VICTORIA JUNIOR COLLEGE
2015 JC2 PRELIMINARY EXAM

H2 ECONOMICS – PAPER NO. 9732/01

16 September 2015 | 8:00 – 10:15 am

Wednesday | 2 hours 15 mins

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 diagram, 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 your work securely, <u>by question</u>, <u>using the strings provided.</u>

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

This document consists of **7** printed pages.

Answer **all** questions.

Question 1

Health Care Systems

Table 1: Health expenditure, 2013

Country	Total (% of GDP)	Government (% of total health expenditure)
Singapore	4.6	39.8
United Kingdom	9.1	83.5
United States	17.1	47.1

Source: World Bank

Table 2: Health indicators, 2013

Country	Life expectancy at birth (years)	Infant mortality rate (per 1,000 live births)
Singapore	82	2.2
United Kingdom	81	4.0
United States	79	5.9

Source: World Bank

Extract 1: Health care systems

The single payer national health service model

In this system, health care is provided and financed by the government through tax payments, just like the police force or the public library. Many, but not all, hospitals and clinics are owned by the government. Patients never get a doctor bill. These systems tend to have low costs per capita, because the government, as the sole payer, controls what doctors can do and what they can charge. Countries using this model include the United Kingdom (UK), Spain, most of Scandinavia and New Zealand.

The single payer national health insurance model

This system uses private-sector providers, but payment comes from a government-run insurance program that every citizen pays into. Since there's no need for marketing, no financial motive to deny claims and no profit, these universal government-run insurance programs tend to be cheaper and much simpler administratively than private American-style for-profit insurance. National health insurance plans also control production costs by limiting the medical services they will pay for. This system is found in Canada.

The "market driven" health care model

Only the developed, industrialised countries have established health care systems. In poor countries, the basic rule is that the rich get medical care; the poor stay sick or die. In rural regions of Africa, India, China and South America, hundreds of millions of people go their whole lives without ever seeing a doctor.

The United States (US) is unlike every other country because it maintains separate systems for separate classes of people. When it comes to treating war veterans, it is like Britain. For Americans over the age of 65 on Medicare, the system is like in Canada. For the 15 percent of the population who have no health insurance, the US is like rural India.

Source: Physicians for a National Health Program, http://www.pnhp.org.
Accessed on 6 June 2015

Extract 2: Why Is American health care so ridiculously expensive?

The US medical system is absurdly expensive. The average routine office visit in the US is three-times more expensive than in Canada. The average CT scan is five-times more expensive than in Canada.

In *The Healing of America*, T. D. Reid explored why American medicine in general falls behind other countries in quality while it races far ahead in cost of care. One reason offered by Reid is that unlike other countries, the US government doesn't manage prices. While some developed countries have one health care insurance plan for everybody - where the government either sets prices or oversees price negotiations - the US is unique in its reliance on private for-profit insurance companies to pay for both essential and elective care.

However, it's not like all this money buys the US nothing. American health care is the world's envy in some categories, especially in cancer care, wait times, and access to new technologies for affluent and insured families.

Source: The Atlantic, http://www.theatlantic.com, published on March 27 2013.
Accessed on 6 June 2015

Extract 3: Cost of ageing population Singaporeans' top worry

The number one worry of Singaporeans is the cost linked to the growing pool of old folk, according to a global survey commissioned by global insurer Swiss Re. Singapore is projected to have one in five people aged 65 or older by 2030. As the country greys, a critical quotient is the gap between the cost of meeting people's needs in health care and what is available from government schemes to cover these costs. A Swiss Re study found that if government health care expenditure remains at the same proportion of GDP as in 2010, the gap in Singapore will grow from US$100 million (S$124 million) to US$600 million by 2020. How to reduce this gap was a topic discussed at a Swiss Re closed-door symposium, attended by regional life insurers, academics and government officials. Popular solutions raised include the government focusing on early intervention and promoting healthy living.

Source: The Straits Times, 23 Oct 2013

Extract 4: Health care financing in Singapore

The Singapore government's philosophy on healthcare and, more generally, social welfare financing has largely been shaped by the country's first Prime Minister, Lee Kuan Yew, who often stressed that a welfare state was not viable for Singapore because it bred dependency on the government, and led to wastage and over-consumption. The government's approach is that the individual, and not the state, is expected to bear the main responsibility for meeting his/her needs in healthcare.

Health care financing in Singapore is commonly known as the 'Subsidies plus 3M framework'. It comprises 1) government subsidies for health services obtained at public healthcare institutions, 2) a mandatory savings account (Medisave) that induces individuals to save for their hospitalisation expenses, including those that will be incurred during retirement, 3) a catastrophic medical insurance scheme (MediShield) designed to address medical episodes that are infrequent in nature, but impose high financial impacts, and 4) a means-tested financial assistance scheme (Medifund) which serves as a safety net of last resort for patients who can't afford subsidised care even after using Medisave, MediShield and seeking help from their families.

Source: Lee Kwan Yew School of Public Policy, http://lkyspp.nus.edu.sg/wp-content/.../csu_**healthcare-financing**-final_2207.pdf
Accessed on 6 June 2015

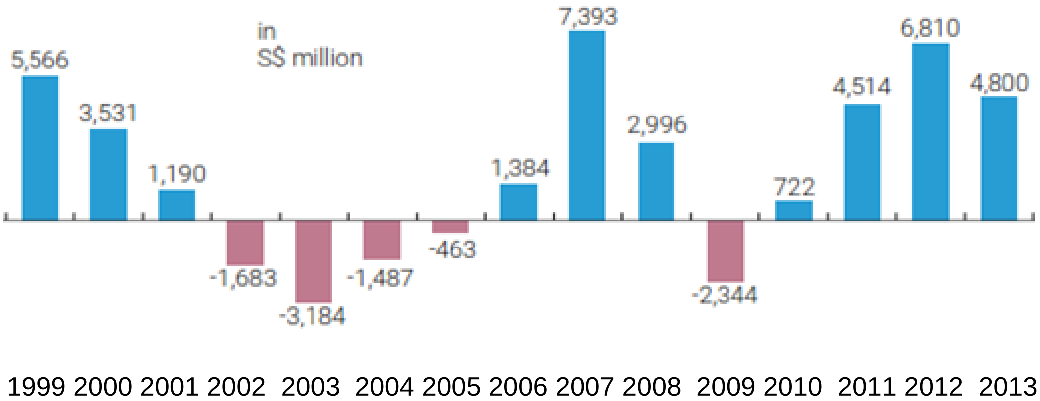
Extract 5: Key policy shifts to alleviate medical costs

Following the announcement by the Finance and Health Ministers of Singapore in early 2013 that the government was reviewing the country's health care financing framework with a view to having the State shoulder a larger share of healthcare costs, the Health Minister has shared that the government's initiatives on healthcare affordability include:

1. Making outpatient costs more affordable by expanding government subsidies and Medisave use, to reduce cash outlay for patients.
2. Enhancing MediShield to better cover large bills and provide life-long coverage for all Singaporeans and permanent residents. The scheme will be renamed MediShield Life. The government will provide subsidies to ensure that the premiums for MediShield Life are affordable by all.

Source: Singapore Ministry of Health, 29 Aug 2013

Figure 1: Singapore government's budget position (surplus and deficit)



Source: Straits Times Graphics, http://graphics.straitstimes.com
Accessed on 15 August 2015

Questions

(a) Explain what could be inferred from Figure 1 about the change in the Singapore government's reserves from 1999 to 2013. [2]

(b) Using Table 1, compare health expenditure as a percentage of GDP by the US and UK governments. Justify your answer. [2]

(c) "The average CT scan is five-times more expensive (in US) than in Canada." (Extract 2)
Justify if this difference in price is due to price discrimination. [5]

(d) Using the concept of opportunity cost, explain how rising health care expenditure caused by an ageing population will impact a country's economic growth. [3]

(e) With reference to the data, discuss whether the single payer national health service model is superior to the market driven model of health care system. [8]

(f) In view of the public's concern with health care affordability, assess the Singapore government's move to bear a larger share of total health care spending. [10]

[Total: 30]

Question 2

Economic Growth and Policies

Table 3: % change in real gross domestic product (GDP)

	2009	2010	2011	2012	2013
Japan	-5.5	4.7	-0.5	1.8	1.6
USA	-2.8	2.5	1.6	2.3	2.2
China	9.2	10.6	9.5	7.8	7.7
Germany	-5.6	4.1	3.6	0.4	0.1

Table 4: Unemployment (% of total labour force)

	2009	2010	2011	2012	2013
Japan	5	5	4.5	4.3	4
USA	9.4	9.7	9	8.2	7.4
China	4.4	4.2	4.3	4.5	4.6
Germany	7.7	7.1	5.9	5.4	5.3

Table 5: Government budget balance (% of GDP)

	2009	2010	2011	2012	2013
Japan	-8.8	-8.3	-8.8	-8.7	-9.3
USA	-12.8	-12.2	-10.7	-9.6	-6.4
China	-1.1	-0.7	0.1	-0.3	-0.7
Germany	-3.1	-4.2	-0.8	0.1	0

Table 6: Components of GDP in selected economies (% of total), 2013

	Exports	Domestic Consumption
Japan	16.2	61.1
USA	13.5	68.5
China	23.3	36
Germany	45.6	55.9

Sources of Tables 3 to 6: OECD and World Bank

Extract 6: Japan spurs talk of currency war

The Bank of Japan has launched quantitative easing on a vast scale in an effort to revive the Japanese economy. This creation of new money has caused Japan to come under fire for deliberately weakening its currency to spur demand for its exports.

But the fact remains that a weaker yen, which makes Japanese goods more competitive in the global market, is a boon for Japan's economy. On the other hand, Germany's economy is struggling. German exporters could feel the pinch if the euro appreciates against the yen which may exacerbate the slowdown in growth. Beyond that, there's concern that other nations could take similar steps, leading to competitive devaluation, also known as a currency war.

Officials in Korea and Thailand were the latest to voice concern over the rapid appreciation of their currencies as monetary easing in Japan and the United States boosts demand for higher yielding assets. Brazil has also complained about the flood of money unleashed by interest rate cuts in the United States and Japan.

Source: CNN, 24 January 2013

Extract 7: A time for austerity

In 2009 the frightening speed of economic collapse spurred many governments to roll out big packages of tax cuts and extra spending in the hope of stimulating growth. Among Barack Obama's first steps as president in 2009 was to sign the American Recovery and Reinvestment Act, a stimulus plan worth $831 billion, or almost 6% of that year's GDP.

For some countries, the result was a spike in government debt, made worse by slowing growth. The question about how much debt governments could take on without harming the economy loomed. Typically, lenders will demand ever higher rates of interest from spendthrift governments as public debts grow.

As growth returned, some leaders argued that it was time to reverse fiscal policy to trim public spending. Others worried that the recovery was too fragile to permit any hint of austerity. Fiscal consolidation, in short, still has its place. But what sort? Some economists recommend spending cuts, others argue that higher taxes can also work. Both approaches have costs. Taxing pay can distort labour markets while cutting spending is more unpopular and can exacerbate inequality.

Source: The Economist, 28 September 2013

Extract 8: China's economic growth and rebalancing

The sustainability of China's economic growth is a key element of the global outlook. There is a widespread consensus, including in China, that the export-led growth model which prevails in the country is unsustainable in the long run.

Economic imbalances are an inherent by-product of the export-led growth model. While this framework has been successful in modernising China's economy, boosting GDP per capita and gaining export market shares, it has produced domestic and external imbalances and tensions with major trading partners. Production for the export market, such as the export of carbon-intensive metal products has also led to environmental degradation in China and this has become an issue of concern to many Chinese.

Hence, China is adopting policies to "rebalance" the economy by relying more on domestic demand to drive growth. This has led to policies to increase domestic demand to address problems such as weaker global demand. Coupled with abundant rural labour supply, inward foreign direct investment into the mainland areas and increasing share of high value-added exports using imported technology from multi-national companies, this would help China move towards a path of sustainable growth.

Source: European Central Bank paper on China's Economic Growth and Rebalancing, Feb 2013

Extract 9: China's new growth strategy

China has made the transition to a pro-consumption growth strategy the centrepiece of its newly enacted five-year plan. It features three building blocks:

- China has the smallest services sector of any major economy in the world, yet services in China generate about 35 percent more jobs per unit of GDP than do manufacturing and construction. By shifting from capital-intensive manufacturing to labour-intensive services, China could grow more slowly and achieve more sustainable growth.
- Per capita income of urban workers in China now runs about three times that of their counterparts in the countryside. With China's urban population exceeding its rural population for the first time in history, ongoing rapid urbanisation, coupled with services-led employment opportunities, is a plus for boosting aggregate wage incomes.
- China must build a social safety net. Lacking financial security, workers will continue fear-driven precautionary saving, an impediment to a flourishing Chinese consumer culture.

Source: Stephen S. Roach, YaleGlobal, 19 July 2012

Questions

(a) Compare Germany's government budget balance with that of USA between 2009 and 2013. [2]

(b) Explain how slow growth could worsen a government's budget position. [3]

(c) With the aid of a diagram, explain how quantitative easing by the Bank of Japan would result in the weakening of the yen. [4]

(d) Explain why officials in Korea and Thailand are concerned about the quantitative easing in countries like Japan. [3]

(e) In light of the problems described in Extract 7, discuss the view that USA and Germany should adopt fiscal consolidation. [8]

(f) Discuss whether China should rely on her domestic market or exports to drive growth. [10]

[Total: 30]

---End of paper---