CATHOLIC JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATIONS
In preparation for
General Certificate of Education Advanced Level
Higher 2

ECONOMICS	**9732/01**
Paper 1	**21 Aug 2015**
	1400 - 1615
Additional Materials : Writing Paper	**2 hours 15 minutes**

READ THESE INSTRUCTIONS FIRST

Write your name, class and question number 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 highlighters, glue or correction fluid.
Begin each question on a new sheet of paper.

Answer **ALL** questions.

At the end of the examination, **hand in EACH question separately**.
The number of marks is given in brackets [ ] at the end of each question or part question.

Answer **all** questions

Question 1: The bitter truth about sugar

Extract 1: Sugar updates

Global sugar prices have been on a downward trend – and there is no end in sight. Worldwide, sugar stocks are at record levels, and high stocks have been bolstered even further after better than expected sugar production from India and Thailand. Current prices are below the cost of production for most producers. The three key drivers of consumption in emerging markets are rising population, rising levels of real incomes and shift in emerging markets toward urbanization. This year's final production from India and Thailand caught most of the industry by surprise, even though it is widely known that weather is a key driver behind these seasonal swings. This further highlights just how precarious output predictions can be. With an El Nino event expected to hit major commodities this year, there was "much debate as to what extent the weather risk has not been priced into the market."

Source: adapted from *foodnavigator.com, July 2015*

Extract 2: Britain in nutrition recession

Britain is experiencing a nutritional recession. Rising food prices and shrinking incomes are driving up consumption of fatty foods, reducing the amount of fruit and vegetables we buy, and condemning people on the lowest incomes to an increasingly unhealthy diet. Detailed data compiled for the Guardian, shows that consumption of fat, sugar and saturates has soared since 2010, particularly among the poorest households, despite the overall volume of food bought remaining almost static. The data show consumption of high-fat and processed foods such as instant noodles, coated chicken, meat balls, tinned pies, baked beans, pizza and fried food has grown among households with an income of less than £25,000 a year as hard-pressed consumers increasingly choose products perceived to be cheaper and more "filling".

Source: adapted from *The Guardian, November 2012*

Extract 3: Health recommendations to cut child obesity

A "sugar tax" should be introduced by the UK government to help curb obesity in childhood, a campaign group says. Action on Sugar has produced a seven-point plan, following a request from the government, to discourage children from consuming foods and soft drinks with high levels of added sugar.

The seven-point plan includes:
- Reduce added sugars in food by 40% by 2020
- Ban all forms of targeted marketing of unhealthy foods and drinks to children
- Disassociate physical activity with obesity by banning sponsorships of sporting events by junk food corporations
- Reduce fat by 15% in ultra-processed foods by 2020
- Limit the availability of ultra-processed foods and sweetened soft drinks
- Reducing portion sizes of ultra-processed foods and sweetened soft drinks
- Introduce a sugar tax to incentivise consumers to switch to healthier food

Current policies are not working and obesity could be prevented if the food environment is changed. The UK needs to start by setting incremental sugar reduction targets for soft drinks this summer as the food industry continues to spend billions in junk food advertising targeting children.

Source: *BBC, June 2014*

Extract 4: Sugar tax enacted in Mexico

Mexico has become the standard bearer in the global fight against obesity, after authorities passed a law imposing significant new taxes on junk food and sugary drinks. Mexico has resisted tough lobbying and warnings that raising prices would do nothing to help the country's economy. But the government has taken the long term view – that the short term potential economic harm from reduced junk food and soft drink sales now is insignificant compared with the long term damage in 10 years time if obesity continues at the current rate. The healthcare burden of diabetes and heart disease in Mexico is already huge and increasing. Some 9.2% of children in Mexico now have diabetes. The taxes will increase the price of junk foods by 8%. The money raised is intended to go towards health programmes and increased access to drinking water in schools. The government will also introduce a nutritional stamp of approval for healthier foods on sale in supermarkets.

The food industry claims such taxes are a burden on the consumers and do not work. They cite the Danish example. In 2011, the Danish government imposed a tax on all foods containing more than 2.3% saturated fat, which hit popular staples such as butter and bacon. It was unpopular partly because it was introduced by the treasury as a fundraiser, rather than being presented as a measure to improve population health. Newspapers ran stories about Danes stockpiling and crossing the border to buy cheaper butter. Eventually the government fell, and the tax was withdrawn after six months. In the end, the short-lived measure has only increased companies' administrative costs, with none of its benefits materialised.

Source: *The Guardian, November 2013*

Extract 5: Sugar policies in EU

The European Union (EU) is the world's main importer of sugar. Domestic sugar producers have a quota on how much sugar they can sell in the EU. These quotas restrict EU production of sugar to 13 million metric tons a year. The shortfall in local demand must be met by duty-free shipments from the developing countries of African, Caribbean and Pacific states (ACP)[1] that have preferential access to the EU market. These countries have benefited from the export of cane sugar to the EU market as currently, the EU imports 60 percent of their demand for cane sugar under a duty-free agreement for sugar from these ACP countries. This has resulted in occasional sugar shortages when imports from ACP nations fell due to poor production levels.

The EU Common Agricultural Policy (CAP) is a production quota on EU producers – a protectionism in favour of developing countries. There is a push for reform of the EU CAP, to end production quota imposed on EU producers. The reform could lead to an increase in EU domestic production of sugar, while imports of sugar are estimated to decline by 42.6 percent, mainly due to the replacement of imports from developing countries by domestic production. The reform is also likely to result in the EU move from being a net importer of sugar to a net sugar exporter.

Source: *www.tralac.org and Bloomberg, April 2013*

[1] African, Caribbean, and Pacific states (ACP) was created with the aim of coordinating cooperation between EU and its members. Malawi, Zimbabwe, Lesotho and Swaziland are some member states.

Extract 6: France concerned about liberalisation of EU sugar market

According to a report by the French parliament, ending European quota of domestic sugar production will harm developing countries that rely on sugar production. Many people in the developing countries depend on the sugar industry. The sugar sector directly or indirectly employs approximately 20,000 people in these countries.

The reform of the sugar quota policy is likely to benefit the large EU sugar producers, the most competitive producers. However, it is clear that there will be winners and losers. The reform should make European prices conform to world prices, which are currently lower, and increase the competitiveness of the European sector.

Increased competitiveness is a significant economic and social burden in places where the production is not yet completely mechanised. Some developing countries sugar sectors are not likely to survive the increased competitiveness.

Nevertheless, European sugar producers might not be the only ones to benefit from opening the market. The expanding global trade in sugar, now worth about $47 billion, has been helping to fuel land grabs in developing countries. Rising consumer demand have encouraged more large-scale production operations at the expense of smaller farms. At least 4 million hectares have changed hands in large-scale deals since 2000. These deals have been linked to human rights violations, loss of livelihoods and hunger for small-scale food producers and their families. Small-scale producers are side-lined as the market offers companies huge rewards for exploiting land, but without safeguarding people's rights. The reforms might cause a change in events.

Source: *Bloomberg, Oct 2013 and Euractiv, May 2014*

Table 1: Global Sugar Price Index (Base year 2008)

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
139	93	100	105	182	255	206	162	135	129

Note: *till July 2015

Source: *NASDAQ, accessed 29 July 2015*

Questions

(a) **(i)** Describe the trend in sugar prices between 2010 and 2015. [2]

(ii) Account for the above overall trend in (ai). [4]

(iii) What does the 'nutritional recession' suggest about the income elasticity of demand for processed food? [2]

(b) Using a diagram, explain the economic case for the imposition of a sugar tax to curb obesity. [4]

(c) Discuss whether a tax is the most appropriate policy to tackle the ills of obesity. [8]

(d) Discuss the impacts of the 'reform of the EU Common Agricultural Policy (CAP)' on developing and developed countries. [10]

[Total: 30]

Question 2: Generating and sustaining economic growth

Extract 7: China's economy grows robust 7.7% but signs of slow down emerge

China's economy grew by a robust 7.7% last year, one of the strongest performances globally, although signs of a slowdown emerged late in the year as authorities tried to rein in a debt-fuelled investment growth binge. China's economy has cooled since recording double-digit growth rates in the run-up to the financial crisis of 2008, but it has been propped by a surge in investment in infrastructure and real estate. Amid concern that the debt burden was rising to dangerous levels, authorities tightened credit at the end of 2013, and investment growth slowed.

The Communist Party has been aiming to maintain a fast pace of economic growth. But this growth-at-all-costs strategy has not only wrought damage on the environment but has also allowed imbalances to build up within the economy, which relies more on investment than domestic consumption. Experts say the investment binge cannot be sustained without wasteful spending and a mountain of debt

Slowing the growth in credit is just the first step in that reform journey, economists say. The government needs to rein in politically powerful state-owned enterprises and create a more level playing field for the private sector. In addition, the authorities should look into boosting social safety nets so that its citizens are encouraged to spend more of their income rather than saving it, given China's high savings rate. None of that will be easy and will require taking on powerful vested interests within the party.

Source: *Washington Post,* 20 January 2014

Extract 8: Catching the dragon

Economists have tentatively suggested that within a year or two, India's economy might be growing more quickly than China's. Indeed, the India economy has been doing better after Mr Modi's pro-growth government took charge since last May's elections. Foreign investment inflows remain steady with the rupee maintaining its strength. The central bank has even expanded its foreign-exchange reserves to a record \$330 billion—thus keeping the rupee from rising by more.

The economy is likely to pick up further. The recent falls in commodity prices, which have hurt raw-material exporters such as Brazil, Russia and South Africa, are a boon for India, which imports 80% of the oil it consumes. Rich economies may fret about the dangers of falling prices around the world; Indians, on the other hand, are pleased they no longer have double-digit inflation at home. The diminishing threat from inflation has already prompted India's central bank to reduce interest rates in January, from 8% to 7.75%. More cuts are expected this year.

Source: *The Economist,* 9 February 2015

Extract 9: Singapore exports slow on global demand

The surprisingly slow global economic recovery was the cue for local economists to drastically cut their forecasts for Singapore's export performance this year. Exports had earlier been expected to climb 4.1% for the year but that prediction was slashed to -1.1%.

Economists said the dramatic turnaround in their estimates stemmed from falling demand for the type of electronic products made here. And although economic restructuring efforts are making services a bigger component of the economy, activity in this sector is not reflected in export data.

Economist Song Seng Wun said that Singapore's electronic exports in particular continued to struggle, partly due to weaker demand for products such as disk drives and semi-conductors. The electronic industry makes up about a third of the manufacturing sector, which in turn accounts for a fifth of economic output. It would take an "almighty lift" from non-electronic exports for overall non-oil domestic exports to grow this year, he noted.

Economist Chua Hak Bin said that pharmaceutical exports have also been poor, although that has been somewhat mitigated by a better showing in petrochemicals and chemical products.

The more optimistic forecast of 4.1% growth in exports was based on an expected pick-up in external demand but that has been slower than expected. Recovery in the United States has been less import-intensive, not providing as strong a lift to Asian exports as in the past. Slower China growth is also weighing on Asia's and Singapore's export performance. A strong Singapore dollar also led to falling non-domestic exports to the European Union, South Korea, Japan and Malaysia.

Another issue is that economic restructuring and stricter foreign worker policies are also hurting labour-intensive industries such as manufacturing, which may be losing competitiveness. But other economists note that some manufacturers still continue to invest here even though they know Singapore is not the cheapest place, indicating that the country still retains some of its competitive edge.

Analysts noted that economic restructuring and innovation will become more important to improve efficiency as Singapore cannot count on a pickup in global demand to drive the economy. Growth in the advanced world may remain sluggish as some major economies have yet to see solid recovery after the global financial crisis.

Source: *The Straits Times*, 15 September 2014

Extract 10: Monetary Authority of Singapore (MAS) maintains appreciation of Sing Dollar

The global economy should continue to expand, but at an uneven pace across countries. The US economy will lead the recovery but growth in the core Eurozone economies and Japan is likely to remain weak. In Asia, the ASEAN economies should benefit from the US recovery and the mild upturn in the global IT industry, while China is expected to stay on its moderating growth path.

MAS Core Inflation, which excludes private road transport and accommodation costs, averaged 2.2% year-on-year in July–August, up from Q1 2014. This was largely due to higher wages and other business costs that led to higher prices of consumer services. Imported food inflation was also elevated because of the higher cost of food from the region, which in turn partly reflected the effects of supply disruptions.

MAS will maintain its policy of a modest and gradual appreciation of the S$NEER (Singapore dollar nominal effective exchange rate) policy band. This policy stance is assessed to be appropriate for containing domestic and imported sources of inflationary pressures.

Source: *MAS Monetary Policy Statement*, 14 Oct 2014

Table 2: Real GDP Growth (% Change)

Country	2013	2014	2015*
India	6.9	7.2	7.5
China	7.7	7.4	6.8

**forecasted data*

Source: *IMF World Economic Outlook, accessed July 2015*

Table 3:
Ranking by GDP per capita, current US$

Country	2014
United States	54,596
Germany	47,590
China	7,589
Vietnam	2,052
India	1,627
Myanmar	1,221

Table 4:
Ranking by GDP per capita, current PPP$

Country	2014
United States	54,596
Germany	45,888
China	12,879
India	5,855
Vietnam	5,634
Myanmar	4,706

Source: *IMF World Economic Outlook, accessed July 2015*

Questions

(a) **(i)** Using Table 2, compare the real GDP growth rates of India and China from 2013 to 2015. [2]

(ii) Using Extracts 7 and 8, account for India's difference in growth rate from China. [4]

(b) Using Tables 3 and 4, explain one possible reason for the difference in the ranking of India. [2]

(c) Assess if China should move away from her 'growth-at-all-costs strategy' towards 'boosting social safety nets'. [8]

(d) Justify the stance of maintaining a strong Singapore dollar to retain price stability. [4]

(e) To what extent will the change in policies to sustain economic growth benefit Singapore? [10]

[Total: 30]

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