

Candidate Name: \_\_\_\_\_

Class      Adm No

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## 2018 Preliminary Exams Pre-University 3

### ECONOMICS

**9757/01**

Paper 1: Case Study

**12 September 2018**

Additional Materials: Answer Paper

**2 hours 15 minutes**

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#### READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work 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 or graphs.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

#### Answer all questions.

Begin your answer to Question 2 on a fresh sheet of writing paper.

At the end of the examination, hand in your answers to the 2 questions **separately**.

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

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This question paper consists of 7 printed pages and 1 blank page.

[Turn over

Answer **all** questions.

### **Question 1 Healthcare and Health Insurance**

#### **Extract 1: Global trends in healthcare expenditure**

Between 2004 and 2014, the World Bank reckons that the average share of health expenditures of high-income countries has increased from 10.9 to 12.3 per cent of gross domestic product (GDP). Singapore is no exception as its share of health expenditure as a percentage of GDP has increased from 3.3 to 4.6 per cent between 2011 and 2015. However, this was not the case for all countries. The equivalent figures for Ireland were 9.9 in 2011 and 7.8 in 2015.

An important factor is the development and adoption of new and expensive health technologies such as biologics - extremely costly drugs revolutionising the treatment of rheumatoid arthritis, cancers and diabetes. Another factor is rising wages, fuelled in part by competition between private providers to attract the best healthcare professionals. This is compounded by the fact that retrenched PMETs from other fields cannot easily enter the healthcare sector due to a mismatch of skills.

The quantity of care consumed in Singapore is also increasing. While population ageing is often cited as a cause, lifestyle risk factors, such as eating too much and exercising too little, also contribute to the rise of costly chronic conditions.

Adapted from: Various

#### **Extract 2: The balance needed in health insurance**

Health insurance plays a central role in influencing healthcare consumption. By significantly decreasing the price of care at the point of consumption, insurance plans increase the quantity of care consumed. Part of this increase is actually a good thing as it reflects better access to healthcare, especially for lower-income individuals who could not afford treatment otherwise. However, by distorting the price of care, health insurance may induce overconsumption. Having an insurer pay 100 per cent of a patient's bill is hardly conducive to encouraging prudent spending.

This illustrates the subtle balancing act of health insurance: While some coverage<sup>1</sup> is good, too much is detrimental. Overconsumption of care puts a financial burden on insurance companies which, in turn, need to increase their insurance premiums<sup>2</sup>.

Adapted from: The Straits Times, 1 Feb 2018

<sup>1</sup> Insurance coverage refers to the portion of the medical bill that is paid for by the insurance company.

<sup>2</sup> Insurance premiums are the price of insurance policies paid by consumers (the insured) to the insurance firms.

#### **Extract 3: Singapore's national health insurance scheme – MediShield Life**

MediShield Life is a basic health insurance plan which helps to pay for large hospital bills and selected costly outpatient treatments, such as dialysis and chemotherapy for cancer. MediShield Life will provide protection for all Singapore Citizens and Permanent Residents,

for life, including for any serious pre-existing conditions. Individuals can use the money in their Medisave accounts to pay for MediShield Life premiums.

There are three main features of MediShield Life - claim limits, deductibles, and co-insurance.

Claim Limits are the maximum amount that the insured can claim from MediShield Life. There are different claim limits for each type of expense, such as the daily ward charges and the type of treatment or surgery undertaken. For example, the claim limit for radiosurgery is \$4,800 per procedure. The portion of the bill above the claim limit will be paid by the insured.

The deductible is the fixed amount within the claim limit that is payable by the insured before the MediShield Life coverage kicks in. The deductible is payable only once every policy year and increases with age and the ward class. For example, for those aged 80 and below, the deductible is \$1,500 for stays in Class C wards.

The co-insurance is a percentage (e.g., 3%) of the remaining claimable amount after subtracting deductible which the insured have to pay.

The deductible and co-insurance serve to avoid the overconsumption often associated with insurance schemes that cover 100% of hospital bills.

Adapted from: Ministry of Health website (<https://www.moh.gov.sg>)

#### **Extract 4: Hard truths about co-payments in insurance**

The seminal study of health insurance conducted more than 30 years ago in the United States by Professor Willard G. Manning showed that introducing insurance co-payments such as deductibles and co-insurance substantially decreased health expenditures with only very few adverse health effects. Since that study, all public insurance schemes, including Singapore's Medishield Life scheme, have included such elements.

However, the hard truth is that there is very little data on how to optimally set the level of these co-payments. There is considerable variation internationally. For instance, France's deductible lies below \$2 per sickness episode, while Switzerland's maximum annual deductible of \$3,500 is higher than Singapore's. For co-insurance rates, Germany's ranges from 5 to 10 per cent, while France's ranges from 30 to 40 per cent. No international guidelines exist.

Adapted from: The Straits Times, 1 Feb 2018

#### **Extract 5: Why is healthcare overconsumed and what can we do about it?**

Apart from overly-comprehensive insurance coverage, another factor causing the overconsumption of healthcare worth mentioning is "physician-induced demand" where some doctors take advantage of patients' lack of medical knowledge to provide them with more care than necessary, or to charge a higher fee. Physician-induced demand is especially prevalent when complete insurance coverage causes patients to have little financial incentive to question whether the care they receive is necessary since it is all covered by their health insurance.

To combat this problem, Singapore set up the Agency for Care Effectiveness (ACE), a national health technology assessment centre, in 2015. ACE's work will help Singapore doctors and consumers determine the value for money of healthcare, in terms of life and quality of life

gained. Its first tranche of 11 drug guidances based on how well these drugs work and their cost-effectiveness was published on 3 May 2017. ACE is part of the Ministry of Health's (MOH) efforts to achieve its mission of:

- Promoting good health and reducing illnesses;
- Ensuring access to good and affordable healthcare; and
- Pursuing medical excellence.

Adapted from: The Straits Times, 1 Feb 2018 and Ministry of Health website  
(<https://www.moh.gov.sg>)

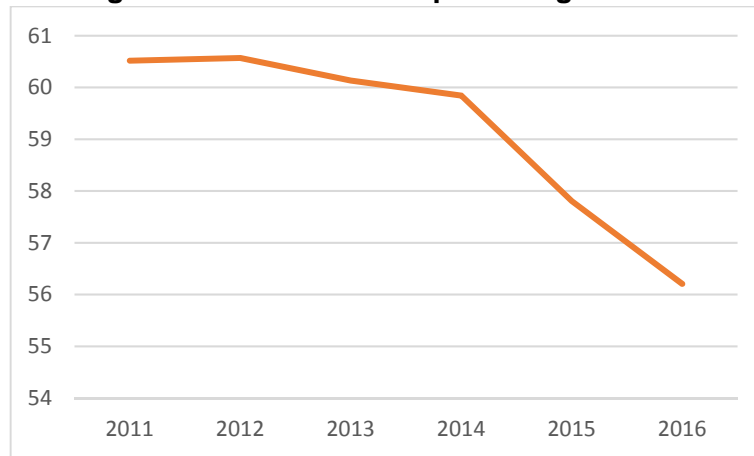
### Questions

- (a) Using the information from Extract 1, compare the change in share of health expenditure as a percentage of GDP between Singapore and Ireland from 2011 to 2015. [2]
- (b) Explain how each of the following led to the trend in healthcare expenditure in Singapore.
- (i) 'the development and adoption of new and expensive health technologies' and 'rising wages' [4]
- (ii) 'population ageing' and 'lifestyle risk factors' [2]
- (c) Explain how the statement "retrenched PMETs from other fields cannot easily enter the healthcare sector due to a mismatch of skills" illustrates a form of inefficiency in the healthcare market. [2]
- (d) (i) Explain the source of market failure caused by '(h)aving an insurer pay 100 per cent of a patient's bill' (Extract 2). [2]
- (ii) With reference to the case material, assess the use of deductibles and co-insurance (Extract 3) to address the market failure in (d)(i). [8]
- (e) With the use of the case material and your own knowledge, discuss whether the setting up of the Agency for Care Effectiveness (ACE) will help Singapore achieve its microeconomic aims. [10]

[Total: 30]

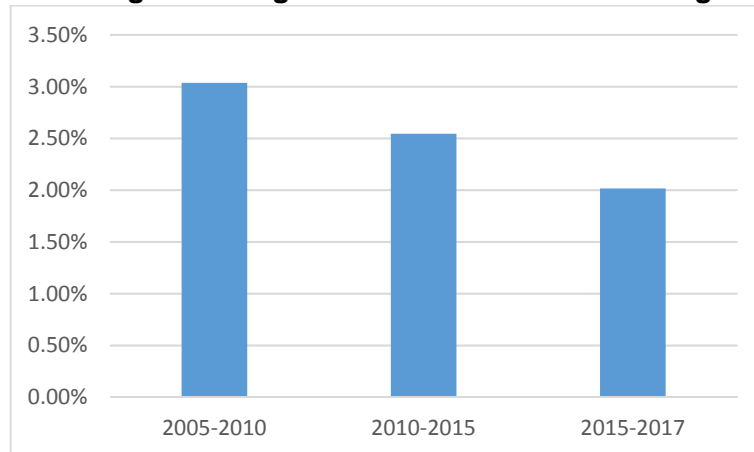
## Question 2: Globalisation and Deglobalisation

**Figure 1: Global trade as percentage of GDP**



Source: World Bank

**Figure 2: Average annual growth rate of international migrant stock\***



\*International migrant stocks are estimates of "the total number of international migrants present in a given country at a particular point in time"

Source: <https://migrationdataportal.org>

**Table 1: Number of non-tariff barriers in G20\* countries**

Year	2010	2016
No. of non-tariff barriers	300	1,200

\*The G20 is a group of countries that make up more than 85% of the world economy

Source: World Bank

### Extract 6: What is deglobalisation?

Deglobalisation is the reversal of globalisation. The last time the world experienced it on a significant scale, between 1914 and 1945, was one of the darkest periods in history, encompassing two world wars, economic depression and trade protectionism.

The current reality is not yet in that territory. It is clear, though, that the recent wave of globalisation has stalled since the financial crisis. Less certain is how far it may go into reverse.

Globalisation is credited with helping to increase the global standard of living by allowing populations in every country to consume more.

Workers in the developed world, however, have suffered more costs than benefits. Many blame globalisation for job insecurity and stagnant wages, creating an anti-establishment backlash that swept Donald Trump to the US presidency on a protectionist ticket, fuelled the UK's Brexit vote, and aided populist movements in countries including Germany and the Netherlands.

Adapted from: RSM Global, 4 Jan 2018

### **Extract 7: Trump's misguided trade war**

U.S. President Donald Trump may sincerely think he's battling to win Americans a better deal on trade with China. In fact, he's making a better deal harder to achieve — and threatening to inflict grave economic damage on the U.S. economy in the process.

In the past few days, Trump has dramatically cut the chances of a negotiated solution to the two countries' various trade disputes. He announced a first set of tariffs on \$50 billion worth of Chinese goods, prompting an entirely predictable Chinese vow to retaliate. Now he's followed up with a new threat to impose tariffs on an additional \$200 billion in Chinese imports (and possibly another \$200 billion after that).

The president's actions are increasingly hazardous to the U.S. economy's health. If implemented, the tariffs — taxes paid in the end by U.S. consumers — would be an act of self-harm on American households. The latest ones would be applied to both semi-finished and finished goods such as electronics and sneakers, the latter directly raising prices for U.S. consumers.

American firms are not spared either. The recent tariffs imposed on iron and steel imports from US's traditionally closest allies (also introduced under President Trump) deal a blow to US carmakers. And, this is even before China's government chooses to retaliate, as it probably would.

Perhaps the administration thinks China's ability to punch back is limited, since the country doesn't import enough from the U.S. to penalize an equivalent \$200 billion in goods. But China can retaliate in other ways — for example by obstructing U.S. companies operating on the mainland, promoting boycotts of U.S. goods, or throttling the flow of students and tourists to the U.S.

Adapted from: <https://www.bloomberg.com> and <https://qz.com>

### **Extract 8: A historical look at import substitution and export promotion**

Historically, less developed countries (LDCs) have adopted either one of two alternative strategies for achieving industrialisation – an inward-looking strategy (i.e., import substitution which promotes the production of goods domestically instead of imports, and encouraging growth of domestic enterprise) or an outward-looking strategy (i.e., encouraging exports through participating in international trade according to the theory of comparative advantage, and attracting multinational corporations (MNCs)).

Import substitution relies on imposing protectionist measures such as tariffs or other non-tariff barriers on imports. Countries that have had more success with it include the BRIC (Brazil, China, India, and China) where domestic markets are large enough for domestic producers to gain economies of scale and still support sufficient domestic competition to prevent excessive complacency and hence inefficiency.

In contrast, in export-led growth, countries produce according to their long-term comparative advantage, which changes over time based on acquired skills and technology. Economies that have experienced success using this approach include Hong Kong and Singapore that used exports to overcome the limits of their domestic markets. Such countries also adopted an outward-oriented approach towards industrialisation. Instead of encouraging the growth of home-grown expertise and technology, these governments chose to quicken the pace of the industrialisation by encouraging MNCs to set up shop locally to create the technology and skill transfers. These were facilitated by the healthy political ties that both economies enjoyed with other economies, which smoothed the path of signing free trade agreements (FTA).

Adapted from: <http://www.economicdiscussion.net> and Future Business Journal

### Questions

- (a) Explain how any two pieces of the data shown in the Figures and Table 1 show that the world is in a state of 'deglobalisation'. [2]
- (b) Suggest another piece of information and explain how it would help determine whether the world is in a state of deglobalisation. [2]
- (c) Using the case material from Extract 6,
  - (i) Explain a benefit of globalisation [2]
  - (ii) Explain two reasons for the trend of deglobalisation. [4]
- (d) Explain how the tariffs imposed by President Trump would be 'an act of self-harm on American households'. [2]
- (e) Discuss whether producers of different goods in the US will experience net benefit from President Trump's tariffs (Extract 7). [8]
- (f) With reference to the case material, discuss the factors that determine whether a country would be more successful in achieving growth through an inward- or outward-looking strategy in today's world. [10]

[Total: 30]

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