



ECONOMICS

8819/01

Paper 1

14 September 2015

3 hours

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.

Section A: Case Study

Answer **all** questions.

Section B: Case Study

Answer **all** questions.

Section C: Essays

Answer **one out of two** questions.

Please begin each question on a **fresh sheet of paper**.

At the end of the examination, **submit Sections A, B and C separately**.

Attach a **cover sheet** to Section A and C only.

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.

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

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

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

Section A

Answer **all** questions in this section.

Question 1

Continued Education and Productivity

Table 1: Singapore Productivity Growth

	2010	2011	2012	2013
Multifactor Productivity Growth (%)	9.7	1.5	-1.5	-0.3
Labour Productivity Growth (%)	11.6	2.3	-0.5	0.3

Table 2: UK Productivity Growth

	2010	2011	2012	2013
Multifactor Productivity Growth (%)	1.08	0.76	-1.36	-0.23
Labour Productivity Growth (%)	1.5	1.16	-1.3	-0.12

Source: *World Bank*

Extract 1: Global Productivity Woes

A productivity crisis is stalking the global economy with most countries failing last year to improve their overall efficiency for the first time in decades. Globally, it was found that labour productivity growth declined to 1.7 per cent in 2013 while multifactor productivity dipped 0.1 per cent. The failure of overall efficiency – known to economists as multifactor productivity – to grow in 2013 results from slower economic growth in emerging economies alongside continued rapid increases in capital used and labour inputs. Labour productivity growth also slowed for the third consecutive year.

Bart van Ark, chief economist of the Conference Board, said it was not clear whether the decline in productivity growth was the result of weak demand reducing the output of economies, or that there is an over-emphasis on the product innovation rather than production innovation. Concerns about the usefulness of modern technology in improving productive efficiency have been raised.

For the US, labour productivity growth stabilised at 0.9 per cent in 2013. The US trends were, however, better than those in Europe, which has seen extremely weak productivity growth alongside relatively muted unemployment in most large economies with the exception of Spain, where joblessness soared.

Mr van Ark said Europe's problem in achieving more efficiency from its labour force stemmed from structural rigidities. "We really see the need for more people to move quickly from one company to another and where innovative firms do not see huge risks in taking on these people."

Source: Adapted from *Financial Times*, 14 Jan 2014

Extract 2: Challenges of Higher Education

The higher-education model of lecturing, cramming and examination has barely changed for centuries. Now, a technological revolution is challenging higher education's business model. Universities face a new competitor in the form of massive open online courses, or MOOCs. These digitally-delivered courses, which teach students via the web or tablet apps, have big advantages over their established rivals. With low startup costs and powerful economies of scale, it has created an explosion in online learning.

Around the world demand for continuing education is soaring among workers of all ages. Globalisation and improvements in machine intelligence are enabling automation to creep into new sectors of the economy, from book-keeping to retail, have shrunk the number of jobs requiring a middling level of education. Those workers with the means to do so have sought higher education, in an attempt to stay ahead of the labour-demand curve. Analysts reckon that perhaps 47% of occupations could be automated in the next few decades. They find that the odds of displacement drop sharply as educational attainment rises.

Source: Adapted from *The Economist*, 28 June 2014

Extract 3: Axing the redundant skill programmes

The UK government is to cut funding to 5,000 adult vocational courses to "simplify and streamline" the adult skills system in England. Amongst the courses to go are self-tanning, balloon artistry and instructing pole fitness. Nearly £200m of the Department for Business, Innovation and Skills budget for adult skills will now be redirected towards the "most relevant" qualifications that is valuable to employers and makes a real contribution to long-term economic recovery.

Mr Hancock said there are currently 15,400 regulated qualifications, and even with the restrictions in place, 11,000 of them are eligible for government funding. Hence the savings plan aims to make courses respond more closely to employers' needs and give learners a clear route either to employment or further training.

Source: Adapted from *BBC.com*, 5 Mar 2014

Extract 4: Ramping up the financial support for skill upgrading programme

Training providers in Singapore are planning to ramp up capacity to cope with a likely rise in demand after new moves were introduced to encourage lifelong learning. The expected boost to the training industry comes after a range of SkillsFuture initiatives were announced to help workers deepen their skills. Over \$1 billion in the form of new grants and higher subsidies have been introduced to encourage workers to take on training to sharpen their skills.

However, human resource consultants warned that quality could suffer amid the expansion in supply and said that workers should be discerning about how they spend their money. The Employment and Employability Institute, which funded more than 50,000 workers for training last year, will work with job-seekers and workers to provide career coaching advice and help them understand industry needs, said its chief executive Gilbert Tan.

It may take a while for demand to heat up, cautioned Singapore Human Resources Institute president Erman Tan. "We still lack the culture of lifelong learning, that's one of the weak points of us as a workforce," he said.

Source: Adapted from *The Straits Times*, 28 Feb 2015

Extract 5: Risk to Singapore Economic Growth

In its annual review of Singapore's economic and financial policies, the IMF noted that the "slowing inflow of foreign workers, as part of the ongoing economic restructuring towards productivity growth, could moderate potential economic growth and lower competitiveness".

The IMF noted that as Singapore continues with its restructuring policies, tighter labour supply due to the slowing inflow of foreign workers and an ageing population will boost wages. Singapore's ambitious restructuring efforts could "set the stage for a new era of sustainable growth". But it cautioned that productivity improvements might take some time to materialise and may not fully offset the effects of declining labour force growth.

It was also noted that the country's dependence on trade flows has left it particularly vulnerable to a slowdown in the growth of trading partners with concerns mounted over the United States economy, which seems to be losing steam, while recent euro zone data has been weak. The moderating of growth in China is also another concern

The IMF recommend Singapore to further her efforts to promote external rebalancing, which is to move from a reliance on exports to one on domestic demand, and reducing inequality.

Source: Adapted from *The Straits Times*, 19 Oct 2014

Questions

- (a) (i) Compare the trend of multifactor productivity growth between Singapore and UK for the period of 2010 to 2013. [2]
- (ii) How far does labour productivity explain for the trend above? [4]
- (b) From extract 2, what can you infer about the change in the price elasticity of demand of higher education that is based on the "model of lecturing, cramming and examination"? [2]
- (c) Explain how various technological advancements mentioned in Extract 2 may affect the price of higher education. [4]
- (d) Explain the case for government intervention in the market for vocational training. [4]
- (e) Evaluate the effectiveness of subsidising vocational training in improving labour productivity. [6]
- (f) With reference to the data and your own knowledge, discuss if productivity growth is the key to sustain economic growth in Singapore. [8]

[Total: 30m]

Section B

Answer **all** questions in this section.

Question 2

Globalisation and Economic Growth

Table 3: GDP Growth Rates (%)

Country/Year	2010	2011	2012	2013
Brazil	7.6	3.9	1.8	2.7
India	10.3	6.6	5.1	6.9
South Africa	3.0	3.2	2.2	2.2

Table 4: Current Account Balances (US\$ in millions)

Country/Year	2010	2011	2012	2013
Brazil	-47,273	-52,480	-54,246	-81,108
India	-54,515	-62,518	-91,471	-49,226
South Africa	-5,492	-9,073	-19,678	-21,194

Table 5: Inflation Rates (%)

Country/Year	2010	2011	2012	2013
Brazil	5.0%	6.6%	5.4%	6.2%
India	12.0%	8.9%	9.3%	10.9%
South Africa	4.3%	5.0%	5.7%	5.4%

Source: *World Bank*

Extract 6: Falling BRICS

By the standards of the developed world, the BRICS economics – comprising Brazil, Russia, India, China and South America are still surging. But their growth rates are a fraction of what it once was – thanks to stagnation on the developed world, in particular the Eurozone.

India's economy will grow by the lowest in a decade this year. Reforms undertaken by Finance Minister Palaniappan Chidambaram, including reduced fuel subsidies, faster privatisation, curbing the budget and current account deficits, and easing of restrictions on foreign investment in retail and airlines will take time to bear fruit. Meanwhile, corporate chiefs grumble privately about the difficulties of doing businesses.

South Africa's economic growth has been badly hit by strikes in the mining sector last year. 50 lives were lost, and it cost the industry massively. Unsurprisingly, the current account deficit worsened and the currency depreciated. South Africa's growth had already been sluggish since the 2008 global economic crisis. With a third of manufactured exports shipped to Europe, it is exposed to the current Eurozone crisis. It is also adversely affected by infrastructure constraints and poor investor sentiment.

Among the BRICS economies, Brazil is most affected by the Eurozone crisis. But some of its problems are self-inflicted. A softening of commodity prices, global risk aversion coupled with a crackdown by Brazil on capital inflows, contributed to an appreciation of its currency against the US dollar, making local industries uncompetitive. At the same time, a consumer credit boom was losing steam and investors were becoming more cautious about a perceived increase in government intervention in the economy. Industries struggled due to of high costs, rising wages and weak productivity gains.

Source: Adapted from *Financial Times*, 25 March 2013

Extract 7: Threats to Growth in Developed Economies

Among the advanced economies, two patterns seem to emerge: the United States, Canada, and Japan are expected to grow at a gentle pace, while the prospects for the euro zone are more uncertain, especially as tight credit conditions limits domestic demand.

The potential consequences of a withdrawal of fiscal stimulus and eventual halt of quantitative easing in the United States, the aggressive yet still incomplete financial and structural measures adopted in Japan, and the persistent unemployment and economic recovery challenges in Europe are factors that could put future economic performance at risk. In emerging markets, it is uncertain how protests in Brazil and Turkey, the credit crunch in China, and the potentially volatile capital flows to emerging and developing markets will affect growth in these economies.

Policymakers everywhere need to ensure that public finances are sustainable in the longer term. Globally, unemployment or the threat of it remains one of the main challenges to long-term social sustainability, which is a key to longer-term competitiveness, and thus to sustainable growth.

Educational reforms and the right set of investments to enhance competitiveness will be crucial for the economic transformations that can lead to sustained higher growth over the longer term. It is imperative that competitiveness features high on the economic reform agenda of both advanced and emerging and developing economies.

Source: Adapted from *Global Competitiveness Report*, 2013-2014

Extract 8: Confronting the Challenges of Globalisation

Economic and financial crises are recurring features of our globalised economy. Singapore's best defence is to build and maintain strong fundamentals. We were able to make a quick recovery from the Asian Financial Crisis and Global Financial Crisis because of fiscal prudence in the past and an appropriate monetary policy stance. The important lesson is that structural changes need to be undertaken ahead of time, before major weaknesses manifest themselves. With a faster pace of globalisation and technological change, new patterns of specialisation are emerging more quickly, and any competitive advantage an economy may enjoy is short-lived. Hence, we must create and seize opportunities to grow, and to restructure our economy early.

China's shift to a more consumer oriented economy, and its growing middle class will open up many opportunities for economies in the Asian region. Robust domestic demand within ASEAN will continue to drive its growth, especially with rising urbanisation. Ongoing regional integration efforts within ASEAN, which Singapore strongly supports, will boost intra-regional trade and investment. Singapore's linkages with India have also grown since the signing of our trade agreement. We can further expand services exports, particularly in sophisticated financial and business services. Our growing investment in research and development (R&D), higher education and continuing education will enable us to move into more innovation-driven, higher value-added activities.

Our biggest domestic challenge in the coming years is our ageing population and the tightening labour market as we reduce foreign labour inflow. We must restructure towards productivity-driven growth, and it would be less painful for us to do this now, when we have some policy and fiscal headroom to manage the pace, rather than later. We need to provide time for firms, especially the Small and Medium Sized Enterprises, to adjust; and ensure transitional support for households.

Source: Adapted from *Speech by Heng Swee Keat, Minister for Education, at the Annual Dinner of the Economic Society of Singapore (ESS)*, 6 August 2013

Questions

- (a) With reference to Table 3, compare India's economic slowdown with that of South Africa between the periods 2010 and 2013. [2]
- (b) (i) Explain how inflation rates may affect a country's balance of payments. [2]
(ii) To what extent does the data in Table 4 and 5 supports the above explanation? [2]
- (c) Comment on the view that economic stagnation in the developed world was responsible for the slowdown in economic growth in Brazil, India and South Africa. [6]
- (d) Explain how "tight credit conditions limit domestic demand" in Eurozone economies. [4]
- (e) Analyse how China's "growing middle class will open up many opportunities" to Singapore. [6]
- (f) Assess the importance of "fiscal prudence in the past and an appropriate monetary policy stance" in helping Singapore to overcome economic crises. [8]

[Total: 30m]

Section C

Answer **one** question from this section.

- 3** In 2009 UK government supported the production of renewable energy through subsidies, to reduce the reliance on non-renewable energy.
- (a) Using demand and supply analysis, explain the effects of subsidies on the different energy markets. [10]
- (b) Discuss whether taxation is the best way to deal with the misallocation of resources in the market for non-renewable energy. [15]
- 4** (a) Explain how countries measure their economic performance. [10]
- (b) Discuss if strong economic performance necessarily lead to higher standard of living. [15]

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