



RAFFLES INSTITUTION
2023 YEAR 6 PRELIMINARY EXAMINATIONS
Higher 1

ECONOMICS

8843/01

Paper 1

29 August 2023

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name, index number and civics 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 diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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

Use the cover sheets and tie your answer to the questions **separately**.

This document consists of 10 printed pages and 2 blank pages.



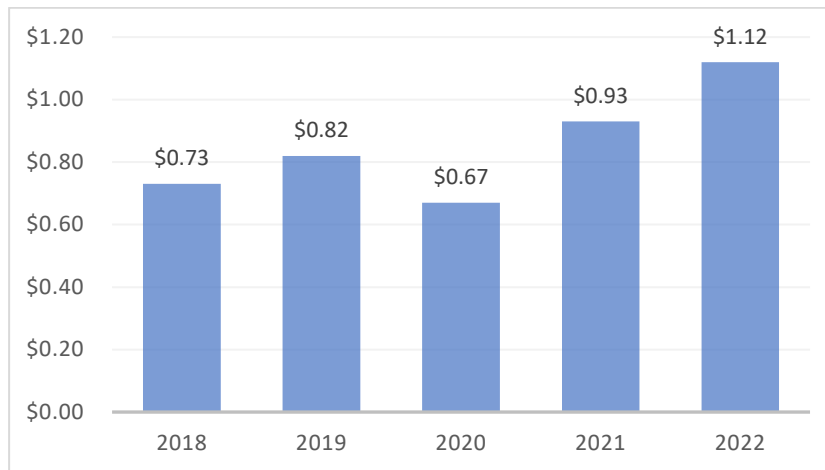
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Answer **all** questions.

Question 1: The Fashion Industry

Figure 1: World Cotton Prices (US\$)



Source: Macrotrends, March 2023

Extract 1: Cotton Farmers in India and Pakistan Bear the Brunt of Extreme Heat, Unpredictable Rainfall

Farmers have been growing cotton in India and Pakistan for thousands of years. Both countries' economies are thriving because they have been part of the top 10 cotton exporters along with the US, China, and Brazil. India alone contributes over 26% of the global cotton production.

But that shared history and benefit is under threat because of weather volatility. The year 2021 will remain etched in the memory of Anantha Kumar Pichaipillai, a cotton farmer from Tamil Nadu. For the first time in eight years, he did not grow cotton. Extreme rainfall wreaked havoc on his cotton farm.

Source: The Wire, 11 Feb 2023

Extract 2: Cotton Subsidies in US

Every year, US taxpayers lavish \$4 billion on their cotton farmers, a practice that begun in response to the Great Depression, US cotton subsidies apply no matter the farmer's yield (in fact, the practice often rewards the successful) - which means that cotton producers in the poorest regions of the world are unable to compete with the low prices of their rich American counterparts. In the 2019-20 season, the US paid out more than \$2 billion to cotton farmers, up from \$1.2 billion the year before.

According to a 2007 Oxfam report, eliminating US cotton subsidies permanently could lead to about millions of households in poorer developing countries being able to feed another person based on the higher prices farmers would get for their cotton. In India alone, cotton production sustains the livelihoods of 5.8 million farmers, the majority of whom are small-scale farmers cultivating land less than 2 hectares in size. These farmers live below the poverty line. Many are deeply indebted from the high-interest loans they are forced to obtain from loan sharks to buy fertilizers.

Source: Kingpins Media, 24 March 2021

Extract 3: Why cotton is called the world's dirtiest crop

Bugs love cotton. Cotton farmers' usual solution is to douse crops in \$2-3 billions worth of pesticides annually - \$819 million of which is so toxic that it is classified as hazardous by the World Health Organization. Because of the heavy irrigation required to grow cotton, chemicals are quickly washed into surrounding rivers and regional groundwater and entering every aspect of the ecosystem from there - including rainwater. Cotton pesticides now contaminate land, air, food and drinking water in the USA, India, Pakistan, Uzbekistan, Brazil, Australia, Greece and West Africa.

And cotton needs a lot of water to thrive. Globally, cotton consumes 100 billion gallons of water every year. In order to provide this amount of irrigation, waterways in many developing countries are diverted to feed the cotton fields, often with devastating effects. A prime example of this is the Aral Sea. After major rivers that fed the Aral were diverted into irrigation canals to serve cotton farms, the sea turned into a desert bigger than Belgium, Luxemburg, and the Netherlands combined.

Source: The Modern Dane, 1 June 2019

Extract 4: What is fast fashion and why is it a problem

Fast fashion is the term used to describe clothing designs that move quickly from the catwalk to stores to take advantage of trends. The collections are often based on styles presented at Fashion Week runway shows or worn by celebrities. Fast fashion allows mainstream consumers to purchase the hot new look or the next big thing at an affordable price.

Fast fashion became common because of cheaper, speedier manufacturing and shipping methods, an increase in consumers' appetite for up-to-the-minute styles, and the increase in consumer purchasing power - especially among young people—to indulge these instant-gratification desires. Because of all this, fast fashion is challenging the established clothing labels' tradition of introducing new collections and lines on an orderly, seasonal basis. In fact, it's not uncommon for fast-fashion retailers to introduce new products multiple times in one week to stay on trend.

Fast fashion is also called disposable fashion as it encourages a "throw-away" consumer mentality. Many fast fashionistas in their early twenties, the age group the industry targets, admit they only wear their purchases once or twice.

All of the elements of fast fashion have a detrimental impact on the planet and the people involved in garment production. Brands like Boohoo, for example, use toxic chemicals, dangerous dyes, and synthetic fabrics that seep into water supplies, and, each year, 11 million tons of clothing is thrown out in the US alone. These garments - full of lead, pesticides, and countless other chemicals - rarely break down because they are predominantly (over 60%) made of synthetics. Instead, they sit in landfills, releasing toxins into the air. Fast fashion's carbon footprint gives industries like air travel and oil a run for their money.

If fast fashion is getting garments to consumers as quickly as possible, regardless of the impact on workers and the environment, slow fashion is the exact opposite. Many "slow fashion" companies are emerging - offering fewer new pieces a year, all of which have a lower environmental impact through mindful manufacturing, fair labor rights, natural materials, and lasting garments. But not everybody is prepared to pay for them. A third of young people surveyed by the London Fashion Retail Academy said they would not pay more than £5 extra for sustainable garments.

The simplest solution could also be the most effective. Buying a maximum of eight new items a year could reduce fashion's emissions by 37% in the world's major cities, according to research by Leeds University and Arup. Apart from resisting the urges of consumerism, there are some steps one can take to reduce the impact of one's purchases:

- Investigate the brands and see if they use sustainable processes and fair labor practices.
- Buy clothes at secondhand stores to help reduce the amount of garment waste and extend their usage.
- Speak up and advocate against fast fashion and consumerism to ensure spread of awareness as most people are unaware of fast fashion's social and environmental impact.

Source: Various

Extract 5: EU wants all textile waste rules in place by 2028

The European Union (EU) is looking to tackle textile consumption in Europe, which has the fourth highest impact on the environment and climate change after food, housing and transport. It wants all planned regulations requiring fashion companies to produce clothes in a more sustainable way to be in place by 2028.

Europe's biggest fast fashion firms Inditex and H&M show no signs of slowing down production but are looking to use less water and energy and more recycled textiles. While the fashion industry escaped regulation, they are a big pressure for natural resources and with regard to pollution.

The EU is drafting legislation that will make fashion companies take responsibility for the environmental impacts of the clothes they produce. It will require fashion companies to either collect an amount of textile waste that is equivalent to a certain percentage of their production or pay a fee towards local government's waste collection. The amount will gradually increase every few years.

The EU is also working on regulations that would restrict brands' use of sustainable claims to advertise clothing. It estimates that half of these claims, or "eco-labels" are misleading. The eco-label regulation on textiles will come into force at the beginning of next year, the commissioner said. The EU bloc should also ban the destruction of unsold textiles as part of the EU's green strategy to encourage more reuse and recycling. However, the ban rule would take "six months or even more" to be implemented.

Source: <https://www.reuters.com/sustainability> June 2023 [adapted]

Questions

- (a) (i) With reference to Figure 1, describe the trend in cotton prices during the period 2018 to 2022. **[2]**
- (ii) With reference to Extract 1, explain how 'extreme rainfall in India' may affect the extent of change in price of cotton in 2021. **[3]**
- (b) Using Extract 2, and with the help of an appropriate diagram, explain the likely impact of a removal of cotton subsidies by the USA on the standard of living of cotton farmers in a developing country like India. **[5]**
- (c) 'Cotton pesticides now contaminate land, air, food and drinking water in the USA, India, Pakistan, Uzbekistan, Brazil, Australia, Greece and West Africa' (Extract 3).
- (i) Distinguish between a private and public good. **[4]**
- (ii) Identify and justify a good from the above that is a private good. **[2]**
- (d) Discuss the view that demand factors are likely to be more important than supply factors in explaining the popularity of fast fashion among the teens and those in the early twenties. **[6]**
- (e) Discuss the extent to which the price mechanism is able to perform any two of its functions efficiently in the fast fashion market. **[8]**
- (f) Extract 5 suggests that the EU "will require fashion companies to either collect an amount of textile waste that is equivalent to a certain percentage of their production or pay a fee towards local government's waste collection".
- Discuss whether imposing an indirect tax is better than rules and regulations to force the fashion industry to adopt more sustainable design and production practices. **[10]**

[40 marks]

Question 2: The Singapore and UK Economy

Table 1: The Singapore Economy

Year	Inflation rate (%)	GDP growth rate (%)	Unemployment Rate (%)	Overall budget balance (S\$m)
2018	0.44	3.66	2.2	3338.5
2019	0.57	1.1	2.3	844.7
2020	-0.18	-4.14	3.2	-51567
2021	2.3	7.61	2.4	1227
2022	6.1	3.65	2.0	-4220

Source: Singapore Statistics

Table 2: The UK Economy

Year	Inflation rate (%)	GDP growth rate (%)	Unemployment Rate (%)	Overall budget balance (£m)
2018	2.3	1.7	4.1	-2305
2019	1.7	1.6	3.8	-15085
2020	1.0	-11	4.6	-14395
2021	2.5	7.6	4.5	-17600
2022	7.9	4.1	3.7	-23520

Source: Office for National Statistics

Extract 6: Tightening May Not Be Over Amid Elevated Inflation

Not letting up the fight against inflation, Singapore's central bank on Friday (Oct 14) tightened monetary policy for the fifth time in 12 months.

With inflation remaining on an uptrend, MAS needed a "more effective" way to give the Sing dollar a jolt, said MUFG Bank's senior currency analyst Jeff Ng. He also mentioned that: "Given how aggressive the MAS has been in tightening, we do expect the impact to be felt over the next few quarters with the MAS indicating that the string of recent moves should dampen inflation 'in the near term and ensure medium-term price stability'".

But the fight against rising prices – caused by a confluence of external and domestic factors such as supply disruptions pushing up imported food costs, higher energy prices and a tight labour market – is not over, as seen from the latest adjustments in the central bank's inflation forecasts.

The MAS said on Friday that it now expects inflation for 2022 to average around 4 per cent. Moving into next year, inflation is seen at 3.5 to 4.5 per cent, after taking into account the impact of the scheduled Goods and Services Tax (GST) hike.

Source: Channel News Asia, 14 Oct 2022

Extract 7: UK inflation shock - This is really grim

Over the past 18 months the Governor of the Bank of England has told the BBC workers should not ask for excessive pay rises and companies should not hike prices too much either. The polite requests have not worked.

The response of Karen Ward, who serves on the Chancellor's Council of Advisers, is that the Bank of England "has to create a recession" partly to "nip in the bud" a spiral of wages going up and in turn pushing up prices, and then pushing up wages again.

"It's only when companies feel nervous about the future that they will think 'Well, maybe I won't put through that price rise', or workers, when they're a little bit less confident about their job, think 'Oh, I won't push my boss for that higher pay,'" she told the BBC's Today programme.

She said out loud what the Treasury cannot say out loud but has implied in repeated interviews - people have to feel the pain for interest rate rises to work. The Chancellor again said he would support the Bank of England in its decisions - making clear his support for further rate rises.

But the unflattering international comparison also shows a limit to how much the government can blame everything on "global factors". Continental Europe was particularly hit by surging energy prices in the aftermath of the Ukraine war, the rest of the world by food prices, and the US by worker shortages. The UK still suffers from a cocktail of all three.

And the government's own post Brexit policies on trade and workers may have lessened competitive pressures that would in the past have brought inflation down more rapidly.

Wednesday's number shows that the already tricky balancing act between inflation and recession is getting worse. It may require more than just the Bank of England to do the heavy lifting.

Source: <https://www.bbc.com/news/business-65974092>

Extract 8: Business investment in the UK

Over recent years, business investment in the UK has been weak.

Business investment accounts for around 10% of GDP in the UK. But it also tends to be one of the most cyclical components of GDP, and consequently accounts for a greater share of the volatility of GDP. It is important for monetary policymakers to understand the factors driving investment to help them form a view about the prospects for the economy and decide on the appropriate stance of monetary policy. And investment does not only affect the demand side of the economy, it matters for the supply side of the economy too, because there also is a link between investment and productivity growth. Hence, it matters for the balance between demand and supply, which has an impact on inflation.

Source: Office for National Statistics

Extract 9: Singapore, UK sign green economy pact for sustainable energy, transport and finance

Sustainability consists of fulfilling the needs of current generations without compromising the needs of future generations, while ensuring a balance between economic growth, environmental care and social well-being.

Accordingly, policies emphasize the future effect of any given policy or business practice on humans, ecosystems, and the wider economy. The concept often corresponds to the belief that without major changes to the way the planet is run, it will suffer irreparable damage. As concerns about anthropogenic climate change, biodiversity loss, and pollution have become more widespread. The world has shifted to embrace sustainable practices and policies, primarily through the implementation of sustainable business practices and increased investments in green technology.

As energy is not subsidised in Singapore, companies are incentivised to use energy judiciously and embrace new energy efficient technologies. Strong pollution control laws also encourage industries to switch to cleaner fuel sources such as natural gas. The Singapore Government facilitates the adoption of energy efficiency and emissions reduction technologies through grants and other policy tools to overcome high upfront capital investments and other non-market barriers.

Singapore also inked a deal with the United Kingdom to create business opportunities in the clean energy, low-emission transport and sustainable finance sectors. The UK-Singapore Green Economy Framework will support economic growth and job creation, while encouraging the decarbonisation of economic activities. The cooperation will start with a focus on three key pillars: green transport; low-carbon energy and technologies; and carbon markets and sustainable finance. Singapore's Minister-in-charge of Trade Relations said: "We look forward to catalysing green growth opportunities while promoting decarbonisation, in partnership with our people, academia and businesses."

Source: The Straits Times, 1 March 2023

Questions

- (a) Using Tables 1 and 2, compare Singapore's general price level with UK during the period 2018 – 2022. **[2]**
- (b) Extract 6 states that 'a confluence of external and domestic factors' led to rising prices in Singapore.
- Explain one external and one internal factor which have led to the change in prices in Singapore. **[4]**
- (c) With reference to Table 2:
- (i) Describe the trend in the UK's budget position. **[2]**
- (ii) Comment on whether such a trend is a cause for concern. **[6]**
- (d) (i) Explain what is meant by investment. **[1]**
- (ii) Explain one possible factor that can affect the level of investment expenditure in an economy. **[2]**
- (iii) Using Extract 8, explain how a change in the level of investment expenditure is likely to impact the UK economy in both the short-run and the long-run. **[5]**
- (e) With reference to Extracts 6 and 7, discuss the relative effectiveness of the different approaches adopted by Singapore and the UK to manage inflation in their respective countries. **[10]**
- (f) Assess the extent to which supply-side policies can be used by a government to achieve sustainable economic growth in an economy. **[8]**

[40 marks]

Copyright acknowledgements:

Question 1	Figure 1	©Macrotrends, March 2023
	Extract 1	©The Wire, 11 Feb 2023
	Extract 2	©Kinpins Media, 24 March 2021
	Extract 3	©The Modern Dane, 1 June 2019
	Extract 4	©BBC, August 2022; The Good Trade, July 2023; Investopedia
	Extract 5	© https://www.reuters.com/sustainability June 2023
Question 2	Table 1	©Singapore Statistics
	Table 2	©Office for National Statistics
	Extract 6	©Channel News Asia, 14 Oct 2022
	Extract 7	© https://www.bbc.com/news/business-65974092
	Extract 8	©Office for national Statistics
	Extract 9	©The Straits Times, 1 March 2023

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