



HWA CHONG INSTITUTION
JC2 Preliminary Examinations
Higher 3

**NAME OF
CANDIDATE**

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CT GROUP

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**CENTRE
NUMBER**

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**INDEX
NUMBER**

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ECONOMICS

9809/01

Paper 1

21st September 2017

3 hours 15 minutes

Additional Materials: Answer Papers

INSTRUCTIONS TO CANDIDATES

- 1) Write your **Centre number, index number, name and CT class** clearly in the given spaces at the top of this page and all answer sheets.
- 2) Answer **all** questions in **Section A** and **two** questions from **Section B** provided in this Question Booklet.

INFORMATION FOR CANDIDATES

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

You are reminded of the need for good English and clear presentation in your answers.

Attach this cover sheet to all the answer sheets and indicate clearly the essay questions attempted from section B.

For Examiner's Use	
Section A	
Qn 1	/ 30
Section B	
Qn __	/35
Qn __	/35
Total	/ 100

Section A

Answer **all** questions in this section.

1. Research Development, Technology and Growth

Extract 1: Importance of R & D

The primary reason that living standards are higher today than they were a century ago is that technological knowledge has advanced. Most technological advances come from private research by firms and individual inventors but there is also a public interest in promoting these efforts. To a large extent, knowledge is a public good. Often, when a person discovers an idea, the idea enters the society's pool of knowledge and other people can freely use it. Governments around the world especially richer countries with the means often play a role in the creation and dissemination of knowledge through promoting research through tax breaks, subsidies and enforcing patent systems.

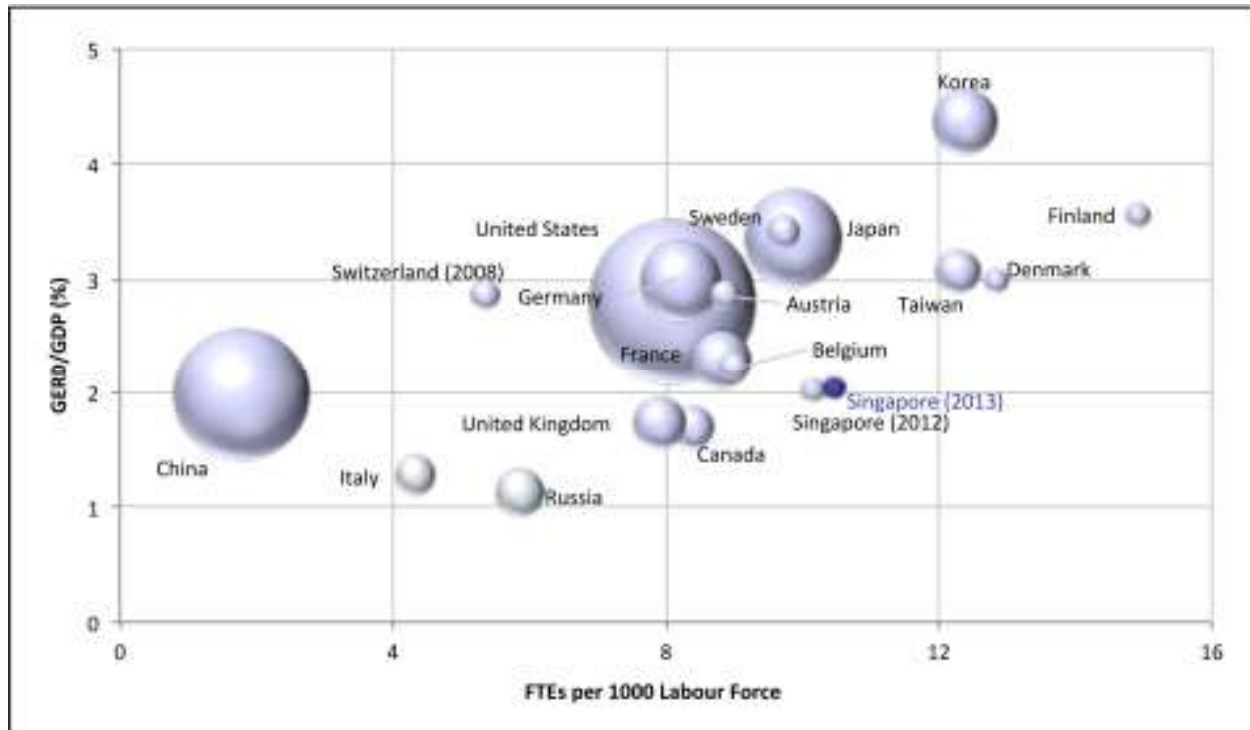
Source: Various

Extract 2: How technology has facilitated the growth of the sharing economy

The sharing economy has been on an exponential growth over the last couple of years and has been the subject of considerable interest to the stakeholders and policy-makers across the globe. Technology is pivotal to the growth of the sharing economy. A number of sharing platforms have emerged which enable individuals to share goods and services like cars, houses, household products and services. The proliferation of mobile devices has heralded a digital revolution to serve as a catalyst of growth. The appeal of the sharing economy lies in the fact that the sharing platforms create a win-win situation for all the stakeholders. The benefits of the sharing economy are manifold – including on-demand access to goods and services, efficient utilization of unused inventory of assets across industries, leading to a multiplier effect such as increased employment, consumerism, digital literacy and the rise of micro-entrepreneurship. One good example would be car sharing apps which have actually partially solved the problem that transport policy makers have grappled with for the past decades of ensuring a better match between taxis and passengers both across time and space.

Source: www.ey.com

Fig.1 Comparison of Selected Countries by Research & Researcher Intensity (2012)
Bubble size indicates GERD in 2012 unless otherwise stated.



Note: GERD stands for Gross Expenditure on Research & Development

FTE is a measurement of researcher intensity which 1 unit is considered as 1 person year.

Source: OECD, Main Science and Technology Indicators 2014/01.

Extract 3: Grab, Uber welcome new rules, but taxi body calls for more level playing field

SINGAPORE: The National Taxi Association (NTA) and transport apps Grab and Uber have released statements in response to changes to the licensing frameworks for private hire car drivers and taxi drivers, as announced by Senior Minister of State for Transport Ng Chee Meng during the Committee of Supply debate in Parliament on Tuesday, 12th April. "We view these regulations as an endorsement of private hire cars and a positive development for the industry as a whole," said Grab.

During his speech, Mr Ng announced that there would be a new Private Hire Car Driver Vocational Licensing (PDVL) framework in place by the first half of 2017. This framework requires that drivers providing chauffeured services undergo sufficient training on safety and the regulations, as well as medical and background checks.

He also said there would be updates to the existing Taxi Driver Vocational Licence (TDVL), such as including training for taxi drivers to use tools like the Global Positioning System (GPS) and shortening the duration of refresher courses from six- to nine- hour sessions to between three and five hours. To further level the playing field for taxi drivers, from Jan 2017, taxis will no longer be required to clock a minimum daily mileage of 250 km which will help minimise empty cruising. While taxis and taxi operators welcome the move, there were concerns among older Singaporeans who do not use car sharing apps that there might not be taxis when they need it. In separate statements on Tuesday, Grab and Uber - which both offer private hire car services - said they supported the new regulations, while NTA said more could be done to level the playing field between taxi drivers and private hire services. Ride-hailing service provider Grab said it was in favour of regulations that complement its "robust driver registration, training and ratings and vehicle inspection framework" to drive the transport industry forward in safety and accessibility.

The responses from Singaporean consumers have been largely positive. Many were fearing the banning of car sharing apps which will deprive them of the cheaper rides and getting rides during peak hours. Car sharing apps also inject the much needed injected competition into the taxi industry. However, there have been concerns about safety especially after a few nasty incidents involving car sharing app drivers such as eating during driving or making lewd remarks at lady passengers. The sharing economy is mainly self-regulated. Users rely on feedback scores. Early reputation mechanisms were one-way, namely that buyers would generate reputations for sellers, but now the ratings often go both ways. Many of the exchanges in the sharing economy, including Uber (transportation), Airbnb (accommodations), and Feastly (cooks) use two-way reputational systems. That is the customer rates the Uber driver, but in turn the Uber driver rates the customer. For Uber, while you can read your driver's rating, you cannot actively search for a driver based on rating - nor can you request cars based on their rating in the app. However a Uber driver whose rating has been consistently too low might have his/her account deactivated.

Source: CNA, 2016

Extract 4: Can Singapore make room and rules for Airbnb and other home-sharing offerings?

As URA continues to study the issue, residents and hospitality players remain divided. From stylish apartments to cheerful single rooms, tourists in search of alternative lodgings in Singapore are spoilt for choice. The website of Airbnb, a leading player in the home-sharing

market here, has options such as a Kallang shophouse for \$249 a night, a Tiong Bahru flat for \$114 or a room in East Coast with queen-sized bed and balcony for a mere \$48. According to Airbnb, there are about 6,000 properties listed on its website here. Other home-sharing websites have set up here as well, such as PandaBed and Roomorama. Yet, it is currently illegal for private and public home-owners to lease their properties for less than six months. Dental assistant, Rodelita, a resident of Vacanza@East who uses Airbnb when she travels with her family but would not like the same to happen here. Her rationale: If my neighbours register their units under Airbnb, anyone can just go in and out. This is not safe and secure for my two young children. Others are also concerned that the treatment of common facilities by transient tourists will inevitably be worse than the owners as most owners also list the use of condominium facilities on home-sharing sites often offer the use of facilities such as gyms. Housewife Meggie Liu, resident of Casa Merah condominium in Tanah Merah, supports URA legalising it as she felt that owners have the right to make their own choices about their property and to make the extra cash if they need. While a few home-sharing site listings are for long-term options, most are for short stays, which means they are breaking the law. The authorities are still trying to decide if rules should be relaxed for private properties. Under current rules, private home-owners who lease their units for less than six months can be fined up to \$200,000 and jailed for up to a year. However enforcement has been weak.

Arguments in favour of legalising short term home leasing with strict regulations on quotas plus procedures that landlords take steps to screen their guests include that they will help Singapore be a more immersive cultural hub and a more attractive place to work & invest. Actually, Airbnb requires both hosts and renters to fill out a detailed profile of themselves online with photographs.

Source: The Straits Times, May 2016

Extract 5: Don't buy the 'sharing economy' hype: Airbnb and Uber are facilitating rip-offs

Other than Singapore, there has been active debate about the regulation of the sharing economy in various developed countries of the world.

The "sharing economy" – typified by companies like Airbnb or Uber, both of which now have market capitalizations in the billions – is the latest fashion craze among business writers. But in their exuberance over the next big thing, many boosters have overlooked the reality that this new business model is largely based on evading regulations and breaking the law.

For the uninitiated, Airbnb is an internet-based service that allows people to rent out spare rooms to strangers for short stays. Uber is an internet taxi service that allows tens of thousands of people to answer ride requests with their own cars. There are hundreds of other such services that involve the renting or selling of everything from power tools to used suits and wedding dresses.

The good thing about the sharing economy is that it facilitates the use of underutilized resources. There are millions of people with houses or apartments that have rooms sitting empty, and Airbnb allows them to profit from these empty rooms while allowing guests a place to stay at prices that are often far less than those charged by hotels. Uber offers prices that are competitive with standard taxi prices and their drivers are often much quicker and more reliable – and its drivers can drive as much or as little as they like, without making a commitment to

standard shifts. Other services allow for items to be used productively that would otherwise be gathering dust.

But the downside of the sharing economy has gotten much less attention. Most cities and states both tax and regulate hotels, and the tourists who stay in hotels are usually an important source of tax revenue (since governments have long recognized that a modest hotel tax is not likely to discourage most visitors nor provoke the ire of constituents). But many of Airbnb's customers are not paying the taxes required under the law. Dodging taxes and regulation isn't just disruptive – it's bad for the economy.

Airbnb can also raise issues of safety for its customers and nuisance for hosts' neighbors. Hotels are regularly inspected to ensure that they are not fire traps and that they don't pose other risks for visitors. Airbnb hosts face no such inspections – and their neighbors in condo, co-ops or apartment buildings may think they have the right not to be living next door to a hotel (which is one reason that cities have zoning restrictions).

Insofar as Airbnb is allowing people to evade taxes and regulations, the company is not a net plus to the economy and society – it is simply facilitating a bunch of rip-offs. Others in the economy will lose by bearing an additional tax burden or being forced to live next to an apartment unit with a never-ending parade of noisy visitors, just to cite two examples.

The same story may apply to Uber. Uber is currently in disputes with regulators over whether its cars meet the safety and insurance requirements imposed on standard taxis. Also, many cities impose some restrictions on the number of cabs in the hopes of ensuring a minimum level of earnings for drivers, but if Uber and related services (like Lyft) flood the market, they could harm all drivers' ability to earn even minimum wage.

This downside of the sharing needs to be taken seriously, but that doesn't mean the current tax and regulatory structure is perfect. Many existing regulations should be changed, as they were originally designed to serve narrow interests and/or have outlived their usefulness. But it doesn't make sense to essentially exempt entire classes of business from safety regulations or taxes just because they provide their services over the Internet.

Going forward, we need to ensure that the regulatory structure allows for real innovation, but doesn't make scam-facilitators into billionaires. For example, rooms rented under Airbnb should be subject to the same taxes as hotels and motels pay. Uber drivers and cars should have to meet the same standards and carry the same level of insurance as commercial taxi fleets.

If these services are still viable when operating on a level playing field they will be providing real value to the economy. As it stands, they are hugely rewarding a small number of people for finding a creative way to cheat the system.

Source: The Guardian 27 May 2014

Questions

- a) To what extent can growth models explain figure 1? [8]
- b) Consider how the growth of the sharing economy could benefit the average person in Singapore. [6]
- c) Explain how the presence of 'lemons' will impact the growth of the sharing economy and discuss the measures consumers and producers could take to address this. [8]
- d) Assess the desirability of government regulation of the sharing economy. [8]

Section B

Answer 2 questions from this section

2. No one knows anything about economics. It's the great lie of the economists. By contrast in football people might have contrasting opinions, each of which has some validity. But the economists always speak in conditionals (assumptions) - what a mess.

Vicente del Bosque

Discuss whether the assumptions of rationality, perfect information, maximising self interest and ceteris paribus aid decision making by economic agents. [35]

3. 'Michael Porter's work is aimed at bridging the divide between economic theory and business practice.' (Joan Magretta, Michael Porter The essential guide to Competition and strategy)

Assess the extent to which Michael Porter's theory of competitive advantage has changed our understanding of competition in the real world of business. [35]

4. Countries ratifying the Paris Climate Change Agreement and governments all over the world coming up with measures to fight cyber attacks as well as fake news on the internet/social media.

Discuss the extent to which economics can explain the problems as well as support government intervention related to the above issues. [35]

5. Some emerging African economies have been plagued with what is known as the 'Dutch Disease'.

Discuss why the discovery of new natural resources might have caused these emerging countries to have unexpectedly poor performance and comment on the role of economic institutions in alleviating the problem. [35]

6. Theresa May planning Brexit, Trump pulling USA out of TPP and Brazil's government imposing a 6% financial transactions tax on foreign purchase of stocks and bonds are all policies to deal with the negative effects of globalization. Explain why the governments of these advanced and emerging economies are doing these and evaluate the extent to which economics will support these policies. [35]

Copyright Acknowledgements:

<i>Question 1 Figure 1</i>	<i>Source: OECD</i>
<i>Question 1 Extract 2</i>	<i>Source: www.ey.com</i>
<i>Question 1 Extract 3</i>	<i>Source: Channel News Asia, 2016</i>
<i>Question 1 Extract 4</i>	<i>Source: The Straits Times, May 2016</i>
<i>Question 1 Extract 5</i>	<i>Source: The Guardian 27 May 2014</i>