

TAMPINES JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION



ECONOMICS

8819

Tuesday, 12 Sept 2017

Additional Materials: Writing Paper

3 hours

READ THESE INSTRUCTIONS FIRST

Write in dark blue or black pen.

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

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

Section A (Case Study) [70%]

Answer **ALL** questions

Section B (Essay) [30%]

Answer **ONE** essay question

Submit each question separately.

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

Section A

Answer **all** questions in this section.

Question 1

Uber in Singapore

A Certificate of Entitlement (COE) represents a right to vehicle ownership and use of the limited road space for 10 years. There are 5 categories of COE for bidding – Category A to Category E. Vehicles classed under Category A are up to 1,600cc and 130bhp.

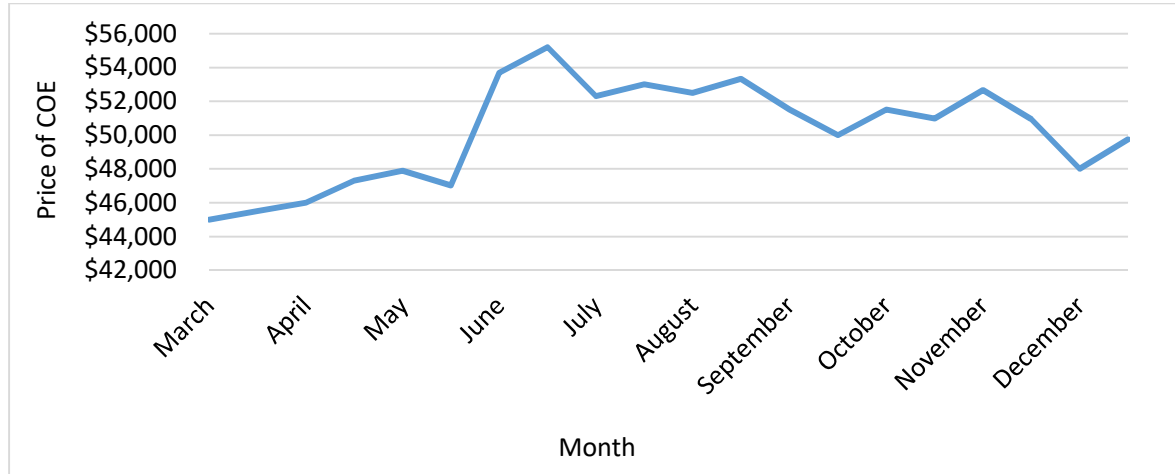


Figure 1: 2016 COE Prices for Category A (1,600cc and 130bhp)

Source: Land Transport Authority

Extract 1: Private-hire car companies join in the bid for COE

Uber-owned Lion City Rental is looking to put 1,800 new cars on the road in anticipation of growing demand. Rival company Grab is also expected to do the same. In recent months, both have started sourcing for new vehicles, and are jostling with private car owners for fresh Certificates of Entitlement (COE). Now, with the Government announcing "light touch" regulations governing third-party taxi apps, the proliferation of private-hire vehicles will accelerate. Most of the taxi companies are also starting up private-hire subsidiaries to compete with Uber, Grab and other small players like Smove and Tribecar. This will only intensify the competition for COEs. Most private-hire cars are smaller vehicles, so the pressure will be greater on COE Category A bidders (cars up to 1,600cc and 130bhp).

However, the COE quota is set to grow. The supply of COE is mainly determined by how many cars are de-registered (and either scrapped or re-exported thereafter); when one car leaves the road for good, it creates room for a fresh COE so that a new one can take its place. The COE release for passenger cars is expected to rise sharply to about 95,000, compared to about 58,000 in 2015.

Source: *Todayonline*, 16 January 2016 & *The Straits Times*, 16 April 2016

Extract 2: Regulations on private-hire cars

Private-hire car (PHC) drivers from ride-sourcing service operators such as Uber and Grab are now required to obtain a vocational licence under amendments to the Road Traffic Act. PHC drivers are required to go through a medical examination, attend a 25 hours course and pass a test. This framework will ensure the drivers are equipped with sufficient knowledge and skills to provide the service safely. Together with the existing rules that require PHCs to be

licensed as public service vehicles and to have adequate insurance, these measures help LTA better enforce against errant drivers and vehicle owners.

Source: *The Straits Times*, 10 March 2016

Extract 3: Enhancing vehicle incentive schemes for a cleaner environment

Extra miles' worth of pollution is being belched into Singapore's air every year from a traffic spike fuelled by ride-sharing apps such as Uber. The lower cost of taking an Uber is encouraging some people to step away from public transport and get into the Uber. According to figures in the past two years, Singapore fell short in meeting its targets for pollutants. The Government will hence adjust the current Carbon Emissions-Based Vehicle Scheme (CEVS) in a bid to nudge car-buyers towards cleaner and more environmentally-friendly models such as electric vehicles.

The current CEVS will be replaced with a new scheme that would consider four other pollutants which include nitrogen oxides, hydrocarbons, particulate matter and carbon monoxide on top of carbon dioxide. The National Environment Agency said rebates for environmentally-friendly car models will range between S\$10,000 and S\$20,000, depending on the vehicle's worst-performing pollutant. By including four more pollutants, the new scheme hopes to account more holistically for the health and environmental impact of vehicular emissions.

Source: *Channel News Asia*, 8 March 2017

Extract 4: Electric vehicles 'not economically feasible yet'

A study on electric vehicles (EVs) found that consumers were concerned about the purchase price of EVs as it is more expensive than a petrol-driven car even with rebates, the availability of personal and public charging infrastructure and the limitations of the technology such as the range, battery life and time taken to charge EVs. Nevertheless, the LTA and the EDB noted that similar to the development of hybrid vehicles, the prices of EVs are expected to fall as the cost of the technology continues to decline and mass production allows for cost savings from larger scale of production.

Source: *Today*, 6 July 2017

Extract 5: The unstoppable march of the gig economy

This year we saw the rise of the "gig economy", which is characterized by the prevalence of short-term contracts or freelance work. For instance, there is a flow of investments into Singapore as Uber and Grab firms established their foothold in Singapore. Even as retrenchments rose and job vacancies fell in the tepid job market this year, private-hire jobs have emerged as a bright spot. Consumers embrace having personal drivers to ferry them. Employers benefit as they could turn to hiring freelancers to reduce cost. Push factors for workers include greater work-life balance and structural challenges such as a mismatch between skills and jobs that may nudge them into temporary freelance work. Ride-sharing services may also generate positive externalities. They could reduce parking congestion. More importantly, the widespread availability of private-hire services can signal that a local economy is friendly to the high-tech industry and so can be a draw for investments.

While the gig economy has unravelled a vast ocean of opportunities for many, it also carries downsides, with the lack of benefits and protection posing headaches for policymakers. For instance, in Singapore, the lack of Central Provident Fund (CPF) contributions, a core pillar of the Republic's social security system has implications for home ownership and healthcare. Experts also expressed their concern that the gig economy may stymie workers' desire to deepen their skills.

Source: *Today Online*, 22 May 2017

Questions

- (a) Using the data from Figure 1, summarise how the price of COE had changed from March to December 2016. [3]
- (b) With reference to Extract 1, use supply and demand analysis to explain the likely impact on the price of COE. [5]
- (c) (i) Define price elasticity of supply. [1]
- (ii) Using Extract 2, explain how the price elasticity of supply for private-hire cars might have changed with the need for the drivers to apply for a vocational license. [2]
- (d) (i) Using Extract 3, explain the economic case for government intervention. [5]
- (ii) Comment on the effectiveness of rebates for environmentally-friendly car models in curbing vehicular emissions of pollutants. [6]
- (e) Extract 5 describes the introduction of private-hire car services in Singapore. [8]
- In light of the above, discuss whether the advantages outweigh the disadvantages.

[Total: 30]

Question 2**Economic Woes****Table 1 Selected Economic Indicators for Singapore, 2013-2016**

	2013	2014	2015	2016
GDP growth at market prices (%)	5.0	3.6	1.9	2.0
Inflation rate (%)	2.4	1.0	-0.5	-0.5
Unemployment rate (%)	1.9	2.0	1.9	2.1
Gross fixed capital formation (annual % growth)	5.7	-1.1	1.1	-2.5
Exports of goods and services (% of GDP)	194.2	193.4	177.9	172.1
Imports of goods and services (% of GDP)	171.8	168.9	152.0	146.3

Source: <http://databank.worldbank.org>, accessed 21 July 2017

Extract 6: China announces subsidies to boost agriculture as growth slows

The Chinese government on Friday announced tax breaks and other measures aimed at creating jobs and promoting entrepreneurship, as the country seeks to boost economic growth, which slowed to 7 percent in the first quarter of 2015, its slowest rate in six years. The State Council pledged easier access to loans for start-ups and small enterprises, along with tax breaks for migrant workers who want to set up businesses in their home towns, and incentives for university graduates to work in less developed parts of the country, according to Reuters. It offered tax breaks to businesses that employ people who had been jobless for more than six months and it said companies that created significant numbers of jobs would receive priority in bids for large-scale projects.

Separately the government pledged increased agricultural subsidies to boost economic modernization in the countryside. The Ministry of Agriculture announced on Thursday that it would set aside 14 billion yuan (US\$2.26 billion) in subsidies to grain farmers, with another \$3.3 billion to promote good crop varieties and \$3.7 billion to promote grain farming by large scale family farms and cooperative societies.

Source: *International Business Times*, 5 January 2015

Extract 7: China's surprise currency devaluation

China stunned the world's financial markets on Wednesday by devaluing its currency for a second consecutive day, triggering fears its economy is in worse shape than investors believed. The move sent fresh shockwaves through global markets, pushing shares sharply lower and sending commodity prices further into reverse as traders feared the move could also ignite a currency war that would destabilise the world economy. There were widespread losses on stock exchanges in Asia, and in Europe markets. The Chinese authorities have acted after a string of poor economic figures showed that previous efforts to boost exports and growth against the headwind of an overvalued currency had failed.

One financial analyst said the devaluation, which pushed the yuan to a four-year low, heralded a tidal wave of cheap goods from Asia as other south east Asian countries followed suit. The

central bank sought to reassure financial markets that it was not embarking on a steady depreciation. “Looking at the international and domestic economic situation, currently there is no basis for a sustained depreciation trend for the yuan,” it said. But with the bank having said on Tuesday that that day’s action was a “one-off depreciation”, the rapid two-day drop in the value of the currency of about 4% dealt a blow to investors. They fear a prolonged currency war that could damage world trade should the US and Japan retaliate and drive down the value of the dollar and yen.

Oil prices remained below \$50 a barrel, down from more than \$110 a barrel last summer when the slowdown in China first became apparent. The prices of key industrial and construction metals – nickel, copper and aluminium – hit six-year lows. The two devaluations come after a run of poor economic data and have raised suspicions that China is embarking on a longer-term slide in the exchange rate. The first move on Tuesday was the biggest one-day fall in the yuan since a massive devaluation in 1994. On Wednesday the yuan fell to 6.43 against the dollar, its weakest point since August 2011.

Source: *The Guardian*, 12 August 2015

Extract 8: The death of the Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) is a trade agreement intended to deepen economic ties between 12 nations, slashing tariffs and fostering trade and investment to boost growth. Members, including the United States and Singapore, also hoped to foster a closer relationship on economic policies and regulation. The agreement was designed so that it could eventually create a new single market, something like that of the European Union. Vietnam would be considered one of the biggest winners, as analysts predicted the deal would boost its growth by 11% in the next 10 years, as firms move factories to the low-wage country.

On his first day in office, Donald Trump, the President of the United States of America, pulled out of the TPP, citing that it would take away American jobs and further worsen the U.S. trade deficit. However, critics claimed that this may have been a wrong move – studies from the Peterson Institute for International Economics projected that the TPP deal would have created more than 130,000 jobs and would raise U.S. national income by \$130 billion.

Post-fallout, this leaves the remaining 11 countries to forge ahead and try to cement a free-trade deal without the U.S.

Source: *BBC News Online*, 23 January 2017

Extract 9: Trumponomics 101: “Buy American, Hire American”

Tapping into economic discontent, Donald Trump has argued for protectionism and asserted that decades of free-trade policies were responsible for the collapse of the American manufacturing industry. He has been feeding on the perception among many Americans that globalisation has brought more pain than gain, for example, by bringing cheap consumer goods into the country, costing domestic jobs and depressing wages. Outsourcing of jobs to cheaper markets has also been a concern.

The Trump administration has been aggressively pursuing an “America First” policy, which focuses on putting America’s interests first. One of the measures that has emerged is the “Buy American, Hire American” executive order. On the “Buy American” side, the order calls for the U.S. government agencies to buy more domestically produced products in order to support the domestic economy, and for firms to produce their goods locally. “Hire American” tackles the labour aspect, by reducing the ability of companies to abuse U.S. visa programmes to

bring in foreign workers on the cheap. The administration has also threatened to impose tariffs on nations that have trade surpluses with the U.S., including China and Germany.

In April 2017, global finance leaders from the G20 nations dropped their anti-protectionist commitment after opposition from the U.S. This would potentially open a protectionist Pandora's Box that could lead to an overall decrease in global trade, which undermines the current system built around the World Trade Organisation.

Source: *Various*

Questions

- (a) Using the data in Table 1,
 - (i) Describe the trend in real Gross Domestic Product for Singapore from 2013 to 2016. [1]
 - (ii) Identify the year where General Price Level was the highest. [1]
- (b) What conclusion would you draw about the overall economic performance of Singapore in 2016 compared with 2013? [4]
- (c) Using elasticity concepts, analyse the incidence of agricultural subsidy on producers and consumers of grain. [4]
- (d)
 - (i) Using AD/AS analysis, explain how 'surprise devaluation of the yuan' can reignite growth in China. [4]
 - (ii) Suggest a possible reason why this policy may have limited effectiveness. [2]
- (e) Analyse the effects of the TPP fallout and China's slowdown on the Singapore economy. [6]
- (f) Extract 9 explains Trump's "America First" protectionist stance, which he claims will address the negative consequences brought about by globalisation. [8]
Discuss whether Trump's protectionism can ever be justified.

[Total: 30]

Section B (Essay)

Answer **one** question from this section.

Begin your answer on a **fresh sheet of paper**. This section is to be submitted separately.

- 3 (a) Explain how the economic problem of scarcity could be overcome with the rise of globalisation. [10]
- (b) Discuss the view that globalisation is always beneficial to a small and open economy. [15]

- 4 India's consumer prices are on the rise. India's fast growing economy has made her an attractive destination for foreign investment. The main upward effect on inflation in India was driven by rising global crude oil prices. Economists are expecting Reserve Bank of India to hike the interest rate if inflation continues to rise further.

Source: *Reuters*, 14 March 2017

- (a) Explain the domestic and external causes of inflation in India. [10]
- (b) Discuss the view that a hike in interest rate is the most effective means of tackling inflation in India. [15]

END OF PAPER