

VICTORIA JUNIOR COLLEGE
2014 JC2 PRELIMINARY EXAM
H1 ECONOMICS – PAPER NO. 8819

17 September 2014

08:00 – 11.00 am

Wednesday

3 hours

Additional Materials: Answer paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name on all the work that 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.

At the end of the examination, fasten all your work securely together, by question, using the strings provided.

Start each question on a FRESH piece of paper.

Section A

Answer **all** questions.

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

Section B

Answer **1** question.

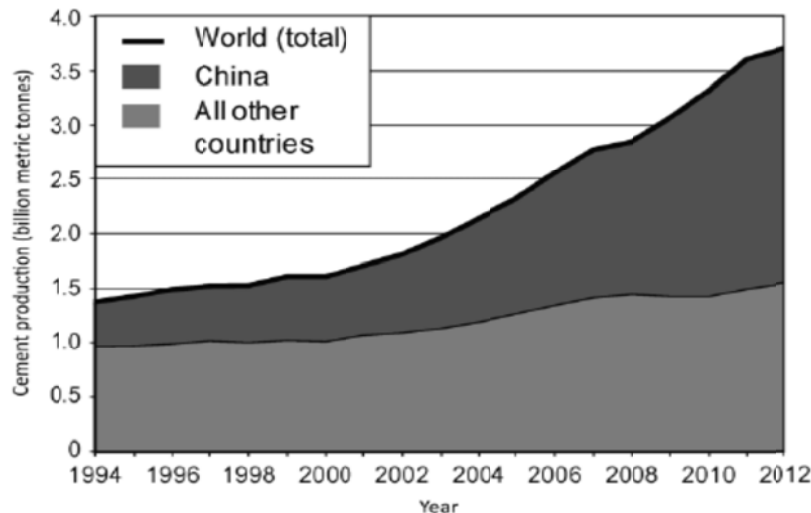
The number of marks is given in [] at the end of each question or part question.

Section A

Answer **all** questions in this section.

Question 1

Figure 1: Cement production, 1994-2012



Source: <http://www.unep.org>, March 2014

Extract 1: Impact of Cement Production on the Environment

Sand and gravels are mined world-wide and account for the largest volume of solid material extracted globally. The trend for sand and gravel extractions can be estimated by using cement production as a gauge. Cement production has multiplied three-fold over the last 20 years as a result of rapid economic growth in Asia, and spurred by China's development, which in 2012 absorbed 58% of the world cement production. Five countries, China (58%), India (6.75%), US (2%), Brazil and Turkey produce 70% of the world's cement. However, cement demand by China has increased exponentially by 437.5% in 20 years, while use in the rest of the world increased by 59.8%.

Sand was until recently extracted in land quarries and riverbeds, however a shift to marine and coastal mining of sand and gravels has occurred due to the decline of inland resources. They have become the main sources for building and land reclamation. These developments have led to major impact on the rivers, coastal and marine ecosystems. Environmentalists argue that large-scale sand-dredging can deplete fish stocks and cause erosion, risking landslides and flooding.

Singapore imports sand mostly from Indonesia, and also from the other neighbouring countries of Malaysia, Thailand and Cambodia. Export of sand to Singapore was reported to be responsible for the disappearance of some 24 Indonesian sand islands. It is reported that this triggered political tensions regarding maritime borders between the two countries. The reported sand exported from Indonesia to Singapore declined sharply since a temporary ban declared in February 2002. Other neighbouring countries are now reporting few exports to Singapore. The average price of sand imported by Singapore was US \$3 per tonne from 1995 to 2001, but the price increased to US \$190 per tonne from 2003 to 2005. Contractors

in Singapore have been turning to Cambodia for sand where prices are low and environmental standards almost non-existent.

Source: Adapted from <http://www.unep.org>, March 2014

Extract 2: Singapore's sand shortage

Singapore is developing rapidly and its population has increased since 1960, from 1.63 million to 4.84 million inhabitants in 2010. Given its small area, Singapore needed more space for its infrastructure development. To respond to this demand, the city has increased its land area by more than 20% in the last 40 years (an addition of 130 square kilometres), mostly by using imported sand and gravels to reclaim land from the sea.

A spokesman for Singapore's national-development ministry adds that construction companies have been importing sand from "various" regional countries and claims that "recent restrictions on sand exports have not affected the supply of construction sand to Singapore." But global demand for dwindling supplies of sand and other materials is mounting. Critics say that Singapore needs to shift faster from building cheap but resource-intensive concrete structures towards more expensive construction techniques that use, say, more steel and glass. Relying as it does on low-wage, low-skilled migrant workers from South Asia, Singapore's construction industry is not yet ready for such a high-tech transformation.

Source: Adapted from The Economist, 8 October 2009

Table 1: Indonesia Economic Indicators

	2009	2010	2011	2012
Real GDP Growth (annual %)	4.6	6.2	6.5	6.3
Unemployment (% of labour force)	7.9	7.1	6.6	6.6
Exports of goods and services (% of GDP)	24	25	26	24

Source: World Bank

Extract 3: Scepticism grows as trade barriers fall

Almost two decades on, as Asia-Pacific Economic Cooperation (APEC*) leaders converge in Indonesia once more for their annual summit this week and the next, trade barriers continue to fall across an increasingly connected region, but scepticism of APEC and its goals remains strong in some quarters.

Many Indonesians feel trade liberalisation has made life harder for them. Entrepreneurs struggle to compete against cheaper goods produced elsewhere, farmers say they find produce prices have fallen and low-skilled workers say their salaries have stagnated. Activists and civil society groups see falling barriers as a means of further exploiting Indonesia's natural resources.

But officials say this is all the more reason to agree in the coming days on ways to ensure there are benefits to disadvantaged groups and less developed countries. The effects, said Dr Bayu, now a champion of the 21-member regional grouping, will be incremental. "The decisions that come out will not be immediately felt, but they will come in the form of investments and structural reforms," he said.

Indonesia has been pushing the concept of "sustainable growth with equity" over the past year in its role as APEC chairman. Putting this into action, on Wednesday, senior officials from APEC's 21 economies – Hong Kong and Taiwan are represented alongside China – agreed to help small and medium-sized enterprises to compete abroad and seek financing.

They also agreed to expand transport links and education exchange across the region, and step up investment in infrastructure. "The benefits for Indonesia are clear, given that infrastructure is one of the most pressing needs in our country," said Ambassador Yuri O. Thamrin, the Foreign Ministry's director-general for the Asia-Pacific and Africa.

Source: The Straits Times, 4 October 2013

* APEC is a cooperative process that is predominantly concerned with trade and economic issues, with members engaging with one another as economic entities.

Questions

- (a)
 - i) Describe the trend of the world's cement production from the year 1994 to 2012. [2]
 - ii) Using demand and supply analysis, account for the trend in the world's cement production. [5]
- (b)
 - i) What is meant by price elasticity of demand? [2]
 - ii) Explain how the rise in price of sand would affect Singapore's import expenditure on sand. [3]
- (c) Account how the production of sand has resulted in market failure. [6]
- (d) Using Table 1, comment on whether structural unemployment is the main cause of unemployment in Indonesia. [4]
- (e) Discuss the statement that "trade liberalisation has made life harder" for Indonesians. [8]

[Total: 30]

Question 2

Table 2: Selected Economic Indicators

Germany	2010	2011	2012
Real GDP growth (annual %)	4.0	3.0	0.7
Inflation (annual % change)	1.1	2.1	2.0
Unemployment rate (%)	7.1	5.9	5.4
Current account balance (in billions, US\$)	207	273	240
Spain	2010	2011	2012
Real GDP growth (annual %)	-0.2	0.1	-1.6
Inflation (annual % change)	1.8	3.2	2.4
Unemployment rate (%)	20.2	21.8	25.2
Current account balance (in billions, US\$)	-62.5	- 55.1	-15.6

Source: data.worldbank.org

Table 3: Euro/US\$

	2009	2010	2011	2012
Euro/US\$	0.72	0.75	0.72	0.78

Source: European Central Bank

Extract 4: European recession deepens, unemployment climbs

Four years after the most serious economic crisis in Europe since the Second World War, the continent is once again sliding deeply into recession. The new data on economic decline follow the release last month of figures revealing that unemployment in the Eurozone had reached a record level of 11.2 percent.

Based on its large export industry, Germany has been able to maintain economic growth in recent months. However, as austerity measures take effect across Europe and major markets in Asia recede, it is only a question of time before the current crisis hits Germany full force. These European economies are forced to cut spending even further especially to public sector wages and pensions, and raise taxes to retain access to the capital market, even though they had no growth to speak of. In Spain, its government has announced its aim to slash the budget deficit to the European Union's 3 percent (of GDP) target by 2016. One of the measures is the €6.5 billion cut in public services including the elimination of 57 public organisations and 90 other state and regional bodies.

Adapted from Bloomberg Aug 2012

Extract 5: Eurozone Crisis can be a main risk for Singapore's economy

The Eurozone crisis is the main risk facing Singapore's economy and financial system, warning the nation to brace for "a more adverse turn of events". Ravi Menon, managing director of the Monetary Authority of Singapore, said any sharp deterioration in the Eurozone especially with the stepping up of austerity measures could hurt economic growth in Singapore as the Eurozone is the city-state's biggest export market. Singapore, an international financial centre, should also brace for "excessive inflows" of capital, which could impact on the Singapore dollar, he added.

However, the less worrying news is that worse-hit Eurozone countries like Greece and Spain account for less than one percent of Singapore's total exports and Singapore's exports are expected to be less directly affected by lower consumer demand compared to

other countries given that domestic firms ship mainly industrial goods such as high end electronics components. And fortunately for Singapore, inter-Asia trading is still thriving and thus demand for Singapore products by them have although reduced but still manageable. Nevertheless, it is too early to tell if Singapore will be largely insulated from the events in Europe.

Adapted from Business Asiaone, August 2012

Extract 6: Spanish Crisis

During the 1990s and early 2000s, Spain enjoyed rapid economic growth. However, in 2008, Spain was badly affected by the global credit crisis, where households were burdened by huge mortgage debt, leading to a deep recession that they are still struggling to recover from. Spain has seen a relative decline in competitiveness compared to the Eurozone average. This has made Spanish exports more expensive. Being part of the Eurozone, they can't devalue, meaning there is no quick fix to their uncompetitive exports. Unemployment remains stubbornly high in Spain, especially youth unemployment. Nearly a third of Spain's workforce is on temporary contracts, a large percentage that makes the jobless rate tremendously volatile and has reduced the incentive to train workers. Commentators have also pointed to an inflexible labour market where wage rigidity in Spain is high.

Adapted by Telegraph, UK April 2012

Extract 7: Germany's recovery

German Chancellor Angela Merkel must be in a mood to celebrate. Not only has the German economy bounced back from the 2009 financial crisis -- with revitalized export industries and record-low unemployment -- it has done so while most other European economies are still reeling. Job market has been helped as firms developed a series of flexible instruments that allowed them to tweak working hours and pay to their economic needs by temporarily cutting wages and hours, for instance -- rather than shedding workers when production declined. These measures reduced costs, gave firms room to manoeuvre during the recent crisis, and in general, reinvigorated German industries, which are once again admired around the globe. Germany's education and training system is also more job-friendly than its Euro counterparts.

Germany is well known for its export market, and is still outperforming compared to other parts of Eurozone. The main driver of German growth in the first quarter was exports, according to the country's statistical office. That reflected German companies' success in selling top-of-the-range manufactured goods and services outside the Eurozone -- especially to China and Russia. German products are in demand not because they are the cheapest but because they are the best. There is clearly much to learn from the German model, but blind replication may not be the answer.

Adapted from BBC news, July 2013

Questions:

- (a) i) Identify two items in the current account of the balance of payments of a country. [2]
- ii) Describe the trend in the current account balance of Spain between 2010 and 2012. [2]
- iii) Explain one possible reason for the changes in Spain's current account balance from 2010 to 2012. [2]
- (b) Explain how table 2 reflects changes in Germany's average standard of living in 2012. [2]
- (c) Using the AD-AS model, assess how austerity measures which includes the reduction of government spending and raising taxes may have deepened the recession in the EU. [6]
- (d) Assess the impact of Eurozone crisis on Singapore's current account balance. [6]
- (e) Discuss whether Spain should adopt similar measures as Germany to address her macroeconomic problems. [10]

[Total: 30]

Section B

Answer **one** question from this section

1. One of the measures Singapore adopts to control car population is the Certificate of Entitlement (COE) quota system. The government determines the number of COEs released every month and COEs are bid through the COE Open Bidding System. The limited number of COEs would then go to the highest bidders.
 - a) Explain how the price mechanism addresses the central problem of economics. [10]
 - b) Discuss the view that the COE quota system creates more problems than it solves. [15]
2.
 - a) Explain how globalisation may be a cause of inflation in Singapore. [10]
 - b) Discuss which policies the Singapore government can adopt to reduce inflation. [15]

---- End of paper ----