



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

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**ECONOMICS**

**8819/01**

Paper 1

**25 Aug 2014**

**1300 - 1600**

Additional Materials : Writing Paper

**3 hours**

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**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 in total.

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.

## Section A

Answer **ALL** questions in this section

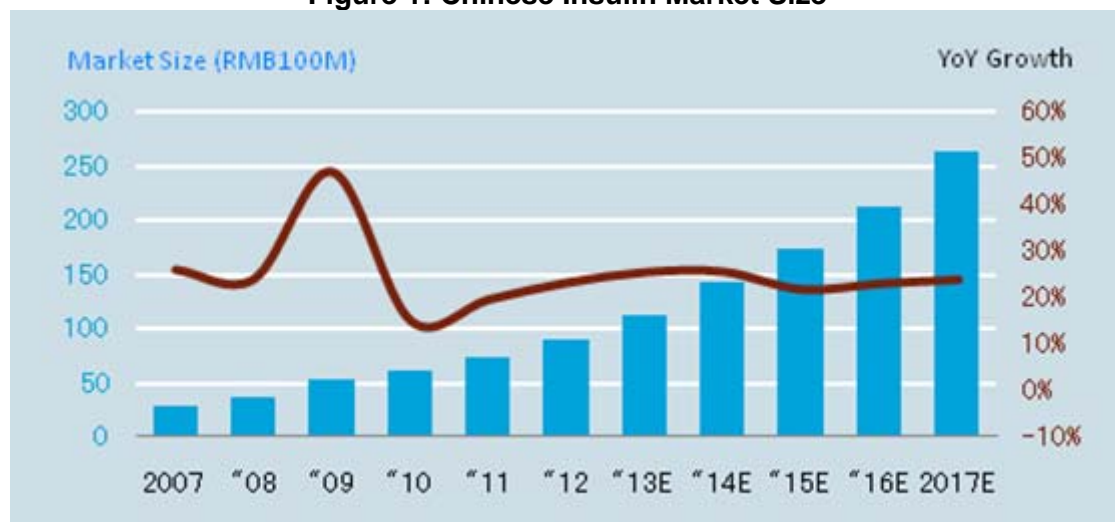
### Question 1 Healthcare in China

#### Extract 1: Diabetes in China

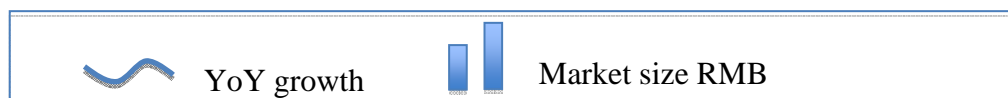
As the third largest human health disease following neoplastic disease, cardiovascular and cerebrovascular diseases, the number of diabetic patients has continued growing from 246 million in 2007 to 382 million in 2013 at dramatic rate. Insulin as the important diabetes medication has also seen increasing market size or expenditure incurred on the drug by the patients. In 2012 the global insulin market expenditure reached US\$20.8 billion, a significant year-on-year rise of 12.9%.

Being the biggest diabetes power in the world, China currently has 98.4 million patients, accounting for about 25.8% of the world's total. With the maturing of national health insurance system which subsidises those who would not have been able to afford to pay for the drug from their own pockets and improvement of economic level, the Chinese insulin drug expenditure has been on the rise.

**Figure 1: Chinese Insulin Market Size**



Note: Market size is the same as market expenditure



Source: ResearchInChina, Global and China Insulin Industry Report, 2013-2017

#### Extract 2: The Cost of Diabetes

The study, Economic Costs of Diabetes in the U.S. in 2012, was commissioned by the Association and addresses the increased financial burden, health resources used and lost productivity associated with diabetes in 2012. Because of its chronic nature, the severity of its complications and the means required to control them, diabetes is a costly disease, not only for the affected individual and his/her family, but also for the health authorities. But with the rapid rise in urbanization, the cases for patients affected by diabetes are on the rise.

Diabetes is a chronic disease that afflicts 25.8million Americans. Insulin, one of the primary treatments for diabetes, has been around since the 1920s. Yet, somehow the drug is still priced beyond the reach of many Americans. Insulin is a biologic drug, which means that it is made up

of living organisms rather than chemical compounds. This makes it more difficult to copy, which biotech companies often use as justification for the exorbitant prices they charge for the drugs. To make it worse, in many countries there is a tax on insulin.

In Singapore, patients receive drug subsidies based on their paying status and the scheme under which the drug is covered (e.g. Standard Drug List, Medication Assistance Fund, inpatient drug subsidy, etc). Certain drugs are subsidised at our public healthcare institutions for eligible patients. These insulin drugs cover up to 90% of the total volume of medication prescriptions.

Source: Adapted from American Diabetes Association and WHO

### **Extract 3: Medical Suites looking good to investors**

Medical suites, a sub-segment of the commercial property market, are coming onto the radar screens of investors, who are seeing the niche field as an alternative asset class.

These commercial properties, meant for medical usage and traditionally sold mainly to doctors, have seen rising interest from investors, according to consultants that were spoken to. The growth in the overall medical industry has been driving prices of the asset class, medical suites up," said Karamjit Singh, head of investments and residential.. Prices of these suites, usually sub-1,000 square feet in size, have been trending upwards over the years. Traditional property developers have started taking interest in the industry as well, with at least five new mixed developments - housing around 500 medical suites or over 35 per cent of current supply - to be ready by 2018. This may send warning signs to the private residential property market which may seem less profitable to the developers.

Source: Adapted from The Business Times, March 2014.

### **Extract 4: China healthcare reform to relax curbs on foreign investment in hospitals**

China will ease curbs on foreign investment in joint-venture hospitals, the government said on Wednesday, as it deepens a sweeping overhaul of its healthcare system aimed at cutting costs and sprucing up overloaded public services. In a healthcare reform plan for 2014 published on its website, China's cabinet, the State Council, said it aimed to relax limits on foreign investment in hospitals on the mainland. The plan would include "reducing restrictions on the percentage of foreign ownership in medical joint ventures and collaborations," it said.

The move would increase the number of locations where Hong Kong, Taiwan and Macau investors could set up wholly-owned medical centres, and let overseas investors set up wholly-owned hospitals in areas such as the Shanghai free trade zone. The surge of new hospitals may be good news for the patients; however, with these private investors having full ownership and control on the operations of the hospitals the extent of consumer welfare generated may still be in doubt. China's private healthcare sector has drawn investment from both domestic and overseas firms as the government opens it up to attract funds and reduce the burden on public hospitals.

China's healthcare market has a toxic combination of overwhelmed doctors, financially strapped patients, and a perverse incentive system that encourages hospitals to push un-necessary drugs and procedures. As a consequence, the average person in China has seen their access to healthcare get worse over the last thirty years. Sensitive to the problems and inequities within its healthcare system, leaders in China have been working to modernize the country's medical infrastructure and gradually open it up to the foreign investors to fill up the gap that the domestic investors had created.

Source: Adapted from Forbes, September 2013

**Questions**

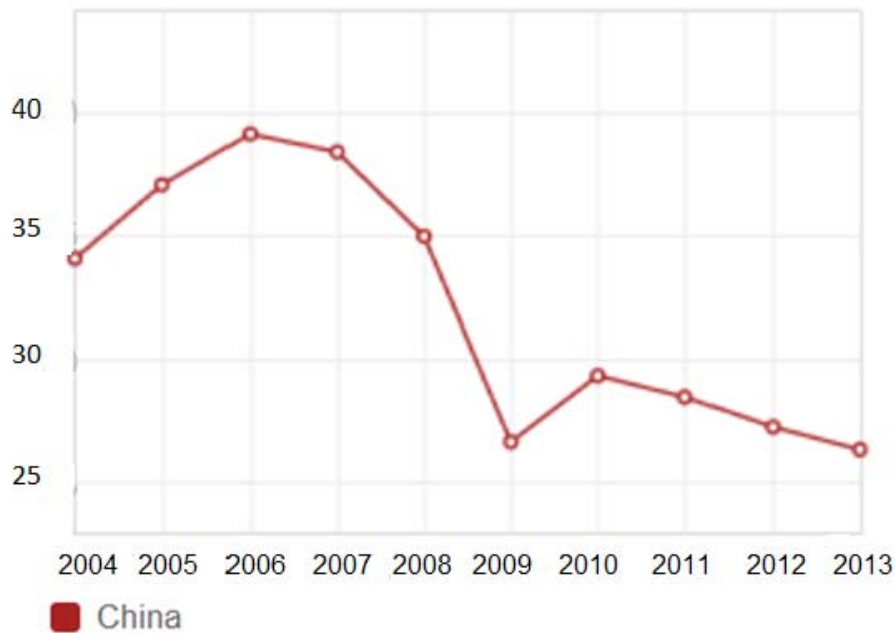
- (a) (i) Describe the trend in market expenditure of insulin drug in China from 2007 to 2012. [2]
- (ii) Using demand and supply analysis, explain the above general trend. [4]
- (b) (i) In light of Extract 2, explain the case for government intervention in the market for insulin, the drug for diabetes. [5]
- (ii) Assess if subsidising insulin helps to ensure efficient and equitable access to healthcare for diabetic patients in Singapore. [8]
- (c) Explain how the increase in attractiveness of medical suites in Singapore will affect the resource allocation in the market for private residential property. [3]
- (d) Discuss the impact on standard of living as a result of foreign investment in hospitals in China. [8]

[Total:30]

## Question 2

## The Rise of the Global Village

Figure 2: Exports of goods and services (% of GDP)



Source: World Bank

**Extract 5: Globalisation: The Fear Factor**

In recent times, productivity growth in the tradable goods sector has caused a fall in the relative price of such goods, giving rise to increased trade throughout the world. This growth in trade activity has in turn, been one of the key drivers for economic growth. As such, it seems like the logical economic choice is for emerging Asia's firms to go global.

But there is an alternative view. As domestic markets in China, India and Indonesia become vast, why do their firms need to bother to compete abroad? After all, the argument goes, they can grow and achieve economies of scale at home. There is a parallel with America, where listed firms tend to be domestically focused, whereas in Europe home markets are often too small to offer growth opportunities. American firms are frequently far more profitable in their own backyard than in foreign fields; Procter & Gamble's American margins, for instance, are more than double its international ones.

However, Asian firms face global competition at home. Thanks to social media and the internet, they are now influenced by trends around the world. So in many industries, companies in emerging Asia face competition from global firms selling to customers whose tastes are more globally influenced than before. In the medium term, these firms will either have to give up or become more global themselves.

Trying to become a multinational is the hardest path to going global. It involves wrenching change, great risk, lots of scrutiny and the disposal of peripheral businesses in order to concentrate resources. How many Chinese firms are ready to take the leap and make big losses up front to build their business is open to debate. "There are very few Chinese companies that are willing to do this in an overseas market," says Mr Zhang at Haier. But, except for domestic businesses isolated from global competition, it is the right path in the long run, as Japan is rediscovering.

In most industries it is hard to stay competitive without being active worldwide. Insularity does not work. So the drive to create more multinationals in Asia and increase its global corporate clout is certain to continue.

Source: The Economist, 31 May 2014

### **Extract 6: Perks of US-Singapore FTA 'extend beyond economics'**

Born out of a midnight golf game, the historic free trade pact between Singapore and the United States not only brought multiple benefits for both but was also the foundation for a new era in US trade policy. The US-Singapore Free Trade Agreement (FTA), which marks its 10th anniversary this year, has raised bilateral trade and made Singapore the largest recipient of US investment in the Asia-Pacific as of 2012, Prime Minister Lee Hsien Loong said on Tuesday. Total bilateral trade has risen 70 per cent in the same time to US\$67.9 billion.

But the perks extend beyond economics, Mr Lee told a reception held by the US Chamber of Commerce and US-ASEAN Business Council to mark the event. The landmark pact was one of the first high-standard FTAs and ushered in a new era for US trade policy towards Asia. Acting Deputy US Trade Representative Wendy Cutler said the FTA also broke new ground in areas such as labour, e-commerce and the environment, and helped shape regional debates on trade. Individual businesses have also profited. US lenders such as Citibank benefited from the Qualifying Full Bank licences granted under the FTA, which Singapore has not since offered to any other FTA partner, Mr Lee said. The FTA has raised Singapore's profile in the US and allows easier movement of people between the countries, said Mr T.C. Voon, executive vice-president of ST Engineering's US unit VT Systems.

Source: The Straits Times, 28 June 2014

### **Extract 7: Exchange rate policy still relevant for Singapore**

Speaking at a dinner at the opening of an economic research institute yesterday, the managing director of Monetary Authority of Singapore (MAS), Mr Ravi Menon, said Singapore faces significant challenges in the new era of slow growth and rising global liquidity. "Externally, that could potentially set off asset market bubbles that could in turn have knock-on effects on consumer price stability and financial stability," he said.

At home, the economy is facing a "demographic cliff" of an ageing workforce, even as the economy undergoes a difficult restructuring period, he said at the Asian Bureau of Financial and Economic Research dinner. The combination of easy money and a tight labour market resulted in inflation rising to an average of 4.2 per cent between 2010 and last year.

Laying out a stout defence of the policy, Mr Menon noted that if the MAS did not allow the Singdollar to appreciate, headline inflation would have been about 2.5 percentage points higher than the 4.6 per cent rate last year.

He also pointed out that global oil prices have risen by an average of 16 per cent per year between 2010 and last year. But with a strong local currency, local petrol pump prices have increased by only 8 per cent over the period.

Source: The Straits Times, 22 May 2013

### **Extract 8: Transforming our Economy**

The global outlook for 2014 is uncertain. The advanced economies are gradually recovering, while the emerging economies are slowing. However, the odds are against a sharp slowdown in the global economy.

The Ministry of Trade and Industry (MTI) hence expects the Singapore economy to grow by 2% to 4% in 2014.

A key prong in our restructuring strategy has been to provide firms with strong support for every investment that can improve productivity. For instance, we are seeing higher take-up rates for the existing Productivity and Innovation Credit (PIC) scheme. This scheme is due to expire in Year of Assessment (YA) 2015. There have been many calls for its extension. I have decided to extend the PIC scheme for another three years until YA2018. This extension will cost the Government a total of \$3.6 billion.

We are also undertaking a major review of our Continuing Education and Training (CET) system to support the up-skilling of our workers on a continuous basis and the transformation of our economy. As more funds will be needed for the expansion of our CET system, I will top up the Lifelong Learning Endowment Fund (LLEF) by \$500 million, bringing the total fund size to \$4.6 billion.

As mentioned earlier, change is happening on the ground. Even within our 'old economy' sectors, individual players are doing things quite differently. They show us that change is possible and how, if we scale up such changes across whole industries, we can achieve a major impact in overall productivity.

Source: Singapore Budget Speech 2014

### Questions

- (a) (i) Describe the trend in the exports of goods and services as a percentage of GDP for China. [2]
- (ii) Consider whether the above trend allows us to make a judgment on China's balance of trade. [3]
- (b) With reference to Extract 5, assess if Asian markets should embrace globalization. [6]
- (c) Explain two ways in which Free Trade Agreements have benefitted the Singapore Economy. [4]
- (d) Using economic analysis, explain how a "combination of easy money and a tight labour market" can lead to inflation. [5]
- (e) Discuss the view that "exchange rate policy is still relevant for Singapore". [10]

[Total: 30]

**Section B**

Answer **one** question from this section.

- 3 Globalisation has intensified trade between countries but there are also trade-offs – permanent structural change and volatile short-term capital flows have threatened macroeconomic stability, with low economic growth and unemployment as the main concerns.

Adapted from Global Research Centre, 2012

- (a) Explain the benefits of globalization to Singapore. [10]
  - (b) Discuss whether the use of demand management policies can solve the problems stated in the preamble. [15]
- 4 The airline industry has been battered by the recent aviation accidents. Amidst growing fears in consumers, the EU Commissioner for climate change announced a planned increase in the carbon emission tax on all flights.
- (a) Explain how the factors in the preamble will impact the price and output in the airline industry. [10]
  - (b) Discuss whether consumers or producers are more likely to bear the cost of the carbon emission tax. [15]