

Candidate Name: \_\_\_\_\_

Class	Adm No



## 2014 Preliminary Examination 2

### Pre-university 2

#### H1 ECONOMICS

**8819/1**

Paper 1

2 September 2014

Additional Materials: Answer Paper

3 hours

#### READ THESE INSTRUCTIONS FIRST

Write your name, class and admission number in the spaces at the top of this page and on all pages of 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 or graphs.

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

Section A

Answer **all** questions.

Section B

Answer **one** question.

At the end of the examination, you are to **hand in Section A and Section B separately**.

You are to **write the question number of the essay attempted on the Cover Page** and tie the Cover Page on top of **Section B**.

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

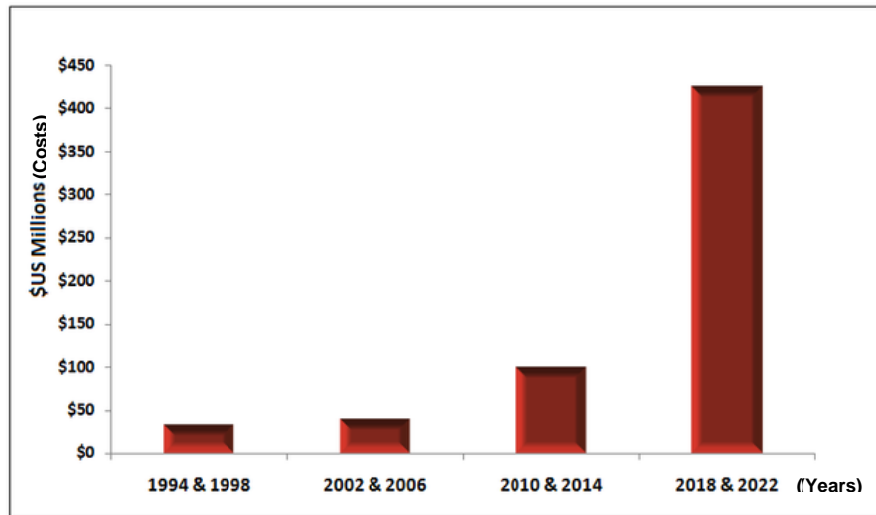
## Section A

Answer **all** questions in this section

### Question 1

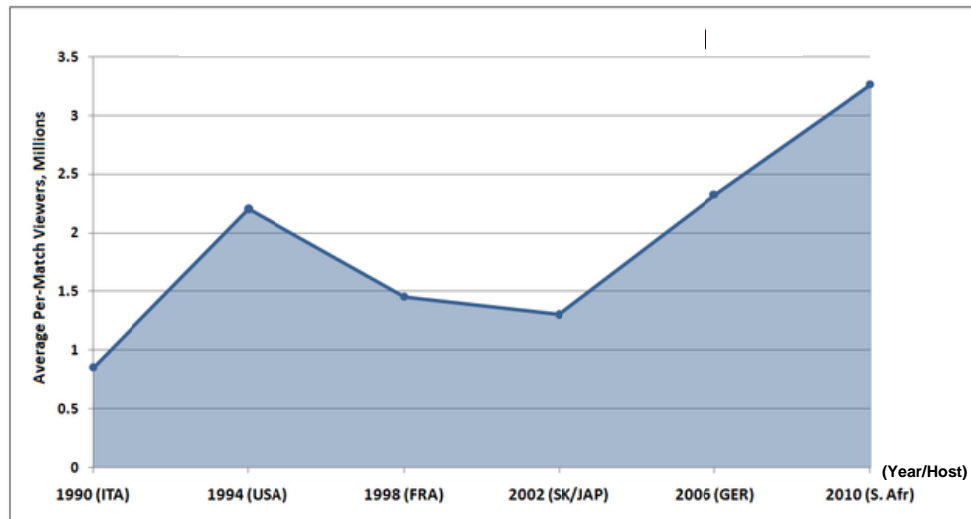
#### The World Cup in Brazil

**Figure 1: US English-Language World Cup TV Rights**



Source: *Forbes*, 9 June 2014

**Figure 2: Historical US World Cup Viewership**



Source: *Forbes*, 9 June 2014

#### Extract 1: American World Cup Rights Fees Soar Along With Viewership

Fox Broadcasting Company will write a \$425 million cheque for the rights to the 2018 and 2022 World Cups (plus a handful of other rights, including the Women's World Cup). That is

not only a massive increase over the tournaments of the 1990s, but also over even more recent years: The same package cost ESPN, another US-based cable television network, just \$100 million for the previous two World Cups, in 2010 and 2014.

The massive growth in rights fees is far from a surprise. For one, live sports telecasts have become increasingly more valuable in recent years because they are almost exclusively watched live, and not on commercial-skipping digital video recorder. On top of that, Fox likely paid a premium thanks to a need for live programming on its still-fledgling Fox Sports One network. Most importantly, though, American World Cup viewership has been climbing fast.

There is a clear relationship between domestic viewership and host country – viewership spiked in the year that the United States hosted the tournament, but dipped in 2002 when games played in Asia were aired live in the middle of the night – but the numbers have been generally on the rise over the last two decades. Little coincidence that the most recent increase, which was in spite of live games often airing in the morning or middle of the day, coincides with soccer's recent surge in domestic popularity.

This year's tournament should continue that climb, even if just from matches being played in the evening when it is easier for American soccer fans to tune in. That continued increase in viewership helps explain just why Fox is willing to spend so much on domestic broadcast rights.

Source: *Forbes*, 9 June 2014

## **Extract 2: Fifa loses free-to-air World Cup TV battle**

Fifa, the international governing body of football, have lost an appeal against a European ruling that the World Cup should be shown on free-to-air TV in the UK. In 2011, the European General Court said the UK could keep the event on a list of "protected" events of national sporting interest broadcast for free.

It means the tournament cannot be sold exclusively to pay-TV firms. Fifa had appealed, after saying they could not sell the event fairly for their real value. But the European Court of Justice has now said the original decision in the General Court in 2011 was correct.

Fifa had argued that the current set-up interfered with their ability to sell television rights at the best commercial price they could get in the marketplace. However, the UK argued that all the 64 World Cup finals matches and 31 European Championship matches were an important part of the list of national sporting "crown jewels", that have to be made available to the whole population to watch on free-to-air television.

The court agreed, saying that European states were able to select broadcast events, "which they deem to be of major importance for society" and show them for free. Otherwise it "would deprive a substantial proportion of the public of the possibility of following those events on free television".

Source: *BBC*, 18 July 2013

**[Turn over**

### Extract 3: The World Cup and the Brazilian Economy

Economists agree that, on the whole, big sporting events have negligible impact on output. Money for the infrastructure spending is not conjured from thin air; it is diverted from elsewhere. Productivity dips, too. Holidays have been decreed on some match days to ease pressure on creaking public transport. Before the Brazil-Cameroon game on June 23rd, for example, Brasília was a ghost town; to spare fans inevitable gridlock, public institutions and private firms let workers off early.

The São Paulo Federation of Commerce reckons the output lost as a result could reach 30 billion reais (US\$14 billion), about as much as all World Cup investment put together. Tourism-related earnings, which the government puts at 6.7 billion reais, will not offset this. For every football fan coming to see his team play, a tourist is put off by the crowds and the prices. Gelsa Lima, who runs a food stall at the bus terminal in Natal, capital of Rio Grande do Norte, complains that business is no better than usual. The state tourism secretary's expectation of a net 300,000 extra visitors this year compared with 2013 looks overly optimistic.

Public spending on stadiums and other World Cup-related infrastructure projects - estimated at US\$11.3 billion - was met with widespread unrest and protests in the 18 months before the start of the Cup. An economic upswing was one of the things that lawmakers touted to the Brazilian public that was supposed to make hosting the Cup worth the investment. Most analysts and economists, however, agree that the tournament will probably wind up being anything but a moneymaker.

"There will be a short-term input from the huge increase in tourism and related consumer spending," Cynthia Arnson, the Latin American director at the Woodrow Wilson International Center for Scholars in Washington, D.C., told Fox News Latino. "Once the Cup is over, however, the long-term structural problems will remain."

Host cities did score some new infrastructure (though many question whether it was the sort they most urgently needed). Natal got a snazzy airport. Taxi drivers in Recife say traffic has eased thanks to a new viaduct linking the north and south of the city. Brasília, Curitiba and Salvador built new motorways to their airports. Severe flooding due to unusually heavy rains which hit Natal in the past week "would have been worse had it not been for the World Cup", says Demétrio Torres, special secretary for World Cup affairs in Rio Grande do Norte. A joint operations centre created for the occasion helped police, firemen and civil defence to co-ordinate their actions. As part of its preparations, the city also began building a new drainage system.

Sources: *The Economist*, 28 June 2014 and *The Independent*, 20 July 2014

**Questions**

- (a) With reference to Figures 1 and 2,
- (i) Compare the trend of the costs of World Cup TV Rights with the historical US World Cup Viewership between 1994 and 2010. [2]
  - (ii) Using demand and supply analysis, account for the identified trend. [4]
- (b) (i) Explain what is meant by “Price Elasticity of Demand”. [2]
- (ii) With reference to Extract 1, explain whether live sports telecasts are price elastic or inelastic in demand. [4]
- (c) Using economic analysis, explain why World Cup broadcasts are “deemed to be of major importance for society and shown for free” in the UK. [6]
- (d) (i) Using the Production Possibility Curve, explain the difference between real growth and potential growth. [4]
- (ii) As an economic consultant to the Brazilian government, evaluate whether the hosting of the World Cup has benefited Brazil's economy in terms of real and potential growth. [8]

**[Total 30m]**

## Question 2

## The Chinese Economy

Figure 3: Contributions to the growth of the Chinese economy (%)

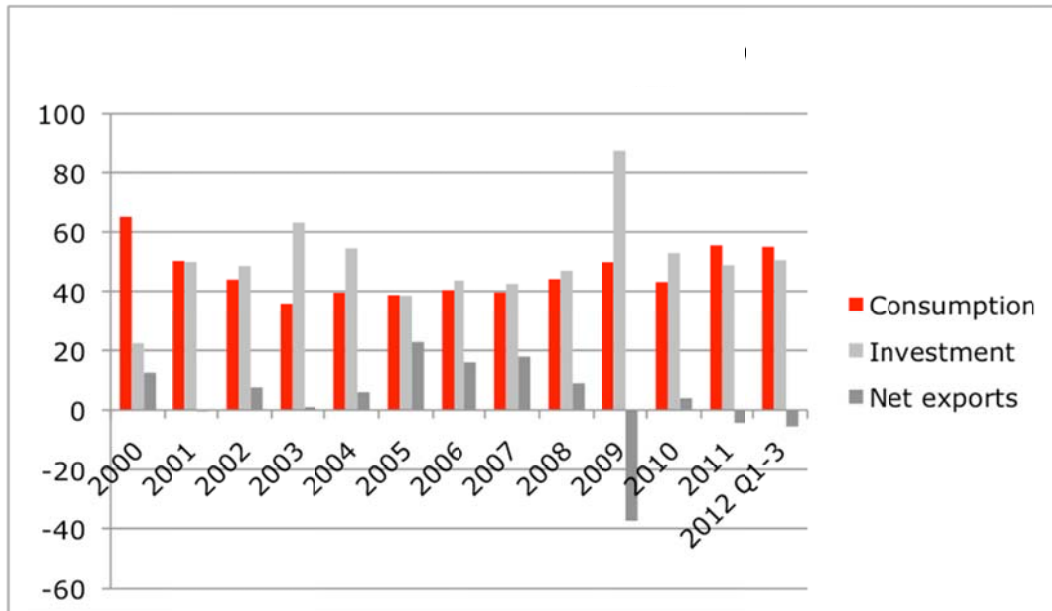
Source: www.economist.com, 20<sup>th</sup> October 2012

Table 1: China's GDP growth

GDP growth (annual %)

2009	2010	2011	2012	2013
9.2	10.4	9.3	7.7	7.7

Source: The World Bank

## Extract 4: China's economic growth

Foreign direct investment (FDI) into the mainland saw its strongest surge in more than two years in 2012 with the US\$14.4 billion of capital committed to the world's second biggest economy, to put it firmly on track to meet the government's target of US\$120 billion of inflows this year. It is one of the principal drivers of China's breakneck economic growth in the past three decades.

At the same time, much investment outside China, especially in Asia, is dependent on the China boom. So supercharged has the Chinese export machine become that it has sucked in vast quantities of parts and components for final assembly from other parts of Asia – Thailand, Malaysia, Singapore, the Philippines and Indonesia, as well as richer Taiwan and South Korea. Everybody has benefited from Chinese demand for top-notch components. At

the same time, China has recently recorded phenomenal growth in exports of high-tech products, principally notebook and desktop computers, DVD players, mobile phones and the like.

However, the economic growth is not only relying on export. Instead, domestic consumption is going to drive the economy, which will provide other countries with numerous business opportunities. With China's rising consumption in recent years, this domestic demand is now growing at 9% a year and starting to act as a regional engine of growth, sucking in imports to feed its increasing consumption for products it has no comparative advantage in.

Source: South China Morning Post, 17 July 2013

### **Extract 5: China's trade imbalance with the US**

China's trade with the US in 2012 grew 8.5% year-on-year to US\$484.68 billion, accounting for 12.5% of China's total foreign trade in 2012. Outbound shipments to the US grew, leaving a trade surplus of US\$218.92 billion, up 8.2% year-on-year.

With millions of Americans still unemployed, political pressure has grown in the US to impose economic sanctions on China. Critics say China has undervalued its currency against the dollar and has made Chinese goods cheaper in the US and American products more expensive in China. In addition, US manufacturers contend that the Chinese currency is still significantly undervalued against the dollar, giving Chinese exporters an unfair edge. As such, even though there have been moves to overcome the problem, critics said the moves were unlikely to narrow the trade gap between the two nations.

Source: [usatoday30.usatoday.com](http://usatoday30.usatoday.com), 10<sup>th</sup> May 2012 and [www.chinadaily.com.cn](http://www.chinadaily.com.cn), 10<sup>th</sup> January 2013

### **Extract 6: China's Exchange Rate Reform**

China's fixed exchange system was discontinued from 2005 and a managed float system was adopted. This is a move that would increase the value of the Chinese yuan against the dollar and help ease a trade imbalance, which has cost U.S. jobs. The move came amid growing complaints that China's undervalued yuan has made it difficult for manufacturers in the United States and other countries to compete with China's exports.

However, He Weiwen in the Global Times news article states that the US trade woes should not be blamed on the yuan. He points out that from 1998-2004, the yuan was fixed at 8.28 to the dollar and China's exports to the U.S. varied from year to year stressing that the yuan exchange rate doesn't play a significant role in affecting US exports. China also continued to record trade surpluses against the United States after it initiated exchange rate reform in 2005 to allow the yuan to appreciate 20 percent against the US dollar.

Source: Economics Policy Institute (EPI) News, 9<sup>th</sup> April 2010

### **Extract 7: US imposes tariffs on solar panels from China**

The US Commerce Department has recently increased charges of 18 percent up to nearly 250 percent on Chinese solar panel producers to counter what is said was improper subsidies by Beijing to the industry. This is because US competitors complain that Chinese solar manufacturers get improper government support in the form of low-cost access to land, bank loans and other resources.

The latest US tariffs were imposed in response to a complaint by a group of companies who claimed that there was unfair competition posed by the Chinese producers and that it would lead to loss of local employment.

Source: [www.businessweek.com](http://www.businessweek.com), 11<sup>th</sup> October 2012

### **Extract 8: Enough appreciation for now**

The yuan has appreciated by nearly 8% against the dollar from 2010 to 2012. The Economist also found that the yuan was close to fair value even though China continues to run large surpluses with America (though America exported over US\$100 billion in goods to China for the first time in 2011). More balanced trade overall and a sharp reduction in the growth of its foreign-exchange reserves suggest that China's currency may be a lot closer to the "right" level than American politicians would like to hear.

That is not to argue, however, that China's economy has successfully rebalanced. Nothing could be farther from the truth. Higher incomes should translate into a rising share of consumption in the economy, but between a tightly controlled financial system and a meagre safety net, saving and investment will only slowly fall from the extraordinarily and unhealthily high levels now observed.

Revaluation was never going to be the hardest part of Chinese development. The most difficult tasks largely lie ahead: freeing finance, reducing the level of investment in the economy and figuring out how to build an innovative economy.

Source: [www.economist.com](http://www.economist.com), 12<sup>th</sup> May 2012



### Questions

- (a) (i) Compare the contributions of consumption and investment to the growth of the Chinese economy from 2008 to 2012. [2]
- (ii) Using information from the case, account for the difference between contributions by investment and consumption to growth from 2008 to 2012. [3]
- (b) Using information from the extracts, explain the reasons why China has increased its imports in recent years? [4]
- (c) (i) Explain the effects of undervaluation of the Chinese currency on its balance of payment. [3]
- (ii) Discuss whether China's trade position with the US is necessarily good for the Chinese economy. [6]
- (d) Based on information from the extracts, explain why the US has launched a growing number of protectionist measures against the Chinese products. [4]
- (e) "Revaluation was never going to be the hardest part of Chinese development" (Extract 8). Is revaluation the only policy that the Chinese economy can undertake to achieve its macroeconomic aims of sustained economic growth and healthy balance of payments? [8]

[Total 30m]

### Section B

Answer **one** question from this section.

- 3 (a) Using appropriate examples, explain why the existence of negative externalities and public good causes market failure. [10]
- (b) As a city develops, air pollutants are inevitably produced. Without control measures, increased urbanisation and industrialisation threaten to degrade our air quality.

Source: <http://app.mewr.gov.sg/web/contents>, accessed on 18 Aug 2014

Discuss the appropriate policies which a government may undertake to tackle the problem of pollution. [15]

- 4 (a) Explain the different types of inflation that can occur in an economy. [10]
- (b) Assess the effectiveness of macroeconomic policies used to achieve low and healthy inflation rate in an economy. [15]

- End of Paper -

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