



**CATHOLIC JUNIOR COLLEGE**  
**JC2 PRELIMINARY EXAMINATIONS**  
In preparation for  
**General Certificate of Education Advanced Level**  
**Higher 2**

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**ECONOMICS**

**9732/01**

Paper 1

**25 Aug 2014**

**1300 - 1515**

Additional Materials : Writing Paper

**2 hours 15 min**

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**READ THESE INSTRUCTIONS FIRST**

Write your name, class and question number 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 highlighters, glue or correction fluid.

**Begin each question on a new sheet of paper.**

**Section A**

Answer **ALL** questions.

**Section B**

Answer **THREE** questions in total.

At the end of the examination, **hand in ALL questions separately.**

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

## Section A

Answer **ALL** questions in this section

### Extract 1: Challenges in Singapore's Healthcare Sector

The first challenge is the combined impact of a growing and ageing population on our capacity needs. Our population grew 25% over ten years and will continue to grow over the next decade. Healthcare services will need to grow in tandem. Our population is also ageing rapidly. By 2030, 1 in 5 Singaporean residents will be aged 65 and above. This is a threefold increase to 960,000 elderly, from about 350,000 today. The ageing population will be a strong driver for healthcare demand, as the elderly require a higher intensity of medical care. Studies have shown that they are about 4 times more likely to be hospitalised than younger Singaporeans. They are also likely to stay longer once hospitalised. This will have tremendous impact on overall healthcare demand in future. Already, we are seeing signs of capacity constraints across the system – from high bed occupancy rates to long waiting times for appointments.

Second, the ageing population also requires changes to how we organise and deliver healthcare. In the past, care was focused on the hospitals. This was not wrong, as our population was younger then, and our diseases were more episodic in nature. With increasing life expectancy and more sedentary lifestyles, we are faced with a growing burden of chronic diseases. We have therefore been shifting our focus from episodic care in the acute hospitals, to keeping people healthy and managing their chronic conditions in the community, which is more effective and sustainable in the long-term.

Finally, we need to actively manage the rise in healthcare costs. Around the world, many governments are struggling to contain rising costs and Singapore too is not spared from the effects of global healthcare inflation. We thus need to constantly innovate to stay cost-effective in how we deliver care, to ensure that healthcare remains affordable for everyone.

Source: *Ministry of Health, Singapore, 2012.*

### Extract 2: Reviewing Singapore's approach to healthcare

The idea of "co-payment" is where costs are subsidised only partially by the government, the rest being borne by consumers. This is considered sacrosanct in the Singapore health system. Just last month, the Ministry of Health emphasised that even as health-care policies evolve to prepare for the future and face new challenges, "what will not change is the emphasis on individual responsibility for one's own health and the principle of co-payment".

What do we want from co-payments? There are three considerations. First, we want to recover some of the cost of providing the service. Second, the Government is determined to avoid a situation in which patients take unfair advantage of the system. But this needs to square with a third consideration, which is to not deter medically necessary care.

#### Preventive care

In preventive services such as cancer screening and regular diabetic follow-ups, co-payments by consumers are less useful and perhaps even detrimental. In Singapore, less than 50 per cent of women undergo regular Pap smears and less than 40 per cent regular mammograms. This is a far cry from the 70 per cent to 80 per cent needed for effective national screening.

Co-payments by consumers are arguably not needed in these cases as the inherent behaviour is already avoidance, and the financial outlay just adds one more "reason" to defer care.

Screenings and good control of chronic conditions are intended to detect disease early and prevent complications respectively. These measures save both individuals and society money in the long term.

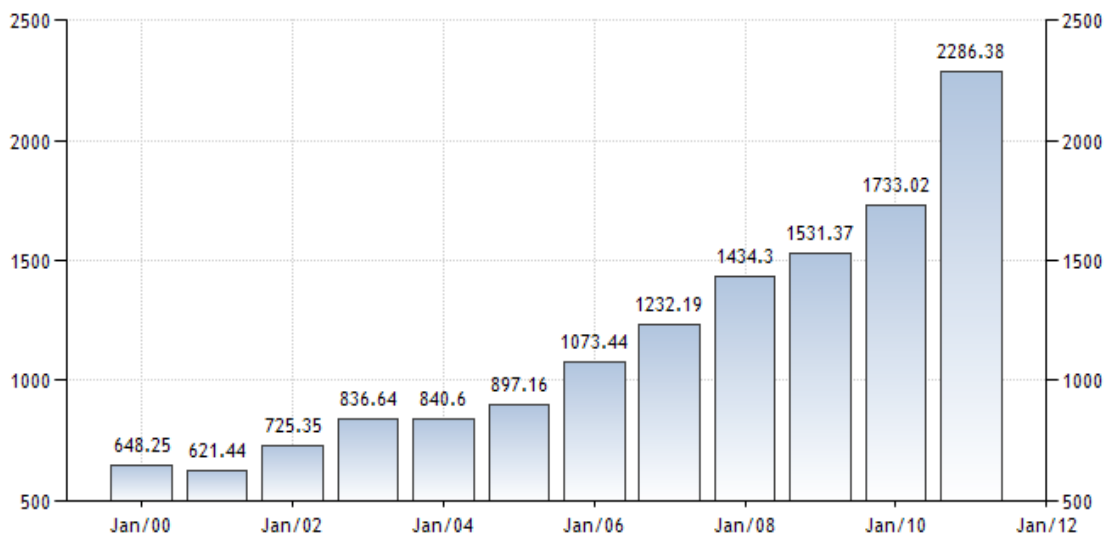
#### Long-term and palliative care

What about long-term care? Poorly utilised and poorly delivered long-term care services simply drive patients into hospitals with complications such as bed sores, lung infections and the like. Blunt imposition of co-payments is penny wise and pound foolish.

Finally, let us look at palliative care. Often, patients would have expended much of their life savings by the time they reach this stage and have little monies left. Co-payments may thus impede acceptance of palliative care services. Can a dying man over-consume palliative care services? Perhaps, but is it really so important to guard against moral hazard here, especially when the psycho-social aspects of end-of-life care are just as important as the medical elements?

Source: *The Straits Times*, 2013.

**Figure 1: Health expenditure per capita (US dollar) in Singapore**



Source: *World Bank*, 2012.

#### **Extract 3: The Pharmaceutical industry in Singapore**

The pharmaceutical industry in Singapore is a growing one and one which has a considerable amount of Government backing. It is part of the pharmaceutical, biotechnology and healthcare cluster in Singapore. These three industries have been grouped together as they have synergies and address common issues of human healthcare. Of the three, pharmaceuticals is viewed as the strongest sector.

In the mid-1990s, the Singapore Government designated a 50 hectare site at Tuas, the industrial hub of the country, as a pharmaceutical and biotechnology zone, known as the Pharma Zone. The particular focus of the Zone is to tap the good growth potential of new pharmaceutical and biotechnology manufacturing companies. It has, to date, proved successful with an established cluster of leading foreign companies such as GlaxoSmithKline, and Merck now dominating the industry here. They have multi-million dollar manufacturing facilities in Jurong Island and Tuas. The Singapore Government's approach has been to adopt a proactive policy in the pharmaceuticals industry. In this regard, it plans to integrate pharmaceuticals with drug discovery, healthcare and clinical testing.

A myriad of legislation governs pharmaceuticals in Singapore. The Medicines Act and the regulations that fall under it provide for the control of all aspects of dealings in medicinal and its related products, as well as CPMs (Chinese Proprietary Medicine). It provides for the licensing of all medicinal products to be sold, manufacturers, wholesalers and importers, so as to help the authorities to ensure the safety, efficacy and quality of medicinal products. It also deals with issues relating to advertisements of medicinal products and CPMs.

Source: *Law Gazette*, November 2000.

#### **Extract 4: Intellectual Property patents: The vehicle for innovation**

The pharmaceutical industry has consistently invested in science, knowing that the fruits of R&D can add years to life, and life to years. In 2011 alone, the industry invested €27.5 billion in R&D in Europe. The intellectual property system, notably patents, provides key incentives for taking on the risks of researching and developing new medicines. The rewards of this system are new and better medicines that benefit patients, scientific progress and society as a whole. As a consequence of a deeper understanding of the complexity of diseases, the potential of R&D has increased, but so has the difficulty and scale. Recent advances in science and technology have also contributed to the emergence of powerful new research tools, such as nanotechnology, pharmacogenomics, and combinatorial chemistry, which makes pharmaceutical innovation both more promising – and more challenging – than before.

The intellectual property system, and especially patents, is intended to give the investors who decide to take on such risks to develop new or improve existing drugs the possibility to recoup related costs, though without any certainty and only for a limited and legally defined period of time. Once recouped, the innovator can continue to break new ground, while the “old” medicine can be copied and continue to make a contribution to health and society.

Source: *European Federation of Pharmaceutical Industries and Associations*, 2014.

#### **Questions**

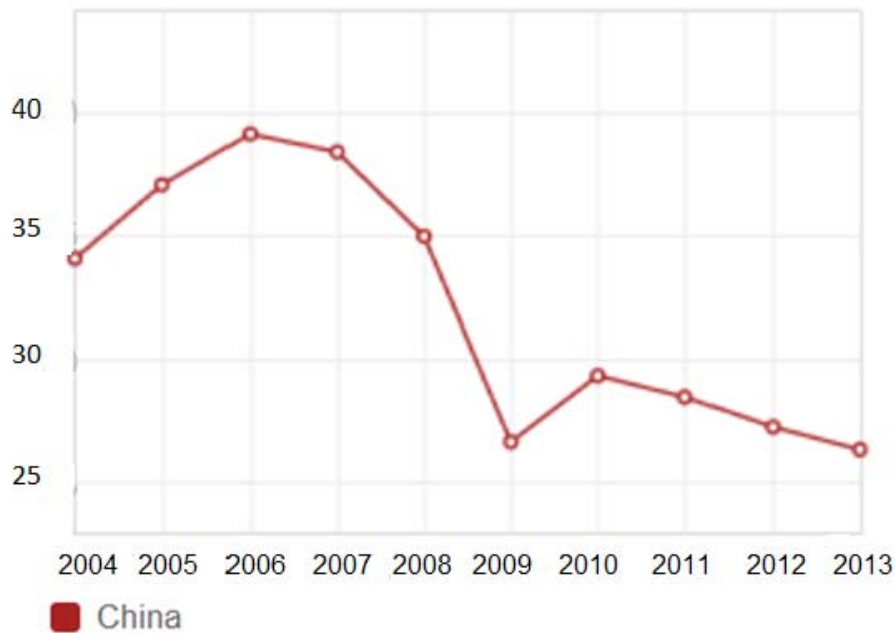
- (a) (i) Describe the trend in expenditure on healthcare services for Singapore from 2000 to 2011. [2]
- (ii) Account for the overall change in Singapore's expenditure on healthcare services. [2]
- (b) Describe the type of market structure the pharmaceutical industry is operating in. [2]
- (c) Assess whether the above identified market structure in the pharmaceutical industry is detrimental to society. [6]
- (d) (i) Explain the market failure in the market for healthcare. [4]
- (ii) Comment on whether subsidies in the healthcare industry are effective. [4]
- (e) Discuss the extent to which patents are more effective than subsidies in encouraging innovations in the pharmaceutical industry. [10]

[Total: 30]

## Question 2

## The Rise of the Global Village

Figure 2: Exports of goods and services (% of GDP)



Source: World Bank

**Extract 5: Globalisation: The Fear Factor**

In recent times, productivity growth in the tradable goods sector has caused a fall in the relative price of such goods, giving rise to increased trade throughout the world. This growth in trade activity has in turn, been one of the key drivers for economic growth. As such, it seems like the logical economic choice is for emerging Asia's firms to go global.

But there is an alternative view. As domestic markets in China, India and Indonesia become vast, why do their firms need to bother to compete abroad? After all, the argument goes, they can grow and achieve economies of scale at home. There is a parallel with America, where listed firms tend to be domestically focused, whereas in Europe home markets are often too small to offer growth opportunities. American firms are frequently far more profitable in their own backyard than in foreign fields; Procter & Gamble's American margins, for instance, are more than double its international ones.

However, Asian firms face global competition at home. Thanks to social media and the internet, they are now influenced by trends around the world. So in many industries, companies in emerging Asia face competition from global firms selling to customers whose tastes are more globally influenced than before. In the medium term, these firms will either have to give up or become more global themselves.

Trying to become a multinational is the hardest path to going global. It involves wrenching change, great risk, lots of scrutiny and the disposal of peripheral businesses in order to concentrate resources. How many Chinese firms are ready to take the leap and make big losses up front to build their business is open to debate. "There are very few Chinese companies that are willing to do this in an overseas market," says Mr Zhang at Haier. But, except for domestic businesses isolated from global competition, it is the right path in the long run, as Japan is rediscovering.

In most industries it is hard to stay competitive without being active worldwide. Insularity does not work. So the drive to create more multinationals in Asia and increase its global corporate clout is certain to continue.

Source: *The Economist*, 31 May 2014

### **Extract 6: Perks of US-Singapore FTA 'extend beyond economics'**

Born out of a midnight golf game, the historic free trade pact between Singapore and the United States not only brought multiple benefits for both but was also the foundation for a new era in US trade policy. The US-Singapore Free Trade Agreement (FTA), which marks its 10th anniversary this year, has raised bilateral trade and made Singapore the largest recipient of US investment in the Asia-Pacific as of 2012, Prime Minister Lee Hsien Loong said on Tuesday. Total bilateral trade has risen 70 per cent in the same time to US\$67.9 billion.

But the perks extend beyond economics, Mr Lee told a reception held by the US Chamber of Commerce and US-ASEAN Business Council to mark the event. The landmark pact was one of the first high-standard FTAs and ushered in a new era for US trade policy towards Asia. Acting Deputy US Trade Representative Wendy Cutler said the FTA also broke new ground in areas such as labour, e-commerce and the environment, and helped shape regional debates on trade. Individual businesses have also profited. US lenders such as Citibank benefited from the Qualifying Full Bank licences granted under the FTA, which Singapore has not since offered to any other FTA partner, Mr Lee said. The FTA has raised Singapore's profile in the US and allows easier movement of people between the countries, said Mr T.C. Voon, executive vice-president of ST Engineering's US unit VT Systems.

Source: *The Straits Times*, 28 June 2014

### **Extract 7: Exchange rate policy still relevant for Singapore**

Speaking at a dinner at the opening of an economic research institute yesterday, the managing director of Monetary Authority of Singapore (MAS), Mr Ravi Menon, said Singapore faces significant challenges in the new era of slow growth and rising global liquidity. "Externally, that could potentially set off asset market bubbles that could in turn have knock-on effects on consumer price stability and financial stability," he said.

At home, the economy is facing a "demographic cliff" of an ageing workforce, even as the economy undergoes a difficult restructuring period, he said at the Asian Bureau of Financial and Economic Research dinner. The combination of easy money and a tight labour market resulted in inflation rising to an average of 4.2 per cent between 2010 and last year.

Laying out a stout defence of the policy, Mr Menon noted that if the MAS did not allow the Singdollar to appreciate, headline inflation would have been about 2.5 percentage points higher than the 4.6 per cent rate last year.

He also pointed out that global oil prices have risen by an average of 16 per cent per year between 2010 and last year. But with a strong local currency, local petrol pump prices have increased by only 8 per cent over the period.

Source: *The Straits Times*, 22 May 2013

### **Extract 8: Transforming our Economy**

The global outlook for 2014 is uncertain. The advanced economies are gradually recovering, while the emerging economies are slowing. However, the odds are against a sharp slowdown in the global economy.

The Ministry of Trade and Industry (MTI) hence expects the Singapore economy to grow by 2% to 4% in 2014.

A key prong in our restructuring strategy has been to provide firms with strong support for every investment that can improve productivity. For instance, we are seeing higher take-up rates for the existing Productivity and Innovation Credit (PIC) scheme. This scheme is due to expire in Year of Assessment (YA) 2015. There have been many calls for its extension. I have decided to extend the PIC scheme for another three years until YA2018. This extension will cost the Government a total of \$3.6 billion.

We are also undertaking a major review of our Continuing Education and Training (CET) system to support the up-skilling of our workers on a continuous basis and the transformation of our economy. As more funds will be needed for the expansion of our CET system, I will top up the Lifelong Learning Endowment Fund (LLEF) by \$500 million, bringing the total fund size to \$4.6 billion.

As mentioned earlier, change is happening on the ground. Even within our 'old economy' sectors, individual players are doing things quite differently. They show us that change is possible and how, if we scale up such changes across whole industries, we can achieve a major impact in overall productivity.

Source: *Singapore Budget Speech 2014*

### Questions

- (a) (i) Describe the trend in the exports of goods and services as a percentage of GDP for China. [2]
- (ii) Consider whether the above trend allows us to make a judgment on China's balance of trade. [3]
- (b) With reference to Extract 5, assess if Asian markets should embrace globalization. [6]
- (c) Explain two ways in which Free Trade Agreements have benefitted the Singapore Economy. [4]
- (d) Using economic analysis, explain how a "combination of easy money and a tight labour market" can lead to inflation. [5]
- (e) Discuss the view that "exchange rate policy is still relevant for Singapore". [10]

[Total: 30]