



RIVER VALLEY HIGH SCHOOL
YEAR 6 Preliminary Examination
in preparation for General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

Paper 1

17 September 2013

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name 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 examination, hand in your work for Section A and B **separately**.

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



This document consists of **7** printed pages and **1** blank page.

[Turn over

Section A (70%)

Answer **all** questions in this section.

Question 1

Issues in the agricultural sector

Table 1: Global Commodity Prices (US\$/tonne)

	2007	2008	2009	2010	2011
Wheat	234.76	268.59	185.51	227.95	286.75
Poultry	934.75	996.92	988.92	1,032.25	1,147.00

Source: Food and Agricultural Organisation of the United Nations

Extract 1: Higher food prices

Global warming has already harmed the world's food production and has driven up food prices by as much as 20% over recent decades, new research has revealed.

A rising appetite for meat is another critical factor, said a Researcher. "We actually have enough calories to feed the world quite comfortably, the problem is meat is really inefficient," as many kilogrammes of wheat are needed to produce one kilogramme of meat, he said.

Source: The Guardian, 17 March 2011

Extract 2: Reforms for Common Agricultural Policy

It is "morally wrong" for European farmers to receive billions of pounds of state aid, a cabinet minister has said, warning that rising food prices mean it is only a matter of time before farmers will no longer receive billions in pounds of state aid, in form of high export subsidies. More than half of all the profits of British farmers come from EU subsidies, the National Farmers Union calculates.

Mrs Spelman said the Common Agricultural Policy (CAP) "distorted trade by keeping prices artificially high in the EU while imposing import tariffs on developing countries trying to sell to Europe. At the same time, export subsidies are used to clear market surpluses."

Her comments come as negotiations begin ahead of major reform of the CAP in 2014. At €55 billion, the CAP accounts for 42 per cent of the EU budget, making it the largest agricultural aid programme in the world.

Source: Telegraph, 5 January 2011

Extract 3: Pesticides in waterways

Insecticides enter rivers through runoff from fields and to a lesser extent when they drift into the water during application. This will have devastating effects on biodiversity as potential pesticide and excess fertilizer water contamination kills native species that are part of the normal food chain for birds, fish and other stream wildlife. It is estimated that in the decades ahead, some 40% of Europe's waterways will be degraded. Researches recommend a reduction in pesticide through organic farming.

Source: Environmental New Network, 8 December 2011

Extract 4: GM crops promote superweeds

Biotech (Bt) companies have claimed that Genetically Modified (GM) farming will lead to higher food yields, fewer pests and weeds, and less chemical use. However, a report warns that GM crops have failed to deliver higher food yields but have created dangerous super weeds. When these crops are modified to withstand herbicides and pests, nearby weeds and pests can develop a resistance to the chemicals. In India, the use of pesticide has increased 13-fold since Bt cotton was introduced.

Source: Daily Mail, 21 October 2011

Extract 5: GM crops in a tide of change

Historically, many biotech crops are grown to feed livestock or as ingredients for biofuels, rather than for direct human consumption. But that's changing. A new survey found that many Americans were receptive to foods containing GM wheat if it was produced sustainably. However, the survey also suggested that Americans are wary about the long term effects of GM food due to the lack of information on biotechnology.

In other parts of the world, a similar change is happening. China, the world's second-largest corn consumer, said it is testing the use of GM crops to boost output. Eager to expand its farm production capabilities, China is running field tests of biotech seeds to grow wheat and rice.

Source: Reuters, 6 January 2011

Questions

- (a) With reference to Table 1, compare the trend in the price of wheat with that of poultry prices from 2007 to 2011. [3]
- (b) (i) Explain why global warming has such a significant impact on food prices. [2]
- (ii) With the use of a diagram, explain how the rising appetite for meat affects the market for wheat. [3]
- (c) (i) Explain the underlying reason for the existence of the CAP in the European Union. Justify your answers. [6]
- (ii) Explain the reasons behind the EU's plans to reform the CAP. [3]
- (d) (i) With reference to the data, explain how the farming of non-GM crops can lead to market failure. [5]
- (ii) Assess the view that the switch to GM crops helps solve the market failure. [8]

[Total: 30]

Question 2**The Australian Economy****Table 2: Quarter on quarter percentage change in selected economies**

	Wage rate		Labour productivity	
	Q4 2010	Q1 2011	Q4 2010	Q1 2011
Australia	0.4	2.3	-0.1	-1.2
United States	0.5	1.0	0.7	-0.3

Source: OECD

Extract 6: Labour Shortages in Australia

The floods in Queensland and Victoria this summer have exacerbated the problem of wage inflation. Prior to the Queensland floods, the Sunshine state was already experiencing labour shortages, partly because of the expansion of the minerals sector and the major infrastructure improvements. Emboldened by the jobless figures that show near full employment and citing cost of living pressures, Australia's still powerful union movement is demanding hefty wage increases for their workers.

Source: BBC News, 6 April 2011

Extract 7: Australia Central Bank cuts key rate

The Reserve Bank of Australia (RBA) lowered its benchmark interest rate today for the first time since April 2009 as recent data suggests the subdued demand conditions and the high exchange rate have contained inflation.

Australian Prime Minister Julia Gillard said the decision brought 'welcome relief' to households. Commonwealth Bank of Australia, the nation's biggest lender, and Westpac Banking Corp. matched the RBA's rate reduction. Westpac said the lower borrowing costs announced today would save customers A\$41 monthly on a A\$250,000 mortgage.

A government report today also showed Australian house prices declined in the three months through September, the third straight quarterly drop. "The rate cut is especially good news for the retail and housing sectors," said Craig James, a Sydney-based senior economist at Commonwealth Bank. "Even tourism and export sectors will receive a boost."

Source: Bloomberg, 1 November 2011

Extract 8: Mining the truth

The mining industry in Australia has boomed, surging from around four per cent of GDP in 2004 to around nine per cent today. Much has been said about the changing face of the mining industry, where the effects of the boom have been both substantial and positive. But until very recently there has been far less discussion of the impact of the mining boom on the rest of the economy, including those areas which have suffered as a result. While one might assume that any expansion in the mining industry simply adds to the overall size of the Australian economy, in reality the operation of the macro economy is far more complex.

Indeed, much of the growth in mining comes at the direct expense of expansion in other parts of the economy. The study conducted by the Australia Institute also reveals that the mining boom is driving a blow out in the current account deficit with the International Monetary Fund expecting the current account deficit to reach 6.5 per cent of GDP in the medium term.

Source: The Australia Institute, 9 Sept 2011

Extract 9: Australia mining tax clears hurdle, after much debate

The Australian government's plan to impose a 30% tax on big mining companies has cleared a major hurdle, passing through parliament's lower house. It will go to the upper senate early next year, but is expected to pass.

The Minerals Resource Rent Tax (MRRT) Bill will tax coal and iron profits. When the tax becomes law, mining companies will have to pay about A\$11bn in charges in the first three years of the tax.

Australia's iron ore exports rose to a record high of A\$6.3bn in September, with the biggest demand coming from China and India.

The tax has sparked intense debate in Australian society, one that has been raging for 18 months. The conservative opposition is against the tax, arguing that it would deter foreign investment in the mining sector, driving it overseas and resulting in job losses for Australians.

Source: BBC News, 23 November 2011

Table 3: Degree of foreign ownership of major Australian mining companies

Company	Foreign ownership (%)
BHP Billiton	76
Rio Tinto	83
Woodside Petroleum	24
Newcrest Mining	75
Fortescue Metals Group	40

Source: The Weekend Australian 2011

Figure 1: Trade-weighted exchange rate of the Australian dollar**Questions**

- (a) With reference to the data in Table 2,
- (i) Compare Australia's wage rate and labour productivity with that of the United States for the first quarter of 2011. [2]
 - (ii) Explain **one** reason why the data suggests the Australian economy was likely to be in full employment. [2]
- (b) (i) State what is meant by unit labour cost and how it is related to wage rate and labour productivity. [2]
- (ii) What evidence is contained in the data to suggest the Australian economy suffered from cost-push inflation? [4]
- (c) (i) Explain how a mining boom could have substantial positive impact on the rest of the economy. [4]
- (ii) Explain the underlying factor that determines the extent of the above impact. [2]
- (d) (i) Explain how the mining boom is a blow to the current account. [4]
- (ii) Explain **one** factor that would mitigate the blow to the current account. [2]
- (e) With the help of the data, discuss the extent to which a rate cut would be a boost to the different sectors of the Australian economy. [8]

[Total: 30]

Section B (30%)

Answer **one** question from this section.

- 3 (a) Explain the central economic problem and the rationale of how the optimal choice is made. [10]
- (b) Discuss the view that a good is best provided by the government when the market fails. [15]
- 4 (a) Explain why it is important to keep unemployment and inflation rates low. [10]
- (b) Discuss if fiscal policy is the key to keep Singapore's unemployment rate low. [15]

BLANK PAGE