National Junior College
SH2 Preliminary Examinations for General Certificate of Education Advanced Level
Higher 1

ECONOMICS 8819/01

Paper 1

30 August 2016
3 hours

Additional Materials: Answer Paper, Cover Pages

READ THESE INSTRUCTIONS FIRST

Write your name and subject class on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY OF THE MARGINS.

Section A
Answer **all** questions.

Section B
Answer **one** question.

Fill in the necessary information on the cover pages.

At the end of the examination, fasten all your work securely together with the cover pages given.
The number of marks is given in brackets [ ] at the end of each question or part question.

Answer **all** questions.

Question 1 **UK Food Crisis**

Table 1: United Kingdom Price Indices

Year	2011	2012	2013	2014
Consumer Prices, General Indices (2000=100)	140.6	144.90	148.80	151.20
Consumer Prices, Food Indices (2000=100)	147.10	152.40	155.40	153.10

Source: Office for National Statistics (ONS), UK

Extract 1: Household spending on food

Average household spend increased nearly 3% between 2013 and 2014 from £517.30 a week (adjusted for inflation) to £531.30, with the amount spent on recreation and transport increasing. But average household spend on food remained static at £58.80 a week, accounting for 11% of total expenditure – with no change since 2011.

The report from the ONS said this was partly due to the “increase of discount supermarket chains, increasing consumer choice and competition in the market”. This comes at a time when farm prices are at their lowest for years and farm business cash flow is tight.

The decline in household spending started in 2007, just before the economic downturn. The UK economy showed signs of increasing momentum throughout 2013 and into 2014.

Source: *Farmers Weekly UK*, 9 Dec 2015

Extract 2: Aldi’s price plan shook up Tesco, Morrison’s, Asda and Sainsbury’s

The message that Aldi is getting cheaper and bigger will be welcomed by British shoppers battered by years of austerity and stagnant wages. But for the German supermarket’s suffering rivals, it is another turn of the screw. A steely focus on price and simplicity, against a backdrop of falling living standards that has sharpened customers’ eye for a bargain, has seen the discounter grab market share from competitors and transform what we expect from our weekly shop.

Aldi has spurred the likes of Tesco, Morrison’s, Asda and Sainsbury’s into cutting prices this year but is determined to keep the big four at arm’s length. With shoppers now fully aware of the low prices at Aldi and its fellow German discounter Lidl, mighty Tesco, the giant British retailer, which came close to controlling a third of all grocery sales in the UK, is in disarray, while Morrisons and Sainsbury’s are also suffering. All have been forced to cut prices in a bid to stop shoppers leaking away.

Source: *The Guardian*, 29 September 2014

Extract 3: A supermarket price war is bad news for Britain's ability to feed itself

For consumers struggling with food bills, last week seemed to bring a glimmer of hope, as bad news for retailers promised good news on prices. A supermarket price war is under way, with Asda and Sainsbury's piling in, which can only be good news for shoppers.

Or perhaps not. The Department for the Environment, Food and Rural Affairs (Defra) was releasing statistics on Britain's food self-sufficiency. They revealed the cumulative effect of those price wars on our ability to feed ourselves. For the third year in a row, self-sufficiency was down. What's more, when one calculates in products exported the amount that we consume in the UK that is actually produced here falls to around 50%.

Why does this matter? After all, we live in a globalised world. Clearly we're supplying our needs from the international markets.

The problem is twofold. First, in the future those international markets will be far less reliable, at least at a price British consumers can stomach. There has been a global explosion of affluence, especially in Asia. At the beginning of this century, 14% of the world's middle classes were there. By 2050, 68% will be in Asia, and they are insisting on eating as we do, with meat consumption in China alone almost quadrupling over the past three decades. Already Chinese retailers are willing to pay more for ungraded, unpacked apples than British supermarkets will pay for graded and packed. At least if we have access to a robust internal food market we'll be protected from some of the worst price excesses.

But there is another, more moral issue. The global population is expected to rise from seven billion now to more than nine billion by 2050.

Even so, this country still has the capacity to get back above the 70% self-sufficiency it achieved 30 years ago. It's noticeable that the decline, which kicked in through the late 80s and early 90s, corresponds directly with a Thatcherite change in planning laws that allowed for the massive expansion of the supermarket sector into out-of-town megastores and, with it, the wars on price that have forced so many British farmers to give up farming.

Source: *The Guardian*, 8 June 2014

Extract 4: The ecological crisis

According to the World Resources Institute, modern industrial agriculture has without a doubt resulted in higher yields. But at what environmental cost? The intensification of production has devastated the soil, water resources and farmland ecology, causing irreparable damage to agricultural land and raising concerns about long term ecological sustainability and loss of wild biodiversity.

Intensive agriculture appears to have made it possible for us to eat more food more cheaply. But the environmental and social costs accompanying these agricultural methods have not been factored into the price at the supermarket checkout. Instead these hidden costs are paid through taxes: to clean up the environment and to remedy health problems.

Source: *Corporate watch*, accessed on 21 July 2016

Extract 5: Rich nations spend $250 billion on farm subsidies, hurting poor growers

Rich nations are spending $250 billion annually subsidizing their agricultural sectors to the detriment of poor farmers as they artificially lower prices for some crops and block market access for growers from poor countries, a new study said.

"There are a lot of ways countries can give artificial support for their own farmers, hurting farmers in Asian or African countries who could supply that (product) for better value," McArthur told the Thomson Reuters Foundation.

Subsidies from the 31 members of the Organization for Economic Cooperation and Development (OECD), a group of wealthy countries, included direct payments to farmers, trade barriers to food from poor countries, and mandates for biofuels, he said.

These supports for farmers in wealthy countries can hinder food production in developing states, by artificially allowing food to be sold on international markets below the cost of production, hindering access for unsubsidised growers.

This process, known as "dumping" in international trade, discourages poor farmers from investing in their operations or ramping up production as they cannot fairly compete with subsidized crops. This in turn hurts food security in poor countries.

But it is not only rich-world subsidies that hurt poor farmers. Countries in Africa and Asia also need to invest more in infrastructure, fertilizer and crop insurance to help growers reach their potential to feed the 795 million worldwide who don't have enough to eat.

Source: *Reuters UK*, 16 Oct 2015

Questions

(a) **(i)** Using Table 1, compare the change in General and Food prices between 2011 and 2014. [2]

(ii) With reference to Extract 1 and Table 1, explain the likely value of PED for food between 2013 and 2014. [2]

(iii) Using the data provided, account for the difference between UK food and UK general household spending from 2013 to 2014. [2]

(b) Using Extract 2, comment on whether the pricing decision made by the Big 4 is consistent with the aim of profit-maximisation. [5]

(c) Explain how hidden costs as mentioned in Extract 4 could result in a misallocation of resources in the market for agricultural products. [6]

(d) With the help of a diagram, use supply and demand analysis to explain the likely change in future world food prices. [5]

(e) Extract 3 explains how the UK is overly reliant on international markets for food. Discuss the case for protectionism in such circumstances. [8]

[Total:30]

Question 2 European Union and The World's Largest Economies

Table 2: Net trade in goods and services: US$ at current prices (millions)

	2010	2011	2012	2013	2014
China	223023	181903	231844	235379	284022
United Kingdom	-66695	-41968	-53552	-53755	-56573
United States	-494659	-548629	-536773	-478398	-508321

Source: World Bank

Table 3: Growth in real gross domestic product: % change per annum

	2010	2011	2012	2013	2014
China	10.4	9.3	7.7	7.7	7.4
United Kingdom	1.7	1.1	0.3	1.7	3.2
United States	2.5	1.6	2.3	2.2	2.2

Source: International Monetary Fund: World Economic Outlook Database

Extract 6: The car industry shows how Europe's relationship with China is bearing fruit

This year Zhejiang Geely Holding Group will celebrate the fourth anniversary of its acquisition of Volvo Cars from Ford Motor Company. Under Chinese ownership, Volvo has returned to profitability and is investing €11 billion in new products, plants and technologies. It is not alone. Geely has also acquired the London Taxi Company, where more than £200 million is being spent on new technologies and the next generation of famous black cabs.

From being an export destination, China is now emerging as a direct investor and active owner of European companies in numerous industries. Currently, China is now the European Union (EU) countries' second trading partner behind the United States and the EU is China's biggest trading partner.

Last year Chinese companies acquired 120 European companies, a third of them in the UK, Germany and France. These acquisitions symbolise the overseas growth potential of Chinese companies. Under Chinese ownership, companies in different sectors are benefiting from increased investment as well as research collaboration that will benefit both European subsidiaries and Chinese parent companies. These transactions form part of a changing business relationship between China and the West.

To be successful, these deals must preserve the corporate culture and brand identity of the companies acquired. A strong corporate culture is an important intangible asset that comes with a takeover. So China's corporate approach, at least in making foreign acquisitions, has so far focused on safeguarding the national identities of new subsidiaries, to invest in localised R&D, maintain product segmentation and then to marry these local strengths to a global procurement and market-growth strategy. This has also help to lessen China's dependence on foreign investment in the economy.

Source: Adapted from *The Times*, 26 June 2014

Extract 7: Language has the power to disarm the concerned citizen

Let's say you want to push through a massive programme of anti-democratic corporate protection over two continents. It might be a good idea to festoon your official explanations with tedious-sounding acronyms, and with any luck concerned citizens will fall asleep before realising what is going on under their noses.

Consider the case of the US-EU trade deal called TTIP, with its controversial provisions for ISDS (Investor-State Dispute Settlement), and its reassuring talk of removing "barriers" and consulting "stakeholders". George Monbiot, a British writer and others has made clear, this threatens to constitute an enormous transfer of power from public to private hands. Private companies will be allowed to sue national governments for doing things that harm their bottom line.

TTIP is short for the Transatlantic Trade and Investment Partnership. It sounds benign enough. Its point is to remove "barriers" or "obstacles" to trade between the continental blocs. As it happens, the normal kinds of trade "barriers", i.e. import and export duties, are already very low between the US and EU. So TTIP is focusing on the reduction of "non-tariff barriers".

Things begin to appear more worrisome when a persistent reader realises that most of the "non-tariff barriers" being targeted by TTIP are regulations: those annoying profit-blocking rules erected by governments to stop their citizens being poisoned or killed, or to prevent rampant pollution. TTIP's advocates say they just want to make regulations more compatible on both sides of the Atlantic, so that a car manufacturer, say, will not have to pass two different expensive procedures, one for the US and one for the EU, that are aimed at ensuring similar safety levels.

TTIP is an excellent idea, say its champions, because it will be a magical GDP bonanza for both economic blocs. In case anyone is worried that jobs might be at risk, the language of the economic models cited is careful to speak not of job losses, still less of job destruction; instead they refer to possible "job displacements".

Source: *The Guardian*, 21 November 2014

Extract 8: Weak US + slowing China = big EU trouble

After having initially predicted a 1 per cent economic slowdown for the first quarter of this year, US official economic statistics were massively adjusted downwards. Moreover, this is happening in spite of the most accommodative monetary policy on record, with interest rates down to zero. The incipient rise in US consumer prices is a cause for serious concern. Higher prices are not being driven by swelling consumer demand. We are dealing rather with "bad inflation", where companies are charging more for goods with inelastic demand in an attempt to offset low sales volumes.

If that happens, Europe can expect major, palpable trouble. The contribution of external demand to GDP is the EU's most important source of growth at the moment.

Mario Draghi, European Central Bank president has done an excellent job of reassuring investors that the euro is here to stay, but his efforts have had no impact so far on growth in the real economy. The axing of government spending projects and the bolstered taxes that have throttled public and private investment across southern Europe have also not helped. And even if fiscal austerity proves less damaging in 2014 than in 2013, European growth will be crimped by the disastrous state of France's economy where taxes weigh too heavily on income. Faced with high external and domestic public sector debt, the EU's peripheral countries are being forced to balance their budgets and current accounts.

The trouble is that the disappointing US growth figures came when demand from emerging markets is waning, most notably in China. Until recently China has thrived by restricting households' spending. The financial crisis showed that the world couldn't afford to go on buying. To keep the wheels turning, Chinese authorities were allowed to borrow. Last year the Chinese leadership said it recognised that plan was flawed, but the policy was quickly reversed and public sector debt needed to be cut as part of China's structural reforms to lessen state investment. George Soros, chairman of Soros Fund Management said: "China's leadership was right to give precedence to economic growth over structural reforms, because structural reforms, combined with fiscal austerity, push economies into a deflationary tailspin. But there is an unresolved contradiction in China's current policies."

Looking further out, the main threat to the eurozone is that nominal growth will remain too low for member countries to reverse their public debt trajectories.

The economic structures in Europe also tend to be less conducive to technology adoption than in the US, a channel which has been highly favourable for productivity growth. An explanation why, Europe has lagged behind the US in terms of productivity growth is the slower adoption of information and communication technology, in particular in the services sector. One reason is the relatively closed nature of services markets within Europe, which slows down the diffusion of new technologies. Second reason is the relative rigidity of national labour markets. Reaping the productivity gains from adopting new technology requires fundamental organisational restructuring. Hence firms need to have the flexibility to reallocate workers to different tasks, which in turn requires them to have access to adequate training – something which European firms do not seem to be able to excel in.

Source: Adapted from *Financial Times*, 16 July 2014

Questions

(a) **(i)** Compare the change in the United Kingdom's balance of trade in goods and services with that of United States between 2011 and 2014. [2]

(ii) With reference to the data in Table 2 and Table 3, explain the effect of the United Kingdom's growth rates on the United Kingdom's balance of trade between 2011 and 2014. [2]

(b) Explain the advantages of the 'changing business relationship between China and the West' on China's economy. [3]

(c) Using a diagram, explain how 'structural reforms, combined with fiscal austerity, push economies into a deflationary tailspin'. [5]

(d) `TTIP is an excellent idea, say its champions, because it will be a magical GDP bonanza for both economic blocs' (Extract 7). Using your own knowledge and the data where relevant, assess the validity of this statement. [8]

(e) Using the evidence in the data, discuss whether China's slowdown will be the biggest worry to European Union countries. [10]

[Total: 30]

Section B

Answer **one** question from this section.

3. With six public universities in Singapore, students now have a diverse range of degrees to choose from. To attract the best students, the universities are striving to be different - in their programs, tuition fees, student and faculty mix, accommodation options, financial help and overseas opportunities.

Source: *The Straits Times*, 03 March 2015

(a) Distinguish between public goods and merit goods and explain which category public universities should be placed in. [10]

(b) Discuss the view that direct provision is the only form of government intervention in the markets for public and merit goods. [15]

4. Singapore, which has previously topped the 2009 Ernst & Young Globalization index is currently second in its 2012 Index, behind Hong Kong. The Index is based on a comprehensive understanding of the underlying drivers for globalization across five main pillars: openness to trade, capital flows, exchange of technology and ideas, labor movements, and cultural integration.

(a) Explain how the Singapore government ensures price stability through the management of the exchange rate. [10]

(b) Discuss the relative significance of price stability in determining global competitiveness. [15]