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DUNMAN HIGH SCHOOL

Preliminary Examination

Year 6

Economics

8819/1

(Higher 1)

25 September 2015

Section A Case Study

3 hours

Section B Essay

Additional Materials: Writing Papers

PLEASE READ THE FOLLOWING 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.

Please start on a fresh sheet of paper for a new question.

Section A

Answer **all** questions.

Section B

Answer **one** question.

At the end of the examination, fasten your work securely into three separate bundles, one for each question.

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

Section A		Section B	
Q1	Q2	Q3	Q4

This document consists of **8** printed pages including this cover page.

[Turn over

Section A

Answer **all** questions in this section

Question 1

Issues in the Clothing Industry

Table 1: Cotton in selected economies (million bales)

	Production		Consumption	
	2013/14	2014/15	2013/14	2014/15
China	32.8	30.0	34.5	35.2
India	31.0	30.5	23.4	24.1
Pakistan	9.5	10.2	10.4	10.5
United States	12.9	16.1	3.5	3.6
World total	120.1	119.2	109.1	111.1

Source: United States Department of Agriculture

Extract 1: Clothing to dye for: the textile sector must confront water risks

Dye houses in India and China are notorious for dumping untreated wastewater into local streams and rivers. Why are the world's largest apparel companies not doing more to mitigate the effects of this timeless, yet toxic, dyeing process?

The answer in part lies in Tirupur, India. Local dye houses have long dumped wastewater into the local river, rendering groundwater undrinkable and local farmland ruined. Despite tougher regulations, a watchful local press, and the closure of companies in non-compliance, water pollution has festered. The city's 350,000 residents, not multinational textile companies, pay the price.

The global demand for cheap clothing will push dye houses to simply react to local regulations by moving operations to another city. Moral outrage will not convince many leading clothing manufacturers to change their ways; as long as companies do not pay a price for the land and water their suppliers poison, watch for the excessive use and abuse of water to dye clothing to continue.

Source: Guardian Professional, 12 August 2013

Extract 2: British Consumers spending less on food and more on clothes

British consumers have cut back on the amount of food they buy, but are purchasing more clothes in the wake of the recession. For most Britons their wardrobe is more important than their stomachs.

Business consultant Neil Saunders said: "In our experience clothing volumes are a bit depressed. But one thing we do know is people are trading up to better clothes, buying statement pieces. Though shoppers are very savvy when it comes to cutting back at the supermarket, many enjoy clothes shopping and see it as a bit of a treat."

Source: Telegraph, 21 Feb 2012

Extract 3: Protectionism in the U.S. Textile Industry

Textile and apparel protectionism has been a continuous feature of U.S. trade policy. High tariffs, "voluntary" export restraints, and import quotas have defined U.S. policy.

Although people speak of the "textile and apparel industry," as if it were one and the same, they are distinct industries. Textile production is capital-intensive, sophisticated in its applications, and concentrated in rich locales (e.g., U.S., Canada, EU, Hong Kong, Korea, Taiwan), with a few exceptions (e.g., China, India, Turkey, Pakistan). Textiles (yarns and fabrics) are the central inputs for apparel production, which is labour-intensive, involves, primarily, the cutting and sewing of fabric, and is dispersed in developing countries across the globe.

Many apparel manufacturers in the U.S. have already shifted production operations to Mexico, the Caribbean, and Central America. Without U.S. apparel production, then, one would think eliminating tariffs on imports would be unobjectionable, delivering real benefits to all who wear clothes. Instead, the United States still maintains tariffs on clothing that amount to 10 times the average U.S. tariff. Why the high duties in the absence of meaningful U.S. apparel production? Because the U.S. textile industry insists on preserving those tariffs as leverage to compel foreign apparel producers to purchase their inputs. Foreign apparel producers that use U.S. textiles are given duty-free access into U.S.

U.S. textiles are already more expensive than China's, India's and Korea's textiles that Vietnamese apparel producers might otherwise purchase. Conditioning duty-free access on the use of U.S. textiles would essentially eliminate the competition, enabling U.S. textile exporters to raise prices further. It would also limit the apparel offerings of Vietnamese producers, who – in the absence of alternative suppliers – would have less leverage to demand and expect the types and colours of fabrics, according to their production schedules, that best fit the design of the final product. Or, alternatively, the Vietnamese could just forego the duty-free access, purchase textile inputs from China, and pay the higher duty.

Rather than compete on quality and price with the world's few textile producers for the business of the world's multitude of apparel producers, the U.S. textile industry has convinced the U.S. government to do its bidding. The public shouldn't believe for a

moment the fallacies about this industry struggling to survive. Apparel producers account for only 16 percent of the textile industry's revenues, the bulk of which come from producers of home furnishings, carpeting, conveyer belts, tyres, medical devices, and aerospace parts. Even if the industry lost some apparel producers as customers on account of real competition, it has plenty of other revenue sources to cultivate. Meanwhile, single working mothers raising children might be able to stretch their budgets further on account of lower-priced clothing.

Source: Forbes, July 2013

Questions

- (a) Referring to Table 1,
 - (i) explain how the world price of cotton is likely to change over the period. [1]
 - (ii) identify the country that has had the greatest impact on world prices. [3]
Justify your answer.
- (b) (i) Referring to Extract 1, explain how the existence of negative externalities can lead to market failure. [4]
- (ii) As a consultant economist, what options would you present to the Indian government in response to the negative externalities associated with textile production, and what would you recommend? [8]
Justify your answer.
- (c) Referring to Extract 2 and using the concept of opportunity cost, explain one effect of the recession on UK consumers. [2]
- (d) Extract 2 mentioned that 'clothing volumes are a bit depressed' but spending on clothing have risen. Comment on what this might imply for the price elasticity of demand for clothing in UK. [4]
- (e) Do you think U.S. governments should continue to protect its textile industry as described in Extract 3? [8]

[Total: 30]

Question 2

Economic Growth and Challenges

Extract 4: Singapore is counting on ASEAN for growth

Singapore is counting on Southeast Asia's economic boom to lure foreign investment as the island's clampdown on foreign labour raises wage costs. The region, known as the Association of Southeast Asian Nations (ASEAN), is forecast to grow 5.2 percent this year and 5.6 percent in 2014.

Singapore became Southeast Asia's only advanced economy by moving up the technology ladder, turning a trading port into the region's biggest banking centre and a manufacturer of electronics, petrochemicals and pharmaceuticals. As its bigger, less-developed neighbours lure companies with faster growth rates, larger populations and cheaper workers, the island is forced to find new ways to position itself to stay competitive. Singapore cannot afford to attract the same kind of land and labour-intensive industries as in the past but as a services hub, it still has many advantages.

Asia which had seven of the top 10 exporters of textiles and clothing and office and telecommunications equipment in 2011 - shipped \$5.98 trillion of goods that year, an 18 percent increase from the year before, according to the World Trade Organisation (WTO). Of that, Southeast Asia sent out \$1.24 trillion of products, compared with \$432 billion in 2000 and \$72 billion in 1980, data from the WTO show.

Source: Bloomberg, September 16, 2013

Table 2: Selected ASEAN key economic indicators

Indicators	2010	2011	2012	2013 ^{p/}
GDP per capita at current prices (US\$)	3,139	3,587	3,761	3,832
International merchandise trade (US\$ million)	2,009,116	2,388,444	2,476,427	2,511,517
Export (US\$ million)	1,051,614	1,242,199	1,254,581	1,271,128
Import (US\$ million)	957,502	1,146,245	1,221,847	1,240,388
Foreign direct investments inflow (US\$ million)	100,360	97,538	114,284	122,377

Table 3: Intra-ASEAN trade, 2014^{p/}

Country	Intra-ASEAN exports		Intra-ASEAN imports	
	Value (US\$ mil)	Share to total exports (%)	Value (US\$ mil)	Share to total imports (%)
Cambodia	2037.9	19.1	5577.6	29.4
Indonesia	39822.1	22.6	50903.1	28.6
Lao	1451.3	55.0	2045.0	74.4
Malaysia	65297.0	27.9	53779.1	25.7
Singapore	127739.2	31.2	75457.2	20.6
Vietnam	18260.5	12.3	22537.1	15.5
ASEAN	329700.4	25.5	278617.6	22.5

p/ preliminary

Source: ASEAN Website, <http://www.asean.org/>

Extract 5: Asia's challenges

Asia's rapid growth in recent decades has lifted hundreds of millions out of extreme poverty, but the region remains home to two-thirds of the world's poor, with more than 800 million Asians still living on less than \$1.25 a day and 1.7 billion surviving on less than \$2 a day. Poverty reduction remains a daunting task.

The gap between Asia's rich and poor has widened alarmingly in the past two decades. The Gini coefficient, a measure of inequality, has increased in much of the region: taking developing Asia¹ as a single unit, the Gini coefficient has increased from 39 to 46. Three groups, in particular, have benefitted most - the owners of capital, those living in cities and near coasts and the better educated graduates. Inequality of opportunity is prevalent and is a crucial factor in widening income inequality. 1.7 billion people (45 percent of the population) continue to lack access to sanitation and 680 million are still without access to electricity.

Asia has enjoyed a remarkable period of growth and poverty reduction, but the new realities of technological progress, more globally integrated markets, and greater market orientation are magnifying inequalities in physical and human capital. Asian policymakers must redouble their efforts to bring opportunities in employment, education, health and other key social services to all – thereby making growth more inclusive.

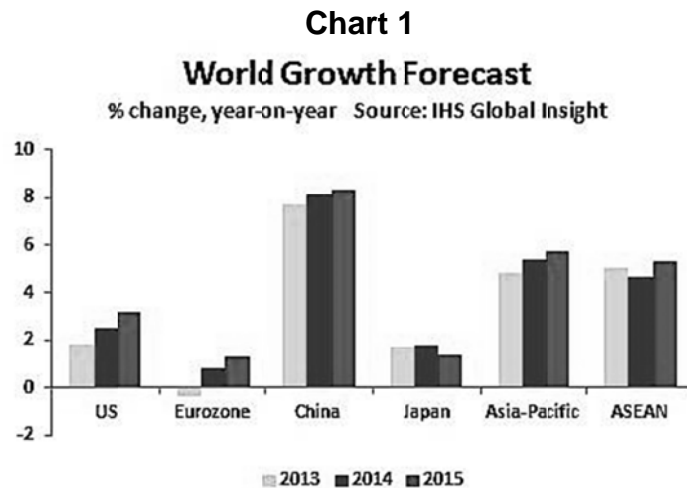
Source: OECD Forum 2013, OECD Website

Extract 6: Global recovery should carry ASEAN through economic headwinds

One of the key risks to the ASEAN outlook for 2015 is the impact of Federal Reserve tapering of its quantitative easing programme and eventual policy-driven interest rate rises in 2015 as US recovery continues. This could pose risks of further depreciation of ASEAN currencies versus the USD.

Notwithstanding this, Southeast Asia remains one of the most rapidly growing regions of the global economy. Key megatrends supporting future ASEAN growth include the rapidly growing numbers of middle income households, strong growth in intra-Asian trade and manufacturing supply chains with Northeast Asia as well as a massive expansion in infrastructure spending and urban development across ASEAN over the next two decades. These megatrends will support rising valuations for ASEAN equity and property markets over the medium to long-term, due to rising household incomes, rapid urbanisation, and strong corporate earnings growth.

¹ Developing Asia includes countries such as Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Laos, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Thailand, Timor Leste (East Timor), Tonga, Vanuatu and Vietnam. It excludes the Middle East (Iran, Turkey and the Arab countries) and the Advanced Economies in Asia, which are classified as Japan, Singapore, Hong Kong, South Korea and Taiwan.



Many ASEAN countries will also remain attractive destinations for foreign mergers and acquisitions inflows, due to their fast-growing domestic consumer markets and their competitiveness as low cost manufacturing hubs. This has already been reflected in surging Japanese mergers and acquisitions inflows to ASEAN over the last three years, with Chinese mergers and acquisitions flows also expected to grow strongly as rapidly rising wages in coastal China make many ASEAN countries more competitive locations for low cost manufacturing.

Source: www.forbes.com, Jan 19, 2014

Questions

- (a) (i) Explain what is meant by 'GDP per capita at current prices (US\$)'. [2]
- (ii) Explain whether the data in Table 2 is sufficient to provide evidence of a real economic growth in ASEAN in 2012. [4]
- (iii) Discuss whether the economic growth in ASEAN will necessarily bring about improvement in standard of living of its people. [8]
- (b) (i) With reference to Table 3, which member will gain most from intra-ASEAN trade? Explain your answer. [2]
- (ii) With reference to Extract 4, explain the basis for the pattern of trade between Singapore and the other ASEAN members. [3]
- (c) (i) With reference to Extract 6, explain how 'the policy-driven interest rate rises in 2015 could pose risks of further depreciation of ASEAN currencies versus the USD'. [3]
- (ii) Discuss the extent that ASEAN's economic outlook is determined by external factors. [8]

[Total: 30]

Section B

Answer **one** question from this section

3. Crude oil prices have increased sharply due to booming Asian economies, increasing difficulties in extraction, and lack of viable alternative fuels, causing rising inflation in oil-importing countries.
- a) Explain why there is a sharp increase in crude oil prices. [10]
- b) Discuss the policy options an oil-importing country can adopt in view of the rising inflation. [15]
4. Malaysia and Singapore have been each other's main trading partners for many years. Recently, the Malaysian ringgit has slumped to a new historic low against the Singapore dollar.
- a) Explain why exchange rates rather than interest rates are the preferred choice as the instrument of monetary policy in Singapore. [10]
- b) Discuss the likely effects of a depreciation of the Malaysian ringgit on the Singapore economy. [15]