



CATHOLIC JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATIONS
In preparation for
General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

Paper 1

28 Aug 2013

0800 - 1100

Additional Materials : Writing Paper

3 hours

READ THESE INSTRUCTIONS FIRST

Write your name, class and question number 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 highlighters, glue or correction fluid.

Begin each question on a new sheet of paper.

Section A

Answer **all** questions.

Section B

Answer **one** question.

At the end of the examination, **hand in ALL questions separately.**

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

2
Section A

Answer **ALL** questions in this section

Question 1

Cars and Floods

Extract 1: Greater Integration Good for Asean, S'pore: PM Lee

Greater integration is the best way to meet growing competition and create new opportunities for Asean. As he pressed for greater Asean economic integration yesterday at the Asean leaders' meeting, Prime Minister Lee Hsien Loong emphasized how Singapore companies also stand to gain from it. "Closer Asean integration will boost Singapore's position as the regional business hub and create new opportunities in HQ services and supply chain management," he said. He also said opening up Asean's services sector will offer a bigger market to Singaporean service companies such as those selling accountancy and medical services. According to him, getting the Masterplan on Asean Connectivity off the ground will mean potential projects for Singapore companies in the logistics, infrastructure development, information and technology businesses. Asean must work together to become stronger because global competition, especially from China and India, is tough. Mr Lee said that speeding up Asean economic integration is the best way to meet growing competition and create new opportunities for the grouping.

Source: *The Business Times*, 4 April 2012

Extract 2: Thailand Floods Disrupt Supply Chains & Raise Inflationary Risks

Moody's¹ slashed Thailand's GDP growth to 2.8% for the year in light of the heavy floods affecting its seven industrial estates. Automobile manufacturers are at the forefront as they get hit by factory closures, supply chain shortages, labour absences, transport roadblocks and other flood-related factors. Toyota which trades on the Singapore Exchange, reported that its plants in Thailand were shuttered mainly due to supply delays. The Thai floods have resulted in an output loss of 37,500 vehicles in the country itself since the shut down of its factories. To further compound matters, the production halt at its Thai facilities have had knock on effects on its other production facilities affecting delivery of cars to Singapore. Most recently, Toyota had released statements saying that it has reduced production hours in view of the supply chain disruption in Japan, United States, Canada, South Africa, Indonesia, the Philippines and Vietnam.

Back home in Singapore, several companies have announced the flood's impact on their operations in Thailand. Most of the affected are manufacturers of electronics, metals, rubber and plastic products. Business disruption amongst the major industry players sent shockwaves to several companies within the global supply chains. Such is the case for Western Digital (WD), the world's largest hard disk drive (HDD) manufacturers. In the food and beverage industry, Thai Beverage reported flood impacts on their subsidiaries where most of its finished goods had been transferred to other warehouses in unaffected areas. Similarly, Fraser and Neave announced the cessation of its dairies product manufacturing facilities in Rojana under its wholly-owned subsidiary F&N Dairies (Thailand).

Source: *Perspective*, 4 November 2011

Extract 3: Thailand to Restructure Excise Tax System on Cars

Restructuring of the excise tax on automobiles is in the pipeline after the tax hike on cigarettes and liquors, in line with global trends aiming to limit emissions of carbon dioxide, says the Thai Finance Ministry.

¹ Moody's is a credit rating agency.

Benja, director-general of the Excise Department, said a new car tax aims to limit the emission of carbon dioxide, instead of promoting power efficiency. Under the proposed new tax structure, the lowest rates would be applied to passenger cars that discharge no more than 100 grammes of carbon dioxide per kilometre. The next-lowest rate would be applied to cars not exceeding 150g/km, and the next rate to those emitting no more than 200g/km. A punitive rate would be applied to those releasing more than 200g/km.

Source: *Asia News Network*, 23 August 2012

Extract 4: BMW Costing \$260,000 Means Cars Only for Rich in Singapore as Taxes Climb

Francis Goh sits in a bronze BMW 335i convertible in a Singapore showroom, wagging the wheel and feeling the leather. He isn't fazed by the S\$340,000 (\$260,000) price tag, five times what the same car costs in the U.S. Record economic growth in the city state is enabling buyers like Goh, to splash out on Bayerische Motoren Werke AG and Daimler AG autos even as a 24-fold jump in the cost of a car permit inflates costs.

Source: *Bloomberg*, 17 February 2011

Extract 5: Wary Neighbours Turn Into Partners in a Quickly Developing Southeast Asia

As Myanmar opens up to the world after decades of isolation, Thai construction crews are clearing paths through the malarial jungles in preparation for creating a gateway towards broader regional integration. The opening of Myanmar; the construction of bridges, railways and roads on the Indochinese peninsula; and the rise of inexpensive air travel are bringing the region's nations closer to the goal of standing up to the two giants of the neighbourhood, India and China. In 2014, Laos and its neighbour Thailand, are set to inaugurate the fourth bridge built across the Mekong River. Western Cambodia gets its electricity from Thailand, because of the natural gas that is piped in from Myanmar. And Myanmar says it will start rebuilding its rail line to Thailand.

The impetus for the Asean nations' integration in many ways comes from the outside. Both Japan and China have been active in financing infrastructure projects in the region, partly because a better-connected Southeast Asia will make it easier to sell their products — and, in Japan's case, to link a vast network of suppliers to Japanese-owned factories. Thailand is gaining easy access between Bangkok and the port of Dawei, Myanmar, on the Andaman Sea. Ultimately, the new road will provide a shorter trade route to Europe, the Middle East and Africa for products made on the Indochinese peninsula.

Source: Adapted from *New York Times*, 5 July 2012

Table 1: Imports by Region/Country into Singapore (in million SGD)

| Region | Country | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------|----------|------------|------------|------------|------------|------------|------------|------------|
| Total | | 378,924.10 | 395,979.70 | 450,892.60 | 356,299.20 | 423,221.80 | 459,655.10 | 474,554.2 |
| Asia | | 267,850.20 | 277,003.90 | 311,896.80 | 236,904.10 | 290,501.70 | 317,518.20 | 328,159.10 |
| | China | 43,194.30 | 48,013.40 | 47,594.60 | 37,585.30 | 45,844.30 | 47,747.70 | 48,950.20 |
| | Malaysia | 49,480.8 | 51,808.80 | 53,814.40 | 41,336.30 | 49,489.60 | 49,166.90 | 50,501.40 |
| | Thailand | 13,856.30 | 12,797.10 | 15,922.70 | 11,906.90 | 14,000.50 | 14,270.20 | 12,674.80 |

Table 2: Exports by Region/Country from Singapore (in million SGD)

| Region | Country | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------|----------|------------|------------|------------|------------|------------|------------|------------|
| Total | | 431,599.20 | 450,627.70 | 476,762.20 | 391,118.20 | 478,840.70 | 514,741.20 | 510,329.30 |
| Asia | | 297,051.20 | 314,668.40 | 334,204.40 | 278,626.90 | 343,924.90 | 367,364.50 | 365,577.20 |
| | China | 42,061.00 | 43,549.50 | 43,817.90 | 38,125.10 | 49,467.90 | 53,650.70 | 54,872.70 |
| | Malaysia | 56,372.10 | 58,099.60 | 57,638.50 | 44,808.50 | 57,114.20 | 62,834.70 | 62,869.20 |
| | Thailand | 17,944.70 | 18,652.90 | 18,612.40 | 14,613.00 | 17,283.80 | 17,645.10 | 19,499.80 |

Source: www.singstats.gov.sg, accessed 30 July 2013

Questions

- a) With reference to Tables 1 and 2, describe the trend in Singapore's balance of trade between 2008 and 2011. [2]
- b) With reference to Extracts 2 and 4, analyse the likely impact on the market for cars in Singapore due to:
- i) "heavy floods affecting its seven industrial estates" (in Thailand); [3]
- ii) "record economic growth". [3]
- c) i) Using supply and demand diagram, explain the effect of the restructured excise tax system on the market for cars. [3]
- ii) Explain what determines the impact of restructured excise tax system on government revenue. [4]
- d) i) Identify the type of market failure associated with carbon dioxide emissions. [1]
- ii) Assess if the usage of excise tax is a good solution in curbing carbon dioxide emissions in Thailand. [6]
- e) With closer Asean integration, analyse if Singapore stands to gain more than a developing country like Thailand. [8]

[Total: 30 marks]

Question 2**Inflation complicating policy options****Extract 6: Singapore Inflation Unexpectedly Accelerates, Complicating Policy Decision**

Singapore's inflation unexpectedly accelerated to the fastest pace since 2008 as housing and food costs climbed, complicating the central bank's decision ahead of a policy review next month as risks to growth rise.

A struggling U.S. economy and Europe's debt crisis dimmed the outlook for exports and prompted officials from China to the Philippines to avoid further rate increases. The island, which uses the exchange rate to manage inflation, will release its twice-yearly monetary policy decision in October.

"Higher than expected domestic inflationary pressure has kept inflation elevated in the near term" said Irvin Seah, an economist at DBS Group Holdings Ltd. in Singapore. The Singapore government has lowered its forecast for the economy's expansion in 2011 even after the central bank raised its inflation estimate. The island's currency has appreciated to unprecedented levels since the central bank said in April it would allow further gains to tame price pressures, the third monetary tightening in a year. While Singapore's central bank will most likely maintain its current policy stance of a gradual appreciation in the Singapore dollar's nominal effective exchange rate, "downside risks to growth and easing inflation could tilt the policy decision towards a more neutral policy stance," Seah said.

Source: *Bloomberg*, 23 September 2011

Extract 7: Risk of Inflation Puts Europe in a Tough Spot

Inflation in the euro zone is rising even before the European Central Bank has had a chance to end the European debt crisis. Consumer prices rose at an annual rate of 2.4 percent in January, according to European Union statistics released on Monday, significantly above the central bank's target of about 2 percent.

In theory, the central bank should be starting to think about raising its benchmark interest rate soon to cool down the euro zone economy. But in practice, the European Central Bank cannot raise the benchmark rate from a record low of 1 percent without making life even more difficult than it already is for the so-called peripheral countries, like Greece, Ireland and Spain. A rate increase would push up borrowing costs for the governments of those beleaguered countries even more.

Most analysts doubt that the European Central Bank would dare to raise rates before September, and perhaps not until next year. "It would be a mistake for the E.C.B. to raise rates anytime soon," Ms. Diron added. "The economy is still very fragile and they recognize that themselves." Mr. Trichet has blamed the spike in inflation on higher energy prices. He has said that he expected the pressure to let up later this year. European factories are still not operating at capacity, and unemployment in most of the Continent remains above levels seen before the financial crisis. In addition, borrowing by companies is likely to weaken.

All those factors mean that the European Central Bank can leave rates where they are for the time being. "There is still a lot of slack in the economy," said Eric Chaney, chief economist at AXA, a French insurance and investment management company. The central bank will come under much more pressure, though, if higher prices for food or fuel feed into prices of other goods, prompting workers to demand higher wages.

Source: *New York Times*, 1 February 2011

Extract 8: Singapore's Policy Tightening May Prompt Asia to Step Up Inflation Fight

Singapore's third monetary policy tightening in a year may prompt Asian central banks to allow further interest-rate and currency gains to prevent surging prices from hurting their economies.

Asia's policy makers are juggling the need to contain inflation fueled by oil prices near a 30-month high while protecting their economies' export-led expansion. The region can afford to remove fiscal and monetary stimulus at a "stronger and faster" rate as its growth outpaces the rest of the world, according to the World Bank.

South Korea, Indonesia and India are already behind in controlling inflation, along with possibly Thailand and China, said Win Thin, head of emerging-market strategy at Brown Brothers Harriman & Co. "Most in Asia are operating at or near full capacity, and with commodity prices still buoyant, there should be no hesitation to tighten," Thin said. "All of these central banks should take a lesson from the MAS and tighten without fear of slower growth and a stronger currency."

While the Singapore monetary authority adjusted the currency band upwards, it was cautious not to over adjust it. The Singapore government has said too much appreciation would hurt the export competitiveness of the nation. The island has remained vulnerable to fluctuations in overseas demand for manufactured goods even after the government boosted financial services and tourism.

"This 'half re-centering' was likely a result of a compromise between policy makers who acknowledged the need for further tightening but yet had concerns on the strength of the Singapore dollar and the impact on competitiveness," Goldman Sachs Group Inc. economists Mark Tan and Jerry Peng said in a note yesterday.

Source: *Bloomberg*, 15 April 2011

Extract 9: Increase in Local Inflation a Cause for Concern

Inflationary pressure in Hong Kong is building steadily. The city's inflation rate currently stands at 3.7 percent. But the combination of progressive appreciation in the yuan, the quantitative easing policy in the US, and increases in world food and fuel prices will continue to put upward pressure on inflation.

Inflation erodes purchasing power, and thus acts like a tax on individuals. Savers are also being punished given negative real interest rates, while borrowers are benefiting from lower borrowing costs. Investors and asset holders who invest in inflation-protected products will be better off compared to depositors and individuals whose assets are mainly money balances.

In addition, the adverse impact of inflation also tends to vary across income groups. Given the glut of low-skilled workers in Hong Kong, wages are often slow to adjust to rising inflation. Additionally, welfare recipients and low income individuals tend to spend a higher proportion of their income on food. Thus, in the current environment of soaring food prices, a welfare recipient - whose rent is paid by the government whilst receiving HK\$3,000 monthly under Comprehensive Social Security Assistance Scheme - will be experiencing inflation closer to 10 percent.

Source: *China Daily*, 5 April 2011

Table 3: Singapore's Inflation Rate

| Year | Annual Inflation rate |
|------|-----------------------|
| 2004 | 1.7 |
| 2005 | 0.5 |
| 2006 | 1.0 |
| 2007 | 2.1 |
| 2008 | 6.6 |
| 2009 | 0.6 |
| 2010 | 2.8 |
| 2011 | 5.2 |

Source: www.singstat.gov.sg,
accessed on 31 July 2013

Table 4: Singapore's GDP at 2005 Market Prices

| Year | GDP (S\$m) | % Growth |
|------|------------|----------|
| 2004 | 194,433.2 | 9.2 |
| 2005 | 208,763.7 | 7.4 |
| 2006 | 226,765.2 | 8.6 |
| 2007 | 247,218.4 | 9.0 |
| 2008 | 251,538.9 | 1.7 |
| 2009 | 249,559.8 | -0.8 |
| 2010 | 286,446.7 | 14.8 |
| 2011 | 301,228.4 | 5.2 |

Source: www.singstat.gov.sg, accessed
on 31 July 2013

Questions

- (a) (i) With reference to Table 3, describe the trend in Singapore's general price level between 2005 and 2011. [2]
- (ii) Consider whether the information in Tables 3 & 4 suggests there is a stable relationship between inflation and economic growth. [3]
- (b) Using AD/AS analysis, explain how the following factors in Extract 7 might affect the European economy:
- (i) "higher energy prices";
- (ii) "borrowing by companies is likely to weaken". [6]
- (c) (i) Define inflation. [1]
- (ii) Explain why inflation might be a cause of concern for governments. [4]
- (d) Discuss the use of interest rates in curbing inflation in the European Union. [6]
- (e) "This 'half re-centering' was likely a result of a compromise between policy makers who acknowledged the need for further tightening but yet had concerns on the strength of the Singapore dollar and the impact on competitiveness." In light of the data, comment on the need for this compromise. [8]

[Total: 30 Marks]

Section B

Answer **one** question from this section

- 3 (a) Explain the market failure associated with:
- (i) National Defence
 - (ii) Education [10]
- (b) Discuss with the use of examples, the view that subsidies are the best way for an economy such as Singapore to solve the market failure in positive externalities. [15]
- 4 (a) Explain the potential causes of a balance of payment deficit in the current account [10]
- (b) The fall in exports due to global recession has caused unemployment to increase in Singapore. Discuss the use of supply side policies in solving the above problem. [15]

[End of Paper]

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Answers

| | | | |
|-----------|------------|--|------------|
| a) | | With reference to Table 1 and 2, describe the trend of Singapore's balance of trade between 2008 to 2011 | [2] |
| | | Singapore's BOT trend is increasing (1) surplus (1) | |
| b) | | With reference to Extracts 3 and 5, analyse the likely impact on the market for cars in Singapore due to | |
| | i) | Record economic growth | [3] |
| | | Economic growth will increase income of Singaporeans. Increased income is a determinant of demand. (1) Hence demand for cars increase thus both price and quantity will increase (1) The extent of increase in demand will be large as Singaporeans place a huge emphasis on purchase of a car (1) OR highest proportion of millionaire households suggesting that the increase in income is huge and thus the increase in dd and price and quantity (1) | |
| | ii) | heavy floods affecting its seven industrial estates in Thailand | [3] |
| | | Floods will cause factories to shut down. Thus limiting the number of producers being able to manufacture cars. (1) Hence the supply of cars will fall leading to a rise price but a fall in quantity (1) The supply of cars may not drop drastically as there are multiple suppliers/brands of cars available in Singapore thus small fall in ss hence small increase in price and small fall in quantity. (1) | |
| c) | i) | Using supply and demand diagram, explain the effect on the market for cars of the restructured excise tax system | [3] |
| | | The excise tax will increase the cost of production (1) Resulting in a leftward shift in the supply curve for cars (1) Diagram (1) | |
| | ii) | Explain what determines the impact of restructured excise tax system on government revenue | [4] |
| | | PED of cars in Thailand. PED is assumed to be elastic as there are substitutes to cars ie motorcycles. A shift in tax regime (increase in tax) will cause more than proportionate fall in quantity demanded than the increase in price. Since the tax quantum is fixed, given the "larger" fall in quantity demanded. The tax receipt will not be as large as anticipated. A % as total government receipt from various income sources. number of cars purchased (1) + explain (1) types of cars purchased (1) + explain (1) Any other plausible answer with explanation | |
| d) | i) | Identify the type of market failure that carbon dioxide emission causes | [1] |
| | | Carbon dioxide emission is a form of negative externality (1) | |
| | ii) | Assess if the usage of excise tax is a good solution in curbing carbon dioxide emissions in Thailand. | [6] |

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| | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <table><tr><td colspan="3">Outline of answer: Proposed Answer</td></tr><tr><td></td><td colspan="2"><ul style="list-style-type: none">• How tax works to curb carbon dioxide emissions• How it is ineffective in curbing carbon dioxide emissions• Suggest a policy or combination and why it is better.</td></tr><tr><td>Introduction</td><td colspan="2">Identify what an excise tax is</td></tr><tr><td>Paragraph 1</td><td colspan="2">How the excise tax helps to curb carbon dioxide emissions in Thailand.</td></tr><tr><td>Paragraph 2</td><td colspan="2">Why excise tax is a good solution- the strengths of the policy</td></tr><tr><td>Paragraph 3</td><td colspan="2">Why excise tax is not a good solution- the weaknesses of the policy</td></tr><tr><td>Paragraph 4</td><td colspan="2">Identify at least one other policy or an amendment to the policy and show how it is better than the original excise tax at curbing carbon dioxide emissions and make a justified stand as to whether excise tax is a good solution in curbing carbon dioxide emissions.</td></tr><tr><td></td><td colspan="2"></td></tr></table> | Outline of answer: Proposed Answer | | | | <ul style="list-style-type: none">• How tax works to curb carbon dioxide emissions• How it is ineffective in curbing carbon dioxide emissions• Suggest a policy or combination and why it is better. | | Introduction | Identify what an excise tax is | | Paragraph 1 | How the excise tax helps to curb carbon dioxide emissions in Thailand. | | Paragraph 2 | Why excise tax is a good solution- the strengths of the policy | | Paragraph 3 | Why excise tax is not a good solution- the weaknesses of the policy | | Paragraph 4 | Identify at least one other policy or an amendment to the policy and show how it is better than the original excise tax at curbing carbon dioxide emissions and make a justified stand as to whether excise tax is a good solution in curbing carbon dioxide emissions. | | | | | |
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| Introduction | Identify what an excise tax is | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Paragraph 1 | How the excise tax helps to curb carbon dioxide emissions in Thailand. | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Paragraph 2 | Why excise tax is a good solution- the strengths of the policy | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Paragraph 3 | Why excise tax is not a good solution- the weaknesses of the policy | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Paragraph 4 | Identify at least one other policy or an amendment to the policy and show how it is better than the original excise tax at curbing carbon dioxide emissions and make a justified stand as to whether excise tax is a good solution in curbing carbon dioxide emissions. | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <table><tr><td colspan="3">Knowledge, Application, Understanding and Analysis</td></tr><tr><td>L3</td><td>For an answer that shows in-depth discussion and judgment of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution.</td><td>5-6</td></tr><tr><td>L2</td><td>For an answer that shows an underdeveloped economic analysis of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution but in a limited manner.</td><td>3-4</td></tr><tr><td>L1</td><td>Descriptive responses that, in consequence, listed the policies with minimal elaboration and conceptual errors. The answer is one sided.</td><td>1-2</td></tr></table> | Knowledge, Application, Understanding and Analysis | | | L3 | For an answer that shows in-depth discussion and judgment of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution. | 5-6 | L2 | For an answer that shows an underdeveloped economic analysis of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution but in a limited manner. | 3-4 | L1 | Descriptive responses that, in consequence, listed the policies with minimal elaboration and conceptual errors. The answer is one sided. | 1-2 | | | | | | | | | | | | | |
| Knowledge, Application, Understanding and Analysis | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| L3 | For an answer that shows in-depth discussion and judgment of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution. | 5-6 | | | | | | | | | | | | | | | | | | | | | | | | | |
| L2 | For an answer that shows an underdeveloped economic analysis of how well the tax works. The answer should have a clear thesis and anti-thesis, also showing how it is ineffective and suggesting a solution but in a limited manner. | 3-4 | | | | | | | | | | | | | | | | | | | | | | | | | |
| L1 | Descriptive responses that, in consequence, listed the policies with minimal elaboration and conceptual errors. The answer is one sided. | 1-2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e) | With closer integration in Asia , analyse if Singapore stands to gain more than a developing country like Thailand. | | [8] | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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|---|--|
| Outline of answer: <ul style="list-style-type: none"> • What closer integration in Asia means • How it would benefit developed nations like Singapore • How it would benefit developing nations like Thailand • Which would stand to gain more and why. | |
| Introduction | Identify what an excise tax is |
| Paragraph 1 | How this closer integration is beneficial for Singapore |
| Paragraph 2 | Show how other developed nations stand to gain |
| Paragraph 3 | Show how developing nations stand to gain |
| Paragraph 4 | To make a stand as to whether developed or developing countries stand to gain and Justify the reasoning. |

| Knowledge, Application, Understanding and Analysis | | |
|---|---|-----|
| L3 | For an answer that shows in-depth discussion and judgment of how closer integration in Asia affects Singapore compared to developing countries. The answer should have a clear thesis and anti-thesis and address key benefits and consequences identified in the extracts. | 5-6 |
| L2 | For an answer that shows how closer integration in Asia affects Singapore compared to developing countries. The answer should have a clear thesis and anti-thesis and address key benefits and consequences identified in the extracts but in a limited manner. | 3-4 |
| L1 | Descriptive responses that, in consequence, listed the effects of closer integration in Asia with minimal elaboration and conceptual errors. The answer is one sided. | 1-2 |
| E2 | Insightful evaluative comments, backed by depth of economic analysis | 2 |
| E1 | Limited evaluation without justification and economic analysis | 1 |

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| | | |
|-------------|--|------------|
| ai) | With reference to figure 1, explain the trend of Singapore's general price level from 2005-2012. | [2] |
| | Overall, general price level has increased. [1m] There is a sharp increase in 2008. [1m] | |
| aii) | Consider whether the information in table 1 & 2 suggests there is a stable relationship between inflation and economic growth. | [3] |
| | Generally, when economic growth is positive, inflation rate is positive. This is because when demand of goods and services increases, there will be an upward pressure in price. [1m] However, in year 2009, there's negative economic growth with a low inflation rate. The weak economic performance of the economy could have help pushed inflation rate from a high of 2008 to its level in 2008. [1m] Overall, there is a positive relationship between inflation and economic growth. [1m] | |
| b) | Using AD/AD analysis, explain how the following factors in extract 2 might affect the European economy. i) "Higher energy prices" ii) "Borrowing by companies are likely to weaken." | [6] |
| | i) Higher energy prices would likely contribute to a rise in the cost of factor inputs within the European economy which will lead to a rise in the AS. The rise in AS would result in a fall in the economy's GDP as well as a rise in the general price level. [2m] Diagram [1] ii) The weakened level of borrowing by firms will likely diminish the ability of firms to finance investments. This decreased level of investment will likely lead to a fall in the AD, since investment is a component of AD. The fall in AD would result in a fall in the economy's GDP as well as a rise in unemployment. [2m] Diagram [1] | |
| ci) | Define inflation. | [1] |
| | Inflation is a sustained increase in the general price level (or overall prices) in the economy. [1] | |
| cii) | Explain why inflation might be a cause of concern for governments. | [4] |
| | Effects of inflation: examples taken from extract 4 Reason 1: As mentioned in extract 4, "inflation erodes purchasing power". Inflation results in a rise in the general price level and makes it relatively more expensive for consumers to purchase goods and services. If consumer's income does not keep up with the inflation rate, they could see a reduction of their real income. This is similar to a tax on consumers as both a tax and inflation could reduce their real disposable income. [2m] Reason 2: As mentioned in extract 4, "savers are also being punished given negative real interest rates". For savers, if the interest rate by the bank is not at least on par with the inflation rate, this would mean that savers will see a reduction in the real value of their savings. While nominal interest rates continue to be positive, when it is outstripped by the inflation rate, the real interest rate will actually be negative, eroding the real value of the savings. [2m] Or any reason which is supported by context. [2m] | |

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**d) Discuss the use of interest rates in curbing inflation in the European Union.
[6]**

| | |
|--------------------|--|
| Outline of answer: | |
| Introduction | Identify the type of policy used Overview |
| Paragraph 1 | Interest rate policy would reduce inflation → show how |
| Paragraph 2 | Interest rate policy may not be suitable → explain why (limitation of Ir policy) |
| Conclusion | Stand |

| Knowledge, Understanding, Application and Analysis | | |
|--|---|-----------|
| L2 | Good and well developed elaboration on the effectiveness of using interest rate to curb inflation in the EU context. Overall stand on effectiveness needed. | 4-6 Marks |
| L1 | Weak or inaccurate elaboration on the use of interest rates to curb inflation in the EU. | 1-3 Marks |

e) “This ‘half re-centering’ was a likely a result of a compromise between policy makers who acknowledged the need for further tightening but yet had concerns on the strength of the Singapore dollar and the impact on competitiveness.” In light of the data, comment on the need for this compromise.

| | |
|-----------------------|---|
| Outline of answer: | |
| Introduction | Define inflation, explain SG context |
| Paragraph 1 | Exchange rate can be used to tackle imported inflation → show how (appreciation) |
| Paragraph 2 | Appreciating exchange rate could reduce export competitiveness → increase in P_x , leads to fall in X as countries import from other countries. Worsen BOP. |
| Paragraph 3 | Source of inflation in SG due to domestic rather than foreign factors. → e.g. domestic demand pull, domestic cost push due to rising wage cost, lack of resources. |
| Paragraph 4 | Appreciating exchange rate affects SG economic growth → Singapore trade dependent, leads to fall in AD. Also, due to higher costs of exports, might reduce FDI attractiveness |
| Conclusion | Stand: Exchange rate policy might not be most effective, but is needed to compromise to fight imported inflation, although it might affect economy |
| Possible other points | The appreciation leads to lower costs, making singapore more attractive as investment opportunity |

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| Knowledge, Understanding, Application and Analysis | | |
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| L2 | Well developed analysis on the rationale behind the policy adopted as well as its implications on the Singapore economy. | 4-6 Marks |
| L1 | Underdeveloped explanation of the policy adopted. | 1-3 Marks |

| Evaluation | | |
|------------|---------------------------------------|---------|
| E2 | Well justified stand. | 2 marks |
| E1 | Weak stand with little justification. | 1 mark |

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- 3 (a) Explain the market failure associated with:
- (i) National Defence [10]
- (ii) Education
- (b) Discuss with the use of examples, the view that subsidies are the best way for an economy such as Singapore to solve the market failure in positive externalities. [15]

3(a)

| | |
|----------|--|
| Approach | <p>(i)</p> <ul style="list-style-type: none"> Students should begin by defining what National defence is, then explain its characteristics of non-rivalry and non-excludability and how this leads to market failure. A good answer would have a comprehensive discussion encompassing all characteristics of a public good. The common pitfalls would be to only explain some factors leading to the market failure. <p>(ii)</p> <ul style="list-style-type: none"> Students should begin by identifying the market failure in education and using a diagram show comprehensively how it comes about explaining all aspects. A good answer would have a proper logical flow, step by step as to how the market failure results, instead of the common error of haphazardly listing the various points without connecting them. |
|----------|--|

Outline of answer:

Proposed Answer (i):

- Identify what type of good National Defence is: Public Good
- Analyse National Defence using the characteristics of non-rivalry and non-excludability to show it is a public good
- As a result of these characteristics, it leads to no effective demand and inability to charge a price and explain
- Show how this leads to complete market failure

Proposed Answer (ii):

- Identify what type of good Education is: Merit Good
- Show the market failure in Merit goods caused by positive externalities.
- Show how the market failure in merit goods is worsened by the imperfect information in merit goods.
- Show how this leads to partial market failure with the use of a diagram

| | |
|--------------|---|
| Introduction | <p>(i) Identify what type of good National defence is and why</p> <p>(ii) Identify what type of good Education is and why</p> |
| Paragraph 1 | <p>(i) Analyse National Defence using the characteristics of non-rivalry and non-excludability to show it is a public good</p> <p>(ii) Show the market failure in Merit goods caused by positive externalities.</p> |
| Paragraph 2 | <p>(i) As a result of these characteristics, it leads to no effective demand and inability to charge a price and explain</p> <p>(ii) Show how the market failure in merit goods is worsened by the</p> |

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| | imperfect information in merit goods. |
| Paragraph 3 | (i) Show how this leads to complete market failure (ii) Show how this leads to partial market failure with the use of a diagram |

| Knowledge, Application, Understanding and Analysis | | |
|---|---|------|
| L3 | For an answer that shows in-depth discussion in context of how the two contexts lead to market failure and links the points together clearly to paint a clear picture of how market failure results with the use of a diagram. | 7-10 |
| L2 | For an answer that shows quite clearly how the two contexts lead to market failure, correctly identifying the types of market failure and with the use of a diagram. The answer is not very clear in its linkage of points. | 5-6 |
| L1 | Descriptive responses that, in consequence, merely listed the points without linking them together to show how the market failure comes about. The answer has conceptual errors. No use of context in discussion. No diagram is used. | 1-4 |

b) Discuss with the use of examples, the view that subsidies are the best way for an economy such as Singapore to solve the market failure in positive externalities. [15]

| | |
|----------|--|
| Approach | <ul style="list-style-type: none"> Students should begin by explaining what subsidies are and show how they solve the market failure in positive externalities with the aid of a diagram. They should then elaborate on how subsidies are not ideal, evaluating their usefulness in the Singapore context using examples. They should then identify and explain other policies and show how they are 'better' than subsidies. They should finally make a stand as to which would be better and justify the stand. A good answer would have a comprehensive discussion that is clearly able to address the question direction of whether subsidies are the 'best' way to address positive externalities in Singapore. These answers would have a clear reason for saying why it is best or not that would relate to the context of Singapore. The common pitfalls would be to give a generic explanation and evaluation of subsidies without considering the context, and also not making a final stand or making a final stand but not justifying it. |
|----------|--|

Outline of answer:

Proposed Answer :

- Explain what subsidies are and show how they solve the market failure caused by positive externalities. Examples should be given
- Evaluate the use of subsidies focusing on the context of Singapore
- Identify other superior policies and elaborate on why they are superior.
- Make a conclusion as to whether subsidies are 'best' in the Singapore context and justify the stand.

| | |
|--------------|--|
| Introduction | Explain what subsidies are and show how they solve the market failure caused by positive externalities. Use a diagram. |
|--------------|--|

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|-------------|--|
| Paragraph 1 | Evaluate the use of subsidies focusing on the context of Singapore. Use a diagram |
| Paragraph 2 | Identify other superior policies and elaborate on why they are superior. |
| Paragraph 3 | Make a conclusion as to whether subsidies are 'best' in the Singapore context and justify the stand. |

| Knowledge, Application, Understanding and Analysis | | |
|---|--|------|
| L3 | For an answer that shows in-depth discussion and judgment of how subsidies solve the market failure in positive externalities with the use of examples that are in context, followed by evaluation of the policy and detailed discussion of alternative policies and mention of the question direction considering if subsidies indeed are the 'best'. | 9-11 |
| L2 | For an answer that shows clearly how subsidies solve the market failure in positive externalities with the use of examples that are in context, followed by evaluation of the policy and brief mention of alternative policies and mention of the question direction considering if subsidies indeed are the 'best'. | 6-8 |
| L1 | Descriptive responses that, in consequence, briefly explained how subsidies work to solve the market failure with minimal elaboration and conceptual errors. The answer is one sided. There is no use of the context of Singapore. | 1-5 |
| E2 | Insightful evaluative comments, backed by depth of economic analysis | 3-4 |
| E1 | Limited evaluation without justification and economic analysis | 1-2 |

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- 4 (a) Explain the potential causes of a balance of payment deficit in the current account [10]
- (b) The fall in exports due to global recession has caused unemployment to increase in Singapore. Discuss the use of supply side policies in solving the above problem. [15]

Part a

| | |
|----------|---|
| Approach | The question is specific about current account deficit and students have to display an understanding of the components of current account deficit. While all reasons are possible, we should give an answer that looks at how a current account deficit might be due to reasons that are good for economy as well as due to reasons that shows that the economy has problems. |
|----------|---|

| | |
|-------------------|---|
| Outline of essay: | |
| Introduction | Definition and overview |
| Paragraph 1 | A short-term planned deficit in the current account could be the result of an emerging economy rapidly industrializing. |
| Paragraph 2 | Another reason for a current account deficit could be because of the loss of competitiveness of exports of a country due to increasing cost of production. |
| Paragraph 3 | Another reason would be due to cyclical reasons such as economic growth, leading to rising incomes. Hence, consumers choose to have better imported goods rather than poorer quality domestic goods |
| Conclusion | Summary |

| Knowledge, Understanding, Application and Analysis | | |
|--|---|------------|
| L3 | Clear and well developed explanation of potential causes of current account deficit. Took into account planned and unplanned deficit. At least 2 well explained points supported with clear examples. | 7-10 Marks |
| L2 | Explanation of potential causes of current account deficit but gaps in explanation. Little use of examples. | 5- 6 Marks |
| L1 | Mere listing of points. Shows little understanding of potential causes of current account deficit. | 1- 4 Marks |

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b) The fall in exports due to global recession has caused unemployment to increase in Singapore. Discuss the use of supply side policies in solving the above problem.

Part b

| | |
|----------|--|
| Approach | This is a straight-forward question to discuss the use of supply side policies in dealing with unemployment. Students could either offer up various supply side policies and evaluate their effectiveness with dealing the with said problem or a combination of supply side policies and demand side policies to deal with the type of unemployment stated. |
|----------|--|

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|-------------------|--|
| Outline of essay: | |
| Introduction | Overview of nature of Singapore Overview of essay |
| Paragraph 1 | How would unemployment arise → Fall in AD due to fall in net exports |
| Paragraph 2 | How flexible wage policy would help → reduces cost of production |
| Paragraph 3 | How training will help → increases productivity, AS shift down. Attracts FDI, helps increase AD. |
| Paragraph 4 | Building of infrastructure → increases productivity in LR. Helps increase AD in short run. |
| Conclusion | Stand |

| Knowledge, Understanding, Application and Analysis | | |
|--|---|------------|
| L3 | For a well discussed answer with good analysis. Able to explain how Singapore government would use supply side policy to deal with the unemployment issues and its limitations. Or Well discussed answer with good analysis. Able to explain the use of supply side policy in the context of Singapore and the suggestion of alternative policies to deal with the form of unemployment. (Note: explanation of how unemployment arises due to fall in global income while welcome, is not necessary) | 9-11 Marks |
| L2 | For a correct but undeveloped explanation of the use of supply side policies and/or demand side policy.. Some application to the Singapore context. | 6-8 Marks |
| L1 | For a descriptive/sketchy answer that states the various supply side policies. One-sided answer that explains how supply side policies can be used. | 1-5 Marks |

| Evaluation | | |
|------------|---|-----|
| E2 | Evaluation/judgment based on economic analysis | 3-4 |
| E1 | Largely unexplained evaluation with limited economic analysis | 1-2 |