

VICTORIA JUNIOR COLLEGE
2015 JC2 PRELIMINARY EXAM
H1 ECONOMICS – PAPER NO. 8819

16 September 2015

08:00 – 11.00 am

Wednesday

3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name on all the work that 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.

At the end of the examination, fasten all your work securely together, by question, using the strings provided.

Start each question on a FRESH piece of paper.

Section A

Answer **all** questions.

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

Section B

Answer **1** question.

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

This document consists of 8 printed pages.

Section A

Answer **all** questions in this section.

Question 1

Health Care Markets

Table 1: Health care cost

Country	Health care cost as percentage of GDP	Health care cost per capita (US\$)
Singapore	4.5	2,426
Hong Kong SAR	5.3	1,944

Source: www.bloomberg.com

Extract 1: Cost of ageing population Singaporeans' top worry

The number one worry of Singaporeans is the cost linked to the growing pool of old folk, according to a global survey commissioned by global insurer Swiss Re. Singapore is projected to have one in five people aged 65 or older by 2030. As the country greys, a critical quotient is the gap between the cost of meeting people's needs in health care and what is available from government schemes to cover these costs, said Ms Marianne Gilchrist, Swiss Re's head of health solutions, Asia. While Singapore's gap is not as high as other countries', it is still a "substantial" amount which will strain public and individual finances, Ms Gilchrist said. The need for the various health care players to team up to bridge the gap cannot be overemphasised, she added. How to do it was a topic discussed at a Swiss Re closed-door symposium, attended by regional life insurers, academics and government officials. Popular solutions raised include the Government focusing on early intervention and promoting healthy living, and implementing policies that "nudge" people to change their behaviour.

Source: The Straits Times, 23rd October 2013

Extract 2: Markets don't work for health care

Health is not only a benefit to the individual, but to society as a whole. One's health makes others better off. Healthier societies are wealthier, because they take advantage of more of their human potential. Sicker societies underinvest in human capital because early death or chronic illness reduces the payoff from education. If we relied strictly on market forces to provide health care, we'd be sicker and poorer.

Source: MarketWatch, 20th August 2009

Extract 3: Singapore losing 'medical tourism to neighbours'

Singapore is finding it harder to retain its title as the region's top medical tourism hub as patients eye cheaper options elsewhere while government support for the sector wanes, a new report has warned. It also noted that the challenges will only intensify as improved standards in neighbouring cities test the high prices here, which are further exacerbated by a strong Singapore dollar. A heart bypass in Singapore costs 41 per cent more than in Thailand and 106 per cent more than in Malaysia, BMI Research found. While higher prices here have traditionally been justified by the high level of treatment offered – Singapore is

ranked sixth out of 191 countries globally and the best in Asia by the World Health Organisation – this gap in standards has begun to close. Private health care providers in Thailand are gaining international accreditation and private hospitals such as Bangkok's Bumrungrad International have rapidly expanded into specialist services – once a key competitive advantage for Singapore, said the report out yesterday.

Meanwhile, the expansion of private health care providers overseas has also lowered the need for medical tourism, while reducing these firms' own need to market their services in Singapore. Raffles Medical Group, one of the largest private operators here, has three medical centres in Hong Kong and one in Shanghai. Malaysian firm IHH Healthcare, which owns major hospitals including Mount Elizabeth Novena and Gleneagles Singapore, operates in Vietnam, Brunei and China. The report noted that the Singapore dollar has risen 24 per cent against the Indonesian rupiah over the past two years. "This has had significant ramifications as the Indonesian market accounted for 56 per cent of total medical tourism revenues in 2013," it said. Revenue from Indonesian medical tourists in 2013 was \$463 million, down 38 per cent from 2012, according to the Singapore Tourism Board's (STB) latest data. Total medical tourism receipts in 2013 fell 25 per cent from 2012.

Growth has also been limited as government support for the industry once identified as a potential driver of the economy has cooled, said the report. SingaporeMedicine – a government-industry initiative launched in 2003 to promote Singapore as a world-class health care destination – now has its online presence redirected to the STB website. In contrast, governments in competing hubs have become more "aggressive" in attracting medical tourists, said the report. Last month, the Malaysian authorities disclosed a 30 per cent discount on Malaysia Airlines airfares for Bangladeshi patients seeking treatment in the country.

Adapted from: The Straits Times, 8th May 2015

Extract 4: Impact of medical tourism in Asia

National governments anticipate many benefits from medical tourism. There are financial benefits generated from health services and associated visitor spending. Human resource benefits can be gained by using medical tourism to attract back health workers who have emigrated — reversing the 'brain drain'. Benefits may include the expansion of health-sector infrastructure and also roads and telecommunications. Equity may be improved by hospitals cross-subsidising care for domestic patients, or helping to fund capital investment. Capital investments, such as MRI scanners, can then be used by all patients in the hospital or health system.

So do these anticipated benefits occur? The truth is that we simply do not have enough data on country indicators. The involvement of transnational corporations may result in profits from medical tourism and ancillary activities being remitted overseas. While some evidence suggests medical tourism generates modest contributions to GDP, there are concerns about human resource migration to the private sector, with professionals lured by better salaries and work opportunities. It is possible resources will be taken away from the domestic population and instead invested into private hospitals, where foreign patients benefit from a high staff-to-patient ratio and expensive, state-of-the-art medical equipment. Such private activity is further supported by tax breaks and public subsidies for the training and education of health workers.

Source: East Asia Forum, 13th February 2014

Questions

- (a)
 - i) With reference to Table 1, contrast the health care cost as a percentage of GDP and the health care cost per capita for Singapore and Hong Kong. [2]
 - ii) Suggest a reason for the difference in (a)(i) [2]
- (b) Using the concept of opportunity cost, explain how rising health care expenditure caused by an ageing population will impact a country's economic growth. [3]
- (c) Explain why health care markets fail. [5]
- (d)
 - i) What can you conclude about the price elasticity of demand of medical tourism in Singapore? [2]
 - ii) Using demand-supply analysis, assess the reasons behind the fall in medical tourism receipts for Singapore. [8]
- (e) With the help of the data and your own knowledge, discuss whether the Singapore government should protect medical tourism as an export industry. [8]

[Total: 30]

Question 2

Economic Growth and Policies

Table 2: % change in real gross domestic product (GDP)

	2009	2010	2011	2012	2013
Japan	-5.5	4.7	-0.5	1.8	1.6
USA	-2.8	2.5	1.6	2.3	2.2
China	9.2	10.6	9.5	7.8	7.7
Germany	-5.6	4.1	3.6	0.4	0.1

Table 3: Unemployment (% of total labour force)

	2009	2010	2011	2012	2013
Japan	5	5	4.5	4.3	4
USA	9.4	9.7	9	8.2	7.4
China	4.4	4.2	4.3	4.5	4.6
Germany	7.7	7.1	5.9	5.4	5.3

Table 4: Government budget balance (% of GDP)

	2009	2010	2011	2012	2013
Japan	-8.8	-8.3	-8.8	-8.7	-9.3
USA	-12.8	-12.2	-10.7	-9.6	-6.4
China	-1.1	-0.7	0.1	-0.3	-0.7
Germany	-3.1	-4.2	-0.8	0.1	0

Table 5: Components of GDP in selected economies (% of total), 2013

	Exports	Domestic consumption
Japan	16.2	61.1
USA	13.5	68.5
China	23.3	36
Germany	45.6	55.9

Sources of Tables 2 to 6: OECD and World Bank

Extract 5: Japan spurs talk of currency war

The Bank of Japan has launched quantitative easing on a vast scale in an effort to revive the Japanese economy. This creation of new money has caused Japan to come under fire for deliberately weakening its currency to spur demand for its exports.

But the fact remains that a weaker yen, which makes Japanese goods more competitive in the global market, is a boon for Japan's economy. On the other hand, Germany's economy is struggling. German exporters could feel the pinch if the euro appreciates against the yen which may exacerbate the slowdown in growth. Beyond that, there's concern that other

nations could take similar steps, leading to competitive devaluation, also known as a currency war.

Officials in Korea and Thailand were the latest to voice concern over the rapid appreciation of their currencies as monetary easing in Japan and the United States boosts demand for higher yielding assets. Brazil has also complained about the flood of money unleashed by interest rate cuts in the United States and Japan.

Source: CNN, 24 January 2013

Extract 6: Governments to the rescue

In 2009 the frightening speed of economic collapse spurred many governments to roll out big packages of tax cuts and extra spending in the hope of stimulating growth. Among Barack Obama's first steps as president in 2009 was to sign the American Recovery and Reinvestment Act, a stimulus plan worth \$831 billion, or almost 6% of that year's GDP.

In normal times, central banks would try to spur growth by adjusting interest rates to discourage saving and encourage borrowing. Yet by early 2009 most central banks had reduced their main interest rates almost to zero, without the desired result. Over-indebtedness might have been preventing people from borrowing as much as they would like, whatever the interest rate. Hence, governments need to spend more and tax less, to deliver a hefty economic bang.

For some countries, the result was a spike in government debt which was made worse by slowing growth. Worries about a country's solvency will lead creditors to demand higher interest rates, which will then compound its fiscal woes.

Source: The Economist, 28 September 2013

Extract 7: China's economic growth and rebalancing

The sustainability of China's economic growth is a key element of the global outlook. There is a widespread consensus, including in China, that the export-led growth model which prevails in the country is unsustainable in the long run.

Economic imbalances are an inherent by-product of the export-led growth model. While this framework has been successful in modernising China's economy, boosting GDP per capita and gaining export market shares, it has produced domestic and external imbalances and tensions with major trading partners. Production for the export market, such as the export of carbon-intensive metal products has also led to environmental degradation in China and this has become an issue of concern to many Chinese.

Hence, China is adopting policies to "rebalance" the economy by relying more on domestic demand to drive growth. This has led to policies to increase domestic demand to address problems such as weaker global demand. Coupled with abundant rural labour supply, inward foreign direct investment into the mainland areas and increasing share of high value-added exports using imported technology from multi-national companies, this would help China move towards a path of sustainable growth.

Source: European Central Bank paper on China's Economic Growth and Rebalancing, February 2013

Extract 8: China's new growth strategy

China has made the transition to a pro-consumption growth strategy the centrepiece of its newly enacted five-year plan. It features three building blocks:

- China has the smallest services sector of any major economy in the world, yet services in China generate about 35 percent more jobs per unit of GDP than do manufacturing and construction. By shifting from capital-intensive manufacturing to labour-intensive services, China could grow more slowly and achieve more sustainable growth.
- Per capita income of urban workers in China now runs about three times that of their counterparts in the countryside. With China's urban population exceeding its rural population for the first time in history, ongoing rapid urbanisation, coupled with services-led employment opportunities, is a plus for boosting aggregate wage incomes.
- China must build a social safety net. Lacking financial security, workers will continue fear-driven precautionary saving, an impediment to a flourishing Chinese consumer culture.

Source: Stephen S. Roach, YaleGlobal, 19 July 2012

Questions:

- (a) Compare Germany's government budget balance with that of USA [2]
between 2009 and 2013.
- (b) Explain how slow growth could worsen a government's budget [3]
position.
- (c) Explain one reason why the data in Table 2 is insufficient to explain [2]
the change in living standards for a country.
- (d) (i) Explain why a weaker yen is a "boon for the Japan's economy" as [4]
stated in Extract 5.
(ii) Explain why other countries might retaliate in response to the [3]
weakening of the Japanese yen.
- (e) Discuss the view that a government faced with the problems [8]
described in Extract 6 should opt for a policy of increased
government spending and tax cuts.
- (f) Discuss whether China should rely on her domestic market or [8]
exports to drive growth.

[Total: 30]

Section B

Answer **one** question from this section

1. a) Explain how public goods and demerit goods cause markets to fail. [10]
 b) To what extent is a ban the best way to tackle market failure associated with demerit goods? [15]
2. a) Analyse the causes of inflation in Singapore. [10]
 b) Discuss the appropriate measures that will help mitigate the effects of inflation in Singapore. [15]

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