



H1 Economics

8819

Case Study and Essay Questions

14 September 2015

3 Hours

Additional Materials: Writing Paper

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.

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 (2 Hours 10 Minutes)

Answer **all** questions.

Section B: Essay (50 Minutes)

Answer **one** question.

Begin each 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]

This document consists of **8** printed pages and **3** cover sheets.

Section A

Answer **all** the questions in this section.

Question 1 Healthcare woes

Extract 1: Healthcare costs a concern among Singaporeans

In a dialogue session held by Singapore's Health Minister, Gan Kim Yong, four main concerns regarding the country's healthcare financing system were raised. Firstly, Singaporeans are concerned over rising healthcare costs. Currently, Singapore's national healthcare expenditure is about 4% of GDP, which is low among developed countries. Over time, Singaporeans can expect national healthcare spending to continue to rise. "So what drives healthcare costs? Firstly, the cost of the same treatment goes up over time, due to rising cost of manpower and medical supplies. Next, as we age, we will spend more on healthcare and this was one of the factors that contributed to the high bed occupancy rate at public hospitals" said Mr Gan. While there are plans to build new hospitals, one should note that the building of hospitals is a complex undertaking and hastening its completion would be risky. In addition, manpower development cannot be accelerated because time is needed for people to be trained.

The second concern of Singaporeans is how much out-of-pocket cash they have to pay. Thirdly, it is the concern of incurring exceptionally large healthcare bills. The ministry will carefully explore how it can provide Singaporeans with greater assurance against very large out-of-pocket payments. The fourth feedback received was that while there are many help schemes available, Singaporeans do not know how to get the help they need. Mr Gan said that the starting point is for every Singaporean to take ownership of his health and make informed choices. For this reason, it is important to preserve the principle of co-payment, but at the same time ensuring that it remains affordable.

Source: Adapted from Channel News Asia, 13 March 2013

Extract 2: Singapore's healthcare system

Singapore's health system is lauded internationally for its ability to achieve outstanding health outcomes at very low national spending. Yet, 72 per cent of Singaporeans believe "we cannot afford to get sick these days due to high medical costs", according to a 2012 Mindshare survey. In many developed countries, healthcare is funded collectively. Citizens are enrolled into a national health scheme and funds drawn based on individual needs.

Singapore has eschewed this path, with then-Prime Minister Lee Kuan Yew asserting: "Subsidies are wrong and ruinous... for however wealthy a nation, it cannot carry health benefits without massive taxation, reducing the incentives to work and to save and care for one's family." The Government declared health an "individual responsibility" in the 1980s and established Medisave and MediShield, enabling individuals to finance and hence be "responsible" for personal healthcare. Medisave is a compulsory individual medical savings account scheme which allows Singaporeans to pay for their share of medical treatment without financial difficulty. Working Singaporeans and their employers contribute a part of the monthly wages into the account to save up for their future medical needs. Meanwhile, support from Medifund is only upon application and on a case-by-case basis. C-class wards provide subsidies which can be as high as 80 per cent, but paying even the remaining 20 per cent may be impossible for hefty bills especially for the low-income Singaporeans.

Defenders of the system will point out the many financially struggling “welfare states” and proclaim Singapore must never go there. But it should be noted that between where we are today and the “fiscal extravagance” of the welfare states, there is a huge middle ground. Singapore’s government spending on healthcare is just above one-third the total, with a long way to go before even sniffing the four-fifths that is the case in the United Kingdom.

“To live well, live long & with peace of mind” is the mission of the Ministry of Health. How can we balance “individual responsibility” with ‘peace of mind’? Between one-third and four-fifths, where do we want to be?

Source: Adapted from Today Online, 22 February 2013

Extract 3: Health care provision in UK

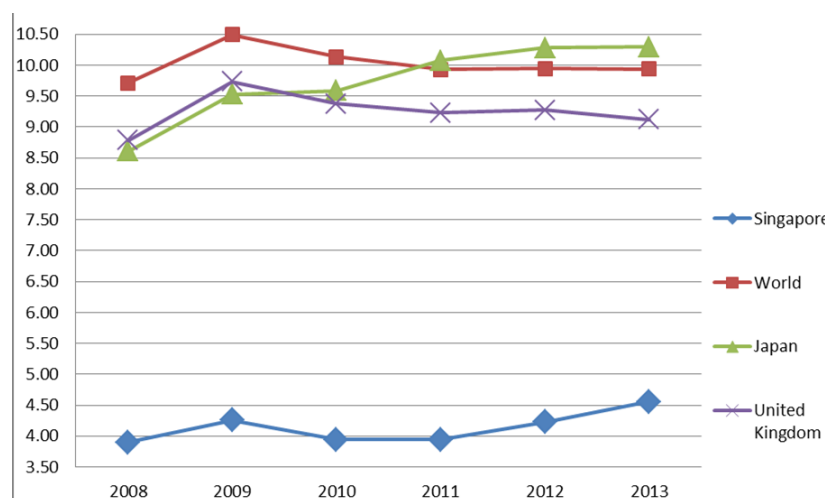
The National Health Service (NHS) offers care free of charge to all residents of the United Kingdom. This policy ensures that anyone can receive the medical care they need, regardless of their age, circumstances or financial situation. However, this policy did not come without any problems.

Due to limited resources, waiting lists are always a problem and a source of patient frustration. These waiting lists aim to ensure that patients are seen on a first-come-first-served basis, but also ensured that those patients who require more urgent treatment are seen before those with less serious condition. Many people thus choose to pay for private treatment when they are concerned about a medical condition.

The NHS also costs the British people a huge amount of money. For 2007-2008, the NHS budget is approximately 90 billion pounds, and it is set to rise to approximately 110 billion pounds by 2010-2011. Although the NHS is consistently monitored to ensure that it is delivering value for money, it is likely to remain an expensive investment: quality healthcare for all is an expensive ideal.

Source: Monetos, <http://www.monetos.co.uk/>, accessed 1 August 2015

Figure 1: Total health expenditure (%GDP) (2008 - 2013)



Source: World Bank

Questions

- (a) Using Figure 1, describe the main features of the total health expenditure for Singapore and Japan relative to the world from 2008 to 2013. [2]
- (b) To what extent is price elasticity of demand for healthcare useful in accounting for the rising healthcare expenditure? [6]
- (c) With reference to Extract 1, what can you conclude about the price elasticity of supply of healthcare? [2]
- (d) Using the concept of opportunity cost, explain one possible effect of an increase in healthcare expenditure on consumers and the government. [4]
- (e) (i) Explain why governments intervene in the market for healthcare. [6]
- (ii) Explain how the introduction of Medisave (Extract 2) would impact the market for healthcare. [2]
- (iii) In light of an ageing population, would you recommend that the Singapore government adopts UK's approach in the healthcare market (Extract 3)? Justify your answer. [8]

[Total: 30 Marks]

Question 2 China's alternative growth strategies

Extract 4: Worries of global deflation, slow economic growth are increasing

Slow global economic growth, falling consumer prices and other signs highlight a concern among monetary policymakers and market watchers that the risk of deflation in the world's economy is increasing. And if prices fall far enough and long enough, the economy could spiral into a worldwide recession.

Though consumers' money stretches further when prices fall, the profits of businesses erode, which tends to cause higher rates of unemployment thereby reducing consumer spending. And when people expect prices will fall in the future, they will spend less in the present, further weakening demand and dragging down prices. Deflation also increases the costs of borrowing, discouraging business investment and making it harder for existing borrowers to pay back loans.

Source: *International Business Times*, 16 October 2014

Table 1: Some economic statistics for China over the period 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
GDP growth (annual %)	14	10	9	11	9	8	8	7
GDP per capita, PPP (constant 2011 international \$)	7,225	7,880	8,565	9,430	10,274	11,017	11,805	12,609
Consumer price inflation (annual %)	5	6	-1	3	5	3	3	2
Current account balance (current US\$, in billions of dollars)	353	420	243	237	136	215	182	not available
Unemployment, total (% of total labor force)	4	4	4	4	4	5	5	not available

Source: World Bank

Extract 5: Export and investment-led growth versus consumption-led growth

The growth strategy that has served China so well over the past two decades and lifted millions out of poverty may have reached the point of diminishing returns. China's leaders have been aware that the state-directed model of export and investment-led growth was losing momentum even before the start of the global economic crisis.

While the global economy is on the path to recovery, China can no longer depend on the conventional cycle of a robust rebound in global growth that has sustained its export-led growth model since the 1990s. Indeed, there are already signs of a slowing global economy. The current European debt crisis and the plunging euro are hurting China's export to its biggest overseas market. Roach warned that if China stays the path of the old growth model and fails to embrace the pro-consumption model, it risks compounding its already formidable

imbalances. This is the most apparent in the investment share of China's GDP, which is moving above 45%. This is a record for any major economy and is simply unsustainable for any economy, including China.

The need for a pro-consumption transition in the Chinese economy is evident especially in the light of slowing global economy. But can the country's growing army of middle-class consumers be called upon to fill the demand vacuum created by flagging American and European consumer spending?

At present, China has by far the lowest share of private consumption to GDP in Asia. Even though consumer spending is increasing, it is not growing rapidly enough. Private consumption has actually been declining as a share of GDP, from 46% in 2000 to a mere 35% in 2008. On the other hand, household saving rates in China have been escalating. The Chinese citizenry's pro-savings mindset is deep-seated, born of centuries of deprivation. Their experience over the millennia is that during floods, famine, pestilence, earthquakes and war, the central government will not rescue them; therefore, savings are vital to survival.

Low private consumption in China can also be attributed to low personal income growth. The challenge of low personal income growth has been further compounded by the lack of income security as a result of inadequate social safety provisions which has rendered it difficult for them to draw down excessive levels of precautionary savings. The escalating private burden of expenditures on housing, education and health care may be encouraging precautionary saving.

Source: *Ethos*, Issue 8, August 2010

Extract 6: Productivity driven growth as an innovative and sustainable growth approach for china

President Xi has remarked that China's current model of economic development is "unbalanced, uncoordinated and unsustainable" and China's leadership has signalled its intention to "accelerate the transformation of the growth model, ... make China an innovative country" and "promote more efficient, equal and sustainable economic development" (CCCPC 2013). Indeed, achieving this structural transformation will be essential for China's long-term economic prospects in a world that is increasingly natural resource-constrained, efficiency-focused, globalised and concerned with inequality.'

China has already shown the world how quickly it can change. In the past 30 years, China's gross domestic product (GDP) grew at around 10% per year on average, hundreds of millions of people were lifted out of poverty, and China's urban population grew by around 250%. This growth has been an extraordinary achievement; but it has been unequal, and has come at great cost to China.

As China looks to the future, it can see many threats. Natural resource pressures are already acute; the pollution of air, water and land is taking a severe toll on the health and well-being of its people, the productivity of its economy, and the nation's image in the eyes of the world; and local-level governance and fiscal reform are urgently needed. But China also sees great opportunities – the potential to develop high-value, high-technology and services industries, to innovate, and to lift hundreds of millions more people out of poverty through urbanisation, employment, and expanded social services.

Source: Centre for Climate Change Economics and Policy & Grantham Research Institute on Climate Change and the Environment, May 2014

Questions

- (a) Using the data in Table 1,
- (i) Explain what is meant by GDP per capita. [2]
 - (ii) Consider whether the information provided suggests that there is a stable relationship between GDP growth and inflation rate from 2007 to 2014. [3]
- (b) What conclusion would you draw from Table 1 about the economic performance of China between 2007 and 2013? [4]
- (c) Using AD/AS analysis, explain how “if prices fall far enough and long enough, the economy could spiral into a worldwide recession” (Extract 4). [4]
- (d) Comment on the view that “growth has been an extraordinary achievement; but has come at great cost to China” (Extract 6). [6]
- (e) (i) Using the information in Extract 5, explain the possible changes in relative importance of the key components of the circular flow of income in China. [3]
- (ii) To what extent do you agree with the view that China’s export and investment led growth is no longer sufficient to ensure “China’s long term economic prospects” (Extract 6). [8]

[Total: 30 marks]

Section B

Answer **one** question from this section.

- 3** Like many societies, Singapore attempts to solve the central economic problem by improving the standard of living of her citizens. Two key challenges that Singapore faces are dealing with an ageing population and pushing productivity gains.
- (a)** Using the concept of opportunity cost, explain the central economic problem that the Singapore government will have to solve. [10]
- (b)** Discuss the view that a government should protect its potential key industries despite the benefits of free trade. [15]
- 4** The global economic outlook is likely to remain uneven across countries. Advanced economies are expected to see a pick-up in growth, emerging markets and developing economies are projected to see slower growth.
- (a)** Explain the potential trade-offs in macroeconomic goals that governments face in the pursuit of high and sustained economic growth. [10]
- (b)** Discuss the effectiveness of using exchange rate as a policy tool to achieve both low inflation and economic growth in Singapore. [15]

- End of Paper -



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COVER SHEET

H1 ECONOMICS

Section A: Case Study Question 1

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

14 September 2015

READ THESE INSTRUCTIONS FIRST

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)		
(d)		
(e)	(i)	
	(ii)	
	(iii)	
TOTAL		/30



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COVER SHEET

H1 ECONOMICS

Section A: Case Study Question 2

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

14 September 2015

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At the end of the examination, fasten this cover sheet to your answer scripts for Case Study Question 2 with the string provided before submission.

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



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COVER SHEET

H1 ECONOMICS

Section B: Essay Question

Name: _____

Civics Group: _____

Register Number: _____

Tutor: _____

14 September 2015

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

Please circle the question number you have attempted.

QUESTION ATTEMPTED		MARKS
Question 3	(a)	
	(b)	
Question 4	(a)	
	(b)	
Total		/25