

**VICTORIA JUNIOR COLLEGE**  
**2016 JC 2 PRELIMINARY EXAMINATION**  
**H2 ECONOMICS – PAPER NO.9732/01**

15 September 2016  
Thursday

8am - 10.15am  
2 hours 15 min

**Additional Materials: Answer Paper**

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**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 diagram, graphs or rough working.

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

Answer **all** questions.

At the end of the examination, fasten your work securely, by question, using the strings provided.

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

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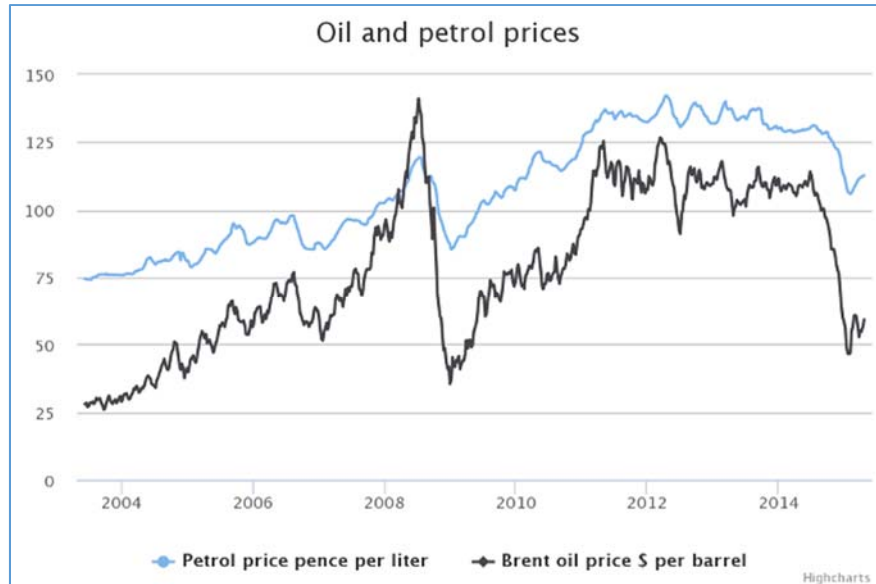
This document consists of **8** printed pages.

Answer **all** questions.

### Question 1

#### Oil and Energy Prices

**Figure 1: UK's Brent oil\* and petrol prices**



\*Brent blend is a light crude oil (LCO), and is suitable for production of petrol.

Source: *Business reporter.co.uk*

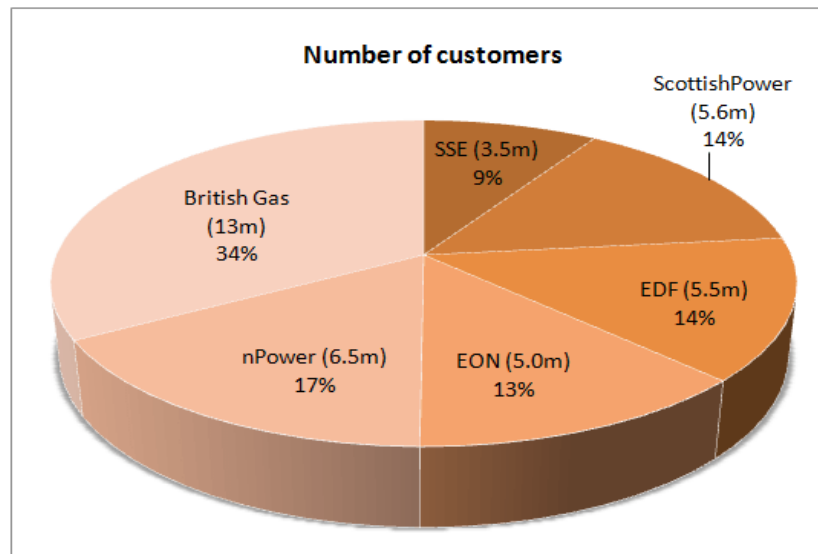
#### Extract 1: Oil price crash

The UK Chancellor, George Osborne, has said the government will be watching petrol distributors "very carefully" to ensure they pass on oil price reductions to customers. So why is it that the consumer fails to see the full benefits of cheap oil? It's simply a matter of the companies setting their price – they're not always willing to pass on their own savings to their customers. Electricity prices should have gone down dramatically as well, with the government urging the Big Six energy suppliers to pass the savings to households.

The trend in UK's energy market prices is part of a wider fall in global oil prices, which have plummeted by more than 50 percent this year. The drop is driven by an unprecedented global surplus in oil, caused by the shale revolution in America, and the country has ever since become the world's largest oil producer, combined with the decision by other major oil producers such as Saudi Arabia and the rest of OPEC to maintain their production levels. Weak economic activity has dampened oil consumption and a growing switch away from oil to other fuels has also affected the picture.

Source: Adapted from the *Economist*, Dec 2014

**Figure 2: Market supply number for the Big Six Energy suppliers in UK  
(in millions)**



Source: <http://www.business electricityprices.org.uk/suppliers/>

### **Extract 2: Energy firms accused of profiteering**

The Big Six energy firms will double their profit margins in the next year increasing accusations that they are profiteering while millions of households are struggling to be able to afford to heat their homes. Ofgem, UK's energy regulator has told suppliers to explain to consumers why, when oil prices are falling, they are not seeing cuts in energy prices, which was one of the main reasons why Ofgem referred the energy market to the Competition and Markets Authority (CMA) for investigation earlier this year.

Ofgem said that its review had found that the behaviour of energy suppliers and the structure of the market were "acting against consumers' interests." Ofgem's review also found that tariffs<sup>1</sup> are far too complicated, making comparisons between companies extremely difficult. It has found 'possible tacit co-ordination' on prices, with the Big Six firms apparently moving tariffs up and down at the same time.

Ofgem proposed that the Big Six be broken up, to allow more independent suppliers to compete on prices. The Federation of Small Businesses has also called for the Big Six energy companies to be broken up, adding pressure on regulators to refer the energy companies to competition authorities this week.

Source: *The Independent*, July 2014

### **Extract 3: Ofgem defends record of reform over Big Six energy firms' high prices**

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<sup>1</sup> Tariffs in electricity market means electricity prices consumers pay.

Ofgem has hit back at claims that it may be partly to blame for high prices, after a group of former regulators said it had presided over a weakening of competition in the energy market. The energy regulator said it had introduced the "most radical set of reforms" to protect consumers in the retail energy market since competition began. Among its regulations, Ofgem has banned differential pricing in a bid to stop customers of the same energy company paying much higher tariffs in different parts of the country. Extra layers of complexity such as discount structures will also be removed altogether.

Ofgem has been fighting accusations as to the appropriateness and effectiveness of a number of these interventions. The submission also goes on to raise the concern that regulation could instead increase costs for consumers; the lack of meaningful competition would mean many families and pensioners are paying as much as £250 a year too much, with a risk of suppliers cutting back on investment in the long term.

Source: *The Guardian*, August 2014

#### **Extract 4: Lower oil prices on Singapore's economy**

Singapore was supposed to have emerged as a winner from the low oil prices, with 5 per cent of its gross domestic product coming from the oil industry. Lower global oil prices should stimulate global economic growth, according to the International Monetary Fund, in particular, countries which are net importers of oil, such as Singapore. Businesses and factories enjoy lower costs of input, especially industries heavily reliant on oil, gas and others such as airlines, transport companies and manufacturers of plastics. Consumers spend less on petrol and other energy-related expenses and thus saw an increase in their disposable income, contributing about 0.2 to 0.4 per cent in Singapore's economic growth.

However, initial cheer from energy cost savings appears to be turning into fear over a global economic slowdown. Dr Walter Theseira, senior lecturer at SIM University explained: "Rapidly declining oil prices suggest that global economic growth is slumping. That in turn has an effect on the economy that extends beyond the oil industry."

Source: Adapted from *The Straits Times*, Jan 2015

## Questions

- (a) (i) Compare the change in UK's Brent oil price with that of petrol price between 2010 and 2014. [2]
- (ii) With the aid of a diagram, account for the change in petrol prices from 2014 onwards. [5]
- (b) (i) Describe the type of market structure operating in the UK energy market. [2]
- (ii) Explain why firms in the UK energy market are inclined to engage in "possible tacit co-ordination on prices". [3]
- (c) Discuss the view that Singapore "was supposed to have been a winner from the low oil prices". [8]
- (d) Discuss whether the set of reforms recommended by Ofgem in the energy market is justified. [10]

[Total:30]

## **Question 2**

## **Economic challenges in different economies**

### **Extract 5: US hiked interest rate for the first time since 2006**

The US Federal Reserve (Fed) hiked interest rate for the first time in nearly a decade, signalling faith that the US economy had largely overcome the 2008 financial crisis.

The Fed raised interest rate by 0.25 per cent in view of the projected rise in the rate of inflation to 2% in the medium term. With the economy performing well and expected to continue to do so, the Fed committee judges that a modest increase in the interest rate is appropriate. "Policy remains accommodative," Fed Chairman, Yellen said. "The US economy has shown considerable strength. Domestic consumer spending has continued to rise and investment by firms have risen".

*Adapted from Reuters, 16 Dec 2015*

### **Extract 6: China takes steps to transit to a knowledge-based economy**

China posted its weakest economic growth in the fourth quarter of 2015, adding pressure on policymakers to take more steps to ward off a sharper slowdown that could jolt global markets.

The government could widen the budget deficit to about 3 percent this year as leaders turn to tax cuts and increased spending on infrastructure to support growth. While the government is expected to lean more on fiscal policy to support growth this year, the central bank may still need to ease monetary policy to help cushion the impact of structural reforms on the economy. The central bank has already cut interest rates six times since November 2014 to spur economic growth.

China intends to transit to a knowledge-based economy by encouraging its organizations and people to acquire, create and use knowledge more effectively for greater economic and social development. Strong economic incentives and institutions are required to enable organizations and people to adjust to changing opportunities in flexible and innovative ways.

The government plans to push forward "supply-side reforms" by cutting corporate tax, upgrading the information and communication technology (ICT) and R&D infrastructure and removing barriers to encourage domestic entrepreneurship and foreign direct investment in the services sector. There is a need to establish clear rule of law and property rights. They also strive to privatize big, highly inefficient state-owned enterprises into market-oriented institutions.

In the short term, the critical challenge for China is to ensure a smooth and efficient transition, minimizing unemployment that will inevitably result from the restructuring. Retraining also needs to be provided for millions of workers that may be displaced. Even though literacy rates had soared due to government's increased spending on education, there is still overemphasis on knowledge transfer rather than the development of imaginative and creative capabilities. This has proved to be a major hindrance to its education reforms.

*Adapted from Asian Development Bank, World Bank & The Guardian, 9 May 2016*

### **Extract 7: Singapore faces external headwinds**

While manufacturing remained in the doldrums, Singapore's economic growth in the fourth quarter of 2015 was supported by public-sector construction activities, and the finance and insurance sectors. With no signs of external demand picking up yet, economists, however, were cautious about the outlook for the coming year despite the better-than-expected fourth quarter performance. Barclays' economist Leong said: "The US economy is strong but it is offset by China's growing weakness, precipitated by a weaker ability to import due to the weaker Chinese yuan."

DBS economist, Irvin pointed out the risks of potential capital flight that could result from further US rate hikes and fears of further economic slowdown in China. "Growth outlook in the next six to nine months will remain modest before an improvement in the later part of 2016," he added.

Adapted from *Today*, 4 January 2016

### Extract 8: Singapore's top export partners

Singapore shipped US\$346.8 billion worth of products around the globe in 2015.

The top 5 export markets are:

1. China: US\$47.7 billion (13.8% of total Singapore exports)
2. Hong Kong: US\$39.7 billion (11.4%)
3. Malaysia: US\$37.8 billion (10.9%)
4. Indonesia: US\$28.4 billion (8.2%)
5. United States: US\$23.2 billion (6.7%)

Source: <http://www.worldstopexports.com/singapores-top-import-partners/>, 17 Apr 2016

**Table 1: Macroeconomic Indicators (China)**

	2011	2012	2013	2014	2015
Real GDP growth (% per year)	9.5	7.8	7.7	7.3	6.9
Rate of inflation (%)	5.4	2.6	2.6	2.0	1.4
Unemployment (% of labour force)	4.3	4.5	4.6	4.7	4.8
Government budget balance (% of GDP)	0.1	-0.3	-0.7	-1.2	-2.6
Current account balance (US\$ billion)	136.1	215.4	148.2	219.7	330.6

**Table 2: Macroeconomic Indicators (United States)**

	2011	2012	2013	2014	2015
Real GDP growth (% per year)	1.6	2.3	2.2	2.4	2.0
Rate of inflation (%)	3.2	2.1	1.5	1.6	0.1
Unemployment (% of labour force)	9.0	8.2	7.4	6.2	5.0
Government budget balance (% of GDP)	-10.7	-9.3	-6.4	-5.8	-2.4
Current account balance (US\$ billion)	-460.4	-449.7	-376.8	-389.5	-484.1

**Table 3: Macroeconomic Indicators (Singapore)**

	2011	2012	2013	2014	2015
Real GDP growth (% per year)	6.2	3.4	4.4	2.9	2.0
Rate of inflation (%)	5.3	4.5	2.4	1.0	-0.5
Unemployment (% of labour force)	2.9	2.8	2.8	2.7	2.8
Government budget balance (% of GDP)	1.2	1.7	1.1	-0.3	-1.2
Current account balance (US\$ billion)	60.6	49.8	54.1	58.8	57.5

Source: *The Economist*, World Bank (2015), <http://stats.mom.gov.sg>, 28 Apr 2016

### Questions

- (a) (i) Compare the change in China's current account balance with that of the US for the period 2011 to 2015. [2]
- (ii) Explain whether the US should be concerned about the changes to her current account balance. [2]
- (b) Explain whether the US central bank's action of raising the interest rate is justified. [4]
- (c) Explain how the slowdown in China's economic growth will affect its government budget balance. [4]
- (d) With reference to the data, discuss the likely impact of China's monetary policy (Extract 6) on the Singapore economy. [8]
- (e) Assess the effectiveness of China's supply-side reforms in facilitating a smooth transition to a knowledge-based economy. [10]

[Total: 30]



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1 September 2016  
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**Additional Materials: Answer Paper**

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**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 diagram, graphs or rough working.

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

Answer **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from **either** Section A or Section B.

Start each question on a **FRESH** sheet of paper.

At the end of the examination, fasten your work securely, by question, using the strings provided.

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

Answer **three** questions in total.

**Section A**

**One or two** of your three chosen questions must be from this section.

- 1** Scotland's new food authority is prepared to take the hard-line on tackling obesity, with a sugar tax on sugary drinks and food, junk food tax and junk food advertising ban under consideration.

  - (a)** Explain what is involved in rational decision-making both by consumers and by firms. [10]
  - (b)** Assess whether governments necessarily fare better than the free market in resource allocation for goods with high sugar content. [15]
  
- 2** Amidst rising income, the Malaysian government implemented Goods and Services Tax (GST), which is a broad-based 6 percent tax on goods and services.

Source: Adapted from *The Straits Times* and *The Star Online*, 2015

Assess the impact of the above-mentioned changes on the market for different goods in Malaysia. [25]
  
- 3** The US courier and parcel delivery services industry has a combined annual revenue of about \$90 billion and is steadily growing in the last few years. The major players are UPS, FedEx, DHL, Yamato Holdings and TNT Express, who are constantly trying to obtain a bigger share through mergers and acquisitions.

  - (a)** Explain the characteristics which determine the market structure that the courier companies operate in. [10]
  - (b)** Discuss the extent to which actions of their rivals is the main factor affecting the behaviour of the firms. [15]

## Section B

**One or two** of your three chosen questions must be from this section.

- 4**    **(a)**    Using AD-AS analysis, explain the possible relationships between inflation and unemployment. [10]
- (b)**    To what extent do you agree that unemployment in the country affects the standard of living of the average Singapore citizen? [15]
- 5**    United Kingdom's trade deficit with EU has hit £23.8 billion in the three months to February, 2016 while overall trade deficit with the rest of the world widened to £13.7billion, the biggest since March 2008.
- Source: *The Daily Mail*, April 8, 2016
- (a)**    Explain the adverse impact of a rising trade deficit on an economy. [10]
- (b)**    Discuss whether demand management policy is the best way to address the economic problems caused by a rising trade deficit. [15]
- 6**    The small island nation of 5 million people boasts the world's second-busiest seaport, a far higher per-capita income than its former British overlord, and a raft of number-one rankings on lists ranging from least-corrupt to most-business-friendly countries. So long as globalisation continues, Singapore thrives.

Source: Adapted from *TIME*, 28<sup>th</sup> May 2014

Discuss the extent to which globalisation has helped Singapore to achieve her economic aims. [25]