	PRELIMINARY EXAM 2014
	Economics JC2 H2 (9732)

PAPER 1

Thursday
4 September 2014
08:00 – 10:15

TIME : 2 hours 15 mins

INSTRUCTIONS TO CANDIDATES

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

Write your name, class and name of economics tutor in the space provided on the writing paper.

Answer **all** questions. The number of marks is given in the brackets at the end of each question. Write your answers on the writing papers provided. If you use more than one sheet of paper, fasten the sheets together. Submit the answers for both case study questions **separately**.

You are advised to spend several minutes per question reading through the data and questions before you begin writing your answers.

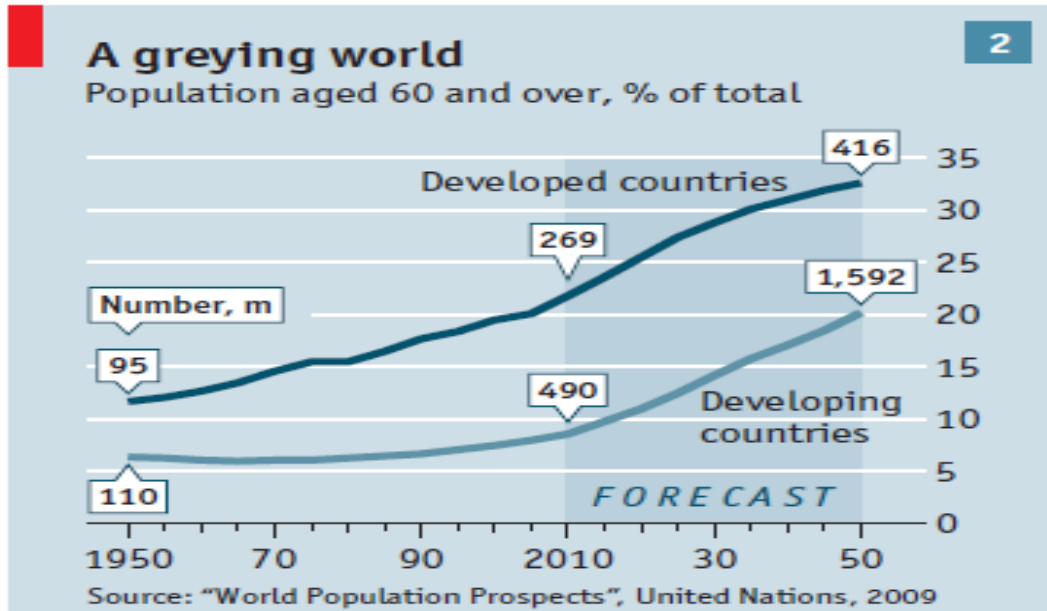
There are 8 printed pages including this cover page

Answer **all** questions.

Question 1

Ageing Population

Figure 1



Extract 1: Economic opportunities in an ageing population

The ageing population offers a myriad of opportunities for businesses. Some 135 pharmaceutical and biotechnology companies are now developing 294 medicines aimed at diseases that disproportionately affect older people, like cancer, heart disease and stroke, according to study results that were released last week by the Pharmaceutical Research and Manufacturers of America, a trade group based in Washington.

Pharmaceutical companies may be steadily losing the patent protection on their established drugs in the United States, but sales from new medications that cater to an aging population could more than make up for any lost revenue. And there are plenty of these drugs in the pipeline.

Source: <http://www.globalaging.org/health/us/ph.htm>

Extract 2: A billion shades of grey

The world is on the cusp of a staggering rise in the number of old people, and they will live longer than ever before. The experience of the 20th century, when greater longevity translated into more years in retirement rather than more years at work, has persuaded many observers that this shift will lead to slower economic growth and “secular stagnation”, while the swelling ranks of pensioners will bust government budgets.

But the notion of a sharp division between the working young and the idle old misses a new trend, the growing gap between the skilled and the unskilled. Employment rates are falling among younger unskilled people, whereas older skilled folk are working longer. The divide is most extreme in America, where well-educated baby-boomers are putting off retirement while many less-skilled younger people have dropped out of the workforce.

Policy is partly responsible. Many European governments have abandoned policies that used to encourage people to retire early. Rising life expectancy, combined with the replacement of generous defined-benefit pension plans with stingier defined-contribution ones, means that even the better-off must work longer to have a comfortable retirement. But the changing nature of work also plays a big role. Pay has risen sharply for the highly educated, and those people continue to reap rich rewards into old age because these days the educated elderly are more productive than their predecessors. Technological change may well reinforce that shift: the skills that complement computers, from management expertise to creativity, do not necessarily decline with age.

This trend will benefit not just fortunate oldies but also, in some ways, society as a whole. Growth will slow less dramatically than expected; government budgets will be in better shape, as high earners pay taxes for longer. Rich countries with lots of well-educated older people will find the burden of ageing easier to bear than places like China, where half of all 50-to-64-year-olds did not complete primary-school education.

Source: The Economist, April 2014

Extract 3: Synching healthcare for an ageing population

Singapore’s population is ageing rapidly and the repercussions are being felt across the country. Nowhere is this more evident than in the healthcare system, where policymakers have to make decisions about hospitals, social services and manpower for which the benefits may not be seen for several years.

DBS economist Irvin Seah, said that an ageing population will require a slight “reorientation” of the economy. This would involve a greater focus on developing medical services and attracting more workers to the sector, as well as increasing productivity and the use of technology in jobs so that people can continue to work as they age.

Keeping the system in sync as healthcare capacity is built up to respond to growing needs is a challenge of heroic proportions. However, the crucial question for Singapore policymakers is not simply how many hospitals to build, but how to decrease inflow and increase outflow of patients so that we do not need as many hospitals.

Hospitals are wonderful for what they are especially good at: Urgent, high-intensity and specialty services. But they are also expensive and hospital stays can be burdensome to patient and families, and are associated with risk, such as hospital-acquired infection.

In responding to this question of how to decrease inflow to and increase outflow from hospitals, Singapore is turning to innovations in outpatient and social care services. This means raising the capabilities of outpatient health services to accommodate the needs of an ageing population so fewer need hospitalisation, and increasing available long-term care services so people who no longer need acute hospital services can be discharged to more appropriate sites and avoid readmission.

This is, indeed, the strategy being pursued by Singapore: More clinic availability (including creating new service options such as community-based care), more long-term care options (such as home services, better trained maids and more nursing home beds), and more community hospitals to allow patients to achieve a level of health and independence that may permit them to live at home with family.

Source: Adapted from Today, May 2013

Extract 4: Mind the Gap

In the past few years, the government has curbed the inflow of foreign labour, cajoled companies to invest in enhancing productivity, and expanded its skills training programme to "upgrade" workers. It is also redistributing significantly straight from government coffers to low-income and older workers to close the income gap.

The effort to boost productivity should raise incomes, but "this does not mean that nothing else needs to be done because rising wages is only one part of the problem", says the chief executive of Centennial Asia Advisors, Mr Manu Bhaskaran. The retired, elderly poor, for example, will not benefit from higher wages - but will suffer the inflation that comes in tandem, he notes. This group, who are both old and poor, will continue to grow in what Mr Tharman has said is a unique, local challenge.

Due to Singapore's rapid development, unskilled workers are largely also ageing ones and of those who did not complete secondary school in the workforce, two-thirds are aged 50 and above. That Singapore is now on the ageing downswing overall has also made its inequality more visceral.

Source: The Straits Times, Apr 6 2013

Questions

- (a) (i) Compare the trends in the percentage of population aged 60 and over for the developed and developing countries from 1950 to 2050. [2]
- (ii) Account for the above demographic trends. [4]
- (iii) With the use of a diagram, explain the likely effects of this demographic change on a product market. [3]
- (b) With reference to extract 4, explain a **redistributive** measure that the government could implement to reduce income inequality. [3]
- (c) Discuss the impact of an ageing population on an economy. [8]
- (d) With reference to the data, discuss whether building more hospitals by the government is the best way of addressing the healthcare needs of the aged. [10]

[Total: 30]

Question 2

Economic Challenges of Two Asian Cities

Table 1: Selected Economic Indicators for Singapore and Vietnam

	2009	2010	2011	2012
Singapore				
GDP growth at constant prices (%)	-0.6	15.2	6.1	2.5
Inflation rate (%)	0.6	2.8	5.3	4.5
Unemployment (%)	4.3	3.1	2.9	2.8
Change in labour productivity (%)	-3.3	11.6	2.2	-1.4
Current account balance (% of GDP)	17.6	26.2	23.8	17.9
REER* index (2005=100)	96.7	100	105.5	110.4
Vietnam				
GDP growth at constant prices (%)	5.4	6.4	6.2	5.2
Inflation rate (%)	7.1	8.9	18.7	9.1
Unemployment (%)	2.3	2.3	2	2
Current account balance (% of GDP)	-6.2	-3.7	0.2	5.8

* REER – Real Effective Exchange Rate

Source: World Bank & The Global Economy

Extract 5: Inflation Set to Rise on Labour Cost - MAS

Inflation is likely to rise further in the wake of higher manpower costs stemming from tighter foreign worker policies and continued weakness in services sector productivity. The warning came from Monetary Authority of Singapore (MAS), which added that drought in grain-producing countries could send food prices spiking early next year.

The main culprit for the increase was weak growth in labour productivity in the services sectors, MAS said, which accounts for nearly two-thirds of the local economy. Overall, labour productivity fell 2.1 per cent in January through June from a year ago.

The Government's stricter foreign worker policy, which imposes quotas and levies on firms hiring overseas workers, has led to a manpower crunch and boosted wages. Wages grew 2.8 per cent in April through June after expanding 0.9 per cent year-on-year in January through March.

Weak productivity combined with heightened labour costs mean the unit labour cost could rise by as much as 3 per cent to 4 per cent next year, MAS said. The resulting increase in business costs is likely to be passed on to consumers, it added.

On top of the expected rise in domestic inflation, imported inflation is also tipped to go up next year, mainly due to costlier food. MAS pointed to a recent surge in global prices of several food commodities such as corn, wheat and soya beans as the major producers suffered droughts. This surge is likely to filter through to domestic food prices towards the end of this year, MAS said.

Source: Adapted from The Straits Times, 31 October 2012

Extract 6: Should Singapore Rethink Tightened Foreign Labour Inflow Policy Amid Inflation Spikes?

Technical recession is looming and experts are wary over stagflation. DBS argued that high inflation in Singapore has affected overall competitiveness of Singapore versus Asian peers in recent years.

High COE premiums and rentals, as well as the continued increase in labour cost are the key drivers. DBS however said that ironically, the bulk of these were policy-induced.

"The tightening in foreign labour inflow in particular, is creating significant strain on enterprises and eroding Singapore's cost competitiveness. The near-term impact is higher labour costs, compression of profit margins and the tendency for companies to pass on this higher cost to consumers, resulting in higher inflation. Thus, in a bid to restructure the economy, growth and competitiveness have been affected, and just when the global cycle is weak," it added.

As such, DBS said that Singapore's nipping foreign labour inflow policy may warrant a review.

Source: Adapted from Singapore Business Review, 11 October 2012

Extract 7: Economic Restructuring

This year's budget once again focuses on raising productivity and innovation for businesses—seen as one of the Government's long-term plans to help reduce the high costs of sustaining a business in Singapore.

During the budget, Mr Tharman said that "we need to intensify this economic restructuring and skills upgrading so as to achieve quality growth..... the end result must be a vibrant and sustainable local SME sector."

The main focus of the budget this year revolves around economic restructuring of the company, lowering the dependency on foreign workers, and incentives to boost productivity measures and social inclusiveness. Mr Tharman stressed that the Government "can and will actively support all small and medium enterprises (SMEs) that are willing to upgrade, so that they can retain their roots in Singapore and grow."

This presents a very clear message to local companies—restructure, increase productivity and hire more locals, otherwise they will need to pay more levies and salaries to foreign workers.

Source: Adapted from <http://mybusiness.singtel.com/techblog/singapore-budget-2013-key-changes-sme-related-policies#sthash.teQCdEOc.MMUIdO1p.dpbs>

Extract 8: Doing Battle Against Inflation

Vietnam, which last year pushed for strong growth, now is battling some of the highest inflation in Asia with consumer prices rising by 17.5% in the year to April.

On May 4th the country's central bank, the State Bank of Vietnam, raised one of its key rates to 14%, the latest in a flurry of increases since February. Its campaign was accompanied by a package of commitments to tighten money and credit and cut the budget deficit.

Known as Resolution 11, this package obliges the central bank to curb private credit, which has surpassed 120% of GDP, up from less than 40% in 2001. By this measure Vietnam is the “world record-holder for debt creation”, according to Jonathan Anderson of UBS.

As well as restoring faith in the dong, the government must also restore sanity to the public finances. In Resolution 11, it promised to prune public investment, which amounted to 17% of GDP in 2009. There are grave doubts about the efficiency of this spending.

The higher than expected inflation for April was on account of the recent increase in power, fuel and coal prices as well as the effect of February's devaluation, said Deepak Mishra, lead economist for the World Bank in Vietnam.

He said authorities will have to continue to adhere to the credit and liquidity targets it announced in late February and “revisit the policy rates in light of the higher-than-expected inflation rate.”

Source: Adapted from The Economist and Vietnam News Today, 2011

Questions

- (a) (i) Explain what is meant by labour productivity. [1]
- (ii) Describe the trend in Singapore's labour productivity growth from 2010 to 2012. [2]
- (b) Using Table 1, compare the internal and external economic performance of Singapore and Vietnam over the given period. [5]
- (c) (i) Explain the causes of inflation in Vietnam. [4]
- (ii) Discuss whether the Vietnamese government's approach is sufficient to battle inflation. [8]
- (d) To what extent do you agree with the view that “Singapore's nipping foreign labour inflow policy may warrant a review”? [10]

[Total: 30]

***** END OF PAPER *****