



Jurong Junior College
2016 JC1 Promotional Examination

ECONOMICS

Higher 2

9757/01

Paper 1

23 September 2016

1 hr 10 minutes

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

Answer **all** questions.

At the end of the test, tie all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

Answer **all** questions.

Question 1

The Impact of Private Car-Sharing Application Firms on the Traditional Taxi Industry

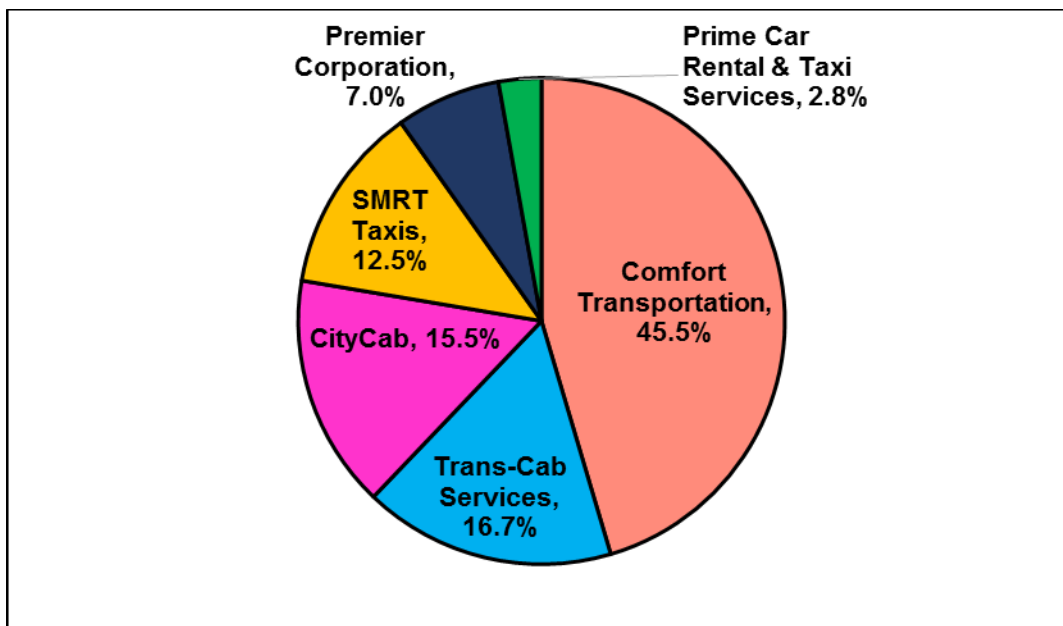
Table 1: Share of US business car-hire rides, % of total

Types of car-hire rides	2014	2015	2016
Car rentals	55	50	40
Taxis	37	25	14
Private-hire cars	8	25	46

**Note: Private-hire car rides are rides such as Uber and GrabCar.*

Source: *Certify, 2016*

Figure 2: Market share of traditional taxi companies in Singapore



Source: *Land Transport Authority, 2016*

Extract 1: Traditional taxi industry in Singapore

Today, over 26,000 taxis from six taxi companies ply Singapore's roads. These taxi companies spend millions of dollars acquiring and building up their taxi fleet, which are then rented out to taxi drivers at a fee. To help taxi drivers get more jobs, taxi companies have their own call service centres so that drivers can be better matched with passengers.

In Singapore, all taxi rides are metered, based on a flag-down fare and the distance travelled. At present, the flag-down fare for standard taxis ranges between \$3.20 and \$3.90, but the distance rate does not vary across the six taxi companies. The most recent fare hike came about in 2011, when most of the taxi operators followed industry leader ComfortDelGro in raising the flag-down

fee by 20 cents. This raised concerns by taxi commuters, who complained that this fare hike came far too soon given the implementation of a \$0.30 fuel surcharge by taxi operators in 2008.

Sources: *Land Transport Authority and ChannelNewsAsia*

Extract 2: New entrants turn the taxi industry on its head

The rise of technology has caused upheavals in many industries around the world – arguably, the taxi sector is no exception. The disruptive technology and new business model brought about by the likes of private car-hire firms such as Uber and GrabCar are a godsend to long-suffering commuters frustrated with an inefficient system that is unable to match supply and demand during peak periods. A survey done by market research firm YouGov found that the top reasons for using private car-sharing apps include the ease of using them, the convenience of getting a ride and lower overall prices as compared to regular taxis. In addition, the low barriers to entry and flexibility brought about by Uber and GrabCar have created money-making opportunities for many, including retirees and housewives.

Yet, not all are happy with the entry of these private car-hire firms into the taxi industry. Cabbies working for traditional taxi operators are seeing their livelihoods threatened. Several taxi drivers working for the traditional operators said that their earnings have dropped by at least 20 percent since the private car-hire firms came onto the scene. Still, they are apprehensive about joining the hordes of Uber and GrabCar drivers out of fear that there would be more stringent government regulation of private car-hire drivers in future, such as an outright ban on companies like Uber and GrabCar that prevents them from operating. They also expressed concern about the lack of insurance coverage should they leave their current companies.

Furthermore, taxi operators are also feeling the heat, with analysts estimating that the bigger companies could be bleeding millions of dollars each month due to the emergence of private car-hire firms. Under the traditional business model, these incumbent operators rely greatly on taxi rentals as their main source of income. If more and more taxi drivers opt to join Uber, or leave the industry because of the tougher competition and lower earnings, taxi operators would experience an adverse impact on revenue. In addition, taxi operators would have to absorb costs such as road tax, certificates of entitlement and insurance premiums. If measures are not put in place to increase overall service standards, taxi drivers and operators may find themselves struggling to remain competitive in the market.

While the taxi industry is under siege, car rental companies are enjoying a boom, thanks to the private car-hire firms. Car rental companies have seen at least twice the number of Uber and GrabCar drivers coming forward to either rent cars, or make inquiries about renting them, compared to last year.

Source: *Channel News Asia, October 2015*

Extract 3: Buying or renting used cars to work for Uber, GrabCar

More used cars are being bought by drivers who want to work for private car-hire firms like Uber and GrabCar, according to dealers of such cars. Although many used car buyers are drivers who intend to drive part-time in order to secure extra income, not all are hopping on the bandwagon. Some drivers have reported previous experiences in which the used cars they purchased had various mechanical problems they were not aware of until they had paid the down payment for the car.

Given the risks of buying a faulty car and having to foot the hefty bill for necessary repair works, these drivers have chosen instead to rent from car rental companies in order to work for Uber and GrabCar. This has breathed new life into the car-rental industry.

Sources: *The Straits Times*, May 2016 and *Singapore Expats Forum*, 2015

Extract 4: Singapore's Lemon Law

Singapore's Lemon Law is a consumer protection law that provides remedies against defective goods which do not meet standards of quality and performance, especially after repeated repair. Under the Lemon Law, consumers may require the business to repair, replace, reduce the price of the goods or perform a refund if the goods are found to be defective within the first six months of purchase.

Following the introduction of Singapore's Lemon Law, the number of automotive-related complaints received by the Consumers Association of Singapore has increased dramatically from 297 to 450 this year. This means that more time is required before each individual buyer's complaint is looked at, which poses a cost to consumers, who are unable to use their cars while their cars are in the process of being inspected or repaired.

Naturally, the newly introduced Lemon Law has its critics, with used car sellers claiming that some consumers abuse the Lemon Law and make claims for issues that arise due to normal wear and tear associated with the age of the car. Sellers of used cars have also questioned the need for the Lemon Law given the emergence of companies that arm consumers with the same information that businesses have long had. Companies such as Edmunds.com and FindTheBest offer a broad range of information on products such as used cars, thus increasing transparency and trust between buyers and sellers and creating more efficient markets.

In addition, critics claim that the government's mandatory biennale car safety inspections for cars over three years old and annual inspections for cars over ten years old should serve to provide sufficient information about the car's condition, without the need for the Lemon Law. Buyers of used cars can request for access to information from these safety inspections prior to buying the car and can make their decisions based on the information they receive.

Source: *Today and Huffington Post*

Questions

- (a) With reference to Table 1, compare the changes in the share of US total business car-hire rides among car rentals, taxis and private-hire cars between 2014 and 2016. [2]
- (b) (i) With reference to Figure 2, explain the market structure that the traditional taxi industry in Singapore currently operates in. [2]
- (ii) With reference to Extract 1, explain how the characteristics of the traditional taxi industry influence prices in the industry. [4]
- (c) (i) Explain how market failure may arise due to asymmetric information when drivers purchase used cars from used car dealers [4]
- (ii) Discuss the extent to which Singapore's Lemon Law helps to correct market failure due to asymmetric information in the used car market. [8]
- (d) Discuss whether the entry of firms such as Uber and GrabCar into the taxi industry is beneficial to society. [10]

[Total: 30]

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