



HWA CHONG INSTITUTION
C2 Preliminary Examination
Higher 1

**CANDIDATE
NAME**

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CT GROUP

13

**CENTRE
NUMBER**

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**INDEX
NUMBER**

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ECONOMICS
Paper 1

8819/01
16 September 2014
3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your **Name, CT group, Centre number and Index number** clearly in the spaces at the top of this page and on every page 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 and tape.

Section A

Answer **all** questions.

Section B

Answer **one** question.

Begin each question on a fresh sheet of writing paper.

At the end of the examination, fasten the answer scripts to Section A Question 1, Section A Question 2 and Section B **separately** with the 3 cover pages provided.

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

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

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

Section A

Answer **all** questions.

Question 1

The New Normal for China: Internal and External Shifts

Extract 1: China's economic growth below the magical 8%

For years, there's been one constant for people talking about the Chinese economy: GDP growth would exceed 8 percent. The country needed to create enough jobs for the millions of young people entering the workforce every year, and the Chinese leadership decided that anything below 8 percent would put job creation in jeopardy. Economists and investors agree that China is now entering a new era of slower growth, one where the old 8 percent figure is no longer so important. Anything much higher than 8 percent, would be "unsustainable."

China is going through a major demographic shift, thanks to the shrinking family size and the one-child policy. As the population starts to age, job creation for millions of young people isn't so vital anymore. While China needed 10 million new jobs a year in the early 2000s, today it needs just half that number. Thus the labour force as a whole is barely growing in recent years and Chinese policy makers don't need to create as many jobs as they did before.

Indeed, in some parts of China there is now a labour shortage as young and low-skilled Chinese workers who once flocked to factories along China's coast find they don't need to travel far from home to find work.

Slower growth and higher wages are two elements of the Chinese economy's new normal. The Chinese will need to learn to live with higher inflation, expected to average about 5 percent over the next decade, compared with 2 percent over the past 10 years. Since China does not need to worry that much about job creation, there is less urgency for the government to subsidise the cost of electricity, water, and oil for producers. China is changing from this miracle growth to a more normal growth stage.

Source: *Bloomberg*, 5 March 2012

Figure 1: China Growth in Real Gross Domestic Product (year-on-year), Q1 2010 to Q4 2012 (%)



Source: National Bureau of Statistics of China

Table 1: Selected Macroeconomic Indicators for China, 2008 to 2014

	2008	2009	2010	2011	2012	2013*	2014*
Unemployment rate (%)	4.4	4.4	4.2	4.3	4.5	4.1	4.1
Rate of Inflation (%)	5.9	-0.7	3.3	5.4	2.7	4.4	5.1

* forecast

Sources: World Bank & Statista

Extract 2: China new jobless amidst full employment

A quarter of recent college graduates in China are unemployed, according to official statistics published by the state-run Xinhua News Agency. And many of those who are employed end up working in jobs that are nothing near what they have studied in their undergraduate days.

In fact, some argue that the prospects for educated workers are far worse than for low-skilled labourers. Factory workers are in high demand in the coastal regions of central and southern China, fuelled by booming industrial, blue-collar sectors like manufacturing and construction. Wages for migrant workers rose by 14.9 percent just last year alone. While higher education has long been considered a ticket to a brighter future in China, the number of well-paying jobs has not grown nearly as fast as enrolment.

Over the last decade, China's college-educated population has multiplied eightfold, from 830,000 graduating in 1998 to 6.8 million in 2012, largely due to the Chinese government decision to expand the country's higher-education system in 1999.

Furthermore, being a large country like China, it is common that some graduates are unwilling to accept or do not possess the necessary information to land their first job in other parts of the country.

Source: *Globalpost.com*, 6 August 2012

Extract 3: Don't blame China for US trade deficit

China is one of the top three trading partners of the United States (US) in recent years and its bilateral trade surplus with the US hit a record US\$202 billion in 2011. Despite the Yuan appreciating against the US dollar by almost 30 percent since 2006, protectionist sentiments in the US are running high. There is a familiar chorus calling for a major revaluation of the Yuan, to counteract China's alleged currency manipulation to keep the Yuan undervalued so as to make its exports cheap.

But to focus on China's currency is to miss the real story behind the country's trade surplus. Much of the confusion comes from focusing on the still huge US-China trade imbalances, rather than looking at the trade picture from a structural perspective. The truth is that China's surpluses are not driving US deficits.

Two phenomena largely explain the emergence of China's trade surpluses: surging American consumption and a maturing East Asian production network centred on China.

The origins and consequences of the increase in US consumption followed by growing fiscal deficits are well known. This has little to do with China but reflects US domestic realities. The US economy has now been growing for more than three years and unemployment rates had been falling. This is in part due to Obama's fiscal 'pump-priming' measures as well as the Federal Reserve's two rounds of monetary Quantitative Easing (QE).

The role of the East Asian production network began decades ago as Japan moved portions of its production base to Southeast Asia. China became central to that network with its 2001 accession to the World Trade Organisation, which offered easier access to Western markets, especially the US. Despite substantial real wage increases of about 12 percent annually in China, labour productivity rose even more rapidly, making it profitable for multinationals to use the country as the assembly plant for the world. Processing exports (those with high import content, facilitated by low import tariffs) are responsible for the entirety of its surplus. As much as eighty percent of the components are sourced elsewhere. In that respect, the US trade balance with China is really a regional, rather than a bilateral, issue.

However, the trade imbalances are unlikely to continue if the US government decides to scale back on fiscal expansion, halt any further QE policies as well as initiate the much anticipated increase in interest rates. Furthermore, analysts predict an erosion of China's current advantage if wages continue to grow excessively.

Sources: *BloombergView*, 19 April 2012 and *Wall Street Journal*, 10 July 2012
Figure 2: China Monthly Trade Balance, (in US\$billions), 2005-2012



Source: General Administration of Customs, China

Questions

- (a) Using Figure 1, describe the trends in real Gross Domestic Product for China from 2010 to 2012. [2]
- (b) Use AD/AS analysis to explain the views that
- (i) 'anything below 8 percent would put job creation in jeopardy' (Extract 1) in China. [2]
 - (ii) there is 'less urgency for the Chinese government to subsidise the cost of electricity, water and oil for producers' (Extract 1). [3]
- (c) (i) Explain the meaning of labour force. [1]
- (ii) Account for the 'barely growing' (Extract 1) labour force in China. [2]
- (d) (i) Using AD/AS analysis, explain the possible trade-off between inflation and unemployment. [2]
- (ii) Comment on whether Table 1 shows such a trade-off in China. [2]
- (e) Discuss whether China should be concerned about unemployment as she enters the 'new normal' growth stage. [6]
- (f) (i) Using Figure 2, describe the trends in China monthly trade balance from 2009 to early 2012. [2]
- (ii) Discuss whether the alleged undervaluation of the Yuan is the major reason behind China's growing trade imbalance with the United States. [8]

[Total: 30]

Question 2

Paper Industry and Paper Recycling

Table 2: Production of Paper and Paperboard (million tonnes)

Year	2008	2009	2010	2011	2012
World	389.6	370.4	394.2	400.4	400.5
China	83.7	90.1	96.5	103.1	106.3

Source: www.fao.org

Table 3: Consumption of Paper and Paperboard (million tonnes)

Year	2008	2009	2010	2011	2012
World	389.8	368.1	392.9	400.0	398.9
China	84.3	90.2	96.9	102.7	105.5

Source: www.fao.org

Extract 4: Paper industry in China

Asia, with its robust economic growth over the past few decades, has become one of the most important markets for everything from printing and writing paper to corrugated boxes (made from paperboard) for packaging, driven by both greater domestic consumption and exports across the world.

China, as one of the world's largest exporters, has seen a surge in demand for packaging paper. She is now the largest purchaser of pulp fibre globally. Rises in per capita demand in China have basically turned the global paper market on its head. Much of this is to do with rising incomes and the burgeoning middle class.

Chinese producers have also been aggressively expanding production and some have even been trying to export their products but have faced stiff resistance in the form of rules in developed countries to control the flow of paper from cheaper producers.

Source: *Asia News Monitor*, 23 April 2012

Extract 5: The pulp and paper industry in Thailand

Since the first paper mill opened in Thailand in 1923, the pulp and paper industry has steadily expanded its capacities to reach present day levels, which include dozens of pulp and paper mills located throughout the country. Some of the largest paper producers now operating in Thailand include Siam Cement Group (SCG) subsidiary – SCG Paper, the Panjapol Group, and Double A.

Long criticised by environmentalists for production activity from deforestation to the use of caustic chemicals in production, the pulp and paper businesses have been making significant efforts in recent years to clean up their image. Looking to avoid the costly negative publicity which can lead to boycotts and contract cancellations, most major pulp and paper producers are implementing more environmentally friendly business practices.

Double A, for instance, recently won the Green Leadership Award for its sustainable paper from the KHAN-NA program. Paper from KHAN-NA is the production of sustainable fiber through the cultivation of Double A Paper-Tree – a hybrid species of hardwood which is well adopted to Thailand's tropical climate – in straight rows along KHAN-NA, the unused space between rice paddies. While other paper manufacturers deliberately convert farm lands and natural forest to tree plantations, Double A brings out the real value of this KHAN-NA to cultivate its raw materials and at the same time introduces a huge number of carbon dioxide absorbers to the world. This program has helped to improve the living conditions of more than 1.5 million farmers across Thailand by supplementing their income through selling the matured trees back to Double A and providing employment during off peak season, like cutting matured trees, transporting logs to Double A mill and working in nurseries where tree saplings are initially grown.

SCG Paper introduced similar eco-friendly products of its own in 2011, such as “Green” corrugated cartons, which claim to require less paper and use less chemicals in pulp bleaching, and a new form of paper made entirely from recycled materials, as certified from the Forest Stewardship Council. It also emphasizes eco-friendly production processes that reduce energy consumption and manage site waste through reuse or recycling in compliance with the 3Rs principle (reduce, reuse/ recycle, replenish).

Sources: <http://www.oxfordbusinessgroup.com/news/paper-trail-pulp-and-paper-sector-seeing-new-interest-and-techniques>, accessed 18 July 2014 and *Enterprise Asia*, 30 June 2012



Source: *World Bank*

Extract 6: Recycling in Thailand

Like other developing countries in Asia, Thailand is facing severe problems in waste management. In 2009, the volume of waste being generated reached about 15.1 million tonnes. Of this, only approximately 22% were separated and sent to recycling centres, a rather small fraction compared to the total amount of garbage produced. In contrast, the recycling rate in Singapore is around 60%.

Economic and social benefits should be taken into consideration when developing sustainable recycling programs. As far as the environment is concerned, producing recycled paper involves between 28 – 70% less energy consumption than virgin paper and uses less water. Paper recycling also leads to savings in the use of raw materials for pulp and paper production and less wood is used. This results in less exploitation of old growth forests, vitally important for their biodiversity.

Recycling is also an economically attractive option. For example, in the Nonthaburi Municipality, located 20 km northwest of Bangkok and covering an area of 39 km² with a population of 270,000, approximately 373 million baht (US\$12.5 million) can be expected as "annual net earnings" from the existing recycling program. This money is being distributed among the stakeholders of the process chain, such as the small companies collecting the recyclables, sorting facilities and recycling companies. Such financials prove that recycling activities could be economically attractive in Thailand.

Furthermore, recycling can contribute to raising living standards of the community. In Nonthaburi, the sale of source separated recyclables (on the basis of 90 tonnes per day) is estimated to offer an indirect annual income generation potential of 573 million baht (US\$19.2 million) to the community. It is also estimated that 675 skilled employment opportunities will be created.

The success of recycling depends on the active contribution from the community. Effective source separation is a key to success. Thus, education and awareness raising campaigns are pre-requisites to ensure more widespread and successful recycling activities in the country.

Sources: <http://www.waste-management-world.com>, accessed 20 July 2014 and
<http://www.zerowastesg.com/>, accessed 26 June 2014

Questions

- (a) (i) Compare China's and the world's consumption of paper and paperboard between 2008 and 2012 in Table 3. [2]
- (ii) Account for China's trend in part (a)(i). [2]
- (b) With reference to Tables 2 and 3,
- (i) explain whether China is a net importer or exporter of paper and paperboard in 2012. [1]
- (ii) use a supply and demand diagram to explain how world price of paper and paperboard might have changed between 2008 and 2009. [4]
- (c) Extract 4 says that Chinese producers are facing stiff resistance in the form of rules in developed countries to control the flow of paper from cheaper producers.
- (i) Comment on whether the above protectionist measure by the developed countries is justified. [3]
- (ii) Using AD/AS analysis, consider the impact of the above action on the developed countries. [6]
- (d) To what extent would the change in price of rice in Figure 3 affect the production of paper in Thailand? [4]
- (e) In the light of the data provided, if you were an economic advisor to the Thailand government, would you recommend that it should intervene in the market for recycled paper. [8]

[Total: 30]

Section B

Answer **one** question from this section.

- 3 (a)** Explain why prices of some goods and services fluctuate more than others. [10]
- (b)** Discuss whether government intervention in the working of the free market through indirect taxation does more harm than good. [15]
- 4 (a)** Explain the main causes of inflation in Singapore in recent years. [10]
- (b)** Discuss the view that exchange rate policy is the best way for Singapore to achieve non-inflationary economic growth. [15]

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Question 1 Figure 1	© National Bureau of Statistics of China
Question 1 Table 1	© World Bank & Statista
Question 1 Extract 2	© Globalpost.com, 6 August 2012, retrieved on 12 August 2014
Question 1 Extract 3	© BloombergView, 19 April 2012 and Wall Street Journal, 10 July 2012
Question 1 Figure 2	© General Administration of Customs, China
Question 2 Tables 2 & 3	© www.fao.org, retrieved 15 August 2014
Question 2 Extract 4	© Asia News Monitor, 23 April 2012
Question 2 Extract 5	© http://www.oxfordbusinessgroup.com/news/paper-trail-pulp-and-paper-sector-seeing-new-interest-and-techniques , accessed 18 July 2014 and Enterprise Asia, 30 June 2012
Question 2 Figure 3	© World Bank
Question 2 Extract 6	© http://www.waste-management-world.com , accessed 20 July 2014 and http://www.zerowastesg.com/ , accessed 26 June 2014

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