TEMASEK JUNIOR COLLEGE
JC2 Preliminary Examinations 2015
General Certificate of Education Advanced Level
Higher 1

ECONOMICS
Paper 1

8819/01

Wednesday 2 September 2015
3 hours

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your Centre number, index number, CG and name on all the work you hand in.
Write in dark blue or black pen.
You may use a HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
Hand in your answer scripts to each question separately.

Do NOT turn over this page until you are told to do so.

Answer **all** questions.

Begin each question on a fresh sheet of paper.

At the end of the examination, fasten each question separately and 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

Section A

Answer **all** questions in this section.

Question 1

Singapore's Transportation System

Table 1: Top 3 most important public transport attributes[1]

	2011	2012	2013	2014
1)	Travel Time	Travel Time	Travel Time	Travel Time
2)	Waiting Time	Safety / Security	Waiting Time	Safety / Security
3)	Reliability	Waiting Time	Reliability	Waiting Time

Source: Land Transport Authority, Singapore

Table 2: COE Prices in Singapore (Category A Yearly Average)

2009	2010	2011	2012	2013
$11,600	$30,405	$48,206	$63,898	$74,690

Source: Land Transport Authority, Singapore

Extract 1: Singapore reveals 3 economic solutions to traffic congestion for Asian peers

Traffic congestion reduces a country's potential for creating prosperity. Singapore identified this early in the piece and was able to create an effective system of incentives and constraints so traffic wasn't a hindrance to economic growth.

It's always a shock when people first hear about how much it'll cost to get behind the wheel of a brand new Honda Jazz in Singapore. After hitting a low of S$3,864 in March 2011 the Certificate of Entitlement (COE) for a new car will now set you back over S$70,000. When you add on the additional registration fee, the level of which ratchets up to 180 per cent of the Open Market Value of the vehicle, you end up paying 2-3 times the regular price of the car.

By increasing the price of vehicles, the COE system restricts the amount of people that want or are able to buy a car. Twice a month, the Singapore Land Transport Authority runs an auction process for the available COEs. The amount of COEs is determined by a quota system.

Further to the quota system and additional registration fees that new car owners need to pay, there's also the Electronic Road Pricing (ERP) system that incentivises drivers to avoid certain areas at peak times. Costing about the same as a cup of coffee, passing underneath an ERP gantry can cost a normal car up to S$5 during peak hours. If drivers aren't in a rush they'll think twice before turning down a road that could lead them to an ERP gantry.

Source: Singapore Business Review, 24 July 2013

[1] Land Transport Authority (LTA) has conducted the Public Transport Customer Satisfaction Survey since 2006. The annual survey measures regular commuters' satisfaction with Singapore's mass public transport services, namely bus and Mass Rapid Transit (MRT) services.

Extract 2: Fare regulation framework

Public bus and train services are provided on a commercial basis, within the maximum fares approved by Public Transport Council (PTC). The Government does not provide direct subsidies for public transport operations.

To keep public transport fares affordable to the general public, public transport infrastructures such as MRT/LRT lines and bus interchanges are funded entirely by the Government. In addition, public buses are also exempted from COE payments. The Government also pays for the development and software cost of the contactless smartcard system. Therefore, bus and train operators are only responsible for operations, maintenance costs and investments in service improvements.

In regulating bus and train fares, the PTC carries out its statutory mandate to safeguard public interest by keeping fares affordable while ensuring the long-term financial viability of the public transport operators.

Source: Public Transport Council, Singapore

Extract 3: Despite push for public transport, a love for cars endures

Marketing consultant Walter Lim, 44, scrapped his Nissan Sunny less than three weeks ago. For the first time in about 16 years, he is without his own set of wheels, and he now takes public transport with his wife and 11-year-old son. His reason for the change in lifestyle? The marginal utility derived from owning a car no longer matched the price he was paying, said Mr Lim matter-of-factly. He was forking out S$4,700 a year as his car neared the end of its 10-year COE cycle.

Like Mr Lim, more people here have been giving up their cars in recent years. Based on the latest statistics from the Land Transport Authority, as of last month, the number of cars on the road was 589,615 — down from 604,633 a year ago and the peak of 607,292 in 2013 — and the lowest since the end of 2010, when the figure was 584,399.

Meanwhile, public transport ridership has been growing steadily. It went up last year by 4.6 per cent to hit a record 6.65 million trips per day, and its mode share grew to 66 per cent, up from 64 per cent in 2013.

The Government has invested huge amounts of money to improve public transport as it seeks to wean Singaporeans off their cars. There will be 99 new trains by 2019, and 450 new buses by 2017 — on top of the 550 already added in recent years. By 2030, there will be new rail lines, more covered walkways, and a 700km cycling network.

Non-constituency Member of Parliament Gerald Giam, 38, in a Facebook post last month said that he had given up his car. He told TODAY that he did so after the COE for his second-hand 2005 Toyota Corolla Altis expired. With the duration of his journeys now two to three times longer compared to when he drove, Mr Giam said that advance planning is essential before he and his family leave home.

But people like Mr Lim and Mr Giam are the exception, not the norm. Transport analysts noted that Singaporeans' soft spot for automobiles is tough to eradicate.

Source: Adapted from: Today, Singapore, 17 July 2015

Questions

(a)		Explain whether public transport in Singapore is a public good.	[4]
(b)		Using a diagram, explain why there is need for the government to intervene in the market for private transport in Singapore.	[6]
(c)	**(i)**	Using Table 2, describe the trend in COE prices.	[2]
	(ii)	Analyse the impact of the above trend in COE prices on the market for public transport.	[4]
(d)	**(i)**	Explain how the price elasticity of demand of private transport affects the usefulness of the anti-traffic congestion policies mentioned in Extract 1.	[6]
	(ii)	Assess which factors are more important in influencing the extent of the price elasticity of demand for private transport in Singapore.	[8]

[Total: 30]

Question 2

Growth and Debt

Extract 1: Developed economies take lead in growth

The global economy's jagged recovery inched forward in 2013, with fast-growing emerging markets losing pace while developed nations gained strength.

The 2013 performance reflected something of a role reversal among the players. After years of notching far slower growth than many emerging-market counterparts, some leading economies are at last showing strength. The global snapshot also reveals the far-flung effects of monetary policy, as decisions by central bankers in developed nations reverberated through emerging markets.

In 2013, central banks in the U.S., Japan and Europe showered money on their economies, held interest rates low and promised to continue to do so in a bid to animate a recovery that remains tepid almost five years after the worst recession since the Great Depression. In emerging markets such as Brazil and India, domestic demand softened and exports sagged as rates were boosted to stem inflation.

The combination of fast-growing economies slowing slightly while the developed world picks up the pace sets the stage for "synchronized growth," in 2014, said Tu Packard, senior economist at Moody's Analytics. That means, she said, that "demand from developed markets will support developing-market growth, and they will support each other."

Source: Wall Street Journal, 30 Dec 2013

Extract 2: Global inflation slowing further

Despite the massive monetary easing by major central banks, inflation remains tame worldwide, partly reflecting large output gaps and high unemployment. Global inflation is projected to moderate further to 2.6 per cent in 2013, down from 2.9 per cent in 2012. This decline mainly results from somewhat lower inflation in the United States and Europe in the face of subdued demand, continued high unemployment and contained energy and food prices.

Average inflation in the developing economies, by contrast, will increase slightly from 5.4 per cent in 2012 to 5.6 per cent in 2013. This increase will stem from both cyclical factors, including a pick-up in demand in parts of East Asia and Latin America and the Caribbean, and one-off policy measures such as lower fuel subsidies and higher minimum wages.

Various economies, especially in South Asia and Africa, will continue to face high inflation rates, mainly owing to elevated inflationary expectations, rapid credit growth and structural bottlenecks such as energy shortages. In 2014, global inflationary pressures are expected to remain mild even as economic activity, particularly in developed countries, strengthens. Most developing regions are likely to see a moderate decline in inflation as international commodity prices ease.

Source: UN World Economic Situation and Prospect 2013

Table 1: Selected data of US budget and debt positions

	2008	2009	2010	2011	2012	2013
Revenue (Trillion)	4.7	3.7	4.7	5.1	4.9	5.6
Spending (Trillion)	5.3	6.0	5.9	6.1	6.1	6.0
Debt to GDP ratio	64.8	76	87.1	95.2	99.4	100.83

Source: US Department of Treasury

Extract 3: Bad fiscal policy

The IMF minced no words with regard to U.S. fiscal policy: "the deficit reduction in 2013 has been excessively rapid and ill-designed," while praising the Federal Reserve for "appropriately" continuing to add stimulus to the economy even as signs of gradual recovery have begun to appear, although monetary policymakers should continue to prepare for an exit. In particular, the self-imposed, automatic across-the-board spending cuts ("sequester") not only reduce growth in the short term, but indiscriminate reductions in education, science, and infrastructure spending, if protracted, could also reduce long term potential growth. The slower pace of deficit reduction would help the recovery at a time when monetary policy has limited room to support it further.

"Adopting a more balanced and gradual pace of fiscal consolidation would help global growth in the short run," the report said. And it stressed that among other benefits, this revised fiscal policy would "partly relieve monetary policy of its burden of supporting the recovery, reducing the risks to U.S. and global financial stability from a prolonged period of low interest rates."

Revenue collections are estimated to increase to about 2½ percent of GDP this year, from 1¼ percent in 2012 partly due to higher marginal rates for upper-income taxpayers and the expiration of the payroll tax cut.

Source: Marketnews.com, 14 June 2013

Extract 4: To print or not to print

You can hardly turn on the television these days without hearing a politician or pundit warning the American public that we'll "end up like Greece" if the federal government doesn't get its fiscal house in order soon. And it's true that we don't want to end up like Greece: The global financial crisis caused its already-problematic debt to soar; financial markets began demanding higher and higher interest rates to fund that debt; which in turn undermined the economy further, again causing deficits to rise.

But let's take a step back and recognize that, for several reasons, the U.S. is in a dramatically different economic position than Greece.

Perhaps the most important difference between the two countries is that the U.S. prints its own currency, meaning it can essentially create money out of thin air. If our creditors demand we repay them, we can just print dollars. By contrast, when Greece borrows money, it borrows Euros, a currency over which it has no control. That's not to say the U.S. doesn't need to worry about its debt. For developed economies that print their own currencies — like the U.S., the U.K., and Japan — the risk is not outright default, but runaway inflation. In other words, if we have to resort to the printing press to pay our debts, this may cause the supply of dollars to outstrip demand for them, and the value of our currency to plummet.

Source: Time.com, 01 Mar 2013

Extract 5: Paying with the future

Political dysfunction in Washington has led to the American public being barraged by continuous media reports about the fiscal deficit, the massive public debt, and the sequester. But the political skirmishes and impasses around these short-term events are distracting us from the real danger ahead: Our reckless fiscal trajectory that threatens America's competitiveness.

The nation's reported debt has almost tripled — to over $16.6 trillion — just since 2000, and the interest on this debt will be paid every year into the future. Bill Clinton observed in 1992 that the government is "spending more on the present and the past, and building less for the future." Yet during the past 20 years this problem has gotten far worse. Paying for interest on the public debt and meeting our unfunded obligations and promises will drive mandatory governmental spending to unsustainable levels.

Economist Paul Krugman and others argue that the government should take advantage of today's very low interest rates to borrow to stimulate our current economy since the risk of crowding out private investment is negligible. But their analysis ignores the balance sheet effects of borrowing to pay for today's consumption. Every trillion dollars we borrow today will require much higher mandatory interest payments when the debt is inevitably refinanced in the future. This will worsen future government's ability to invest for competitiveness and higher living standards.

Source: Fortune, 11 Apr 2013

Questions

(a) **(i)** Define stagflation. [1]

(ii) With reference to data, comment on the evidence of stagflation for developing countries. [3]

(b) Explain what the author of Extract 1 means by "synchronized growth" and the policies that had "set the stage" for such growth to be achieved. [4]

(c) Identify and explain **one** demand and **one** supply factor in Extract 2 that might affect inflation. [4]

(d) Based on the data, discuss the effectiveness of expansionary fiscal and monetary policies in facilitating the recovery of the US economy. [8]

(e) Discuss the justifications for implementing the 'sequester' and the likely effects on the world economy. [10]

[Total: 30]

Section B

Answer **one** question from this section

3 **(a)** Explain how scarcity is managed in a free market when consumers and producers aim to maximise their own welfare. [10]

(b) Discuss the need for the government to always intervene to ensure efficient resource allocation. [15]

4 **(a)** Explain how a small and open economy could encounter trade-offs in its economic objectives. [10]

(b) Comment on whether the policies employed by the Singapore government to counter these trade-offs are effective in achieving their intended outcomes. [15]