

National Junior College
SH2 Preliminary Examination for General Certificate of Education Advanced Level
Higher 3

ECONOMICS

Paper 1

9809/01

15 Sep 2017

3 hours 15 minutes

Additional Materials: Answer Paper, 3 Cover Sheets

READ THESE INSTRUCTIONS FIRST

Write your student registration 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 an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY OF THE MARGINS.

Answer **two** questions.

Begin each question on a fresh sheet of paper.

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

Indicate all the required information on the cover sheet.

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

Section A

Answer **all** questions in this section.

1 Health Care Services

Extract 1: National health insurance scheme MediShield Life kicks in

MediShield Life kicked in on 1 November. The national health insurance scheme aims to help Singapore residents pay for large hospital bills and costly outpatient treatments by providing higher claim limits.

MediShield Life is universal, meaning all Singaporeans and permanent residents will be covered. That includes 23,000 people who have serious pre-existing conditions and are currently uninsured. However, this group has to pay an extra 30 per cent in premiums for 10 years after MediShield Life begins in November.

The new scheme has no lifetime claim limit. It was capped at S\$300,000 for the old scheme. The maximum claim limit per policy year is now S\$100,000, up from S\$70,000.

"The way the MediShield Life scheme is constructed, the majority of Singaporeans should be able to finance their premiums simply through their Medisave accounts without the need to come up with out-of-pocket cash," said Dr Chia Shi-Lu, former chairman of the Government Parliamentary Committee for Health. As for Singaporeans who need help with premiums, the Government will be providing close to S\$4 billion over the next five years. Up to two-thirds of Singapore households are expected to benefit from these subsidies.

"The best outcome is that if patients do get into hospital, they get whatever treatment is necessary, and they get well," said Dr Chia. "But unfortunately that's not the case for everyone, and we need to see how we can better address the patients in this category."

Source: *channelnewsasia.com*, 1 November 2015

Extract 2: Lesson for Obamacare? UK health service 'in crisis'

The U.K.'s National Health Service (NHS), for decades the case-study in postwar universal healthcare for governments around the world, seems to be facing its biggest ever crisis of confidence. Almost every area of U.K. state-provided treatment from cancer to the emergency room and midwifery is complaining of overcrowding and underfunding.

During his struggle to set up Medicare, U.S. President Barack Obama praised the NHS as "something that Brits take for granted – a health care system that ensures you don't go bankrupt when you get sick." At the time, Republicans, particularly members from the Tea Party, were quick to point out the NHS's perceived failings. They might be even quicker to leap on the most recent headlines.

Since the start of the year, concerns and controversy have reached fever-pitch. You can't open a newspaper in the U.K. without seeing a hair-raising headline: "Cancer patients lose life-extending drugs", "Put up drink prices to stop A&E crisis" and "Circle pulls plug on hospital deal and sparks storm over private firms in NHS."

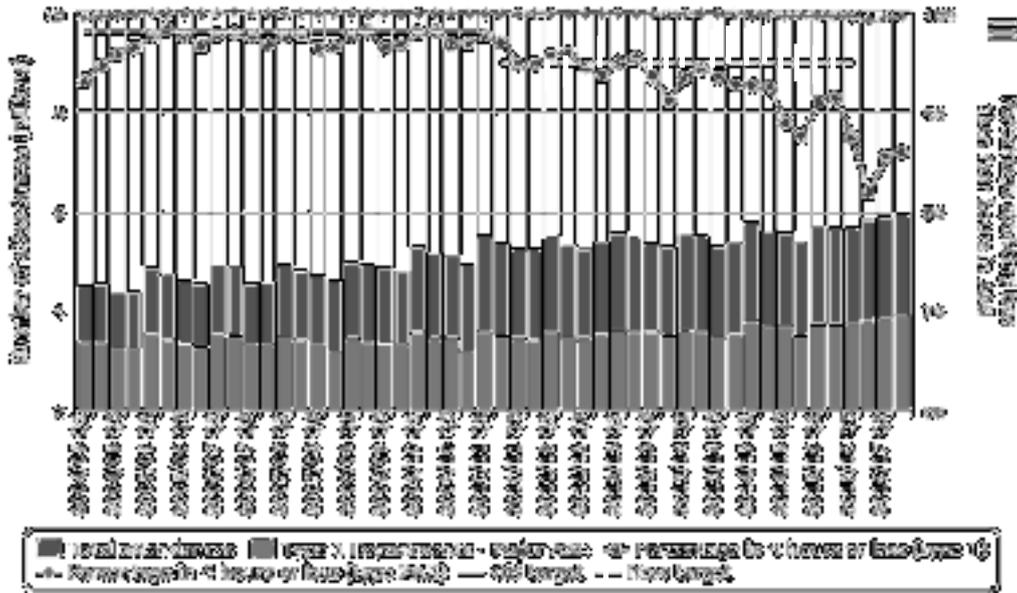
Successive U.K. governments have raised spending on the NHS, and the current administration promised a new efficiency drive. Yet this does not appear to have made the U.K. population any happier with their free healthcare. The amount spent on healthcare per person in England rose from £1,712 in 2008/09 to £1,912 in 2012/13, but over the same period, written complaints about

the service offered by the NHS rose by 17.6 percent. This may reflect a population who demand more from their health service than previously, more than an actual decline in provision.

There is a sense that the U.K. population as a whole takes free healthcare as a right, and some may be abusing that right by, for example, showing up at the ER with non-serious conditions, something which has particularly exercised doctors this winter.

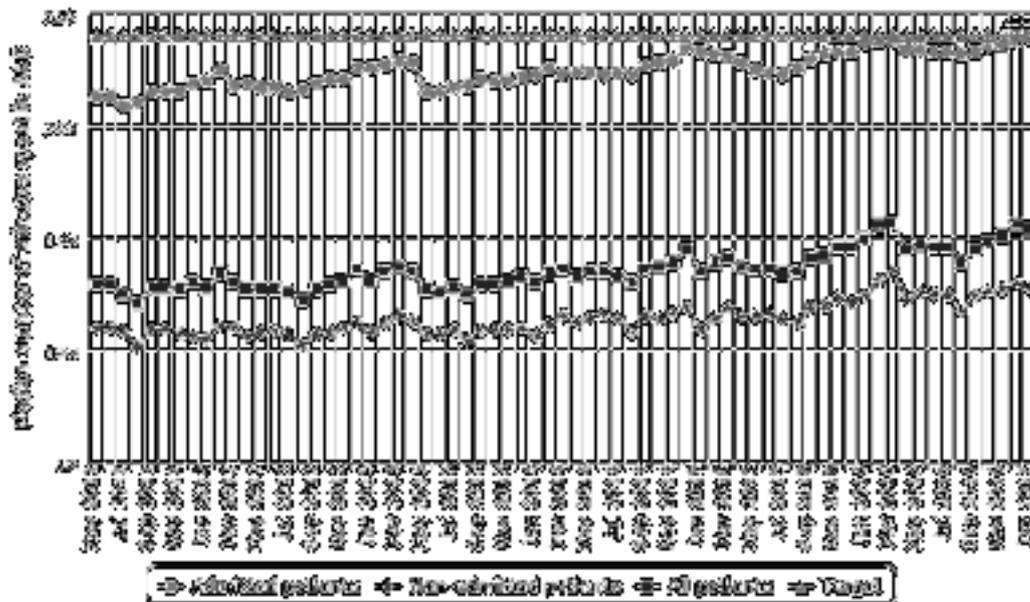
Source: *cnc.com*, 13 Jan 2015

Figure 1: A&E Waiting Times at NHS Providers in England



Note: Type 1 cases in A&Es refer to more major & serious injuries

Figure 2: Median Time spent in A&E at NHS Providers in England



Source: www.qualitywatch.org.uk

Extract 3: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act, often shortened to the Affordable Care Act (ACA) or nicknamed Obamacare, is a United States federal statute enacted by the 111th United States Congress and signed into law by President Barack Obama on March 23, 2010. Together with the Health Care and Education Reconciliation Act amendment, it represents the U.S. healthcare system's most significant regulatory overhaul and expansion of coverage since the passage of Medicare and Medicaid in 1965.

The act largely retains the existing structure of Medicare, Medicaid, and the employer market, but individual markets were radically overhauled around a three-legged scheme. Insurers in these markets are made to accept all applicants and charge the same rates regardless of pre-existing conditions or sex. To combat resultant adverse selection, the act mandates that individuals buy insurance and insurers cover a list of "essential health benefits". To help households between 100–400% of the Federal Poverty Line afford these compulsory policies, the law provides insurance premium subsidies. Other individual market changes include health marketplaces and risk adjustment programs.

Source: *en.wikipedia.org*, accessed on 10 September 2017

Extract 4: Health care in America – Shock treatment

The best-known objective of America's Affordable Care Act of 2010—commonly known as Obamacare—was to ensure that the 40m-plus Americans who lacked health insurance could get it. Less widely appreciated, but at least as important, are the incentives and penalties the law introduced to make the country's hideously expensive and poorly performing health services safer and more efficient.

One of the biggest shifts under way is to phase out the "fee for service" model, in which hospitals and doctors' surgeries are reimbursed for each test or treatment with no regard for the outcome, encouraging them to put patients through unnecessary and expensive procedures. Since Obamacare they are increasingly being paid by results—a flat fee for each successful hip replacement, say. There are also incentives for providers which meet cost or performance targets, and new requirements for hospitals to disclose their prices, which can vary drastically for no clear reason.

Millions of people are now looking for health insurance on the new public exchanges set up under the reforms. And Obamacare has come into effect at a time when American employers, who often provide health cover for their workers, are seeking to cut its cost by offering less generous plans with higher deductibles¹.

Patients are increasingly having to pay higher "deductibles" out of their own pockets, before the insurance kicks in. So for minor ailments and simple tests, it makes sense for such patients to go to one of the increasing numbers of walk-in clinics, staffed by well-qualified nurses, on the premises of retail pharmacies such as Walgreens.

Hospital operators are now facing a classic "innovator's dilemma", as described by Clay Christensen, a Harvard business professor. If they persist with their high-cost business model even as their customers discover that cheaper alternatives are good enough, they will be in trouble. Many hospital groups saw what was coming and started to cut their costs well before the provisions of Obamacare started to bite.

Source: *The Economist*, Mar 5th 2015

¹ A deductible is the amount of money someone must personally pay out of pocket for health services before insurance covers the remaining cost.

Extract 5: Health insurance – Better together?

Reform of American health care was always expected to have an enormous impact on the sector. Sure enough, one of the more immediate effects was a frenzy of hospital mergers, as providers sought to raise their efficiency in response to measures in the Affordable Care Act of 2010, alias Obamacare, designed to curb their cost increases.

A similar consolidation among health insurers was also predicted. But since the new insurance exchanges set up under Obamacare only went into operation last year, it has taken until now for it to be clear how big the merger wave may be. The largest insurer, UnitedHealth, has approached the number three, Aetna. The second-largest, Anthem, is trying to buy the number five, Cigna—which on June 21st rejected Anthem's \$47.5 billion bid. And the number four, Humana, has been looking at selling itself to either Aetna or Cigna.

The frantic takeover activity seems to have rested on the assumption that the Supreme Court would reject a case brought by opponents of Obamacare. It claimed that the subsidies 6.4m people are receiving, to help them buy health insurance on exchanges run by the federal government, were not authorised by Congress. In part the logic of the mergers is that the exchanges and the subsidies, by helping millions of poorer Americans shop for health insurance, will make it a larger but lower-margin business, so firms must combine to cut costs.

There are various other factors driving insurers to merge in a post-Obamacare world. Scale will be needed to win the best deals from a hospital sector that has already raised its bargaining power through mergers. All the insurers and Medicare (the government health plan for the elderly) are seeking to make hospitals switch to “value-based” payments—in essence, paying them for outcomes, rather than the number of treatments provided. The insurers with the most customers will be able to negotiate the best deals with the providers of care.

Yet mergers will not necessarily mean that any savings the insurers achieve when bargaining with hospitals will be passed on to customers. Consolidation in insurance markets tends to result in higher premiums. Cigna currently offers some of the most competitively priced policies for smaller businesses; if it is absorbed into something bigger, such customers will lose bargaining power. On the positive side, merged firms may be able to offer customers a wider choice of hospitals and doctors.

Though the Supreme Court's ruling strengthens the logic for the insurers' proposed mergers, they may stumble at the next hurdle, scrutiny from competition authorities. A senior antitrust official at the Department of Justice (DOJ) says that the DOJ will be mindful of the effect that the consolidation is having on the overall shape of the industry. That sounds like a warning not to expect the deals to be waved through.

Source: *The Economist*, Jun 27th 2015

Questions

- 1 (a) Assess whether a national health insurance scheme such as MediShield Life (Extract 1) is a public or a private good. [6]
- (b) Assess the usefulness and possible impact of the different types of data mentioned in Extract 2 on decision making by policy makers in relation to health care services. [8]
- (c) In the light of asymmetric information in the healthcare market, assess the impact of America's Affordable Care Act on efficiency and consumers' welfare. [8]
- (d) To what extent would economics help to explain both the decision of health insurers in America to merge and that of the likely decision of DOJ on consolidation in the industry? [8]

[Total marks: 30]

Section B

Attempt **TWO** questions from this section.

- 2** The Economic Man (aka homo economicus) is said to be a rational individual who constantly seeks to maximise his self-interest. In reality, consumers and firms may be satisfied with a certain level of utility or profit that is less than the maximum possible, and may donate to charitable causes.

To what extent do such behaviours mean that rational decision making is a myth rather than reality? [35]

- 3** “Business and government are increasingly dependent on data-driven decision making to direct not only their long-term strategic planning, but also their day-to-day tactical decisions.”

Discuss the extent to which having better data would lead to better decisions by firms and policy makers. [35]

- 4** Ideas fuel the economy. Today’s patent systems are a rotten way of rewarding them. Patents should spur bursts of innovation; instead, they are used to lock in incumbents’ advantages.

Assess the impact on profitability, efficiency and welfare of securing patents by firms for their innovation. [35]

- 5** “The transboundary haze crisis from raging forest fires in Indonesia, which has sent air pollution levels soaring, is on course to set a new precedent with the US National Aeronautics and Space Administration (Nasa) the latest to say it could become one of the worst on record.”

Source: StraitsTimes.com, 3 Oct 2015

Evaluate the factors that policy makers need to consider in formulating measures to address this environmental problem. [35]

- 6** As the world becomes more interconnected with each other, the economic progress of a country depends more on the policy action taken by other countries rather than what individual government can do. Discuss. [35]

- 7** Paul Romer proposed the construction of charter cities where effective rules can be established to allow ideas to spread freely and where people are given the choices to opt in to live in these cities. He hoped that the construction of these cities will spur economic growth and improve the standard of living of people.

Discuss the extent to which the construction of these charter cities proposed by Romer will bring about an improvement of the standard of living of people. [35]

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