ANGLO-CHINESE JUNIOR COLLEGE

2017 JC2 PRELIMINARY EXAMINATIONS

ECONOMICS **9757/01**

Higher 2

Paper 1: Case Studies

14 August 2017

2 hours 15 minutes

Additional materials: Writing paper

READ THESE INSTRUCTIONS FIRST

Write your index number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid / tape.

Begin each question on a **fresh** sheet of paper.

Answer **all** questions.

At the end of the examination, fasten your answers for Question 1 and Question 2 **separately** using the cover sheets provided.

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

This document consists of **7** printed pages.
Please check that your question paper is complete.

Question 1

The Market for Higher Education

Table 1: Singapore government's expenditure per student (Singapore dollars)

	2012	2013	2014	2015
Primary	7396	8549	9123	10,160
University	20,777	21,870	22,181	22,058

Source: Education Statistics Digest 2016, Ministry of Education

Extract 1: Reduction in subsidies for university education in the UK

A generation ago, students paid nothing for university education. In 2006, the fee cap for university education was £3,000. In 2012, the fee cap was raised further to £9,000. However, the vice-chancellor of Oxford University had recently expressed that the fee cap of £9,000 is insufficient to reflect the cost of an Oxford degree at £16,000. Even with the raised fee cap, Oxford still faced an annual funding gap of £70 million. Moreover, Sir Christopher Snowden, president of Universities UK, says a £9,000 fee cap is still "not sustainable" for universities.

Universities UK will publish a report on the future of university financing. It will examine how universities will respond to rising birth rates, which means that the number of university places required will grow from 368,000 to 460,000. The cut in the level of government subsidies for universities will lead to students paying higher tuition fees but also eases the large government debt.

However, the government said these changes would put the higher education sector on a more sustainable footing. They believe the £9,000 fee allows universities to deliver high-quality teaching, with many institutions now planning to invest more in improved teaching facilities for students.

Source: BBC, 1 Nov 2013

Extract 2: Hiring in the digital age: what's next for recruitment?

Ask any business about its top challenges for 2016 — the odds are good that recruiting and retaining talent are somewhere on that list. Smart companies know that they are only as good as their best workers, and will prioritise seeking out the best candidates for their organisations.

In today's economy, hiring the best candidate is more critical than ever. Companies worry about bad hiring choices because the cost of finding, interviewing, engaging and training a new employee is high. Hence, a new employee is often viewed as an investment and anticipated to be an excellent financial return over time.

As technology continues to evolve, it plays an increasingly important role in the way companies approach the talent search and the hiring process. Candidate information will increasingly get the "big data treatment", where relevant data may be collected from both social media platforms and professional profiling sites such as Linkedin. All these information will be analysed computationally to reveal candidates' social behavior and professional interactions. Such data will enable recruiters to easily identify the best person for the job. Meanwhile, to find the candidate with the best skills, experiences and ability to match a job, companies would have to rely on interviews, the references provided by the job candidate and the judgement of the recruiters.

Government intervention in the labour market can also affect the efficiency of recruitment in the labour market. Governments could encourage firms by introducing more stringent screening process such as applicant's employment history, criminal records and loan records. Loan history is a credible signal; it is hard to fake, and presumably, those with good loan records are more likely to make good employees than those who default on their debts.

Source: Business News Daily, Forbes, 11 Jan 2016

Extract 3: Singapore government's spending on higher education

There are compelling reasons to heavily subsidise higher education.

Firstly, there are substantial private returns such as higher employability and wages, as well as positive social returns to higher education in terms of lowering poverty and crime rates. Societies that have better educated populations tend to have lower crime rates, enjoy greater social cohesion and a well-educated labour force that is needed for long-term economic development.

Secondly, there is a case for the government to intervene to ensure that there are equal opportunities. While it is generally feasible for most individuals to fund their own tertiary education through loan schemes, the lower-income group may face credit constraints. Others may have heavy financial responsibilities that compel them to enter the labour market as soon as possible, rather than contemplate further education. Evidence also suggests that the lower-income group tend to underestimate the returns to education, due to a lack of information and poor community role models. To encourage this group to take up higher education, the government provides financial assistance for higher education. There are also student and tuition fee loan schemes provided for the middle-income group at low interest rates.

The Singapore government has always invested heavily in education and will continue to do so in future, with greater emphasis on developing higher education. This requires a careful balancing between strategic considerations, equity, and efficiency. For example, the government has to consider its budget and expenditures in other sectors of the economy. Additionally, the influx of new graduates will make it more difficult for people to get hired in a career field that they desire.

Source: Singapore Budget, 2010

Extract 4: UniSIM to be Singapore's sixth autonomous university by next year

SIM University (UniSIM) will officially become the Republic's sixth autonomous university by next year as the government aims to drive efforts to increase the number of publicly funded university places.

Acting Education Minister (Higher Education and Skills) Ong Ye Kung, said the move would see UniSIM "stand shoulder-to-shoulder" with the other autonomous universities. It will be a university with a strong social sciences bent, preparing students for "socially related careers" in areas such as social work, psychology and early childhood education.

UniSIM is currently a private university but will now be restructured as an autonomous university under the ownership of the Singapore government. Autonomous universities receive government funding and are subject to government supervision, but still have the flexibility to set their own direction and differentiate their educational offerings.

Singapore now has six autonomous universities, such as National University of Singapore (NUS), Nanyang Technological University (NTU) and UniSIM, allowing students a diverse range of degrees to choose from. However, this could possibly lead to a fall in student enrolment in private universities such as James Cook University, which currently offer similar courses as UniSIM like psychology.

To attract the best students, the universities are striving to be different - in their programmes, tuition fees, student and faculty mix, accommodation options, financial help and overseas opportunities. For instance, NUS and NTU offers more than 50 degrees, with NUS offering exclusive ones such as dentistry and music, while NTU offers niche programmes such as sport science and management.

Source: Today Online, 12 Oct 2016 and The Straits Times, 3 March 2015

Questions

(a) With reference to Table 1, compare the government expenditure per student for primary and university education from 2012 to 2015. [2]

(b) Using demand and supply analysis, explain two reasons for the expected increase in UK's university tuition fees. [3]

(c) **(i)** Explain how recruitment in the labour market may not lead to an efficient outcome. [3]

(ii) Explain how governments and firms can reduce the inefficiencies identified in (c)(i). [4]

(d) Discuss the view that the Singapore government monopolising the market for higher education is undesirable for consumers. [8]

(e) Discuss whether the Singapore government should follow the UK in cutting subsidies for university education. [10]

[Total: 30]

Question 2:

Imbalances in the United Kingdom and China economies

Table 2: Government debt (percentage of GDP)

Year	China	UK
2010	33.7	76
2011	33.6	81.6
2012	34.3	85.1
2013	37	86.2
2014	39.9	88.1
2015	42.6	89

Source: IMF

Table 3: GDP Composition breakdown by percentage in 2015

	China	UK
Consumption Expenditure	37%	65%
Government Expenditure	14%	19%
Gross Capital Formation	45%	17%
Export Revenue	22%	28%
Import Expenditure	18%	29%

Source: World Bank

Extract 5: Is the game up for China's much emulated growth model?

From the early 1990s, China adopted an export-led strategy that delivered continuously increasing shares of the world market, fed by relatively low wages and very high rates of investment, enabling massive increases in infrastructure. It led to big increases in inequality and even bigger environmental problems, but the strategy seemed to work – until 2008-09, when exports were hit by the global financial crisis.

Yet even then, China, India and other large emerging markets continued to grow. The talk at the time was that they were already dissociated from the west. In reality, China (and much of developing Asia) had simply shifted to a different engine of growth without abandoning the focus on exports. The Chinese authorities could have generated more domestic demand by stimulating consumption through rising wage shares of national income, but this would have threatened their export-driven model. Instead they put their faith in investments to keep growth rates buoyant.

So the "recovery package" in China essentially encouraged more investment, which was already nearly half of GDP. Provincial governments and public sector enterprises were encouraged to borrow heavily and invest in infrastructure, construction and more production capacity. To utilise the excess capacity, a real estate and construction boom was instigated, fed by lending from public sector banks. Total debt in China increased fourfold between 2007 and 2014, and the private debt-GDP ratio nearly doubled to over 280%.

All this comes in the midst of an overall slowdown in China's economy. Exports fell by around 8% in 2014. Stimulus measures such as interest rate cuts do not seem to be working. As such, the recent devaluation of the yuan is clearly intended to help revive the economy.

However, it will not really help. Demand from the advanced countries – still the driver of Chinese exports and indirectly of exports of other developing countries – will stay sluggish. Meanwhile, China's slowdown infects other emerging markets across the world as its imports fall even faster than its exports.

A weaker yuan is bad news for export-oriented economies like Singapore, Hong Kong, South Korea and Taiwan as their exports will be more expensive to Chinese buyers. Their exports to other countries will also have to compete against Chinese rivals who have the advantage of a weaker currency.

This is not the end of the emerging markets, but is – or should be – the end of this growth model. Relying only on exports or debt-driven bubbles to deliver rapid growth cannot work for long. For developing countries to truly "emerge", a more inclusive strategy is essential.

Sources: The Guardian, 23 August 2015 and The Straits Times, 7 January 2016

Extract 6: New economic crash fears as British families run £40 billion deficit.

British families are on course to spend £40 billion more than they earn this year, fuelling fears that the country's economic growth is based on soaring levels of debt and could easily collapse.

The forecast by the independent Office for Budget Responsibility (OBR) led to warnings that the UK could be heading towards a credit crunch similar to that of 2008 because of unsustainable levels of borrowing and household spending.

Five years ago, UK households were comfortably not in debt, running a surplus of £70 billion as Britons tightened their belts in the wake of the financial crash and put money aside to save.

But the new OBR figures show households are now deeply in debt, as growing economic confidence has led to a national spending spree. There is a real risk that millions of families will face serious hardship if interest rates start to rise.

A Bank of England study found that the average mortgage debt in Britain rose from £83,000 in 2014 to £85,000 this year. Unsecured debt, which includes credit card charges, personal loans, student loans and utility bills, stands at around £8,000 per household.

Source: The Independent, 21 December 2015

Extract 7: UK trade deficit widens to four-year high.

UK's trade deficit last year was the widest since the alliance of political parties came to power, dealing a blow to the government's drive to rebalance the economy away from consumer spending.

Forecasting the outlook for this year, economists said exports would come under pressure from a stronger pound and a slowdown in important markets, especially the UK's main trading partner, the Eurozone.

The Eurozone remains unlikely to see much of an acceleration in growth in 2015, particularly given the uncertainty being generated by the prospect of a Greek exit from the single currency area. In addition, economic expansion is expected to continue cooling in China over the medium term, weighing down on export prospects there.

Chris Leslie, the shadow chancellor, said: "Britain needs a serious strategy to help exporters – this means redoubling efforts to boost productivity, tackling infrastructure obstacles, addressing the skills deficit and ensuring innovators can access the funds they need."

Source: The Guardian, 6 February 2015

Questions

(a) Compare the change in government debt levels as a percentage of GDP in China and the UK from 2010 to 2011. [2]

(b) With reference to Extract 5,

(i) "A weaker yuan is bad news for export-oriented economies like Singapore"

Using a supply and demand diagram, explain how the devaluation of the Chinese Yuan may eventually affect the revenue (in SGD) of a Singapore firm that exports to other countries. [4]

(ii) Explain the possible reasons why neither a cut in interest rates nor a devaluation of currency seem to work for China. [4]

(c) With reference to Extract 6, explain how households' standard of living in the UK may be affected if UK interest rates were to rise. [2]

(d) Assess the effectiveness of the UK government's proposed strategy to boost exports. [8]

(e) Discuss the factors that the UK and China's governments should consider in their macroeconomic decisions to rebalance their economies to achieve sustained economic growth. [10]

[Total: 30]