



**HWA CHONG INSTITUTION**  
**JC2 Preliminary Examinations**  
**Higher 3**

**NAME OF  
CANDIDATE**

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**CT GROUP**

15 \_\_\_\_\_

**CENTRE  
NUMBER**

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**INDEX  
NUMBER**

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**ECONOMICS**

**9808/01**

Paper 1

**22nd September 2016**

**3 hours 15 minutes**

Additional Materials: Answer Papers

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**INSTRUCTIONS TO CANDIDATES**

- 1) Write your **Centre number, index number, name and CT class** clearly in the given spaces at the top of this page and all answer sheets.
- 2) Answer **all** questions in **Section A** and **two** questions from **Section B** provided in this Question Booklet.

**INFORMATION FOR CANDIDATES**

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

You may use a calculator.

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

**Attach this cover sheet to all the answer sheets and indicate clearly the essay questions attempted from section B.**

For Examiner's Use	
Section A	
Qn 1	/ 30
Section B	
Qn __	/35
Qn __	/35
Total	/ 100



## Section A

Answer all questions in this section

### 1. Woes of Developing Countries

#### **Extract 1: Success of Bali Trade Talks Amidst Protests For Fair Trade**

It was perhaps only appropriate that, as the culmination of 12 years' haggling, the negotiations on global trade rules held on the island of Bali in Indonesia on December 3rd-6th ran over time. Early in the morning of December 7th delegates to the World Trade Organisation's powwow rose to applaud the first deal among all its members to expand its scope since the WTO's inception in 1995. But the agreement leaves the future of global trade cloudier than might have been hoped.

The deal was the first success of the "Doha round", an effort initiated in 2001 to bring down tariffs and various other trade barriers, which has come close to collapse several times over the years. When trade officials resuscitated talks last year they opted to keep the agenda as simple and attractive as possible. They dropped intractable topics such as intellectual property and trade in services, to concentrate on humbler ones such as "trade facilitation"—an attempt to cut red tape in customs. With the numerous countries and numerous issues involved, it seemed wiser to Roberto Azevedo, the director-general of WTO to focus on simpler issues which have a greater chance of success.

The trade-facilitation measures agreed in Bali could cut the cost of shipping goods around the world by more than 10%, by one estimate, raising global output by over \$400 billion a year, with benefits flowing disproportionately to poorer countries. They nonetheless proved contentious. Some countries raised concerns about their ability to pay for the required improvements to their customs procedures, and talks briefly stalled as arrangements for assistance were worked out.

Not all disputes were resolved so smoothly. As ever, agriculture was the sorest subject. India spearheaded an effort to allow poor countries to subsidise staple crops in the name of "food security". In the months leading up to the meeting India had already wrung concessions from rich-world economies in this regard, including a four-year "peace clause" that would have granted developing countries temporary immunity at the WTO from challenges to such measures. Not satisfied, it later threatened to derail the talks unless the reprieve was made indefinite.

Several other disputes received a similar papering over. Indeed, although the trade-facilitation agreement should help to boost world trade, the deal is unlikely to convince sceptics that the multilateral process can produce ambitious reforms. The main problem is that those least committed to progress—in this case, India—can hold proceedings hostage until their demands are met.

Plenty remains on the Doha agenda. The most glaring item is agriculture. Not only is the WTO theoretically in search of a permanent substitute for India's waiver on subsidies; it also pledged long ago to scrap rich countries' farm-export subsidies. Yet ploughing back into such territory risks wasting the momentum of the Bali deal. Mr Azevêdo might instead seek to open discussions on fresher subjects. Investment is one possibility: the WTO could work to rein in

subsidies and set rules protecting cross-border investment. Trade in environmental goods and services, which covers everything from air filters to green consulting, is another candidate.

However, as the WTO talks progressed these few days at Bali, there were continual protests outside the venue which called for fairer trade for developing countries which included removal of subsidies on rich countries farm exports.

Source: Adapted from Unaccustomed Victory, Economist .com 14<sup>th</sup> Dec 2013

### **Extract 2: How Effective is Fair Trade**

When many of us think about improving conditions in the developing world, fair trade may be one of the first things to come to mind. But how effective is fair trade?

Is paying a premium to slightly increase some farmers' income the best way to tackle poverty? Could our income be spent elsewhere more effectively? What does all of this mean for the sort of society we live in? Fair trade guarantees that the buyer of a particular product such as coffee or bananas must pay the farmer enough to cover the cost of growing their crop or the market value for their goods, whichever is higher. They also add a premium of around \$0.20 for investment in improving production. Buying products with a fair trade label gives everyday shoppers influence over the ethics of big corporations. In a globalised world, all of our actions - whether it is the car we drive (or don't drive), the supermarket we shop at or where we bank - have far reaching consequences.

Many economists argue that far from helping lift farmers out of poverty. Fair trade traps them in dependence on struggling industries and charity from the West. They argue that low prices are due to overproduction, and that providing an inflated price only encourages even greater overproduction rather than diversification into better products. For example, if more people produce coffee then the price goes down. The fair trade coffee producers keep a steady, but still very low, price and the non fair trade producers just get poorer. The counter argument is that fair trade works to encourage diversification as an intergenerational model. It is hoped that by paying poor farmers in developing countries a fixed minimum price, it will enable their children their children to attend school and acquire skills which will move them away from being farmers which will reduce the problem of oversupply in the long run.

Source: Adapted From [www.givingwhatwecan](http://www.givingwhatwecan) by Larissa Rowe

### **Extract 3: Climate Change Worsens the Woes of Developing Countries**

Pensioners left on their own during a heatwave in industrialised countries. Single mothers in rural areas. Workers who spend most of their days outdoors. Slum dwellers in the megacities of the developing world. These are some of the vulnerable groups who will feel the brunt of climate change as its effects become more pronounced in the coming decades, according to a game-changing report from the UN's climate panel released on Monday. Climate change is occurring on all continents and in the oceans, the authors say, driving heatwaves and other weather-related disasters. And the changes to the Earth's climate are fuelling violent conflicts. The UN for the first time in this report has designated climate change a threat to human security.

The overriding lesson of this report, the scientists said, was that unless governments acted now to reduce greenhouse gas emissions and adopt measures to protect their people, nobody would be immune to climate change. "There isn't a single region that thinks we can avoid all the impacts of even 2 degrees of warming by adaptation – let alone 4 degrees," said Dr Rachel Warren of the Tyndall centre for climate change research at the University of East Anglia.

But those who did the least to cause climate change would be the first in the line of fire: the poor and the weak, and communities that were subjected to discrimination, the report found.

One impact is through the reduction in crop yields, which leads to higher prices. "The story is that crop yields have detectably changed. As time goes on the poor countries that are in the warmer and drier parts of the planet will feel the crop yield decreases early," said Michael Oppenheimer, professor of geosciences and international affairs at Princeton University. "When you get above two degrees and into the three- and four-degree range, adaptation becomes less effective and even some of the wealthy countries that have advanced agriculture start suffering."

Source: Adapted From Climate Change: The Poor Will Suffer The Most, The Guardian, 2014

#### **Extract 4: US fears climate talks will focus on compensation for extreme weather**

Officials fear the devastating impact of Typhoon Haiyan will overshadow core issue of climate change prevention US officials fear that international climate change talks will become focused on payouts for damage caused by extreme weather events exacerbated by global warming, such as the category 5 Typhoon Haiyan that hit the Philippines last week killing thousands of people and causing what is expected to be billions of pounds of damage.

An official US briefing document obtained by the Guardian reveals that the country is worried the UN negotiations, currently under way in Warsaw, will "focus increasingly on blame and liability" and poor nations will be "seeking redress for climate damages from sea level rise, droughts, powerful storms and other adverse impacts".

At last year's climate talks in Doha, the US fought off calls from African nations, the Pacific Islands and less developed nations for a "loss and damage mechanism" to channel finance to help nations cope with losses resulting from climate change, such as reduced crop production due to higher temperatures. The member nations of the G77+China, which includes most African and some Latin American countries, cannot leave Warsaw without agreement on a loss and damage mechanism, said G77 lead negotiator Juan Hoffmaister.

"We can't only rely on ad-hoc humanitarian aid given the reality that major climate-related disasters are becoming the new normal," Hoffmaister said. This issue is also a priority for other nations including India, small island states and the least developed countries. While there is no precise definition of what loss and damages includes, Hoffmaister said climate impacts include the growing issue of climate refugees, people who are forced to move because their homelands can no longer support them. The Philippines is facing an increasing number of fierce typhoons, said Alicia Ilaga, a member of that country's delegation. Damages are averaging \$200m (£125m) per storm, and the country has experienced 22 typhoons per year over the past decade, Ilaga said. Haiyan, the most powerful tropical cyclone to ever make landfall, was the 24th typhoon this year." Climate change impacts are beyond our capacity to cope. I can't imagine how we're going to survive," Ilaga said. Insurance companies are also usually unwilling

or unable to insure against such disasters in high risk areas due to their wide spread nature. Even if insurance was offered by large commercial companies, the insurance premiums will be too high for the poor folks of developing countries to afford.

Source: The Guardian, November 2013

#### **Extract 5: Sticky Issues At Paris Climate Change Conference**

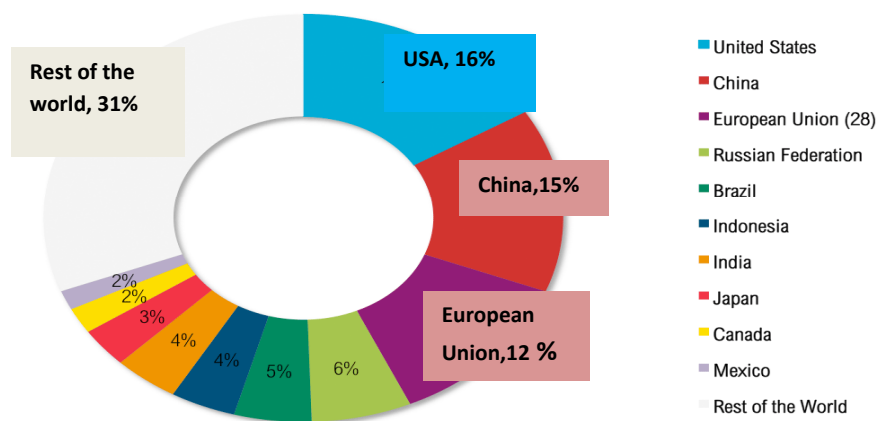
The Paris Climate Change Conference is expected to produce an agreement on what happens after 2020, when limits agreed to in the 1997 Kyoto Protocol will expire. It comprises voluntary ground-up contributions known as Intended Nationally Determined Contributions (INDCs), as opposed to legal commitments wanted in the 2009 Copenhagen summit. The reason for the change to the voluntary INDC is that countries have difficulties agreeing to how much each should cut their carbon emissions. Politicians in democratic economies have difficulties in agreeing to such legal commitments without affecting the support from their business community at home. Current measures submitted put the world on course for a 2.7 deg C rise above pre-industrial levels, still above the 2 deg C threshold beyond which the impact of climate change becomes catastrophic and irreversible. Among key issues to be discussed are:

- i. A ratchet mechanism: Terms requiring countries to revisit and hopefully increase their emissions pledges every five years as green technology develops.
- ii. Climate finance: Poorer countries want financial help to enable them to invest in clean technology and adapt their infrastructure, but rich countries want international development banks to also play a role, with most of the funding to come from the private sector.
- iii. Loss and damage: Whether developed countries - which produced the bulk of carbon emissions historically - should pay for losses caused by climate related disasters the brunt of which are bore by developing countries. There is a line of argument which argues that there needs to be a supranational organisation to intervene in such matters and ensure that developed countries compensate developing countries

While nations responsible for more than 90% of global emissions have now come up with their targets – known in the UN jargon as Intended Nationally Determined Contributions or INDCs, there is concern if these commitments will be followed through and whether they will be sufficient to reduce global warming. Moreover among scientists, there is argument among scientists of what is the trigger temperature which will start the catastrophic impact of climate change.

Source: Various, Dec 2015

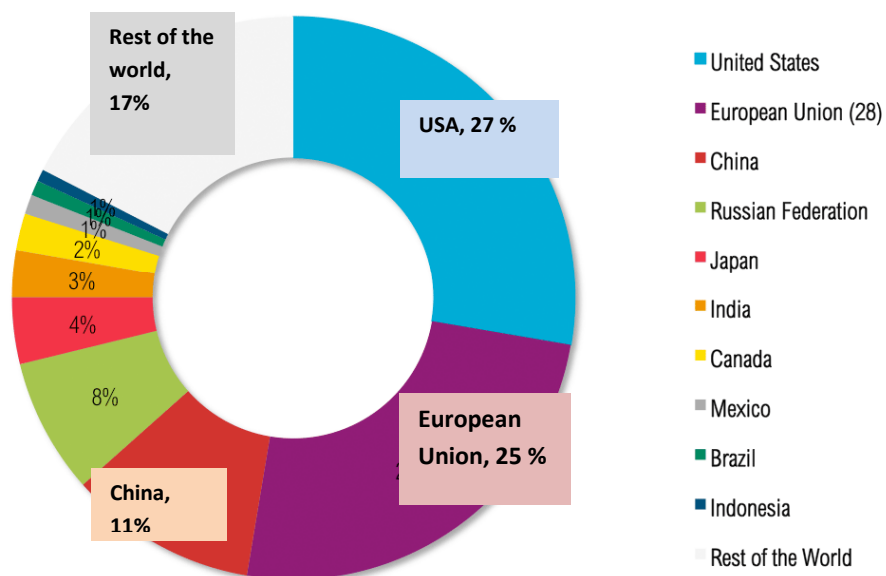
**Figure 1: Cumulative Greenhouse Gas Emissions 1990- 2011 (% of World Total)**



<http://bit.ly/11SMpjA>

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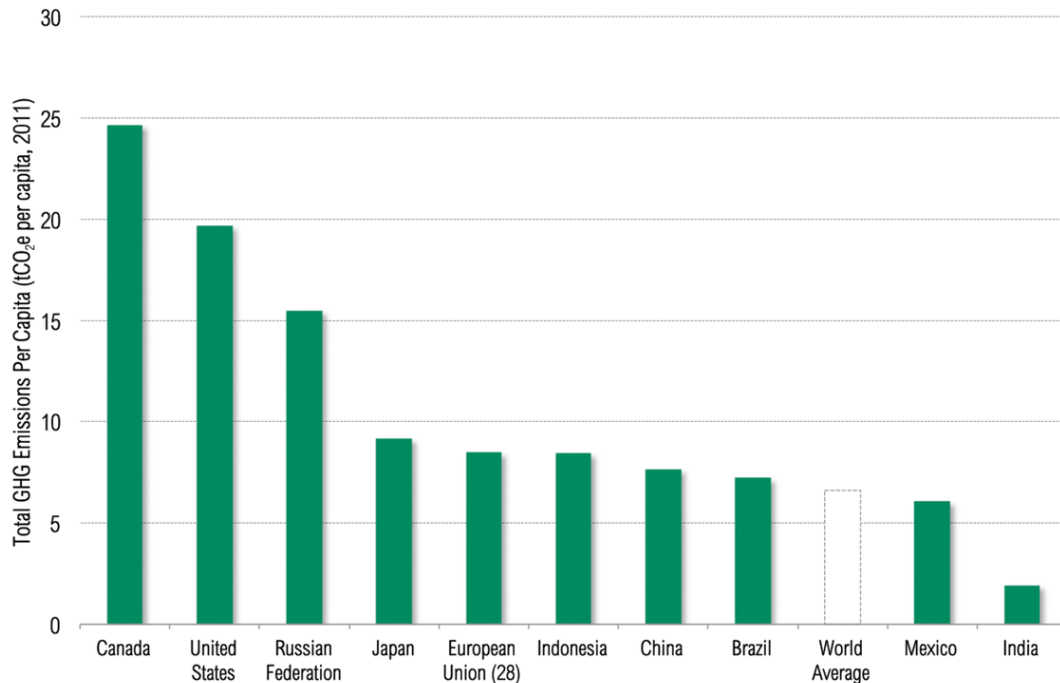
**Figure 2: Cumulative Greenhouse Gas Emissions 1850 - 2011 (% of World Total)**



<http://bit.ly/11SMpjA>

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**Figure 3: Per Capita Emission for top 10 Emitters in 2011**



<http://bit.ly/11SMpjA>

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### Questions

- a) Discuss the view that WTO should focus on fair trade. [8]
- b) Consider the difficulties of developing countries in insuring against natural disasters. [6]
- c) Assess the degree to which game theory can be used to explain why it is difficult for countries to reach an agreement on how much to reduce for carbon emissions. [8]
- d) To what extent would economics support the argument that a supranational organisation should ensure that developed countries compensate developing countries for the damage caused by climate change related disasters. [8]



## Section B

Answer **two** questions from this section.

2. 'If all economists were laid end to end they still wouldn't reach a conclusion.'

Discuss why economists are often being portrayed as disagreeing on the media.

[35]

3. Airlines use sophisticated computer programs to analyse booking trends and constantly change prices to get the most money out of each flight. That's why two passengers in the same row might have paid vastly different fares, depending on when they booked. Complicating matters is a bevy of fees such as baggage fees and cancellation fees which are added subsequently based on passenger type to help the airlines offset higher jet fuel prices.

Adapted from Associated press report, April 2014

What objectives are strategies of this kind designed to achieve and are they likely to be beneficial to society as a whole.

[35]

4. Obamacare , Medishield Life and various types of subsidies are all examples of government intervention in the healthcare market. There is little economic justification for government intervention in the healthcare market as it is not a public good and individuals should take responsibility to save up for their own healthcare in their old age. Discuss this view.

[35]

5. Uncertainty risk and asymmetric information form part of everyday life.

Assess the extent to which economics has contributed to an understanding of the decision making processes of consumers and firms in financial markets under these conditions and evaluate measures by the government to counter any problems that might arise in such markets.

[35]

6. Assess the contribution of game theory and traditional trade theories to strategic trade policy.

[35]

7. Globalisation means many things. At one level, it talks of increasing amounts of trade as facilitated by the numerous free trade agreements and WTO across the globe which benefits countries greatly. Even harmful capital is allowed to move freely. Only human beings must remain imprisoned within the nation state as barbed wires are going up at the borders of many countries with the impending migrant crisis.

Adapted from various sources

Analyze this statement and assess its validity.

[35]

Copyright Acknowledgements:

Question 1 Extract 1	Source: Adapted from Unaccustomed Victory, Economist .com 14 <sup>th</sup> Dec 2013
Question 1 Extract 2	Source: Source: Adapted From <a href="http://www.givingwhatwecan">www.givingwhatwecan</a> by Larissa Rowe
Question 1 Extract 3	Source: Source: Adapted From Climate Change: The Poor Will Suffer The Most, The Guardian, 2014
Question 1 Extract 4	Source: The Guardian, November 2013
Question 1 Extract 5	Source: Various, Dec 2015
Question 1 Figure 1	Source: World Resources Institute
Question 1 Figure 2	Source: World Resources Institute
Question 1 Figure 3	Source: World Resources Institute