

ANGLO-CHINESE JUNIOR COLLEGE
2014 JC2 PRELIMINARY EXAMINATIONS



ECONOMICS

9732/01

Higher 2

27 August 2014

Paper 1

2 hours 15 minutes

Additional materials: Answer paper

READ THESE INSTRUCTIONS FIRST

Write your 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/tape.

Answer **all** questions.
Begin each question on a **fresh** sheet of paper.

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

At the end of the examination, arrange your answers in order.

Fasten your answers for Question 1 and Question 2 **separately** using the cover sheets provided.

This document consists of **7** printed pages and **1** blank page.
Please check that your question paper is complete.

Answer **all** questions

Question 1

The market for coal in China and US

Table 1: Total Coal Exports and Imports (thousand tons)

		2008	2009	2010	2011	2012
China	Exports	63,384	25,235	27,181	27,546	15,184
	Imports	44,467	138,890	179,870	200,722	318,466
United States	Exports	83,478	60,404	83,179	108,229	126,720
	Imports	37,811	22,985	20,567	14,505	10,294

Source: US Energy Information Administration

Table 2: GDP Growth Rates (annual % change at constant prices in local currency)

	2008	2009	2010	2011	2012
China	9.6	9.2	10.4	9.3	7.7
United States	0.0	- 2.8	2.5	1.8	2.8

Source: World Bank

Table 3: Company Data (2011)

	Glencore	Xstrata
Revenue (billion dollars)	144.9	33.9
Profits (billion dollars)	4.07	5.78
Employees	55,000	38,000

Source: BBC

Extract 1: China overtakes Japan as world's top coal importer

China overtook Japan as the world's top coal importer for the first time in decades last year, partly driven by robust Chinese demand. China, also the world's biggest coal producer and consumer, imported 200.7 million tonnes of the fuel in 2011.

China is likely to keep its top position in 2012 as rising costs and competition from foreign coal have created pressure for imports. China's coal consumption is expected to remain robust as new coal-fired power generation comes on-stream and demand from the cement industry, the second-largest driver of thermal coal consumption, is also seen rising as the government makes a strong push to urbanise. A Reuters poll last month, however, showed the country's coal imports are expected to grow at a slower pace in 2012, as domestic appetite moderates and home production rises.

Source: Reuters, 26 January 2012

Extract 2: Glencore and Xstrata merger

Analysts have been poring over the mathematics of the recently announced proposed all-share merger between Glencore and Xstrata, trying to work out which side has the better of the deal. The alliance would extend Xstrata's lead as the world's biggest thermal-coal miner, giving it more than one-tenth of the market, and make it the global number-three in copper. Half of Glencore's business is in buying and selling commodities. With all Xstrata's output at its disposal, it would be better able to blend coal and ores to customers' specific requirements.

Size can cause problems with officials as well as create advantages. It is possible that the world's antitrust authorities may not like the look of a merger that unites a dominant commodity trader and a leading miner of lead and zinc as well as coal and copper. The merger's logic may be hard to dispute but Xstrata's shareholders are unhappy. They believe that in the attempt to create a mining behemoth they are being short-changed, as Xstrata brings better assets, a stronger balance-sheet and rosier prospects for growth. A couple of large institutional investors have threatened to block a deal that they believe favours Glencore.

The proposed \$77 billion merger between miner Xstrata and commodities trading giant Glencore has been plagued with difficulties and delay. Xstrata CEO Mick Davis was originally slated to become the head of the combined company, only to see the terms of the deal changed to put Glencore chief Ivan Glasenberg on top after a six-month transition. As the tenor of the deal has changed, so have Davis' feelings about it. He worries that the company that he built would not be managed the right way in its new incarnation, and that he would not be able to build an effective bridge between the companies in only six months due to the fundamental differences in culture.

Sources: The Economist, 11 February 2012; Business Insider, 28 January 2013

Extract 3: US switches to clean energy alternatives

America is shovelling coal to the side-lines. Utilities are aggressively ditching coal in favour of natural gas which has become cheaper as supplies grow. Natural gas has other advantages over coal. It produces far fewer emissions of toxic chemicals and gases that contribute to climate change, key attributes as tougher environmental rules go into effect.

A pair of clean air rules enacted by the Environmental Protection Agency (EPA) over the past year tighten the limits on power-plant emissions of sulfur dioxide and nitrogen dioxide, and place new limits on mercury, a poison found in coal. This will force between 32 and 68 of the dirtiest and oldest coal plants in the country to close over the next three years as the rules go into effect, according to a survey of power plant operators conducted late last year. Once the guidelines go into effect, no coal plants will be built unless utilities can develop a cost-effective way to capture carbon dioxide, analysts say. That technology has been slow to develop and is very expensive.

Source: The Huffington Post, 6 December 2012

Extract 4: Green protectionism vs. growth

Some rich countries are imposing carbon limitations and threatening to curb imports from poor countries. This will cripple their own economies and harm the poor without doing much about emissions. Various governments want such green protectionism, including taxes on carbon-intensive imports, or on all imports from countries that do not cut emissions, especially the main targets, China and India.

The European Union wants to cut emissions by 20 percent by 2020, while proposed US legislation aims for 80 percent by 2050. But large emitters of greenhouse gases such as India and China are more worried about growth and tackling poverty.

Carbon restrictions on trade, however, will do little to reduce emissions. Taxing carbon-intensive imports from China, for example, will have a negligible impact because the vast majority of its emissions-laden exports go to other developing countries.

Carbon barriers on trade make even less sense when one considers the nature of global production today. Rich countries “import” around one-third of their carbon dioxide (CO₂) emissions (the amount of CO₂ released in making imported goods), often from developing countries. The production of a single item often involves trading components between many different countries. Complex supply chains have brought cheaper and better goods and high-paying jobs to rich countries, and infrastructure, new jobs and higher incomes to developing countries. Over a quarter of all global trade in manufacturing is now in intermediate components, not final products. Rich countries cannot restrict imports without damaging their own production and growth.

Source: The Korea Times, 16 April 2010

Questions

- (a) Compare the trends in imports of coal into the US and China from 2008 to 2012. **[2]**
- (b) Explain the relationship between GDP and imports of coal in China. **[2]**
- (c) China is both the top producer and importer of coal in the world.
 - (i) Explain whether the case of a country exporting and importing within the same commodity group contradicts the Theory of Comparative Advantage. **[4]**
 - (ii) Using the information available, what conclusion can be drawn about the price elasticity of demand for coal in China compared to that in the US? **[4]**
- (d) Evaluate whether the merger between Xstrata and Glencore is a sound strategy for both firms. **[8]**
- (e) Discuss the view in Extract 4 that by imposing carbon limitations on the imports from developing countries, developed countries ‘will cripple their own economies and harm the poor without doing much about emissions’. **[10]**

[Total: 30]

Question 2**The key to ASEAN centrality****Extract 5: ASEAN Economic Community to bring opportunities and challenges**

The ASEAN Economic Community (AEC) marks the commitment of the ASEAN leaders to building and promoting a single market, a highly competitive economic region tempered with equitable development, and a region fully integrated into the global economy.

Genuine ASEAN economic integration would deliver huge gains, not least from deeper integration into global supply chains. When the AEC is formed, countries could sell goods to the other ASEAN markets in ways that are similar to selling in home markets, because of simplified trade procedures and new procedures for certifying the origins of products.

Despite the avowed goal of increasing trade among ASEAN economies, trade disputes still take place. In addition, ASEAN's trade performance seems lacklustre compared to other regional trading blocs such as the European Union and the North American Free Trade Association with an intra-trade level of 67.3 percent and 48.7 percent respectively.

Countries like the Philippines may also lose an even bigger chunk of their skilled labour force to neighbours in ASEAN, where workers get paid better when the region's economic integration goes on full swing at end 2015.

Sources: Global Times, 21 April 2014; Inquirer.net, 4 May 2014

Extract 6: Singapore's role in ASEAN

In a rising Asia, there is a bigger role that Singapore can play, including providing leadership and exporting technological and infrastructural services. During a panel discussion on the outlook for Singapore and other members of ASEAN in the next 50 years, academics noted that economic opportunities are coming to fruition because of regional integration.

However, most countries in the region are under-investing when it comes to infrastructure. Infrastructure should be the most important priority, especially as urbanisation accelerates. It can also lead to job creation and unlock more opportunities. This is where Singapore can offer leadership and export its technological and infrastructural services to other countries in the region.

In addition, Singapore could become more influential as a possible services centre in the region. Indeed, as ASEAN gets more and more integrated, services in the form of logistics, administrative and accounting are some areas that will rise in demand. Being the third largest economy in ASEAN, Singapore can play a more active role in these areas.

Source: Today, 20 July 2013

Extract 7: Report card on ASEAN economic integration

South-east Asia is an area of extreme economic diversity. The gap in living standards between the richest and poorest countries is huge. But this is only one dimension. Singapore is a services-based economy; Brunei is oil-based; Malaysia and Thailand are fast industrialisers; Thailand and Vietnam are big agricultural exporters; Indonesia and the Philippines are net food importers; and Cambodia, Laos and Myanmar are still agrarian societies.

Government economic policies also vary widely. Singapore is a free port in which the total value of trade is equal to 400 per cent of gross domestic product. At the other extreme, Myanmar has only recently started to open up its borders. The value of trade in the latter is equal to only 31 per cent of GDP. Then there are huge gaps in the quality of regulation, institutions and the business climate.

Nevertheless, there are also increasingly important elements of convergence across ASEAN. Integration with the global economy stands out: Since the 1980s, all ASEAN countries have liberalised trade and foreign direct investment. Average import-weighted tariffs are around 5 per cent for most ASEAN countries and all except Indonesia, Philippines, Laos and Myanmar have trade-to-GDP ratios of about 100 per cent or higher. ASEAN has also become a regional production hub for parts and components in global manufacturing supply chains. This has knitted ASEAN and North-east Asia - including China - together in ever-tighter trade and production linkages.

Most ASEAN countries need fresh structural reforms not only to cope better with external shocks, but also to take advantage of emerging trends in global supply chains. As China becomes more expensive, multinationals are also looking for new investment destinations. If South Asia, India in particular, opens up more to global markets, labour intensive and export-oriented manufacturing will migrate there.

Creating a single market will have significant positive effects. That is the logic of the ASEAN Economic Community (AEC). Unfortunately, ASEAN leaders' AEC vision is weakened by a strong aversion for a diminished national sovereignty for the sake of deeper economic integration. National strategies clash with ASEAN's internal goals. Nevertheless, the bulk of intra-regional tariffs have been abolished. Partial progress has been achieved on simplifying and harmonising customs procedures, cross-border infrastructure projects, and opening up ASEAN skies to low-cost airlines.

Source: The Straits Times, 8 May 2014

Table 4: Total Trade in Goods (current US\$ in millions)

		2008	2009	2010	2011
Malaysia	Exports	140,470	156,891	198,801	228,086
	Imports	114,213	123,330	164,733	187,473
Philippines	Exports	41,255	38,335	51,432	48,042
	Imports	47,418	45,534	58,229	63,709
Singapore	Exports	229,627	269,832	351,867	409,449
	Imports	200,029	245,784	310,791	365,718

Source: www.asean.org

Table 5: GDP Growth Rates (annual % change at constant prices in local currency)

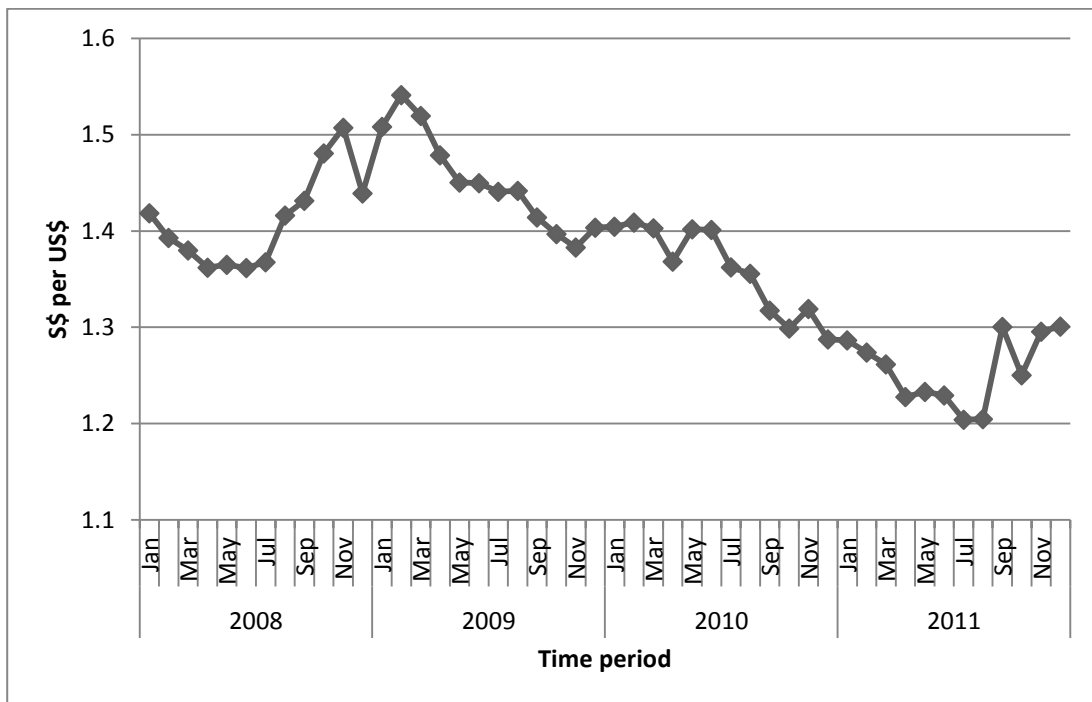
	2008	2009	2010	2011
Malaysia	4.8	- 1.5	7.2	5.1
Philippines	4.2	1.2	7.6	3.9
Singapore	1.8	- 0.8	14.8	5.1

Source: World Bank

Table 6: Selected Macroeconomic Indicators of Singapore (%)

	2008	2009	2010	2011
Unemployment rate	3.2	4.3	3.1	2.9
Inflation rate	6.5	0.6	2.8	5.3

Source: World Bank

Figure 1: Monthly Value of S\$ per US\$ (2008-2011)

Source: Monetary Authority of Singapore

Questions

- (a) (i) Compare the change in Malaysia's balance of trade in goods with that of Singapore between 2008 and 2011. [2]
- (ii) How far does the balance of trade in goods of these two countries support their growth rates shown in Table 5? [4]
- (b) With reference to the data, account for the observed change in the value of S\$ from March 2009 to March 2011. [2]
- (c) Using AD-AS analysis, explain why 'infrastructure should be the most important priority' for ASEAN. [4]
- (d) Consider the view that the benefits brought by the ASEAN Economic Community (AEC) in creating 'a single market' are likely to outweigh its costs for Singapore. [8]
- (e) In view of ASEAN's economic integration plans, discuss whether monetary policy remains the most appropriate policy for Singapore to achieve its domestic macroeconomic aims. [10]

[Total: 30]

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