



MERIDIAN JUNIOR COLLEGE  
JC2 PRELIMINARY EXAMINATION 2014

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## H2 Economics

**9732/01**

Paper 1 Case Study Questions

**15 Sep 2014**

**2 Hours 15 Minutes**

Additional Materials: Writing Paper

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### **READ THESE INSTRUCTIONS FIRST**

**Do not open this booklet until you are told to do so.**

Write your name, class and register number in the spaces at the top of the answer sheets.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

You are reminded of the need for good English and clear presentation in your answers.

### **Section A : Case Study (2h 15 min)**

Answer **all** questions.

Begin each compulsory case study question on a fresh sheet of paper.

At the end of the examination, fasten all your work securely to the cover sheet with the string provided.

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

**[Turn Over]**

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This document consists of 7 printed pages and 2 cover sheets.

Answer **all** questions.

## **Question 1 Issues in Early Childhood Education**

### **Extract 1: Tackling Singapore's rising costs of early childhood education**

Keen competition among operators for space has pushed up rental rates to as much as \$40,000 from \$20,000 five years ago. "We find it hard to expand because of the lack of suitable sites and trained teachers," said Ms Lurvin Lee, director of a preschool chain. Meanwhile, demand for early childhood education (ECE) services has almost doubled in the past eight years, as more working parents enrol their children in preschools.

The rising cost has led to concerns about quality childcare getting out of reach for the average Singaporean family. Currently, the two anchor operators - NTUC's My First Skool and the PAP Community Foundation - get government help, such as rental subsidies and priority in securing HDB premises for new centres. In exchange, they have to keep fees below the industry median.

Under a new scheme which allows private entities to be anchor operators, they will also be entitled to such goodies but will be required to keep fees below \$720 a month for full-day childcare and maintain quality in their curriculum. "By introducing more competition among the big players, the good-quality programmes are more accessible to the masses. This means greater diversity and more choices for parents," said Dr Khoo, who runs the Preschool for Multiple Intelligences.

But one key concern stands in the way of the Government's efforts to grow the ECE sector: a shortage of good teachers. The low pay and the lack of opportunities for career progression has long been a bugbear in attracting and retaining talent in the industry. "Training teachers, especially good ones, will take much longer than building centres," said Ms Lee.

Source: *The Straits Times*, 16 Oct 2013

**Table 1: Statistics on Childcare Services in Singapore**

	2009	2010	2011	2012
Total enrolment in childcare centres	67,980	77,792	85,790	92,779
Average full-day fees (in S\$)	739	776	809	850

Source: *Early Childhood Development Agency*, 1 December 2013

### **Extract 2: Many in favour of government taking over preschool sector**

Mrs Denise Lai has been in the early childhood education business for over 15 years. She is one of the many child education experts who, in recent years, have called for the government to take charge of preschool education and offer it free to all children.

However some experts such as Ms Ho Yin Fong, academic director of the National Trades Union Congress-run Seed Institute, says the government could provide good

preschools for the majority of children. But it could also subsidize and support private operators who have a proven record of providing high-quality education.

There was also a strong call for the Ministry of Education (MOE) to raise the quality of teachers by recruiting and training preschool teachers the way it does for mainstream school teachers through the National Institute of Education (NIE).

But where would that leave current preschool teachers, many of whom are not degree holders? Serene Lim, 48, who switched to preschool teaching a few years ago, said: 'It would be difficult for me to switch careers at my age. I will be out of a job.'

Source: *The Straits Times*, 28 July 2012

### **Extract 3: Plans to increase UK's childcare ratios**

The UK government has plans to relax the staff to child ratios for certain age groups, despite concerns that this would affect the quality of childcare. The government has proposed allowing the ratio of staff to children aged two to three to be raised from one to four, to one to six, enabling providers to reduce their costs. Given that around 70% of costs relate to staff wages, providers should be jumping for joy at the prospect of increasing revenue.

But the government also said the changes are not compulsory and that the flexible ratios would only be more possible where there are highly qualified staff. A spokesman said: "We are reforming the childcare system so that providers have more flexibility when they have highly qualified staff. High quality providers will be able to expand and this will mean parents have more affordable childcare."

Source: *BBC News*, 3 March 2013

### **Extract 4: Benchmarking early education across the world**

Preschool education can ensure that all children get a strong start in life, especially those from low-income or disadvantaged households. "Through extensive research, we know that high quality programmes improve children's readiness for school and life in future. Early childhood contributes to creating the kinds of workforces needed in the twenty-first century which bolsters economic growth," explains Sharon Kagan, a professor of early childhood and family policy at Columbia University in the US.

In an Economist Intelligence Unit (EIU) research programme, preschool environments in 45 countries were ranked based on a weighted index that takes into account quality and inclusiveness of early childhood education\* (ECE). The Nordic countries - Finland, Sweden and Norway top this Starting Well Index, thanks to sustained, long-term investments and prioritisation of early childhood development. UK and Belgium rounded up the top five.

In Finland, preschool refers to a year of free half-day classes, which is complemented with day care for the other half of the day. This builds on a programme that gives parents access to full-day childcare from birth till the age of six, at minimal cost. To ensure quality, teachers have to attain high university qualifications: at least a

bachelor's degree in education, while many complete a master's degree. Wages are reasonably high and class ratios are an average of 11 pupils per teacher.

While wealth is a major factor in a country's ability to deliver preschool services, many high-income countries such as Singapore ranked poorly. Despite having a lower per capita GDP, Chile (ranked 20<sup>th</sup>) outperformed Singapore as a result of concerted government efforts to improve access which includes free preschool education by its public ECE providers. About 85% of four-year olds, and 90% of five-year olds, now attend a preschool.

Source: *The Economist Intelligence Unit*, June 2012

*\*Early childhood education terminology varies across regions. This may include kindergartens, playgroups, preschool and childcare.*

### Questions

- (a) Compare the change in total enrolment in childcare centres between 2009 and 2012 with the change in average full-day fees over the same period. [2]
- (b) What can you conclude from the evidence in Extract 3 about the price elasticity of demand for childcare in UK? [2]
- (c) (i) Explain the likely value of the price elasticity of supply for early childhood education in Singapore. [2]  
(ii) Explain the likely impact of the events in Extract 1 on the market for early childhood education in Singapore. [6]
- (d) Using economic analysis, evaluate the appropriateness of government offering preschool education free to address the market failure in Extract 4. [8]
- (e) Discuss the policy options available to the Singapore government to keep childcare prices down and improve the quality of its early childhood education. [10]

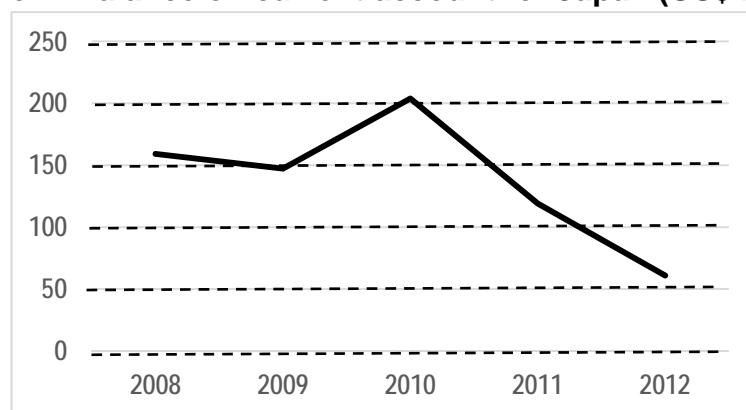
**[Total: 30]**

## Question 2 Japan's Impending Twin Deficits

**Table 2: Selected economic indicators for Japan over the period 2008-2012**

Economic Indicator	2008	2009	2010	2011	2012
GDP growth rate (%)	-1.0	-5.5	4.7	-0.5	1.4
Central government debt (% of GDP)	153.1	166.8	174.8	189.5	196.5
Gross fixed capital formation (% of GDP)	22.4	20.8	20.0	20.1	21.1
Exports of goods and services (% of GDP)	17.7	12.7	15.2	15.1	14.7
Imports of goods and services (% of GDP)	17.5	12.3	14.0	16.0	16.7

**Figure 1: Balance on current account for Japan (US\$ billion)**



Source of Table 1 & Figure 1: *World Bank*

### Extract 5: After half a century of trade surpluses, Japan may be seeing red

Japan's merchandise trade moved into the red in 2011—its first annual deficit since 1963. This was partly due to the earthquake and tsunami which disrupted production and exports. Imports were inflated by higher oil prices and larger imports of energy following the shutdown of nuclear-power plants.

But if many plants stay closed, future energy imports will remain high. The stronger yen and weak overseas demand will also keep squeezing exports. The stronger yen and high corporate taxes are also encouraging manufacturers to shift production abroad. JP Morgan forecasts that by 2014, 76% of Japanese car firms' production will be based overseas, up from 49% in 2003. If Japan's trade deficit widens, and net income stays constant, Japan's overall current account is likely to be in deficit by 2015.

Japan's household-saving rate has fallen from 14% of disposable income in the early 1990s to only 2% in the past couple of years. Firms are also unlikely to keep piling up cash as profits are being squeezed and they may invest more abroad.

Even more worrying are the implications for financing Japan's government debt. Japan's debt mountain reflects low taxation as much as unsustainable spending. The government has room to increase taxes, particularly on consumption. If it does not act, a current account deficit and an unsustainably high public debt are the ingredients of a potentially lethal cocktail.

Source: *The Economist*, 14 Jan 2012

### **Extract 6: Hope for Japan, despite trade slump**

Japan posted its worst September trade figures in more than 30 years, as the global slowdown and a dispute with China weighed on the world's third-largest economy.

Tokyo and Beijing have been embroiled in an increasingly bitter territorial dispute over an East China Sea archipelago. Demand dropped for Japan-branded products including industrial machinery and cars, while a broader economic slowdown in China factored into the weak figures. Japan's top three automakers said their sales in China plunged last month, with Toyota posting the biggest drop of 48.9%.

However, Daiju Aoki, an economist at UBS in Tokyo, said China trade was likely to turn around when the world's second-largest economy picks up, regardless of the diplomatic dispute.

The trade slump with China also came at a time of a broader downturn. Weakness in the United States and Europe, two key markets for Japanese products, has also weighed, with US-bound exports up just 0.9% in September, while shipments to debt-hit Europe dived 21.1%.

But Mr Nicholas Weindling, who runs the JP Morgan Japanese Investment Trust, says the Japanese economy is well positioned to take advantage of significant Asian and Pacific trading potential and benefits from Chinese and other emerging-market demand.

"While it is still a challenging market, long-term performance in Japan remains on an improving trend. It has been tough for investors in Japan, but there is a group of companies in Japan which are very strong. It is no longer about the household names such as Sony, Panasonic and Sharp but new, more dynamic, companies in niche sectors such as internet shopping, sheltered housing, health care and robotics."

"Japan is still a world leader in areas like robotics and factory automation. Wages are going up in China so companies have no choice but to install factory automation," he said.

Source: *The Telegraph*, 22 Oct 2012

### **Extract 7: Too early to tell if pump-priming works**

Japan's budget deficit in 2012 was more than 10% of GDP. But rather than rushing to reduce the deficit, Japan's new Prime Minister, Shinzo Abe, implemented bold economic policies, dubbed "Abenomics". These include a pump-priming strategy of spending ¥200 trillion over the next 10 years on public works to improve disaster preparedness and more importantly to create jobs.

Japan's central bank is also committed to raising the inflation rate to 2%. Implicit in this commitment is the notion that the bank will buy up as many Japanese government bonds as needed to reach its inflation target. In other words, the bank is prepared to print lots of money. And with interest rates kept low, the yen has started to weaken.

The government is also attempting to promote private sector investment. These outlays can be stimulated by deregulation, infrastructure investment and tax incentives. Again, there could be some effect on greater government deficits but the government believes it would be a small price to pay.

In short, it is hard to tell a story about how Japan will suffer as a result of the measures its government is taking to boost growth and create jobs. These policies are 180 degrees at odds with the deficit fixation that dominates US policy debates. The US have made enormous progress in reducing the government deficit over the last few years. The 2013 deficit, measured as a share of GDP, is less than 40% the size of the peak deficits in 2009 and 2010. However, the sharp pace of deficit reduction might mean millions of people not having enough money to support themselves and properly care for their children.

Adapted *The Guardian*, 26 August 2013

### Questions

- (a) (i) Describe what happened to Japan's balance on current account from 2008 to 2012. [2]
- (ii) To what extent is Japan's balance on current account affected by the changes in exports and imports of goods and services as shown in Table 2? [3]
- (b) Account for the change in Japan's central government debt between 2008 and 2012. [2]
- (c) Using Keynesian analysis, explain how the change in Japan's household-saving rate will affect the equilibrium level of national income. [5]
- (d) With reference to the data where appropriate, discuss how the Japanese economy might be affected by the developments in Asia. [8]
- (e) Extract 7 suggests that it is too early to tell if "Japan will suffer as a result of the measures its government is taking to boost growth and create jobs".
- In light of the risk of twin deficits, assess the appropriateness of the measures undertaken by the Japanese government. [10]

**[Total: 30]**

- End of Paper -



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**COVER SHEET**  
**ECONOMICS HIGHER 2**  
**Paper 1: Case Study Question 1**

Name: \_\_\_\_\_

Civics Group: \_\_\_\_\_

Register Number: \_\_\_\_\_

Tutor : \_\_\_\_\_

**15 SEP 2014**

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Write your name, civics group, register number and tutor's name in the spaces at the top of this cover page and on all the work you hand in.

At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 1 with the string provided before submission.

QUESTIONS ATTEMPTED		MARKS
(a)		
(b)		
(c)	(i)	
	(ii)	
(d)		
(e)		
TOTAL		/30





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**COVER SHEET**

**ECONOMICS HIGHER 2**

**Paper 1: Case Study Question 2**

Name: \_\_\_\_\_

Civics Group: \_\_\_\_\_

Register Number: \_\_\_\_\_

Tutor: \_\_\_\_\_

**15 Sep 2014**

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QUESTIONS ATTEMPTED		MARKS
(a)	(i)	
	(ii)	
(b)		
(c)		
(d)		
(e)		
TOTAL		/30