H2

TAMPINES JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION

ECONOMICS **9757/01**

Paper 1

Friday, 25 Aug 2017

2 hours 15 minutes

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Paper 1 (Case Study) [40%]
Answer **ALL** questions

Submit each Case Study separately.

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

Answer **all** questions.

Begin **each case study** on a **fresh sheet of paper.** Case study questions 1 and 2 are to be submitted **separately**.

Question 1 **Private Hire Transport in Singapore**

The taxi industry, made up of firms such as ComfortDelGro and Trans-cab, has been shaken by the entry of new private hire car services. Private hire services occur when a passenger books transport through a private hire car booking service operator such as Uber, which communicates the passenger's booking to a private hire car driver who carries out the transport booked. The number of rental cars has been on the rise as private hire service operators have been utilising more of these vehicles. As such, traditional taxi companies have been losing the bulk of their customers to them.

Table 1: Motor Vehicle Population by Vehicle Type in Singapore

	2010	2011	2012	2013	2014	2015	2016
Taxis	26,073	27,051	28,210	27,695	28,736	28,259	27,534
Rental Cars	13,347	13,919	14,862	16,396	18,847	29,369	51,336

Source: *Land Transport Authority*, accessed on 21 July 2017

Extract 1: ComfortDelGro introduces incentives

In order to compete with the private car hire services, ComfortDelGro is dangling double the reward points to lure commuters to hop onto its cabs within 24 hours of alighting from a bus or train ride. The points earned can be used to redeem a variety of rewards, including taxi vouchers or free transfers to the airport via its CabRewards website. For example, a S$10 cab ride, which would typically earn commuters 10 Cabpoints under the CabRewards Programme, will translate into 20 Cabpoints under the initiative, called CabRewards, which was launched on Wednesday. For every 83 Cabpoints, commuters can get an instant discount of 50 cents off their cab fare, up to a maximum discount of S$10.

When asked if its latest move is aimed at beating competition from the likes of ride-hailing firms Grab and Uber, Mr Ang, the CEO of ComfortDelGro Taxi Business said: "Competition is everywhere, and we have to come up with a unique value proposition ... that will benefit our commuters."

ComfortDelGro has also started offering its flat taxi-fare option, which costs slightly less in general compared with metered trips or those booked on ride-hailing apps, whether during off-peak hours in the afternoon or the evening peak period. Taxi drivers with the company said that the new option would help them get more rides, adding that passengers would stand to gain since they do not have to pay more during jams, and the surcharges that come with cashless payments.

However, ComfortDelGro also needs to consider its ability to continually keep the price of its taxi services low, in light of the costs it needs to bear such as the recently introduced volume-based tax of S$0.10 per litre on automotive diesel, which is needed for ComfortDelGro's diesel-run vehicles. In order to keep costs manageable, ComfortDelGro has reduced their taxi fleet to 15,863, which is a significant fall from 16,281 in December 2016.

Source: *Various*

Extract 2: Price war between Uber and Grab

Competition is also occurring between the private hire operators themselves. The fight between Grab and Uber has been a long and sustained one, buttressed by the fact that both private ride-hailing companies are financially capable of dragging one out. The war strategy utilised by Grab and Uber is one of predatory pricing. Through this, the companies keep the price of rides for passengers down, all with the singular goal of eliminating the competition. Once that has been achieved, the victor gets a hold of the entire market demand.

Uber, owing to its presence worldwide has been successful in operating in loss-making markets. The losses incurred in these countries are supported by the gains they make in other markets where they have a stronger hold. Secondly, even though Uber has constantly been reporting losses and a burning through of their war chest, the company continues to raise money. In June 2016, Uber raised $3.5 billion from Saudi Arabia and the very next month, another $1.15 billion. As such they have a massive war chest with which to compete, thus allowing them to cover any losses they might be making in countries where their market penetration rate is low.

Adapted from: *AsiaOne*, 25 February 2017

Extract 3: Can Uber ever make money?

Uber's challenge now will be to shift its model from one that has been very successful at revenue growth, to one that is more financially sustainable and, eventually, profitable. Some economists say there is no obvious way to do that. "There is no clear pathway I can see for Uber to go from a high-revenue growth company to a profitable company," says Aswath Damodaran, a Professor of Finance at the Stern School of Business. "Normally the story for start-ups is that as revenues grow economies of scale will kick in, but that story is tough to tell with Uber."

Uber has between $6.5 billion and $7 billion of unrestricted cash in the bank, with a further $2.3bn untapped line of credit. This could cover the company's cash needs for roughly three more years. Uber's path to sustainability will depend on controlling the company's two main costs: the subsidies for drivers, and general costs such as engineering and research and development. These general costs benefit from economies of scale — as Uber grows, the overhead becomes less expensive on a per-ride basis.

The fact that switching costs are so low between one service and the other — riders can easily flip between the apps — means that it can be hard for Uber to defend its market dominance. Uber has been experimenting with a different revenue model through subscriptions — offering a monthly membership "pack" to frequent riders (one example might be a $20 monthly fee that buys the rider 20 shared rides for $2 each). "Subscription models are always very beneficial," says Santosh Rao, Head of Research at Manhattan Venture Partners. "There is visibility, and it is a nice recurring revenue model."

On the other hand, Grab is planning to introduce new features such as more sophisticated technology, like telematics for monitoring speeding, braking, and swerving, which are intended to encourage safer driving behaviour. This was in response to recent rise in numbers of accidents that involved ride-hailing services.

Adapted from: *Financial Times*, 23 June 2017

Questions:

(a) Compare the changes in the motor vehicle population between taxis and rental cars from 2010 to 2016. [2]

(b) With reference to Extract 3,

(i) Deduce the value of the cross elasticity of demand between Uber and Grab. [2]

(ii) Explain how Grab's plan to introduce new features may change the value of the cross elasticity of demand between Uber and Grab. [2]

(c) With the aid of a diagram, explain if ComfortDelGro or its consumers will bear more of the burden that arises from the introduction of the diesel tax. [3]

(d) Explain how inefficiency is worsened if Uber is successful in "eliminating the competition". [3]

(e) Discuss whether the entry of Uber will necessarily lower ComfortDelGro's profits. [8]

(f) Discuss the factors that Uber would consider when deciding on its strategies to compete with its rivals. [10]

[Total: 30]

Question 2 **Generation NEET***

[NEET refers to a young person who is Not in Education, Employment or Training.]*

Extract 4: Why is unemployment so high?

The latest euro-area unemployment figures show that the overall unemployment rate has crept down to 11.1% from its peak of 12.1% in April 2013. Despite the good news, another problem in the form of long-term unemployment (generally defined as being out of work for over 12 months) has emerged in the nineteen-member currency union. Of the 19 million jobless Europeans, more than half have not worked for the last year. And over 15% have not had a job for more than four years.

Unsurprisingly, the problem is most severe in southern Europe where a protracted crisis pushed up overall unemployment, and with it long-term joblessness. So why is it so tough for Europeans to get back to work?

Part of the reason lies in labour mobility. A mere 2.8% of Europeans have moved to a different country in the EU for work. Language barriers, cultural differences and non-transferable qualifications make it much harder for them to find a new job. Generous unemployment benefits in Europe also tie would-be workers to one place and make getting work less urgent. In the UK jobless workers qualify for only 24 weeks of unemployment benefits and only if they are actively searching for a job. Many euro-area countries support the unemployed for more than a year.

One cause of the differing joblessness rate is actually a symptom of a healthier labour market in Europe. Another reason for falling unemployment is partly because discouraged workers are dropping out of the labour force. In Europe the opposite is true: the workforce has actually grown, which pushes up unemployment rates.

Adapted from: *The Economist*, 2015

Extract 5: Rusty skills and stagnant growth

The effects of youth unemployment can persist for years. Those who begin their careers without work are more likely to have lower wages and suffer joblessness again later in life. The economic losses can be substantial, too, and not just in the form of higher welfare payments. Part of these losses may be due to missing out on training and experience accumulation that typically occurs with young workers. But younger workers typically change jobs at much higher rates than their older counterparts, and these job switches are responsible for most of a worker's wage growth early in a career. Workers forced into bad matches or no matches end up on a productivity trajectory well below what they might otherwise have expected. One estimate suggests that the total economic loss from youth unemployment was equivalent to 1.2% of GDP in Europe in 2011.

But all this bodes ill for single currency. Long-term unemployment can be self-sustaining: the longer someone is out of work the harder it is to get back in, hence discouraged workers will drop out of labour force. Other difficulties arise too. Fertility rates, already falling in Europe, tend to drop off and life expectancy can decline when joblessness rates are high. The problem is not universal though.

Denmark and Germany have kept both long-term and overall unemployment low through job training programmes, flexible labour laws and education. Apprenticeships in Britain have increased in recent years, for example. There is evidence too that companies are investing more in the young and revamping their training programmes. New technology is providing educational opportunities to people who might otherwise remain outside the job market.

Adapted from: *The Economist*, 2015

Extract 6: The EU unwisely slides towards protectionism

The forces of protection within the EU have been growing in strength, and it was the recent conversion of Germany to the cause that will probably tip the balance. The new EU policy on antidumping and anti-subsidy duties is a bleak foreshadowing of a Europe in which the defenders of free trade are either switching sides, like Germany, or leaving the field, like the UK. It may bring some short-term political relief to governments whose voters are complaining about globalisation leading to the loss of jobs. In the longer term, though, it will do nothing to build the kind of modern, profitable sectors that will lead European economic growth.

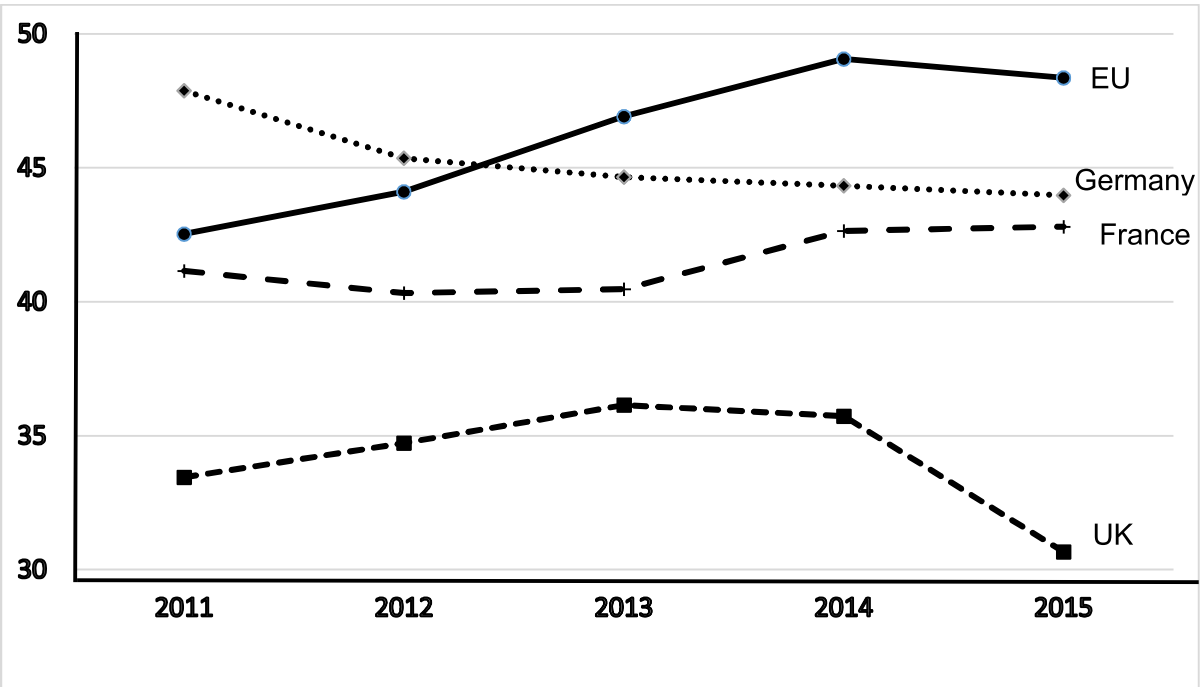
Adapted from: *The Financial Times*, Nov 2016

Extract 7: France reviews its 35-hours working week

France is reforming its 35-hour working week in a move that could sound the death knell of two-hour lunches and early departures for weekend breaks. The short working week was introduced in the 1990s with the aim of spurring job creation. But many employers say it has escalated labour costs and handicapped French companies struggling to compete in global markets. Companies currently have to pay between 10 and 50 per cent extra per hour if they want employees to work more than 35 hours a week, but they are now to be given the right to renegotiate longer hours and lower overtime pay with staff. The changes are fiercely opposed by trade unions which cherish the short working week as a sacrosanct right and view any move to tamper with it as undermining one of the foundations of France's social model. The progressive and business-friendly economy minister, Emmanuel Macron, 37, a former Rothschild banker, wants the government to go further and scrap a current legal requirement to pay overtime of at least 10 per cent more than the standard pay rate. That would be tantamount to abolishing the short week altogether, a course Mr Macron indicated he favoured at the Davos summit last week in order to put French companies on more of a level footing with their foreign competitors.

Adapted from: *The Telegraph*, January 2016

Figure 1: Long-term unemployment in Europe Union and selected member states (as % of unemployment rate)



Source: *OECD Data*, Accessed on 21 July 2017

Table 2: Fiscal positions of selected countries (as % of GDP)

Country	2011	2012	2013	2014	2015
France	-5.10	-4.81	-4.04	-3.93	-3.59
Germany	-0.96	-0.03	-0.19	0.29	0.69
UK	-7.52	-8.24	-5.57	-5.65	-4.35

Table 3: Unemployment rates of selected countries (as % of labour force)

Country	2011	2012	2013	2014	2015
EU	9.60	10.42	10.81	10.21	9.39
France	8.81	9.40	9.92	10.30	10.36
Germany	5.83	5.38	5.23	4.98	4.62
UK	8.04	7.89	7.53	6.11	5.30

Source: *OECD Data*, Accessed on 21 July 2017

Questions:

(a) **(i)** With reference to Figure 1, compare the trends in long-term unemployment rates between EU and UK. [2]

(ii) Account for the differences in trends observed above. [4]

(b) Explain, with the aid of diagram(s), the impacts of long-term unemployment in the UK on: [6]

(i) its labour market.

(ii) its economy.

(c) Using relevant case materials, discuss the considerations of a government in their decision to address unemployment. [8]

(d) Discuss why the EU has decided to implement a different policy from that of the UK and French government to resolve unemployment, and consider which approach is likely to be more effective. [10]

[Total: 30]

END OF PAPER