



**Jurong Junior College
2017 JC2 Preliminary Examination**

ECONOMICS

Higher 2

9757/01

Paper 1

24 August 2017

2 hours 15 minutes

READ THESE INSTRUCTIONS FIRST

Write your name and class 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.

Answer **all** questions.

Begin each case study question on a fresh sheet of writing paper.
Attempt case study questions in ascending order of question sequence and indicate questions attempted clearly on answer sheet.

Fill in the necessary information on the cover sheet.

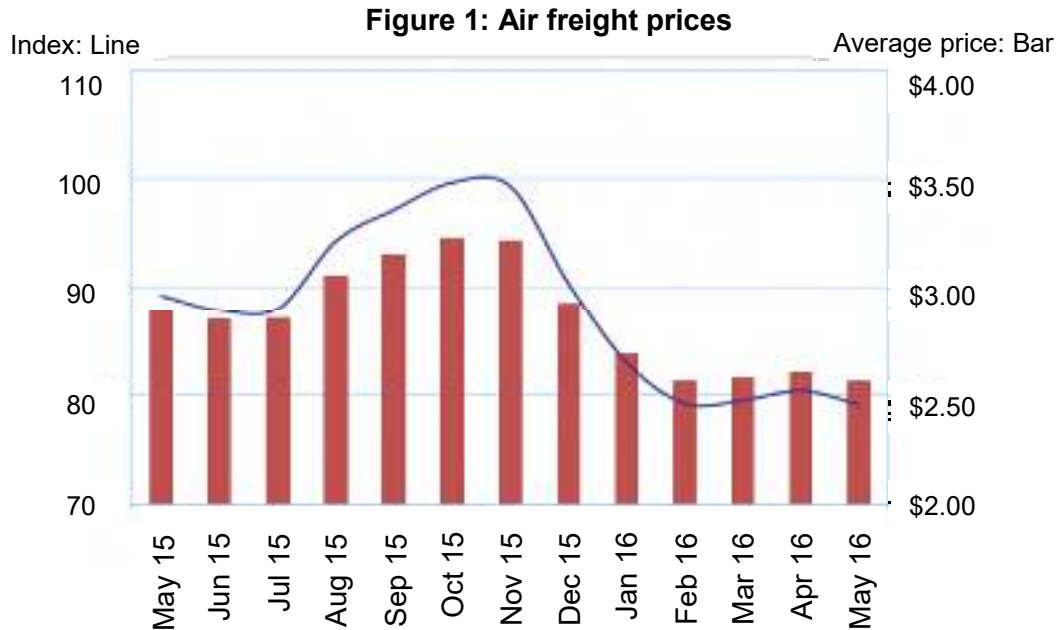
At the end of the examination, fasten all your work securely with the **cover sheet at the top**.
The number of marks is given in brackets [] at the end of each question or part question.

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

Answer **all** questions.

Question 1

Developments in the Logistics Industry



Source: The Loadstar, June 2016

Extract 1: Too little freight, too much space

Although the global air-freight business now handles more than a third of world trade by value, the industry has been under pressure since the financial crisis. Despite the marginal rise in volume of air freight over the past year, airlines' cargo revenues have fallen from a peak of \$67 billion in 2011 to around \$50 billion a year now.

A dramatic fall in sea-freight rates, of more than 75% since 2012 on some routes, as a result of overcapacity among shipping lines has encouraged customers to switch away from sending some non-urgent deliveries by air. In addition, since the financial crisis, there has been no let-up in the growth of passenger air travel demand, so carriers have been expanding their fleets. This means the amount of cargo space in the belly of passenger planes has risen sharply. The result is that average capacity utilisation across the air-cargo business has fallen to 43.5%, the lowest since the crisis.

Source: *The Economist*, March 2016

Extract 2: Cold Chain Logistics

Cold chain logistics involves the transportation of perishable goods requiring the maintenance of low temperatures. With its specialised capital-intensive equipment and strict temperature requirements, the cold chain has always been a demanding logistics segment for logistics and supply chain producers. Now the sector is grappling with additional challenges – from increases in the sensitivity, quality standards, and volume of many of its goods, to continually mounting regulations.

Demand for cold chain logistics services comes primarily from the pharmaceutical industry. In the EU, about 80 percent of pharmaceutical products now require temperature-controlled transportation, with similar regulations soon to be rolled out in the United States. Short of producing their products regionally, the industry has little alternative but to employ the use of cold chain logistics services.

Source: *Inbound Logistics*, July 2015

Extract 3: FedEx follows lead of UPS, announces 2017 rate increases

When one domino falls, another is sure to follow. That could be an apt way of describing recent rate hike announcements by the express delivery and parcel shipping duopoly of United Parcel Service (UPS) and FedEx in the US. UPS struck first in early September, announcing rate hikes that will take effect in the coming weeks and months. This week, FedEx followed UPS and announced its respective rate increases for its delivery and parcel services.

These price hikes hit small businesses and individuals the hardest, and not big companies like Amazon that usually manage to negotiate around those hiked rates. For companies that offer free shipping, every cent counts. Such companies have already factored shipping costs into their prices charged to customers, so unanticipated increases eat into their margins.

Source: *Logistics Management*, September 2016

Extract 4: Amazon is using logistics to lead a retail revolution

In 2014, Amazon snapped up stakes in two European logistics companies, Yodel and Colis Privé, to gain partial control of 6,700 delivery trucks, handling 170 million shipments per year in the United Kingdom and France. Last year, the company tapped on the rising tide of disruptive technologies and introduced AmazonFlex, an Uber-like cargo service in major U.S. cities that registers private drivers to deliver Amazon parcels.

If Amazon succeeds in building up its delivery infrastructure, it could ultimately reduce package volume for companies like FedEx and UPS. In addition, new technology is helping startups and other companies get into the delivery market. Some of the industry's most labour-intensive processes are on the way to being fully or partially automated, from warehousing to last-mile delivery.

But FedEx CEO Fred Smith downplayed the speculation that Amazon or any other company could take on the transportation giants in the near future, given the vast scale of their delivery networks and infrastructure, which include thousands of airlines, lorry fleets and expensive warehousing hubs.

Source: *Forbes*, February 2016

Extract 5: Logistics industry transformation map to strengthen Singapore's position as a globally leading logistics hub

The logistics industry is a critical enabler of Singapore's economy and our everyday-lives. It connects suppliers to manufacturers and merchants to consumers, both domestically and overseas. In 2015, the transportation and logistics sector contributed 7.4% to Singapore's GDP and employed over 8% of the total workforce.

Under a new industry transformation map that was recently launched, the government will work with key enterprises like A*Star to implement new technologies and invest in infrastructure solutions that will support automation and increase productivity, attracting foreign direct investment into the country. This transformation of the logistics sector is expected to achieve a value-add of S\$8.3

billion to the economy over the next five years. It is also expected to create 2,000 jobs for professionals, managers, executives and technicians (PMETs) – rank-and-file jobs will become less laborious and more skilled, and the demand for specialist roles will likely increase in the next few years.

Source: *Ministry of Trade and Industry*, November 2016

Extract 6: Carbon emissions from global air freight to rise faster than other transport modes

The intergovernmental organisation International Transport Forum (ITF) has projected that as international freight transport quadruples in volume by 2050, carbon emissions from air freight will grow faster than those from road, rail or sea. The ITF estimates CO₂ emissions from air freight will rise from 150 million tonnes in 2010 to 767 million tonnes in 2050, an increase of 411% on a business as usual basis.

Source: *Green Air Online*, February 2015

Questions

- (a) (i) With reference to Figure 1, describe the trend in air freight prices from May 2015 to May 2016. [1]
- (ii) With reference to Extract 1, and using a supply and demand diagram, account for the overall change in the price and volume of air freight from May 2015 to May 2016. [5]
- (b) Explain the likely value for price elasticity of supply of cold chain logistics. [2]
- (c) Extract 3 mentions that “FedEx followed UPS and announced its respective rate increases for its delivery and parcel services.” [8]
With reference to the data, discuss whether FedEx’s recent decision to follow UPS in raising prices in order to increase revenue was well-advised.
- (d) Explain how the new logistics transformation map would affect structural unemployment and income inequality in Singapore. [4]
- (e) Discuss whether addressing market failure caused by negative externalities is the only reason for government intervention in the logistics industry. [10]

[Total: 30]

Question 2**Economies of China and United States****Extract 7: Weakening of renminbi**

China's central bank shocked markets on 11 August when it weakens its currency, the renminbi, by lowering its daily mid-point trading price to 1.87% weaker against the US dollar. A day later, the central bank sent shockwaves again with a second weakening of 1.62% against the US dollar. Fears have mounted of a regional currency war of competitive devaluation as China's moves come on the back of the softening of Japan's yen and the Korean won over the past year and after previous efforts to boost exports and growth failed. China's currency weakening is seen largely as a bid to boost their export competitiveness as export volume continue to weaken. However, this may risk creating other problems for the economy.

Cracks have also begun to appear in other areas in China: capital outflows have surged, bankruptcies are occurring more frequently and bad loans in the banking sector are rising. The central bank had reassured the financial markets that it was not embarking on a steady depreciation and it was just a "one-off weakening." Nonetheless, weakening of the renminbi by about 4% had dealt a blow to investors. They fear that a prolonged currency war that could damage world trade should the US and Japan retaliate and drive down the value of the dollar and yen as well.

Source: *The Guardian*, 12 Aug 2015

Table 1: Macroeconomic Indicators of United States

	2013	2014	2015	2016
Real GDP growth (% per year)	2.7	2.5	1.9	2.0
Rate of inflation (%)	1.5	0.8	0.7	2.1
Unemployment (% of labour force)	7.4	6.2	5.3	4.9
Current account balance (US\$ billion)	-2.4	-2.2	-2.6	-2.6
Fiscal balance (% of real GDP)	-4.1	-2.8	-2.4	-3.2

Source: Various

Extract 8: America finally got a rate hike this year.

The US Federal Reserve has raised its target for short-term interest rates by 0.25 percentage points to a range of 0.50% and 0.75%. This move could be the first of many more. Some economists believe that the Fed will need to raise rates more often and perhaps at higher levels if President Donald Trump spends big on infrastructure which could cause prices to accelerate from its low levels.

"With the economy much closer to full employment now and a strong likelihood of a fiscal stimulus next year, we expect the Fed to accelerate the pace of interest rate hikes next year," says Paul Ashworth, chief US economist at Capital Economics.

Source: *CNN*, 15th December 2016

Extract 9: A more effective US trade policy is needed to level the playing field

Foreign government subsidies and other market-distorting policies have resulted in massive global steel overcapacity and significant levels of steel imports. This have caused the US numerous plant closures and thousands of job losses. Of particular note, China's steel industry remains state-owned and heavily subsidized. Other major offshore steel producers also continue to use subsidies, tariffs and investment restrictions to protect their markets and expand their steel production and exports. The United States must aggressively enforce US trade laws against injurious dumping and subsidies and respond to foreign government currency manipulation in order to combat unfair trade practices so as to preserve and strengthen her manufacturing base.

Source: *www.steel.org* assessed on 7 July 2017

Extract 10: Japan and European Union's huge new trade agreement

Japan and the European Union agreed on an outline for a massive trade deal on the eve of G20 meeting in Hamburg.

EU-Japan negotiations have already began in 2012 but then stalled. It was Donald Trump's election, and the inward turn America is taking, that spurred the EU and Japan to overcome their differences. Both want to show domestic audiences they can deliver signature deals that promise new economic opportunities. They also want to send a clear message internationally that the EU and Japan remain committed to a liberal, free-trading, rules-based world, and they will seek to shape it even if the US would not.

The agreement between Japan and the EU is currently very broad, and there are still plenty of details that need to be hammered out over the next several months before final ratification. But overall, it is designed to do what most free trade deals do: lower and eliminate trade barriers such as tariffs between countries. The core of the agreement aims to increase the flow of Japanese cars to Europe and of European food to Japan. For instance, the Europeans are expected to scrap a 10 percent tariff on passenger cars made in Japan, over a period of seven years. The Japanese, in return, are expected to lower duties on European agriculture products such as cheeses from the Netherlands. Tokyo is also likely to make it easier for European companies to bid for major government contracts, a move that could benefit train makers like Siemens of Germany and Alstom of France.

Source: *www.vox.com*, 7 July 2017

Extract 11: Trump's protectionism would not solve unemployment problem

One of US President Donald Trump's key strategies to help get more Americans into work is to introduce protectionist trade measures. The idea is that by raising taxes on goods imported from overseas, it will encourage businesses to bring jobs back to America as it is no longer economical to manufacture elsewhere and then ship to the US.

But Dr Nariman Behravesh, the chief global economist at IHS Markit, told Business Insider (BI) that this effort to try and solve the employment problem is, in fact, the biggest economic risk of 2017 globally.

He said, "If you look at the risks in the coming year, it is political uncertainty — vis-a-vis what Trump may do and what happens with Brexit. If we do go down the path of more protectionist measure, then it could massively impact the US economy, as well as the rest of the world."

According to an HSBC report released in December, if Trump goes ahead with his protectionist trade measures and with the combination of a "hard Brexit", it could kill US\$1.2 trillion worth of global trade. That is because higher tariffs and other trade barriers will reduce the total amount of trade, which means less production and fewer jobs for all, including the Americans. It would also mean more expensive goods, as import taxes are factored into prices".

"For example, if Trump did raise tariffs and costs for Chinese goods, it would hit inflation and hurt poor people because they are typically the demographic that benefits from cheap imports. It hurts the people he says he wants to help. The single biggest challenge is to think about how Brexit and the election of Trump came about," Dr Behraveh said. "A lot of people are angry at being left behind because of technology and globalisation. This is because they feel that they are losing jobs to immigrants but do not have the kind of higher level skills to fulfil new roles being created."

Dr. Behravesch said that companies and governments should instead, "Invest in people's skillsets so that when society evolves through globalisation, workers will be able to cope and change roles without getting left behind."

Source: *Business Insider*, 16 January 2017

Questions

- (a) (i) With reference to Extract 7 and with the aid of a diagram, explain the factors which could lead to the weakening of the renminbi in China. [4]
- (ii) Discuss whether the weakening of the renminbi is beneficial to the Chinese economy. [8]
- (b) Using data from Table 1, explain the change in standard of living for the United States from 2013 to 2016. [2]
- (c) Extract 8 states that if President Donald Trump 'spends big on infrastructure', it could 'cause prices to accelerate from its low levels'. [4]
- Comment on the validity of this statement.
- (d) Explain one consequence to the US economy if prices accelerate from its low levels. [2]
- (e) Discuss the view that imposing protectionist measures rather than engaging in Free Trade Agreements is a better option to create jobs in an economy. [10]

[Total: 30]

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