



H1 Economics

8819/01

Case Study and Essay Questions

15 Sep 2014

3 Hours

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Do not open this booklet until you are told to do so.

Write your name, class and register number in the spaces at the top of the answer sheets.

Write in dark blue or black pen.

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

You are reminded of the need for good English and clear presentation in your answers.

Section A: Case Study (2 Hours 10 Minutes)

Answer **all** questions.

Section B: Essay (50 Minutes)

Answer **one** question.

Begin each question on a fresh sheet of paper.

At the end of the examination, fasten all your work securely to the cover sheet with the string provided.

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

[Turn Over]

This document consists of **8** printed pages and **3** cover sheets.

Section A

Answer **all** the questions in this section.

Question 1 **Present and Future Energy Sources in the Globalised World**

Extract 1: Global energy demand seen up 44 percent by 2030

Most economists agree that globalization provides a net benefit to individual economies around the world, driving world economic growth, increasing competition, limiting military conflicts, and spreading wealth more equally around the world. However, according to Joseph Stiglitz, a former chief economist of World Bank, 'Globalisation today is not working for many world's poor. It is not working for much of the environment. It is not working for the stability of the global economy.' The general public tends to assume that the costs associated with globalization outweigh the benefits; one of its most imminent problems is the soaring energy demand, exhaustion in raw materials and its related pollution concerns.

Global energy demand is expected to soar 44 percent over the next two decades with most of the demand coming from developing countries such as China and Russia. Almost 75 percent of the rise in global energy demand through 2030 will occur in developing countries, particularly China, India, Russia and Brazil, the agency said. The Organization of Petroleum Exporting Countries will continue to provide 40 percent of the world's oil supplies during the period.

With the opening of borders to trade and foreign investment, globalization brings opportunities and pressures for domestic firms in emerging market economies to innovate and improve their competitive position. Many of these pressures and opportunities operate through increased competition from and linkages with foreign firms. This competition gave rise to economies and firms investing heavily in more efficient energy like renewable energy. The competition is certainly intensified when expertise, knowledge and advanced equipment could be easily acquired across borders in a globalized market.

Adapted Tom Doggett and Ayesha Rascoe, *Reuters*, 27 May 2009

Extract 2: Energy crisis? Fund the renewable solution

Despite energy being a basic requirement for economic growth and development, the International Energy Agency (IEA) says that 1.3 billion people do not have access to electricity. This mainly applies to people living in rural areas of Asia and sub-Saharan Africa.

Conventional generation of energy through the burning of fossil fuel has created many issues especially in these third world economies. Globalisation has fuelled the accelerating demand of energy, coupled with instability in the Middle Eastern countries, led to volatility in energy prices. Fortunately, renewable energies such as wind, solar or biomass come in small units – solar cells or wind turbines – making construction and maintenance fairly straightforward. Over time, the costs for solar, wind and efficient biomass have reduced significantly, now levelling at the same price, and in some cases cheaper, than fossil fuels.

Some countries have already made significant progress in distributing renewable energy technologies. In Bangladesh, over 80,000 solar home systems are being installed every month and there are already a total of over three million in use in rural, off-grid areas, benefiting over 20 million people. This has had a positive economic and social impact in the country. Since 1996, the renewable energy sector in Bangladesh has created jobs for over 150,000 people.

But elsewhere, despite renewable energy being a great opportunity to accelerate the economic development in the global south, progress has been slow. Creating a reliable environment for investments in renewable energy is one of the biggest challenges for the industry.

Source: Stefan and Dipal, *Guardian*, 5 Jun 2014

Extract 3: American solar industry in crisis

Despite the substantial investments in solar energy, the industry is in turmoil. A number of large American manufacturers such as Solyndra, Evergreen Solar, SpectraWatt, Solar Millennium and Solon fell victim to price pressure from Chinese rivals that helped to halve the cost of photovoltaic modules in 2011.

Not unexpectedly, the industry's poor fundamentals are provoking trade battles. In May, the U.S. Commerce Department found several Chinese solar-panel companies guilty of dumping and imposed 31 percent tariffs on their products. The action came as a result of a complaint filed by the American subsidiary of Germany's SolarWorld AG and a half-dozen other solar-energy companies that said that the Chinese manufacturers are selling solar panels at below-market prices. SolarWorld has now asked the European Union to investigate claims that Chinese rivals have been selling their products at below market value in Europe as well.

Source: Jack Perkowski, *Forbes*, 27 Dec 2012

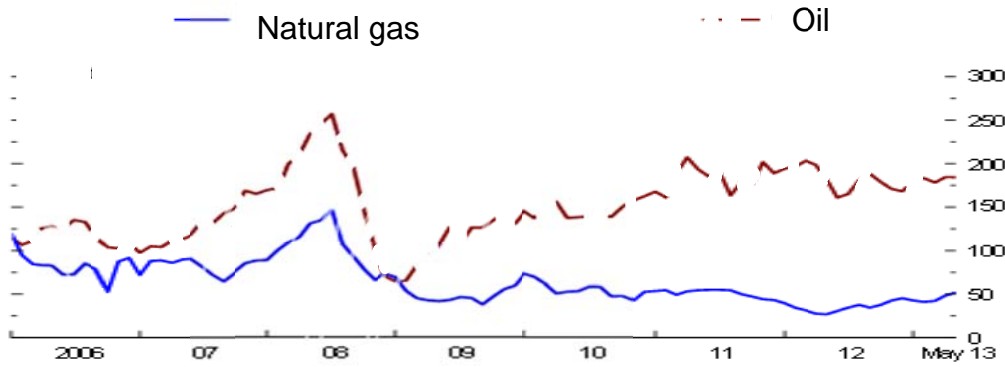
Extract 4: Natural gas price in Europe lowest since 2010

The price of natural gas in Europe has dropped to its lowest level since 2010 as warm weather and high storage levels curb demand for the fuel. Fears of supply disruptions after Russia moved to take control of Crimea saw the price leap to 61.7 pounds a therm last month. Russia supplies about 30 per cent of Europe's natural gas, with almost half of it piped through Ukraine.

However, the price has been in retreat ever since. One factor weighing on prices has been Europe's mild winter. A key use of natural gas is as a heating source. "We have got to the end of the [winter] withdrawal season and stocks are still really high," said Trevor Sikorski, head of natural gas, coal and carbon at Energy Aspects, a consultant. "There's an awful lot of gas in storage."

Source: Neil Hume, *Financial Times*, 3 April 2014

Figure 1: Natural Gas and Oil Prices in United States (2005 =100)



Source: *WorldBank*, accessed June 2014

Questions

- (a) Using Figure 1, summarise the variations in the natural gas and oil prices in US. [2]
- (b) Explain how 'firms investing heavily in more efficient energy like renewable energy' (Extract 1) affects the demand for oil. [2]
- (c) With reference to Extract 4, how far do demand factors explain the change in natural gas prices in UK? [4]
- (d) (i) With the help of examples, explain how negative externality in production arises in the conventional energy market. [3]
- (ii) Comment on how investment in renewable energy market affects market failure in the conventional energy market. [5]
- (e) Extract 3 indicates that 'U.S. Commerce Department found several Chinese solar-panel companies guilty of dumping and imposed 31 percent tariffs on their products.'
- Evaluate the case for the imposition of tariffs by the US government. [6]
- (f) Discuss the view that the costs associated with globalisation outweigh the benefits. [8]

[Total: 30]

Question 2**Charting a course for sustained growth****Table 1: Selected Indicators for China and Singapore**

	2007	2008	2009	2010	2011	2012
China						
Growth in real GDP (%)	14.2	9.6	9.2	10.4	9.3	7.8
Export-to-GDP ratio	38.4	35.0	26.7	29.4	28.5	27.3
Singapore						
Growth in real GDP (%)	9.0	1.7	-0.8	14.8	5.2	1.3
Export-to-GDP ratio	214.7	230.3	191.9	199.3	200.2	195.1

Source: *World Bank*, accessed 21 August 2014

Extract 5: China's need to 'rebalance' its economy

China should do more to rebalance its economy from exports and investment to consumption. The World Bank has cut its forecast for China's economic growth next year to 7.5 percent from 9.2 percent after the global financial crisis deepened. More than half of the expansion will come from "government-influenced spending" with China urgently required to rebalance its growth towards domestic demand as it could no longer rely on its consumers overseas to lift it up. With China rebalancing towards domestic consumption, this spells good news for its trade partners with potential increase in their exports to China.

Source: *Bloomberg*, 25 November 2008

Extract 6: Challenges of the Singapore economy

Despite the global economy changing as the fear of a return to recession has diminished in most industrial economies, mixed indicators revealed that the expected recovery could falter as the United States Federal Reserve tapering its quantitative easing measures with its monetary policy shift.

Predictions revealed that a recovery in the United States and European economies would boost Singapore's exports, but signs of that filtering through have yet to fully materialize with exports to the European Union down 3.9 percent in June from a year ago. Exports to the United States fell 2.9 percent from a year ago, while shipments to China rose 5.3 percent. A tight labour market could also further weigh down on Singapore's electronics industry, a key driver of Singapore's exports, adding to further weakening of Singapore's comparative advantage in the electronics sector resulting in some of Singapore's exporters relocating.

The services sector may also decelerate in the coming quarters, which will pose a threat to economy given its relatively large contributions to GDP and employment with services making up 68 percent of Singapore's GDP and about 70 percent of total employment.

Source: *Asian Development Bank*, 2013

Extract 7: Skills shortages persist as Singapore economy expands

All-round Accountants, Legal Counsels, and Sales Administrators are just some of the many skills in demand as Singapore's expanding economy continues to create new jobs. Yet a paradox exists. At the same time as the number of long-term unemployed is increasing, so too are the number of vacancies, which suggests that the available labour does not always have the skills employers want.

Adapted Singapore Business Review, March 2014

Extract 8: A three-pronged approach to deepen incentives for restructuring

Singapore's next phase of economic restructuring must be driven by transformations in small and medium enterprises (SMEs), readiness for jobs, and social norms, said Deputy Prime Minister Tharman Shanmugaratnam.

Firstly, the Productivity and Innovation Credit (PIC), which gives firms tax deductions or cash grants when firms invest to boost their capabilities through automation, worker training and research and development, will be extended and broadened. Originally implemented in 2010, it will be extended for another three years until 2018.

Secondly, it is the **Lifelong Learning Endowment Fund**, which subsidizes continuing education and training for Singaporeans.

The third front is to bring about a broad shift in societal values. The minister cited two examples where social norms need to change: To have seniors keep working and for consumers to accept self-service as a norm.

If successful, the productivity improvement will account for two-thirds of growth, up from just one-fifth previously. However, it is worrying if Singapore misses its productivity targets as the reduced reliance on foreign labour could cause a labour crunch resulting in slow growth.

Source: The Straits Times, 25 March 2014

Extract 9: Minimum wage for inclusive growth?

NTUC Secretary-General, Mr Lim Swee Say, expressed no intention of adopting minimum wage as part of the solution to inclusive growth. He mentions that minimum wage will lead to rising business cost and with the keen global competition, Singapore cannot afford to implement minimum wage. Instead, the introduction of Workfare Income Supplement would circumvent these problems and allow displaced workers to 'buy time to move upward'.

Source: National Trade Union Congress, 12 January 2011

Questions

- (a) Using Table 1, compare the **real** GDP growth in Singapore and China between 2007 and 2012. [2]
- (b) (i) Explain how “government-influenced” spending (Extract 5) can impact the Chinese economy. [4]
- (ii) With reference to Table 1, explain how far the data might show that China has made progress in rebalancing the economy away from exports. [4]
- (c) (i) Define a minimum wage. [2]
- (ii) Explain how a minimum wage is part of the solution to inclusive growth. (Extract 9). [4]
- (d) Explain the types of unemployment that the Singapore economy is likely to face. [6]
- (e) Extract 6 mentions the various challenges faced by the Singapore economy. Discuss the likely effectiveness of the policy of economic restructuring outlined in Extract 8 to address these challenges. [8]

[Total: 30]

Section B

Answer **one** question from this section.

- 3 (a)** Explain, using examples, how public goods and merit goods can lead to inefficiency in resource allocation. [10]
- (b)** Discuss the view that the best way for governments to respond to the existence of merit goods is to regulate their production directly. [15]
- 4** The British economy's relentless progress, the growing confidence of British companies and skilled workers demanding higher pay imply the day the Bank of England will raise interest rates to stabilize prices is drawing near.
- (a)** Explain the domestic and external factors that cause inflation. [10]
- (b)** Discuss the view that the use of exchange rate policy is preferred over interest rate policy to ensure price stability. [15]

- End of Paper -



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COVER SHEET

H1 ECONOMICS

Section A: Case Study Question 1

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

15 Sep 2014

READ THESE INSTRUCTIONS FIRST

Write your name, civics group, register number and tutor's name in the spaces at the top of this cover page and on all the work you hand in.

At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 1 with the string provided before submission.

QUESTIONS ATTEMPTED		MARKS
(a)		
(b)		
(c)		
(d)	(i)	
	(ii)	
(e)		
(f)		
TOTAL		/30



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COVER SHEET

H1 ECONOMICS

Section A: Case Study Question 2

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

15 Sep 2014

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QUESTIONS ATTEMPTED		MARKS
(a)		
(b)	(i)	
	(ii)	
(c)	(i)	
	(ii)	
(d)		
(e)		
TOTAL		/30



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COVER SHEET

H1 ECONOMICS

Section B: Essay Question

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

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At the end of the examination, fasten this cover sheet to your answer scripts with the string provided before submission.

Circle the question number you have attempted.

QUESTION ATTEMPTED		MARKS
Question 3	(a)	
	(b)	
Question 4	(a)	
	(b)	
Total		/25