NYJC

PRELIMINARY EXAM 2016

Economics JC2 H1 (8819/01)

PAPER 1

Friday
16 September 2016
08:00 – 11:00

TIME : 3 hours

INSTRUCTIONS TO CANDIDATES

Do not open this paper until you are told to do so.

Write your name, class and name of economics tutor in the space provided on the writing paper.

Do not use staples, paper clips, glue or correction fluid/tape.

Section A
Answer **all** questions.

Section B
Answer **one** question.

The number of marks is given in the brackets [ ] at the end of each question or part question.
Write your answers on the writing papers provided. If you use more than one sheet of paper, fasten the sheets together.

You are advised to spend several minutes per question reading through the data and questions before you begin writing your answers.

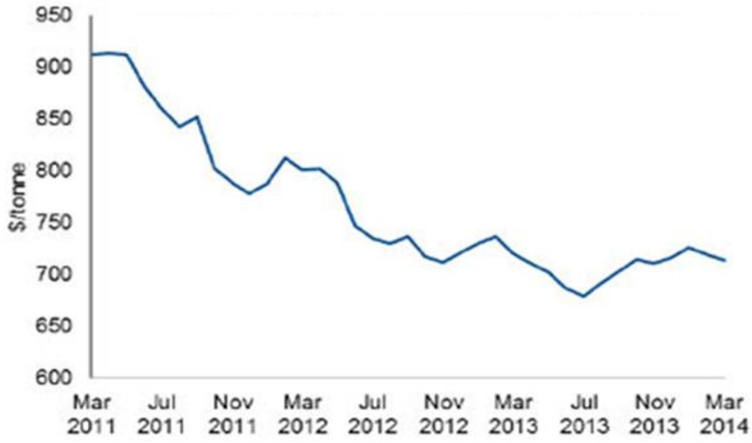
There are 8 printed pages including this cover page

SECTION A

Answer all questions in this section

Question 1: Trade Wars in the Resource Markets

Figure 1: World price of Steel



Source: fastmarkets.com

Extract 1: Rise of Protectionism in China a Threat to Commodities Imports

Amid a slowdown in economic growth, the world's top commodities buyer is facing a supply glut that has sent local prices tumbling and miners deep into the red. Inventories of iron ore, coal and cotton are bulging at ports across the country and state granaries are overflowing.

To help shield local markets, experts and traders said Beijing has employed a range of non-tariff barriers to curb imports of corn, cotton and distillers' dried grains.

After months of lobbying by the China National Coal Association to limit imports, Beijing also slapped a 3-6 percent tax on coal imports last month - hitting $8 billion worth of exports from Australian miners.

"This is the first time in recent memory that we are seeing quite a lot of protectionism in China targeting commodities imports," said Simon Evenett, professor of international trade at Switzerland's University of St Gallen.

Source: Reuters, 2014

Extract 2: Calls for Tariffs in U.S. and Europe on China's Steel

China's massive steel-making engine, determined to keep humming as growth cools at home, is flooding the world with exports, spurring steel producers around the globe to seek government protection from falling steel prices in China.

Steel use in China has fallen as the country's real-estate sector cools. However China's mills have yet to slow in lockstep. Their output is supported by a fall in the price of iron ore, the main ingredient in making steel. Mills' refusal to cut back despite slower demand growth is what irks steelmakers elsewhere in the world.

Lower prices of Chinese steel was also due to the weaker Chinese currency. “The weakening renminbi was also a factor in encouraging exports,” said Xue Heping, an analyst who advises the China Iron and Steel Association.

Unable to compete with China’s low steel prices, steel producers in the U.S. such as U.S. Steel Corp. and Nucor Corp. are starting to seek political support for trade action such as tariff against China’s steel. This year U.S. Steel has laid off or issued layoff warnings to around 3,500 workers.

The surge in China's exports of steel has sparked complaints of unfair subsidies, many of which tend to come from provincial governments. China's steel industry has denied it is being supported by Beijing.

Chief executives of leading American steel producers said Thursday they would testify later this month at a Congressional Steel Caucus hearing, a move that trade lawyers said is a prelude to launching at least one anti-dumping complaint with the International Trade Commission against China.

“Dumping,” or selling abroad below the cost of production to gain market share, is illegal under World Trade Organization law and is punishable with tariffs. Both the U.S. and the EU already have tariffs in place on a handful of Chinese steel products, but steel companies call them insufficient.

Source: Wall Street Journal, 2015

Extract 3: “Steel”ing the Environment

Struggling from weak demand and facing new rules to clean up pollution, some firms in China's top steel producing city have scaled back production or even closed completely, lifting local steel prices off 20-year lows.

China is using tougher environmental rules to help tackle a severe steel capacity glut that has depressed prices. Tangshan, which is 200 km (124 miles) east of Beijing and produces more steel a year than the United States, has been on the frontline of campaigns to cut smog and tackle overcapacity. The authorities are making industrial firms - including steel mills - renovate facilities over the next few months in order to meet strict new pollution standards.

"There are so many plants that are having to cut or stop production," said Zhou Junjia, a sales manager at Baifeng Iron and Steel Corporation, noting that four privately owned steel firms nearby had recently been forced to close.

"In Tangshan, there are just too many plants selling steel products. We travel around to customers and to big steel markets in other large cities and no one is buying," added Zhou. Baifeng has cut daily crude steel production by 40 percent to 1,200 tonnes in recent months, which would amount to an annual cut of 292,000 tonnes.

"We are at least not losing money and are covering our production costs," he said, noting that it could break even by relying on its processing and trading business.

According to a survey publish this week by the Hebei Province Metallurgical Industry Association, as many as 26 blast furnaces in Tangshan have been closed from July for overhauls, and a "majority" of steel processing plants throughout Hebei have either shut down or halved production due to persistently weak prices and environmental pressures.

Jiang Ping, an analyst with ChinaTSI, an industry consultancy, said expectations of tougher environmental controls and supply cutbacks were helping prices.

"But I don't think there is any long-term support for prices because none of this solves the fundamental issues of overcapacity and weak demand," she said.

Source: Reuters, Aug 2015

Answer all questions

a (i) Using Figure 1, summarise the trend in world price of steel in 2011-2014. **[2]**

(ii) In the light of Extract 2, use supply and demand analysis to explain the changes in steel prices in China. **[4]**

b "A surge in China's exports of steel has sparked complaints of unfair subsidies."

(i) Explain why subsidies are considered a protectionist tool. **[2]**

(ii) Explain a possible reason that would motivate a country to practice dumping. **[2]**

c (i) Explain one negative externality which is claimed to result from steel production and analyse how this can lead to market failure. **[6]**

(ii) As a consultant economist, what options would you present to the Chinese government for responding to the negative externalities of steel production, and what would you recommend? Justify your answer. **[6]**

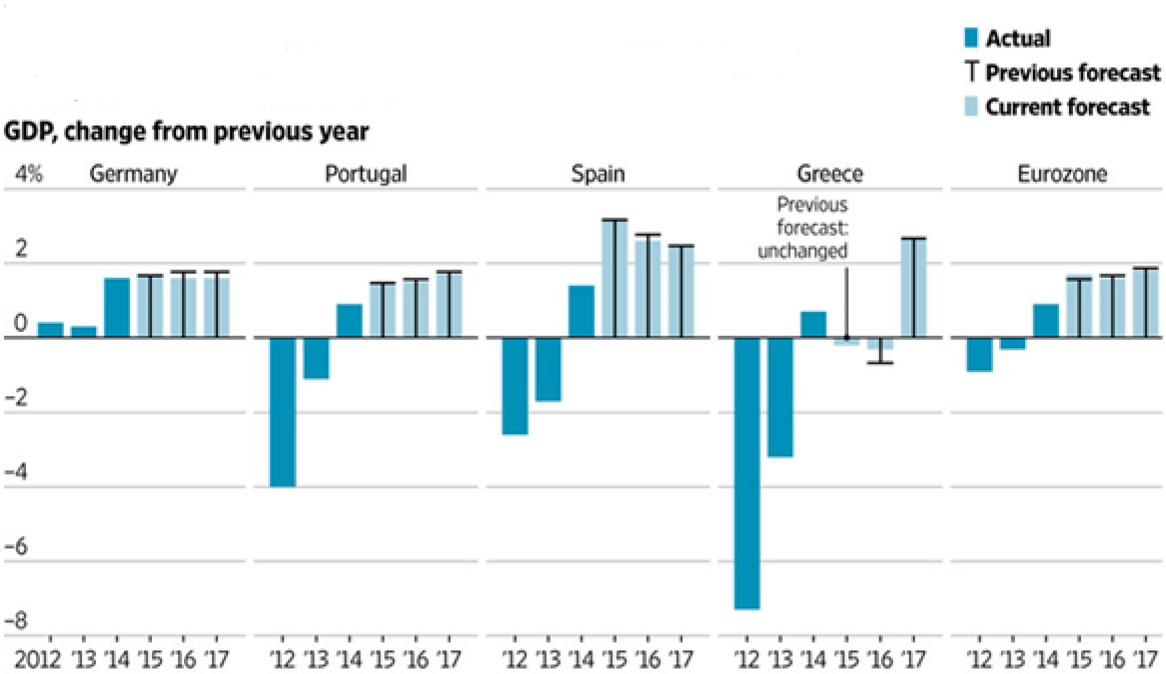
d Do you think governments should introduce protectionist measures in circumstances such as those described in extract 1 and extract 2? **[8]**

[Total 30 marks]

Question 2: Concerns Over China's Slowdown

Extract 4: EU Sees Weaker Growth in Eurozone and Wider EU as China Slowdown Weighs

Figure 2 : GDP changes in Europe



Source: European Commission

Growth in the Eurozone and the wider European Union will be slightly weaker this year than previously forecast, the European Commission predicted Tuesday, warning that the economic slowdown in China and other emerging markets, geopolitical tensions and uncertainty ahead of the U.K. referendum on EU membership could weigh on the economy. The EU's economists also cautioned that the impact of factors that have been supporting growth in the region, such as low oil prices and a weaker euro, could start to fade. Fundamental problems in many of the bloc's economies, including high levels of private debt and unemployment, continue to hold back the recovery, they said. The EU economy expanded 1.7% in 2015.

Source: Adapted from Wall Street Journal, 3 May 2016

Extract 5: How Exposed Is Europe To A Chinese Economic Slowdown?

China has become one of the EU's key external trading partners in goods. It ranks second overall in terms of total trade and in particular has been a key source of demand for exports in recent years. At a time when the Eurozone is struggling, it should not be under-estimated as a source of external demand and cheap inputs. While it is important in terms of goods trade, total trade in services is relatively limited.

Germany has brushed off concerns that turmoil in China could impact its economy with a spokeswoman for the Economy Ministry saying the "immediate consequences" should be "limited". One of the reasons behind this could be that net exports have actually been a less important driver of German economic growth than domestic consumption since 2012.

Germany has also shown impressive export flexibility in the face of crisis – when Eurozone demand for its exports halted it was able to shift towards China and other markets; it could yet try to pull off such a move again. For example, it has shown some success in tapping into the nascent US recovery with exports growing quickly in past few months. Similarly, the surprisingly impressive recovery in Spain has been driven by consumption and domestic demand rather than net exports, let alone demand from Asian markets.

Source: Adapted from Forbes, 25 August 2015

Extract 6: China's Slowdown Could Be a Plus for U.S. and Europe in the End

China's slowdown is blamed for causing everything from global market turmoil to falling sales of crocodile-skin handbags. Yet the slowest growth in 25 years in the world's second-biggest economy is proving a boost for consumers and companies in Western Europe and the U.S., according to Neville Hill, an economic analyst in London.

When China grew at double-digit rates, its voracious demand for materials drove up commodity and energy prices. That hurt the buying power of consumers in Western economies and weighed on corporate sentiment as rising costs hurt profits.

Now, that situation is being reversed. Plunging commodity prices are boosting European and American shoppers and spurring corporate earnings growth. "China is exporting deflation, but for the West it is good deflation rather than bad deflation in that the cost of the stuff we buy has gone down" Hill said.

China's GDP growth is on pace to be the weakest since 1990. Xi's government is transforming the $10 trillion-plus economy from one driven by debt-fueled investment and exports into a more sustainable one led by consumer spending and services. That shift means there is less demand for commodities.

Source: Adapted from Bloomberg, 4 November 2015

Extract 7: China's Slowdown Will Hit Singapore Hardest: ANZ Warns

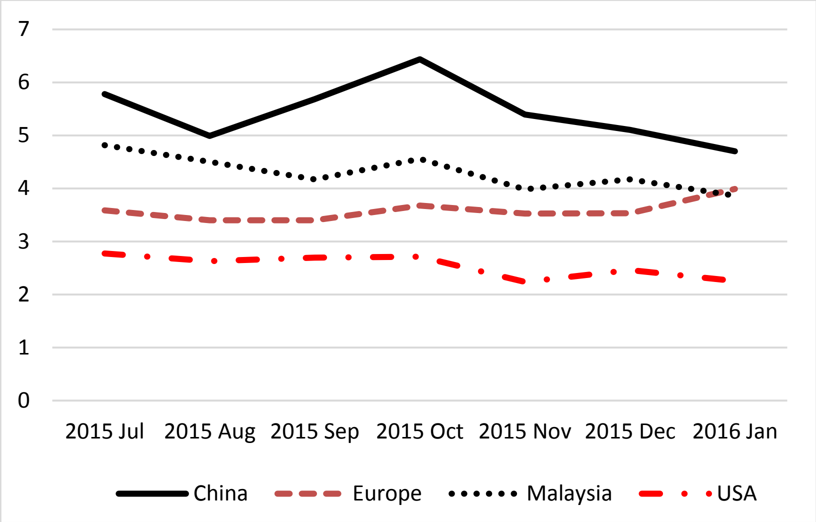
The slowdown in China will hit Singapore faster and harder than any country in the region, economists from Australian bank ANZ have warned.

Other economists were not as dire in their prognoses, but agreed that the open nature of the local economy and the strong trade, investment and tourism links between the two nations mean that slower growth on the mainland will have a direct and broad-based impact on businesses and jobs here. "Singapore's economy has been on a structural shift - getting more dependent on China - over the last 10 to 20 years," said DBS economist Irvin Seah. Unlike its Asean neighbours, Singapore does not have a big domestic market to act as a buffer against weaker demand from China, said Mr Seah.

But DBS and HSBC take a slightly more positive view. "Singapore's manufacturing sector is already in recession, but domestic services are holding up relatively well," said HSBC economist Joseph Incalcaterra. He noted that services exports, even those to China, are still growing.

Source: Adapted from Straits Times, 12 Jan 2016

Figure 3: Singapore Exports To Major Partners(S$bn)



Source: Department of Statistics, Singapore

Extract 8: Singapore Must Prepare for Economic Slowdown: PM Lee

WITH the global economy facing cyclical headwinds, Prime Minister Lee Hsien Loong has warned that Singapore must brace itself to handle a possible downturn.
Advances in technology, meanwhile, is also disrupting industries and displacing workers at all levels, be they blue-collar workers in the factories or professionals such as lawyers and doctors.

"We know our direction, (which is) to improve productivity so that we can sustain higher wages for all. But we need to review specific measures - how to help our domestic sectors grow, how to attract investments and help companies develop new markets, and how to make best use of the foreign workers and talent that we need in Singapore," he said.
Overall, Singapore is in a better position than most other countries to tackle the tough challenges ahead. Mr Lee highlighted the Republic's strengths such as a well-educated population, an ethos that is outward-looking, a tech-savvy society and competent unions.

Source: Adapted from Business Times, 27 October 2015

Table 1: Singapore: Selected Indicators

Indicators (Quarter-on-Quarter)	**2015 1Q**	**2015 2Q**	**2015 3Q**	**2015 4Q**	**2016 1Q**
Change in GDP At 2010 Market Prices (%)	0.2	-1.6	2.3	6.2	0.2
Workers made redundant in Manufacturing	950	870	920	2,480	1,790
Workers made redundant in Services	1,930	2,100	2,120	2,360	2,530
Net Exports Of Goods And Services (bn)	29.4	26.9	25.6	29.9	25.7
CPI (Base Year 2014 = 100)	99.9	99.7	99.4	99.2	98.9
Tourism Receipts (S$m)	5,314	5,039	6,039	5,385	na

Source: Department of Statistics Singapore

Answer all questions

a (i) Compare the economic growth of the countries shown in Fig 2 from 2012 to 2015. **[2]**

(ii) Account for the economic growth trend of Eurozone over the same period. **[3]**

b (i) Explain why economists consider deflation to be undesirable. **[3]**

(ii) With the aid of a diagram, explain why the London analyst used the term "good deflation" in Extract 6. **[4]**

c Using economic analysis, explain why there was a slowdown in China's economy. **[4]**

d In view of the current economic conditions, Monetary Authority of Singapore announced a policy change to zero appreciation of currency in January 2016.
Comment on the appropriateness of this policy for the year 2016. **[6]**

e With reference to the data where appropriate, discuss the view that China's economic slowdown will impact Singapore more than Europe. **[8]**

[Total 30 marks]

SECTION B

1. Given a rapidly ageing population, rising incomes, higher rentals, limited land and manpower, Singaporeans have experienced a rapid increase in healthcare costs in recent years; however, achievements in healthcare have allowed for an ageing workforce to contribute significantly to the economy for a much longer period.

   (a) Using demand and supply analysis, explain reasons for the significant rise in prices in the healthcare market. [10]

   (b) Discuss the view that the best way for the government to intervene in the market for healthcare is through the provision of subsidies. [15]

2. (a) What makes sustained economic growth desirable? [10]

   (b) Discuss whether supply-side policies are the most appropriate to achieve economic growth. [15]

************ The End ************