

NATIONAL JUNIOR COLLEGE  
SH2 Preliminary Examinations for General Certificate of Education Advanced Level  
Higher 2

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## **ECONOMICS**

**9732/01**

### **Paper 1: Case Study Questions**

**2 September 2014**

**2 hour 15 minutes**

Additional Materials: Answer Paper

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### **READ THESE INSTRUCTIONS FIRST**

Write your student registration 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 paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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

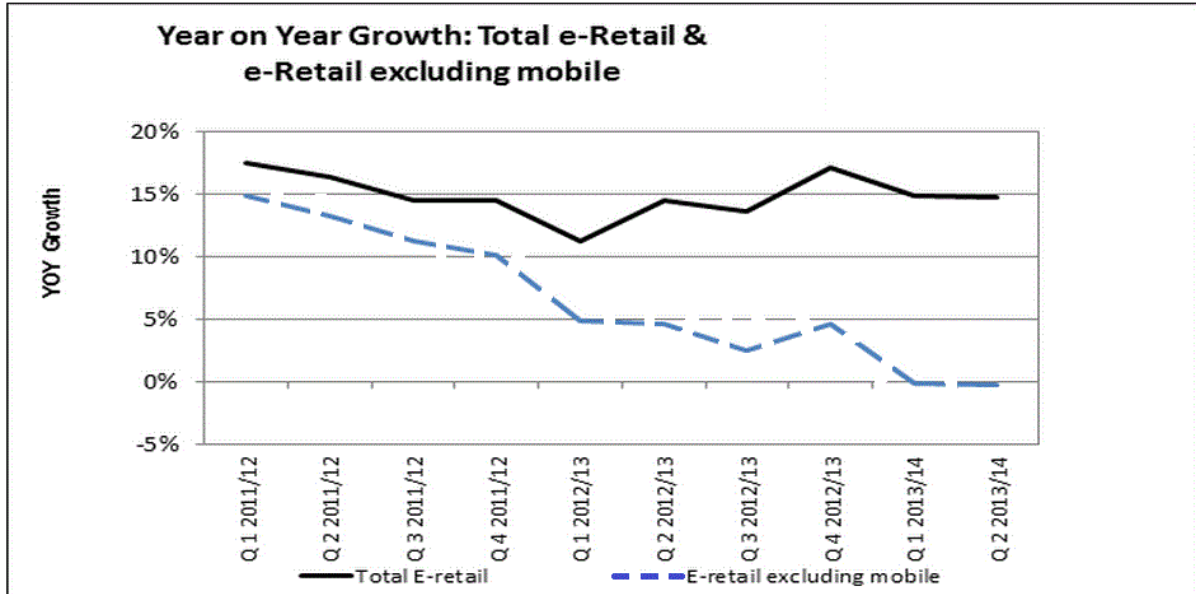
This document consists of **12** printed pages; including 4 cover pages.

Answer **all** questions.

### Question 1

#### The World of E-retail and Fast Fashion

Figure 1: Online Retail Sales



Source: IMRG and Capgemini

#### Extract 1: Fashioning Success

The online fashion retailing industry is burgeoning. Numerous sites have cropped up in the past few years to claim their share of a very satisfying retail pie. This competition has also resulted in small and big ventures innovating to try and stay ahead of a ferocious pack. Consumers on the other hand, are most likely to gain from the increasingly competitive prices and qualitative services.

Selling is increasingly about service. The average consumer who shops online chooses to because of increasing time-poverty, changing lifestyle, convenience and flexibility of shopping and option of free home delivery. There is also a significant change in consumer behaviour, as online shoppers migrate from desktops and laptop computers to mobile devices such as smartphones and tablet devices. Possible contributing factors to the emerging trend include accessibility, convenience and confidence.

Source: Adapted from *Business Today*, May, 2013

#### Extract 2: Amazon, Flipkart & Snapdeal Adopting Models to Ensure Discounted Prices

With price being the most potent weapon in their arsenal, online retailers looking to snare more customers are cajoling sellers to offer steep discounts and reimbursing those who do so. India's largest online marketplaces like Amazon, Flipkart and Snapdeal are adopting several models to ensure that merchants on their portal offer discounted prices. Their unbridled aggression is drawing the ire of smaller peers as well as traditional retailers who are struggling to keep pace.

"P&G gives a margin of 13% for a pack of Pampers diapers. But Amazon was selling it at a discount of 28%," said the founder of an online site that sells baby care products among

other categories. "How is that fair? We can never match that kind of discounts," said the person on condition of anonymity. Amazon declined to comment.

Officially most portals maintain that they only offer a technology platform where merchants sell to customers, that they have little role to play in pricing.

However, several merchants that Economics Times spoke to said they are constantly badgered to drop prices. Sayak Sahu, founder of IE Ventures that runs design-led gift products and gadgets firm Smiledrive, sells products on Amazon, Snapdeal, Flipkart and eBay, and is urged by each to compare prices for similar products and offer the lowest price. Such strategies, termed as predatory pricing are creating ripples of discontent across the country's fast growing ecommerce industry. Saurabh Malik, business head at Indiatimes Shopping, said that while the portal co-funds some of the discounts, most are funded by sellers. "We are against the philosophy of selling products at loss," said Malik.

Amazon too reimburses merchants. Flipkart, on the other hand, makes adjustments in commissions. "In some promotional campaigns, we either reduce or waive our commissions to allow sellers to offer better prices to customers," said Ankit Nagori, VP (marketplace) at Flipkart. "However, we do not reimburse sellers as this is not in the spirit of a true marketplace." Experts said these kinds of discounts are legal. "It is a marketing expense aimed at gaining customers," said Arvind Singhal, chairman of retail advisory Technopak. "However, if it falls under predatory pricing then there could be a problem."

Traditional traders and even smaller online sites argue that rampant discounting followed by online marketplaces is indeed leading to predatory pricing. "Predatory pricing does affect traditional traders," said Sumant Chopra, a manager at electronics merchant Delhi mall.

Source: Adapted from *The Economic Times*, 20 May, 2014

### **Extract 3: Fast Fashion Gets Sustainable**

The throwaway fashion industry, where clothing is designed to be worn very few times before they are thrown out, is often associated with fast fashion. It is fashion from the style of the moment, usually very cheap and of poor quality, and is often criticized for causing environmental damage, but retailer H&M is looking at ways to improve its green footprint. Fashion observers frequently criticize fast fashion for not being eco-friendly. However, one of the world's best-known high street brands, H&M, is committed to going green.

The company introduced its Conscious and its Conscious Exclusive collections. As the names suggest, these two collections are trying to raise the public's consciousness on environmental protection in the fashion industry.

The term "fast fashion" was first used by retailers to describe designs that move quickly from catwalk to stores. Produced in large quantity, they are comparatively cheaper, yet still stylish. For consumers, it is a good thing: They can buy many items at good prices and can discard those garments and buy new products when the trends move on. The cheap and disposable nature of the clothes has also led to the term "McDonald's fashion".

Fast fashion has come under criticism for causing pollution. Rapid consumption, poor craftsmanship resulting in easily worn out clothing, and the focus on short trends are the main culprits. Conscious and Conscious Exclusive collections, however, are breaking the stereotype of fast fashion. Garments from these collections are not only stylish, but also eco-friendly. Materials used are organic cotton, recycled cotton, recycled polyester, hemp and Tencel, a biodegradable fabric made of wood-pulp cellulose. Another interesting aspect of this collection is some of the garments are made from recycled clothes. H&M fan Wang Chuyang found that she could enjoy a discount at one of its stores in Shanghai, if she

brought in some unwanted garments. The old garments Wang took to the H&M boutique might reappear in H&M's Conscious collection.

"One important thing for us, being one of the biggest retailers in the world, is that we carry responsibility," says Magnus Olsson, country manager of H&M Greater China and Southeast Asia. The Conscious and Conscious Exclusive collections were first launched early in 2010 and received a good response from consumers, according to Olsson. He stresses that H&M has made many efforts to create eco-friendly fashion. Among all the fast fashion companies, H&M is the biggest buyer of organic cotton.

Source: Adapted from *China Daily USA*, 5 May, 2014

### Questions

- (a) (i) Compare the year-on-year growth of online sales of total e-retail with that of e-retail excluding mobile from Q1 2012 to Q2 2014. [2]
- (ii) Account for the difference that you have observed. [1]
- (b) With the aid of a diagram and reference to the data in Extract 1, explain what has happened to prices of online retail products. [6]
- (c) Explain the type of market structure in which the e-retail industry operates. [3]
- (d) Discuss whether rampant discounts given by online retailers are beneficial to society. [8]
- (e) As an economic advisor to the government, discuss the case for government intervention in the throwaway fashion industry by encouraging the creation of eco-friendly fashion. [10]

[Total: 30]

## Question 2

### Challenges in economic policymaking

#### Extract 4: Policymakers fiddle while the economy burns

The Roman emperor Augustus is supposed to have come up with the phrase “festina lente”, which means make haste slowly. It is apt for what has been happening to the global economy these past four years: policymakers have been hyperactive but progress has been painfully slow.

The weakening in activity this year has set off warning bells. The International Monetary Fund (IMF) says the risk of a serious global slowdown is "alarmingly high", due in part to governments imposing austerity programmes. Changes to tax and spending affect the economy through a multiplier effect, which the IMF believes to be larger than expected. The implication is that raising taxes and cutting spending cause a much bigger loss of output, helping to explain why growth has been so weak.

This deserves to be taken seriously. Why? Because a larger multiplier effect could well jeopardise any economic recovery when governments implement austerity programmes, and if interest rates are already extremely low there may be a limit to what a further easing of monetary policy can do to stimulate activity.

What is to be done? The obvious answer would be to relax fiscal policy. Today's policymakers should, in other words, take a leaf out of Franklin Roosevelt's New Deal for America in the 1930s and embark on a major programme of spending on public works. This has its attractions for Britain, where the infrastructure is so poor and the cost of borrowing so cheap.

But the economic historian Nick Crafts has warned against drawing parallels with the 1930s, mainly because US public finances were much healthier at that time than the UK's are now. That's not to say that a different approach to fiscal policy would be impossible - but there is a balance of risks. Tightening or tightening too fast could send the economy on a downward spiral of spending cuts and weak growth. On the other hand, fiscal expansion would result in a burgeoning public debt that would drive interest rates up. Other risks would be a loss of confidence and the possibility that individuals and companies would save more in anticipation of higher taxes or higher inflation in future resulting from the expansionary fiscal policy today.

As a result, we have to assume that monetary policy will continue to take most of the strain in the UK, as it will in the US and the eurozone. At the very least, the UK Central Bank's interest rate will stay at 0.5% for the foreseeable future.

Source: Adapted from Larry Elliot, *The Guardian*, 2 Oct 2012

#### Extract 5: Fiscal cliff threatens US recovery

The US economy will be facing a sharp plunge in spending or fiscal cliff, when tax cuts introduced during the Bush Administration expire at the end of the year, causing taxes to increase. At the same time, government spending cuts mandated under the Budget Control Act of 2011 will kick in at the start of 2013. With the US government debt reaching the limit that is permitted by law, the spending cuts are necessary in order to reduce the government's budget deficit, but can have an adverse impact on the economy.

The Federal Reserve chairman, Ben Bernanke, has warned that the fiscal cliff would threaten the recovery of the US economy. According to Bernanke, the expiry of Bush-era tax cuts at the end of the year and imposition of deep spending cuts would send the US “toppling back into recession”: He further warned that a row in Washington over increasing the US debt ceiling would also have dire consequences. Protracted disagreement over raising the debt limit in 2011 triggered panic in financial markets around the world, as concerns rose over the possibility of the US government defaulting on its debt payments.

Source: Adapted from Dominic Rushe, *The Guardian*, 21 Nov 2012

#### **Extract 6: Japan slump adds to woes over global economy**

A shock slump for Japan rang new alarm bells over global growth prospects yesterday as the world's third-biggest economy was braced to plunge back into recession. The dire figures - which showed Japan's economy shrinking at an annual pace of 3.5 percent between July and September - come days before the eurozone's slide back into a double-dip recession is set to be confirmed.

The nation has been battling deflation and weak growth for more than 20 years since the burst of an asset bubble in the early 1990s, with last year's tsunami and earthquake adding to its headaches. Japan has also been hit by a rising yen as woes elsewhere encourage investors to park their cash in the yen, deterring investment and hitting its competitiveness. Uncertainty in Europe is also affecting Japan. Exports to the EU plunged 23 per cent in the third quarter, the biggest decline since 2009.

Source: Adapted from Russell Lynch, *The Independent*, 13 Nov 2012

#### **Extract 7: Spain is a black hole that could pull in all around it**

Where is the world economy heading? The IMF, at its spring conference in Washington, says the prospect is for stronger growth as long as the Europeans, Americans and Chinese do not mess up their domestic recoveries.

However, the interconnected nature of modern economies makes them especially vulnerable to upheavals in other nations, making it even more challenging for governments to manage their economy. Like a black hole, Spain, in particular has the capacity to suck in and destroy all around it.

A member of the eurozone which adopts the euro as a common currency, Spain declared this week that bad bank loans, much of it on empty or abandoned property, had risen to more than 8%. There is some concern that poorly performing bank loans will need to be indemnified by the government or be allowed to fail. Bailing out the affected banks would require additional funds from the EU and aggravate the government's debt problem, raising concerns over the government's ability to service its debt. Allowing the banks to fail could also trigger a financial and confidence crisis that could affect the whole region. Either way, it would cause havoc for the eurozone - and it is the fear of this that keeps investors away.

Source: Adapted from Phillip Inman, *The Guardian*, 20 Apr 2012

**Table 1: Japan: selected economic indicators**

	2009	2010	2011	2012
GDP Growth (annual %)	-5.5	4.7	-0.5	1.4
Exports of goods and services (% of GDP)	13	15	15	15
Imports of goods and services (% of GDP)	12	14	16	17
Current account balance (US\$ millions)	147,017	203,916	119,064	60,859
Government budget balance (% of GDP)	-7.6	-6.7	-8.2	-8.0
Central government debt (% of GDP)	166.8	174.8	189.5	196.5

**Table 2: Spain: selected economic indicators**

	2009	2010	2011	2012
GDP Growth (annual %)	-3.8	-0.2	0.1	-1.6
Exports of goods and services (% of GDP)	24	27	31	33
Imports of goods and services (% of GDP)	26	30	32	32
Current account balance (US\$ millions)	-69,775	-62,498	-55,066	-15,142
Government budget balance (% of GDP)	-8.5	-5.2	-3.6	-9.0
Central government debt (% of GDP)	47.0	48.7	56.1	67.6

**Table 3: US: selected economic indicators**

	2009	2010	2011	2012
GDP Growth (annual %)	-2.8	2.5	1.8	2.8
Exports of goods and services (% of GDP)	11	12	14	14
Imports of goods and services (% of GDP)	14	16	17	17
Current account balance (US\$ millions)	-381,638	-449,477	-457,729	-440,423
Government budget balance (% of GDP)	-10.3	-10.1	-9.1	-7.5
Central government debt (% of GDP)	76.3	85.6	90.1	93.8

Source of Tables 1 to 3: World Bank

## Questions

- (a) (i) Define the balance of trade of a country. [1]
- (ii) Compare the change in Japan's balance of trade with that of Spain between 2009 and 2012. [2]
- (iii) With reference to the information in Extract 6, explain one factor that could cause Japan's exports to fall. [2]
- (b) With reference to the data, explain how GDP growth might affect the government's budget balance. [3]
- (c) Explain one reason why the size of a country's multiplier could become larger. [2]
- (d) Using data from Table 2, account for the trend in Spain's central government debt. [2]
- (e) It is mentioned in Extract 7 that Spain has the capacity to suck in and destroy all around it. Discuss how the economic conditions in Spain could impact other countries in the eurozone. [8]
- (f) With reference to the countries mentioned in the data, discuss whether domestic factors or external factors have the greater impact on a government's choice of macroeconomic policies. [10]

[Total: 30]