



MERIDIAN JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION 2018

H2 Economics

9757/01

Case Study Questions

10 September 2018

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 an HB pencil for any diagrams or graphs.

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

Section A

Answer **all** questions.

Begin Case Study Question 2 on a fresh sheet of paper.

At the end of the examination, fasten all your work securely to the cover sheet with the string provided.

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

[Turn Over]

This document consists of **7** printed pages and **2** cover sheets.

Question 1: Education

Table 1: Government expenditure per student (S\$) in Singapore

Year	2010	2011	2012	2013	2014	2015	2016
Primary Education	6 624	6 172	7 396	8 549	9 123	10 081	10 600
University Education	20 630	20 505	20 777	21 870	22 181	21 988	21 853

Source: data.gov.sg, accessed August 2018

Table 2: Gini Coefficient (2017)

Gini Coefficient (after tax and transfers)	
US	0.390
Singapore	0.356

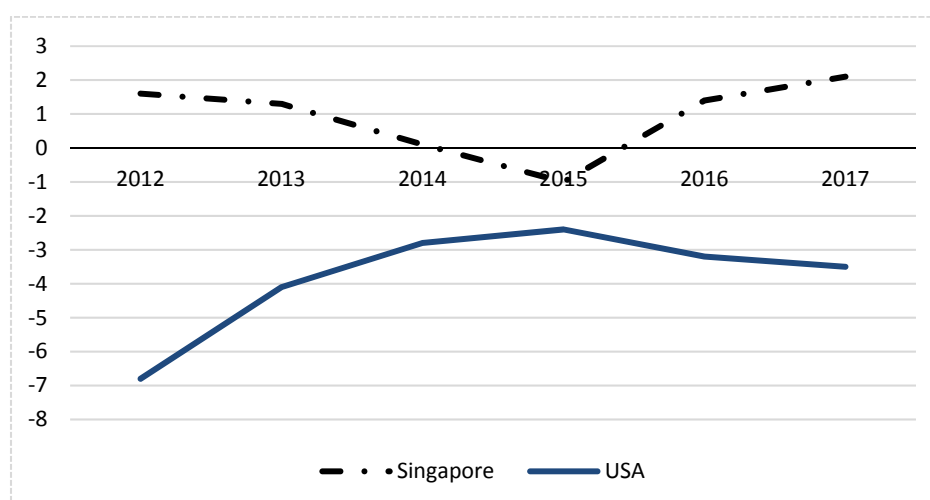
Source: The Straits Times, August 2018

Table 3: GDP per capita (US\$)

	2012	2013	2014	2015	2016	2017
Singapore	54 715	56 389	56 957	54 940	55 243	57 714
USA	51 450	52 782	54 696	56 443	57 588	59 531

Source: World Bank, accessed August 2018

Figure 1: Government budget balance of Singapore and USA (as % of GDP)



Source: Singapore Budget 2018; Congressional Budget Office, April 2018

Extract 1: Rise in price of university education in Singapore

The price of attending university in Singapore has jumped 38% on average since 2007. Official data showed that Singaporeans are spending more on higher education. Singapore's median household income grew 10% over the period and Consumer Price Index (CPI) rose 25%, yet university tuition fees were up 38%.

Increased labour costs in Singapore could have been a large contributing factor in the big jump in university costs, besides the cost to universities of owning and maintaining buildings, covering utilities and buying research equipment.

Government subsidies play a role in increasing education affordability in Singapore. And Singapore's increases in higher education tuition fees were, in fact, relatively tame when compared to other countries. College tuition in the U.S. increased by 50% between 2001 and 2015. However, rising demands from provisions for the ageing population, healthcare and other social needs in Singapore may threaten the sustainability of the government spending on higher education.

Adapted from: CNBC, October 2016

Extract 2: Returns from pursuing higher education

Unlike primary education, higher education provides individuals with concrete skills and capabilities, which in turn allow them to command a substantial wage premium when they enter the labour market. An increasing number of young Singaporeans are furthering their studies for this reason. There is a desire to learn more specialised skills, or secure a better job and higher pay check. Youths today also have a greater desire for personal fulfilment, which spurs them on to learn more about a subject they are interested in.

Nonetheless, there are compelling reasons to heavily subsidize higher education. There are social returns to higher education. Private returns – such as higher employability and wages – have positive social effects as well, in terms of lowering poverty and crime rates. Numerous productivity benefits also arise from higher education. For instance, economists hypothesise that a city with more human capital would be able to generate more knowledge capital, and the productivity gains from that would then spill over and raise incomes for the whole economy.

Moreover, even if the returns to higher education were completely private, there is a case for government to intervene to ensure that there are equal opportunities. While it is generally feasible for individuals to fund their own tertiary education through loan schemes, the lower-income may face credit constraints because of their lack of collateral. Evidence from abroad also suggests that the lower-income tend to underestimate the returns to education due to lack of information. Hence, a key component of government expenditure on higher education is channelled towards ensuring that higher education remains affordable for the population at large.

Adapted from: Singapore Budget 2010

Extract 3: Budget cuts in higher education in the United States

Almost a decade since the Great Recession hit in 2008-2009, US government spending on public colleges and universities remains well below historic levels. The recession led to record-breaking declines in government revenue, and the slow recovery prolonged its impact.

The funding decline has contributed to higher tuition and reduced quality on campuses as universities have had to balance budgets by reducing faculty and limiting course offerings. At a time when the benefit of a university education has never been greater, policymakers have made going to university less affordable and less accessible to the students most in need. This has jeopardized the ability of many to afford the higher education that is key to their long-term financial success and led to rising student debt levels for those who still pursue higher education. High school students who cannot afford the rising fees in universities are opting to start work earlier instead.

To help more young people reach their full potential — and, in turn, boost the economy and quality of life — it is necessary for policymakers to target financial aid at students on the margins and those most hampered by limited resources. This can be in the form of need-based financial aid which is awarded to students who have demonstrated financial need and might otherwise struggle to afford college.

Adapted from: www.cbpp.org, August 2017

Questions

- (a) (i) With reference to Table 1, compare the government expenditure per student on primary and university education in Singapore between 2010 and 2016. [2]
- (ii) Explain **one** possible reason for the difference observed in (a)(i). [2]
- (b) With reference to Extract 2, explain how investment in human capital can 'raise incomes for the whole economy'. [4]
- (c) Use the concept of opportunity cost to explain one possible effect on each of consumers of education and the US government due to the 'rising student debt levels' described in Extract 3. [4]
- (d) Assess whether supply factors, rather than demand factors, are the key cause of rising price of university education in Singapore. [8]
- (e) Discuss whether Singapore should follow the US in lowering its higher education subsidies to better achieve the government's microeconomic objectives. [10]

[Total: 30]

Question 2: Brexit – Breaking out of the European Union

The European Union (EU) is a political and economic union of 28 member states that are located primarily in Europe. While the United Kingdom (UK) is part of the EU, it uses its own currency, the pound sterling, instead of the euro. The UK is made up of England, Scotland, Wales and Northern Ireland. Ireland, on the other hand, is a separate independent country under the EU.

Table 4: Rates of growth of GDP, annual percentages, 2015-2017

	2015	2016	2017
EU	2.32	1.96	2.44
Germany	1.74	1.94	2.22
Ireland	25.56	5.14	7.80
UK	2.35	1.94	1.79

Source: The World Bank Group, 2018

Extract 4: Why Brexit?

The UK has voted to break out of the EU, according to official results on Friday (June 24, 2016), allowing 'Brexit' to strike a thunderous blow against the bloc and spreading alarm through markets as the pound sterling plummeted to a 31-year low against the dollar as the UK took a lurch into the unknown. Their decision will undoubtedly re-awaken fears of a domino-effect ripple of exit votes in EU-sceptic members that could imperil the integrity of the bloc, already struggling with twin economic and refugee crises.

The UK is also a net contributor to the EU budget, where the money is used across Europe to ensure a level playing field for the EU's poorer countries by being invested in for example, new roads or broadband. However, the bill is rising as the UK's economy improves, with a net contribution of £11.3 billion in 2013, compared to £2.7 billion in 2008, according to official UK data.

Freedom of movement for labour is one of the key principles of the EU. This ease of movement has been attacked in the UK, which had an unexpectedly high level of migration from several old Soviet bloc states after they joined the EU. Some of the blue-collar workers felt threatened by this new, cheap, source of labour as their income decreases.

Source adapted from *The Straits Times*, 24 June 2016 and CNBC, 27 May 2015

Extract 5: EU membership has been good for Ireland

The creation of a single market in Europe in the 1990s was exploited by Ireland like no other country. Increasingly, companies are choosing Ireland as a jumping off point for their European ambitions. Many of them are also using Ireland as a technology hub by placing vital data centres on Irish soil. Ireland has 8 of out 10 of the largest ICT companies in the world here because the infrastructure is at the levels these companies expect.

While Ireland's "natural" advantages – English-speaking and geographical location between east and west – cannot be discounted, a key advantage of coming here is that incoming companies can avail of leading-edge services. If these services weren't available, the companies wouldn't come, no matter how attractive the tax structure.

Source: IDA Ireland, 12 April 2012 and *The Guardian*, 17 June 2016

Extract 6: Brexit one month on – the good, the bad and the ugly

One month on and the UK is still reeling from the referendum result on the country's place in the European Union. The political and economic landscape of the country has changed radically since. UK now faces a mountain of issues, many of which are tied to Brexit. Inflation is surging, consumer spending is slowing, productivity remains mired in pre-crisis growth levels, and uncertainty reigns supreme. The Bank of England has sought to respond: After the referendum, it cut interest rates to the lowest level in its 322-year history.

Global financial markets have surprised many people by recovering faster than expected in the immediate weeks following the Brexit vote. Yet, confidence in the UK economy is starting to look shaky.

One bright spot was that the weaker pound had boosted exports orders for manufacturing. Given the drop in sterling, UK firms are seen as ripe for takeovers – earlier this week, Japanese firm Softbank agreed to buy semiconductor firm ARM Holdings in a deal worth more than \$32 billion.

Source: Various

Extract 7: Brexit and its impacts on the EU

The European Union's chief concerns over UK's vote to leave the group are political but losing its second-largest economy will have a huge economic impact as well. For one, other members will have to fill in at least some of the shortfall from a lack of its contributions. UK's total contribution to the EU budget for 2016 has been set at 19.4 billion euros. Germany, the EU's largest member, would inevitably have to provide the most extra cash, estimated to be about 2.5 billion euros.

Many economists also forecast Brexit would at least temporarily reduce UK growth. A possible reintroduction of import tariffs could lead to a reduction of rest-EU GDP by 0.26 percent. However, the UK is also consistently the largest recipient of foreign direct investment in the EU, with an average of \$56 billion per year in the 2010-2014 period. Given that access to the European single market has been cited as important to the UK's attractiveness to FDI, there is therefore a risk that some FDI would be diverted to other EU countries if UK lost access to the EU single market.

Additionally, one of the main arguments for Brexit campaigners is to limit migration of workers from other EU countries. Hence, if UK did cap immigration, it could have a negative impact on eastern European countries. The impact could be most acute in the countries with the most citizens in UK – Poland (853 000 in 2014), Romania (175 000) and Lithuania (155 000). By contrast, other affluent western European countries, such as Germany, could as a result see higher inflows of EU migrants.

Research determined that impacts could be worse in Ireland than in UK, based on their degree of trade dependence on UK, while the impact on Germany would be very limited given that its auto and other manufacturing sectors have many other markets. There could also be “dynamic effects”, such as a potential loss of productivity because a decreased openness to trade reduces international competition and lowers the incentive to improve competitiveness. With dynamic effects, the long-term impact on German GDP would range between 0.3 and 2 percent below the value if UK remained in the European Union.

Source: Reuters, 24 June 2016

Questions

- (a) With reference to Table 4, compare the changes in GDP between Germany and the UK from 2015 to 2017. [2]
- (b) (i) Using a diagram, explain why the pound sterling fell in value after UK had voted to break out of the European Union. [2]
- (ii) Explain whether the depreciated pound sterling would lead to a higher cost of living and standard of living in the UK. [6]
- (c) Explain a likely advantage to the foreign firms for locating their businesses in Ireland. [2]
- (d) In light of the issues faced by the UK as mentioned in Extract 6, evaluate the Bank of England’s decision to cut interest rate. [8]
- (e) With reference to the data where appropriate, assess whether on balance, the benefits of Brexit outweigh the costs for UK and the remaining EU member countries. [10]

[Total: 30]

– End of Paper –



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COVER SHEET

H2 ECONOMICS

Section A: Case Study Question 1

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

10 September 2018

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)	(i)	
	(ii)	
(b)		
(c)		
(d)		
(e)		
TOTAL		/30



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COVER SHEET

H2 ECONOMICS

Section A: Case Study Question 2

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

10 September 2018

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At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 2 with the string provided before submission.

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