ANDERSON JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION 2015
Higher 2

ECONOMICS **9732/01**

Paper 1 **15 September 2015**

Additional Materials: Answer paper **2 hours 15 mins**

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided on all the work you hand in.

Write in dark blue or black ink.

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.

Fasten your answer to each question **separately.**
Fasten **this cover page** in front of your answers **to Question 1.**

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

Name ____________________________ (   )

PDG ______/14

Question Number	Marks Awarded
1	/ 30
2	/ 30
Total Marks	

This document consists of **7** printed pages and **1** blank page, including this cover page.

[Turn over]

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Section A

Answer **all** questions in this section

Question 1

Changes in Higher Education

Extract 1: Mergers in higher education

Over the past half century, the UK's higher education landscape has been shaped to a great extent by university mergers and acquisitions. According to Lancaster University research, some 30% of higher education institutions went through the process between 1994-5 and 2009-10. These include the merger of "equals", such as the link-up between the University of North London and London Guildhall University to form London Metropolitan University; and the absorption of smaller specialist colleges or schools (most commonly teacher training colleges or medical schools) by larger universities. All these strategic moves were underpinned by the belief that the external environment favoured larger institutions with broader and deeper subject coverage.

This year will see a significant addition to the tally, when the University of London's Institute of Education (IoE) surrenders its status as an independent institution to become the newest and largest faculty of University College London (UCL). The merger will allow two institutions with complementary strengths to pool expertise and build cross-disciplinary work across the full range of higher education while better supporting delivery of teacher training and ultimately pupil attainment in London. Boris Johnson, Mayor of London, said: "With international competition to attract the brightest students from around the world, this significant merger will further reinforce London's status as a global leader in higher education."

However, as institutions seek to better survive by reinventing themselves and rationalising - making do with just one administration and trimming the size of departments by bringing them together, the upheaval experienced by staff and its negative effects on morale should not be underestimated. There is a tendency that the larger the organisation becomes, the more remote the ordinary member of staff will feel about any form of decision-making. Ultimately, mergers may cost more than they save.

Adapted from: www.timeshighereducation.co.uk; www.guardian.co.uk; and www.ucl.ac.uk, accessed 3 Aug 2015

Extract 2: Reduction in subsidies for university education in the UK

A generation ago, students paid nothing for university education. Tony Blair then charged £3,000 in 2006 and David Cameron raised it to £9,000 in 2012. A spokesman for the government said: "We believe the £9,000 fee allows universities to deliver high-quality teaching, with many institutions now planning to invest more in improved teaching facilities for students." There is also more competition, with new universities offering robust, no-frills degrees.

It seemed to stand to reason that the fees would deter all but the wealthiest families but now, four years on, 592,000 students have applied for university, the highest ever. And not just the offspring of the well-heeled: the number of teenagers from deprived backgrounds has also jumped to a record high. Strikingly, 22% of deprived children in England have applied.

Sir Howard Newby, vice-chancellor of the University of Liverpool, said that the next step could see universities able to charge as much as they want for courses, provided they subsidise the costs incurred by students from poorer backgrounds. "The most rational way to deal with the financing of higher education is to have fees which are uncontrolled, with no cap, but in return universities have to make adequate provision for looking after students who can't afford to pay that fee," Sir Howard said.

In this way, the English system is moving a step closer towards that of America, home to 22 of the world's top 30 universities. Ivy League members are entirely independent of the US government, yet operate a system of social outreach that no government could rival. Their admission system is needs blind. Only once admitted is a student's ability to pay considered: if students are rich, they'll pay sky-high fees. But if they're poor, they'll be given what help they need to graduate. Using ingenious fundraising techniques, US universities are now rolling in resources, with which they can poach Britain's best academics in what is becoming a global marketplace.

Sir Christopher Snowden, vice-chancellor of the University of Surrey and president of Universities UK concurred that the £9,000 fee cap was not sustainable and should rise in line with inflation. His comments follow a recent call from the vice-chancellor of Oxford University, Andrew Hamilton, for undergraduate fees to be "more closely related to the true cost" of a degree at Oxford, £16,000. Last month Prof Hamilton said the funding shortfall meant Oxford faced an annual funding gap of £70m.

Universities UK will publish a report next week on the future of university financing. This is expected to look at how universities will fund a predicted 26% rise in demand for university places within the next 20 years. Universities Minister David Willetts has said a rising birth rate will mean the number of university places needed will grow from 368,000 to 460,000.

Adapted from: www.timeshighereducation.co.uk; www.telegraph.co.uk; and www.bbc.co.uk, accessed 3 August 2015

Extract 3: Singapore Government's subsidies to universities

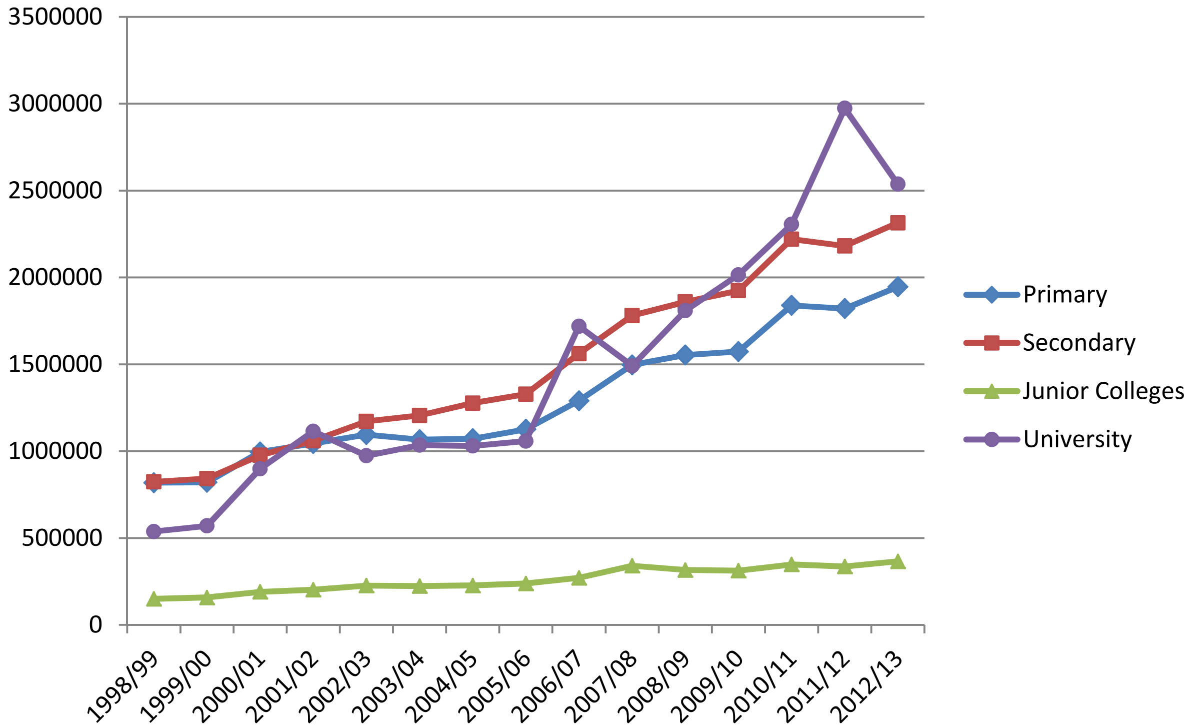
The Government will continue to subsidise substantially the cost of university education to ensure that it remains affordable to Singaporeans. Currently, the Government generally subsidises 75% or more of the cost of education for general courses such as Engineering, Humanities and Social Sciences provided by the autonomous universities, or about $76,000 to $105,600 for a four-year course per student. Students are expected to bear their fair share of the cost of education as they are the prime beneficiaries who would benefit from higher starting pay and successful careers after graduation. Specialised courses such as Medicine and Dentistry cost much more than general courses and students within these courses should therefore be prepared to pay higher fees.

However, MOE and the universities will ensure that no deserving students who are admitted to our universities will be denied a place due to financial difficulties. There is a wide range of financial assistance schemes — loans, bursaries, and work-study schemes — offered by the Government, universities, foundations, private and professional organisations, community groups and self-help groups. As such, a Singaporean student can obtain up to 100% of funding for fees and living expenses through a combination of loans and bursaries.

University fee increases have been modest over the years. For example, this year's fee increase (AY2010) for most undergraduate programmes is under 2% on an annualised basis. This is below the average annual inflation rate of about 3% for the past three years. When economic conditions require it, the universities have also chosen to defer fee increases, such as in AY2009 due to the global economic crisis.

Source: www.moe.edu.sg, accessed 3 Aug 2015

Figure 1: Government recurrent expenditure on education ('000 SGD)



Source: Ministry of Education (MOE), 2014

Questions

(a) **(i)** With reference to Figure 1, compare the trend in government expenditure on primary and university education in Singapore between 1998 and 2013. [2]

(ii) Explain **one** possible reason for the difference observed in (a)(i). [2]

(b) Explain **one** reason why the UK government favours mergers of universities. [2]

(c) Discuss whether mergers of universities 'cost more than they save'. [8]

(d) 'A generation ago, students paid nothing for university education'. Explain the advantages and disadvantages of this approach. [6]

(e) Discuss if you would recommend UK's policy approach to reduce subsidies to university education for Singapore. [10]

[Total: 30]

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Question 2

Uncertain US Economic Recovery

Extract 4: The US recovery is frustrating — but it's the envy of the advanced world

The notion of the United States as a global engine is a reminder of what may now seem like an ancient era. In the aftermath of the Great Recession, emerging economies like Brazil and China took the lead role, but growth in those countries slowed as well. Economists caution that the US economy remains fragile. And it's unclear if the US can lift up other struggling economies -- or will be pulled down by them.

The optimists say the US can persist as an island of growth, in large part because of healthy homegrown consumer demand. If consumer confidence remains high, the country can weather global shocks — as it did during the Asian Financial Crisis in the late-1990s. Strong consumer demand at home can even give a boost to other export-driven nations.

The US economy has been coming out of the recession by reliable consumer spending. But Thursday's data also came with an unexpected boost: The government, a negative drag in recent years, is again lending a hand. In the latest quarter, it was a spike in defence spending that provided the greatest lift. But more important, state and local governments — after a long period of austerity — are now injecting significantly more money into the economy.

"The US is pretty well-insulated, mostly because exports play a fairly small role," said Nariman Behravesh, a chief economist at IHS. "By far, consumers are the most important factor, and the good news is, US consumers are in pretty good shape as gas prices are down, home values are on the rise, and there is an increasingly healthy debt-to-income ratio."

Others say that the story of the economic recovery in the US is underway, yet uncertain. The US is still vulnerable to unexpected global fluctuations — say, a larger-than-expected slowdown in China and declining demand everywhere from France to Japan will trim US economic growth in the coming quarters. Jobs are coming back, but millions are reluctantly accepting part-time work.

Adapted from www.washingtonpost.com, accessed on 23 Jul 2015

Extract 5: Federal Reserve still uncertain on when to raise interest rates.

Total US job creation for 2014 hit 2.95m, the Labor Department figures showed. The strong job growth data reinforce the growing evidence that the US is powering ahead of other large economies and is likely to increase the gap in growth rates in the first half of this year.

Investors are betting that the US Federal Reserve will raise interest rates this summer. The figures showed a better than expected fall in the US unemployment rate from 5.8% to 5.6%, ahead of predictions of 5.7%. Economists have warned that as unemployment continues to fall to the rate the Fed considers normal — between 5.2% and 5.5% — pressure will build for interest rates to rise sooner rather than later.

However, the low level of inflation, which remains below the Fed's target of 2%, is still an area of concern for the Fed.

Source: www.ft.com, accessed on 20 Jul 2015

Table 1: Selected US economic indicators from 2009 – 2014

	2009	2010	2011	2012	2013	2014
Real GDP (% change)	-2.8	2.5	1.6	2.3	2.2	2.4
Unemployment rate (%)	9.3	9.6	8.9	8.1	7.4	6.2
Labour Force (Millions)	154.2	153.8	153.6	154.9	155.4	155.9
Inflation rate (%)	-0.4	1.6	3.2	2.1	1.5	1.6

Source: World Bank, US Bureau of labour Statistics

Table 2: Trade Data between US and Rest of the World (Selected Countries) in 2014

Country	Exports to US (in billions of USD)	% of country's GDP	Imports from US (in billions of USD)	% of country's GDP
Vietnam	30.6	16.5	5.7	3.1
Russia	23.6	1.2	10.7	0.5
UK	54.4	1.8	53.8	1.9
Singapore	16.4	5.3	30.5	9.9
Japan	133.9	2.9	67.0	1.5

Source: US Census Board & World Bank

Table 3: Russia: selected economic indicators 2010 – 2013

	2010	**2011**	**2012**	**2013**
GDP growth (annual %)	4.5	4.3	3.4	1.3
Inflation, consumer prices (annual %)	6.9	8.4	5.1	6.8
Unemployment, total (% of total labor force)	7.3	6.5	5.5	5.6
Current account balance (BoP, current US$ billion)	67.5	97.3	71.3	34.1

Source: The World Bank

Extract 6: Russia's economy

Russia is one of the world's leading producers of oil and natural gas and is also a top exporter of metals such as steel and primary aluminium. Russia's manufacturing sector is generally uncompetitive on world markets and is geared toward domestic consumption. Russia's reliance on commodity exports makes it vulnerable to boom and bust cycles that follow the volatile swings in global prices.

The economy, which had averaged 7% growth during 1998-2008 as oil prices rose rapidly, was one of the hardest hit by the 2008-09 global economic crisis as oil prices plummeted and the foreign credits that Russian banks and firms relied on dried up. Slowly declining oil prices over the past few years and difficulty attracting foreign direct investment have contributed to a noticeable slowdown in GDP growth rates.

In late 2013, the Russian Economic Development Ministry reduced its growth forecast through 2030 to an average of only 2.5% per year, down from its previous forecast of 4.0% to 4.2%. In 2014, following Russia's military intervention in Ukraine, prospects for economic growth declined further, with expectations that GDP growth could drop as low as zero.

Faced with mounting uncertainty over the immediate future of the Russian economy, investors have been piling out of the rouble. As a result, the rouble has fallen sharply against the dollar, hitting record lows against the US currency.

In a drastic attempt to stem the rouble sell-off, Russia’s central bank raised interest rates to 17.5% from 10.5%. It was the biggest one-day increase since the 1998 financial crisis that plunged Russia into recession and shook stock markets around the world.

Source: CIA-The World Fact Book, The Guardian

Questions

(a) Compare the trend of unemployment rate and inflation rate in the US from 2011 to 2014. [2]

(b) Explain why the Federal Reserve should not increase interest rates until:

(i) inflation rate increases to 2%. [2]

(ii) unemployment rate falls to between 5.2 and 5.5%. [2]

(c) **(i)** Explain how an increase in interest rate will lead to an increase in the external value of the US dollar. [2]

(ii) With reference to Table 2, assess the extent to which standard of living in different countries will improve with an increase in interest rate in the US. [8]

(d) **(i)** Explain why “the economic recovery in the US is underway, yet uncertain”. [4]

(ii) Discuss if the US economic recovery is the most relevant factor on whether the Russian government should focus on growth. [10]

[Total: 30]

End of Paper