



PIONEER JUNIOR COLLEGE, SINGAPORE  
PRELIMINARY EXAMINATIONS 2014  
Higher 1

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**ECONOMICS**

**8819/01**

Paper 1

18 September 2014

3 hours

Additional Materials: Answer Paper

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**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, index number and name 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

Answer each question on a fresh sheet of paper.

At the end of the examination, fasten all your work securely together.

Fasten your answers to Question 1, Question 2, Question 3/4 SEPARATELY.

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

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This document consists of **8** printed pages.



Pioneer Junior College



Ministry of Education

## Section A

Answer **all** questions**Question 1 Battling with congestion - A tale of two cities****Table 1: GDP Growth (annual %) of selected countries**

Country/Year	2008	2009	2010	2011	2012	2013
China	9.6	9.2	10.4	9.3	7.7	7.7
United Kingdom	-0.8	-5.2	1.7	1.1	0.3	1.7

Source: worldbank.org, accessed 7 Aug 2014

**Table 2: Growth in Passenger Car Registrations (annual %)**

Country/Year	2008	2009	2010	2011	2012	2013
China	6.7	51.8	35.3	4.3	8.3	15.4
United Kingdom	-5.0	-15.8	3.1	-3.0	6.3	11.8

Source: www.tradingeconomics.com UK: The Society of Motor Manufacturer and Traders, China: China Association of Automobile Manufacturers, accessed 7 Aug 2014

**Extract 1: Beijing to introduce congestion charge**

Expats won't be welcoming Beijing's latest efforts to become more western – a congestion charge. The city is regarded as the political and cultural capital of China, attracting thousands of expats each year. Western goods and services are easily accessible, helping to make the transition to the capital city smoother for foreigners.

However, Beijing has now announced plans to introduce a congestion charge in the city centre to ease its crowded roads. The blueprints for the city's five-year traffic plan were released jointly by Beijing Municipal Commission of Transport and the Beijing Municipal Commission of Development and Reform. "Beijing faces a serious test in the next five years with the rapid growth in population and number of vehicles," a spokesman said. The plan didn't include details of how much the congestion charge will be or when it will be imposed.

The move will remind many British expats of home as London has operated a controversial traffic levy since 2003. Kevin Gilbert, a British engineer working in Beijing, said: "The roads have definitely become more crowded in recent years but I think a congestion charge will have limited effect on this. Beijing, like many other Chinese cities, is going through a period of rapid growth and heavier traffic is inevitable during this time." The Chinese capital already limits the number of new car registrations to 20,000 a month to ease traffic jams and cut pollution, while capping the use of private vehicles on designated days. As of June 2012, three mega cities in China – Shanghai, Beijing and Guangzhou – have implemented quota policy to control car ownership growth.

Beijing is one of the most congested cities in China with a population of around 20 million. The city saw its car-owning population move to above five million earlier this year, as its middle classes grow along with its economic prosperity.

Source: Adapted from telegraph.co.uk, 31 Aug 2012 and Land Transport Authority 2013

**Extract 2: Fighting to get a share of the car market**

As the Chinese middle-class continues to balloon, automakers are stepping up efforts to design and expand production of low-cost passenger cars in order to appeal to the more price sensitive customers and first time buyers. General Motors, through its joint venture SAIC-GM-Wuling Automobile Ltd, opened another manufacturing unit in China to boost the production its low-cost models such as the Bajoun, the sales of which exceeded 10,000 units in October. The new plant will help the automaker raise its capacity by 400,000 units eventually.

Most of the sales are skewed towards the smaller, low-cost vehicles in developing countries which is hardly surprising since a majority of them are purchased by first-time owners or customers with limited earnings relative to the car prices. Furthermore, a significant percentage of the population still cannot afford even the least expensive cars available in the market.

Source: Adapted from Forbes 27 Nov 2012

**Extract 3: Traffic congestion costs UK economy £4.3bn a year**

Traffic congestion is costing the economy more than £4.3bn a year. More than £426m is wasted on fuel alone a year, the survey said. The cost in terms of lost time is £331 per commuter a year, or £2.7bn, while hold-ups to business or freight vehicles amounts to £1.1bn annually being added to household costs. Around 40 percent of the gridlock costs occur in London, with drivers spending 66.1 hours a year stuck in jams. Traffic congestion impacts everything from how long it takes us to get to work and the amount of fuel we consume in our vehicles to the costs of food at the grocery store. As the UK continues facing times of austerity and high unemployment, the efficient movement of people and commerce across our road networks is essential to fostering a healthy, vibrant economy.

Source: Adapted from telegraph.co.uk, 10 Dec 2012

**Extract 4: Growth is straining London's infrastructure**

In 2005, the mayor of London introduced a congestion charge on vehicles coming into central London, which initially cut such traffic by 20% and improved traffic flows. Since then, some streets have been given over to pedestrians, pavements have been widened and traffic-light phasing has been changed in favour of people on foot. All this has made the city a nicer place to wander round in but, with higher growth and traffic volumes, London is seeing increased congestion once more.

There are various ways of freeing up roads. Investment in public transport—of which there has been a great deal—is one. The London Underground has improved markedly over the past years. The Tube upgrade should increase the system's capacity which should both keep up with the population increase and ensure that travelling in London is not as painful as it used to be.

Cycles are another way, though they are costly too. Londoners can pick up one of 8,300 “Boris bikes” from a rack of their choice and drop it back at another. It is cheap for users—the first half hour is free and the next hour costs £4 to encourage commuter use—but expensive for taxpayers. They have shelled out slightly more than half of the total cost of £120m, with Barclays Bank, the sponsor, covering the rest. The average cost per bike is £14,460.

Source: Adapted from The Economist, 30 Jun 2012

### Extract 5: Keeping Singapore on the move

Runway prices of certificates of entitlement (COE) tend to reawaken the debate on the vehicle quota system here. The larger question, of course, is how the car population, in particular, can be curbed in a fair and sensible manner over the long term to avoid the traffic gridlock seen in other cities.

The root of the problem is the irrepressible desire to own a car, even when it makes little economic sense to pay so much to buy and maintain one. The reasons for personal transport are many: genuine family needs, the poor appeal of public transport and the pursuit of social prestige. It is revealing that Hong Kong, Tokyo and New York, cities also driven by affluence and aspirations but which have no quota system or high taxes on cars, have been able to manage the penchant for car ownership. Potential car buyers there are deterred by traffic jams and limited parking spaces. Commuters enjoy a good rail network.

The Government intends to spend billions more to improve the transport system. But infrastructure has its limits on a small island. Ultimately, more sustainable and holistic solutions must be found to keep people moving smoothly. Such discussions can gain more traction when Singaporeans learn to yearn less for one of the common Cs of aspiration by shedding the notion that the car is something to have and to hold.

Source: Adapted from The Straits Times, 11 May 2012

### Questions

- (a) Consider whether the information in Tables 1 and 2 suggests that there is a stable relationship between GDP growth and growth in passenger car registrations. [2]
- (b) (i) Describe the change in passenger car registrations in China from 2011 to 2013. [2]
- (ii) Despite the implementation of government policies to control car ownership in major cities, growth of passenger car registrations remains positive. Using demand and supply analysis, examine the reasons for the above change in passenger car registrations from 2011 to 2013. [4]
- (c) Explain how, for the UK, 'the efficient movement of people and commerce across our road networks is essential to fostering a healthy, vibrant economy.' [4]
- (d) (i) Explain the likely value of price elasticity of demand for cars in China given that customers have "limited earnings relative to the car prices". [2]
- (ii) Explain how the knowledge of PED is useful to a car manufacturer such as GM. [2]
- (e) Explain the rationale for government intervention in the use of car in cities. [6]
- (f) Based on the experience of London and Singapore, discuss the policy options Beijing should adopt to reduce congestion. [8]

[Total: 30]

**Question 2****Reducing Government Debt****Extract 6: France budget: Taxes favoured over spending cuts**

France has unveiled its budget for 2013, avoiding big austerity spending cuts in favour of higher taxes on the wealthy and big businesses. In its first budget, the Socialist government insisted its promise to cut the annual deficit to the eurozone limit of 3% of GDP next year. Official figures on Friday showed that French public debt had hit 91% of GDP between April and June this year, up from 89.3% at the end of March, which was still well above the eurozone limit of 60%. The BBC's Chris Morris noted that many of the government's policies come from raising taxes rather than cutting spending as compared with other countries in Europe pushing through painful austerity. Mr Ayrault, French Prime Minister, called it "a courageous, responsible budget". Some of the measures in the budget include:

- A new 75% tax on the richest earning more than 1m euros
- A 45% income tax rate on incomes over 150,000 euros a year
- A freeze in government spending, excluding debt repayments and pensions
- The reduction of tax exemptions for loan payments by large corporations
- Capital gains and dividends will now be subject to the income tax regime

"The government has understood that the increase in the public debt has got to be halted but the way that they are doing it is not the right way," said Eric Chaney, chief economist at French insurer Axa. "It amounts to strongly increasing the tax burden on companies, their shareholders and executives, in other words those who create added value. It will lead to an even bigger loss of competitiveness and so a reduction in long-term growth." The budget has been controversial, with some top earners threatening to leave the country as a result of the planned tax rises. Opposition parties have argued that more savings should have been found from cutting public spending so fewer tax rises would have been necessary.

Source: Adapted from BBC News, 28 Sep 2012

**Extract 7: US Avert Fiscal Cliff<sup>1</sup> With Entitlement Cuts, Tax Increases**

The U.S. has paid extremely low rates on its debt for several years now. Net interest last year totalled 1.5 percent of gross domestic product, half what it was in 1997. But with \$11 trillion in public debt, or about 73 percent of output, that privilege won't last. It wouldn't be prudent to test the market's patience before the market demands much higher interest rates, forcing a sudden and painful belt-tightening on every American. Failure to modify the tax increases and spending cuts would almost certainly induce a recession. Can it be done? Here are suggestions based on a 10-year road map:

- Raise the retirement age to 69 from 66. Savings: \$249 billion.
- Require more Medicare cost-sharing by discouraging its overuse by increasing deductibles and co-payments and means-test Medicare benefits so that the well-to-do elderly pay more. Savings: \$353 billion.
- Raise taxes on the wealthy. Savings: \$740 billion.
- End corporate tax breaks/rebates. Savings: \$160 billion.
- Overhaul other government programs such as eliminating some farm subsidies and have the U.S. Postal Service go to five-day delivery. Savings: \$213 billion.

Source: Adapted from The Editors, Bloomberg, 2 Oct 2012

<sup>1</sup> the automatic tax increases and spending cuts by US government set for the end of 2012

### **Extract 8: US jobs data reveals economy is bouncing back strongly from recession**

The latest US employment data has confirmed that the American economy is on the path to recovery after the recession of 2008-2009, despite the slowdown engulfing other G20 nations. In the last 31 months, private sector employment rose by 5.2 million and the unemployment rate is now below 8% for the first time in nearly four years. But it is still more than two percentage points above the long-run value that most economists view as normal when the economy is operating near its potential. Moreover, the number of long-term unemployed (27 weeks or longer) is about 40% of the total. So the US labour market, while healing, is still far from where it should be.

Demand has grown slowly, despite unprecedented fiscal and monetary stimulus, and that explains why the unemployment rate remains high. Indeed, businesses cite uncertainty about the strength of demand as the main factor holding back job creation. Public sector demand has also contracted, owing to state and local governments' deteriorating budgets.

Recent reports suggest that there are more than three million unfilled job openings, and about 49% of employers say that they have difficulty filling positions, especially in information technology, engineering, and skilled trades. This has fanned speculation that a "mismatch" between workers' skills and employers' needs is a significant factor behind the elevated unemployment rate. The skills gap also shows up in rising inequality as it is becoming increasingly difficult for workers with low levels of educational attainment to find high-paying jobs in any sector, even when the economy is operating near full capacity.

Source: Adapted from Laura Tyson, The Guardian, 17 Oct 2012

### **Extract 9: Climate change and poverty have not gone away**

In the shadow of the euro crisis and America's fiscal cliff, it is easy to ignore the global economy's long-term problems. But, while we focus on immediate concerns, they continue to fester, and we overlook them at our peril.

The most serious is global warming. While the global economy's weak performance has led to a corresponding slowdown in the increase in carbon emissions, it amounts to only a short respite. And we are far behind the curve: because we have been so slow to respond to climate change achieving the targeted limit of a 2C rise in global temperature will require sharp reductions in emissions in the future. Some suggest that, given the economic slowdown, we should put global warming on hold. On the contrary, retrofitting the global economy for climate change would help to restore aggregate demand and growth.

Next is the worldwide crisis in inequality. The problem is not only that the top income groups are getting a larger share of the economic pie, but also that those in the middle are not sharing in economic growth. An economic and political system that does not deliver for most citizens is one that is not sustainable in the long run.

The market will not, on its own, solve any of these problems. To make the structural transitions that the world needs, we need governments to take a more active role – at a time when demands for cutbacks are increasing in Europe and the US.

Source: Adapted from Joseph Stiglitz, Guardian.com, 7 Jan 2013

**Table 3: Selected Economic Statistics of France**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
GDP per capita (USD current PPPs)	33 794	34 408	35 505	36 249
Real GDP growth (%)	-3.1	1.7	2.0	0.0
Gross fixed capital formation (% of GDP)	-10.6	1.4	2.9	-1.2
Government budget balance (% of GDP)	-7.6	-7.1	-5.3	-4.8
General government debt (% of GDP)	91.4	95.5	99.2	109.3
Public expenditure on health (% of GDP)	9.0	9.0	8.9	9.0
Current account balance of payments (% of GDP)	-1.3	-1.4	-1.8	-2.2
Inflows of foreign direct investment (millions USD)	24 216	33 628	38 582	25 094
Inflation rate: all items (%)	0.1	1.5	2.1	2.0
Unemployment rate: total labour force (%)	9.5	9.7	9.6	10.2
Life expectancy at birth (years)	81	82	82	83
Infant mortality per 100,000 live births	3.9	3.6	3.5	3.5

**Table 4: Selected Economic Statistics of USA**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
GDP per capita (USD current PPPs)	46 927	48 287	49 782	51 689
Real GDP growth (%)	-2.8	2.5	1.8	2.8
Gross fixed capital formation (% of GDP)	-13.1	1.1	3.4	5.5
Government budget balance (% of GDP)	-13.34	-11.16	-10.06	-8.68
General government debt (% of GDP)	105.0	115.3	120.6	122.5
Public expenditure on health (% of GDP)	8.3	8.4	8.5	8.3
Current account balance of payments (% of GDP)	-2.7	-3.0	-3.0	-2.7
Inflows of foreign direct investment (millions USD)	150443	205851	230224	166411
Inflation rate: all items (%)	-0.4	1.6	3.2	2.1
Unemployment rate: total labour force (%)	9.3	9.6	9.0	8.1
Life expectancy at birth (years)	78	79	79	79
Infant mortality per 100,000 live births	6.6	6.5	6.2	6

Sources: OECD Statistics, <http://www.oecd.org>  
World Bank <http://data.worldbank.org>

**Questions**

- (a) Compare the government budget balance of USA and France from 2009 to 2012. [2]
- (b) Explain how increasing the tax burden on the companies and executives by the government of France will affect the competitiveness of her economy. [4]
- (c) Comment on the effects on standard of living when France chooses to increase tax rather than cut government spending to reduce its national debt. [4]
- (d) Using the data, explain the negative effects on the US economy if she did not reduce her debt burden. [4]
- (e) Discuss how far supply-side policies can be used to reduce the problem of high unemployment in the USA. [8]
- (f) Reducing national debt might lead to problems such as falling economic growth and rising global warming. Assess the extent to which the above problems will limit the ability of the government of France to reduce her national debt. [8]

[Total: 30]

**Section B**Answer **one** question from this section

- 3 (a) Using examples, distinguish between public and merit goods. [10]
- (b) Discuss the view that the role of the government should be restricted to the provision of public and merit goods. [15]
- 4 It has been claimed by some politicians that globalisation was the underlying cause of today's economic problems and that protectionism was the answer.
- (a) Explain any two economic problems that may be caused by globalisation. [10]
- (b) To what extent is protectionism the best answer to these economic problems? [15]