

**Question 1: Supermarkets in the United Kingdom (UK) and Singapore**

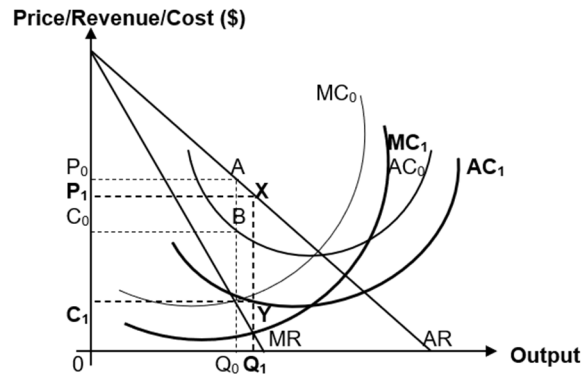
(a)	Using the information in Table 1, compare the change in forecast total retail grocery sales to that for online sales in the UK between 2021 and 2026. [2]																																																								
	Table 1 <table><tr><td>Year</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td><td>2026</td></tr><tr><td>Forecast total retail grocery sales (billions pounds)</td><td>212</td><td>214</td><td>216</td><td>220</td><td>224</td><td>229</td></tr><tr><td>Online sales as % of forecast total retail grocery sales</td><td>10.5</td><td>10.6</td><td>10.8</td><td>11.2</td><td>11.4</td><td>11.7</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Calculations from Table 1</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>% change in forecast total retail sales</td><td></td><td>0.9</td><td>0.9</td><td>1.9</td><td>1.8</td><td>2.2</td></tr><tr><td>Online sales (billion pounds)</td><td>22.3</td><td>22.7</td><td>23.3</td><td>24.6</td><td>25.5</td><td>26.8</td></tr><tr><td>% change in online sales</td><td></td><td>1.9</td><td>2.8</td><td>5.6</td><td>3.6</td><td>4.9</td></tr></table> Both forecast total retail grocery sales and online sales in UK between 2021 and 2026 are expected to increase. [1] Online retail sales is expected to increase at a faster rate. [1]	Year	2021	2022	2023	2024	2025	2026	Forecast total retail grocery sales (billions pounds)	212	214	216	220	224	229	Online sales as % of forecast total retail grocery sales	10.5	10.6	10.8	11.2	11.4	11.7								Calculations from Table 1							% change in forecast total retail sales		0.9	0.9	1.9	1.8	2.2	Online sales (billion pounds)	22.3	22.7	23.3	24.6	25.5	26.8	% change in online sales		1.9	2.8	5.6	3.6	4.9
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(b)	Explain two factors that are likely to determine the forecast increased demand for online shopping. [4]																																																								
	Demand is the willingness and ability of consumers to pay for the good or service. In this case, there is an increase in willingness of consumers to use online shopping. 1. Change in taste and preferences Convenience of online shopping has caused an increase in demand for the service. Evidence from the extract states that consumers can order and have goods delivered without having to step out of the house. [2] 2. Increase in income Online shopping would increase with income as most are normal goods which have positive income elasticity. As income increases, the willing and ability to use online shopping will increase. [2]																																																								
(c)	Using the evidence in Extracts 1 and 2, explain two features of UK supermarkets that demonstrate the characteristics of an oligopoly. [4]																																																								
	4-firm market concentration ratio of 67.9% (Figure 1) indicates the market is dominated by a few large firms. [2] UK supermarkets are mutually interdependent, as there are only a few dominant firms in the industry, any dominant firm, before it decides, has to consider the reactions of the other rival firms in the industry. In extract 2, Tesco is the market leader and other retailers may follow the pricing changes made by Tesco. [2]																																																								
(d)	With reference to Extracts 1 and 2, explain one possible reason why supermarkets might seek to control their supply chains. [2]																																																								
	Cost is rising due to inflation and this will shrink supermarkets' already thin profit margin (Ext 1). By controlling their supply chains, the cost of inputs at every stage of production can be reduced, hence raising/maintaining profit, assuming no change to revenue. or																																																								



	By controlling the supply chain, the firm can prevent new competitors if the firm can prevent new firms from access to key resources. This raises barriers to entry, and helps incumbent supermarkets maintain their revenue and profits, assuming no change to costs.
(e)	If Sheng Siong and DFI decide to merge, discuss whether the CCCS should intervene in the merger due to adverse effects on consumers and other supermarkets in Singapore. [8]
	Introduction CCCS' decision to intervene in the merger will depend on its impact on consumers, namely consumer surplus, choice and quality, as well as whether it will drive smaller supermarkets out of the market. Consumer surplus is the excess of what consumers are willing and able to pay over the price they actually pay. R1: CCCS should intervene If Sheng Siong and DFI merge, their market share will be 48.1% indicating the merged firm gains market power. With reference to Figure 1, this increase in market share increases demand (say for Sheng Siong) from AR_0 to AR_1 and the demand becomes more price inelastic. This raises price from P_0 to P_1 with a corresponding increase in output from Q_0 to Q_1. This increase in price will lead to fall in consumers' surplus. At the same time, variety may be reduced too, restricting the choices. Figure 1: Impact of merger There could also be adverse impact on other supermarkets in Singapore in terms of loss in market share and profit as demand for their goods fall, especially if the merged entity is able to intensify competitive tactics to eliminate the smaller supermarkets. R2: CCCS should not intervene However, a larger supermarket enjoys internal EOS which lowers unit cost, such as from bulk purchase. Internal economies of scale (iEOS) is reaped when a firm increases its scale of production. IEOS refers to a fall in unit cost of production when scale of production increases. As a firm increases its scale of production, this will lead to a downward movement along the LRAC as it reaps internal economies of scale. In the short run, this will translate to lower average and marginal costs than before from AC_0 and MC_0 to AC_1 and MC_1. Price charged falls from P_0 to P_1 and output transacted increases from Q_0 to Q_1, where the equilibrium price and output is obtained by equating $MC=MR$. Therefore, the merged firm will enjoy cost savings as its average costs will fall in the long run and if the cost savings is passed on to consumers in the form of lower price, it will also raise consumer surplus, benefiting the consumers



Figure 2: Impact of increasing scale of production in the short run



In addition, it may enjoy greater profits and if channeled to enhance quality of products/service, consumers may benefit.

Summative Conclusion

Given that the CCCS aims to ensure that mergers would not “lead to a substantial lessening of competition” (Ext 4), it should intervene as a merger leads to very high combined market share of 48.1%. Moreover, as there is a limit to gains from economies of scale to bring cost savings (Extract 1 para 4), consumers will unlikely benefit from lower prices if there is a merger. Hence, it is more likely that consumers will suffer after the merger and hence CCCS should intervene.

Mark scheme

To score L2 you need to address the two requirements with appropriate reference to case material:

- Explain why CCCS should intervene due to the adverse effects of the merger
- Explain why CCCS need not intervene due to benefits enjoyed

To score E2 you need to refer to case material to:

- Evaluate the extent of the benefits or adverse effects of the merger
- Arrive at a substantiated a stand stating whether CCCS should intervene

(f) Discuss whether price competition is the best way for supermarkets to raise revenue. [10]

Introduction

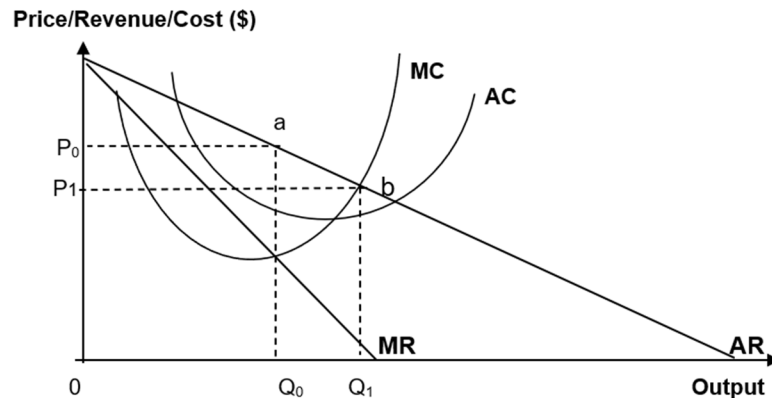
Supermarkets may adopt price competition as one way to increase their revenue. It may also consider non-price strategies as an alternative to raise revenue. This essay will discuss whether price competition is the best way to do so.

R1: Price competition can help raise revenue

By reducing price (i.e. firm chooses not to profit maximise where $MR=MC$), the quantity demanded for the firm's product will increase. If demand is price elastic, the increase in quantity demanded will increase more than proportionately from Q_0 to Q_1 compared to the reduction in price from P_0 to P_1 resulting in an increase in total revenue from OP_0aQ_0 to OP_1bQ_1 as total revenue is the product of price and quantity.



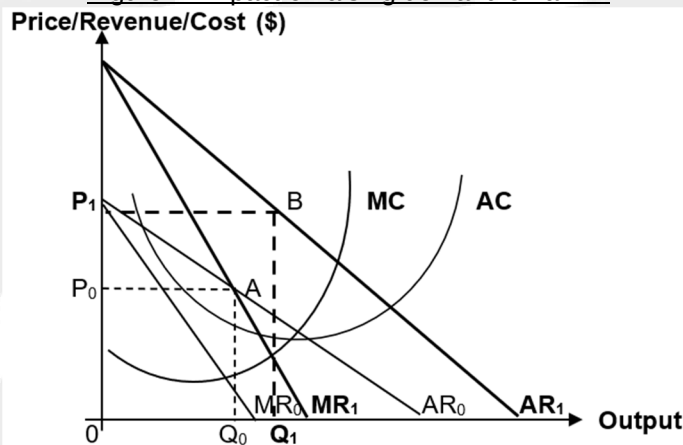
Figure 3: Impact of price competition on a firm



R2: Other methods to raise revenue

Non-price strategies can raise revenue as well. This is done by increasing the demand for the firm's product. If the firm increases demand for its products from AR_0 to AR_1 , total revenue will increase from $0P_0AQ_0$ to $0P_1BQ_1$. This can be achieved through providing quality assurance (in the case of Aldi and Lidl Extract 1 para 5), reducing price of related goods such as discounted petrol (Extract 1 para 5), having loyalty card and expanding range of products (in the case of Tesco, Extract 2).

Figure 4: Impact of raising demand on a firm



Summative Conclusion

Given that supermarkets are in an oligopoly, there is mutual interdependence, price competition is likely to lead to rival firms to cut price as a response, leading to a price war and resulting in a loss of revenue as the quantity demanded increases less than proportionate to the reduction in price. Firms are also likely to be wary of pricing strategies making them the target of regulatory bodies.

Hence non-price rather than price competition may be the best way for supermarkets to raise revenue.

Mark scheme

To score L2 you need to address the two requirements with appropriate reference to case material:

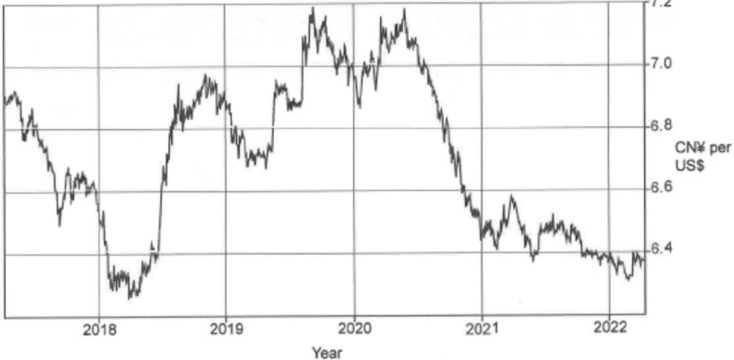
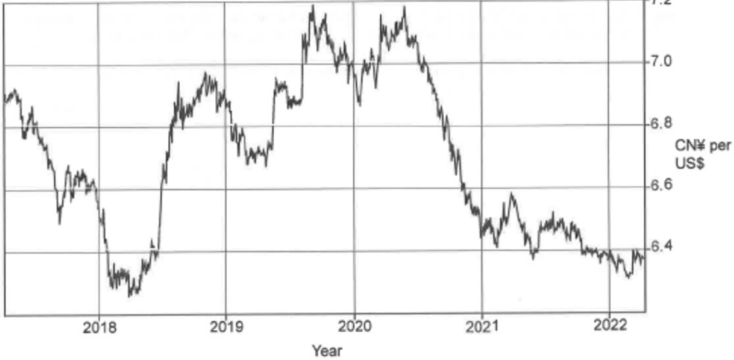
- Explain how price competition may be used to raise revenue
- Explain how an alternative strategy may be used to raise revenue

To score E2 you need to refer to case material to:

- Evaluate the extent each strategy is able to increase revenue
- Arrive at a substantiated a stand on which strategy is better at raising revenue

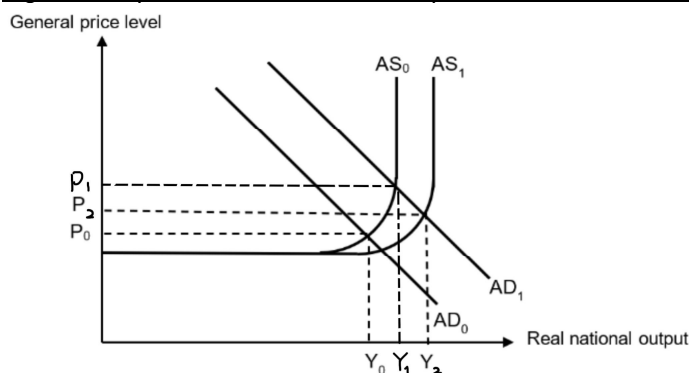


Question 2: Changing economic relationships in the Asia-Pacific Rim

(a)	With reference to Figure 2:
(i)	Explain how the appreciation of the Chinese yuan against US dollar is represented in a particular time period. [2]
	Figure 2: US dollar Chinese yuan exchange rate, April 2017 to March 2022  Source: tradingeconomics.com, 11 July 2023 Between mid-2020 and early 2021, the Chinese yuan appreciated against the US dollar [1]. The exchange rate moved from approximately 7.2 yuan per US dollar to around 6.4 yuan per US dollar, indicating that fewer yuan were needed to purchase one US dollar, reflecting the yuan's appreciation [1].
(ii)	Using demand and supply analysis, explain one possible reason why the Chinese yuan has appreciated against the US dollar on the foreign exchange market. [2]
	An increase in demand for Chinese exports due to “<i>booming exports</i>” (Ext 5) [1] led to an increase in demand for the Chinese yuan [1]. This led to an appreciation of the Chinese yuan against USD. <i>[Note: Diagram is not required for the 2m question. Increased “short term capital flows” (Ext 5) into China is also acceptable as an alternative reason.]</i>
(b)	Explain how the change in exchange rate from March to September 2018 shown in Figure 2 might have affected China's balance of payments. [4]
	Figure 2: US dollar Chinese yuan exchange rate, April 2017 to March 2022  Source: tradingeconomics.com, 11 July 2023 Between March and September 2018, Figure 2 shows that the Chinese yuan experienced a sharp depreciation, which would have had significant effects on China's balance of payments. A weaker yuan makes Chinese exports cheaper (in foreign currency), thereby boosting demand for these goods and increasing export revenue [1].



	At the same time, the depreciation makes imports more expensive (in domestic currency) for domestic consumers, leading to a reduction in the volume of imports [1]. This combination of increased export earnings and decreased import expenditures would contribute to an improvement in the balance of trade, assuming $PED_m > 1$, quantity demanded of import will fall more than proportionately, causing China's import expenditure to fall. Assuming that the Marshall-Lerner condition is satisfied ($PED_x + PED_m > 1$), the BOT could improve. [1] An improved balance of trade enhances the current account, which is a major component of the overall balance of payments. Thus, the depreciation of the yuan during this period likely improved China's balance of payments by bolstering its export performance while curbing import spending [1].
(c)	Explain how increased exports of health supplies and equipment from China might have affected national income and the general price level in China. [4]
	<u>Figure 1: Impact of increased exports of health supplies & equipment from China on her economy</u> An increase in exports of health supplies and equipment from China increases aggregate demand (AD) through an increase in X [1]. As a result, China's AD curve shifts to the right from AD_0 to AD_1. This leads to a multiplied increase in real national income from Y_0 to Y_1 [1]. Assuming that the Chinese economy is operating with spare capacity after the pandemic but close to full employment level, most of its resources (e.g. labour) will be near fully utilized, and firms cannot easily increase production in response to higher demand, leading to an increase in the general price level from P_0 to P_1 [2]. <i>[Note: For lower order questions of 1-4 marks, diagram is not required unless specified. A diagram will however be helpful for better visualisation of real national output and GPL changes.]</i>
(d)	Discuss the extent to which countries such as Vietnam, Malaysia and Taiwan are 'the real winners in the US-China trade dispute'. [8]
	Introduction The trade dispute between US and China had led to trade diversion to countries such as Vietnam, Malaysia and Taiwan. We will examine the extent to which this has benefited these economies. <u>R1: Vietnam, Malaysia & Taiwan are the real winners</u> Countries such as Vietnam, Malaysia and Taiwan are widely viewed as beneficiaries from the US-China trade dispute because of trade diversion and inflows of foreign direct investment (FDI). US consumers and manufacturers, keen to avoid higher tariffs, shift their demand to producers in these emerging economies, resulting in higher exports.

**Figure 2: Impact of US-China trade dispute on the 3 economies**

This boost in exports and FDI increases X and I and aggregate demand AD from AD_0 to AD_1 . This brings about higher economic growth for Vietnam, Malaysia and Taiwan. As firms hire more factor inputs such as labour, demand-deficient unemployment will also fall.

Table 3: US trade in goods with Vietnam, 2017–2021

Year	US exports to Vietnam (US\$bn)	US imports from Vietnam (US\$bn)	US Balance of Trade with Vietnam (US\$bn)
2017	8 134	46 477	–38 343
2018	9 676	49 140	–39 464
2019	10 821	66 461	–55 640
2020	9 912	79 619	–69 707
2021	10 947	101 908	–90 961

From Table 3, Vietnam's BOT will improve, as seen in the widening balance of trade deficit that US is incurring against Vietnam. With a surge in FDI seeking more favourable production locations, investment spending also grows. This, in turn, not only pushes AD further but can enhance country's productive capacity (AS_0 to AS_1) if it comes with technology transfer and improvements in infrastructure, thereby raising the economies' growth potential over time, increasing real national output from Y_0 to Y_2 .

R2: Vietnam, Malaysia & Taiwan are the losers

Extract 6 suggests that these countries may, like Vietnam, face capacity constraints in infrastructure, as exemplified in, by congested ports and airports in Vietnam. While an increase in FDI may increase productive capacity (vertical segment of AS) in the longer run, these constraints in the short run suggest a supply bottleneck, which will lead to a smaller increase in actual growth from Y_0 to Y_1 and higher demand pull inflation in the immediate future from P_0 to P_1 .

Extract 6 also suggests that environmental costs stem from rapid industrial expansion and agricultural land being repurposed for factories. This will also impact sustainable growth as resources deplete and negative externalities from pollution ensue.

Summative Conclusion

Whether countries like Vietnam, Malaysia and Taiwan emerge “winners” depends on how effectively they address capacity constraints, which will be a more significant problem for developing economies like Vietnam than developed economies like Taiwan. Although they will clearly enjoy significant benefits in the near term, their position as “the real winners” will hinge on their ability to attract FDI to build productive cap activity in the long term, their ability to manage infrastructure demands, and maintain competitiveness amidst evolving global trade tensions.

Mark scheme

To score L2 you need to address the two requirements with appropriate reference to case material:

- Explain why Vietnam, Malaysia and Taiwan are the real winners in the US-China trade dispute
- Explain why Vietnam, Malaysia and Taiwan are the losers

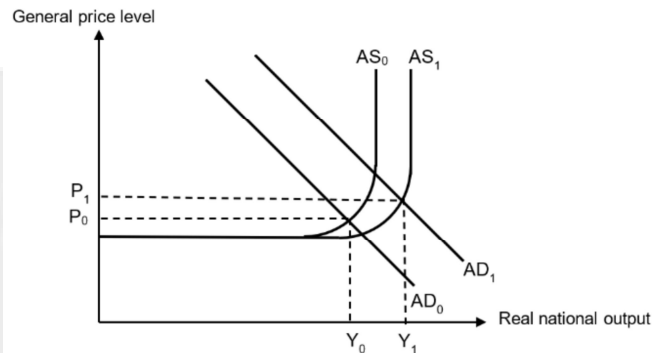
To score E2 you need to refer to case material to:

- Evaluate possible reasons why the above analysis might be questionable or have its limitations
- Arrive at a substantiated a stand stating the extent to which the above countries are the winners

**(f) Discuss whether the UK or China will benefit more from joining the CPTPP. [10]****Introduction**

Joining the CPTPP will benefit UK and China in terms of access to wider markets and FDI, which will lead to an increase in economic growth and fall in unemployment. We will examine whether UK or China will benefit more.

Figure 3: Impact of CPTPP on the UK economy



Briefly explain how signatories of CPTPP will benefit from an increase in exports and FDI which increase X and I , increasing both AD and AS in longer run, and leading to non-inflationary growth.

R1: Explain benefits of joining the CPTPP to the UK

Joining the CPTPP would provide the **UK** with a substantial opportunity to **broaden its trade horizons**, especially in the aftermath of Brexit. By gaining tariff-free **access to a larger market** comprising both advanced and emerging economies, the **UK can leverage its comparative advantage in high-value services**, such as finance, digital technologies, and professional services. Comparative advantage occurs where trade can benefit all countries if each country were to specialize in producing the goods in which they have a comparative advantage in (i.e. able to produce at relatively lower opportunity costs) and exchange some of these goods for other types of good in which they have a comparative disadvantage in (i.e. goods in which they can produce at relatively higher opportunity costs). This comparative advantage arises because the UK, with its developed human capital and well-established service sectors, faces a lower opportunity cost producing knowledge-intensive services than manufacturing more labour-intensive goods.

Furthermore, by specialising in these high-value sectors and importing labour-intensive products from countries like Vietnam or agricultural produce from New Zealand, the UK can exploit the principles of comparative advantage, thereby **enhancing consumer welfare with cheaper imports**. This **trade liberalisation promotes competition**, which can encourage technological progress, productivity gains, and economies of scale, all of which can boost the UK's long-term economic growth and employment. Simultaneously, more open trade links expand consumer choice and help mitigate inflationary pressures on imported goods.

R2: Explain benefits of joining the CPTPP to China

China's large economic scale and established trade links within the region suggest that it stands to gain significantly from CPTPP membership. In contrast to the UK, **China's comparative advantage** arises from its ample cheap source of labour and other natural resources, making it **strong in the manufacturing sector and an important part of the global supply chains due to its cheap manufacturing costs**. Chinese firms' benefit from lower tariffs and streamlined regulations will therefore allow them to expand their global supply chains and reduce costs.

Moreover, CPTPP membership **helps China diversify its trading partnerships at a time when Sino-US trade tensions have dampened China's exports to the United States**, one of its historically largest markets. In shifting some of its trade focus to the Asia-Pacific bloc, China is better able to mitigate losses from US tariffs and maintain a healthy balance of payments position. Over the longer term, being part of the CPTPP also encourages inward and outward foreign direct investment (FDI), reinforcing China's role as a key player in regional and global supply chain networks.



Summative Conclusion

Both the **UK and China have different areas of comparative advantage** which allow them to benefit from the CPTPP differently. However, the extent of UK's gains depends on its ability to negotiate favorable access, overcome competition, meet regulatory standards and whether CPTPP can compensate for the loss in market share in the Eurozone due to Brexit and US respectively due to trade restrictions. On the other hand, China's membership faces challenges, including political hurdles and the need to comply with the CPTPP's strict standards.

Ultimately, the **UK may experience more transformative benefits** in restructuring its global trade profile, while **China's benefits**, though substantial, **may be tempered** by compliance and political factors, and which is already deeply intertwined economically with many CPTPP members.

Mark scheme

To score L2 you need to address the two requirements with appropriate reference to case material:

- Explain the benefits of joining the CPTPP on the UK economy
- Explain the benefits of joining the CPTPP on the Chinese economy

To score E2 you need to refer to case material to:

- Evaluate the extent of benefits gained by UK and China
- Arrive at a substantiated a stand on which economy benefits more