



NATIONAL JUNIOR COLLEGE  
SH2 Preliminary Examinations for General Certificate of Education Advanced Level  
Higher 1

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## ECONOMICS

8819/01

Paper 1

14 September 2015

3 hour

Additional Materials: Answer Paper, Cover Pages

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### READ THESE INSTRUCTIONS FIRST

Write your name and subject class on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams or graphs.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY OF THE MARGINS.

#### Section A: Case Study Questions

Answer **ALL** questions. You are advised to spend some time reading through the data before you begin writing your answers.

#### Section B: Essay Questions

Answer **ONE** question.

**Start each question on a new piece of paper.**

Fill in the necessary information on the cover pages.

At the end of the examination, fasten all your work securely with the cover pages given.

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

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This document consists of **11** printed pages.

## Section A

Answer **all** questions.

### Question 1 Palm Oil Market in Indonesia

**Figure 1: Global price of palm oil**



Source: *World Bank*

#### Extract 1: Palm oil prices set for a volatile 2013

Palm oil prices are set to start 2013 on a sour note as record high stocks and rising output in Southeast Asia overwhelm already weak demand, while regulatory uncertainty in top buyers India and China adds to the gloomy outlook.

Analysts and traders at an industry meeting in Bali expect the world's biggest palm oil producers, Indonesia and Malaysia, to boost supplies next year, barring any weather disruptions.

While lower prices will attract food demand, appetite could be curbed by possible regulations by China and India. India, the world's biggest buyer, may set higher taxes on edible oil imports to protect oilseed farmers, and China launches strict quality curbs for imports on 1<sup>st</sup> of January 2013. Indonesia is also considering increasing tax incentives to encourage palm oil companies to set up refineries as it develops its downstream sector to compete with Malaysia and draw in more export earnings.

Source: Adapted from *Reuters*, 30 Nov 2012

#### Extract 2: South-East Asia Haze: What is slash-and-burn?

Slash-and-burn is arguably the easiest and cheapest way to clear patches of land for plantation. Some farmers are clearing the forest to plant crops. But the big concern is that many of these fires may have been started to burn rainforests so big corporations can plant oil palm plantations.

An extremely versatile commodity that's cheaper and more efficient to produce than other vegetable oils, palm oil is currently used in half of all consumer goods from biscuits, to shampoos, to cosmetics and biofuels. In 2003, an European Union directive went into effect that mandated that by 2010 member countries would have to replace 5.75 percent of all transportation fuels with biofuels. The surge in demand means that there is need for extra land for palm oil plantations.

Singapore and parts of Malaysia and Indonesia have been shrouded in a dense, pungent smog in recent days caused by fires in Indonesia. Pollution levels have hit record high. This haze is largely due to the slash-and-burn technique of clearing the land in Indonesia.

Under this practise, farmers cut down part of the vegetation on a patch of land and then set fire to the remainder. When started on peats, the fire is extremely difficult to control or stop. These fires produce a thick smog and release a huge volume of greenhouse gases. The current haze is being caused by fires in Sumatra in Indonesia, much of which is a giant peat bog. Indonesia's government has outlawed the use of fire to clear land.

Source: Adapted from *The BBC News*, 24 June 2013

### **Extract 3: The fires problem persists**

In early March 2014, forest and peat fires in Indonesia spiked again. But while we can determine the extent of the fires and where they are happening, there's still a lot we don't know. For one, Indonesia's government fails to release the most timely, updated information on where oil palm, pulpwood, and logging companies are operating. Second, further investigation on the ground is an urgent priority, including in-depth research and surveying to better understand the proportion of burning done by large companies versus medium-sized operations. Certainly, poor farmers lack alternatives to the use of fire when clearing their land. They may also use fire to deliberately damage or claim land controlled by larger companies. Such land conflict is common across Indonesia.

The governments of Indonesia and Singapore, as well as the wider ASEAN grouping, are taking efforts to reduce the risk of fires. Fire detection and combat efforts have been stepped up, and Indonesian law enforcement has made a significant number of arrests. Governments of the ASEAN community agreed in October to collaborate and share data on fires and land use, though unfortunately this information will not be made public. And further, many companies have publicly announced "no burn" policies, and are investing in their own fire monitoring and control systems.

But as the unprecedented number of fire alerts in Indonesia shows us, these efforts are falling far short of what's needed to curb the crisis.

Source: *The Guardian*, 14 March 2014

### **Extract 4: Falling commodity prices a blessing in disguise for Indonesia – World Bank**

Falling commodity prices have dealt a hard blow to Indonesia, one of the world's largest suppliers of minerals and agricultural commodities. But there's a silver lining: It may drive investment into other sectors, the World Bank says.

"Lower commodity prices should increase the relative profitability and attractiveness of manufacturing and help Indonesia develop its industrial base," the World Bank argued.

Declining commodity prices over the past two years have led to a deterioration in Indonesia's current account, which contributed to the massive exit from Indonesian assets during last summer's taper-related crisis.

Rapidly rising wages in China present Indonesia with a potential opening to regain a comparative advantage in labour-intensive export sectors. Appreciation in the Chinese yuan – which has seen its real effective exchange rate rise 30% since 2005 — is further eroding China's competitiveness in manufactured goods. These pressures, combined with slower overall economic growth, are prompting firms to look beyond Chinese coastal areas as a manufacturing base. Some of that investment is now flowing to Southeast Asia. "These

dynamics offer ASEAN countries, including Indonesia, an opportunity to attract more investment in their manufacturing industries,” the World Bank said.

Indonesia has been attracting investment in recent years in the automotive and consumer-goods sectors, both for export and to meet growing demand domestically. But maximizing its present opportunity will require reforms, the World Bank said, highlighting the need to improve labour productivity, infrastructure and the legal system.

“In light of ongoing economic risks and Indonesia’s ambitious development agenda, laying the groundwork for future reforms, minimizing policy uncertainty and making continued reform progress in some areas should remain a priority,” the report said.

Source: *The Wall Street Journal*, 18 March 2014

### Questions:

- (a) (i) Using Table 1, compare the overall change in global palm oil prices between 2009 and 2011 with that between 2012 and 2015. [2]
- (ii) Using demand and supply analysis, account for the change identified in (a)(i). [4]
- (b) Explain why the government in India may want to set a higher tax on edible oil imports from Indonesia. [2]
- (c) (i) With reference to Extract 2, explain how negative externalities arise in the palm oil production. [4]
- (ii) Discuss whether the use of a Pigovian tax or a system of tradable permits is more effective in tackling the problem of negative externalities in the production of palm oil. [10]
- (d) Extract 4 explains how the falling commodity prices and the current events in China economy can be a blessing in disguise for Indonesia. [8]  
To what extent do you agree that these events would be beneficial to Indonesia?

[Total: 30]

## Question 2 Balancing growth and long term economic health

### Extract 5: Resilient Dynamism

The theme *Resilient Dynamism* perfectly captured the tenor of the global economy at the time of the 43<sup>rd</sup> Annual Meeting of the World Economic Forum. In the post-crisis world, resilience must be a goal for all countries if they are to endure another significant downturn. Achieving dynamism also has to be a priority now that crisis response has given way to the implementation of restructuring programmes.

Resilient dynamism means tackling immediate problems and long-term challenges at the same time. In a session on Europe, Young Global Leader alumnus Valdis Dombrovskis, Prime Minister of Latvia, described how, confronted by the crisis, his government had to implement an austerity programme while also taking steps that would improve the economy's competitiveness over time. Aiming for resilient dynamism goes hand in hand with the never-ending missions to achieve sustainability and competitiveness. Countries must restructure at home so they can compete in the world.

Source: Adapted from *World Economic Forum Annual Meeting 2013 Report*

### Extract 6: China's reform plan to deliver 7.5 percent growth

China put its fast-growing consumer class at centre-stage as outgoing Premier Wen Jiabao set out a reform plan on Tuesday to spread the fruits of economic growth more evenly in the country of 1.3 billion.

Mr Wen said unleashing the power of China's consumers was vital to the future of the world's second biggest economy. "We should unswervingly take expanding domestic demand as our long-term strategy for economic development," Wen told delegates at the once-a-year meeting of China's National People's Congress (NPC).

Mr Wen made consumers the cornerstone of an economic strategy designed to deliver an overall growth target of 7.5 percent in 2013. Rebalancing growth away from the investment-driven, export-oriented model that has delivered three decades of double digit growth, lifted hundreds of millions of people from rural poverty and turned China into the world's biggest trading economy, has been a policy priority for much of Mr Wen's decade in office.

There are growing concerns that more fixed-asset investment - already worth about 50 percent of GDP - would simply add to the inefficiency of China's state sector.

Inefficiency in industry exacerbates China's horrific pollution problem, which has its origins in its factory-fuelled expansion. "The state of the ecological environment affects the level of people's well-being and also posterity and the future of our nation," Mr Wen acknowledged.

There has been widespread public anger and rare media criticism over pollution in China after choking smog enveloped large swathes of the north of the country recently, grounding flights, forcing people indoors and forcing emergency measures such as factory closures.

In addition, China needs about 40 trillion yuan (\$6.4 trillion) to pay for a 10-year urbanisation plan the Government hopes will close the chasm between the country's urban rich and rural poor. Beijing aims to bring 400 million people to cities as the Government seeks to turn China into a wealthy world power with economic growth generated by affluent consumers.

Despite its ranking as the second-largest economy globally after three decades of stellar growth, China remains an aspiring middle-income country with high income inequality and dependent on state-backed investment. About 13 percent of China's population still live on

less than \$1.25 per day, and average urban disposable income is just 21,810 yuan (US\$3,500) a year. Yet at the same time, the Hurun Report says China has 317 billionaires - a fifth of the total number in the world.

Urbanisation could cure China's economic imbalances, putting it on a path to domestic consumption-led growth to replace three decades of investment and export-driven development that stoked global trade tensions. The Government hopes 60 percent of China's population will be urban residents by 2020, from about half now, and will build homes, roads, hospitals and schools for them.

Source: *The Telegraph*, 5 Mar 2013

### **Extract 7: We've got growth - but it's the wrong sort**

In Britain, Treasury officials can allow themselves a small sigh of relief. Barring any accidents, UK growth this year should be close to 2 per cent, with survey evidence pointing to a 3 per cent plus surge in output next year.

Low interest rates and improved credit conditions are finally working their magic on demand. Even the squeeze on living standards should, with a fast-improving jobs market, be over by late next year.

All good then, at least from the Government's perspective? Unfortunately not. It's still far too early to make that sort of judgment, for what we are seeing is very much the wrong sort of growth. "Low interest rates and rising house prices are the opposite to the UK's long-term needs," says Simon Wells, chief UK economist at HSBC. Much the same point is made by Michael Saunders at Citi: "The rebound is led by demand rather than supply-side improvements, and is not rebalancing the economy towards investment and exports."

Regrettably, the Government has not addressed the deep structural faults at the heart of the economy - the results of a decades-long failure to live within our means. It comes to something when splashing the cash takes priority over investment in the country's infrastructure and energy needs.

For evidence of what's gone wrong, there are two key statistics. One is the "current account deficit", which measures the shortfall between what the nation earns abroad and what it spends. Britain has not been in current account surplus for 30 years, and shows few signs of changing. Last year, the deficit was 3.8 per cent of GDP, and in the first quarter of this year, it was an astonishing 5.5 per cent. Despite a massive 20 per cent plus devaluation in the pound since the start of the financial crisis, which theoretically makes exports more competitive and imports less so, we cannot get over our addiction to all things foreign.

The other measure of economic ill-health is "gross fixed capital formation", which tells us how much of our economic output is being invested rather than consumed. At just 14 per cent of GDP, it's by far the lowest among the advanced countries, and has been for years. On both exporting and investment, Britain is failing on a monumental scale.

Policy-makers pay lip service to the idea of more balanced, sustainable growth, but act differently, with measures to boost demand in what remains in many sectors a profoundly supply-constrained economy.

Source: Adapted from Jeremy Warner, *The Daily Telegraph*, 18 Oct 2013

**Table 1: Key Economic Indicators of the United Kingdom**

	2009	2010	2011	2012	2013
Growth in GDP, constant prices (% change)	-4.3	1.9	1.6	0.7	1.7
Unemployment rate (%)	7.6	7.9	8.1	8.0	7.6
Current Account Balance (US\$ billion)	-64.8	-62.7	-43.4	-98.2	-119.9

**Table 2: Key Economic Indicators of China**

	2009	2010	2011	2012	2013
Growth in GDP, constant prices (% change)	9.2	10.4	9.3	7.8	7.8
Unemployment rate (%)	4.3	4.1	4.1	4.1	4.1
Current Account Balance (US\$ billion)	243.3	237.8	136.1	215.4	182.8

Source of Tables 1 and 2: World Economic Outlook database, International Monetary Fund

### Questions

- (a) Compare the change in China's current account balance with that of the United Kingdom between 2009 and 2013. [2]
- (b) Explain **one** example of how a government's tackling of an immediate economic problem could lead to a challenge in the longer term. [2]
- (c) With reference to Extract 7, explain a possible reason why despite a massive devaluation of the pound, UK's current account deficit rose further. [2]
- (d) With reference to the data, explain how urbanisation would affect China's economic well-being. [6]
- (e) Discuss why the economic growth in the UK might be "the wrong sort of growth". [8]
- (f) According to Extract 5, "resilient dynamism means tackling immediate problems and long-term challenges at the same time." With reference to the data and your own knowledge, discuss the appropriate policy measures you would recommend for China to achieve "resilient dynamism". [10]

**Section B**

Answer **one** question from this section.

3. (a) With the use of examples, explain the concepts of scarcity, choice and opportunity cost. [10]
- (b) Discuss the significance of the characteristics of the Singapore economy in determining her pattern of trade with other countries. [15]
4. (a) Explain the possible causes of unemployment in Singapore. [10]
- (b) Suppose a country such as Singapore were to experience a period of high unemployment and inflation rates. Discuss the extent to which supply-side policies could be adopted to address these problems. [15]

**-- END OF PAPER --**

