

PIONEER JUNIOR COLLEGE, SINGAPORE  
JC2 PRELIMINARY EXAMINATION 2015  
Higher 1

**ECONOMICS**

Additional Materials:

Answer Paper

**8819/01**

Paper 1

18 Sep 2015

3 hours



**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, index number and name 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.

Please begin your answer to each question on a fresh piece of writing paper.

At the end of the examination, fasten your work for Questions 1, 2 and 3 or 4 separately.

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

#### Education and Growth

**Table 1: Government Spending on Education in Singapore (Annual % Change)**

	2009	2010	2011	2012	2013
Total Government Expenditure On Education*	5.5	13.7	8.8	-2.3	10.5
Primary Schools	1.3	16.9	-1.0	6.9	13.6
Secondary Schools & Junior Colleges	2.8	14.9	-2.0	6.5	10.2
Universities	11.4	14.4	29.0	-14.7	15.1

\* Figure includes other expenditure such as Development Expenditure, Polytechnics that are omitted.

Source: Singapore Department of Statistics, [www.singstat.gov.sg](http://www.singstat.gov.sg), 2014

**Table 2: Median Gross Monthly Income from Work (Exclude Employer CPF) of Full-Time Employed Residents (Aged 15 Years & Over) by Highest Qualification Attained**

	Median Gross Monthly Income(\$)
Primary & Below	1,463
Secondary	2,500
Diploma & Professional Qualifications	3,500
Degree	5,976

Source: Ministry of Manpower, <http://stats.mom.gov.sg>, June 2014

#### Extract 1: Importance of Education in Singapore

From Singapore's beginning, education has been seen as central to building both the economy and the nation. The objective was to serve as the engine of human capital to drive economic growth.

Education spending rose to 3.6% of GDP in 2010, approximately 20% of total government expenditure and second only to defence. The linkage to economic development is close-fitting. As Singapore evolved from an economy based on port and warehousing activities, through a low-wage, labour-intensive manufacturing economy, and then to a more capital and skill-intensive industry and finally to its current focus on knowledge intensive industrial clusters, the education system was expected to ramp up the quality of its education and the supply of specific skills needed to make Singapore globally competitive.

Source: Organisation for Economic Co-operation and Development (OECD)  
<http://www.oecd.org/countries/singapore/46581101.pdf>

#### Extract 2: Increasing Investments in Higher Education - A Global Shift in Focus

Tertiary education systems have been expanding worldwide, with total enrolment increasing at an estimated 5% annually over the period 1991-2004. In countries where the higher education sector is more developed, there has also been a growing awareness of the need for close links between higher education institutions and industry, and a simultaneous diversification in the range of occupational qualifications provided by these institutions.

Singapore's higher education sector is already recognised as one of the best in the region. Nonetheless, as the emphasis on higher education grows worldwide, we will need to constantly improve our universities, polytechnics, and ITE, to ensure that our higher education sector remains world-class. NUS said the average operating cost per student has risen globally and the increase in tuition fees will "defray higher costs of talent, supplies and services". At the same time, we must move into more complex areas of study and collaboration with Industry, to reap maximum returns from our investment in higher education.

People who invest in higher education tend to receive greater private returns in the form of higher wages and higher employability. There are social returns to higher education, in terms of lowering poverty and crime rates. Many studies have suggested that numerous productivity externalities arise from higher education. For instance, economists hypothesise that a city with more human capital would be able to generate more knowledge capital, and the productivity gains from that would then spill over and raise wages among the rest of society. These effects create a compelling case for higher education subsidies.

Source: Singapore 2010 Budget Highlights

### **Extract 3: When things are free... What will it cost us?**

Education is an essential service some governments have chosen to provide free of charge to all citizens and even residents of their countries. It is the one of pillars of the welfare systems in the Nordic countries and in Britain, which is both boon and bane. For instance, Finland sees free tuition as conferring a competitive advantage in helping it lure top foreign professionals. But it poses a real risk of over-consumption because of moral hazard, a term economists use to describe the incentive to consume more when someone else is paying.

Free higher education in Europe has been a bane to governments there, with students keen to remain in the cocoon of the school system, rather than enter the marketplace of a debt-ridden continent in which jobs are hard to come by. In Denmark, the situation is exacerbated by students getting stipends (Internship Salary) for six years, though their tuition-free degrees take five years to finish. Many take an even longer time to graduate, going for internships or holidays so they can delay their entry into the job market.

The Singapore system avoids that. Yes, compulsory education is free at primary schools, where parents pay only a monthly miscellaneous fee of a few dollars. And while there are fees at the secondary level, a carefully calibrated scheme of subsidies and bursaries ensures that the needy are not denied the chance to study as far as they can go. But the system's structure removes any incentive for students to stay longer than necessary, yet ensures that everyone at least gets access to basic education. There have been occasional calls to tweak the system to make higher education free, but this will result in a greater tax bill.

Source: Straits Times, 1 July 2013

**Questions**

- (a) With reference to Table 1, compare how government spending on primary schools and on universities increased in 2013 relative to total government spending on education? [2]
- (b) Using demand and supply analysis, explain two possible reasons for the increase in university tuition fees as highlighted in Extract 2. [4]
- (c) Explain how the “need for close links between higher education institutions and industry” affects unemployment. [2]
- (d) With the help of an AD/AS diagram, explain the impact of education on the macroeconomic performance of the Singapore economy. [5]
- (e) Comment on the impact of higher education on the standard of living of graduates. [4]
- (f) (i) Explain what is meant by the term positive externality. [2]
- (ii) With the help of an example, explain how positive externalities arise in education. [3]
- (iii) In Britain, Denmark and Finland, education is free. In contrast, the Singapore system avoids this. Assess the economic case for these two different approaches. [8]

[Total: 30]

## Question 2

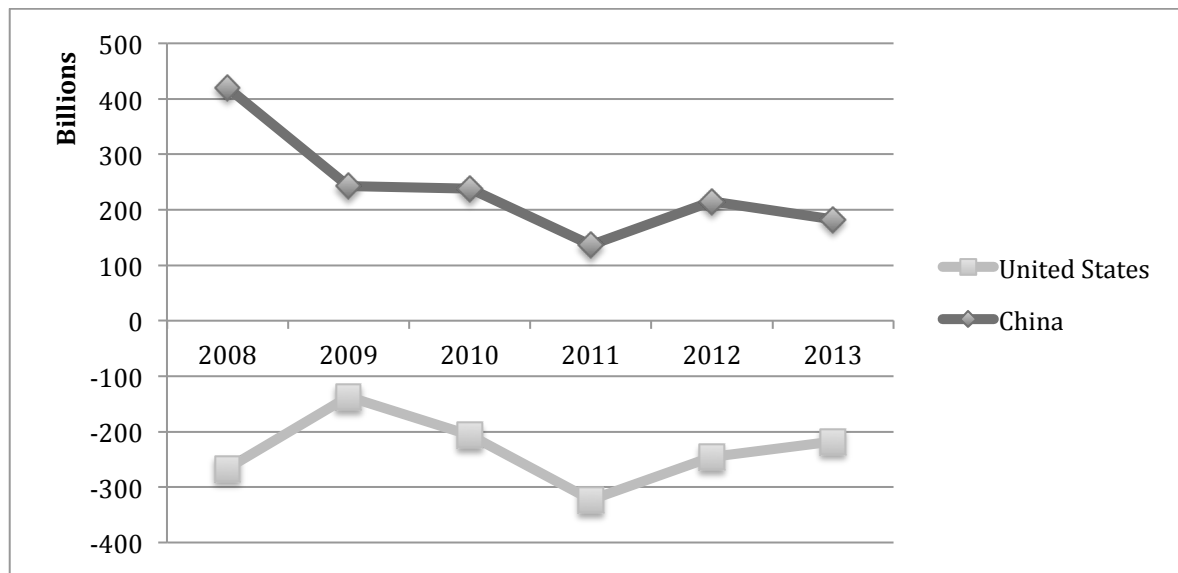
## Economic Challenges that China Faces

Table 3: China: selected economic indicators 2009 – 2013

Economic indicators	2009	2010	2011	2012	2013
Growth in real gross domestic product (% change per annum)	9.2	10.6	9.5	7.8	7.7
Consumption Expenditure (% of GDP)	48.5	49.6	50.8	49.9	49.6
Gross Savings (% of GDP)	52	51	49	50	50
Gross Capital Formation (% of GDP)	48	47	47	47	48
Exports of Goods and Services (% of GDP)	23.7	26.2	25.5	24.2	23.3
Imports of Goods and Services (% of GDP)	19.9	23.2	23.4	21.5	20.6

Source: World Trade Organization and World Bank

Figure 1: China and U.S. Current Account Balance (in billions US Dollars)



Source: World Bank

**Extract 4: The slow boat in China is good for the region**

China's economy is showing clear signs of slowing down.

China's economic growth on the demand side is mainly investment driven. But excess capacities in its many heavy industries, coupled with the cooling housing market, have recently depressed domestic investment. For more stable long-term growth, domestic consumption must be boosted. Currently, China's consumption level is too low, at about 40 per cent of GDP (compared with 55 per cent for India and 70 per cent for the US). Domestic consumption has not risen fast enough to compensate for the decline in domestic investment. At the same time, it is crucial for China to reduce its dependence on exports as external demand plummeted due to the erosion of China's export competitiveness as wages rise and the Yuan appreciates.

On the supply side, economic growth has been fuelled by an expanding labour force and productivity increases. However, China's growth is facing demographic constraints which is of immediate concern. Due to its ageing population and declining population growth, China will see the number of 20- to 35-year-olds decline. In order to maintain or increase productivity growth, there is a need for more investment in human capital and research and development.

It is important to note that "low growth" for China is actually not low at all by regional and global standards as growth rate stands around 7 per cent to 8 per cent, easing to 6 per cent or 5 per cent in the 2020s. China's transition from double-digit hyper expansion to more sustainable growth levels is a desirable phenomenon, not only for the country, but also for its neighbours.

Lower growth provides an opportunity to achieve better quality and more sustainable growth. Growth will go hand in hand with macroeconomic restructuring and rebalancing, hence slower growth also means more inclusive growth and less pressure on the environment. China's economic rebalancing can be a positive factor for ASEAN's development. There will be, for example, less competitive pressures on ASEAN's labour-intensive manufactured exports. More FDI may also find its way back to Southeast Asia. Meanwhile, China remains the main economic growth engine for the region. Slower growth will not diminish China's growing geo-economic predominance in the region.

Source: *Straits Times*, 1 June 2013

#### **Extract 5: Losers of China's 'Rebalancing Act'**

As China rebalances its economy from exports driven to a more consumer-oriented society, there will be growing pains. Successful rebalancing largely depends on the ability of household consumption to pick up but it has not been able to do that so far. Losers of the rebalancing China economy in the global economy are commodities exporters like Brazil and South Africa.

As China turns inward, the effects for the world is especially clear for the big commodities producers. With a rise in income in China, Chinese consumers are expected to buy more luxury goods than anyone else; more cars; take more business trips and buy homes abroad in increasing numbers. But none of this requires metal such as iron ore pellets or copper wire from the global commodities markets. Boeing won't need to build additional airplanes to take these Chinese to Paris. Beijing will not be building a bridge to Malibu. Overall commodity prices have dropped significantly and China is one of the reasons why.

Source: *Forbes*, 15 August 2013

#### **Extract 6: China warns of 'grim' trade outlook after surprise exports fall**

The world's second-largest economy is expected to be faced with a slowed down in GDP growth to 7.5 percent as weak demand dented factory output. In particular, exports to the United States, China's biggest export market, fell 5.4 percent in June, while exports to the European Union dropped 8.3 percent.

The external environment remains weak, rising labor costs and a stronger Yuan had eroded China's exports competitiveness. A customs spokesman in China stated that the economy faces relatively stern challenges in trade, and exports in the next quarter is forecasted to continue to be sluggish.

Source: *Reuters*, 10 July 2013

#### **Extract 7: Protectionists pick your pocket again**

In late 2012, a handful of American companies that make hardwood plywood in the U.S. lodged a complaint with the Commerce Department that Chinese suppliers selling hardwood plywood to U.S. have an unfair advantage because they supposedly receive Chinese-government subsidies and also that these Chinese suppliers sell at an unfairly low price.

Following the complaint, the Commerce Department levied a punitive penalty on every Chinese exporter of the plywood. Plywood is a vital raw material for U.S. manufacturers – for making cabinets, furniture, boats, paneling and in home construction, crating and packaging, store fixtures, flooring underlayment and countless other products. They depend on a steady, affordable supply of this plywood for the products they will sell at home and abroad.

The plywood tariffs have jolted supply chains, pushing up cost of imported plywood and resulting in shortages due to a lack of domestic supply. The first to suffer will be American jobs in manufacturing and woodworking. Many U.S. manufacturers that depend on imported Chinese hardwood plywood fear that the tariffs will force the production of cabinets, furniture and other products now made in the U.S. to sites overseas such as Canada and Mexico. Households will also suffer the consequences as the current U.S. plywood manufacturers already control 80% of the market for domestic hardwood plywood and now they're seeking to further exploit their stronghold by edging out overseas competition.

In conclusion, when the Commerce Department imposes tariffs on China plywood, it raises prices on the many to benefit the protected few.

Source: *Wall Street Journal*, 15 September 2013

### Questions

- (a) (i) Compare the change in China's current account balance with that of US between 2009 and 2013. [2]
- (ii) With reference to Table 3 and Figure 1, explain how far the data might show that China has made progress in rebalancing the economy away from export. [4]
- (b) Explain why China's "demographic constraints" is of "immediate concern"? [4]
- (c) Identify one injection and one leakage (or withdrawal) shown in Table 3 that would change if consumption became the "main engine of growth" in China in the future. [2]
- (d) Explain why a subsidy given by the Chinese government to their plywood suppliers is deemed unfair to the American plywood companies? [2]
- (e) Extract 7 highlights that "when the Commerce Department imposes tariffs on China plywood, it raises prices on the many to benefit the protected few".  
  
Discuss whether the US government's policy of protection for the plywood industry benefits the minority and penalises the majority? [8]
- (f) Extract 4 and 5 describe China's rebalancing as moving away from export-driven growth to consumption driven growth. Assess the impact of such rebalancing on China and her trading partners, using both the case study and your own relevant knowledge. [8]

[Total: 30]

**Section B**

Answer **one** question from this section.

- 3 (a)** Explain, using examples, what is meant by:  
(i) a public good.  
(ii) negative externalities. [10]
- (b)** Negative externalities arising from production of a good gives rise to market failure. Discuss the extent to which the price elasticity of demand for a good affects the effectiveness of using indirect taxation to correct this market failure. [15]
- 4 (a)** Explain the possible effects of rising inflation. [10]
- (b)** Most agree that inflation can create uncertainties and undermine confidence in the economy. That is why most Central Banks are tasked with keeping a lid on inflation through interest rate and exchange rate. Discuss the extent to which Central Banks could keep a lid on inflation. [15]