



CANDIDATE NAME

CT GROUP

23

ECONOMICS

Paper 1 Case Study Questions

8843/01

9 September 2024

3 hours

Additional Materials: Answer Booklet

READ THESE INSTRUCTIONS FIRST

Read all instructions printed on the cover page of the 12-page answer booklet carefully.

Write all your particulars clearly on the cover page of the 12-page answer booklet.

Write in dark blue or black pen on both sides of the paper.

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

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

Answer ALL questions.

Write all your answers in the 12-page booklet and subsequent 4-page booklets (if required).

Do all your rough work in pen using the answer booklet and cross it through without making it illegible.

Do not tear out any part of this booklet.

Begin case study question 1 and question 2 on a new page within the answer booklet.

All work must be handed in. If you have used any additional 4-page booklets, please insert them inside the 12-page answer booklet.

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

You may use a calculator.

You are advised to spend several minutes reading through the questions before you begin writing your answers.

You are reminded for the need for good English and clear presentation in your answers.

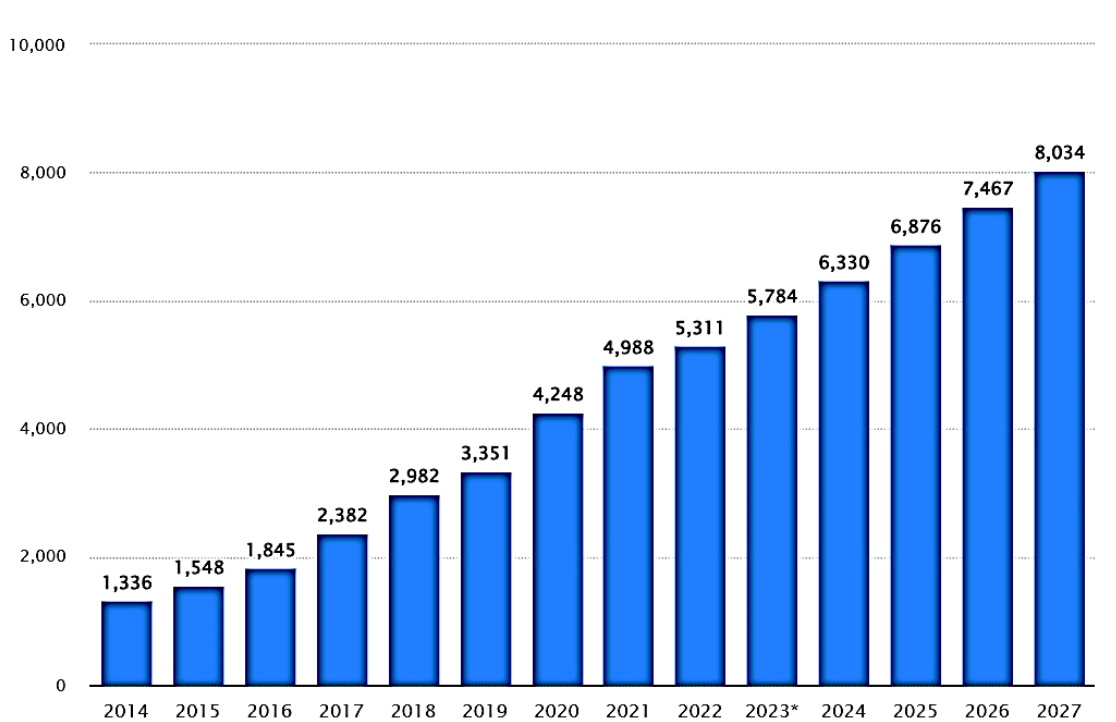
This document consists of **9** printed pages and **1** blank page.

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Answer **all** questions

Question 1: Trends in the market for e-commerce

Figure 1: Global sales revenue for e-commerce, 2014 to 2027 (US\$ billion)



*forecasted from 2023 onwards

Source: Statista

Table 1: Estimated share of global e-commerce revenue by segments, 2023 (%)

Segment	Percentage Share (%)
Electronics	23.1
Fashion	21.1
Toys and Hobbies	19.7
Beauty, Health and Personal Care	10.4
Others	25.7

Source: Statista

Extract 1: Consumer sensitivity to prices in e-commerce

Price sensitivity is a crucial consideration for e-commerce firms as it influences pricing decisions, revenue optimisation, and competition within the online marketplace. By understanding it effectively, e-commerce firms can gain a competitive edge and enhance their profitability.

Online shoppers tend to be more price sensitive compared to traditional brick-and-mortar shoppers. The ease of comparing prices across different online retailers and the abundance of options available make it convenient for consumers to find the best deals. As a result, consumers are more likely to switch to alternative online stores offering lower prices. In addition, e-commerce firms often use promotions, discounts, and special offers to attract customers and drive sales.

Source: Price2spy.com 6 July 2023.

Extract 2: The demise of brick-and-mortar giants in China

Consumer goods retailer Carrefour with its large supermarkets and even larger hypermarkets is slowly collapsing in China. The French retail giant opened its first store in the country in Beijing in 1995 selling a huge variety of produce that were a highly attractive novelty. Carrefour then expanded rapidly in China, opening hypermarkets in Shanghai as well as in Jiangsu, Guangdong, Sichuan, Yunnan, and other provinces.

By 2010, Carrefour was the largest foreign retailer in China with a total of 249 stores in 23 provinces, eventually reaching a peak of 259 in 2017. Carrefour's sales in China steadily climbed up to 2015, when it reached a peak of US\$4.55 billion.

What changed? In one word: e-commerce. China's e-commerce revolution was underway, and consumption habits began steadily shifting from in-store to online. It was estimated that online sales took away the demand from supermarket by about 12% per year on average from 2015 to 2020. Other supermarket chains such as Tesco, Walmart and Big Box have left or in the process of decreasing its presence in the China market.

With rentals and growing wage pressure by an average of 8% per year from 2015 to 2020, the entire supermarket industry was left high and dry. Some made half-hearted attempts to launch an e-commerce app and smaller convenience stores, but these did not amount to much.

Source: The China Project, 9 February 2023

Extract 3: Live streaming, gamification spur rise of 'retailtainment'

Ms Nur Rahmah Jaafar was among the rare breed of millennials who do not like shopping online, preferring instead the experience of being able to touch and feel the items while browsing in a physical store. But all that changed when the COVID-19 pandemic hit. The 29-year-old school counsellor now regularly shops online for clothes for herself and her son.

She buys the clothes through live stream sessions on Instagram (IG). "I am the kind who likes to go out and experience myself. The thing that comes close to an interaction is an IG live. You have the model modelling (the clothes) for you. It's as close as you can get to real life," said Ms Nur Rahmah, who shops about once or twice a month through these live stream sessions.

Beyond the interaction, the gamification of live streams, such as through quizzes or contests, is also another factor that entices Ms Nur Rahmah to keep joining these sessions. "You get addicted to it. Some IG live (stream sessions) can be very competitive. You have to bid for the product and fastest fingers first. There is that thrill that comes with it," she said. The addictive element in live stream shopping is also a major draw for Ms Lynnette Goh, 30, who believes that this method of selling thrives on the FOMO (the fear of missing out) mentality.

"When I watch a live stream, I always get very hungry to buy the item. It's very fun to watch, it fuels your need for it. But sometimes I buy already then regret, because it's fuelled by emotional decisions," said Ms Goh. She acknowledged that she often bought more than what she needs. A stronger Singapore dollar also made the decision to purchase goods from other countries via live streaming affordable, further fueling the desire to buy the products without much consideration.

Live stream selling itself is not exactly new, and was already a big thing in China even before the pandemic began creating havoc around the world early last year. It first became mainstream in 2016 when tech giant Alibaba's e-commerce site Taobao launched its live function.

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The industry is now an integral part of China's wider e-commerce landscape, having grown by more than 280 per cent between 2017 and 2020, according to a McKinsey report. The growth was further spurred by the pandemic and is estimated to be valued at US\$171 billion in 2020.

Source: Channel News Asia, 22 Nov 2021

Extract 4: Why plastic in e-commerce may be a difficult habit to kick

The amount of plastic used for packaging in e-commerce is higher than what would have been used through traditional brick-and-mortar retail. One reason for this is because e-commerce increases the number of shipments. In conventional retail, goods are often transported in bulk to the retailer, whereas with e-commerce, goods are usually sent on an individual basis directly to the consumer. The plastic used to cover the surface area of the goods is considerably less when transported in bulk. The complexity of the e-commerce supply chain also makes the specific characteristics of plastic - that it is lightweight, high-performing, and lower cost - particularly attractive to the industry making it more prone to rely on it for packaging and resulting in a tendency for over-packaging.

E-commerce also has a lower profit margin relative to traditional retail. A study found that pure online retailers in key European markets only benefitted from a pre-tax profit margin of 1.4% in 2019, compared to the total retail industry, for which the average is 5.4%. The low margins mean higher pressures to keep costs, including for packaging, low. Not only is plastic a relatively cheap input, but because of its lightweight nature, it reduces the overall weight of the package, lowering transportation costs.

While robustness requirements and cost pressures may result in a tendency to rely on plastics in packaging, e-commerce retailers are facing backlash and increasing consumer pressures across developed and developing countries to shift away from using plastic in packaging. Consumer surveys regularly emphasize that consumers today are more worried about environmental issues than ever. There is also an increasing awareness of the ramifications of plastic leakage to the oceans and those who depend on them for livelihood.

Yet, while some consumers have indicated that they are willing to pay more for sustainable packaging, they will only do so at low premiums. Many more consumers believe that sustainable products in general should not be more expensive than non-sustainable products, and that it is the responsibility of industries to shift to sustainable practices while maintaining competitive prices.

Consumer pressure has resulted in some leading e-commerce retailers testing out initiatives in sustainability packaging, from exploring eco-friendly plastic alternatives, to investing in packaging efficiencies. However, at the industry level, the scaling up of production of more sustainable alternatives to plastic packaging at competitive prices requires upfront investments in technologies and machines. Unless the industry is either incentivised or forced to undertake such investments, they may be unlikely to do so on a voluntary basis, especially due to the low premiums that consumers are willing to pay for it. This is where government policies, whether in the form of incentives or regulations, could play a role in shifting the industry towards such action.

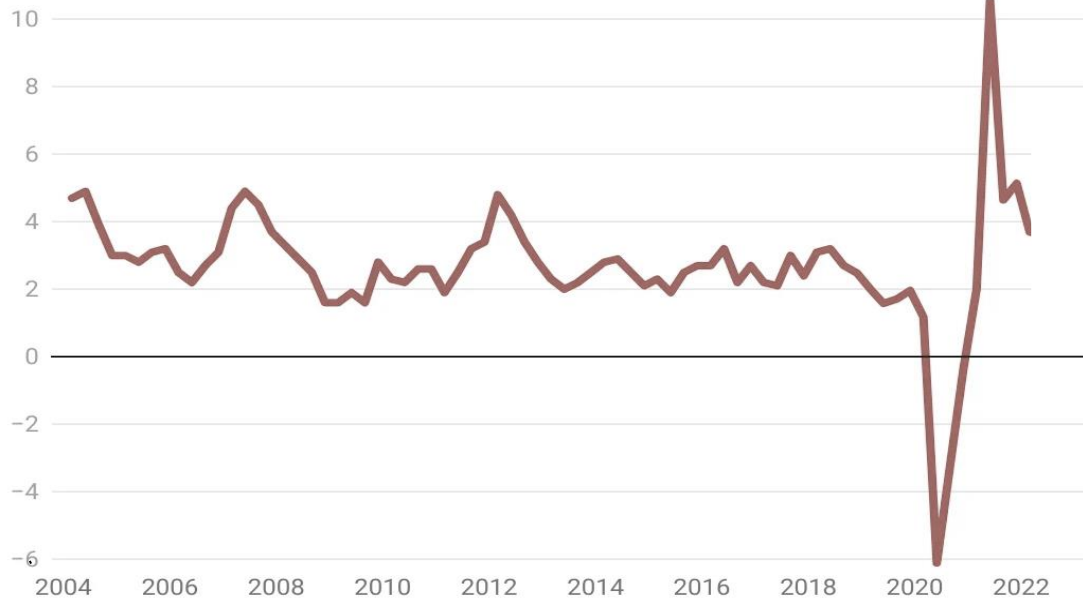
Source: International Institute for Sustainable Development, 25 October 2023

- (a) With reference to Figure 1 and the concept of 'price sensitivity' mentioned in Extract 1, explain what could have led to the growth in the global e-commerce sales revenue. [4]
- (b) With reference to Table 1, explain the likely value of the price elasticity of supply for the goods sold through e-commerce. [2]
- (c) With the aid of a demand and supply diagram, explain one demand factor and one supply factor that could have caused the supermarket industry in China to be left 'high and dry'. (Extract 2) [6]
- (d) Explain how a 'stronger Singapore dollar also made the decision to purchase goods from other countries via live streaming affordable' (Extract 3) [2]
- (e) (i) "When I watch a live stream, I always get very hungry to buy the item. It's very fun to watch, it fuels your need for it. But sometimes I buy already then regret, because it's fuelled by emotional decisions"
- Explain why the statement above from Extract 3 is normative. [2]
- (ii) With the aid of a diagram, explain how 'fear of missing out (FOMO)' might lead to an inefficient allocation of resources in terms of imperfect information and comment if government intervention is required. [6]
- (f) With reference to the data, assess if standard of living for an average resident have improved with the rise of e-commerce. [8]
- (g) Discuss why government regulation is required in plastic packaging used in the e-commerce and the extent to which the use of eco-friendly plastic alternatives is able to reduce plastic waste in the industry. [10]

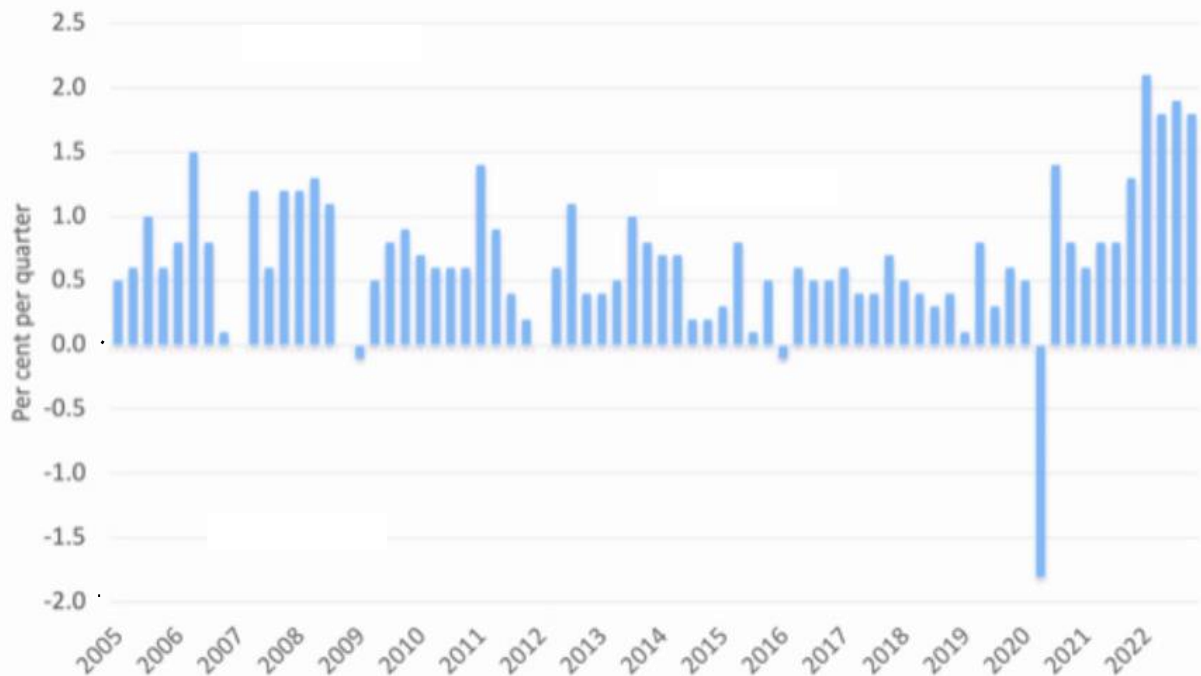
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Question 2: The Australian Economy

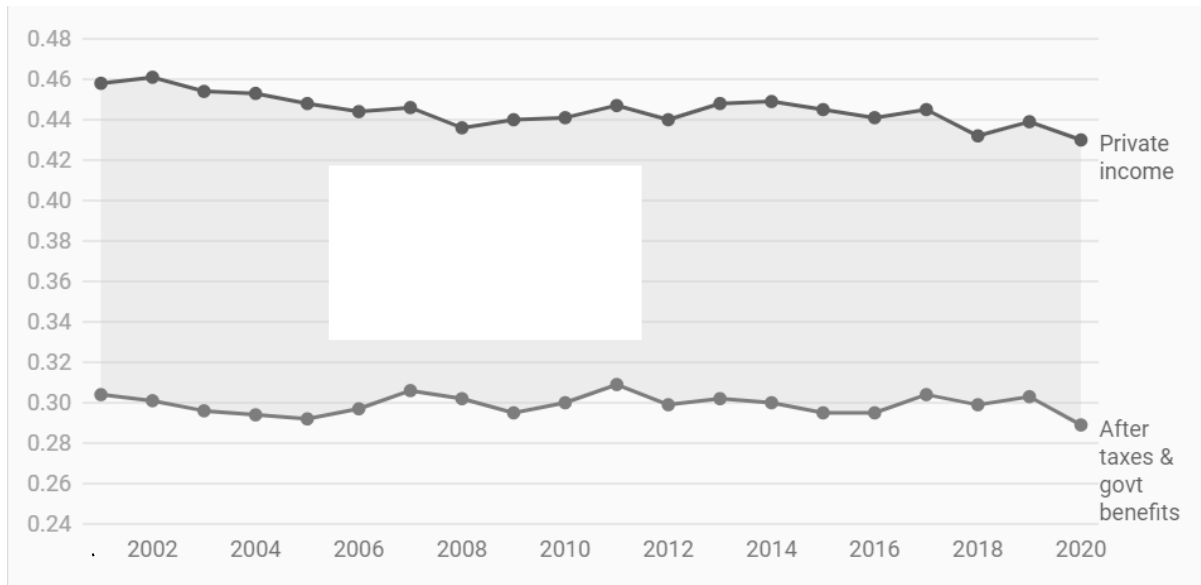
Figure 2: Quarterly Real GDP growth of Australia (%), 2004 – 2022

Source: ABS Australian National Accounts

Figure 3: Quarterly inflation rate of Australia (%), 2005 – 2022

Source: Reserve Bank of Australia, accessed on 21 July 2024

Figure 4: Gini Coefficient of Australia, 2002 - 2020



Source: The Guardian, accessed on 21 July 2024

Extract 5: Recession in the Australian economy

Australia's economy has plunged into its first recession in nearly 30 years, as it suffers the economic fallout from the COVID-19 pandemic. Gross domestic product (GDP) shrank 6% in the second quarter compared to the previous three months. This is the biggest fall since records began back in 1959 and comes after a fall of 0.3% in the first quarter.

Australia was the only major economy to avoid a recession during the 2008 global financial crisis - mainly due to demand from China for its natural resources. At the start of this year, the economy was hit by falling economic growth due to an extreme bush fire season and the early stages of the pandemic. More recently the shutdowns of businesses across the country have taken their toll, despite measures by the government and central bank to support the economy. This is the worst economic growth in 61 years due to a severe contraction in household spending on goods and services.

Australia has had a steady economic growth for decades with strong coal, iron ore and natural gas exports to a surging China. Tourism has also been a big driver of growth. But this year, the country was hit hard again. When the bushfires ravaged through more than 12 million hectares, destroying key infrastructures. Then, the COVID-19 pandemic became global.

Due to the economic downturn, unemployment is set to soar to its highest rate in almost three decades, with 1.4 million Australians expected to be out of work. Economist Chris Richardson, said studies from Australia and overseas had shown if a person did not regain employment within two years of losing a job in a recession, they were unlikely to ever work again.

Sources: Adapted from BBC, 2 September 2020 and ABC News, 13 April 2020

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Extract 6: Australian economy bounces back

Large-scale fiscal stimulus measures combined with ultra-loose monetary policy have helped to boost economic activity despite the negative economic impact of the COVID-19 pandemic and associated lockdowns. During 2020, the Reserve Bank of Australia (RBA) lowered interest rate from 0.75% to 0.1%, while also implementing quantitative easing measures for the first time. Quantitative easing involves the central bank buying large amounts of financial assets like government bonds to increase the money supply and encourage spending in the economy.

The overall COVID-19 response from the Australian Federal Government has reached around AUD 507 billion, including health measures, the JobKeeper Payment (wage subsidies), Boosting Cash Flow for Employers and the Coronavirus Supplement. The 2020-21 Budget also included AUD 98 billion in response and recovery support.

Source: Adapted from S&P Global, 26 April 2021

Extract 7: Minimum wage in Australia

The Fair Work Commission in Australia is the governmental regulatory body that set the minimum wages for Australia and help with issues in the workplace. In its submission to the commission's annual wage review (which determines whether 2.3 million eligible workers will get a wage increase this year), the Australian government is opposing any significant increase in the minimum wage. The government claims that even a moderate wage increase would threaten economic recovery and employment in the wake of the pandemic. Its standard line is: "If employers can't afford wage increases, they will cut jobs!"

Critics find flaws in the argument. First, businesses can afford higher wages. Profits increased by 15% in the last 12 months. It is the first recession in Australian history when profits got bigger, not smaller. And the biggest beneficiaries of a freeze in minimum wages would be the dominant firms like Coles Supermarkets, utilities and telecommunications companies which profited so excessively during the pandemic. Not only capturing most household spending on everyday essentials, they have by far the biggest minimum-waged workforce – hundreds of thousands strong.

The Fair Work Commission's minimum wage decision, to be announced in May, comes at a critical moment in Australia's recovery from the pandemic. Before COVID-19 hit, wage growth had already slowed to the slowest sustained pace since the 1930s Depression – growing at an annual average rate of under 2% since 2015. Now, wages are almost at a standstill. That is why many economists concur Australia need higher wages, not lower.

Minimum wage increases help workers who need it most: the lowest paid, more likely in casual jobs, and concentrated in the sectors most impacted by COVID (like retail and hospitality). Most cannot bargain with their employers, so they depend on minimum wage increases to keep pace with the cost of living and capture a share of productivity and profit gains. In fact, the proportion of all Australian employees dependent on the minimum wage for pay rises is growing: from 15% to 21% since 2010.

Source: Adapted from The Guardian, 7 April 2021

Extract 8: Inclusive economic growth in Singapore

To pave the way for Singapore's economy to emerge from the COVID-19 crisis stronger and more resilient to future shocks, Deputy Prime Minister Heng Swee Keat unveiled a "refreshed economic strategy" centered on innovation, inclusivity and sustainability.

The aim is not just to grow a vibrant, innovative economy, but an inclusive one, where growth uplifts all Singaporeans, Mr Heng said. "With COVID-19 revealing vulnerabilities in our labour market, we need to better understand its structure, and upgrade jobs and skills across all segments of society," he said. "To achieve inclusive growth, our workers need to have the skills to stay relevant and we need to provide holistic support to uplift our vulnerable workers." The Government will thus continue investing in helping every worker, at every age, continue to improve their skills or pick up new ones, so that they can always get good jobs.

Source: Today, 5 October 2020

- (a) (i) Using the economic indicators in Figures 2 and 3, explain how they demonstrated that Australia had experienced a recession along with a deflation in 2020. [4]
- (ii) Explain how Gini coefficient is used to gauge income inequality in an economy and using Figure 4, explain why the Gini coefficient is reduced after accounting for government taxes and benefits. [3]
- (b) Use a Production Possibility Curve (PPC) diagram and evidence from Extract 5 to explain how
- (i) the COVID-19 pandemic affects actual economic growth
- and
- (ii) bushfires affect potential economic growth in Australia. [6]
- (c) Drawing evidence from Extract 5, explain the most significant cause of unemployment in Australia due to the COVID-19 pandemic, and comment on how the nature of unemployment might change in the longer term. [6]
- (d) Discuss the intended and unintended consequences of implementing 'large-scale fiscal stimulus measures combined with ultra-loose monetary policy' to achieve economic recovery in Australia. (Extract 6) [8]
- (e) (i) Using a supply and demand diagram, explain the effects of increasing minimum wage on the labour market. (Extract 7) [3]
- (ii) With reference to the data, discuss whether increasing minimum wage is the best way to achieve inclusive economic growth in an economy. [10]

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Copyright Acknowledgements:

Question 1	Figure 1	© Statista accessed on 27 July 2024
Question 1	Table 1	© Statista accessed on 28 July 2024
Question 1	Extract 1	© How Does Price Elasticity Impact eCommerce Businesses? Marijana Bjelobrk, Price2Spy.com. 6 July 2023
Question 1	Extract 2	© Big box stores are dying and Carrefour China is on its last legs. The China Project. 9 February 2023.
Question 1	Extract 3	© The Big Read: Live streaming, gamification spur rise of 'retailtainment' amid e-commerce's pandemic boom. Janise Lim, Channelnewsasia. 22 November 2021.
Question 1	Extract 4	© Addressing Plastic Packaging Waste in E-commerce Retail. Rashmi Jose, International Institute of Sustainable Development. 25 October 2023
Question 2	Figure 2	© ABS Australian National Accounts; https://au.news.yahoo.com/7-graphs-show-economic-growth-061247825.html
Question 2	Figure 3	© Reserve Bank of Australia; https://billmitchell.org/blog/?p=51180
Question 2	Figure 4	© The pandemic showed us that poverty is a policy choice – we must do better, The Guardian, 14 December 2022
Question 2	Extract 5	© Australia in first recession for nearly 30 years, BBC, 2 September 2020
		© Unemployment rate predicted to reach 10 per cent amid coronavirus pandemic, ABC News, 13 April 2020

Question 2	Extract 6	© Australian economy rebounds in early 2021, S&P Global, 26 December 2020
Question 2	Extract 7	© A rise in the minimum wage won't hurt Australia's recovery. It will help it, 7 April 2021
Question 2	Extract 8	© Inclusive growth, building resilience part of 'refreshed economic strategy' to recover from Covid-19 crisis: DPM Heng, Today, 5 October 2020

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