

ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2014 (JC2)
General Certificate of Education Advanced Level
Higher 1

ECONOMICS

8819/01

Paper 1

1 September 2014

3 hours

Additional Materials: Answer Paper

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.

Section A

Answer **ALL** questions.

Section B

Answer **ONE** question.

At the end of the examination, fasten your work for **Section A & B together**.

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



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

[Turn Over]

Section A

Answer all questions in this section.

Question 1:

The Olympics: The London Model

Extract 1: Pricing Strategy by London Organising Committee of the Olympic Games

The London Organising Committee of the Olympic Games (LOCOG) has revealed the ticket pricing structure across the 26 sports of the Olympic Games. There will be a range of prices.

“Spectators are a vital part of every Olympic Games, providing the atmosphere that inspires athletes to perform, with the range of tickets on offer, people of different ages and preferences will have the chance to attend London 2012.” said Hugh Robertson, Olympics Minister.

Demand was greatest for the Opening Ceremony as well as the popular sports of track, swimming and artistic gymnastics. LOCOG had provided a world-class hub to hold various sport events. One of the sporting venues, the Aquatics Centre, offered two 50-meter pools and a diving pool. Given the large size and the huge turnout for swimming events at the Aquatic Centre, the cost of maintaining the facilities and security were expected to be particularly high.

Pricing of the tickets also depended on allocation of tickets. Some seats were allocated to selected group of people such as the accredited press and broadcast working at the event. They were entitled to seating privileges and hence they did not need to pay. This reduced the number of seats for sale to the public. This applied to some sessions, which include the Finals.

Adapted from gov.uk, 15 Oct 2010, and *The ticketing arrangements for the London 2012 Olympic Games and Paralympic Games*, www.london.gov.uk/, Mar 2011

Table 1: London Olympic Ticket Price to Fencing and Swimming

Sport Event	Venue	Session Type	Premium Seats	Standard Seats	Senior Citizens ^[1]
Fencing	ExCeL London	Preliminary	£65	£20	£16
		Final	£95	£30	Not applicable
Swimming	Olympic Park Aquatic Centre	Preliminary	£150	£40	£16
		Final	£450	£95	Not applicable

Note:

- 1 Senior citizens (aged 60 and over) will be charged a concessionary rate across selected sport events and sessions.

Source: Extracted from Ticketmaster.com – London Olympic Ticket prices

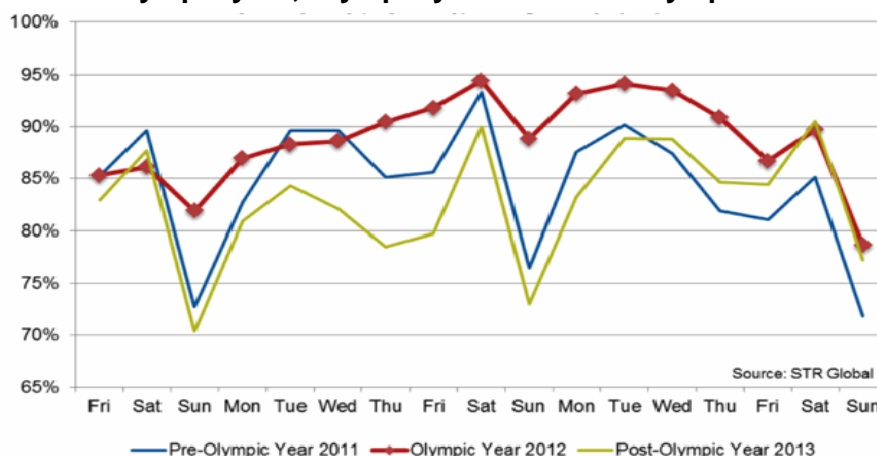
Extract 2: Olympics 2012 - A golden opportunity for London

Over the seven week period, international visitors are expected to spend a total of £709 million in the UK, an 18% increase on what would be expected if the Olympics Games were not taking place. Domestically, a £41 million spending boost is expected from UK Visa cardholders during the seven week period of the Games. This is a first for an Olympic Games host market, which usually experience a domestic spending slump during the Games. This will be driven by the public's enthusiasm for the Games, demonstrated by the high demand for Olympic tickets. British residents are likely to switch from traditional patterns of summer spending to getting into the Olympic spirit by stocking up on supplies and entertaining at home. #

Overall, the retail, hotel and travel industry look set to be the biggest winners from the Games, benefiting from a combined spending injection of £508.4 million in seven weeks.

Source: Visa Europe's London 2012 Olympic Expenditure and Economic Report, 11 July 2011

Figure 1: London daily hotel occupancy (day to day) for the same weeks in the Pre-Olympic year, Olympic year and Post-Olympic Year



Source: STR Global

Extract 3: London's Olympic Won't Deliver Economic Gold

With the start of the London Summer Olympics drawing ever nearer, some Londoners are wondering if the whole thing is worth the hassle — or the cost. They've got good reasons to worry.

Hosting the Olympics is generally seen as a giant boon for the host city – tourists, giant new sporting facilities! But if you look at the historical record, the actual economic impact of the Olympics on their host cities and countries has been decidedly mixed. And there are good reasons to think that whatever economic benefits London gets from hosting the Olympics will be short-lived at best.

Hosting the Olympics is an extremely costly business: Existing infrastructure needs to be upgraded and new sports facilities need to be built. And it almost invariably ends up costing much, much more than expected. The 2004 Olympics in Athens was expected to cost \$1.6 billion, and ended up costing ten times that, contributing to Greece's current debt crisis.

With some potential tourists deliberately staying away from London in order to avoid the Olympics-sized hassles that invariably accompany the Games, the U.K.'s World Travel & Tourism Council expects that total tourist spending in the U.K. this year will only be a tiny bit higher than last year.

[Turn Over]

Given that the UK is already in recession¹, and struggling to bring unemployment down, we would suggest that there is already a positive in hosting the games, as temporary vacancies increase and any additional output is better than nothing. However, some economists said "The Olympic effect may give the impression of a recovery, but it is a mirage. The number of the long-term unemployed is still rising"

Source: *times.com*, 13 June, 2012

Extract 4: London Strives for Zero Waste Olympics 2012

Approximately 80% of Games-time waste was expected to be food packaging. Some of these food packaging waste were made up of non-biodegradable products such as non-recyclable plastics, which would be buried in landfills or incinerated. Such waste disposal methods would

- 1 harm marine life due to the plastic residual in the landfill
- 2 create hazardous emissions from plastic incineration

As such, the aspiration of The London Organising Committee of the Olympic Games (LOCOG) is to stage a zero waste Games – to eliminate waste through the design of products and the way waste is handled. Targets have been established that no waste produced during the Games will be sent to landfill and that 70% of Games time waste will be reused, recycled or composted.

Adapted from: The Environmental Sustainability of the London 2012 Olympic and Paralympic Games, <https://www.london.gov.uk/1 June 2008>

Extract 5: Sustainable waste management to maximise recycling

The London Organising Committee of the Olympic Games (LOCOG) would work with all catering suppliers, including international sponsors Coca-Cola and McDonald's, to have a look at the types of alternative materials used for packaging in order to maximise the potential for recycling and composting.

Encouraged by the Olympics, Coca-Cola made a business decision to invest in removing materials, which do not comply with the LOCOG's packaging guidelines, in order to improve recyclability of the packaging and make it 100% recyclable. This packaging format has been permanently adopted and continues to be used after the Olympics.

Another road to achieving zero waste to landfill target is waste segregation. A bin system where spectators could separate the waste into three sections: recyclable, residual and compostable was implemented. The bins were of different colours with matching bin bags and the residual waste bin was designed to be the smallest. The most innovative idea was that the food packaging was colour-coded to match the bin which they should go into.

However, there was a shortage of residual waste bins across all venues, which led to high contamination levels. There were either recyclable materials in the residual waste bins or residual waste in the recyclable bins. A number of factors that contributed to the contamination of bins included the lack of assistance for spectators and potential confusion caused by items which were neither recyclable nor compostable.

Furthermore, in order to ensure that any packaging used at Games Venues was in-line with the waste management infrastructure used, it was important that suppliers met certain criteria when it came to the use of packaging.

Adapted from London 2012 Legacy Transfer Report: Packaging, <http://www.wrap.org.uk/Nov 2012> and GPT, the waste solution, <http://www.thewastesolution.co.uk/>, last accessed on [11 Aug 2014](#)

Questions

- (a) (i) With reference to Table 1, compare the prices of Premium tickets for Fencing and Swimming. [2]
- (ii) Explain two possible reasons to account for your observations in (a)(i). [4]
- (iii) With reference to Table 1, explain how the London Olympic Game Organising Committee (LOCOG) could make use of a relevant elasticity concept to increase total revenue. [4]
- (b) What can you conclude from the information contained in Figure 1 about the impact of the 2012 London Olympic Games on London's daily hotel occupancy rate? [2]
- (c) Discuss the impact of hosting the 2012 London Olympic on UK's economic growth and employment [8]
- (d) Do you agree that the promotion of waste segregation is a sufficient measure to achieve an efficient allocation of resources in the market for plastic food packaging? [10]

[Total: 30 marks]

[Turn Over]

Question 2:**Economic Slowdown in US and India****Extract 6: US economic recovery is a dangerous mirage**

While the risk of a disorderly crisis in the Eurozone is well recognized, a more positive view of the United States has prevailed. For the last three years, the consensus has been that the US economy was on the verge of a robust and self-sustaining recovery that would restore growth. Exports, which have been a key support for the economy since the 2007-2009 recession, climbed 0.2 percent, rising across categories from capital goods and industrial supplies to consumer goods. Imports fell 0.7 percent, dragged down by the drop in oil prices.

The reality is the opposite:

- Growth in the second quarter has decelerated from a mediocre 1.8% in January-March, as job creation – averaging 70,000 a month – fell sharply,
- Expectations of the "fiscal cliff" - tax increases and spending cuts (which would result in large spending cuts to education and infrastructure) set for the end of this year – will keep spending and growth lower through the second half of 2012, resulting in a 4.5%-of-GDP drag on growth in 2013
- Private consumption growth in the last few quarters has been slower than growth in real wages. In 2013, as transfer payments are phased out, however gradually, and as some tax cuts are allowed to expire, disposable income growth and consumption growth will slow.
- External forces may further impede US growth: a worsening Eurozone crisis; an increasingly hard landing for China; a generalized slowdown of emerging-market economies, owing to cyclical factors (weak advanced-country growth) and structural causes (a state-capitalist model that reduces potential growth); and the risk of higher oil prices in 2013 as negotiations and sanctions fail to convince Iran to abandon its nuclear program.

Adapted from Reuters, 11 July 2012 and The Guardian, 20 July 2012

Table 2: Some Economic Statistics for United States, 2009-2013

	2009	2010	2011	2012	2013
Real GDP growth rate	-2.8	2.5	1.8	2.8	1.9
Inflation rate	-0.4	1.6	3.2	2.1	1.5
Unemployment rate	9.3	9.7	9.0	8.1	-
Budget Balance (% of GDP)	-9.8	-8.8	-8.4	-6.8	-4.1

Table 3: Some Economic Statistics for India, 2009-2013

	2009	2010	2011	2012	2013
Real GDP growth rate	8.5	10.3	6.6	4.7	5.0
Inflation rate	10.9	12	8.9	9.3	10.9
Unemployment rate	3.9	3.5	3.4	3.4	-
Budget Balance (% of GDP)	-9.3	-6.9	-8.1	-7.1	-7.8

Source: World Bank, 2013

Extract 7: A Rough 2012 for India

“India Shining” has been the unofficial slogan for India since the turn of the 21st century. India averaged 8% annual GDP growth in the three years before the recent global financial crisis.

Over the past 12 months, the optimistic mood within India's economy has taken a sharp dip. GDP growth slowed to 6.3% in 2011-12; the worst it has been in 9 years, and the first quarter of 2012 India grew a measly 5.3%, according to some estimates. While a slowdown in GDP growth has been relatively recent, India has been battling with a rising inflation for the past two years, which included food inflation at between 15-25%.

Although a weakening external demand, due to the Eurozone crises and U.S. economic slowdown has contributed to the slowdown, India's economy is very much based on internal demand, which has slowed recently partly because of private consumption dropping from 5.5% in 2011/12 from 8.1% the previous year. Low business confidence has also resulted in a sharp decline in the growth of private investment including FDI. India's economy is showing signs of overheating with a growing demand and inability to match it with supply.

India's biggest challenge is its infrastructure deficit. If you have travelled to India, you have experienced tremendous traffic on poor roads burdened with bottle necks. The problem is exacerbated by an increased gap between supply and demand for electricity. India's infrastructure deficit problem is nothing new, and the government has been trying to catch up for years.

Source: The Internationalist, 2013

Extract 8: Indian Economic Reforms

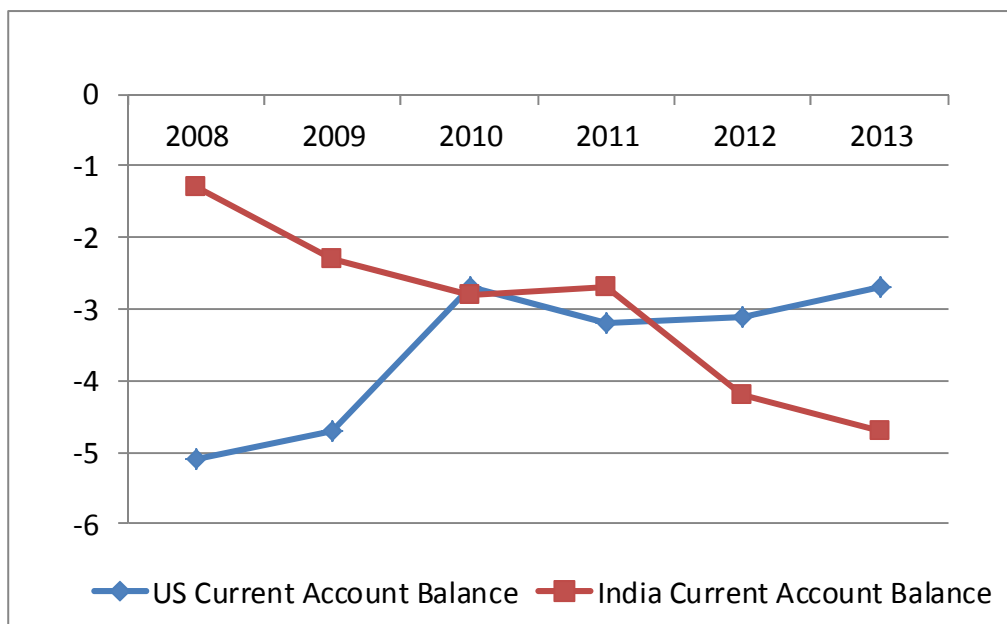
On September 13th came an announcement of a small, but politically important, reduction in diesel subsidies. Through state-owned firms the government has long kept the price of diesel artificially low. But as market prices have soared, the subsidy bill has exploded. The 12% increase in the price of diesel that Indian drivers (and those with generators) are now enduring will be politically difficult, but it is essential. It was the better-off who gained most from costly fuel subsidies, while the fiscal problems hurt the economy as a whole. In the short term, however, the rise in diesel prices will nudge up inflation too.

The next day, September 14th, brought more welcome changes. Once again the government is pushing the idea for foreign direct investments into its supermarket market - that foreign supermarkets, like Wal-mart, will operate in India. This would result in better logistics, competitive shops, foreign expertise and technology. The arrival of supermarkets can be presented as helping Indian farmers too. Supermarkets may cut out the long chains of inefficient middlemen. The result could be welcome: higher prices for farmers, and lower prices for consumers.

India's expansionary fiscal policy which began in 2008 to fight the global credit crisis, has led to a dramatic deterioration in the country's fiscal situation. The high central fiscal deficit of around 6% creates a level of vulnerability for India that is a cause for concern. A persistently high fiscal deficit will raise interest rates for the private sector and constrain the government's ability to implement any stimulus measures to prop up the economy when growth slows, as is happening now.

Adapted from The Economist, 14 Sept 2012 and www.voxEU.org, 15 Sept 2012

[Turn Over]

Figure 2 Current Account Balance of US and India (% of GDP)

Source: BEA and Reserve Bank of India, 2013

Questions

- (a) (i) Compare the current account balance of the US and India between 2008 and 2013. [2]
- (ii) With reference to the data, explain possible reasons for your observations in a(i). [4]
- (b) What conclusions would you draw from Table 2 about the economic performance of the US between 2009 and 2012? [4]
- (c) Using the concept of circular flow of income, explain how the fiscal cliff would affect the equilibrium level of national income in the US. [4]
- (d) Using the concepts of elasticity and appropriate diagram(s), analyse the likely impact of a cut in diesel subsidies on producers and consumers of final goods and services. [6]
- (e) Explain how “a persistently high fiscal deficit” will raise interest rates. [2]
- (f) Using information from the case and your own relevant knowledge, assess whether the benefits of attracting foreign direct investments into India outweigh the costs. [8]

[Total: 30 marks]

Section B: Essay Question

Answer **ONE** question from this section.

Question 3

Demand and supply shocks are likely to create shortages and surpluses in a market.

- (a) Explain how the price mechanism attempts to solve the above imbalances faced in a free market. **[10]**
- (b) “Where the price mechanism fails in the market for demerit goods, the government is always able to improve the situation through taxation.” To what extent do you agree with this statement? **[15]**

Question 4

- (a) Explain the key factors that could change the level of Aggregate Demand (AD) and Aggregate Supply (AS) in your country. **[10]**
- (b) Discuss the view that economies should rely primarily on supply-side policies to pursue economic growth. **[15]**