



MERIDIAN JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION 2013
HIGHER 2

H2 Economics

9732/01

Paper 1 Case Study Questions

16 September 2013

2 Hours 15 Minutes

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Do not open this booklet until you are told to do so.

Write your name, class and register number in the spaces at the top of the answer sheets.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

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

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

Section A : Case Study (2h 15 min)

Answer **all** questions.

Answer each compulsory case study question on a fresh sheet of paper.

At the end of the examination, fasten all your work securely together.

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

[Turn Over]

Answer **all** questions.

Question 1

The Next Food Crisis

Table 1: Annual Food Price Index (100=2002-2004)

Date	Food Price Index	Meat Price Index	Dairy Price Index	Cereals Price Index	Oils Price Index	Sugar Price Index
2004	103.7	104.9	113.1	99.1	103.5	93.8
2005	103.3	105.8	119.2	91.2	91.3	123.6
2006	108.2	101.2	109.3	103.9	96.0	179.0
2007	127.7	100.7	170.9	134.3	136.8	115.1
2008	147.6	113.2	162.2	175.6	167.8	134.2
2009	123.9	105.0	111.8	137.2	119.2	203.2
2010	139.4	114.6	150.8	137.4	146.1	227.3
2011	154.0	119.5	149.2	167.1	170.7	249.7
2012	141.6	117.0	126.1	161.3	150.6	204.3

Source: Food and Agriculture Organization

Extract 1: Food Prices

The United States Department of Agriculture (USDA) recently released a report that said global output in several key commodities would fall while demand across a number of sectors would rise. The simple and relatively uncontroversial concept of supply and demand would dictate that food prices would increase. Following this announcement, prices did indeed rise. Corn is up 94 percent, soybeans 51 percent, and wheat 80 percent. Current prices are so high that they exceeded a previous record set in 2008, and the United Nations' Food and Agricultural Organization's (FAO) Food Price Index is at an all-time high.

Specifically, there are a number of causes for this dramatic leap. The USDA cited supply side problems, such as floods of Australia, poor weather in South America, and extremely dry weather in Russia last year. In addition, they expect ethanol producers to use more corn for production of biofuels. In a bigger picture, rising global standards of living are leading to more demand for meat. This leads to raising more livestock, which consume a large amount of grain and adds to more stress on already tight supplies.

There's at least a glimmer of good news on the demand side: World population growth, which peaked at 2 percent per year around 1970, dropped below 1.2 percent per year in 2010. But because the world population has nearly doubled since 1970, we are still adding 80 million people each year.

A recent United Nations report estimates that food prices could go up by 40 percent over the next decade. However, supply could be upped with inducements made to cultivate more land in a sustainable fashion, such as in Africa. Better producing strains of crops can be developed, such as during India's famous Green Revolution.

Demand could be reduced if countries could also work to reduce the amount of food supplies turned into biofuels.

Source: Global Policy, February 2011

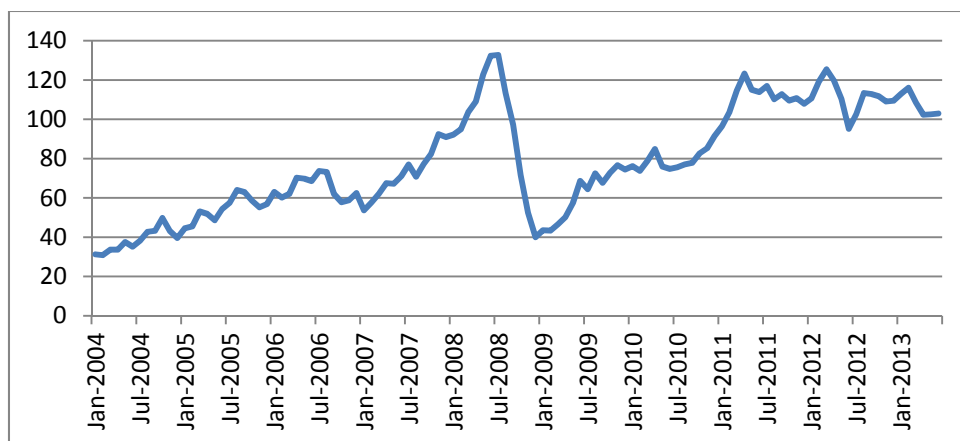
Extract 2: Export bans should be illegal

The environment minister, Caroline Spelman, today risked incurring the wrath of many major food-growing countries by saying it should be illegal to halt food exports even at times of national crisis.

In a clear reference to Russia and the Ukraine, which temporarily halted exports of wheat and other grains in order to protect supplies for their own people during an unprecedented heatwave last year, she said no country should be allowed to interfere with the global food commodity market.

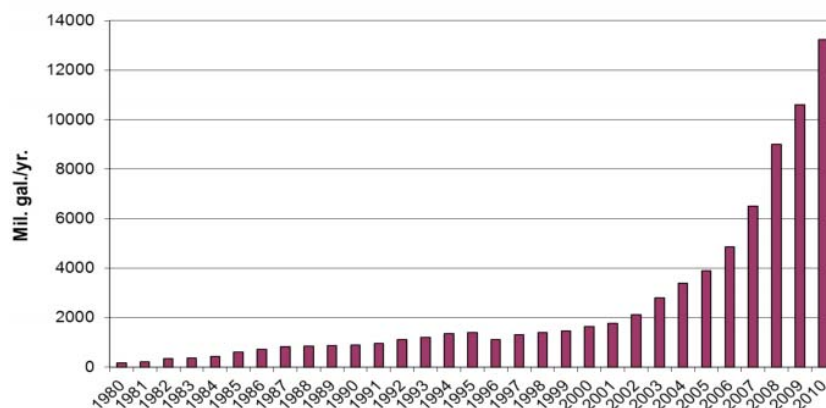
Source: The Guardian, January 2011

Figure 1: Oil Price (\$/barrel)



Source: OECD

Figure 2: Ethanol Production (Million Gallons)



Source: FarmFoundation.org

Extract 3: Impact of EU biofuel policies in developing countries

The 2008 decision by EU countries to obtain 10% of all transport fuels from biofuels by 2020 is proving disastrous for poor countries. Developing countries are expected to grow nearly two-thirds of the crops that are mostly used for biofuels.

"To meet the EU 10% target, the total land area directly required to grow industrial biofuels in developing countries could reach 17.5m hectares, over half the size of Italy. Additional land will also be required in developed nations, displacing food and animal feed crops onto land in new areas, often in developing countries," says the report.

Biofuels are estimated by the IMF to have been responsible for 20-30% of the global food price spike in 2008 when 125m tonnes of cereals were diverted into biofuel production. The amount of biofuels in Europe's car fuels is expected to quadruple in the next decade.

The report attributes the massive growth in biofuel production to generous subsidies. It estimates that the EU biofuel industry has already received €4.4bn (£3.82bn) in incentives, subsidies and tax relief and that this could triple to over €13.7bn if the EU meets its 2020 target.

Source: The Guardian, February 2010

Questions

- (a) Compare the changes in the price of food from 2006-2008 with that of 2009-2011. [2]
- (b) Explain how domestic consumers and producers in Russia and Ukraine are impacted by the halting of food exports in those countries. [3]
- (c) (i) Describe the relationship between oil price and ethanol production between 2004 and 2010. [1]
- (ii) Explain the relationship observed in (c)(i). [2]
- (iii) Using supply and demand diagrams, explain how the use of subsidies to biofuel producers will impact the allocation of resources between biofuel and food. [4]
- (d) Assess whether demand or supply factors are more important in explaining the changes in food prices. [8]
- (e) Discuss the policy options available to the world's governments to address the rising food prices. [10]

[Total: 30 Marks]

Question 2

Eurozone Crisis

Extract 4: Austerity measures force EU into record recession

Government austerity measures have pushed the Eurozone into the longest recession in European Union (EU) history. Figures released today showed the EU's economy shrank 0.2 % in the first quarter – the sixth quarter in a row of contraction – and there is little indication this will change anytime soon.

In an effort to stem the financial crisis, European nations have raised taxes and cut spending in order to reduce government debt. With private-sector spending also getting cut, so far all these austerity measures have done is lowered economic activity and increased the need for unemployment benefits and other social costs. In response to the measures, protesters across Europe mentioned that "the beatings will continue until the economy improves" against a backdrop of severe unemployment of 4.4 million due to a lack of jobs and an extremely bleak economic outlook.

Howard Archer, IHS Global Insight's chief European economist, wrote today in a note to investors, "the upside for domestic demand in the Eurozone remains constrained by restrictive fiscal policy in many countries, still tight credit conditions, high and rising unemployment, and limited consumer purchasing power despite generally very low inflation".

Thanks to these austerity measures, the economic slowdown that started in Greece three years ago has now spread to France, Italy and Spain, which make up half of the Eurozone's GDP. As recession pushes the EU to reverse back into various protectionist measures, and combined with falling spending power region wide, the effects of the austerity measures are starting to be felt in other parts of the world.

Source: MONEYWATCH, May 2013

Extract 5: Fed's Bullard recommends Eurozone to consider quantitative easing

A top U.S. Federal Reserve official urged the European Central Bank (ECB) on Tuesday to consider employing a U.S.-style quantitative easing (QE) programme to counter slowing inflation and recession in the Eurozone. The Central Bank can implement quantitative easing through the purchase of a predetermined number of bonds or other assets from commercial banks and other private institutions to increase the monetary supply.

With the ECB's main interest rate now at 0.5% and Eurozone inflation at 1.2%, St. Louis Federal Reserve Bank President James Bullard recommended the ECB could consider quantitative easing, or printing money for salvaging the economy. "For the euro area, which has not wanted to do QE, I would say this: as inflation is running pretty low in the euro area, the Governing Council on the ECB may want to consider

a quantitative easing programme," he said in a lecture at Frankfurt's Goethe University.

He also cited Japan's lost-decade of economic stagnation to reinforce his argument that just cutting interest rates was insufficient to ward off a damaging deflationary spiral. "Doing nothing risks the deflationary situation experienced by Japan in recent years," he said.

Sceptics questioned the feasibility given the high leakages as a result of increasing tax rates due to the austerity measures and Eurozone's tradition as the largest world importer of goods and services since its inception, with import of goods and services forecasted at 43% of GDP in 2013.

Source: Adapted from Reuters, May 2013

Extract 6: Eurozone crisis is main risk for Singapore: MAS

The Eurozone crisis is the main risk facing Singapore's economy and financial system, the Central Bank said, warning the nation to brace for "a more adverse turn of events". Ravi Menon, managing director of the Monetary Authority of Singapore, said any sharp deterioration in the Eurozone, one of the city-state's biggest export markets, could hurt economic growth.

"The key risk facing the Singapore economy and financial system is the on-going crisis in the Eurozone," Menon said at a news conference. "While Eurozone governments have taken important steps to deal with the crisis, we must be prepared for a more adverse turn of events."

Singapore, an international financial centre, should brace for "excessive inflows as well as outflows" of capital, which could impact the Singapore dollar. Singapore's economy is on track to expand between 1.0% and 3.0% this year, down from 4.9% growth last year, he said. However, economic growth could dip below 1.0% if the situation in the Eurozone escalates, while China's economy slows down drastically and the United States falls into a recession, he added.

Singapore's trade-driven economy, regarded as a bellwether for Asia, contracted by 1.1% in the second quarter from the previous three-months due to a slowdown in global demand especially from Eurozone, and also other major economies which export aggressively to the EU like China and the US.

Source: AFP, July 2012

Table 2: Economic Indicators of Eurozone*

Year	2007	2008	2009	2010	2011	2012
Change in nominal GDP (%)	5.4	2.4	-3.5	2.8	2.7	0.7
Inflation rate (%)	2.1	3.3	0.3	1.6	2.7	2.5
Unemployment rate (%)	7.6	7.6	9.6	10.1	10.2	11.4

Source: Eurostat 2013

Table 3: Gross Domestic Product (GDP) and its components in selected economies (% of total), 2013 Q1

	EU* (17 countries)	US	Japan
Total GDP (million Euros), current prices	2379167	3130263	976465.3
Composition:	%	%	%
Private consumption of households	57.4	68.8	61.2
External balance of goods and services	3.3	-3.2	-2.5

Source: Eurostat 2013

***EU (17 Countries):**

Belgium, Spain, Austria, Cyprus, France, Portugal, Germany, Italy, Slovenia, Estonia, Luxembourg, Slovakia, Ireland, Malta, Finland, Greece, Netherlands

Questions

- (a) (i) Using Table 2, describe the trend for real GDP growth rate in Eurozone from 2007 to 2012. [1]
- (ii) Briefly explain the link that exists between real GDP and unemployment rate for Eurozone from 2010 to 2012. [2]
- (b) “U.S. Federal Reserve official urged the European Central Bank (ECB) on Tuesday to consider employing a U.S.-style quantitative easing programme to counter slowing inflation and recession in the Eurozone.’
- (i) Using a diagram, explain how Quantitative Easing can possibly resolve recession in the Eurozone. [3]
- (ii) Using appropriate data, explain the significance of the multiplier in determining whether Quantitative Easing should be employed by the Eurozone. [6]
- (c) Discuss the view expressed by protestors in Extract 4 that EU’s standard of living will worsen as a result of the austerity measures. [8]
- (d) To what extent does Singapore’s approach to international trade require adjustment in response to the Eurozone crisis? [10]

[Total: 30 Marks]

END OF PAPER



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COVER SHEET
ECONOMICS HIGHER 2
Paper 1: Case Study Question 1

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

16 September 2013

READ THESE INSTRUCTIONS FIRST

Write your name, civics group, register number and tutor's name in the spaces at the top of this cover page and on all the work you hand in.

At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 1 with the string provided before submission.

QUESTIONS ATTEMPTED		MARKS
(a)		
(b)		
(c)	(i)	
	(ii)	
	(iii)	
(d)		
(e)		
TOTAL		/30



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COVER SHEET

ECONOMICS HIGHER 2

Paper 1: Case Study Question 2

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Civics Group: _____

Register Number: _____

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QUESTIONS ATTEMPTED		MARKS
(a)	(i)	
	(ii)	
(b)	(i)	
	(ii)	
(c)		
(d)		
TOTAL		/30