

YISHUN JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION 2017

H2 ECONOMICS

9732/01

9757/01

PAPER 1

23 AUGUST 2017

0800 – 1015 hrs

TIME 2 hours 15 minutes

Additional Materials: Writing papers, cover pages



INSTRUCTIONS TO CANDIDATES

Write your name and CTG on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use highlighters, glue or correction fluid.

Answer **all** questions.

Start a new question on a fresh piece of paper.

At the end of the examinations, fasten all your work securely together.

Tie a cover page to **two** separate questions:

1. Case Study Question 1, and
2. Case Study Question 2.

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

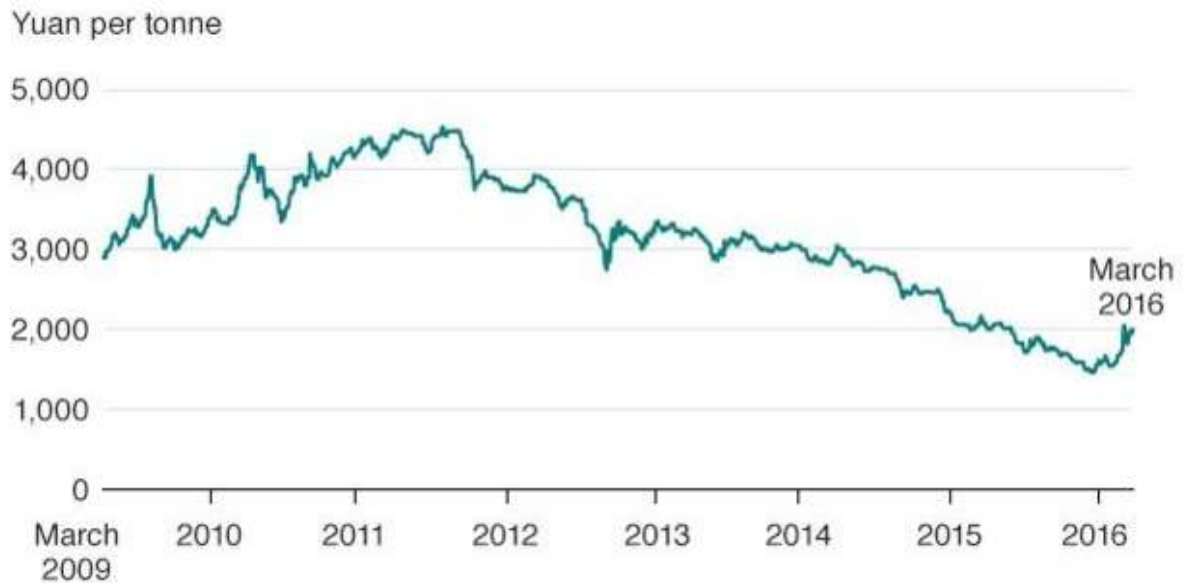
You are reminded of the need for good English and clear presentation in your answers.

Answer **all** questions.

Question 1

The Market for Steel

Figure 1: World price of steel



Source: Bloomberg

Extract 1: Global steel demand set to fall again in 2016: Worldsteel

Global steel demand will continue to fall this year before a slight pick-up in 2017, the World Steel Association forecast on Wednesday.

Falling demand has plunged the global steel market into crisis, with excess capacity taking a heavy toll on producers, including those in China - leading to plant closures and job losses.

Global apparent steel use - deliveries minus net exports of steel industry goods - is expected to fall 0.8 percent in 2016 to 1.488 billion tonnes after a 3 percent fall last year, according to Worldsteel.

China, which produces about half the world's steel, is under increasing international pressure to tackle a local supply glut that has led to accusations of China flooding markets with cheap steel. However, China is reluctant to do so as cutting industrial capacity will force China to lay off probably 1.8 million workers from steel and related sectors.

"The key to this year's figure is the decline in demand from China, which is responsible for half of the global demand, where a surplus in residential properties is a problem, but also weaker demand from Brazil and Russia," Worldsteel Director General Edwin Basson said.

Source: Reuters, 13 April 2016, the Straits Times, 8 March 2016

Extract 2: China tackles pollution woes

Worried by the social and political impact of pollution, China has vowed to crack down on lawbreaking companies and the local governments that protect them. As part of its war on pollution, China's traditionally underpowered environment ministry was granted new powers to send inspection teams to local regions without warning, and was also given the authority to summon senior provincial officials to explain their conduct.

During a nationwide investigation of 1,019 steel enterprises across the country, the Ministry of Environmental Protection inspectors found that 173 firms were found to have violated the country's environmental rules, with 62 firms involved in illegal construction and 35 exceeding state emission limits. 23 of the offending firms had been asked to cut production, while another 29 had been shut down temporarily to "rectify" their problems. Fines totaling 18.9 million yuan have been imposed and three officials have been detained.

Source: Reuters, 10 Oct 2016, South China Morning Post, 2 Apr 2017, FORES Study 2012:1

Extract 3: UK and EU urged to act on Chinese steel dumping after US raises duty on imports

Britain's steel trade body and unions have called on the UK and the EU to take urgent action to stop Chinese steel dumping, after the US government increased tariffs on imports of cold rolled steel from China to 522% from 266%. A spokesman for the Community trade union said that unfairly traded Chinese steel was hurting UK and European steel producers.

China's steel exports reached a record 112.4 million tonnes last year, up by 19% – but their value fell 10.5% to \$62.8bn (£43.2bn) as a result of falling prices. This has led to a global steel glut, which has plunged European steel producers into crisis. UK steel factories have also been put up for sale, putting thousands of jobs at risk across the country.

In defiance of the US move, China, the world's largest steel producer, said it would push on with controversial tax rebates to steel exporters to support the sector's restructuring after a slowdown in demand at home.

China's ministry of finance said that the tax rebate policy on steel exports was to fund a costly capacity closure plan which it plans to eliminate 100 to 150 million tonnes of annual production – more than the amount US produces every year – over the next five years.

The US commerce department said that Chinese-made steel products, which totalled \$272.3m in 2015 were being sold in the US at below cost with unfair subsidies. China, however, denies that its mills have been dumping their products in other countries, arguing that its steelmakers are more efficient.

Source: The Guardian, 18 May 2016

Questions

- a) i) With reference to Figure 1, describe the trend in the world price of steel [2]
between March 2009 and March 2016.
- ii) With reference to the case material, account for the change in world price of steel in 2015. [4]
- b) i) Explain one example of negative externality which could result from steel production. [2]
- ii) Explain how negative externality in steel production could lead to market failure. [4]
- iii) As an economic advisor, evaluate the measure undertaken by the Chinese government (from Extract 3) in tackling the negative externalities associated with steel production and recommend an alternative policy option to the Chinese government. Justify your answer. [10]
- c) Discuss if UK and EU should adopt protectionist measures against Chinese steel in circumstances described in the case material. [8]

[Total: 30]

Question 2

Economic Growth of China and Japan

Table 1: Annual real GDP growth rates (%) for China and Japan

	2010	2011	2012	2013	2014	2015
China	10.6	9.5	7.9	7.8	7.3	6.9
Japan	4.2	-0.1	1.5	2.0	0.4	1.2

Table 2: Annual inflation rates (%) for China and Japan

	2010	2011	2012	2013	2014	2015
China	3.3	5.4	2.6	2.6	2.0	1.4
Japan	-0.7	-0.2	-0.1	0.4	2.8	0.8

Table 3: Components of GDP for China and Japan, 2015

	China	Japan
Private Consumption Expenditure (% of GDP)	38	56
Gross Fixed Capital Formation (% of GDP)	45	23
Government Consumption Expenditure (% of GDP)	14	20
Exports of goods and services (% of GDP)	21	18
Imports of goods and services (% of GDP)	18	17

Source: Worldbank.org

Extract 4: China economic growth slowest in 25 years

After experiencing rapid growth for more than a decade, China's economy has experienced a painful slowdown in the last two years.

It has come as the central government wants to switch from relying on external demand to domestic demand in generating growth. But managing that transition has been challenging.

Some argue that China's focus on creating an economy driven by consumption is misplaced. They say as the country attempts to rebalance its economy, it should focus on productivity in order to sustain high growth.

China's headline annual economic growth numbers are important, but so too are other economic data, as they can provide a more in-depth look at the economy and where it's heading.

"The health of the labour market, retail sales and industrial production data are all key indicators for growth," said Catherine Yeung from Fidelity International in a note.

Adapted from BBC News, 19 January 2016

Extract 5: As China's economy slows, Beijing's growth push loses punch

The Chinese government has fast-tracked the building of coal plants along with scores of bridges, railways, factories and other construction projects, as part of a huge and expensive push to reinvigorate the Chinese economy.

Such revival efforts have worked before. Seven years ago, in the aftermath of the financial crisis, China unleashed a lending-and-spending binge that spared the country the painful recessions that struck the United States and Europe.

But times have changed, economists say. With China's debt levels mounting and its industries plagued with unneeded factories, China's traditional tactics don't pack the same punch.

After the financial crisis, as like now, a lot of the government money went into areas where China already has too many idle or underused factories, like steel, manufacturing and coal-fired power plants. This creates a rising misallocation of resources.

Adapted from the New York Times, 15 July 2016

Extract 6: Japan hit by weaker economic growth in the Second Quarter

Between April and June, economic growth slowed by 0.4% compared with the first three months of the year.

Lagging exports and sluggish consumer spending were the biggest contributors to the drop in growth. Japanese Economics Minister Akira Amari said the slowdown in GDP growth was due to weak export growth to China and the US, as well as poor consumer spending.

The disappointing economic growth follows a recent run of weak data including exports and factory output, raising doubts about the outlook for the rest of the year.

Adapted from BBC News, 17 Aug 2015

Extract 7: Japan announces more stimulus measures as economy struggles

In the three and a half years since he won the Japanese prime minister's office on a pledge to rekindle economic growth, Shinzo Abe has tried many tactics to coax the economy into expanding. The stimulus effort faces several obstacles, most notably a weak recovery in consumer spending. This, coupled with high public debt, has cast doubt on the policies in reviving Japan's deflated economy.

Now, the government is embarking on what may be its biggest spending program yet. About ¥3.5 trillion will be spent on social items like wage subsidies for people who leave work to care for children or aging relatives. But more will be spent on infrastructure, including the maglev train, which the government wants to help build between Tokyo and Osaka by as early as 2037, eight years earlier than a previous timetable.

Mr. Abe is not only betting that Japan can spend its way to growth, but that economic expansion will help the country claw its way out of a canyon of debt. Japan's government debt is bigger than that of any other country, relative to the size of its economy.

Adapted from the New York Times, 2 Aug 2016

Questions

- a) Compare the economic growth of China and Japan between 2010 and 2015. **[2]**
- b) Explain how 'the health of the labour market' can be a key indicator of economic growth. **[2]**
- c) Explain why the Chinese government "wants to switch from relying on external demand to domestic demand in generating growth" (Extract 4). **[4]**
- d) With reference to Extract 6, explain why Japan has been experiencing slowing growth in the second quarter of 2015. **[4]**
- e) Discuss whether expansionary fiscal policy implemented by the governments of China and Japan in achieving sustained growth have been appropriate. **[10]**
- f) Japan's Prime Minister holds the view that the country can achieve economic growth and in so doing reduce the level of government debt through increased spending. Discuss the validity of this view. **[8]**

[Total: 30]**END OF PAPER**

