

RAFFLES INSTITUTION
2014 YEAR 6 Preliminary Examination
Higher 1



ECONOMICS

8819/01

Paper 1: Case Studies and Essays

3 September 2014

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

DO NOT open this booklet until you are told to do so.

Write your name, index number and CT 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 diagrams, graphs or rough working.

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

Answer **all** questions

Begin answering each question on a fresh sheet of writing paper.

At the end of the examination,

- Fasten your answer to each question **separately**
- Fasten cover sheet with your answers from Case Study 1.
- Fasten cover sheet with your answers from Case Study 2.

You are advised to spend several minutes per question reading through the data before you begin writing your answers.

This document consists of **8** printed pages



Raffles Institution

Question 1 Tourism and Hospitality Industry

Table 1: Tourism Industry Performance for Singapore

	2010	2011	2012	2013
Total visitors (000)	11,641.7	13,171.3	14,496.1	15,567.9
Region (000)				
Americas	524.8	563.7	616.4	641.5
Mainland China	1171.5	1577.5	2034.2	2269.9
Europe	1373.5	1,401.5	1,537.3	1,591.2

Source: <http://www.singstat.gov.sg/statistics>

**Table 2: Short-Run Own-Price Elasticities
by Source Market**

Hong Kong	-1.209
Macau	-1.598
Singapore	-0.876
South Korea	-0.518

Source: How competitive is Hong Kong against its competitors

Extract 1: Singapore Tourism Board pushes for quality tourism

For the long-term sustainable growth of Singapore's tourism industry, Singapore Tourism Board (STB) is promoting high-quality tourism by embarking on a series of customised marketing campaigns catered to different consumers, while it continues to strive to establish industry competencies to help upgrade the skills of workers in the F&B and hotel industries. In the meantime, Singapore pushes to restructure its economy by raising productivity and reducing its reliance on foreign workers. Challenges to the tourism industry include higher foreign worker levies, rising rentals and wages, coupled with an appreciating Singapore dollar.

STB's target of 17m annual visitors by 2015 implies an increase of 6.6% per annum. While emerging markets like Mainland China remain the top 3 on lists of visitor arrivals to Singapore, visitors from China have dropped 27 percent in the five months through May 2013 from a year earlier, due to slower economic growth on the mainland and the impact of a new Chinese law that clamps down on cut-price shopping tours. This is further exacerbated by the continuing strengthening of the S\$ exchange rate against the Yuan and a sales tax that Chinese tourists don't encounter in neighbouring Hong Kong.

The STB aims to offer more innovative experiences to cater to the ever-changing needs of the customers. The opening of the new cruise ship terminal Marina Bay Cruise Centre Singapore (MBCCS) in October 2012 allows Singapore to tap into the increasing number of people in Asia who are taking leisure trips on luxury vessels and allows Singapore to become a cruise gateway to Asia. STB has extended its Cruise-Fly products to the MBCCS. Together with the expansion of networks and partnerships with other airlines, more passengers will be able to enjoy convenient, seamless transfers to and from Changi Airport.

The push for medical and education tourism continues as Asian economies continue to grow. With the novelty effect of the integrated resorts wearing off, and Singapore facing stronger competition from neighbouring economies, new tourist attractions such as the River Safari and the National Art

Gallery are being introduced. The opening of the MBCCS will also help support regional cruises which are well received among South East Asian travellers, who dislike long haul flights or have tighter budgets. Singapore's travel and tourism landscape is likely to remain positive.

Source: adapted from Bloomberg 2014 & other various sources

Extract 2: How competitive is Hong Kong against its competitors?

This demand elasticity analysis provides insights into Hong Kong's competitiveness as an international tourist destination in comparison with its neighboring competitors: Macau, Singapore and South Korea. The study recognizes that differences between markets should be taken into consideration in evaluating a destination's competitiveness. Overall, this study finds that Hong Kong has a competitive advantage over Macau. However, Singapore and South Korea appear to be in a better competitive position than Hong Kong.

Source: www.elsevier.com – Tourism Management

Extract 3: Medical tourism in Asia

Medical tourism is a practice where patients travel abroad to purchase medically necessary services, such as heart surgeries and hip replacements; elective treatments, such as cosmetic surgeries or reproductive services; and experimental treatments, such as stem cell therapies.

Medical tourism in Asia is booming. People from both Asia and the West are being attracted to cities and 'hubs' of medical excellence in a number of countries, such as Malaysia, Thailand, India, Singapore, Taiwan and South Korea. This tourism is a reversal of medical travel's historic trend of being from low- to high-income countries. But the travel for cheaper treatments, including cosmetic, dental and transplantation surgery, has risks as well as benefits for the host countries.

National governments anticipate many benefits from medical tourism. There are financial benefits generated from health services and associated visitor spending. Health services exports could potentially diversify regional economies. Industry promoters say it can increase foreign direct investment into the private health sector, help countries retain their existing health workforce, increase training opportunities for health workers, and ensure that the local health sector has access to the latest technological advances. Positive spillovers may include the expansion of health-sector infrastructure and also roads and telecommunications. Equity benefits are potentially created by hospitals cross-subsidising care for domestic patients, or helping to fund capital investment. Capital investments, such as MRI scanners, can then be used by all patients in the hospital or health system. Taken together, these benefits can provide local populations with the opportunity to access cutting-edge and high-quality health services at home.

So do these anticipated benefits occur? The truth is that we simply do not have enough data on country indicators. While some evidence suggests medical tourism generates modest contributions to GDP, there are concerns that the medical tourism also creates social and health risks for countries investing in the sector. Investment in medical tourism can drain resources from the public health sector and divert attention away from the less profitable health needs of the local population.

Source: Adapted from www.eastasiaforum.org/2014

Extract 4: Healthcare system in Singapore

The Singaporean healthcare system comprises of public and private healthcare. Good, affordable basic healthcare is available to Singaporeans through subsidised medical services at public

hospitals and clinics. Singapore's healthcare system is a mix of public and private care financing. It is based on individual responsibility, coupled with government subsidies to keep basic health care affordable. The government ensures that good and affordable basic medical services are made available to all Singaporeans through the provision of heavily subsidized medical services at the public hospitals and government clinics. The basic medical package will reflect good, up-to-date medical practice, which is cost-effective and of proven value. But it will not provide the latest and best of everything. It will exclude non-essential or cosmetic services, experimental drugs and procedures of unproven value.

Source: www.sgc.org.sg

Questions

- (a) (i) With reference to Table 1, compare the changes in the number of visitors from the different regions to Singapore between 2010 and 2013. [2]
- (ii) According to Extract 1, "visitors from China have dropped 27 percent in the five months through May 2013 from a year earlier". [1]

Explain why "the continuing strengthening of the S\$ exchange rate against the yuan" has reduced the number of Chinese visitors to Singapore.

- (b) Identify and explain one possible relationship between cruise travel and air travel. [2]

- (c) (i) Explain the concept of price elasticity of demand. [2]
- (ii) Explain how the information in Table 2 will affect a Singapore travel agency's pricing policy for the different destinations. [4]

- (d) (i) Using a demand and supply diagram, explain how subsidized medical services impose a greater burden on the government the more price elastic its demand. [3]
- (ii) The "Singapore health care delivery system is based on individual responsibility, coupled with government subsidies to keep basic health care affordable." [8]

Discuss whether the government should subsidise healthcare services in Singapore.

- (e) According to Extract 3, "Medical tourism in Asia is booming... But the travel for cheaper treatments, including cosmetic, dental and transplantation surgery, has risks as well as benefits for the host countries." [8]

Discuss whether the booming medical tourism industry brings about more benefits than risks for these host countries in Asia.

[Total: 30m]

Question 2 Myanmar, a New Emerging Economy

Table 3: Myanmar, Trade in Goods with World

Period	Exports (Million €)	Imports (Million €)
2009	4,239	5,072
2010	4,868	7,502
2011	5,974	9,836
2012	6,435	13,232

Source: European Commission

Table 4: Myanmar, Trade with European Union

	Exports (Million €)					Imports (Million €)				
Items	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Vegetable products	7	10	14	15	19	1	0	0	1	1
Products of the chemical or allied industries	0	0	0	0	0	23	19	33	31	50
Footwear, hats and other headgear	2	2	4	3	1	0	0	0	0	0
Optical and photographic instruments, etc.	0	0	0	0	0	4	5	13	13	34

Source: European Commission

Table 5: Gross Domestic Product (GDP) and its Components in selected Economies (% of Total), 2012

	Myanmar	Singapore
Total GDP (US\$ billion) 2012	54.53	272.8
Composition:	%	%
Private consumption	80.8	39.2
Government consumption	3.8	9.7
Gross fixed investment	17.0	27.0
Exports of goods and services	18.9	200.7
Imports of goods and services	-20.4	-178.5

Source: CIA World Factbook

Extract 5: Opportunities and Challenges to Myanmar's opening up

Myanmar has recently opened itself up to the outside world after long years of self-imposed isolation. While many observers remain uncertain whether the ongoing reforms are real or just cosmetic, it is undeniable that Myanmar is moving towards greater openness. In this process, the influx of foreign direct investment has had an immense impact on the country and the people, for better and for worse. Myanmar is a country blessed with abundant natural resources. From precious stones and raw materials to natural gas, the country has always been of interest to foreign investors. Now that Myanmar is embracing an open-door economic policy, foreign direct investment could stimulate the economy and improve the livelihood of the people.

McKinsey reported last month that Myanmar's Gross Domestic Product (GDP) could quadruple to about US\$200 billion (S\$250 billion) in 2030 from US\$45 billion in 2010 with an annual growth rate of 8 per cent. That may help to lure US\$170 billion in capital inflows, including foreign direct investment totalling US\$100 billion.

The Myanmar government has already begun adjusting its policy towards foreign direct investment. It has allowed more political freedom and loosened controls over the economy, luring in large conglomerates such as Ford Motor and Coca-Cola. Newly elected opposition member of the government, Ms Aung San Suu Kyi has appealed to investors and potential investors "to put a premium on respect for the law, on environmental and social factors, on the rights of workers, on job creation and on the promotion of technological skills". She believed that this approach would lead, in the long run, to greater benefits for all concerned.

Myanmar's labour force, numbering 31 million, could gain the most from incoming capital investment. Unemployment in the country could be as high as 37 per cent, with more than a quarter of its 60 million people living in poverty. Foreign direct investment does not just mean more jobs. It also gives workers the opportunity to learn new skills. This is particularly so in core industries with high growth potential and higher productivity.

But not everything that flows from foreign investment is good. The appropriation of land for large projects such as gas pipelines, and the impact of dam construction on Myanmar's major rivers, involving the relocation of villagers without adequate compensation, are often cited as negative effects stemming from foreign direct investment inflows.

While the opening up of Myanmar's economy has created many business opportunities, it has also generated a myriad of economic and social problems. These problems will not be fixed overnight. But they require tough action on the part of the government to minimise the exploitation stemming from foreign direct investment.

Source: Adapted from The Straits Times, accessed 19 June 2014

Extract 6: Effects of Myanmar opening up on neighbouring countries

Thailand has benefited from open access to Myanmar's natural resources – more than half of Bangkok's electricity supply relies on gas piped from its western neighbour. Thai companies have also moved into property development and service industries there, hence benefitting from Myanmar's opening. While Myanmar's opening has resulted in significant benefits for its neighbouring countries, this has also undeniably resulted in costs on these countries involved. For one, Myanmar is drawing away a steady stream of tourists, one of Thailand's mainstay service industries, and is targeting close to 1m visitors in 2014, up from about 300,000 in 2011.

Other south-east Asian countries are not spared either. Myanmar, with a labour force that is largely unskilled and with wages as low as 700Kyat (Myanmar's currency) a day for a worker in a garment factory, it could compete with many of the other neighbouring low-cost manufacturing destinations, such as Vietnam and Thailand. Increasingly, garment factories in these two neighbouring countries have been scaling down their operations in the face of such stiff competition.

Amidst the challenges posed on its neighbouring countries, the International Monetary Fund (IMF) said in January that it saw "high growth potential" for Myanmar. Citing stronger commodity exports and higher inward investments, the IMF estimated Myanmar's economic growth of 5.5% in the 2011-12 fiscal year, which could potentially be a silver lining for its neighbouring countries.

On the other hand, inflation, projected at 4.2% for the 2011 financial year, is on the rise and is expected to pick up to 5.8% or higher given the likely increase in foreign investment and aid flows. This could in turn damage Myanmar's export competitiveness, while transferring the rise in prices to its trading partners. As for Myanmar's own companies: "We're jittery," says one local executive with a pharmaceuticals importer. "Big foreign investors have economic scale and access to markets – they can easily overwhelm us ... We have had discussions with the government about this; we can't compete with multinationals."

Source: Adapted from Financial Times, accessed 18 April 2012

Questions

- (a) (i) With reference to Table 3, describe the trend of Myanmar's trade balance with the world from 2009 to 2012. [2]
(ii) Using a relevant diagram, explain how Myanmar's exchange rate is likely to be affected by its trade balance. [4]
- (b) Explain how the theory of comparative advantage is reflected in the trade flows between EU and Myanmar in Table 4. [4]
- (c) (i) Identify an injection from Table 5. [1]
(ii) To what extent does Table 5 suggest that there is a difference in the size of the multiplier between Myanmar and Singapore? [3]
- (d) *"...the opening up of Myanmar's economy has created many business opportunities, it has also generated myriad of economic and social problems."* [8]
In light of the above, discuss whether the opening up of her economy is beneficial to Myanmar.
- (e) With reference to the data where relevant, evaluate appropriate policies you would recommend to the policy makers of the countries affected by the opening up of the Myanmar economy. [8]

[Total:30]

Section B

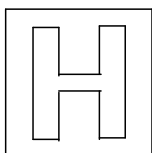
Answer **one** question from this section.

- 3** Car certificate of entitlement (COE) prices are likely to rise as the Land Transport Authority (LTA) continued to shrink supply to a record low.
 Source: <http://transport.asiaone.com>. Jan 14, 2014.
- (a) Distinguish between a public good and a demerit good. [10]
- (b) Discuss whether shrinking the supply of COE is the most desirable policy to curb traffic congestion in Singapore. [15]
- 4** (a) With the aid of examples, explain the factors influencing the pattern of trade between Singapore and her trading partners. [10]
- (b) Due to uncertainties in the global economy, Singapore economy recorded slower growth in the first quarter of 2014. However, unemployment rate remained low at 2.0%. Inflation rate is expected to stay elevated at 2 to 3% as domestic cost pressures are likely to remain strong. The rapid pace of globalisation has also contributed to increasing income inequality in Singapore. [15]
 Source: <http://www.mas.gov.sg>

In view of the above report regarding Singapore's current economic performance, discuss which goal should be the priority of the Singapore government.

Copyright Acknowledgements:

Question 1	Table 1	© Singstat
Question 1	Table 2	© www.elsevier.com – Tourism Management
Question 1	Extract 1	© Bloomberg and Various Sources
Question 1	Extract 2	© www.elsevier.com – Tourism Management
Question 1	Extract 3	© East Asia Forum 2014
Question 1	Extract 4	© www.sgc.org.sg
Question 2	Table 3 & 4	© Singstat
Question 2	Table 6	© CIA World Factbook
Question 2	Extract 5	© Straits Times 19 June 2014
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Higher 1



ECONOMICS

Paper 1: Case Studies

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