposed 4000-unit housing development had to be given up to make the Olympic Park possible.

Source: Adapted from The Guardian, 20 June 2010

Extract 3: The Multiplier Effects of the Games

The most enduring effect of the 2012 Games will not be the world records that are set at the various venues but the extent to which the economic activity generated by their construction helps to lift the country out of recession. At a time when many are calling for a Keynesian solution to the country's economic woes, the Games oblige the government to spend billions of pounds on one-off infrastructure projects.

It is certainly true that thousands of people are employed directly in construction at the various competition sites, and thousands more are benefiting from the fillip of a deal with the Olympics Delivery Authority (ODA). It has awarded more than 1,000 contracts with a total value of £5 billion, and 98 per cent of the successful bidders for orders to supply everything from shuttlecocks to pedestrian bridges are UK-based. But much of the £9.3 billion Olympics budget will be spent on the venues that will stage the key events. These are vast structures designed by prestigious architects.

And when the Games themselves begin, there will be a short-term contract workforce of 100,000 people in diverse fields such as hospitality and catering, security, information and communications technology, management services and transport.

The Games may be a useful refresher for the economy at a difficult time but, if we are looking for a stimulus to go anywhere near rivalling postwar spending spree, we'd have to enter winning bids for the World Cup, Winter Olympics and a few more major competitions too.

Source: Spectator Business, 1 Jan 2010

[Turn over

Questions

(a) (i) Compare the number of visitors and the total tourist spending to UK. [2]

(ii) With the aid with a diagram, explain why hotel operators tend to charge high prices before the Olympic period but fail to have full occupancy during the Games itself. [4]

(b) With the use of a production possibility curve and relevant economic concepts, explain the alternatives faced by the government when they decided to construct the Olympic Park. [4]

(c) With reference to Extract 1, explain the likely source of negative externalities that may occur during the Games and assess one method that the government might use to curb it. [8]

(d) (i) Explain what is meant by the term “a Keynesian solution” in Extract 3. [2]

(ii) To what extent would the macroeconomic performance of the UK improve since winning the bid to host the Olympic Games? [10]

[Total: 30 marks]

Question 2 Unsynchronised Global Economic Recovery

Extract 4: Disappearing stores of value

Between 2005 and 2008, China played a constructive role in world economic arrangements, revaluing its currency by about 20% against the U.S. dollar and thereby shrinking its balance of payments surplus. Then at the end of 2008, the Chinese government undertook a massive "fiscal stimulus" program. China's rapid growth in 2009 brought down its balance of payments surplus, in fact the balance swung briefly into deficit in April 2010. However, as U.S. consumer and government spending, artificially stimulated by an excessive budget deficit and over-expansionary monetary policy, brought in Chinese imports once more, the U.S. balance of payments deficit with China widened again.

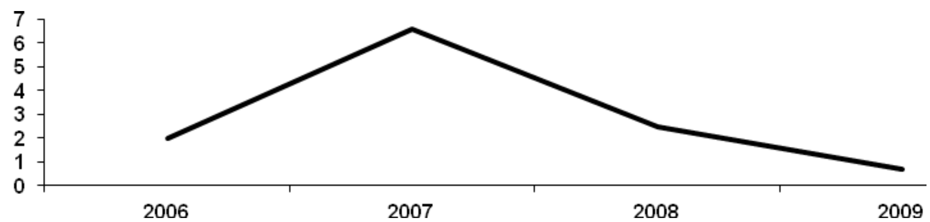
Since the beginning of September the Chinese currency has appreciated about 1.8% against the dollar. However, the U.S. Administration thinks this is not enough and Bills are pending in the House to penalize Beijing through tariffs if it doesn't let the yuan rise further.

Some economists say the U.S. would suffer greatly in a trade war. China is a growing market for American exports. If they're seen as being slapped, they would have to retaliate. It's hard to imagine that the U.S. would start manufacturing the toys, TVs, and underwear that it now imports from China. More likely it would just pay more for the same items – or buy them from other low-wage nations such as Mexico, Vietnam, and Indonesia.

The case for a massive revaluation of the yuan is thus a weak one. Premier Wen is further justified in resisting it because China's rapid growth has brought an explosion of wage rises of 20%, or in some cases even 60%. Thus, while the Chinese consumer market is an engine of growth, domestic costs are rising rapidly and its exporters are being horribly squeezed. Wen is happy to reposition Chinese growth towards the domestic market, but naturally doesn't want his major export industries to go belly-up.

Source: Adapted from Business Week online, 23 September 2010, Asia Times, 14 October 2010

Figure 2: China's inflation rate (%)



Source: IMF, World Economic Outlook Database, October 2010

Extract 5: Currency wars threaten global economic recovery

In recent months a string of countries, from Japan to Switzerland, Colombia to Israel, have tried to drive down the value of their currencies. Some experts call it "competitive devaluation". Others, though, argue that it is nothing short of a currency war – and far from boosting global recovery, it threatens to undermine it.

[Turn over

Last month, the Bank of Japan began a massive sale of yen and bought dollars instead to aid Japan's ailing economy, which is dependent upon an export-led recovery. But Japan's action led to a rise in the dollar's value – a problem for the U.S.'s own export-led recovery. America is in dispute with China, with Washington accusing Beijing of dampening the yuan's value and making U.S. exports more expensive. Any rise in the dollar, caused by Japan's intervention, magnifies U.S. exporters' gripes with Beijing.

Unilateral action by one central bank can, therefore, set off or fuel disputes in other parts of the world. In this game of three-dimensional chess, countries are forced into tit-for-tat action. For Charles Dallara, head of the Institute of International Finance, the issue risks setting off a new round of protectionism.

Source: BBC News, 6 October 2010

Extract 6: A world out of balance

This week the International Monetary Fund (IMF) predicted that global GDP should expand by 4.8% this year. This respectable average hides a series of problems. Most obviously, there is the gap between the vitality of the big emerging economies and the sluggishness of many rich ones.

In the emerging world, politicians are behaving as if growth was more fragile than it is. The pace has slowed a bit, but from breakneck speed to merely very fast, and inflation is still high. Yet many policymakers are buying boatloads of dollars to stop their currencies rising as foreign capital pours in from Western investors seeking better returns. And emerging economies still save more than they invest, which explains why global imbalances – notably the controversial surplus in China and deficit in America – remain so big.

In the rich world, the danger is the reverse: politicians cutting back on the basis that growth is assured. Rich countries are planning tax rises and spending cuts worth 1.25% of their collective GDP in 2011, the biggest synchronised fiscal tightening on record. In many places austerity measures are necessary due to the unsustainable fiscal debt that is hurting investors' confidence, but cutting this much this early is a risk.

Even if demand remains strong enough to cope with this onslaught, the world's longer-term growth prospects are darkening. America's and Europe's working-age population are about to start declining; Japan's is already doing so. Many labour markets also need an overhaul, especially in southern Europe, where it is still far too difficult to adjust wages or fire permanent workers. Furthermore, infrastructure development in China and India are not keeping pace with their rapid growth, and there are signs of bottlenecks in production.

A fast-growing emerging world is fine, but a stagnating rich one serves nobody – especially if trade tensions start to rise. Protectionism is already rising in the United States. Hence, the world would be better served by policies that both improve rich countries' prospects and reorient growth in emerging economies.

Source: The Economist, 7 October 2010

Table 1: Selected Economic Indicators for Advanced Economies[1]

	2006	2007	2008	2009	2010[P]
Gross domestic product at constant prices (percentage change)	3.0	2.7	0.2	-3.2	2.7
Gross national savings (as a percentage of GDP)	20.7	20.6	19.4	16.9	17.9
Inflation (percentage change)	2.4	2.2	3.4	0.1	1.4
Current account balance (US$ billions)	-453.0	-343.5	-492.6	-122.6	-110.1

Table 2: Selected Economic Indicators for Emerging and Developing Economies[2]

	2006	2007	2008	2009	2010[P]
Gross domestic product at constant prices (percentage change)	8.2	8.7	6.0	2.5	7.1
Gross national savings (as a percentage of GDP)	32.9	33.2	33.7	32.0	32.4
Inflation (percentage change)	5.6	6.5	9.2	5.2	6.3
Current account balance (US$ billions)	662.8	654.3	703.4	339.1	312.3

[P] predicted

Source: IMF, World Economic Outlook Database, October 2010

Questions

(a) (i) Describe the trend in the general price level in China between 2006 and 2009. [1]

(ii) With the aid of a diagram, explain reasons for the trend observed. [4]

(b) (i) Explain what is meant by the term "gross domestic product at constant prices". [2]

(ii) Using Tables 1 & 2, explain a possible economic relationship between savings and economic growth. [2]

(c) (i) Compare the advanced economies' current account balance with that of the emerging and developing economies between 2006 and 2009. [2]

(ii) Account for a difference observed. [3]

(d) In the light of the data provided, assess the extent to which protectionism against China would solve U.S.'s worsening trade deficit? [8]

(e) As the chief of the IMF, examine the most appropriate policies you would recommend to the world's governments to 'both improve rich countries' prospects and reorient growth in emerging economies'. [8]

[Total: 30 marks]

[Turn over

[1] Includes countries such as Australia, Canada, France, Germany, Japan, Italy, Norway, Singapore, Taiwan, United Kingdom and United States

[2] Includes countries such as Argentina, Brazil, China, Egypt, India, Indonesia, Iran, Malaysia, Nepal, Poland, Russia, Saudi Arabia, Thailand, Turkey, Venezuela, and Vietnam

Section B

Answer **one** question from this section.

3 "All Singaporean children should be offered free pre-school education run by the Government, a group of leading childhood experts have recommended."

Source: The Straits Times 18th July 2012

(a) With the use of examples, distinguish between public goods and merit goods. [10]

(b) Discuss whether making pre-school education free is the best policy to achieve allocative efficiency in Singapore. [15]

4 Globalisation refers to the integration of economies through trade of goods and services, foreign direct investment, capital and labour flows.

(a) Explain how governments can encourage foreign direct investment into their countries. [10]

(b) Discuss the impact of globalisation on different economies. [15]