

ST ANDREW'S JUNIOR COLLEGE  
PRELIMINARY EXAMINATIONS – 2016  
General Certificate of Education Advanced Level  
Higher 2

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**ECONOMICS**

**9732/01**

Paper 1

**30 August 2016**

**2 hours 15 minutes**

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 diagrams, 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 all your work securely together.

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 **7** printed and **1** blank pages.

**[Turn Over]**

Answer **all** questions.

### Question 1 The UK Telecommunications Industry

Telecommunications companies compete by offering more attractive terms to their customers. Table 1 compares the features and prices of mobile plans offered by different companies within the UK.

**Table 1: Mobile plans by UK telecommunications companies**

Company		Giffgaff	O2	Three Mobile	Tesco Mobile
Mobile plan features	Minutes of talk time	250	250	200	250
	Number of SMS	Unlimited	Unlimited	Unlimited	5000
	Data allowance	500 MB	250 MB	500 MB	500 MB
Price per month		£7.50	£10.00	£11.00	£7.50

Source: USwitch.com, 2014

**Table 2: Selected statistics for Giffgaff, 2012-2014**

Year	2012	2013	2014
Profit (£ millions)	– 29	2	8
Customers (thousands)	795	1200	1594

Source: Giffgaff, 2015

#### Extract 1: Giffgaff proves your customers can run your business for you

In 2014, Giffgaff, the mobile phone network run by its customers, acquired another 400,000 members last year. Giffgaff is a 'virtual' operator: it operates online only.

Giffgaff is a telecommunications company built by its parent company, O2, another telecommunications company, despite the saturated nature of the UK telecommunications industry. It runs on O2's existing network infrastructure, but is operated by a different management team. Unlike Giffgaff, O2 primarily operates through physical stores, and charges higher for similar mobile phone plans. The last of the 'virtual' operators to come to market, Giffgaff – launched as an experiment in 2009 by O2 – has overtaken almost 160 others by promising low prices, no contracts, and fair treatment of customers.

Giffgaff incentivises its members to provide customer service to other customers by paying them: the more value you bring to the business, the more money you will make. Existing Giffgaff members are paid for introducing new users to Giffgaff, or for helping to answer queries on Giffgaff's online forums. To date, Giffgaff has paid out £11 million to members for their services, and does not operate a customer service hotline, unlike its parent company, O2. This system seems to work: Giffgaff says that the average response time for questions is just three minutes, day or night.

Source: Telegraph UK, 2015

### **Extract 2: Quality of mobile coverage poor in rural UK despite saturated industry**

Some 78% of people in urban areas were satisfied with their mobile network, compared with 67% in rural parts of UK, says Ofcom, the regulatory authority in the UK for the telecommunications industry. Partial 'not-spots', where there is coverage from some but not all of the mobile networks, affected a fifth of the UK, leaving people unable to make calls or send text messages when they are not on the right network. Because of such problems, people in rural areas of UK frequently stick to alternatives such as fixed line phone services (delivered through wires connected to homes).

Masts in urban areas cannot serve rural areas due to the large distances involved. To be covered effectively by mobile networks, investment in infrastructure must be undertaken in rural areas. Masts, which are tall and large fixed structures designed to support antennas for telecommunications, must be constructed near the region that is served by the mobile networks for mobile phone users to make calls or send text messages.

Source: BBC News, 2014

### **Extract 3: UK Government announces deal to improve mobile coverage across rural UK**

The UK Government has secured a deal with four leading mobile networks to improve mobile coverage across the UK, partially for greater fairness. The terms of the agreement include:

- Embarking on a £5 billion investment programme to improve mobile infrastructure by 2017;
- Guaranteed voice and text coverage from each operator across 90 per cent of the UK geographic area by 2017, halving the areas currently suffering from patchy coverage as a result of partial mobile coverage in certain rural areas;
- Provide reliable signal strength for all mobile services – this will enable consumers to receive mobile signals long enough to complete a mobile phone call; and
- Make the deal legally binding – it will be enforceable by Ofcom.

No direct cash payments will be made by the UK Government to the mobile networks as part of this agreement. To tackle 'not-spots', the UK Government has provided £150 million to develop infrastructure to increase mobile coverage in rural areas. This decreases the expenses incurred by firms operating in rural areas. An executive of O2 commented, "A partnership between government and the mobile operators is required to maximise coverage across the UK, so this agreement is a good outcome for our customers. It will support investment in our network, while ensuring that strong competition remains between the different networks."

Source: UK Government, 2014

### **Extract 4: Three Mobile promises mobile coverage to rural areas if merger with O2 approved**

Three Mobile has promised to get mobile coverage into rural areas with no reception and reach 99 per cent of customers if its £10.5 billion merger with O2 gets the thumbs-up. Its Chief Executive said that by sharing masts, Three and O2 will reach areas known as 'not-spots', where mobile and internet signals are poor. The suggestion is the latest by Three as it tries to secure approval from Ofcom, which has spoken out against the deal because it will reduce competition. If the deal goes ahead, Three has also pledged cheap mobile plans for pensioners, offering calls and text bundles for £5 a month.

Ofcom has set a target for mobile operators to reach 90 per cent of geographical coverage of the UK by 2017 – which Three says it will surpass if it merges with O2. The Chief Executive of Three says: "There are some really exciting things for UK consumers that stand to come out of this. Coverage is a fairly regular topic of conversation, in terms of not being able to get signal at home, or in a field when you're walking the dog. Coverage of 99 per cent is a very

significant number. It's in excess of what O2 has today. Putting the two companies together will definitely surpass the target of 90 per cent geographic coverage the Government has set."

O2 and Three are the second and the fourth largest mobile network operators in the UK respectively, but combined they would become the biggest in the market, with 31 million customers. A takeover would reduce the number of large mobile network providers in the UK from four to three. The deadline for the decision on the merger is soon. Three's Chief Executive commented: "We are getting towards the end of the process; I'm excited that we will be hearing the decision quite soon."

Source: The Daily Mail, March 2016

### Extract 5: Merger between Three and O2 blocked

Three was a magic number. At least, that was what mobile-phone operators and regulators in believed a few years ago. Letting just three dominant rival companies compete inside each national market would supposedly produce decent outcomes. Customers would benefit from enough competition; firms, despite mature markets with already high penetration rates, would get profits plump enough to allow them to invest in infrastructure, such as for rolling out better quality 4G and 5G services.

However, such conventional wisdom is being questioned. Last week, the merger of British telecommunication companies, Three Mobile and O2, was blocked. Ofcom, Britain's communications regulator, was anxious that a lack of competition would hurt consumers and businesses.

Ofcom's own research in 25 countries shows that average prices were up to one-fifth lower in markets with four network operators than in those with three. As for spending on networks, analysis from Ofcom has also found "no link between a higher concentration in mobile markets and an increase in investment".

Some in the industry are dismayed. "Both EU and UK regulators seem only concerned with pricing and don't think of the bigger picture," complains the head of a telecommunications consultancy firm. He believes that mergers of mobile companies will offer lots of efficiencies that create win-win situations for both consumers and mobile companies.

Source: Telegraph UK and The Economist, May 2016

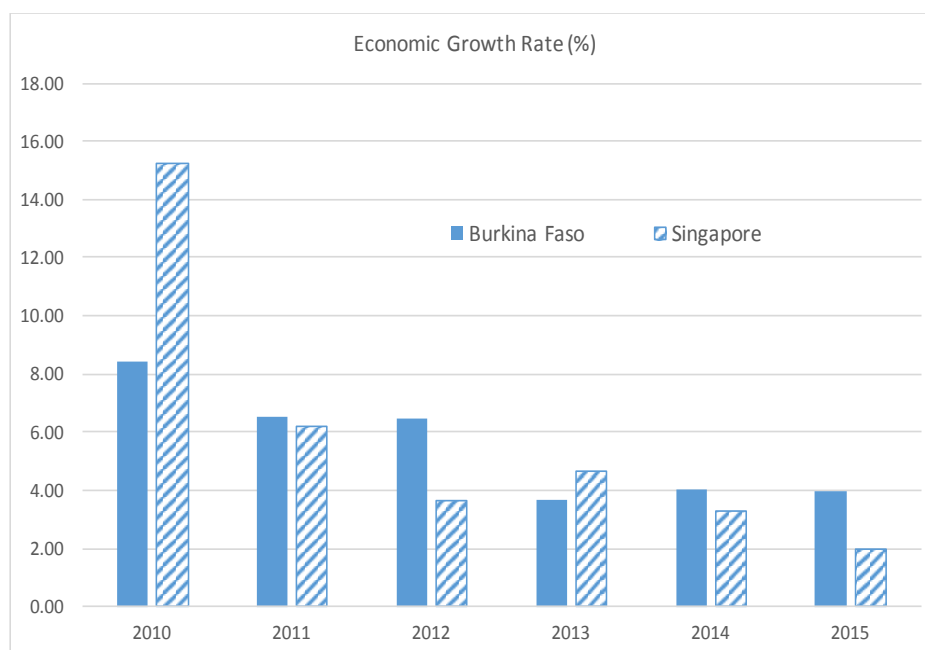
### Questions

- 1 (a) Based on Table 1, which is the most competitive telecommunications company in the UK? Justify your answer. [2]
- (b) Why might a telecommunications company such as O2 want to set up a second telecommunications company such as Giffgaff? [4]
- (c) Explain how the difficulty in deploying masts in urban areas to serve rural areas (Extract 2) is a case of factor immobility. [2]
- (d) Analyse the impact of developments in Extract 3 on the extent of change in sales volume of mobile plans in rural UK. [8]
- (e) Explain **two** reasons why a lack of competition in the UK telecommunications industry will "hurt consumers" (Extract 5). [4]
- (f) Evaluate the factors that likely determined why the UK Government blocked the merger between Three and O2. [10]

[Total: 30]

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

**Figure 1: Economic Growth Rate 2010 – 2015**



Source: World Bank

**Table 3: GDP per capita (current US\$) 2010 – 2015**

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

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-based Olam International, for example, may stand to benefit from such an agreement as it seeks more investments in Africa. Olam will be specializing in crops used for Burkina Faso's exports such as sesame, shea nuts, cotton and ground nuts. Singapore's bilateral trade with Burkina Faso rose 15 per cent between 2012 and last year to \$2.54 million.

"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, 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 and human resources 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 – they're trying to move up the value curve as well," he said yesterday. As a result, many companies are shifting manufacturing out of China – a trend that Africa, with its rapidly growing middle-class consumer market, should capitalise on, he said.

Singapore companies have a role to play in Africa's future too, especially in areas such as port and airport services and urban solutions, such as in water and waste treatment, which Singapore has a lot of experience in, Mr Tharman said.

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.

Singapore's trade with Africa has grown at a compound annual rate of close to 12 per cent over the past five years, reaching \$14 billion last year. Investments by Singapore firms have reached \$20 billion to date.

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 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".

These are also the two areas in which top-ranked Switzerland does particularly well. "Switzerland's top-notch scientific research institutions, along with other factors, make the country a top innovator," said the WEF.

"Productivity is further enhanced by a business sector that offers excellent on-the-job training opportunities, both citizens and private companies that are proactive at adapting the latest technologies, and labour markets that balance employee protection with business efficiency." The report comes as the global economy seems to be finally leaving behind the worst crisis of the past 80 years. But the WEF said the recovery is moving at a less decisive pace than it has after previous downturns.

Mizuho economist Vishnu Varathan said the Swiss approach shows that the Singapore Government's productivity push is necessary. Efforts to narrow the income gap and improve social mobility could also help Singapore score better in such international studies, he added. Singapore has been strengthening social safety nets for years, especially for healthcare and retirement adequacy for low income workers and retirees who do not qualify for the Pioneer Generation Package, and pensioners.

CIMB economist Song Seng Wun, however, said that Singapore should be more concerned about the possibility of slipping in the rankings.

"Giving businesses access to the resources that they need will still be the main challenge going forward," he said. "The risk of a policy misstep from a further tightening of labour policy could cause businesses to change their minds about Singapore. That, to me, is the higher possibility than for us to move up to No. 1."

Source: The Straits Times, 04 Sep 2014

## Questions

- 2 (a) Using Figure 1, compare the growth performance of Burkina Faso and Singapore over the period 2010 to 2015. [2]
- (b) Explain how GDP and living standards are related. [2]
- (c) Explain how the political unrest mentioned in Extract 6 might affect other African nations negatively. [3]
- (d) Using Extract 7, explain the type of inflation China is facing which could have led to companies shifting out of China. [2]
- (e) Using a diagram, explain how an influx of foreign direct investments may affect Burkina Faso's currency exchange rate. [3]
- (f) With reference to the data, comment on how the pattern of trade between Singapore and Africa may change over time. [8]
- (g) In Extract 8, the WEF said that Singapore's competitiveness is enhanced by its strong focus on education. Assess whether Singapore should rely primarily on a steady improvement in higher education and training to achieve sustained economic growth. [10]

[Total: 30]

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