



PIONEER JUNIOR COLLEGE, SINGAPORE
PRELIMINARY EXAMINATIONS 2014
Higher 2

ECONOMICS

9732/01

Paper 1

18 September 2014

2 hours 15 minutes

Additional Materials: Answer Paper

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.

Answer **all** questions.

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

Fasten your answers to Question 1 and Question 2 SEPARATELY.

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

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



Pioneer Junior College



Ministry of Education

Answer **all** questions

Question 1

Transport Economics in UK and China

Extract 1: Competition regulator outlines bus market shake-up

Bus deregulation has failed to deliver lower prices and better services in many part of Britain, the Competition Commission said as it unveiled proposals to shake-up the industry. The Competition Commission confirmed that in many areas bus operators faced little or no competition, with passengers facing less frequent services and "higher fares than where there is some form of rivalry".

Under the proposals of opening up the market, firms will have to share bus stations with rivals and accept "multi-operator ticketing schemes" which refers to a system where passengers are able to use the same ticket on services provided by different operators. They will also be prevented from taking direct measures to keep out new rivals, such as over-bussing - where a firm increases the frequency of its service to kill off a competitor.

Competition and potential competition can drive standards up for passengers – that was the intention behind deregulation, but the reality is that in too many areas of the country, competition has stagnated and the incumbent providers know that they face little in the way of serious challenge." This has meant little incentive to improve services and lower fares. "Operator behaviour" has been blamed in the report for keeping rivals out.

Out of the 1,245 bus companies operating in England, Scotland and Wales, five big operators - Arriva, FirstGroup, Go-Ahead, National Express and Stagecoach - carry 70 percent of all the 2.9bn passengers a year.

Source: Adapted from telegraph.co.uk, 20 Dec 2011

Extract 2: 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 to keep up with population growth. With upgraded and computerised control rooms and lines allowing for automatic trains, capacity has risen from 24 trains to 30 an hour at peak times.

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 www.economist.com, 30 Jun 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 per cent 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: Beijing to introduce congestion charge

Beijing is one of the most congested cities in China with a population of around 20 million with its car-owning population moving to above five million earlier this year. Beijing has now announced plans to introduce a congestion charge in the city centre to ease its crowded roads. Beijing faces a serious test in the next five years with the rapid growth in population, growing middle class and economic prosperity. Many other cities also impose such charges for city centre road users, including London, Milan, Stockholm and Singapore. 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 effects on this."

Source: Adapted from telegraph.co.uk, 31 Aug 2012

Extract 5: Shanghai vigorously pushes for development of public transportation

Shanghai's public transport reform began in March 2009, before the World Expo Shanghai 2010. Since then, an improved structure of urban transit system has taken shape in Puxi, Pudong and outlying suburban districts. The reform has given district governments the power to design and operate bus lines, which has greatly aroused the enthusiasm of local authorities. The service standard of Shanghai public transport has gone up significantly through the reform. Recently, authorities in Shanghai asked their bus drivers to wait a bit longer for passengers and give way to pedestrians crossing the road. The reform has made bus companies and their employees more motivated and enthusiastic. Workers are paid more and the buses are cleaner. Revenues from car plate auctions have all been used to develop public transport, purchase public transport services and support the construction of traffic facilities.

To solve the problem of "last-kilometer" disconnection between Metro stations and homes, authorities have opened 60-plus new bus lines, even though some of these are losing money. The "last kilometer" disconnection became a problem due to urban expansion resulting in long walking distances from homes to supermarkets, hospitals and schools. Sixty-four bus routes have been added since last year and 20 more are in planning. Subsidies are given to commuters taking the "last kilometer" buses, making these rides free. The authorities will evaluate the efficiency of these new bus lines and make adjustment according to actual needs.

Source: Adapted from Information Office of Shanghai Municipality, 11 Oct 2012

Extract 6: Car sales set to rise in China

China's automobile sales are set to rise faster this year as the economy strengthens. China's auto market, the world's largest, had a disappointing year in 2012 because of several factors, including slowing economic growth and restrictions on auto purchases by some big-city governments in an effort to control traffic congestion. Last year, Guangzhou and Guiyang joined Beijing and Shanghai in putting such restrictions in place, seeking to reduce traffic and limit air pollution.

While the macroeconomic rebound and the trend of urbanization will make automobile demand firm over the long run, the outlook for commercial vehicles such as trucks and lorries could be hampered by the government's effort to shift away from investment-led growth, which could mean decreased activity in construction and heavy industry.

Source: Adapted from online.wsj.com, 11 Jan 2013

Table 1: GDP Growth (annual %) of China and UK

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

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. [3]
- (b) 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]
- (c) (i) Explain the rationale for government intervention in the use of cars in cities. [5]
 - (ii) Based on the experience of the UK government in controlling congestion in London, discuss the policy options recommended for Beijing to reduce traffic congestion. [8]
- (d) In the UK, there has been deregulation in the bus market, with private firms providing bus services, while in Shanghai, bus services are directly provided by the government. [10]

Discuss whether direct provision of bus services such as that in Shanghai would be the most appropriate way of improving efficiency in the bus market in the UK.

[Total: 30]

Question 2**Reducing Government Debt****Extract 7: 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 8: US Avert Fiscal Cliff¹ 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

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

Extract 9: 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 10: 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

	2009	2010	2011	2012
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

	2009	2010	2011	2012
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) Explain a possible benefit on standard of living when France chooses to increase tax rather than cut government spending to reduce its national debt. [2]
- (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. [10]

[Total: 30]