



**HWA CHONG INSTITUTION**  
**JC2 Preliminary Examinations**  
**Higher 1**

**CANDIDATE  
NAME**

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**CT GROUP**

**10A/S**

**CENTRE  
NUMBER**

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**INDEX  
NUMBER**

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**ECONOMICS**  
Paper 1

**8819/01**  
**12 September 2011**  
**3 hours**

Additional Materials: Answer Paper

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**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 cover pages provided.

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

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This document consists of **9** printed pages.

**[Turn over**

## Section A

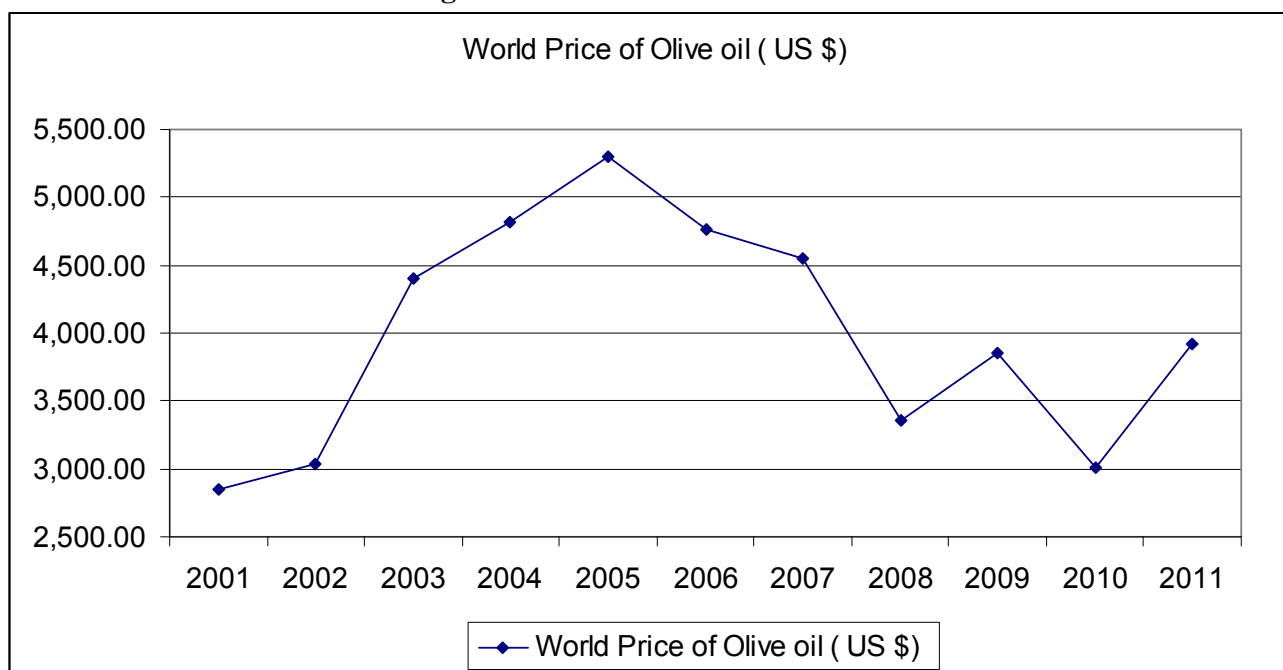
Answer **all** questions.

### Question 1: The market for Olive Oil

#### Extract 1: The expanding olive oil market

As the world begins to explore alternative uses of vegetable oils, especially those that held promises to be redeveloped as “Biodiesel”, olive oil has been spared from this oil hungry world. In an unexpected spin-off from the Eurozone contagion hitting the Mediterranean countries in 2011, Greek producers being uncertain of the future of the debt-laden state, are now hoarding stocks of olive oil rather than selling them on the open market. It is reported in The Grocer magazine in 2011 that there would be further increases in the price of the olive oil that is widely used in UK for frying and as a salad dressing since Greece is the world's third-largest olive oil producer, after Spain and Italy.

**Figure 1: World Price of Olive Oil**



Source: International Monetary Fund

Yet, we are seeing a continuous increase in production by the three main producer countries, Spain, Greece and Italy. The main reason is due to an increase of the field productivity which resulted from better crop and harvest practices, the use of irrigation and the disappearance of marginal fields. This is with the exception for the effects of El Nino which peaked in the middle of the decade. El Nino causes extreme weather (such as floods and droughts) in many regions of the world. Developing countries dependent upon agriculture and fishing are the most affected.

Olive oil is considered a healthier and important ingredient in the traditional Mediterranean diet. The recent acceptance of olive oil by its new Asian markets is due to nutrition and health properties. Scientific studies of biological properties for olive oil have increased consumers awareness and interest in this product. Olive oil contains a wide variety of valuable antioxidants that are not found in other oils. Antioxidant compound in olives is believed to play a significant role in the many health benefits attributed to olive oil. Studies also suggest that olive oil has a protective effect against certain malignant tumors in the breast, prostate and digestive tract. The studies also suggest that a higher proportion of monounsaturated fats in the diet are linked to a reduction in the risk of coronary heart disease.

Source: Adapted from [www.independent.co.uk](http://www.independent.co.uk), 17 July 2011

## **Extract 2: Environmental effects of olive production in the EU**

Soil erosion is cited in numerous publications as one of the principal environmental problems associated with olive farming in Mediterranean regions. Soil erosion has various environmental impacts, notably the loss of productive capacity, leading to the need for increased external inputs and ultimately to desertification. Down-stream effects of run-off like excessive use of fertilizers and herbicides being washed into water courses and groundwater are also felt by the communities as their water sources become contaminated.

Olive farms in the EU range from the very small (<0.5ha) to the very large (>500ha) and from the traditional, low-intensity grove to the intensive, highly mechanized plantation. Overall, three broad types of plantations were identified:

□□ Low-input traditional plantations and scattered trees, often with ancient trees and typically planted on terraces, which are managed with few or no chemical inputs, but with a high labour input.

□□ Intensified traditional plantations which to some extent follow traditional patterns but are under more intensive management making systematic use of artificial fertilizers and pesticides and with more intensive weed control and soil management. There is a tendency to intensify further by means of irrigation, increased tree density and mechanical harvesting.

□□ Intensive modern plantations of smaller tree varieties planted at high densities and managed under an intensive and highly mechanized system, usually with irrigation.

As a result of their particular plantation characteristics and farming practices, the low input traditional plantations have the least negative effects on the environment. These plantations are also the least viable in economic terms and hence most vulnerable to abandonment. The intensified traditional and modern intensive systems are inherently having the greatest negative environmental impacts.

Source: Adapted from *Olive Oil Production in EU*, 2008

### Extract 3: Proposal for good agricultural and environmental practice in olive farming

The EU constitutional rights allow the Member States to take various environmental measures in relation to agriculture, when they consider these to be appropriate. These measures may include specifying environmental requirements. Member States can decide on the appropriate financial penalties for not obeying the legal environmental requirements of EU.

At the same time, it is important to establish the type of environmental conditions which are considered as appropriate. Member states can give support payments for its environmental friendly production. For example, farmers in a area with highly erodible crop land were required to draw up and implement a soil-conservation plan in order to be eligible for crop support payments. These plans could include options such as conservation tillage, contouring and the construction of terraces.

However, it would be difficult to value the gains objectively. A plantation in a rural area might have less benefits reaped compared to one where there are communities. Problems also arise when there is a need to determine whether the correct plan has been used. For example, in Spain, soil erosion is widely cited as the principal environmental problem associated with olive plantations. Yet in Italy, it is the intensive exploitation of the land through the continuous tillage or spraying of residual herbicides to control weeds that had caused an impoverishment of the soil.

Source: Adapted from *The Enviromental Impact of Irrigation in the EU*, 2009

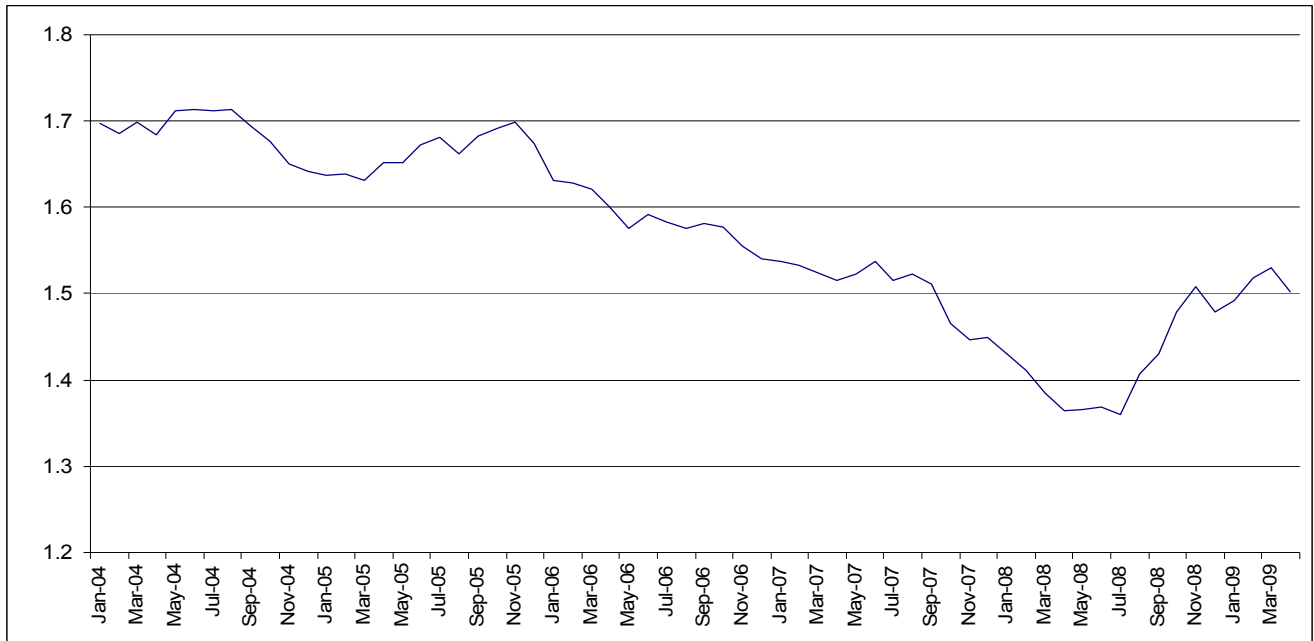
### Questions

- (a) (i) Describe the trend in the world price of olive oil between 2001 and 2010. [2]
- (ii) Account for the trend in the world price of olive oil between 2001 and 2010. [4]
- (b) Explain the likely impact of the Euro-zone contagion on revenue from the export of olive oil to Asian markets. [4]
- (c) With the aid of diagrams, explain how market failure could arise from
  - (i) consumption of olive oil; [6]
  - (ii) production of olive oil. [6]
- (d) Evaluate the measures proposed by the EU member states to control environmental degradation due to olive farming. [8]

[ Total: 30 marks]

## Question 2 Economic Recession and Recovery

**Figure 2: Value of Singapore Dollar (per unit of US Dollar), 2004 - 2009**



Source: <http://www.singstat.gov.sg/>

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

The International Monetary Fund (IMF) noted that the Singapore Government had responded 'forcefully with a large fiscal stimulus package, monetary policy easing and measures aimed at ensuring financial stability'. As the recession took hold in November 2008, Singapore moved from a gradual and modest appreciation to a neutral exchange rate policy of zero appreciation and then shifted down the band in April 2009. With inflation not a concern, Singapore's monetary policy of shifting down the band is appropriate, the report said. 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 also described as 'timely, appropriately large and diversified'.

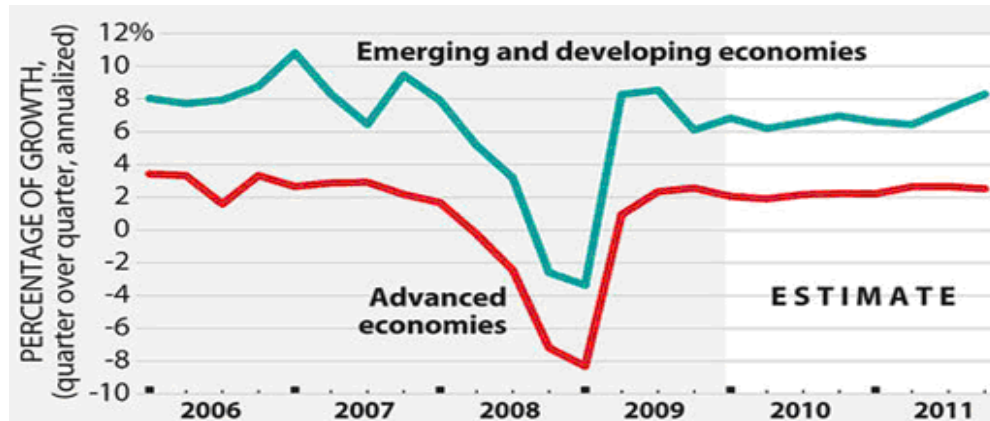
Source: *The Straits Times*, 2 September 2009

**Table 2: Selected Macroeconomic Indicators: Singapore, 2007 – 2009**

Economic Indicators	2007	2008	2009
% change in GDP at constant prices (year-on-year)	8.5	1.8	-1.3
Inflation (annual % change)	2.1	6.6	0.6

Source: World Economic Outlook (October 2010)

Figure 3: Two-speed global recovery

**Major Advanced Economies**

Comprised 7 countries: Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

**Emerging and Developing Economies**

Comprised 7 countries: Africa, Brazil, China, India, Mexico, Middle East and Russia.

Source: The International Monetary Fund, 2010

**Extract 5: Multi-speed Recovery**

In its latest forecasts, released on April 21st, the International Monetary Fund (IMF) predicts that global output will grow by 4.2% this year. In its half-yearly World Economic Outlook (WEO), IMF said the triggers for this rebound were strong public policies across advanced and emerging economies and central banks reacted quickly with exceptionally large interest rate cuts as well as unconventional measures to inject liquidity and sustain credit.

The trouble is that the good fortune has not been shared equally. This time around countries that were least affected by the recession (primarily the largest emerging economies) are seeing the fastest acceleration in growth. In contrast, developed nations are expected to grow modestly.

One reason for this multi-speed recovery is that the financial crisis was largely confined to the rich world, and recoveries after such crises tend to be slow. Another factor is the differences in the scope for, and effectiveness of, policy stimulus. Thanks to their low debt levels and the high reserves accumulated, many big emerging economies used fiscal and monetary stimulus vigorously and effectively. The pump priming also worked better because modest corporate and household debts mean that tax cuts or cash handouts are more likely to be spent than saved. For the advanced countries, the lag is primarily due to underlining weaknesses such as high debt, and low savings. In the US and Britain, in particular, high unemployment combined with high household debt and continuing home-mortgage foreclosures means that consumers simply are not in a position to drive recovery. The quantitative easing in advanced countries such as US and Britain also did not seem to work. And in the euro zone, individual countries lack an independent monetary policy.

A multi-speed global recovery is, unfortunately, less stable than a synchronized one and both sets of policymakers can do more to prevent the more extreme outcomes. To achieve sustainable growth, alternative measures have to be used. Rich economies where public debt burdens are soaring urgently need bold and credible plans for medium-term deficit-reduction. They also need supply-side measures that boost economic growth, from corporate and personal tax reform (in America) to freer job markets (in Europe). The urgency is especially great in Asia. To prevent overheating, emerging economies need to have better infrastructure and more flexible exchange rates. Highways, modern bridges, world-class airports, reliable power, and clean water are in desperately short supply in India. China needs to allow the yuan to strengthen soon. For now, booming growth in emerging economies explains the rosiness of the global recovery. But its sustainability will depend, in large part, on how that prosperity is controlled.

Source: *The Economist*, 22 Apr 2010

**Table 3: Selected Macroeconomic Indicators: United States, 2007 – 2010**

Economic Indicators	2007	2008	2009	2010 <sup>†</sup>
% change in GDP at constant prices (year-on-year)	2.0	0.0	-2.6	2.7
Unemployment rate (% of total labour force)	4.6	7.2	9.3	9.7
Inflation (annual % change)	4.1	0.7	1.9	1.4
Current account balance (US\$ billion)	-718.1	-668.9	-378.4	-470.2

**Table 4: Selected Macroeconomic Indicators: China, 2007 – 2010**

Economic Indicators	2007	2008	2009	2010 <sup>†</sup>
% change in GDP at constant prices (year-on-year)	14.2	10.0	9.1	10.5
Unemployment rate (% of total labour force)	4	4.2	4.3	4.1
Inflation (annual % change)	6.6	2.5	0.7	4.7
Current account balance (US\$ billion)	371.8	436.1	297.1	269.9

<sup>†</sup> *Projected/ Estimates*

Source: World Economic Outlook (October 2010)

### Extract 6: Trade Barriers Rise as Slump Tightens Grip

The pressures caused by faltering economies and lost jobs have put protectionism on the march. It has provoked nasty trade disputes and undermined efforts to plot a coordinated response to the deepest global economic downturn since World War II, despite after repeated pledges by world leaders to commit to protecting world free trade and avoid erecting trade barriers.

Many countries have raised import duties or passed stimulus measures with trade-distorting subsidies which aimed at restricting trade. Russia has raised tariffs on used cars. China has tightened import standards on food, banning Irish pork, among other things. India has banned Chinese toys. Argentina has tightened licensing requirements on auto parts, textiles and leather goods and the United States is subsidizing automobile manufacturers. A trade spat is all too plausible.

However, changes in trade policy have not all gone one way. Several countries, from Australia to Ecuador and Paraguay, have moved in a liberal direction, reducing import duties or removing non-tariff barriers since the beginning of March.

Source: *The New York Times*, 22 March 2009

### Questions

- (i) Using Figure 2, describe the trend in the value of Singapore dollar between 2004 and 2009. [2]
- (ii) Explain why 'Singapore moved from a gradual and modest appreciation to a neutral exchange rate policy of zero appreciation in November 2008'. [4]
- (b) Explain why the use of fiscal and monetary stimulus by the advanced and emerging economies had led to the multi-speed recovery from the global economic downturn. [6]
- (c) Extract 5 suggests alternative measures for the advanced and emerging economies to achieve sustainable growth. Discuss the effectiveness of these proposed measures. [8]
- (d) Assess the extent to which protectionist measures are appropriate in managing an economy in the midst of a global recession. [10]

**[Total: 30 marks ]**



## Section B

Answer **one** question from this section.

- 3 (a)** Car ownership necessitates using land to build a network of roads. Using the concept of scarcity, choice and opportunity cost, explain the problems the government faces in allocating resources in the case of car ownership. **[10]**

- (b)** COEs are quotas fixed by the government to control car ownership. The government intends to introduce a new measure to reduce the number of COEs. In view of weakening US recovery, analysts are unsure of its impact. **[15]**

Using demand and supply analysis, assess the impact of these events on the market for COEs and COE revenue collected by the government.

- 4** Inflationary pressures in Singapore are rising due to higher property and COE prices. Singapore reduced its growth forecast for 2011 as a faltering US economy and the European debt crisis heightened the risks to global expansion.

- (a)** Explain how inflationary pressures are a threat to sustained economic growth and improvement in living standards. **[10]**

- (b)** Assess the effectiveness of the policy options available to deal with both economic threats facing the Singapore economy. **[15]**

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