



# ANDERSON JUNIOR COLLEGE

## JC2 PRELIMINARY EXAMINATION 2016 Higher 1

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### ECONOMICS

8819/01

#### Paper 1

14 September 2016

Additional Materials: Answer paper

3 hours

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### READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided on all the work you hand in.

Write in dark blue or black ink.

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.

Start each question on a **fresh sheet of paper**

Fasten your answer to each question **separately**.

Fasten **this cover page** in front of your answers to **Question 1**.

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

Name \_\_\_\_\_ (      )

PDG \_\_\_\_\_/15

Question Number	Marks Awarded
1	/ 30
2	/ 30
3 / 4	/ 25
Total Marks	

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This document consists of **8** printed pages and **2** blank pages.

[Turn over]

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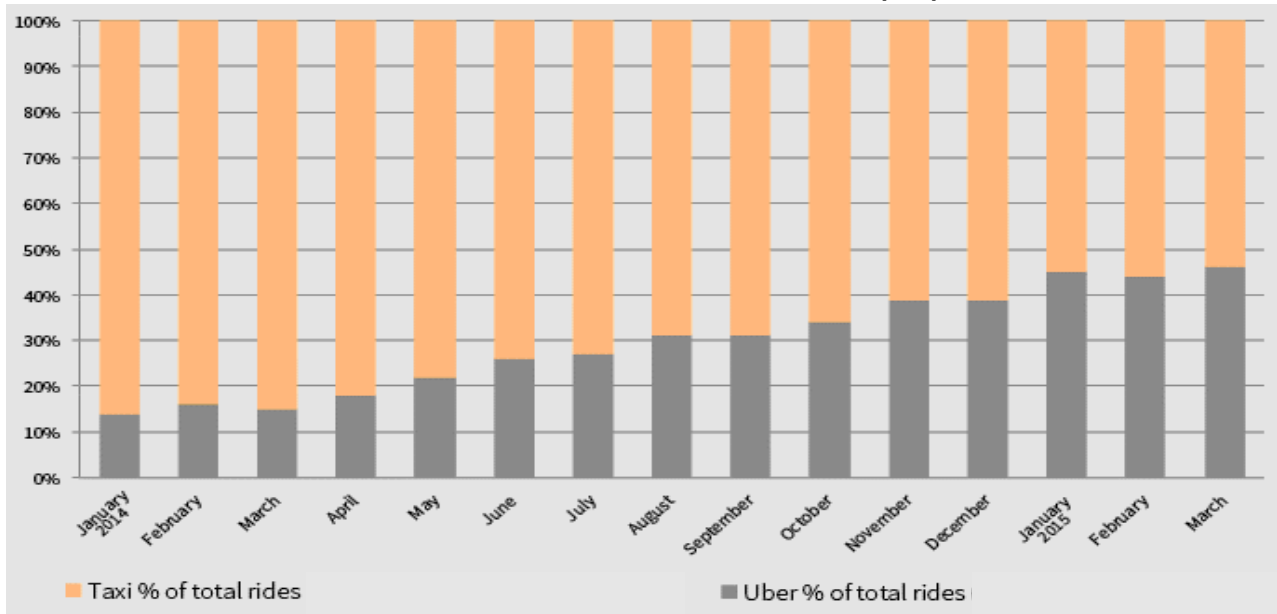
## Section A

Answer **all** questions in this section.

### Question 1

#### The Uber Story

**Figure 1: Share of total paid car rides for business commuters in the United States (US)**



Source: *Certify*, accessed 11 August 2016

#### Extract 1: Uber and its “surge multiplier”

To passengers, Uber is essentially synonymous with taxis, and to drivers, it's basically a referral service. The Android, iOS and Windows Phone app connects riders with drivers using their phone's GPS capabilities, letting both parties know one another's location. In addition, Uber company also processes all payments involved, charging the passenger's credit card, taking a cut for itself and direct depositing the remaining money into the driver's account, all in the background and completely cashless.

Fare estimates can be quoted in advance through the Uber booking app. In addition, operating on supply and demand principles, Uber rides' pricing can be subjected to a “surge multiplier”, which can increase the hiring rates considerably. When an excessive number of Uber ride requests are made within a short duration in a given area compared to the number of Uber drivers currently on the road, Uber prices of all rides in that area is increased by a multiple (displayed as 1.5x or 2.1x for example). The degree of the multiple is determined by competitive market forces. Uber Company uses the “surge multiplier” to encourage more drivers to get out and drive during peak hours.

Source: *Time Magazine*, 4 November 2014

#### Extract 2: Uber is making taxi drivers miserable

Ever since Uber arrived on the scene in 2011, there is circumstantial evidence of the damage Uber has wrought on New York's taxi industry. Taxi drivers are not happy with the impact Uber is having on their business as Uber is attacking on all fronts — it offers less expensive and more convenient rides.

Newly-available data from the Taxi and Limousine Commission show total taxi trips in the first half of 2015 were down 10% compared to same period last year. The data also show declining revenues from taxi fares. The taxis collected US\$981 million through June of this year, a 7% drop compared with the US\$1.06 billion raked in over the same period last year.

"New drivers are flocking to Uber in part due to the money that they can make and due to the flexibility you have, basically being able to decide when you want and where you want to work," said Rachel Holt, Uber's regional general manager for the East. In an Uber-enabled world, every street corner becomes a virtual cab stand. Uber drivers need not be tested by the city in order to provide their service. Apparently, there is no licence check, at least in the US. But the Taxi Commission of New York City requires new taxi applicants to take a defensive driving course and register at one of several privately operated taxi-driver schools; students must then pass a test, before they can drive the taxi on the road. When taxi drivers eventually get on the road, they still have to pay about US\$110 upfront for renting a taxi and pay-out-of-pocket for gasoline and tax. According to the San Francisco Cab Drivers Association, one third of taxi drivers ditched their registered taxis in a 12-month span to drive for Uber.

Source: *Washington Post*, 27 May 2014 and *Business Insider*, 18 August 2015

### **Extract 3: Is Uber to be blamed for New York City's traffic problems?**

A highly-anticipated study was commissioned to examine how the ride-hailing firm is impacting traffic congestion in Manhattan, New York City. The study, which examined the impact of Uber and other ridesharing services on Manhattan's bustling Central Business District, found that Uber is not disproportionately driving congestion any more than other vehicles on the road. "Vehicles of all types play a role in congestion," read the study, which was conducted by consulting firm McKinsey & Co. between August and October.

However, the study noted that services like Uber could have a bigger impact on congestion in years to come. If riders start opting for those services instead of public transportation, that would add to traffic congestion. For now, most people use Uber services to replace taxis. Uber, the most valuable privately held company in the world, will not continue to go unregulated, though. The report states that there needs to be a levelled playing field for all ride services — taxis and Ubers alike. The New York City Council is expected to propose legislative changes to address some of the study's findings in the coming weeks. They will focus on areas like accessibility, driver licensing requirements and consumer protections.

The study also noted the disparity in cost between taxis and Uber services. Taxis are charged tax, which go to the city and the Metropolitan Transport Authority (MTA) that manages buses, subways, trains, bridges and tunnels in New York City; while Uber do pay tax, a much smaller portion goes to the MTA. The study recommended new regulations to make sure mass transit funding did not decrease.

Source: *CNN Money*, 15 January 2016

### **Extract 4: The social costs and benefits of Uber**

Uber has faced criticism of unfairly competing with taxi drivers by entering their market without following regulations or fare schedules. It seems clear that Uber aspires to dominate the paid car rides sector. Yet it would be a real mistake to regulate Uber out of existence on that basis alone. While Uber's app is revolutionary, it is also easy to replicate. Uber may become the Myspace or Netscape of ride sharing — that is, a pioneer that could not maintain its market position. Greater horizontal and vertical integration can also bring certain public benefits.

Other concerns are a bit more complicated. For example, courts in Germany and the United States have restricted some of Uber's services on safety grounds, and not without reason. An Uber driver in San Francisco struck and killed a young girl, possibly at a time when he was distracted by Uber's app. Uber drivers have also assaulted passengers and committed other crimes — most notably when a driver in Washington, DC, took several riders on a high-speed chase.

On the other hand, Uber rides may be enabling far more efficient use of capital that raises productivity and substantially enhance consumer welfare. Uber rides reduces consumers' incentives to purchase automobiles, almost certainly saving them money. As consumers buy fewer cars, this opens up the remarkable possibility of converting parking spaces to new and environmentally sound uses and reduce drunk driving and other accidents. Uber also claimed that its platform is generating 20,000 new driver jobs every month. These are all important social goods.

Source: *University of Chicago Law Review*, 2015

### Questions

- (a) Compare the trends in the share of total paid car rides between Uber and taxis for business commuters in the US from January 2014 to March 2015. [1]

- (b) Using economic analysis, explain how the "surge multiplier" can address "an excessive number of Uber car ride requests." [4]

- (c) "Taxi drivers are not happy with the impact Uber is having on their business as Uber is attacking on all fronts."

Discuss how the combined effects of a decrease in price for Uber car rides and a fall in petrol price may affect taxi drivers' revenue. [8]

- (d) (i) With reference to Extract 2, distinguish between the likely price elasticities of supply of taxi and Uber car rides. [2]

- (ii) Extract 3 mentioned that a tax was imposed on taxis and Uber car rides respectively.

Using your answer for (d)(i) and appropriate diagrams, explain the difference in tax burden for drivers and commuters between taxi and Uber car rides. [5]

- (e) (i) Using Extract 4, explain the positive externality that may arise when commuting via Uber rides. [2]

- (ii) In light of the issues raised in the extracts, discuss the desirability of the introduction of Uber. [8]

[Total: 30]

## Question 2

## Globalisation and Deglobalisation

**Figure 2: World merchandise trade as a percentage of world Gross Domestic Product (GDP)**



Source: World Bank, accessed 27 July 2016

**Table 1: Selected economic indicators for Singapore, 2010 – 2015**

Year	2010	2011	2012	2013	2014	2015
S\$ per unit of US\$	1.29	1.30	1.22	1.27	1.32	1.41
Percent Change in Consumer Price Index	2.8	5.2	4.6	2.4	1	-0.5
Trade balance (Billion S\$)	85.1	94.0	85.6	86.9	94.9	108.2

Source: Singstat & Monetary Authority of Singapore (MAS), accessed 27 July 2016

### Extract 5: The virtues of deglobalisation

Deglobalisation is the process of diminishing interdependence and integration between certain units around the world, typically nation-states. It is widely used to describe the periods of history when economic trade and investment between countries decline. It stands in contrast to globalisation.

### 11 Pillars of the Deglobalisation Paradigm

1. Production for the domestic market must again become the centre of gravity of the economy rather than production for export markets.
2. Production of goods at the level of the community and at the national level should be encouraged if this can be done at reasonable cost.
3. Trade policy — that is, quotas and tariffs — should be used to protect the local economy from destruction by corporate-subsidised commodities with artificially low prices.
4. Industrial policy — including subsidies, tariffs, and trade — should be used to revitalise and strengthen the manufacturing sector.
5. Long-postponed measures of equitable income redistribution and land redistribution (including urban land reform) can create a vibrant internal market that would serve as the anchor of the economy and produce local financial resources for investment.
6. De-emphasising growth, emphasising upgrading the quality of life, and maximising equity will reduce environmental disequilibrium.
7. The development and diffusion of environmentally congenial technology in both agriculture and industry should be encouraged.
8. Economic decisions cannot be left to the market.
9. The state must constantly monitor and supervise the private sector.

10. The country should be transformed into a "mixed economy" that includes private enterprises, and state enterprises, and excludes transnational corporations.
11. Centralised global institutions like the International Monetary Fund (IMF) and the World Bank should be replaced with regional institutions built not on free trade and capital mobility but on principles of cooperation.

Source: *Foreign Policy in Focus*, accessed 27 July 2016

#### **Extract 6: Singaporean workers and firms face challenges from globalisation**

Globalisation and technological advances are disrupting industries and displacing workers, and these are challenges that Singapore workers and companies will have to face, said Prime Minister Lee Hsien Loong at the opening dinner of the NTUC National Delegates' Conference.

Mr Lee said that Singapore also faces competition from both developing and developed economies. He noted that in Japan, for instance, starting salaries for graduates are lower than for those in Singapore. He added, "We can't resist globalisation and technology, because if we try to do that our economy will stagnate, our workers will become uncompetitive and Singapore will be left behind. We have to ride the wave, move forward and use the power of free markets to our advantage. We have to depend on free markets because the governments by themselves can't generate wealth. Because with free markets, you can be efficient, you can be nimble, you're under pressure to perform, you have to break even, and businesses have incentives to do well, to grow new opportunities, and workers have the incentives to improve, upskill themselves, earn a little bit more."

However, Mr Lee said that the state still has a role to play in preparing the country to face future challenges. Besides creating the basic conditions for the markets to operate properly, Mr Lee said that the state should also aim to "mitigate the excesses and negative effects of a market system" and give Singaporeans better protection in a less stable economic environment.

To this end, the government has rolled out the Progressive Wage Model to help upgrade the skills and wages of low-income workers like security guards and cleaners. Mr Lee acknowledged that Singapore's model of a tripartite partnership between unions, employers and the Government is sometimes criticised, especially in the West. But he said that tripartism has worked well in Singapore. "If we had a weak union movement which represent workers properly, but cannot get a fair deal from employers, I think that's not only bad for workers, it's bad for Singapore, and sooner or later, we'll run into trouble. If we had strong unions but (they are) hostile, antagonistic and focused narrowly on short term interests of members, they will hold back the country and eventually workers will get hurt."

"We need to review our specific measures: how to help our domestic sectors grow, how to attract investments, help companies to develop new markets, how to make best use of foreign workers and talent that we need in Singapore."

Source: *Channel News Asia*, 26 October 2015

#### **Extract 7: The globalisation of pollution**

Chinese and American researchers estimated the amount and ultimate destination of smog-forming gases and particulates that Chinese factories pumped out in their production of export goods. Up to a quarter of the sulfate pollution in the western United States wafted over from those factories. Their emissions add a day of substandard air in the Los Angeles area every year.

And those are just the fraction of Chinese emissions associated with world trade. Nations closer to China suffer much more. The health and well-being of many people in many countries, not just those choking on thick, brown air in Beijing, depend on China developing into not merely a great economic power but also one that manages its massive impact on the planet.

There are dozens of cross-border environmental issues, and they will require overcoming global political tensions and short-term economic incentives that discourage different countries from cooperating. The world has already tackled one — the phaseout of emissions that thin the ozone layer — through the highly effective Montreal Protocol. Global leaders have many more to see to.

Source: *The Washington Post*, 27 January 2014

### **Extract 8: Is government intervention creating the wrong type of new business?**

The idea of countries taking a more interventionist approach to fast-tracking the growth of business sectors and ecosystems with high potential is gaining ground around the world. From Silicon Valley to Tel Aviv, there are examples of initiatives that were originally government funded or instigated that have now resulted in the emergence of successful, job-creating new industries.

Whilst it might be obvious which industry sectors will profit from such a future (biosciences especially), it isn't obvious how to go about hot-housing their growth. For example, what criteria define sectors of high potential? How do you go about helping such companies grow? What sorts of milestones would be needed to justify investment and who is responsible for making these happen?

The issue has been brought into focus recently by the United Kingdom (UK) Government's announcement to make £15 million available to establish new University Enterprise Zones across the country. Yet an Oxford academic has warned that too great a focus on short-term innovation could damage its long-term ability to innovate and grow – and that new policies are needed to encourage longer-cycle innovation and local production.

“Liberal market economies such as the UK and the US believe primarily in supply-side policies in which laissez-faire venture capital markets and technology-push research funding drive innovation,” said Dr Hiram Samel at Saïd Business School in Oxford. “This over stimulates short-term innovation so we get thousands of app builders, but does less for the long-term, more complex innovation that yields comparative advantage and local employment and growth”.

Source: *Forbes*, 11 February 2014

### **Questions**

- (a) (i) Describe the trend in merchandise trade as a percentage of world GDP from 2000 to 2014. [1]
- (ii) Using economic theory, account for the trend identified in (a)(i). [2]
- (b) Using the concept of opportunity cost, explain one effect on firms and one effect on the government in the home country arising from dumping by a foreign country. [6]
- (c) (i) What evidence suggests that the world is heading towards deglobalisation? [1]
- (ii) With the aid of a diagram, explain why in 2015 there was deflation despite an improvement in the trade balance as shown in Table 1. [4]
- (d) Discuss how the change in exchange rate in Table 1 and measures undertaken in Extract 6 might impact Singapore's export competitiveness. [8]
- (e) With reference to the data, do you agree that “economic decisions cannot be left to the market”? [8]

[Total: 30]

### **Section B**

Answer **one** question from this section.

3. Street lighting and the early morning rides on the Mass Rapid Transit (MRT) into the city area are provided free by the government in Singapore.
- (a) Explain the economic case for the free provision in each of the above markets. [10]
- (b) Discuss the limitations of providing MRT rides for free to achieve an efficient allocation of resources. [15]
4. A successful economy has been traditionally characterised by sustained positive growth rates, low inflation rates, low unemployment rates and a healthy balance of payments.
- (a) Explain the domestic and external causes of a high rate of inflation for an economy. [10]
- (b) Discuss whether the above traditional measures of success are sufficient for an economy today. [15]

**End of Paper**

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