

INNOVA JUNIOR COLLEGE
JC 2 PRELIMINARY EXAMINATION 2
in preparation for General Certificate of Education Advanced Level
Higher 2

ECONOMICS

9732/01

Paper 1

17 September 2014

2 hours 15 minutes

Additional Materials: Writing Paper and Cover page

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

Answer **all** questions.

At the end of the examination, fasten 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.



Answer **all** questions.

Question 1

London Olympics 2012

Table 1: Visitors to London

	2008	2009	2010	2011	2012
Total Visits (000s)	14,753	14,211	14,706	15,289	15,461
Total Nights (000s)	90,815	85,686	90,318	91,498	94,300
Total Expenditure (£)	8,126	8,238	8,741	9,411	10,075

Source: Office for National Statistics

Table 2: Price of Tennis Olympics Tickets

<i>All values in £</i>	Category 1	Category 2	Category 3	Category 4
Preliminary	85	65	55	40
Quarter-Final	115	75	65	45
Semi-Final	115	75	65	45
Final	225	150	110	95

Source: www.ticketslondon2012.com

Extract 1: The battle of the Sportswear market

It is not only the athletes that will be competing for first place at next summer's Olympic Games. Adidas, the German sportswear brand, plans to use the games as a springboard to overtake its arch rival Nike as the biggest sportswear company in the UK.

Nike is currently market leader in the UK with an 18 percent share of the ultra-competitive £4.3bn sportswear market. Adidas is in second place with a 15 percent share, but hopes that its status as official sportswear partner of the Games will help it achieve its goal of overtaking Nike by 2015 at the latest. As well as kitting out the athletes in 25 of the 26 Olympic sports – equestrianism requires very specialised equipment – Adidas will dress the 70,000 Olympic volunteers, provide the outfits for the pre-games torch relay and create clothing for the athletes to wear in the Olympic Village.

Adidas is also the Games' official clothing licensee, and will sell Olympic-themed and branded clothes through its own stores and third-party retailers, such as Tesco and Asda. On top of this, it has appointed Stella McCartney, the designer and daughter of Sir Paul, as the creative director of Team GB. She will provide the team with garments such as their signature tracksuits and has also designed more fashionable "capsule" ranges that will be available on the high street. There will be a big sustainable and environmentally-friendly element to the clothing, Adidas said. It is not inconceivable that some of the athletes' kit will be at least partially made from recycled plastic drinks bottles.

Adidas has invested around £100m in the 2012 Olympics. This figure is split between the cost of becoming an official partner, the cost of manufacturing the clothes for the athletes, the volunteers and the retailers and the cost of marketing the ranges and the company. Even if the company achieves its desired top line sales of £100m, it will only go some way to paying off the £100m bottom-line investment. Mr Hainer admitted that if looked at purely on a profit and loss basis, the investment is a "big loss". However, he said that the positive benefits to Adidas's brand and standing in the UK are manifold.

Source: *The Telegraph*, 29 May 2011

Extract 2: Olympic Tickets

The International Olympic Committee has launched an inquiry into allegations that Olympic officials and agents have been caught selling tickets for the London 2012 Games on the black market. The IOC has held an emergency meeting of its ruling executive following an undercover newspaper investigation. It has referred the allegations to its independent ethics commission, which could lead to a review of how Olympic tickets are distributed among member countries in the future.

Sunday Times reporters posing as envoys of a Middle Eastern ticket tout claim to have found 27 officials and agents representing 54 countries who were willing to breach the rules on selling tickets. One, from Serbia, offered 1,500 tickets for £80,000, while China's official ticket agency agreed to sell the best seats in the stadiums for up to £6,000 each, according to the newspaper.

Adapted from: *The Observer*, 17 June 2012

Extract 3: Olympic athletes could be impaired by London Pollution

Olympic runners, cyclists, swimmers and even sailors arriving in London on Monday could be taken ill or see their performances impaired by air pollution, health experts have warned. According to Keith Prowse, respiratory consultant and medical adviser to the British Lung Foundation, a summer smog like any of the five already experienced this year in the capital could lead to some athletes needing medication and experiencing chest pains, sore throats and shortness of breath.

The effect of air pollution on athletes came to the fore during the 1984 Los Angeles Olympics, where British middle-distance runner Steve Ovett collapsed with respiratory problems after the 800-metres final, citing air pollution as a major trigger for his "exercise-induced" asthma. At the Beijing Olympics in 2008, China banned half the cars in the city and closed down hundreds of polluting factories to avoid medical problems from air pollution. Official advice to the public during smog incidents is to reduce physical exertion, and stay indoors.

Air pollution experts say levels of Nitrogen Dioxide (NO₂) in London are comparable to those in Beijing before it banned 50% of the cars. But rather than ban traffic for the duration of the games, Mayor Boris Johnson has opted to try to keep people and cars out of the city with a campaign to encourage them to work from home. A recording of Johnson warning of long delays and congestion is now being played over public address systems at many commuter stations and on the London Tube.

Transport for London has said it will wash the busiest streets with a machine similar to a road dust sweeper and then spray a solution of calcium magnesium acetate that literally sticks the particulate matter to the carriageway and prevents it recirculating in the air. Fears that the 600 miles of Olympic lanes will increase pollution by shifting traffic to other roads have been largely dismissed by Transport for London, which predicts that some areas may see "a slight and

temporary increase" in Nitrogen Dioxide emissions. "Changes to road management during the Games are likely to have "broadly neutral impact on air quality," said a spokesman.

Adapted from: *The Guardian*, 16 July 2012

Extract 4: Post-Olympics Surge in Tourism

The Britians have had some good economic news to celebrate over the past few months. Unemployment is falling, house prices in England hit a record high in July and economic output appears to be growing at its fastest pace since 2010.

At first glance Britain's tourism industry appears to be contributing to the economic bounce. Data released this month by the Office for National Statistics suggest that there has been a big increase in foreign tourists visiting Britain since London hosted the Olympics last year. In the first seven months of 2013, foreign visitor numbers rose by 4%, compared with the same period in 2012, and spending was up 12%. In July 2013 foreign visitors spent 30% more than in July 2012, setting a new record.

Hotels and attractions nationwide say they are benefiting from the unexpected boost in the tourist trade. According to data produced by STRGlobal, a consultancy, hotel-occupancy rates rose in nearly every English region in the first half of 2013. London, in particular, has seen a surge in foreign tourists since the Olympics ended: hotel-occupancy rates in the capital jumped by seven percentage points to 89% in June compared with a year earlier.

The government has been quick to attribute the tourism boom to the Olympics, in an effort to justify some of the £8.9 billion (\$14.3 billion) spent staging them. There may be some truth in this. Visits from countries keen on the Olympics increased the most: up by 24% from Latin America and 11% from China, compared with growth of 1% from Europe and a fall of 4% in visitors from North America, according to VisitBritain, a tourism quango.

Adapted from: *The Economist*, 28 September 2013

Questions

- (a) Compare the trends between total visits and total expenditure of Visitors in London between 2008 and 2012. [2]
- (b) What can you conclude from the evidence in Table 2 about the existence of price discrimination in the tennis matches? [2]
- (c) Using a diagram, explain why black markets exist for the tickets in London Olympic. [4]
- (d) Explain the impact of the London Olympics on UK's Balance of Payments. [4]
- (e) Discuss Mayor Boris Johnson's decision to try to keep people and cars out of the city with a campaign to encourage them to work from home, rather than to ban traffic for the duration of the game. [8]
- (f) Assess why Adidas decide to invest £100m in the 2012 Olympics even though it is regarded that "the investment is a big loss" [10]

[Total 30 marks]

Question 2

Differing Policy Responses to Anaemic Economic Growth

Table 3: Unemployment Rate (%)

	2006	2007	2008	2009	2010	2011	2012
China	4.1	4	4.2	4.3	4.1	4.1	4.1
Japan	4.1	3.8	3.9	5.1	5	4.6	4.3
United Kingdom	5.5	5.4	5.7	7.7	7.9	8.1	8.0

Table 4: Real GDP Growth (%)

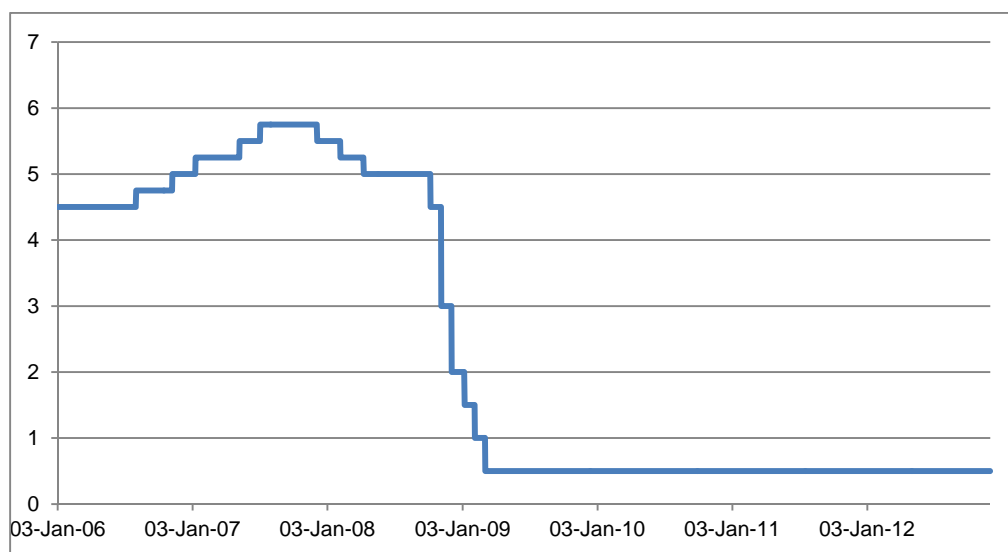
	2006	2007	2008	2009	2010	2011	2012
China	12.7	14.2	9.6	9.2	10.5	9.3	7.7
Japan	1.7	2.2	-1.0	-5.5	4.7	-0.5	1.5
United Kingdom	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3

Table 5: Inflation Rate (%)

	2006	2007	2008	2009	2010	2011	2012
China	1.5	4.8	5.9	-0.7	3.3	5.4	2.7
Japan	0.2	0.1	1.4	-1.3	-0.7	-0.3	-0.0
United Kingdom	2.3	2.3	3.6	2.2	3.3	4.5	2.8

Source: IMF & World Bank

Figure 1: Bank of England Interest Rates (%)



Source: Bank of England

Extract 5: Creeping protectionism in EU trade policy

Developing countries stand to lose out from trade reforms that are pushing the EU towards more protectionist policies, according to a report by the Overseas Development Institute (ODI).

The first reform of the Generalised System of Preferences¹ (GSP) in 30 years, said the report, will see richer developing countries such as India and Vietnam lose trade concessions of up to €257m (£201m). Since 1971, the GSP has ensured that exporters from developing countries pay lower duties on some or all of what they sell to the EU, giving them vital access to European markets. With reform of the GSP, the EU is likely to impose more trade barriers on a range of products and countries where there isn't a reciprocal free-trade agreement with the union.

"Upper-middle-income countries will still be eligible for preferential access to the EU market, but only if they agree to free-trade agreements, not by virtue of their WTO status as developing countries," said Stevens.

The new EU trade policy also has a glaring omission, the EU's common agricultural policy, in which European farmers receive €50bn in subsidies. Such payments and export subsidies aimed at boosting the production and income of EU farmers tend to reduce world prices and the attractiveness of the European market for developing countries.

"Designing a trade strategy in times of economic and financial crisis always carries a risk, and there will inevitably be winners and losers," said Dirk Willem te Velde, head of the ODI's international economic development group. "The clear protectionist trend in the EU's new strategy will not only damage the developing world, but also European economies and consumers."

Source: *www.theguardian.com*, 27 Jul 2012

Extract 6: Japan's economic growth slows

Japan's economy grew at a slower-than-expected annualised rate of 1.4% in April-June, adding to worries over the global outlook, as consumer spending flagged following an earlier rebound from last year's earthquake and tsunami.

The eurozone crisis also took a heavy toll as feeble demand hit Japan's export sector. Although the pace of growth dropped sharply from a revised 5.5% in the previous quarter, the economics minister, Motohisa Furukawa, struck an upbeat tone, saying in a statement that the economy "continues in an uptrend, led by domestic demand".

However, Nishioka, an economist at RBS Japan Securities, said the risk of worsening deflation was a "pessimistic result" that might prompt Japan's central bank to consider further easing of monetary policy to support growth. Deflation is a chronic problem for Japan and can be a drag on economic growth.

Consumer spending makes up more than half of Japan's economic activity. After the 11 March disaster last year, many Japanese held back on spending and excursions, adding to damage from disruption to manufacturing after many automotive and electronics plants ground to a halt in north-eastern Japan.

¹ The EU Generalised System of Preferences offers generous tariff reductions to developing countries. Practically, this means partial or entire removal of tariffs on two thirds of all product categories.

Robust public investment in reconstruction of housing and other buildings in the devastated region is likely to wane in coming months, further reducing momentum.

Meanwhile, the strong Japanese yen has clobbered exports, and costs for importing fuel to offset lost generation capacity from closed nuclear power plants have mounted.

Japan's economy grew 0.3% in the quarter ending in June, from 1% in January-March. That was lower than economists' forecasts of more than 2%, and translates to a 1.4% expansion in annualised terms.

Source: *www.theguardian.com*, 13 Aug 2012

Extract 7: End of inflation targeting?

Mark Carney, the next governor of the Bank of England, mused on the need for central banks to be creative in the post-crisis world. Growth has been so slow that Carney, said that in certain circumstances policymakers might need to ditch inflation targets and embrace nominal GDP targets instead.

Here's why. In most years, the value of all the goods and services produced in an economy goes up. This is the increase in nominal gross domestic product. Part of that increase is due to the fact things cost more than they did last year, and this is stripped out by statisticians to find how much the economy has really grown.

In the UK and in many other countries, the job of the central bank is to prevent prices from rising too quickly. The Bank of England is obliged by law to try to hit a 2% inflation target. Inflation targeting is straightforward, at least in theory. The Bank of England forecasts the future path of inflation; the forecast is compared with the target inflation rate (the inflation rate the government believes appropriate for the economy); the difference between the forecast and the target determines how much monetary policy has to be adjusted.

Since the slump of 2008-09, this relationship between price stability and economic growth has broken down. The annual increase in the cost of living has tended to be higher in recent years thanks to rising global commodity prices, higher VAT and the depreciation of the pound. The assumption is that if inflation is under control, the economy will expand at its long-term trend rate of growth, which is in the region of 2-2.5%. If you add real growth of 2.5% to 2% inflation then nominal GDP should rise by, say, 4.5% a year.

The Office for Budget Responsibility is forecasting nominal GDP will rise by just 2.2% this year and, with inflation running at 2.3%, that means, the economy is predicted to shrink by 0.1%. Inflation is under control but the economy is struggling.

Now assume the government switches to a nominal GDP target of 4.5%. The Bank would have to adopt a more expansionary monetary policy – perhaps by increasing the size or scope of its quantitative easing programme – in order to boost the value of economic output. Crucially, the split between inflation and real output would not matter: in theory the whole of the 4.5% increase in nominal GDP could be the result of higher prices.

Academics have been discussing the merits of nominal GDP targeting for some time. Carney's intervention suggests policymakers are starting to take notice of the debate. To an extent, this reflects the lacklustre recovery, but there is also a sense that inflation targeting only works well when economic conditions are benign.

Adapted: *www.theguardian.com*, 12 Dec 2012

Questions

- (a) (i) With reference to Table 3 and 4, explain how recession affect unemployment rate.[2]
- (ii) Explain how you might use unemployment rate and real GDP growth to compare economic performance of China with that of Japan. [4]
- (b) (i) Explain the meaning of deflation. [1]
- (ii) Using AD/AS analysis, explain why deflation is a chronic problem for Japan. [3]
- (c) Explain how 'strong Japanese yen has clobbered its exports'. [2]
- (d) With reference to the case study and your own relevant knowledge, do you think central bankers should 'ditch inflation targets and embrace nominal GDP targets'? [8]
- (e) Assess the view expressed in Extract 5 that the 'clear protectionist trend in the EU's new strategy will not only damage the developing world, but also European economies and consumers'. [10]

[Total: 30 marks]

-End of Paper-

