H

ST. ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2015 (JC2)
General Certificate of Education Advanced Level
Higher 2

ECONOMICS

9732/01

Paper 1: Case Study Questions

28 August 2015

2 hr 15 minutes

Additional Materials: Answer Paper

READ THESE 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.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

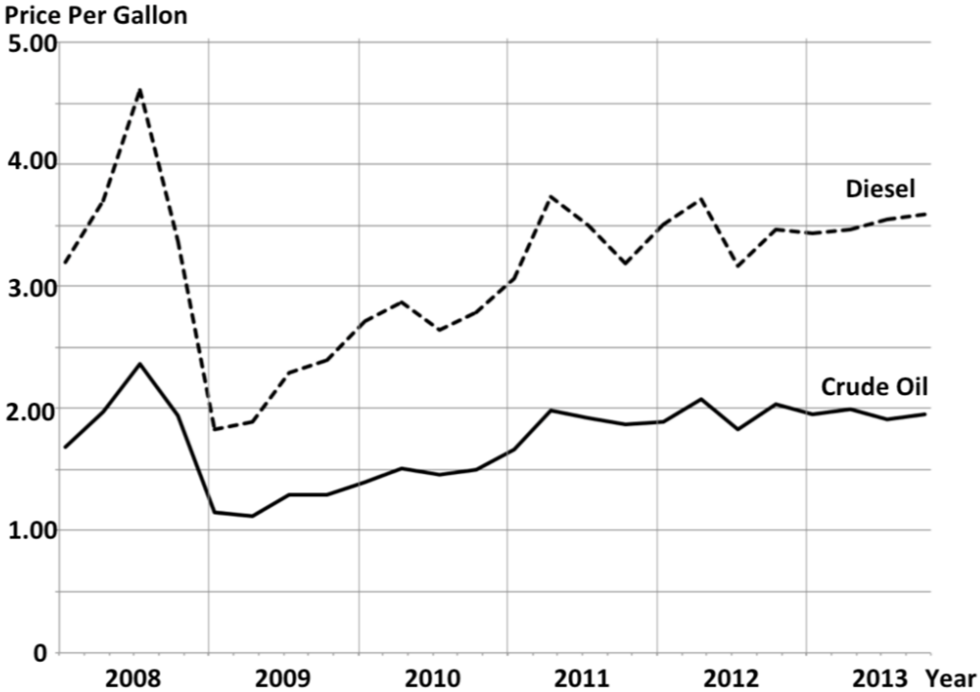
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of 7 printed pages.

Answer **all** questions

Question 1 Bilateral transportation between Singapore and Malaysia

Figure 1: Crude Oil and Diesel Prices



Source: U.S. Energy Information Administration

Extract 1: Singapore's pole position in Asian's energy market

The oil industry has been an integral part of Singapore's economy, ever since oil-trading activities started in 1891. Today, Singapore is the undisputed oil hub in Asia and is one of the world's top three export refining centres, a valuable sector that contributed almost 5% of Singapore's Gross Domestic Product in 2007.

Singapore offers extensive oil storage facilities on Jurong Island, its integrated energy and chemical hub, to facilitate trade and manufacturing activities. Our storage capacity is set to multiply with the advent of Jurong Rock Cavern, a massive underground facility. Refineries in the Jurong Island produce diesel fuel and gasoline (petrol) from crude oil imported from abroad. Many other petroleum products are also refined from crude oil.

Source: edb.gov.sg

Extract 2: Competition Commission of Singapore fines Coach Operators and Association

The Competition Commission of Singapore (CCS) has today decided that 16 coach operators and their trade association, the Express Bus Agencies Association (EBAA), had engaged in price-fixing of coach tickets. 16 Coach Operators and Association were fined $1.69 Million For Price-Fixing. CCS' investigations revealed that the coach operators, together with the EBAA, had agreed to higher fixed prices of coach tickets for travelling between Singapore and destinations in Malaysia from 2006 to 2008. The coach operators agreed to fix the coach prices in two ways:

- Minimum Selling Prices (MSP) of the coach tickets sold. As a result, these coach operators adjusted ticket prices to either at or above the Minimum Selling Prices, resulting in higher ticket prices.
- Fuel & Insurance Charges imposed across the board to mark up ticket prices. The FIC was revised upwards on various occasions after it was implemented.

During this period, it is estimated that the coach operators pocketed over S$3.65 million from the sale of the FIC. CCS' investigations revealed that there was an agreement reached on 1 June 2005 by the Executive Committee of EBAA to fix coach ticket prices to various destinations in Malaysia. This agreement continued after 1 January 2006, when the Competition Act came into effect in Singapore. The interviews revealed that the introduction of the MSP was premised on an intention to prevent any price war and minimise any slashing of coach ticket prices amongst competitors. Before the introduction of the MSP, the EBAA members were selling coach tickets at various prices, in particular, lower prices. As an example, the MSP was first fixed at $25 for one-way coach tickets to Kuala Lumpur. Most of the EBAA members were then selling their tickets at $20 or $23.

Source: CCS.gov.sg, Nov 3 2009

Extract 3: PMs agree on high-speed rail linking KL, Singapore

Singapore and Malaysia have agreed to build a high-speed rail link between Kuala Lumpur and Singapore by 2020, in a move that both heads of government called a **"game-changer"**. Announcing the breakthrough agreement at a press conference today following bilateral talks, Prime Minister Lee Hsien Loong said that the rail link would create a 90 minute door to door journey for commuters, and that it will "change the way we do business, the way we look at each other and interact." He pointed to the Eurostar link between Paris and London, which transformed "two European cities into one virtual urban community" as a model for the KL-SG link. Malaysian PM Najib Razak said that the project will be a private-public one, with the link being built by private contractors with government infrastructural support. He declined to estimate how much the project will cost.

Source: The Straits Times, Feb 19, 2013

[Turn Over]

Questions

(a)	(i)	Compare the trend of the price of crude oil and diesel between 2008 and 2013.	[2]
(b)	(i)	With the aid of diagram, explain how the changes in price of diesel will affect the market for express bus services.	[3]
	(ii)	Explain how the completion of the High Speed Rail is likely to affect the demand curve for Express Bus Services between Singapore and Kuala Lumpur.	[3]
(c)	(i)	Explain how the formation of cartels results in the worsening of the market failure.	[4]
	(ii)	Discuss whether the disadvantages to consumers from ‘higher fixed prices’ (Extract 2) outweigh any benefits they may gain from the existence of the Express Bus Services cartel.	[8]
(d)		Discuss how the High Speed Rail as a ‘game changer’ will affect the performance of firms in Singapore that provide transport to Malaysia.	[10]

[Total: 30 marks]

Question 2 Tale of Two Economies

Extract 4: Indonesia aims for FDI growth

Indonesia is aiming to increase foreign direct investment by 23 percent this year, after record inflows in 2012 helped insulate Southeast Asia's largest economy from a slowdown in exports. Strong investment was driven by the mining, transport and chemicals sectors, showing firms shrugged off worries over policy uncertainty, corruption and weak infrastructure to seek returns in an economy growing at more than 6 percent.

It was also reported that investors at home and abroad have responded positively to efforts to improve the investment climate. Foreign inflows to the G20 economy have increased significantly since Indonesia regained investment grade status from two rating agencies a year ago. Investment makes up around 30 percent of the G20 economy. Although it's FDI is less than that attracted by China in 2012, Indonesia remained attractive to foreign investors compared with its Southeast Asian neighbours. Vietnam, for example, estimated its FDI fell by 5 percent to $10.46 billion in 2012.

Foreign investors are not expected to stop coming into Indonesia, especially noting the fact that infrastructure upgrades are ongoing in the country over the next three to five years. There is a need to continue enhancing workers' productivity, especially in the manufacturing sector, which has been a laggard relative to the region."

Adapted from Reuters, 22 June 2013

Extract 5: Abenomics and the Japanese Economy

Just weeks after taking office in December 2012, Japanese Prime Minister Shinzo Abe, who had also led the country from 2006 to 2007, announced plans for a new suite of policies geared toward jolting the stagnating economy out of its deflationary malaise. Japan, having fought deflation for more than two decades, remains mired in weak growth despite repeated attempts to revitalize the economy.

Abenomics refers to an aggressive set of monetary and fiscal policies, combined with structural reforms, geared toward pulling Japan out of its decades-long deflationary slump.

Fiscal stimulus began with economic recovery measures totaling 20.2 trillion yen ($210 billion), of which 10.3 trillion ($116 billion) was direct government spending. Abe ordered a hefty stimulus package focused on critical infrastructure projects, such as building bridges, tunnels, and earthquake-resistant roads. This was earmarked to stimulate private investment

The Bank of Japan (BOJ) simultaneously pursued an unorthodox injection of liquidity into the economy, a policy known as quantitative easing, seeking to push inflation to 2 percent to spur spending. The goal of easy monetary policy is to reduce real interest rates. In Japan's case, it has a significant side effect of weakening the yen.

Finally, structural reform—including slashing business regulations, liberalizing the labor market, cutting corporate taxes, and increasing workforce diversity—aims to revive Japan's long-term competitiveness.

Adapted from Business Insider, 16 March 2013

[Turn Over]

Extract 6: Abenomics needs an overhaul

Japanese Prime Minister Shinzo Abe must rethink his Abenomics program in its entirety. So far, only Abenomics' third and final arrow, reform, has come in for widespread criticism. But arrows one and two – monetary and fiscal stimulus – are also flagging in their efforts to pull Japan out of its economic funk. Annualized GDP growth fell to 1 percent in the second half of 2013 from more than 4 percent in the first half. If Abe does not refocus his reform program, the country risks a dangerous reliance on the Bank of Japan and its ultra-loose monetary policy.

Barring substantial reforms elsewhere in the Japanese economy, using the 'first arrow' to repeatedly weaken the yen is an unsustainable source for growth in the long-run. Under Abenomics, growth in Japanese exports has failed to keep pace with the rising cost of imports.

In a country with an aging and shrinking population, real long-term growth can only be realized through improved productivity. To stimulate productive investment, Japan must revamp the second arrow of Abenomics and focus on tax incentives rather than government spending. The new tax breaks tied to capital investment are surely too small to encourage significant new domestic investment, and only apply if companies can meet a 15 percent return on investment hurdle, a level which may be unrealistic in such a stagnant economy. These kinds of measures should prove more effective, and safer, than fiscal stimulus. Japan's government debts are already more than twice its GDP and further increasing it would prove problematic.

The third arrow of Abenomics, reform, also requires redirection. First, Japan needs to ensure its businesses use its people properly. To do this it will need to address a rigidity that has led to the development of a 'dual' labor market. Around 40 percent of workers are now deemed 'temporary,' in jobs which provide low pay, a lack of social insurance, and little opportunity to develop skills. There is scope to increase the use of foreign labor. There is also a need to use more flexible labor contracts so you can bring people into the labor force

Adapted from CNBC News, 27 March 2014

Table 1: Macroeconomic Indicators: Indonesia

	2009	**2010**	**2011**	**2012**	**2013**
Real GDP (USD billion)	355.7	377.9	401.2	425.4	449.1
Annual Rate of Growth Real GDP (%)	4.6	6.2	6.5	6.3	5.8
Rate of Inflation (%)	4.8	5.1	5.3	4	6.2
Unemployment Rate (%)	7.9	7.1	6.6	6.1	6.3
Current Account Balance (% of GDP)	2	0.7	0.2	-2.8	-3.2
Current Account Balance (USD billion)	10.6	5.1	1.7	-24.4	-29.1
Capital and Financial Account Balance (USD billion)	7.8	3.9	-1.7	-24.6	-29.2
Budget Balance (% of GDP)	-3.1	-2.8	-2.2	-1.7	-1.4
Public Debt (% of GDP)	27	24.6	22.5	22.4	24.5
Exchange Rate (rupiah per USD)	9,425	9,010	9,068	9,638	10,461
Human Development Index	0.67	0.67	0.68	0.68	0.68
Life Expectancy (years)	69.9	70.2	70.4	70.6	70.8

Table 2: Macroeconomic Indicators: Japan

	2009	2010	2011	2012	2013
Real GDP (USD billion)	4,441.8	4,648.4	4,627.4	4,708.5	4,784.5
Annual Rate of Growth Real GDP (%)	-5.5	4.7	-0.5	1.4	1.5
Rate of Inflation (%)	-1.4	-0.7	-0.3	0.0	0.7
Unemployment Rate (%)	5.1	5.1	4.6	4.3	4.0
Current Account Balance (% of GDP)	2.9	3.9	2.1	1.0	0.7
Current Account Balance (USD billion)	145.3	217.2	126.5	58.5	34.1
Capital and Financial Account Balance (USD billion)	168.6	248.13	164.5	61.2	-24.2
Budget Balance (% of GDP)	-7.6	-6.7	-8.2	-8.0	-7.7
Public Debt (% of GDP)	185.0	190.5	203.4	210.5	218.1
Exchange Rate (yen per USD)	92.9	81.2	77.0	86.7	95.3
Human Development Index	0.88	0.88	0.89	0.89	0.89
Life Expectancy (years)	82.9	82.8	82.6	83.1	83.3

Source: Organisation for Economic Co-operation and Development

Questions

(a) (i) With reference to Table 1, describe the trend in the government budget balance as a percentage of GDP of Indonesia between 2009 and 2013. [2]

(ii) Explain how the government budget could have affected GDP growth rate in Indonesia. [2]

(b) (i) How far does the data support the changes in the capital and financial account in Indonesia from 2009 to 2013? [4]

(ii) Explain the rationale for Indonesia's aim "to increase foreign direct investment by 23 percent this year". [4]

(c) Comment on the view that residents in Japan enjoyed a higher standard of living compared to those in Indonesia in 2013. [8]

(d) Discuss the view expressed in Extract 6 which suggests that "Japanese Prime Minister Shinzo Abe must rethink his Abenomics program in its entirety." [10]

[Total: 30 marks]