

	NANYANG JUNIOR COLLEGE
	2017 JC1 End-of-Year Examination H2 ECONOMICS

2nd October 2017
Monday

Paper No: 9757/1 & 2
Time: 0800 - 1045 hours

TIME 2 hours 45 minutes

INSTRUCTIONS TO CANDIDATES

Do not turn over this paper until you are told to do so.

Write your name, class and the name of your economics tutor in the space provided on the writing paper.

You are required to answer all questions in Paper 1 and 2 out of 3 questions in Paper 2.

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

Write your answer on the writing papers provided.

If you use more than one sheet of paper, fasten the sheets together.

Start each question on fresh sheet of writing paper.

You are advised to spend several minutes reading through the questions before you begin writing your answers.

Do not use staples, paper clips, glue or correction fluid.

There are 5 printed pages including this cover page

9757 Paper 1

Answer **all** questions.

Question 1

Macroeconomic Problems in India and Japan

Extract 1: Higher fuel prices drive up India's inflation to five-month high

Higher fuel costs drove up India's inflation to its highest level in five months in March, vindicating a central bank decision last week to keep its interest rate low amid concerns about price pressures. Consumer prices rose by an annual 3.81 percent, their fastest pace since October 2016, compared with February's 3.65 percent.

Cost-push pressures, are also building up due to higher global commodity prices. A U.S. government weather forecaster last month projected the possibility of an El Niño weather pattern developing later this year.

In addition, the Indian government has also increased government spending to increase the country's Gross Domestic Product (GDP) in 2016 – 2017 due to last year's decision to ban high value notes in a crackdown on corruption. The rollout of a new sales tax from July also poses an upside inflation risk, as does an impending increase in house rent allowance to millions of public sector workers.

"There are reasons to think that inflation will continue to accelerate," said Shilan Shah, economist at Capital Economics consultancy in Singapore.

Worries about a possible spike in food prices, should India experience below average monsoon rains this year, persuaded the Reserve Bank of India (RBI) to keep its interest rate low for a third straight meeting last week.

Source: Reuters, 13 April 2017

Extract 2: Japan's CPI falls 0.3% in 2016

Japan on Friday logged its first annual consumer price decline in four years, underscoring the challenges facing Tokyo's fight to rid the world's No. 3 economy of deflation. In December alone, core consumer prices, which exclude volatile fresh food, declined 0.2 percent from a year ago — slightly better than expectations of a 0.3 percent fall.

The country has been struggling to reverse a years-long deflationary spiral of falling prices and lackluster economic growth. Government data showed prices dropped 0.3 percent in 2016 from a year earlier, as weak household spending and meagre wage hikes keep a lid on inflation.

Falling prices discourage companies from making capital investments, while also slowing production. Deflation can also discourage spending by consumers, who

might postpone purchases until prices drop further or save money, creating further pressure on businesses.

When Prime Minister Shinzo Abe came to office in late 2012, he launched his so-called Abenomics Growth Plan to achieve a promised 2 percent inflation level. The three strands of the plan are:

1. A fiscal boost from increased spending on public works
2. Bank of Japan aiming to push down long-term interest rates
3. Structural reform to make the economy more productive

The first strand is spending money by revving up fiscal stimulus through ambitious spending packages. The second strand is printing money and easing monetary policy to jolt consumer spending, weaken the yen, thus boosting exports. The third strand involves structural reform to tackle Japan's labour market. This includes opening up Japan's many protected sectors, loosening labour rules, making it easier for companies to hire and fire workers, and relaxing immigration rules. But these have left many Japanese workers cautious about how Abenomics would affect wages.

Despite the implementation of this plan, growth seems to remain fragile and inflation well below target. The decline in core consumer prices is a blow to the government and Bank of Japan (BOJ's) efforts to pump up the economy. BOJ officials have blamed external factors, such as falling energy prices and uncertainty related to emerging economies, for their failure to achieve the inflation target. It hoped that consumers would spend more if prices were rising, persuading firms to expand operations and getting the economy humming.

It is doubtful that this new initiative will make much difference, given Japan's demographics. The labor force has shrunk 0.17 percent a year since 2000. Last year, the population declined for the first time in almost a century, with significantly more people dying than being born. More than a quarter of the population is over age 65.

Adapted from: The Japan Times, 27 January 2017

Table 1: Annual percentage rate of increase in the consumer price index

Year	India	Japan
2011	8.87	-0.28
2012	9.30	-0.03
2013	10.92	0.35
2014	6.37	2.76
2015	5.88	0.80
2016	4.97	-0.12
2017	*2.08	*0.34

*Monthly average to June 2017

Source: Inflation.eu

Table 2: Japan and India's macroeconomic indicators in 2016

	Japan	India
Nominal GDP (trillion USD)	4.939	2.264
Unemployment rate (%)	3.1	3.28
Life expectancy	83.8	68.3
CO2 emissions (metric tons per capita)	9.756	1.591
Gini Coefficient	0.33	0.339

Source: Various sources

Questions

- (a) State what happened to consumer prices in India and Japan between 2015 and 2016. [2]
- (b) Using aggregate demand and supply analysis,
- (i) Explain how the rollout of a new sales tax can pose an upside inflation risk in India. [2]
- (ii) Explain other causes of inflation in India in 2017. [4]
- (c) Using a diagram, explain why the structural reforms identified in Extract 2 “have left many Japanese workers cautious about how Abenomics would affect wages”. [4]
- (d) Discuss whether the standard of living in Japan is higher than that of India in 2016. [8]
- (e) The Abenomics Growth Plan was launched to pump up the economy.
- Discuss the extent to which external factors are to be blamed for the failure of the Plan to achieve the “promised 2 percent inflation level”. [10]

[Total: 30m]

9757 Paper 2

Question 1 is compulsory.

1. Butter prices have soared more than 20% in the UK in the past year to hit an all-time high. At the same time, UK firms are grappling with rising labour costs.
 - (a) Explain possible reasons for the increase in the price of butter. [10]
 - (b) Assess the combined impact of the increase in price of butter and rise in labour cost on the market for vegetable oil-based margarine and butter-rich food such as croissants and pastries. [15]

Answer one question from either Question 2 or Question 3.

2. The recent worldwide recession caused many governments to re-assess their fiscal policy in order to stimulate their stagnating economies.
 - (a) Explain what would reduce the effectiveness of demand-led fiscal policy as a stimulus to an economy. [10]
 - (b) Assess other policies that might be more appropriate in managing the Singapore economy when faced with a worldwide recession. [15]
3. China's GDP grew at an average rate of 9.5% and 12 million new jobs were created in 2011. However, officials say that China's high-speed economic growth will not solve the country's unemployment problem.
 - (a) Explain why a government may want to increase the GDP and lower the unemployment rate in an economy. [10]
 - (b) Discuss the view that high-speed economic growth will not solve a country's unemployment problem. [15]

***** *The End* *****