ANDERSON JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION 2017

Higher 2

ECONOMICS 9757/01

Paper 1 **29 August 2017**

Additional Materials: Answer paper **2 hours 15 mins**

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided on all the work you hand in.

Write in dark blue or black ink.

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.

Begin your answer to each question on a fresh sheet of writing paper.

Fasten your answer to each question **separately.**

Fasten **this cover page** in front of your answers **to Question 1.**

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

Name ______________________________ (   )

PDG _______/16

Question Number	Marks Awarded
1	/ 30
2	/ 30
Total Marks	

This document consists of **8** printed pages and **1** blank page.

[Turn over]

BLANK PAGE

Section A

Answer **all** questions in this section.

Question 1 **Challenging times ahead to achieve economic growth**

Table 1: Key Economic Indicators in 2015

Indicators	UK	China	Singapore
Nominal GDP growth (annual %)	2.2	6.9	1.9
Inflation rate	0.05	1.4	-0.5
Exports as a % of GDP	27.6%	21.9%	177.9%
Imports as a % of GDP	29.2%	18.4%	152%
Life Expectancy at birth (years)	81.6	76.0	82.6
CO_2 emissions (metric tons per capita)*	7.13	7.55	9.36

*based on 2013 data

Source: The World Bank Data

Extract 1: The EU's dwindling importance to UK trade

Historically, the European Union has dominated UK's trade in both exports and as a source of imports, but gradually this trend is changing. As the UK marches towards a referendum on its EU membership, the nation's statisticians have taken a closer look at the bloc's importance to trade. The Office for National Statistics (ONS) has released a bulletin on UK-EU trade, where trade figures show that British reliance on trade with the EU has fallen to an all-time low. The ONS said that exports from the UK to the EU grew on average by 3.6% from 1999 to 2014, below the 6.5% rise in exports to non-EU countries.

There was also a shift in the countries from which the UK imports its goods and services. The share of total imports originating from the US, France and Germany declined while the share of imports accounted for by China rose.

For UK businesses, this change has meant looking beyond traditional markets and opening up trade with new high-growth areas. The UK has seen its share in the exports of lower technology goods fall, but has increased its share in global exports of high technology manufactures such as medical and pharmaceuticals, machinery and vehicles. Services exports is another growing sector in the UK and the increasing composition of services output in total UK output is evidence that the UK's economic structure has moved in line with its comparative advantage.

Source: Various reports

Extract 2: China pledges policy support to economy, reform in 2016

China will make its monetary policy more flexible and expand its budget deficit in 2016 to support a slowing economy, state media said on Monday. It cited top leaders who wrapped up the annual Central Economic Work Conference, a meeting keenly watched by investors for clues on policy priorities and main economic targets for the year ahead.

The government will take steps to expand aggregate demand next year. The People's Bank of China has cut interest rates six times since November last year and reduced banks' reserve requirement ratios (RRR), or the amount of cash that banks must set aside as reserves. The government has also stepped up spending on infrastructure projects and eased restrictions on home buying to boost the sluggish property market. Top leaders also pledged to push forward "supply-side reform" to help generate new growth engines, while tackling factory overcapacity and property inventories.

Source: Reuters, 21 December 2015

Extract 3: Shedding light on slowing growth: What ails Singapore's economy?

Singapore's small, trade-dependent economy is under the weather. While the country has not yet sunk into a full-blown recession, its fortunes are tied closely to those of the world economy and the outlook there is far from cheery. The Sunday Times looks at four key contributors to slowing growth in Singapore.

1. Lacklustre Global Growth

The world economy has yet to completely shake off the vestiges of the global financial crisis and continues to lack a strong growth driver. Singapore’s key trading partners have all been grappling with their own sets of challenges.

2. Protracted Oil Price Slump

World oil prices had been fairly stable from 2010 until mid-2014, at around US$110 a barrel. But they have almost halved since, plunging the oil and gas industry into a crippling slump. Companies in Singapore have not been spared the effects of this protracted downturn. More than two years of tumbling oil prices have wiped over US$24 billion (S$33.5 billion) from the market value of Keppel, Sembcorp Marine and other listed oil-services companies - or about two-thirds of their pre-July 2014 capitalisation.

Tens of thousands of jobs have been axed and some companies have defaulted on bond payments - sparking concerns over banks' exposure to the sector. The drag from this important sector is predicted to feed through to the rest of the economy.

3. Shifting Trade Flows

International trade has fallen to its lowest level since 2009, alongside lacklustre economic growth. But some economists say the slowdown is not merely cyclical, and lower levels of global trade might become the new normal.

This is because growth in developed economies like the United States is increasingly driven by services rather than the trade in goods. China is also becoming less exposed to international trade as it shifts away from an industrial-led growth model towards consumption and services. This means Chinese companies are increasingly sourcing from within the country, instead of importing. This trend could weigh on regional trade even in the long run - a gloomy prospect for Singapore, which depends not just on its own exports but which also does a bustling trade in re-exports.

4. Disruptive Change

Prime Minister Lee Hsien Loong said in his National Day Rally speech in August that disruptive change is the "defining challenge" facing Singapore's economy.

Technology has transformed almost every industry - from food delivery to manufacturing. These developments have left both challenges and opportunities in their wake, most obviously in the labour market. There are thousands of jobs waiting to be filled in growing sectors like IT, precision engineering, education and healthcare. But many workers who have been laid off lack the necessary specialised skills required in these roles.

There is no easy solution to this - the ever-increasing pace of technological change means that jobs will more or less be in a constant state of flux. There is help available for laid-off workers - including the option to upgrade their skills with SkillsFuture, or programmes which help mid-career workers move to industries with the potential to grow. But companies and workers also have a part to play - both in terms of skills upgrading and shifting mindsets.

Source: adapted from The Straits Times, 30 October 2016

Extract 4: Tax policies can drive innovation, promote inclusive growth: DPM Tharman

Tax policies can be designed to help countries drive innovation and at the same time promote inclusive growth, said Deputy Prime Minister Tharman Shanmugaratnam. DPM Tharman also said that growing the incomes of low-wage workers should be a key priority when countries come up with tax and fiscal policies to promote inclusive economic growth.

DPM Tharman noted that Workfare, a form of negative income tax for lower-paid workers to encourage them to be part of the workforce, has worked for Singapore. Tax credits for employers and subsidies for skills upgrading for both employees and the unemployed, chief among them SkillsFuture, are another workable solution, as is giving special support for innovation and productivity among small and medium-sized enterprises.

DPM Tharman also said that part of a country's fiscal policies should include giving fair subsidies for public service, targeted at those who need it the most. He pointed out that in many countries, most of the subsidies do not go to the poor. This happens when governments subsidise healthcare for everyone, rather than based on needs. To support spending, taxes will rise, which will harm growth.

Source: adapted from Channel News Asia, 24 Jul 2016

Questions

(a) Using data from Table 1,

(i) Compare the balance of trade position of UK, China and Singapore. [2]

(ii) Assess the usefulness of the given key economic indicators in comparing living standards between countries. [4]

(b) **(i)** With reference to Extract 1, identify the changes in UK's patterns of trade. [2]

(ii) Using your own knowledge, explain how the theory of comparative advantage can explain the change(s) identified in (b)(i). [4]

(c) **(i)** With reference to Extract 3, discuss whether 'shifting trade flows' is the most significant challenge facing the Singapore government in achieving inclusive economic growth. [8]

(ii) Discuss the policy options that the China and Singapore government have put in place to achieve sustained and inclusive growth respectively. [10]

[Total: 30]

Copyright Acknowledgements:

Question 1 Extract 1 *©Telegraph, 26 June 2015, www.theweek.co.uk – Biggest trends in UK trade, accessed 25 July 2017, Economic & Labour Market Review Vol 4 No 1 January 2010*

Question 2

World Aluminium Market

Table 2: Aluminium production in China

The table below shows an index of aluminium production levels over 2010-2015.

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Index	100	124	146	165	176	195

Source: The International Aluminium Institute

Extract 5: Consumption and Production of aluminium

The rapid increase in the production of aluminium was brought about by the improvement of production methods, and by the expansion of the scope of application of aluminium. The world's largest aluminium producers are, as a rule, vertically integrated holding companies comprising bauxite mines and aluminium refineries. The advantage of the vertical integration model for large companies is their independence from price fluctuations of factors of production as they can ensure the supply of raw materials in required volumes is secured for uninterrupted aluminium production. This leads to more flexibility in the production process and allows firms to be more responsive to changes in demand.

Demand for aluminium from carmakers is also expected to grow in 2015 as car sales combined with the aluminium content in cars rising significantly. Automakers consumed a record amount of aluminium last year as plummeting prices and technological breakthroughs made it a viable alternative to steel.

Source: adapted from www.aluminiumleader.com, accessed 28 July 2017

Extract 6: China's aluminium exports flood market

China's surging exports of aluminium are becoming a contentious issue as prices of the metal continue to hover just above their six-year low. China's aluminium exports are up 14.4% so far this year, as companies there take advantage of China's large labour force and lower wage cost than international rivals to seize market share. While major aluminium companies like US-based Alcoa have cut production this year, Chinese output has risen by 18% year to date, according to the International Aluminium Institute, a supply flood that has helped keep prices depressed.

Protests against China's aluminium export rise have been growing louder, with producers from the US to India demanding measures to protect employees in their domestic industries. "Due to a rise in imports from China, profits for domestic Indian producers are getting choked. The Chinese government has provided tremendous subsidies to aluminium production and India's import tariff on aluminium should be increased to 10 per cent on primary aluminium and aluminium scrap," said Abhijit Pati, chief executive officer of Vedanta Group's aluminium business.

China's Non-Ferrous Metals Industry Association has hit back at suggestions that companies there are dumping aluminium on international markets although analysts say that Chinese smelters can withstand low international prices in part because of the government support they receive. Chinese producers often benefit from "opaque" tax rebates, or cheap loans made to them by local governments.

Source: adapted from The Wall Street Journal, November 12, 2015

Extract 7: Aluminium import tariffs in India

The aluminium lobby in India has been pressing for an increase in import tariffs for aluminium in the face of low-priced aluminium from foreign countries making its way into the Indian market. According to industry data, total aluminium imports in India had grown by over 159% between 2015 and 2011, mainly from China and Middle-Eastern countries. This has led to imports accounting for 56% of the Indian aluminium consumption in 2014-15, while products of Indian producers accounted for only 44%.

Some local aluminium producers, unable to keep up, have even slipped into losses. Vedanta Resources, in August, initiated the process to shut down its 1 million metric ton per year alumina refinery in Odisha. Interestingly, while the Indian government has taken the step to hike tariffs to protect local industry, some experts have argued against the move.

The government's own report indicated that raising tariffs to quell imports of cheap aluminium would do harm to downstream producers such as carmakers and construction companies.

Source: adapted from www.agMetalMiner.com, accessed 28 July 2017

Extract 8: China's production of aluminium is poisoning Southeast Asia

Soaring Chinese demand for natural resources to produce aluminium is wreaking environmental havoc throughout Southeast Asia. Both Vietnam and Malaysia are major producers of bauxite, the ore required to create aluminium.

Vietnam is home to the world's third largest natural deposit of bauxite, with 5.5 billion tons of crude ore reserves. However, the mining of these reserves has resulted in serious environmental issues. For instance, there has been reports of breakages and spills in waste management facilities, deforestation and river pollution.

Source: adapted from Asian Correspondent

Questions

a) **i)** Describe the trend in China's aluminium production levels between 2010 and 2015 shown in Table 2. [1]

ii) With reference to Extract 5, explain a possible reason for this trend. [2]

b) **i)** Explain whether data from the extracts support the claim that 'Chinese companies are dumping aluminium on international markets' (Extract 6). [4]

ii) Assess the likely impacts of an increase in tax rebates given to Chinese aluminium producers on consumers, employees and producers in other countries like India. [10]

c) **i)** With the use of a relevant diagram, explain the impact of an import tariff on the level of domestic aluminium production in India. [3]

ii) Explain how price elasticity of supply for domestic aluminium production affects the extent of impact of the import tariff. [2]

iii) Vietnam and India face different issues due to the increase in Chinese aluminium production.

Discuss whether increasing import tariffs on aluminium in India will address the issues faced by Vietnam and India respectively. [8]

[Total: 30]

End of Paper