PLUS ULTRA

JURONG JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION 2018

ECONOMICS

Higher 2 **9757/01**

Paper 1 **27 August 2018**

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 an HB 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, tie all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **7** printed pages.

Answer **all** questions.

Question 1

World Cup and its related industries

Table 1: Selected Indicators for Russia over the period 2013-2017

	2013	2014	2015	2016	2017
Annual rate of growth in real GDP (%)	1.8	0.7	-2.8	-0.2	1.5
Inflation rate (%)	6.8	7.8	15.5	7.0	3.7
Unemployment rate (%)	5.5	5.2	5.6	5.5	5.2
Current account (% of GDP)	1.4	2.7	4.9	1.9	2.2
Carbon emission (metric tons per capita)	10.8	10.5	10.3	10.2	10.1

Source: OECD

Table 2: Tickets at the 2018 World Cup Final

Category 1	Category 2	Category 3
US$1 100	US$710	US$455

Source: fifa.com

Extract 1: World Cup tickets

Major football organisations implement the strategy of different category prices based on the attractiveness of specific seat locations. That typically means that the closer to the centre of the field the category of seats is (Category 1), the better the view and the more valuable it will be for the fans and supporters. Tickets at the 2018 World Cup range from $105 for Category 3 at group stage matches to $1 100 for Category 1 at the final. FIFA said that only tickets bought from the official website will be valid. All ticket holders need to hold a FAN ID, an identification document with their photographs, together with a valid match ticket in order to enter the stadiums.

Source: *Reuters*, 13 September 2017

Extract 2: Domino's takes on 3 000 new staff

With Russia's economy recovering from negative growth, Domino's, the popular pizza chain, wants to take on 3 000 new staff. To compete with other close rivals such as Pizza Hut and Papa John's, Domino's has launched their new pizza "The Meatfielder" that is packed with pepperoni, chorizo, meatballs, smoked bacon and its secret sauce. It has also used the prominent figure of retired English footballer Jimmy Bullard to publicise itself as the food of choice during the World Cup.

Domino's has finalised a new multi-year beverage supplier contract with The Coca-Cola Company. "We are excited that Domino's fans can continue to 'Open Happiness' with a Coca-Cola beverage while watching the World Cup," said Tony Ferlauto, Coca-Cola Europe Vice President of national sales. Customers can celebrate this week by including a Coca-Cola product in their online order – while also enjoying 50 per cent off any pizza at menu price.

Source: *dailystar,* 14 June 2018 and *Forbes*, 26 January 2018

Extract 3: Nike’s just-do-it behaviour

Sportswear companies have become increasingly interdependent in the competitive industry, with Nike, Adidas, Reebok and Puma taking up 70 per cent of market share, as they consider their competitors’ reactions when setting prices, output, advertising budgets and other business models. Such interdependence is not the only reason affecting the decisions of Nike, the world’s largest manufacturer of sportswear, over the past few years.

In 2014, Nike reported a substantial jump in the cost of production due to rising cost of raw materials such as cotton and nylon that pushed down its profit margins by 0.5-1 per cent. Nike said that the company was successful in passing heightened costs on to consumers.

However, in 2016, Nike allowed retailers to give 25 per cent discounts all year when its main competitor, Adidas, experienced strong growth, and has had a number of successful product launches such as its "athleisure" clothing line. Nike's reaction, seeking to regain market share, is very common. Lowering prices is very easy and has an immediate effect of raising its sales.

Come 2018, the World Cup isn’t just a battle between countries, but also a competition between the two biggest sportswear companies. For example, the World Cup prompts consumers to buy the Nike jersey they see on Cristiano Ronaldo or the Adidas jersey they see on Lionel Messi.

Source: Adapted from *pricebeam.com*, 24 April 2017 and *Financial Times,* 9 December 2015

Extract 4: Does hosting a World Cup make economic sense?

Organisers of the World Cup in Russia have predicted that the total economic impact of the tournament could be as high as $30.8 billion by 2023. Indeed, the case is often made that hosting any major sporting event, can boost a nation’s economy by attracting tourists, initiating important infrastructure projects, creating direct jobs and indirect jobs across many industries ranging from food and beverages to sportswear, and showcasing Russia as a good place to do business. Economists argue that there may be limited economic impact at the national level given the short duration of the World Cup and the very large size of the Russian economy. Moreover, hosting the tournament could lead to an increase in consumer prices in Russia.

There is also the opportunity cost of hosting a major sporting tournament given that governments have limited amount of resources and that Russia has been running on a budget deficit since 2012. The money spent on new or upgraded infrastructure is likely to be more wisely used in long-term investments in critical areas of the economy. An increase in spending should lead to a rise in Gross Domestic Product, but the World Economic Forum’s Inclusive Growth and Development Report argues that focusing on inclusive growth is more important. This means spending to deliver both economic growth and broad-based, sustained improvements to living standards.

Unfortunately, sporting infrastructure is expensive to construct and run, takes up scarce resources, and is often difficult to use with enough frequency to cover maintenance costs. A stadium is not really essential to the economic well-being of an average worker. Economist Andrew Zimbalist lists examples of the white elephants left barely used in host cities once tournaments have ended. Before the 2010 World Cup in South Africa, low-income residents living in settlements near tournament sites were reportedly evicted in an attempt to improve the country’s image, leading many to question whether the money would have been better spent on improving impoverished communities instead.

Source: weforum.org, 7 June 2018

[Turn over

Extract 5: A more sustainable World Cup in Russia

Hosting the World Cup does bring about problems. Firstly, air pollution is already a concern to people across Russia, who are well aware of the main cause of the problem that is emissions from fossil-fuelled vehicles. With the influx of foreign visitors, such air pollution will only worsen. Authorities of some host cities are doing something about the problem. In Moscow, to encourage people to switch to more environmentally friendly electric vehicles, 78 charging stations for electric vehicles have been installed in parking lots across the city.

Secondly, waste accumulation, such as plastic food packaging, affects the environment negatively in terms of the pollution of soil, water and air, and can cause serious harm to humans and other lives. As the organisers of a mega sporting event, whose staging creates a significant amount of waste, FIFA and the Russian Local Organising Committee have developed a waste management concept to tackle the problem. This includes a set of approaches, requirements and plans for organising tailor-made waste collection and recycling processes at all official sites and events – along with the communication tools to inform and motivate spectators to dispose of their waste accordingly.

Source: *greenpeace,* 27 June 2018 and *euobserver,* 17 April 2018

Questions

(a) Using Table 1, identify the year that Russia has the lowest growth in nominal GDP and state the growth rate. [2]

(b) Explain why the ticket pricing strategy for the 2018 World Cup Final as shown in Table 2 can be considered an example of third-degree price discrimination. [4]

(c) Explain how Russia's hosting of the 2018 World Cup would create 'indirect jobs'. [2]

(d) Explain how Domino's can make use of cross elasticity of demand and income elasticity of demand concepts to increase its revenue during the World Cup season. [4]

(e) Assess how far price and output decisions of Nike are dependent on the actions of its competitors. [8]

(f) With reference to the data where appropriate, assess whether the gains from hosting the 2018 World Cup outweigh the losses. [10]

[Total: 30]

Question 2

Trade Issues

Table 3: United States (US) – China trade in goods

Year	2013	2014	2015	2016	2017
US exports to China (US$ billions)	121.7	123.7	115.9	115.5	129.9
Chinese exports to US (US$ billions)	440.4	468.5	483.2	462.5	505.5

Source: United States Census Bureau

Extract 6: Two faces of global trade

The undeclared tariff war over steel has again underlined the perils of global trade. Global trade can open new markets just as easily as it can take them away. The root cause of the trade war – a steel glut in China – originated in 2008, when Beijing introduced massive stimulus spending to stave off the global recession. China's capacity of steel production rose from 644 million tonnes that year to 1.14 billion tonnes in 2014. As the Chinese economy has slowed down its growth, the growth in the domestic demand for steel has reduced. Its effort to unload its stockpiles in the global markets has triggered competitive price cutting to clear the glut, threatening steel producers in many countries.

Earlier this year, the US imposed whopping 265 per cent anti-dumping duties on the cheap Chinese steel. The European Commission followed suit, imposing 22 per cent duties on Chinese steel imports. As New Zealand initiated an anti-dumping investigation, Beijing has threatened to cut dairy imports from the country, while Mexico is getting ready to impose anti-dumping duties on China.

Source: *The Straits Times*, 8 September 2016

Extract 7: Exchange rate and trade balance

United States President Donald Trump had pledged during his election campaign to declare China a currency manipulator, based on unfair competitiveness arising from an alleged undervalued Chinese yuan, and slapped a 45 per cent tariff equivalent to some of the currency devaluation, on all Chinese imports on his first day in office.

The charge by US that Japan, China and European Union are using the devaluation of their currencies to gain trade surpluses appears to have created widespread alarm. Bank of Japan governor Haruhiko Kuroda said that Japan's monetary policy has been implemented "solely for the purpose of achieving our price target at the earliest date possible. We do not directly target exchange rates in guiding monetary policy". The Vice Finance Minister for international affairs also said that Japan's monetary policy is aimed at achieving the domestic goal of ending deflation, and is not aimed at exchange rates.

At a time of near full employment, the Trump administration has put in place an expansionary fiscal policy including a hefty tax cut and increases in public spending. With the US economy continues to grow, import spending increases. Given rising inflation, the US Federal Reserve also has had little choice but to raise interest rates, so the US dollar appreciated against the yuan and euro. On the other hand, the European Central Bank has kept rates low for longer than the Federal Reserve for the good reason that the EU's economy recovery has been slower than that of the US.

Source: *The Business Times*, 2 February 2017

Extract 8: Who gains from tariffs?

Cheap imports causing unemployment has emerged as a lightning rod for discontent about global trade. Some 11 000 jobs in the United Kingdom were in danger as Tata Steel, reeling from the effects of cheap Chinese steel, considered closure. In the United States, steel workers now face massive layoffs due to imported Chinese steel.

US President Donald Trump believes his country has been at the losing end when it comes to trade with many other countries. He sees American jobs and wealth going to countries "that have taken advantage of us for years", and wants to fix this by putting "America First". The White House announced a 25 per cent tariff on US$50 billion worth of Chinese products, in a bid to address what it sees as a lopsided trade balance. Last year, the US exported US$129.9 billion of goods to China, but imported US$505.5 billion of Chinese goods. Besides China, the US has also imposed tariffs on imported steel and aluminium from other trading partners.

While the US steel and aluminium producers may be cheering the prospect of lower competition from overseas, the downstream industries that are the consumers of these essential inputs are crying foul. The cascading effects of higher prices for steel and aluminium will ripple through industries as varied as energy, construction, automobiles, engines and components, appliances, brewing, machine tools, aircraft, shipbuilding and defence. Collectively, the companies that use steel and aluminium as inputs employ several times more workers across the US than the steel and aluminium industries do combined. The tariffs may also potentially induce some US manufacturers to offshore more of their production to countries where steel and aluminium prices are lower.

China and the European Union are hitting back at the US tariffs. China plans retaliatory tariffs on imports from the US of a range of goods, including cars, beef and agricultural products, while the EU is set to slap tariffs of 25 per cent on some €2.8 billion of US products, from bourbon and peanut butter to Harley-Davidson motorcycles and Levi's jeans.

Source: *The Straits Times*, 23 June 2018

Extract 9: Nobody wants a trade war

Trade friction between China and the United States has been brewing for some time. With the Trump administration's announcement of unilateral tariffs on imports, targeted at China, the spectre of a trade war has never been clearer. But unilateral tariffs are not the correct solution. A trade war between the United States and China is far from inevitable, but if one breaks out, it will gravely undermine the rules-based multilateral system that has underpinned global prosperity since the end of World War II. Countries around the world, big and small, will be hurt.

What matters is not a country's bilateral trade balance with a specific trading partner but its overall trade balance with the rest of the world. Furthermore, the cause of a country's trade deficit lies at home. A trade deficit is the result of a country consuming more than it produces, and it is neither caused nor cured by trade restrictions.

Asia is the fastest-growing export market for US goods and services. As the world's second-busiest port and fourth-largest financial centre, Singapore is a global hub that connects the economies of the United States and Asia. A trade war between the two largest economies in the world will have a big, negative impact on Singapore.

Source: Lee Hsien Loong, *The Washington Post*, 18 April 2018

Questions

(a) With reference to Table 3, compare the US trade balance with China in 2013 and 2017. [2]

(b) Identify two categories in the current account apart from the balance of trade in goods and services. [2]

(c) With reference to the data, explain how you would decide whether a government was justified in imposing anti-dumping duties on the cheap Chinese steel. [4]

(d) Explain the possible relationships between a country's trade deficit and its economic growth. [4]

(e) Assess whether 'the charge by US that Japan, China and European Union are using the devaluation of their currencies to gain trade surpluses' is valid. [8]

(f) Discuss whether the imposition of tariffs is appropriate for a government when confronted with a balance of trade deficit and high unemployment. [10]

[Total: 30]