ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2015 (JC2)
General Certificate of Education Advanced Level
Higher 1

**ECONOMICS** **8819/01**

Paper 1 **28 August 2015**

**3 hours**

Additional Materials: Answer Paper

***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.

**Section A**
Answer **ALL** questions.

**Section B**
Answer **ONE** question.

At the end of the examination, fasten your work for **Section A & B** **together.**

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

This document consists of **9** printed pages and **1** blank page.

**[Turn Over]**

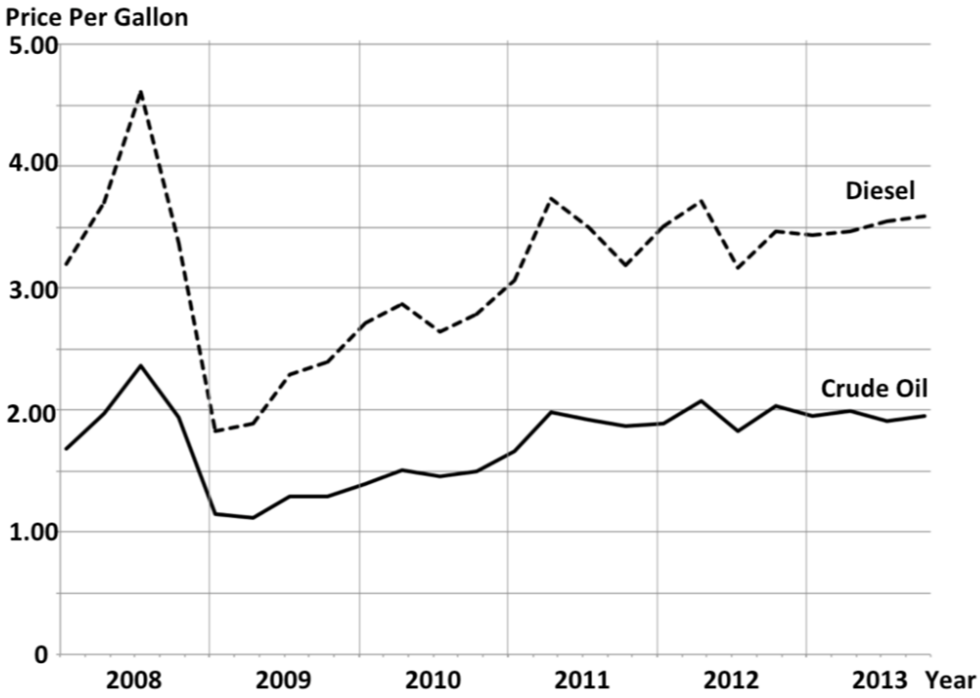
**Section A**

**Answer all questions in this section.**

**Question 1**

**Changes in the Market for Vehicles**

**Figure 1: Crude Oil and Diesel Prices**




Source: U.S. Energy Information Administration

**Extract 1: Singapore's pole position in Asian's energy market**

The oil industry has been an integral part of Singapore's economy, ever since oil-trading activities started in 1891. Today, Singapore is the undisputed oil hub in Asia and is one of the world's top three export refining centres, a valuable sector that contributed almost 5% of Singapore's Gross Domestic Product in 2007.

Singapore offers extensive oil storage facilities on Jurong Island, its integrated energy and chemical hub, to facilitate trade and manufacturing activities. Our storage capacity is set to multiply with the advent of Jurong Rock Cavern, a massive underground facility. Refineries in the Jurong Island produce diesel fuel and gasoline (petrol) from crude oil imported from abroad. Many other petroleum products are also refined from crude oil.

Source: edb.gov.sg

**Extract 2: Tighter emission standards for in-use diesel vehicles in Singapore**

The National Environment Agency (NEA) has advised owners of diesel vehicles, including Express Bus Service operators to get their vehicles inspected and serviced to meet tighter emission standards that will take effect on January 1, 2014. In a statement on Wednesday, NEA said it has been working closely with authorised vehicle inspection centres to alert owners whose vehicles show borderline results during the mandatory inspection.

It requires all diesel vehicles in use in Singapore to have a smoke opacity test result of 40 Hartridge Smoke Units (HSU) or lower from January 1, 2014. The current requirement is 50 HSU and lower. Owners whose vehicles fail to meet the standard can be fined up to S$5,000. The new regulation would mean costlier vehicles and fuel.

The new requirement is part of efforts to keep the air in Singapore clean and safe. Observers reckon the newfound urgency may have to do with Singapore's air quality as data released recently by the Ministry of the Environment and Water Resources shows that air quality last year was poorer than in 2007. Pollutants emitted from vehicles affects the levels of sulphur dioxide and particulate matter which contributes to acid rain and poses respiratory risks respectively.

Source: Channel News Asia, 18 October 2013

**Extract 3: Pollution control body for ban on diesel vehicles in Delhi**

Indian Government today informed the lower house of Parliament, that Environment Pollution (Prevention and Control) Authority (EPCA) has recommended that there is need to ban diesel vehicles in Delhi to prevent emission of high smoke particles.

"The EPCA in a report in 2012 has stated that benefits of CNG transition are not visible due to growth in diesel vehicles, because diesel vehicles are known to emit higher smoke particles and Nitrogen Oxides than petrol cars," Environment Minister said.

Earlier in 2007, the EPCA had expressed this concern in a detailed report filed by it in the Supreme Court titled "Controlling Pollution from the growing number of diesel cars in Delhi".

In the report, EPCA had recommended to the Court that there is a need to ban the use of diesel in cars in Delhi. The Central Pollution Control Board had carried out a study in 2007 in six cities - Bangalore, Chennai, Delhi, Kanpur, Mumbai and Pune. The ambient air quality data of these cities in respect of Particulate Matter revealed that contribution due to all vehicles is ranging from 2 per cent to 48 per cent.

Source: The Times of India, Dec 18 2012

**[Turn Over]**

**Extract 4: PMs agree on high-speed rail linking KL, Singapore**

Singapore and Malaysia have agreed to build a high-speed rail link between Kuala Lumpur and Singapore by 2020, in a move that both heads of government called a **"game-changer"**. Announcing the breakthrough agreement at a press conference today following bilateral talks, Prime Minister Lee Hsien Loong said that the rail link would create a 90 minute door to door journey for commuters, and that it will "change the way we do business, the way we look at each other and interact." He pointed to the Eurostar link between Paris and London, which transformed "two European cities into one virtual urban community" as a model for the KL-SG link. Malaysian PM Najib Razak said that the project will be a private-public one, with the link being built by private contractors with government infrastructural support. He declined to estimate how much the project will cost.

Source: The Straits Times, Feb 19, 2013

**Questions:**

(a) (i) Compare the trend in the prices of crude oil and diesel between 2008 and 2013. [2]

(b) (i) With the aid of a diagram, explain how the changes in price of diesel will affect the market for Express Bus Services. [3]

(ii) Explain how the completion of the High Speed Rail will affect the demand curve for Express Bus Services between Singapore and Malaysia. [3]

(c) (i) Explain the rationale behind the new regulation mentioned in Extract 2. [6]

(ii) With reference to extracts 2 and 3, discuss whether the new regulation or the banning of diesel vehicles is the key to achieving efficient allocation of resources in the Express Bus Services market. [8]

(d) Discuss how the High Speed Rail as a ‘game changer’ may affect the Singapore’s economy. [8]

**[30 marks]**

**Question 2**

**Tale of Two Economies**

**Extract 5: Indonesia aims for FDI growth**

Indonesia is aiming to increase foreign direct investment by 23 percent this year, after record inflows in 2012 helped insulate Southeast Asia's largest economy from a slowdown in exports. Strong investment was driven by the mining, transport and chemicals sectors, showing firms shrugged off worries over policy uncertainty, corruption and weak infrastructure to seek returns in an economy growing at more than 6 percent.

It was also reported that investors at home and abroad have responded positively to efforts to improve the investment climate. Foreign inflows to the G20 economy have increased significantly since Indonesia regained investment grade status from two rating agencies a year ago. Investment makes up around 30 percent of the G20 economy. Although it’s FDI is less than that attracted by China in 2012, Indonesia remained attractive to foreign investors compared with its Southeast Asian neighbours, Vietnam, for example, estimated its FDI fell by 5 percent to $10.46 billion in 2012.

Foreign investors are not expected to stop coming into Indonesia, especially noting the fact that infrastructure upgrades are ongoing in the country over the next three to five years. There is a need to continue enhancing workers’ productivity, especially in the manufacturing sector, which has been a laggard relative to the region."

Adapted from Reuters, 22 June 2013

**Extract 6: Abenomics and the Japanese Economy**

Just weeks after taking office in December 2012, Japanese Prime Minister Shinzo Abe, who had also led the country from 2006 to 2007, announced plans for a new suite of policies geared toward jolting the stagnating economy out of its deflationary malaise. Japan, having fought deflation for more than two decades, remains mired in weak growth despite repeated attempts to revitalize the economy.

Abenomics refers to an aggressive set of monetary and fiscal policies, combined with structural reforms, geared toward pulling Japan out of its decades-long deflationary slump.

Fiscal stimulus began with economic recovery measures totaling 20.2 trillion yen ($210 billion), of which 10.3 trillion ($116 billion) was direct government spending. Abe ordered a hefty stimulus package focused on critical infrastructure projects, such as building bridges, tunnels, and earthquake-resistant roads. This was earmarked to stimulate private investment

The Bank of Japan (BOJ) simultaneously pursued an unorthodox injection of liquidity into the economy, a policy known as quantitative easing, seeking to push inflation to 2 percent to spur spending. The goal of easy monetary policy is to reduce real interest rates. In Japan’s case, it has a significant side effect of weakening the yen.

Finally, structural reform—including slashing business regulations, liberalizing the labor market, cutting corporate taxes, and increasing workforce diversity—aims to revive Japan’s long-term competitiveness.

Adapted from Business Insider, 16 March 2013

**[Turn Over]**

**Extract 7: Abenomics need an overhaul**

Japanese Prime Minister Shinzo Abe must rethink his Abenomics program in its entirety. So far, only Abenomics' third and final arrow, reform, has come in for widespread criticism. But arrows one and two – monetary and fiscal stimulus – are also flagging in their efforts to pull Japan out of its economic funk. Annualized GDP growth fell to 1 percent in the second half of 2013 from more than 4 percent in the first half. If Abe does not refocus his reform program, the country risks a dangerous reliance on the Bank of Japan and its ultra-loose monetary policy.

Barring substantial reforms elsewhere in the Japanese economy, using the 'first arrow' to repeatedly weaken the yen is an unsustainable source for growth in the long-run. Under Abenomics, growth in Japanese exports has failed to keep pace with the rising cost of imports.

In a country with an aging and shrinking population, real long-term growth can only be realized through improved productivity. To stimulate productive investment, Japan must revamp the second arrow of Abenomics and focus on tax incentives rather than government spending. The new tax breaks tied to capital investment are surely too small to encourage significant new domestic investment, and only apply if companies can meet a 15 percent return on investment hurdle, a level which may be unrealistic in such a stagnant economy. These kinds of measures should prove more effective, and safer, than fiscal stimulus. Japan's government debts are already more than twice its GDP and further increasing it would prove problematic.

The third arrow of Abenomics, reform, also requires redirection. First, Japan needs to ensure its businesses use its people properly. To do this it will need to address a rigidity that has led to the development of a 'dual' labor market. Around 40 percent of workers are now deemed 'temporary,' in jobs which provide low pay, a lack of social insurance, and little opportunity to develop skills. There is scope to increase the use of foreign labor. There is also a need to use more flexible labor contracts so you can bring people into the labor force

Adapted from CNBC News, 27 March 2014

**Table 1: Macroeconomic Indicators: Indonesia**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Annual Rate of Growth Real GDP (%) | 4.6 | 6.2 | 6.5 | 6.3 | 5.8 |
| Rate of Inflation (%) | 4.8 | 5.1 | 5.3 | 4 | 6.2 |
| Unemployment Rate (%) | 7.9 | 7.1 | 6.6 | 6.1 | 6.3 |
| Current Account Balance (% of GDP) | 2 | 0.7 | 0.2 | -2.8 | -3.2 |
| Current Account Balance (USD billion) | 10.6 | 5.1 | 1.7 | -24.4 | -29.1 |
| Capital and Financial Account Balance (USD billion) | 7.8 | 3.9 | -1.7 | -24.6 | -29.2 |
| Budget Balance (% of GDP) | -3.1 | -2.8 | -2.2 | -1.7 | -1.4 |
| Public Debt (% of GDP) | 27 | 24.6 | 22.5 | 22.4 | 24.5 |
| Exchange Rate (rupiah per USD) | 9,425 | 9,010 | 9,068 | 9,638 | 10,461 |

**Table 2: Macroeconomic Indicators: Japan**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Annual Rate of Growth Real GDP (%) | -5.5 | 4.7 | -0.5 | 1.4 | 1.5 |
| Rate of Inflation (%) | -1.4 | -0.7 | -0.3 | 0.0 | 0.7 |
| Unemployment Rate (%) | 5.1 | 5.1 | 4.6 | 4.3 | 4.0 |
| Current Account Balance (% of GDP) | 2.9 | 3.9 | 2.1 | 1.0 | 0.7 |
| Current Account Balance (USD billion) | 145.3 | 217.2 | 126.5 | 58.5 | 34.1 |
| Capital and Financial Account Balance (USD billion) | 168.6 | 248.13 | 164.5 | 61.2 | -24.2 |
| Budget Balance (% of GDP) | -7.6 | -6.7 | -8.2 | -8.0 | -7.7 |
| Public Debt (% of GDP) | 185.0 | 190.5 | 203.4 | 210.5 | 218.1 |
| Exchange Rate (yen per USD) | 92.9 | 81.2 | 77.0 | 86.7 | 95.3 |

*Source: Organisation for Economic Co-operation and Development*

**Questions:**

(a) (i) With reference to Tables 1 & 2, compare the trend in the government budget balance as a percentage of GDP of Indonesia and Japan between 2009 and 2013. [2]

(ii) Explain how GDP growth rate could have affected the government budget balance in Indonesia. [3]

(b) (i) Explain how the increase in FDI may affect Indonesia's capital and financial account balance and current account balance. [2]

(ii) Explain the rationale for Indonesia's aim "to increase foreign direct investment by 23 percent this year". [4]

(c) Discuss the extent to which the data provided supports the theoretical relationship between Indonesia's exchange rate and its current account balance between 2009 and 2013. [5]

(d) Using the concept of circular flow of income, explain how the fiscal expansion mentioned in Extract 6 as part of Abenomics will affect the equilibrium level of national income. [6]

(e) Discuss the view that the approach of "Abenomics" undertaken by the Japanese government requires adjustment in response to the underlying problems faced by Japan. [8]

**[30 marks]**

**[Turn Over]**

## Section B: Essay Question

**Answer <u>ONE</u> question from this section.**

**Question 3**

(a) Explain how globalisation could reduce the economic problem of scarcity. [10]

(b) Discuss the impact of globalisation on the economic agents of a country. [15]

**Question 4**

Be it to raise or lower inflation, governments around the world have used interest rates as a means to tackle this problem.

(a) Explain why governments may want to achieve a low and stable inflation rate. [10]

(b) Discuss whether the control of interest rates is the best approach to tackle inflation. [15]