

**INNOVA JUNIOR COLLEGE**  
**JC 2 PRELIMINARY EXAM**

in preparation for General Certificate of Education Advanced Level  
**Higher 1**

**ECONOMICS**

Paper 1

**8819/01**

**19 Aug 2016**

**3 hours**

Additional Materials: Writing Paper

**READ THESE INSTRUCTIONS FIRST**

Write your class, index number and name 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: Case Study**

Answer **all** questions.

**Section B: Essays**

Answer **one out of two** questions.

Begin each question on a fresh sheet of paper.

At the end of the examination, attach cover pages provided to **Section A Case Study Q1** and **Section B Essay**.

Fasten all questions **separately** and securely.

The number of marks is given in brackets [ ] at the end of each question or part question.  
 You are advised to spend several minutes reading through the data before you begin writing your answers.

You are reminded of the need for good English and clear presentation in your answers.

This paper consists of **8** printed pages.



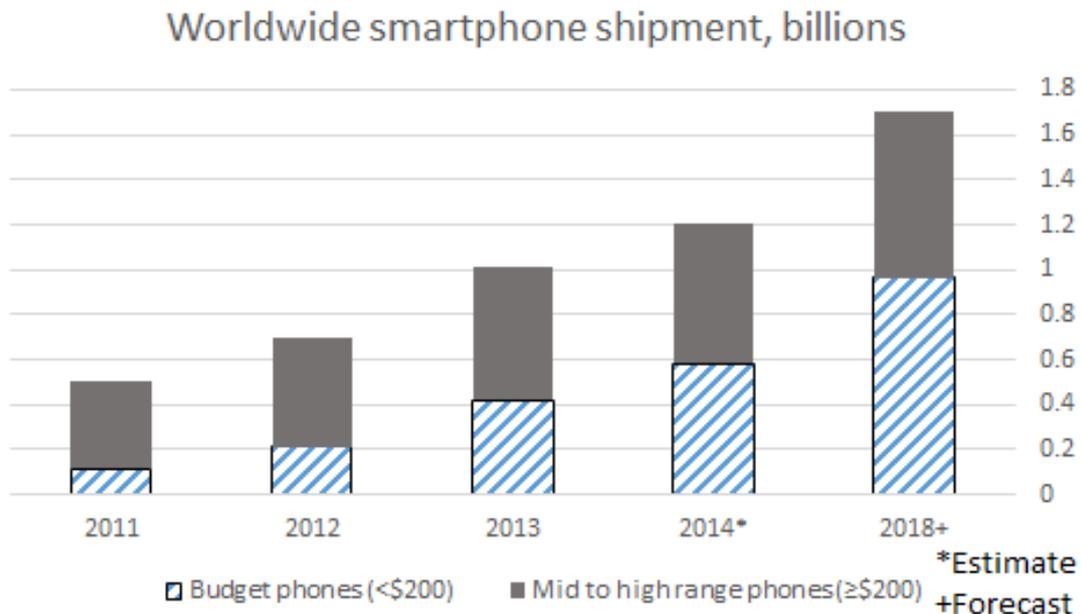
## Section A

Answer **all** questions in this section

### Question 1

#### Smartphone: For the better or worse

**Figure 1: Worldwide smartphone shipments**



Source: *The Economist*, April 2014

**Table 1: GDP growth of selected economies (annual %)**

Country	2010	2011	2012	2013	2014
United States	2.5	1.6	2.2	1.5	2.4
United Kingdom	1.5	2	1.2	2.2	2.9
China	10.6	9.5	7.8	7.7	7.3

Source: *The World Bank*

#### Extract 1 China's Xiaomi plans to more than double smartphone sales in 2014

Chinese budget smartphone maker Xiaomi plans to sell 40m handsets in 2014, more than double the number it sold in 2013, its chairman said on Thursday, reinforcing the company's ambitions to outsell more expensive offerings from Apple and Samsung Electronics. Xiaomi's business model – offering "flash sales" of its mobile phones which generate excitement among would-be buyers, and have seen thousands sold in seconds – has led to its rapid rise. Xiaomi is happy to sell phones essentially at cost, and then to make money from selling services on them, and noted that countries such as India, Russia and Indonesia were "sweet spots" for its business. Xiaomi is expected to start selling its phones in Singapore later this year.

Xiaomi's growth has come largely through word of mouth – the company sells high-end products, which use Google's Android operating system, at low-end prices. Costs are kept low because the company spends little on advertising and on distributing stock to physical stores, selling mostly via its website. Overall growth in China is far greater than the world market, because there are more people there who don't yet have a smartphone, and people tend to replace cheap phones much more quickly – on average every 13 months, according to data collected by sites there.

Source: *The Guardian*, 2 January 2014

## **Extract 2 The rise of the cheap smartphones**

In both rich countries and poor ones, cheaper smartphone brands are making inroads. Demand for pricey phones, mainly in developed economies, is slowing, but that for less expensive devices is booming. People buying their first smartphones today care less about the brand and more about price than the richer, keener types of a few years ago. They are likely to pay less for a nice new smartphone than they did in the past because the cost of making smartphones has tumbled. Vendors can buy standardised processors which chip designers competing furiously to provide in ever-rising quality at ever-lower prices.

The declining cost of making phones means that buyers are getting more for their money. In 2012, says Mr Jeronimo, 42% of phones priced at less than \$80 had a processor faster than 1 gigahertz; by last year 87% did. The proportion of cheap phones with screens more than four inches across went up from less than 8% to 38%. Two years ago the median price of a smartphone was \$325. Last year it was \$250. This year it may be \$200.

Source: *The Economist*, 5 April 2014

## **Extract 3 Smartphones and the rise of accidents**

The problem with much mobile technology is that it is not really designed to be used while the user is actually mobile – or at least, not if being mobile demands the user to concentrate on something other than your mobile technology.

Research shows the response time of a user on a smartphone to access social media, games, emails or texts slows by around 37.5%, far more than after drug abuse or alcohol consumption. This has resulted in accidents involving users slamming into doors, colliding into other pedestrians, or tumbling down stairs, which can not only injure themselves but also affect others' safety.

In America, towns have started fining pedestrians who use smartphones while walking. Here, London streets have hosted experiments that have involved attaching pads to lampposts and bollards in an effort to reduce injuries from "inattention blindness".

Source: *The Guardian*, 18 June 2013

## **Extract 4 Enterprise apps on smartphones allow micro-moments of productivity at work**

A study suggests that 60% of British employees now use apps on smartphones for work-related activity. As a result, enterprise apps boost worker productivity by more than 34%. They allow employees to do work while on the go, which is both convenient and time-saving.

These enterprise apps enhanced existing work process and made them executing on mobile. For example, an employee reporting a defective product could snap a picture of the item using the camera function of a smartphone. The picture could then be submitted to the company's incident

management system within a micro-moment and the tap of a finger. They must also be easy to use, making it possible to be productive even when on a crowded bus or in the back of a cab weaving through rush hour. Micro-moment functions should be short and snappy and not overwhelm users with too much information – one screen to give enough information to make a decision and one thumb tap should be all it takes to take an action.

Source: *The Guardian*, 19 June 2014

### **Extract 5 Improve efficiency – switch off your smartphone**

Email – A technology that was once a magical tool for communicating has somehow become a millstone round people's necks. It was bad enough when email was confined to desktop PCs. But, once the smartphone arrived, had the power to penetrate into the deepest recesses of the day – and night. The result was an inexorable lengthening of the working day, especially for those working in high-pressure jobs, because of an expectation that they could always be reached by email through their smartphones – and a corresponding expectation that any message would receive a speedy response.

Furthermore, accessing email and other apps on smartphones eats into people's working and thinking time, for example, distracts them from doing "real" work and generates guilt feelings that ratchet up stress levels to unsustainable levels.

Source: *The Guardian*, 20 May 2012

### **Questions**

- (a) Explain the likely magnitude of
- (i) The price elasticity of demand for smartphones. [2]
  - (ii) The price elasticity of supply for smartphones. [2]
- (b) Identify and explain 2 demand factors why the growth in smartphone market is faster in China as compared to the world. [4]
- (c) Using Figure 1, compare the changes in worldwide smartphone shipment between budget phones and mid to high range phones from 2011 to 2014. [2]
- (d) Comment on the impact on China's balance of payment as China smartphone makers such as Xiaomi sells smartphones in other parts of the world. [4]
- (e) (i) Explain the external cost of using smartphones. [2]
- (ii) Discuss whether the imposition of fines on pedestrians using smartphones is an appropriate policy in addressing the external cost. [6]
- (f) Discuss whether the use of smartphones will always lead to increased productivity. [8]

[Total : 30]

**Question 2:****China economic slowdown and its impact on economies****Table 2: GDP growth in selected countries, 2000 to 2015 (Annual %)**

	2010	2011	2012	2013	2014	2015
Australia	2.0	2.4	3.6	2.4	2.5	2.3
China	10.6	9.5	7.8	7.7	7.3	6.9
Singapore	15.2	6.2	3.7	4.7	3.3	2.0

Source: *The World Bank Group*, 2016, assessed 18 July 2016

**Extract 6: The slowdown: What's China worried about?**

While the rest of the world frets about the knock-on effect of China's economic slowdown, the Chinese have a bigger worry: themselves. As the transition of the world's largest manufacturing hub to a consumption and services-led economy gets into full swing, jobs are being lost, money lost in the unstable financial markets and threatening social stability in China.

China government pledged to cut corporate red tape, reduce corporate debt, improve financial regulation and ensure no mass layoffs. "We are confident that as long as we continue to reform and open up, China's economy will not suffer a hard landing," said China's Premier Li Keqiang, in a message that resonated worldwide because what happens in China does not stay in China.

Here are the key issues China's leaders are grappling with:

1. Massive layoffs- China's gigantic steel and coal industries are in big trouble, as construction slows and industrial overcapacity becomes unmanageable.
2. Financial market turmoil- Investors are also nervous about yuan after the People's Bank of China devalued its currency twice last year has raised concerns of rapid capital outflows.
3. Heavy debt- High debt levels at both banks and local authorities, although it is difficult to measure the severity of the issue given China's opaque financial system.

Source: *CNBC*, 31 March 2016

**Extract 7: China's impossible trinity**

The big question is: how steep is China's economic slowdown? The fundamental problem that China faces is that its economy is deeply unbalanced - both internally and externally - at a time that it is also slowing. Economists tend to look at an economy for internal and external balance. China is currently struggling to achieve both kinds of balance. Chinese policy-makers have a tricky task ahead but not unmanageable one.

The impossible trinity - or trilemma - is the idea that it is impossible for a country to have three things at the same time: a stable currency, free movement of capital and independent monetary policy. A country can instead choose just two of the options from this policy suite. In some economies like UK, has free capital movement and an independent monetary policy - but not a controlled exchange rate. While Singapore adopts a managed exchange rate and free capital movement but not monetary policy.

China have an independent monetary policy and a controlled exchange rate, which has meant restrictions of free movement of capital. In reality, China's capital controls are porous, money does flow in and out of the China. China is currently pushing for renmimbi to be formally included in

International Monetary Fund's list of reserve currencies which involves dismantling its capital controls that exposes its central bank, to the trilemma. Its slowing domestic economy suggests an easier monetary stance is required, coupled with freer movement of capital, suggests that a weaker renminbi lies ahead.

Source: *BBC News*, 8 September 2015

### **Extract 8: China's hefty devaluation**

China's currency has come under scrutiny since a hefty devaluation last August rocked global financial markets and fueled a surge in capital outflows amid expectations that authorities to lower yuan to bolster the economy, increasing competitiveness of China's exports at a time when the country's economy is growing at its slowest rate for 6 years - and when many economists fear that the slowdown will become much more painful and acute. A weaker currency would also depress household real incomes and strengthen the profitability of exporting companies.

There would be costs with a large devaluation and it will reawaken concerns that Beijing is still a million miles from would also undermine the progress that China has made so far on its transition to a greater emphasis on consumption from an earlier reliance on manufacturing, as a weaker currency. It would be a major negative shock for the global economy that could rebound on China by generating stress among emerging markets globally, particularly in the Asia-Pacific region, and provoking a backlash from global trade partners – it could even mean the unraveling of the current open global trading regime.

Source: *CNBC*, 4 April 2016

### **Extract 9: China's slowdown will hit Singapore hardest**

The slowdown in China will hit Singapore faster and harder than any country in the region, ANZ economists warned. Other economists agreed that open nature of local economy and strong trade, investment and tourism links between the two nations mean that slower growth 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 10-20 years," said DBS economist Irvin Seah. "It shouldn't be surprising to anyone if Singapore is very badly affected." Unlike its Asean neighbours, Singapore does not have a big domestic market to act as a buffer against weaker demand from China. Singapore will be among the hardest hit in Asia, apart from North Asian economies like Hong Kong, South Korea and Taiwan. During the global financial crisis, Singapore's growth fell when China's economic expansion slowed to 6.2 per cent. It is also pointed out that the forecasts assumed that the Singapore Government does not step in to mitigate the impact with fiscal or looser monetary policies.

Source: *The Straits Times*, 12 Jan 2016

### **Extract 10: Australian economy changes as exports to China slow**

Australia sailed through its toughest challenge, the global financial crisis, thanks largely to China's appetite for mined-in-Australia iron ore, coal, and other minerals. China is Australia's No. 1 trading partner, accounting for more than a third of its exports. The protection offered by the China trade is showing some wear and tear. Exports to China dropped 4 percent in the quarter ended in July, as growth in the Chinese economy slowed. Prices for iron ore are at five-year lows, due to China's slumping construction industry, while prices for all commodities from Australia have dropped. China's economic slump crushes demand for iron ore and coal. Investment in Australian mining—which was 9% of GDP in late 2012—has fallen to about 7%. Chinese government proposed

restrictions on the ash content of coal to clean the noxious air in Beijing and other cities. The new policy bans sales and imports of coal with more than 16% ash, which is the residue that's left over after a power plant burns coal. China imported 42.5 million tons of Australian coal last year, mining giant Rio Tinto said this should have little effect.

While jobless rate in U.S. has been gradually falling, Australia's unemployment rate has been climbing to 6.1% in August from 5.1%. The economy is partly reinventing itself in response where central bank, The Reserve Bank of Australia cut interest rates to a historic low of 2%. Experts have warned people to be cautious about over-extending themselves. Borrowers are being urged to keep their monthly repayments the same, Australians been urged to borrow more and invest in the economy to further stimulate economic growth and jobs. However, people were getting next to nothing on savings accounts.

And despite the drop in Chinese demand, China trade is not ruined forever. China will remain reliant on coal for much of its power generation. The Australians have abundant supplies of cleaner coal that they had been selling to Japan. They could also sell clean coal to China. "An economy as big as China running at 7%," Commonwealth Bank's Aird says, "is still huge growth year on year."

Source: *Bloomberg*, 26 September 2014

#### **Extract 11: China's ban on 'dirty coal' could cost Australian mining almost \$1.5bn**

China's ban on 'dirty' coal could cost Australian mining almost \$1.5bn. Australia exports about 50m tonnes of thermal coal each year to China and the ban is expected to reduce exports by 40%. Australian mining firms had expected new Chinese standards to mainly impact Indonesian coal, which is particularly high in ash, but the unexpectedly stringent rules appear likely to eat into Australian exports too. China is separately looking to cut overall coal imports in order to boost its domestic providers. The country is also investing vast amounts of money into clean energy, spending US\$56.3bn on wind, solar and other renewable projects in 2013 – more than the whole of Europe's investment.

Source: *The Guardian*, 17 September 2014

#### **Questions**

- (a) Identify the relationships of China's GDP growth with that of Australia and Singapore [2]  
between 2010 and 2015.
- (b) Explain possible reasons why Singapore adopts exchange rate policy instead of [4]  
monetary policy.
- (c) Extract 9 and 10 make reference to impact of China's economic slowdown.
  - (i) Using AD-AS analysis, explain how fiscal policies in Singapore and interest rate [6]  
policy in Australia will help to mitigate the impact of China's economic slowdown.
  - (ii) Comment on possible reasons why these policies may have limited effectiveness [4]  
in mitigating the impact of China's economic slowdown.
- (d) Using Extract 10 and 11, comment whether the bans on the sales and imports of coal [6]  
by China is a form of protectionism.
- (e) In light of the issues raised in the extracts, discuss the desirability of China's economic [8]  
slowdown.

[Total : 30]

**Section B**

Answer **one** out of two questions from this section.

- 3** In a free market, the price mechanism is the best way to allocate scarce resources for the production of goods and services. Government intervention is unnecessary.
- (a)** Explain with examples what is meant by public goods and merit goods. [10]
- (b)** Discuss the view that government intervention in a free market is unnecessary in order to achieve an efficient allocation of resources. [15]
- 4** **(a)** Explain how an economy could gain from free trade. [10]
- (b)** Discuss the extent to which rising inflation is the major cause of a fall in average standard of living in an economy. [15]

**-End of Paper-**