H

TEMASEK JUNIOR COLLEGE
Preliminary Examinations 2017
General Certificate of Education Advanced Level
Higher 2

ECONOMICS 9757/01

Paper 1

Tuesday 29 August 2017

2 hours 15 minutes

Additional Materials: Answer Paper and Cover Page

READ THESE INSTRUCTIONS FIRST

Do NOT turn over this page until you are told to do so.
Write your Centre number, index number, CG and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
Hand in your answer scripts to each question separately.

Answer **all** questions.

Begin each question on a fresh sheet of paper.

At the end of the examination, fasten your work for each case study <u>separately</u>.
Attach the cover page to your work for <u>Question 1</u>.
The number of marks is given in brackets [ ] at the end of each question or part question.

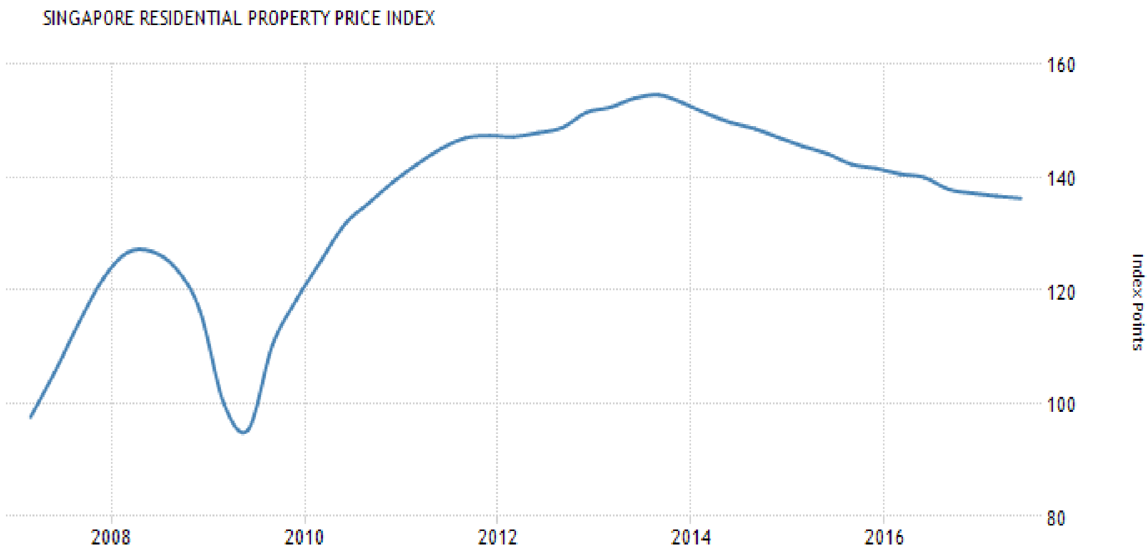
This document consists of **7** printed pages and **1** blank page.

Answer **all** questions.

Question 1

Real Estate Bubbles and Cooling Measures

Figure 1: Singapore Residential Property Price Index



Source: *Urban Redevelopment Authority, Singapore*

Extract 1: New HDB flats have remained affordable: HDB

To keep flats affordable for Singaporeans, the Housing and Development Board (HDB) has disbursed S$1.6 billion in Additional CPF Housing Grants (AHG) to close to 83,000 households since 2006. It has also given out S$297.61 million in Special CPF Housing Grants (SHG) since 2011 to almost 20,000 households, as of November 2015.

HDB gave this update in a media statement on Sunday (Jan 3). Eligible first-time buyers currently enjoy up to S$80,000 in housing grants, comprising the AHG of up to S$40,000 and the SHG, also up to S$40,000.

More than 80 per cent of Singapore's resident population are housed in more than 900,000 public flats across the island and 95 per cent of them own the flats they live in.

Source: *Channelnewsasia.com*, 2016

Extract 2: Why a Chinese Real Estate Bubble Could Bring Down the Global Economy

Analysts are sounding the alarm about growing Chinese debt loads and a potential real estate bubble that threatens to dramatically slow growth in Asia, and which could be a drag on the entire global economy if it bursts.

In September, Ma Jun, the chief economist of the People's Bank of China's research bureau, argued that the Chinese government must take action to stamp out real estate speculation. "Measures should be taken to put a brake on the excessive bubble expansion in the property sector, and we should curb excessive financing into the real estate sector," Ma said, according to a translation of a Chinese news report by Bloomberg News.

Other Chinese analysts have been even more vehement. "The dangers of overly inflated housing prices are huge," writes Hu Shuli, chief editor of Caixin Media in Beijing. "Indicators such as the ratio of mortgage payments to a buyer’s income indicate that on a relative basis, China’s current housing prices are now more expensive than those during Japan’s property bubble, and are close to U.S. prices just before the global financial crisis exploded."

Chinese policymakers have instituted measures aimed at cooling the overheating housing market, with some cities imposing "local purchase restrictions, raising mortgage down payment ratios, and tightening developers’ financing," according to Zhiwei Zhang, chief economist with Deutsche Bank Research. He also points out, however, that these measures may have simply led investors to funnel money into property into cities where real estate has been appreciating less quickly.

Source: *Fortune*, 2016

Extract 3: Cooling Measures for the Residential Property Market

The Government has implemented several rounds of measures to cool demand and expand supply, so as to moderate the increase in housing prices. While these measures have dampened speculative buying, the demand for residential property remains firm and prices have continued to rise.

The continued buoyancy of the property market reflects the very low interest rate environment and continued income growth in Singapore. These factors supported a record level of housing transactions last year, particularly from investment demand. Housing prices have also shown signs of reaccelerating in recent months, in both the private residential and HDB resale flat markets. Price increases, if not checked, will run further ahead of economic fundamentals and raise the risk of a major, destabilising correction later on.

The Government has therefore decided to implement a further set of measures to cool the private and public housing markets. These measures are calibrated to be tighter on property ownership for investment, as well as on foreign buyers. To discourage over-borrowing, financing conditions for housing have also been tightened. In addition, structural measures have been implemented to strengthen the policy intent of public housing and executive condominiums.

Deputy Prime Minister and Minister for Finance Mr Tharman Shanmugaratnam said: “The reality we face is that interest rates are extraordinarily low, globally and in Singapore, and continue to add fuel to our property market. We have to take this further round of measures now, to check recent market trends and avoid a more serious correction in prices further down the road.”

Minister for National Development Mr Khaw Boon Wan said: “A large supply of public and private housing – up to 200,000 units in total – will be completed in the coming years. Coupled with the new measures, we will be better placed to ensure that housing remains affordable to Singaporeans.”

Source: *Monetary Authority of Singapore*, 2013

Extract 4: Here's why it is time to thaw property cooling measures

Property prices are now at one of the most affordable levels on record. Singapore has averted a technical recession, posting 1.8 percent growth in gross domestic product (GDP) for the 4Q16, and an overall growth of 1.8% for the year, according to recent estimates from the Ministry of Trade and Industry.

[Turn over

But with a subdued economic outlook both globally and in Singapore, as well as expectations of rising interest rates, house prices are under considerable pressure. Real estate consultant JLL said the residential property market is likely to remain stagnant with cooling measures still in place alongside slow economic growth.

Private home prices in Singapore softened further in the last quarter of 2016, for 13 consecutive quarters and reaching their lowest level in six years, as flash estimates from the Urban Redevelopment Authority (URA) showed at the beginning of January.

Source: *Singapore Business Review*, 2017

Questions

(a) **(i)** From Figure 1, describe the trend of Singapore's residential property prices from 2010 to 2016. [2]

(ii) Suggest two possible reasons for the trend identified in (i). [2]

(b) Explain whether public housing fulfils the characteristics of a public good. [4]

(c) Explain the possible impact of a bursting of the real estate bubble in China on Singapore's balance of payments. [4]

(d) Using an economic framework, discuss how the factors mentioned in Extract 3 affect the markets for public housing and private housing in Singapore. [8]

(e) As an economic advisor to the Singapore government, discuss whether you will recommend the removal of cooling measures in Singapore. [10]

[Total: 30]

Question 2

Global instability and Weakness

Table 1: Economic indicators of Greece

Year	Economic Growth (annual variation in % of GDP)	Unemployment Rate (%)	Public Debt (% of GDP)
2011	-9.1	17.9	172
2012	-7.3	24.6	160
2013	-3.2	27.5	177
2014	0.4	26.5	180
2015	-0.2	25	177

Source: *FocusEconomics*

Extract 5: Greece bailout agreement: key points

Greece has been told it must legislate by 15 July to introduce “quasi-automatic spending cuts” if it deviates from primary surplus targets. In other words, if it cannot cut enough to balance the books, it should cut some more. In the past, the troika of lenders (made up of the European Commission, European Central Bank, and the International Monetary Fund) has demanded that Greece commit to a budget surplus of 1% in 2015, rising to 3.5% by 2018. To achieve this, Greece has been told that it needs to pass measures to “improve long-term sustainability of the pension system” by 15 July. The country’s pensions system, and its perceived generosity relative to other eurozone states, has been a key sticking point in the past five months of negotiations with creditors. The troika believes that Athens can save 0.25% to 0.5% of GDP in 2015 and 1% of GDP in 2016 by reforming pensions.

The latest agreement demands measures for “the streamlining of the value-added tax (VAT) system and the broadening of the tax base to increase revenue”. One of the key objections from Greece’s creditors to its VAT system is a 30% discount for the Greek islands. Athens proposed a compromise on 10 July under which the exemptions for the big tourist islands – where the revenue opportunities are greatest – would end first, with the more remote islands following later.

Prime Minister Alexis Tsipras pledged to implement radical tax reforms to ensure the Greek oligarchy finally makes a fair contribution. The agreement thrashed out overnight would allow Greece to stand on its feet again, he said. Implementation of the reforms would be tough, he said, but “we fought hard abroad, we must now fight at home against vested interests”. He added: “The measures are recessionary, but we hope that putting Grexit to bed means inward investment can begin to flow, negating them.” The new deal also calls for “more ambitious product market reforms” that will include liberalising the economy with measures ranging from bringing in Sunday trading hours, to opening up closed professions. Greece’s labour markets must also be liberalised, the other eurozone leaders say. Notably, they are demanding Athens “undertake rigorous reviews and modernisation” of collective bargaining and industrial action.

Source: *The Guardian*, 13 July 2016

Extract 6: China economic growth slowest in 25 years

China's economy grew by 6.9% in 2015, compared with 7.3% a year earlier, marking its slowest growth in a quarter of a century. China's growth, seen as a driver of the global economy, is a major concern for investors around the world. The news comes as the International Monetary Fund said it expected China's economy to grow by 6.3% this year and 6% in 2017. Beijing had set an official growth target of "about 7%".

Chinese Premier Li Keqiang has said weaker growth would be acceptable as long as enough new jobs were created. But some observers say its growth is actually much weaker than official data suggests, though Beijing denies numbers are being inflated. After experiencing rapid growth for more than a decade, China's economy has experienced a painful slowdown in the last two years. It's come as the central government wants to move towards an economy led by consumption and services, rather than one driven by exports and investment, in view of weak external climate and excess capacity. 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 to sustain high growth. "While higher consumption can support growth in the short run, there is little in economic theory that emphasises the expenditure side of GDP as a driver of growth," HSBC's John Zhu said in a note. He added that China's current stage of development would require more investment, not less, and that the country would rebalance naturally towards consumption and services in time.

It's said so often that it has become a financial markets cliché - when China sneezes, the rest of the world catches a cold. China's headline annual economic growth numbers are important to the rest of the world - but so too are other monthly economic data as they can provide a more in-depth look at the economy and where it's heading. Monthly industrial production and retail sales numbers for China were also released on Tuesday, with both December numbers coming in just slightly worse than expected. Industrial production - or factory output - expanded 5.9% in December, down from 6% in November. Retail sales grew 11.1%, down from 11.3% in November. "[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. "When you look at China with this lens, we're not seeing a meltdown, just a slowdown," she added.

Source: *BBC News*, 19 January 2016

Extract 7: MTI narrows 2015 GDP growth forecast to 2.0 to 2.5 per cent

The global economy performed weaker than expected in the first half of 2015. For the rest of the year, global growth is expected to pick up gradually, although the pace of growth is likely to be uneven across economies. In particular, the advanced economies are expected to see a gradual pick-up in growth, while the growth outlook of regional economies has generally softened. The US economy recovered in the second quarter following the harsh weather conditions experienced at the start of the year. For the rest of 2015, the US economy is projected to grow at a modest pace, supported by private domestic demand. The Eurozone economy is expected to improve in the second half of the year, with growth supported by the quantitative easing measures implemented since March. However, growth in the bloc will likely remain modest due to sluggish labour market conditions. In Asia, China’s growth is projected to ease, weighed down by the on-going property market correction and excess capacity in the heavy industries. Nonetheless, the stimulus measures implemented by the Chinese government are expected to contain downward pressures on the economy. Meanwhile, growth in key ASEAN economies is likely to be weighed down by weaker demand from China as well as softening domestic demand.

At the same time, several key downside risks in the external economic environment remain. In China, there is the risk of a sharper-than-expected correction in the real estate market, which could have significant negative spill-over effects on construction and real estate investment activities. The recent sharp correction in China's stock market has also heightened the risks to China's growth. In particular, consumer sentiments and spending in China could be adversely affected if the correction in the stock market worsens. In the Eurozone, while Greece has averted the immediate risk of an exit from the bloc, there is continuing political uncertainty and the crisis could flare up again if the Greek government fails to adhere to the bailout terms. Finally, with low commodity prices, the appreciation of the US dollar and anticipated normalisation of US interest rates, regional countries could face capital outflows and added pressures on their currencies and asset markets.

In tandem with the expected gradual pick-up in the global economy, externally-oriented sectors such as finance and insurance and wholesale trade are likely to support growth in the Singapore economy in the second half of the year. However, sector-specific factors could continue to weigh on the growth of some externally-oriented sectors. For instance, sustained low oil prices could continue to dampen growth in the marine and offshore segment. On the other hand, domestically-oriented sectors such as the business services and information and communications sectors are expected to see modest growth. With the labour market expected to remain tight, growth in some labour-intensive sectors such as food services may be weighed down by labour constraints.

Source: *Ministry of Trade and Industry Singapore*, 11 August 2015

Extract 8: Singapore economy grew 2% in 2015, slowest since 2009

Singapore's economic prospects have softened since the start of this year amid a sharp fall in oil prices and global financial market volatility, the Ministry of Trade and Industry (MTI) said on Wednesday (Feb 24). MTI put out these forecasts alongside the release of data showing the Singapore economy grew a modest 2 per cent in 2015, the weakest rate of growth since 2009, when the global financial crisis shrank economic output by 0.6 per cent. Private economists say growth in 2016 will probably slow to 1.8 - 2.0 per cent.

Source: *The Straits Times*, 24 February 2016

Questions

(a) With reference to Table 1, explain why the Greek government should be concerned about its economy. [4]

(b) With reference to Extract 5, comment on how the measures demanded under the Greek bailout agreement might impact the Greek economy. [4]

(c) Discuss the possible considerations behind the Chinese government's attempt to rebalance its economy. [8]

(d) Using an AD/AS diagram, explain how a tight labour market may affect general price levels in Singapore. [4]

(e) In view of the data presented, discuss to what extent Singapore's central bank, the Monetary Authority of Singapore, might have to intervene in the market for Singapore dollars in order to achieve the government's macroeconomic objectives. [10]

[Total: 30]

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