H

ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2016
General Certificate of Education Advanced Level
Higher 1

# ECONOMICS

**8819/01**

Paper 1

**30 August 2016**

**3 hours**

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.

**Section A**
Answer **all** questions.

**Section B**
Answer **one** question.

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 and **1** blank page.

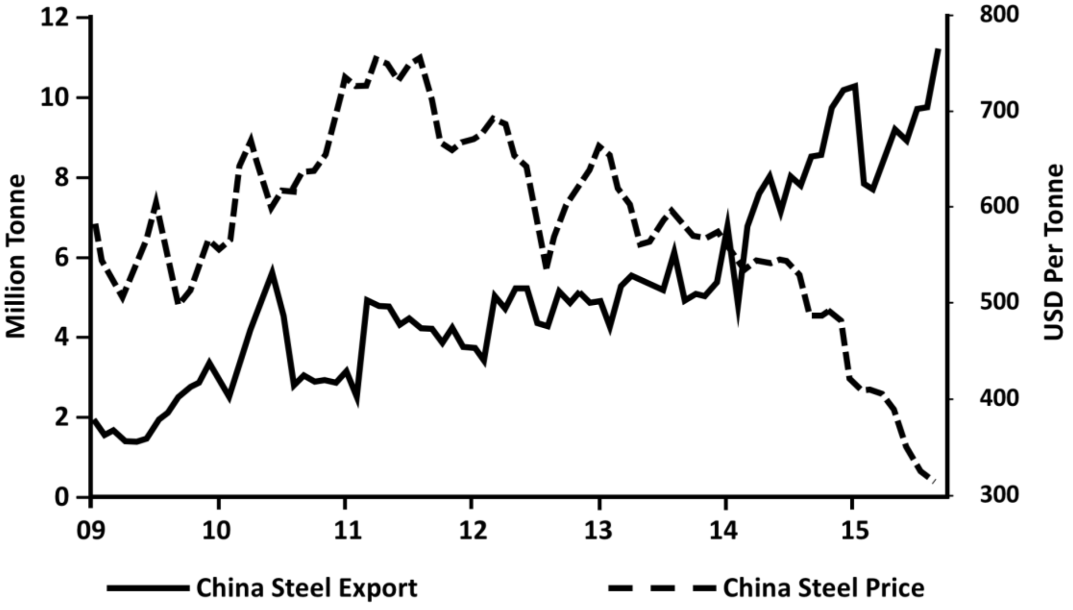


**[Turn Over]**

Answer **all** questions.

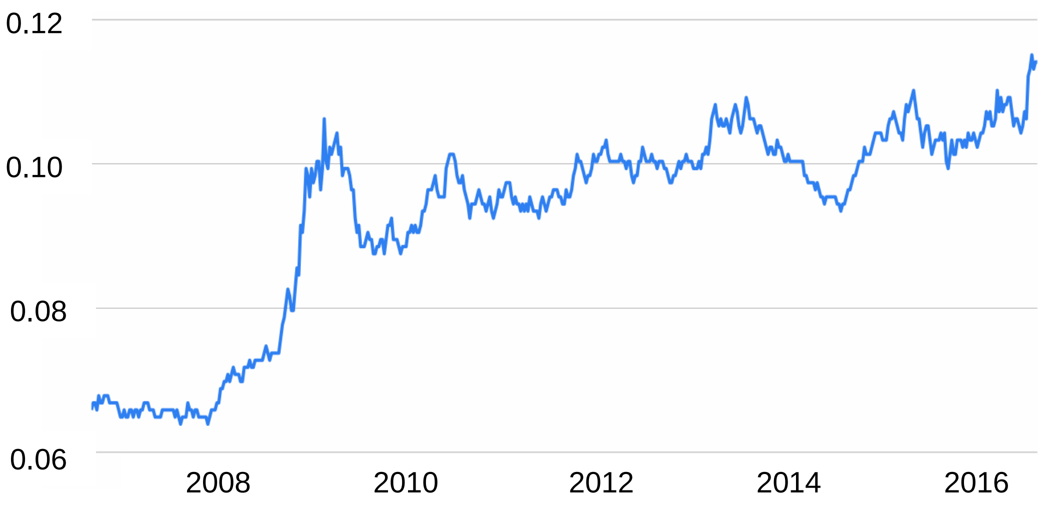
**Question 1 UK and Global Steel Industry – What's going wrong?**

**Figure 1: China Steel Exports and Steel Price**




Source: Bloomberg, ANZ Research

**Figure 2: Chinese Yuan to British Pound Exchange Rate 10 years History**




Source: gbp.fx-exchange.com

**Extract 1: The beginning for the end for British steelmaking**

Eight years on from the financial crisis, the state of the industry is anything but rosy. Losses at Tata's UK operations – the largest steel producer in the country since 2007 – doubled last year to a staggering £768m. In recent years, the company has continually slashed jobs and scaled back operations, reducing its European workforce from 25,000 to 17,000. Tata says that "trading conditions in the UK and Europe have rapidly deteriorated" recently, due to the global oversupply of steel, a "significant" increase exports into Europe, high manufacturing costs and continued weakness in UK demand for steel.

Source: Telegraph, 2015

**Extract 2: Demand for and Supply of Steel**

Demand for steel worldwide has not returned to the levels seen before the financial crisis. As many countries, and particularly China, are seeing weak growth, global demand will remain sluggish - falling 1.7% in 2015 and up by just 0.7% this year. Material substitution has been one of the toughest challenges facing the steel industry. Plastic, aluminium, wood and bamboo have been replacing steel in various application areas.

Global steel prices have fallen sharply. Meanwhile, China's own economic slowdown has led its producers to look for export markets as their home demand stalls. China is producing so much steel that some Chinese companies are selling their steel abroad at a loss, because there isn't enough demand in China. UK imports of Chinese steel have increased dramatically. In 2014 the UK imported 687,000 tonnes of steel from China, up from 303,000 tonnes in 2013. UK companies cannot compete with these prices and jobs are being lost as a result.

The world faces a huge oversupply of steel – any increase in China's steel exports will be undesirable.

Source: BBC News

**Extract 3: Importance of Steel in the UK**

Steel itself is vital for just about everything we use. Whether it is buildings, clothes, chemical, cars, lamps or drink cans – all depend on it at some point. The aerospace industry in the UK is heavily dependent on steel for survival, and this is one of the key growth contributors to the UK economy. For the last one-and-a-half decade, the automobile sector, which holds a 23-25% market share in global steel consumption, has been toying with the idea of increasing aluminium use to lighten weights, boost fuel efficiency and cut down emissions. However, these alternatives are still not the most preferred material for most automotive firms like Volkswagen, Toyota, etc. The steel industry in the UK has seen significant automation and computerisation and is not as labour-intensive as it used to be. This has caused significant improvement in the methods of production which eased the woes that many producers used to face.

Source: Channel News Asia, 18 October 2013

**Extract 4: The total cost of EU's Environmental Regulations in Steel Production**

Nearly 9,500 people died early in a single year as a result of long-term exposure to air pollution in London, according to a new research. Winds from the south and east have brought the dust to the UK, along with industrial pollution from Europe. And because those weather conditions are stable and not changing, those particles are not being dispersed.

However, the environment regulations in the UK may do more harm than good. The steel industry has also complained that EU environmental regulation is making it uncompetitive. With the current impact of competitively priced imports, driven largely by Chinese exports which have exploded to around 110 million tonnes this year, environmental legislation facing EU steelmakers is seen by many as a further burden for the industry.

In response, the member states called for greater consideration of exemptions from the EU's cap-and-trade carbon market (a form of incentive-based policy that focuses on capping the total amount of externality and allocating permits to polluters, which are then free to trade among themselves) for threatened energy-guzzling industries such as steel.

Source: Wall Street Journal, 2015

**Extract 5: EU states call for action against China steel dumping**

Europe's steel industry has lost a fifth of its workforce since 2009 and demand remains 25 per cent below levels before the 2007-2008 financial crisis. European steel industry executives have accused China of using its massive overcapacity at steel mills to dump products on the European market, selling them beneath the cost of production.

The debate hinges on the terms of China's agreement of accession to the World Trade Organisation in 2001. Beijing interprets this accord to mean that it will automatically become a market economy at the end of 2016. Market Economy Status is the term for a country where the market sets the price for goods domestically. This is obviously not the case in China where the state determines prices and has kept them artificially low for goods such as steel. It has subsidised the overproduction of steel which it is dumping on European markets, driving producers out of business. This has piled pressure onto both the US and EU to declare whether they agree with China's interpretations of the rules. The decision is significant as it is very difficult to impose retaliatory tariffs against a market economy, whose price structures are supposed to be set fairly.

The strongest resistance against China's market economy status in Europe comes from traditional manufacturing industries, such as steel, garments and bicycles. China produced about half the world's 1.67bn tonnes of steel output last year and is on track to export a record of more than 100m tonnes this year.

Source: Financial Times, 2015

**Questions**

**(a)** **(i)** Describe the trend in the British pounds against the Chinese yuan from 2008 to 2016. [2]

**(ii)** Explain one possible reason for the trend above. [2]

**(b)** **(i)** Using relevant information from the case study, identify one demand and one supply factor and explain how each of them had impacted the global steel market. [6]

**(ii)** Analyse how the changes in the price of steel will affect consumers' expenditure on automotive products. [4]

**(c)** **(i)** Explain how negative externalities in steel production can create divergence between private and social costs. [2]

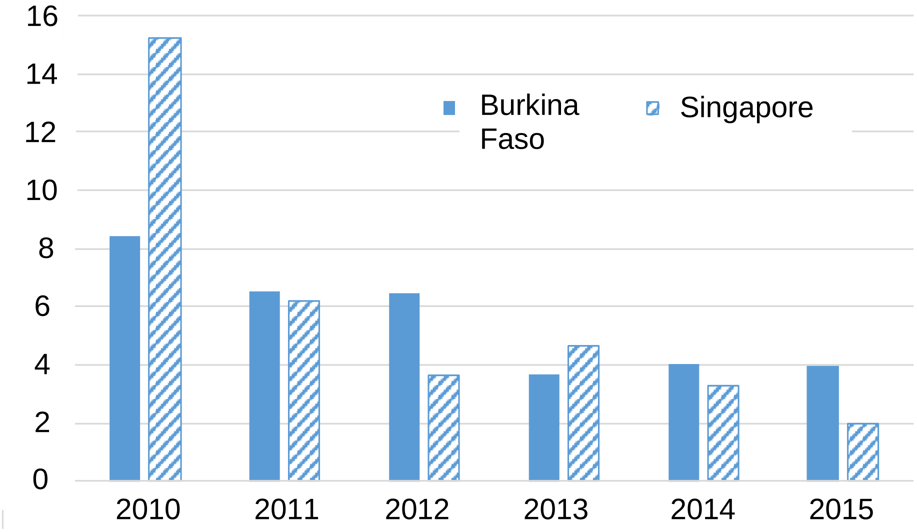
**(ii)** With reference to Extract 4, comment on how the "cap and trade market" policy may solve the issue brought about by steel production. [6]

**(d)** Do you think governments should adopt protectionist measures in circumstances such as those described in Extract 5? Justify your answer. [8]

[Total: 30]

**Question 2 Economic Opportunities and Challenges for Singapore and Africa**

**Figure 3: Annual growth rate in Burkina Faso and Singapore 2010-2015**
% change in real Gross Domestic Product (GDP)




Source: World Bank

**Table 1: GDP per capita of Burkina Faso and Singapore (current US$)**

| Country | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Burkina Faso | 574.5 | 665.8 | 673.0 | 709.1 | 713.5 | 613.0 |
| Singapore | 46,569 | 53,093 | 54,451 | 55,617 | 56,007 | 52,888 |

Source: World Bank

**Extract 6: Africa still important for Singapore investments**

Two African countries have signed investment treaties with Singapore to open up more bilateral business and investment opportunities. One of which is the Burkina Faso-Singapore bilateral investment treaty. The agreements aim to protect the interests of investors from the countries involved and to increase investment flows between Singapore and the two African countries. Singapore's bilateral trade with Burkina Faso rose 15 per cent between 2012 and last year to $2.54 million.

The crops that are used for Burkina Faso exports include sesame, shea nuts, cotton, and ground nuts. Other crops grown that are used to feed the people in this country are sorghum, maize, rice, and pearl millet. Interestingly, livestock used to be a viable source of income for the people with strong Burkina Faso exports but today, this has deteriorated dramatically.

“The recently signed treaty between both countries has not come into force as it is pending ratification. In light of the recent political unrests in Burkina Faso, we expect a delay in the ratification process,” a spokesperson of the Ministry of Trade and Industry told TODAY.

Chief operating officer of Singapore Business Federation (SBF) Mr Victor Tay agreed, saying: “Burkina Faso is just one of Africa’s 53 countries, and most of them remain politically stable. Over 10 of our members are currently operating in the country, and none of them have left.”

“Like investing in BRICs, the potential of Africa is a long term picture, and I don’t expect the recent incident to cast a looming shadow over that outlook,” he said.

Burkina Faso is one of the several countries in Africa that Singapore is eyeing as the next frontier for Singapore companies to expand in the region, which is seeing very rapid economic growth on the back of its huge population and rich natural resources. The International Monetary Fund has projected last month a 5.75 per cent GDP growth for sub-Saharan Africa next year despite the shocks of Ebola outbreak.

This will mean opportunities for Singapore companies to export expertise in areas such as logistics, urban solutions such as in water and waste treatment and human resources, which Singapore has a lot of experience in, to the rapidly developing economies there, Deputy Prime Minister Mr Tharman Shanmugaratnam noted during the Africa Singapore Business Forum in August.

Source: Todayonline, 10 November 2014

**Extract 7: Tap Africa for business opportunities**

Singapore firms have been encouraged to seize business opportunities in fast-emerging Africa as global economic trends favour the continent. Deputy Prime Minister Tharman Shanmugaratnam suggested that Africa could present major openings as production costs rise in China's transformed economy.

"China has dominated manufacturing, particularly low-cost manufacturing, but China is becoming much more expensive and wages are rising quickly." he said yesterday. China's inflation rate is soaring, especially in the coastal provinces where the factories are. As a result, many companies are shifting manufacturing out of China - a trend that Africa can capitalise on.

Standard Chartered Bank's CEO for Europe, the Middle East, Africa and the Americas, Mr V. Shankar, told The Straits Times on the sidelines of the forum that companies considering doing business in Africa tend to worry about the security issues there, the lack of infrastructure and the "sheer pain" of getting to the continent.

Source: The Straits Times, 28 August 2014

**Extract 8: Singapore retains spot as second-most competitive economy**

Singapore retained its position as the world's second-most competitive economy this year despite concerns about business costs and tightening labour policies, according to the World Economic Forum (WEF) yesterday.

The WEF said Singapore fared well across all 12 factors assessed in the study, such as infrastructure, health and education, and technological readiness. The country scored especially well in terms of goods and labour market efficiency and financial market development, it added. "Singapore possesses world-class infrastructure, with excellent roads, ports and air transport facilities," the WEF said. "Its economy can also rely on a sound macroeconomic environment and fiscal management – its budget surplus amounted to 6.9 per cent of Gross Domestic Product (GDP) in 2013."

The WEF said Singapore's competitiveness is enhanced by its strong focus on education, which has translated into a steady improvement in higher education and training. Singapore's private sector is also becoming increasingly sophisticated and more innovative, the WEF added, "although room for improvement exists in both areas, which are the keys to Singapore's future prosperity".

Productivity is further enhanced by a business sector that offers excellent on-the-job training opportunities, however both citizens and private companies would also need to be more willing and proactive at adapting the latest technologies.

Mizuho economist Vishnu Varathan said that the Singapore Government's productivity push is necessary for the economy but might take some time.

Source: The Straits Times, 04 September 2014

**Questions**

**(a)** Using Figure 3, compare the growth performance of Burkina Faso and Singapore over the period 2010 to 2015. [2]

**(b)** **(i)** Define Gross Domestic Product. [1]

**(ii)** Explain how Gross Domestic Product and living standards are related. [3]

**(c)** Comment on the impact of the political unrest mentioned in Extract 6 on Burkina Faso and the other African nations. [6]

**(d)** Discuss whether China should be concerned with her level of inflation. [6]

**(e)** Using the concept of opportunity cost, explain why Singapore companies should export urban solutions services to the African nations. [4]

**(f)** Assess the factors that would determine whether steady improvement in higher education and training will help Singapore achieve future prosperity as mentioned in Extract 8. [8]

[Total: 30]

## Section B

Answer **one** question from this section.

**3** While fossil fuels are useful, their usage leads to pollution. Internationally, governments provide a staggering $775 billion to $1 trillion annually in fossil fuel production subsidies.

**(a)** Explain the main factors that determine the price elasticity of demand and price elasticity of supply of fossil fuel. [10]

**(b)** Discuss the view that governments ought to remove fossil fuel production subsidies. [15]

**4** Policy-makers within the Japanese government, who advocated balanced budgets, pressured Prime Minister Shinzo Abe to increase national sales tax to help tame Japan's ballooning national debt, which has grown to be the largest in the developed world. However, after suffering from two consecutive quarters of recession, Abe defiantly postponed the second tax increase until 2017.

Adapted from New York Times, 2014

**(a)** Explain the possible causes of a recession. [10]

**(b)** Discuss the view that conflicts in economic goals would arise for a government seeking to address high fiscal debt. [15]

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