



**JURONG JUNIOR COLLEGE  
PRELIMINARY EXAMINATION 2014**

**ECONOMICS**

**Higher 2**

**9732/01**

**Paper 1**

**1 September 2014**

**2 hours 15 minutes**

**READ THESE INSTRUCTIONS FIRST**

Write your name and class 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 workings.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, tie all your work securely together.  
The number of marks is given in brackets [ ] at the end of each question or part question.

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

**[Turn over**

Answer **all** questions.

### Question 1

#### Obesity problem

##### Extract 1: Food for thought

Greater wealth means that bicycles are abandoned for motorbikes and cars, and work in the fields is swapped for sitting at a desk. In rich countries the share of the population that gets insufficient exercise is more than twice as high as in poor ones.

Very importantly, argues Boyd Swinburn of Deakin University in Melbourne, diets change. Families can afford to eat more food of all kinds, and particularly those high in fat and sugar. Mothers spend more time at work and less time cooking. Food companies push their products harder. Richard Wrangham of Harvard University says that heavily processed food may have helped increase obesity rates. Softer food takes less energy to break down and finely milled grains can be digested more completely, so the body absorbs more calories.

In Mexico, unreliable tap water and savvy marketing have helped make the country the world's leading guzzler of Coca-Cola: the average adult consumed 728 servings last year. In America, junk-food calories are often cheaper than healthy ones. In Beijing, teenagers and office workers cram the fast-food restaurants along the street of Wangfujing. Even home-cooked Chinese meals contain more meat and high in fat, sugar, salt and oil than they used to. Doting grandparents shower edible treats on scarce grandchildren.

Many cultures used to view a large girth with approval, as a sign of prosperity. But obesity has costs. It lowers workers' productivity and in the longer term raises the risk of myriad ailments, including diabetes, heart disease, strokes and some cancers; it also affects mental health.

Source: *The Economist*, 15 December 2012

##### Extract 2: Market share

Coca-Cola and PepsiCo control nearly 40% of the world's fizzy-drinks market between them. Sales of soft drinks across the world have more than doubled in the past decade, to \$532 billion; in India, Brazil and China sales of fizzy drinks have more than quadrupled.

Fast-food chains, too, have spread far into developing markets. McDonald's is now in 119 countries. Yum! Brands, owner of KFC, Taco Bell and Pizza Hut, derives 60% of its profit from the developing world, and there is plenty of growth potential left. Yum!'s chief executive, David Novak, explains that the company has 58 restaurants for every 1 million Americans, compared with just two restaurants for every 1 million people in emerging markets.

The green revolution, along with technological improvements to farm equipment, made agribusiness more productive than ever. In addition, agricultural subsidies encourage farmers to grow as much as they could. Inevitably, food prices plummeted. Lower prices meant people started eating out more often. Portions increased in size as the proliferation of fast food

restaurants vied for customers. But even as they are expanding, food companies are keen to show that they take the obesity problem seriously. The International Food and Beverage Alliance has given global promises to make healthier products, advertise food responsibly and promote exercise.

Source: *The Economist*, 19 May 2012

### **Extract 3: Fast food industry**

The US fast food industry is by far the largest in the world, spawning global fast food brands such as McDonald's, Burger King, and Subway. In 2010, the fast food industry generated total revenue of US\$184 billion in more than 300,000 restaurants, employing 3.9 million people. McDonald's was the market leader in the US fast food industry in 2010 with a market share of 12.7%. Yum! Brands, the parent company of Taco Bell, KFC, Pizza Hut, and WingStreet was second with a market share of 9.7%. Other major players include Wendy's, Starbucks, Burger King, and Doctor's Associates, the company behind Subway.

In terms of sales, McDonald's, Starbucks, Subway, Wendy's and Burger King were the leading five quick service restaurant brands in 2013, generating combined sales of over US\$77 million. Not only was McDonald's the largest fast food brand in 2013, it was also the fifth largest brand in the world out of all brands after Google, Apple, IBM and Microsoft. Quick service brands are undoubtedly popular in the US with over 80% of consumers admitting to visiting one at least once a week. That said, they are not necessarily the healthiest option.

Source: The Statistics Portal

### **Extract 4: Obesity update 2012**

The OECD called for strong action against obesity in 2010. Analyses of the health and economic impacts of programmes to improve diet and increase physical activity led to the conclusion that comprehensive prevention strategies are needed, targeting different age groups and determinants of obesity. These would provide an affordable and cost-effective solution, saving hundreds of thousands of deaths from chronic diseases every year in the OECD area.

Governments can help people change their lifestyle by making new healthy options available or by making existing ones more accessible and affordable. Alternatively, they can use persuasion, education and information to make healthy options more attractive. This gentle approach is more expensive, hard to deliver and hard to monitor. A tougher approach, through regulation and fiscal measures, is more transparent but it hits all consumers indiscriminately, so can have high political and welfare costs. It may also be difficult to organise and enforce and have regressive effects.

So far, governments in the OECD area have given priority to initiatives aimed at school-age children, such as changes in school meals and vending machines, better facilities for physical activity, and health education. Many also disseminate nutrition guidelines and health promotion

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messages. There has been an increasing reliance on partnership with the food and beverage industry in the design and implementation of actions to fight obesity, particularly in product reformulation to avoid unhealthy ingredients, in reducing excessive portion sizes and providing healthy menu alternatives; in limiting advertising, especially to vulnerable groups like children; and informing consumers about food contents.

Several OECD countries introduced taxes on unhealthy food and beverages in 2011 as part of their efforts to counter obesity. Taxes, along with other measures, can improve health by changing eating habits. At the same time, they may generate important revenues, which must have contributed to governments' attraction to these measures at a time of tight fiscal constraints.

Source: OECD

**Table 1: Obesity rate (number of people who are obese as a proportion of population) in Singapore by gender**

Gender	1992 (%)	1998(%)	2004 (%)	2010 (%)
Male	4.1	5.3	6.4	12.1
Female	6.1	6.7	7.3	9.5

Source: National Health Survey

### Questions

- (a) Compare the change in obesity rates of the males with that of the females between 1992 and 2010 in Singapore. [2]
- (b) Using the evidence in the data, explain **two** reasons that cause the change in obesity rates in many countries [4]
- (c) Discuss whether the growth in the size of the fast food industry is desirable. [8]
- (d) Using a diagram, explain why the consumption of unhealthy food and beverages might lead to market failure. [6]
- (e) With reference to the data where appropriate, discuss whether you would recommend the introduction of a tax on unhealthy food and beverages to address the obesity problem. [10]

[Total: 30]

**Question 2****The Global Recovery****Extract 5: A case of austerity or stimulus for Europe**

Spending cuts and tax increases have helped to reduce fiscal debts across the 17 EU countries that use the euro, but the region's debt to GDP burden ratio rose after economic growth flat lined and fewer companies and households paid taxes. Calls for a more growth-led approach dominated last week's informal EU summit. The debate over the future of the Eurozone continues to veer between two extremes: stimulus or austerity. "You cannot spend your way out of a debt-fuelled recession", shout those on one side of the divide. Others respond that economic recovery is not possible without a major influx of public spending.

It has become painfully obvious that simply downsizing bloated public sectors does not work if there are no jobs for people to turn to as seen across Europe, 40 million people are now unemployed, causing a vicious, downward spiral of recession. The International Monetary Fund also added that it had underestimated the effects of fiscal tightening as the previously assumed fiscal multiplier did not consider the effects of unemployment on savings.

But the state is no silver bullet for economic growth either without austerity. Restoring confidence is highly needed as providing employment opportunities by ploughing money back into the public sector would provide only temporary respite, and would push countries even further into unsustainable debt.

Source: *The Guardian and Daily Telegraph*, June 2012 and October 2012

**Extract 6: US stirred a currency war**

The World Trade Organisation (WTO) has recently detected a steady rise in trade barriers. The restrictions range from higher tariffs to costly import licences or a competitive devaluation, in which many policymakers all over the world lower their exchange rates in order to increase their competitive advantage. Governments often justify these steps as short-term remedies responding to the global downturn.

Competitive devaluations started with the Fed keeping US interest rates near zero until 2013. This will affect capital flows and lead to a prolonged devaluation of the dollar. For export nations, the temptation is to fight back by pushing their own currencies lower to make their exports more competitive. A weaker currency might also encourage foreign investment due to lower costs. However, competitive devaluations are futile and would delay the recovery of US, turning a global slowdown into dreaded stagflation.

Suppressing a currency's rise to protect exports, as China has been doing for years, is risky. It means creating more local currency and fuelling inflation. Moreover, the unwanted effects of a strong currency pale next to the damage another US recession would cause. In trying to frustrate the Fed, exporters could find themselves even worse off. By allowing the dollar to fall

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instead, exporters can speed the kind of rebalancing the US and its trade partners have put off for too long. Painful as it seems, winning the battle for global growth means losing the currency war.

Source: *Reuters*, August 2012

### **Extract 7: UK's productivity**

Productivity is not everything, but in the long run it is almost everything. In Britain especially, though not uniquely within Europe, productivity growth has been extremely poor and highly concerned, as it ranked way below the average of other G7 industrialised nations. On this basis, average of UK worker would have to work ten hours to produce the same output a worker in the US could produce in eight hours.

The UK's low productivity growth has been attributed to poor labour productivity as well as poor capital productivity. This creates disadvantages compared with other countries, notably a relative failure to invest or innovate, technological backwardness, lack of entrepreneurship and trade distortions.

As such, there is serious and rapidly mounting pressure on the government to come up with more reforms and measures to boost business investment and productivity given the economy's current lack of scope for fiscal stimulus.

Source: *The Guardian*, September 2012

### **Extract 8: Economic self-interest jeopardises recovery for all**

In an economically integrated world, there is increased recognition that despite the virtues of an open market that include trade specialization and foreign investment jump; it leaves economies vulnerable to changes in opportunity costs of production, currency values and even higher gini-coefficient. Protectionism hence has been a traditional way to deal with these pressures.

The WTO has recently expressed concerns on one of the protectionist measures European governments often justify, to slap dumping on the Chinese goods. According to WTO rules, the claim that targets China's cheap-labour-intensive exports can be more lax in its criteria to determine dumping. On the same note, the WTO has also advised US to reconsider its protectionistic tax. Although US has long reported the need of the tax to neutralize China's export subsidies that has stolen its factories, jobs and created a chronic trade deficit, the WTO believes that the tax would only distort markets and in the long run, it could be economically self-defeating.

If economies start closing markets or blocking trade, their prospects will be pushed down even further in a downward economic spiral most are in already. Policymakers should instead be ahead of the game to take advantage of those changes. Germany for instance, has positioned itself well to ride on a third wave of globalisation, characterised by rapid growth in a number of developing countries. The WTO therefore remarked on the need for more balanced trade with the rest of the world for Europe and the US.

Additionally, the WTO recommended that some policies should be changed in order to reduce the high trade deficits in Europe and US. European governments should work on reducing funding on state-subsidised agricultural industry which still absorbs nearly half their budgets, while improving funding on infrastructure, education, skills and innovation. Investing heavily in education and training for the unemployed and giving incentives to businesses to hire and train new workers would be a far more worthwhile investment. Huge potential could also be unleashed when liberalisation in competitive sectors has been combined with continuing state involvement in more vulnerable areas of the economy, helping to develop latent comparative advantages.

The WTO reiterated the path of collaborative efforts to reduce both internal and external imbalances before signs of global recovery and quality job creation can be seen. It concluded that on balance, globalisation will remain as a huge source of both opportunity and growth, and that; globalization should be embraced and not feared.

Source: *The Economist and BBC News*, June 2012 and September 2012

**Table 2: Fiscal Balances** (% of GDP)

	2007	2008	2009	2010	2011	2012
Euro area (15 countries)	-0.7	-2.1	-6.3	-6.2	-4.1	-3.3
UK	-2.8	-5.0	-10.9	-10.1	-8.3	-6.6
United States	-2.9	-6.6	-13.3	-11.4	-10.2	-8.5

Source: International Monetary Fund: World Economic Outlook 2012

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**Questions**

- (a) (i) Compare the change in fiscal balances of the UK, US and Euro area between 2007 and 2012. [2]
- (ii) With reference to the data, discuss whether austerity measures are the most appropriate for Europe's recovery. [8]
- (b) Explain **one** possible effect on the capital account of the US when its currency weakened. [2]
- (c) Explain how competitive devaluations can lead to a stagflation in an economy. [2]
- (d) Comment on how a low productivity growth in UK will affect its economy. [6]
- (e) Extract 8 suggests that 'globalisation should be embraced and not feared.' [10]  
Assess the validity of countries practising protectionism in view of this.

[Total: 30]