RAFFLES INSTITUTION
2026 YEAR 6 TIMED PRACTICE
Higher 2

ECONOMICS 9757/01

Paper 1 Case Study

June 2026

1 hrs 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name, index number and civics class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for diagrams, graphs or rough working.
Do not use paper clips, highlighters, glue or correction fluid.

Answer **all questions**.

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

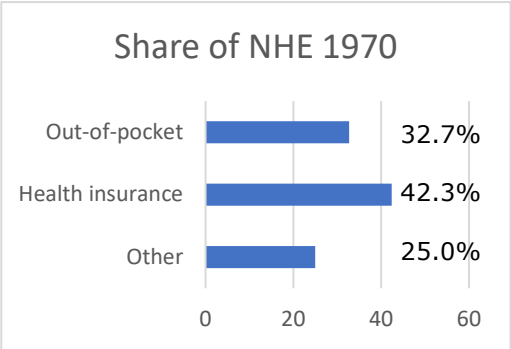
This document consists of **5** printed pages and **1** blank page.

Raffles Institution

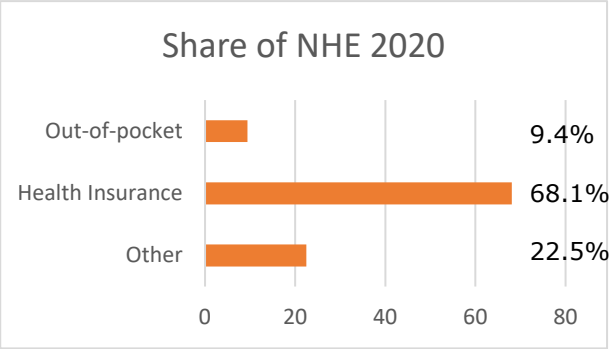
[Turn over

Question 1: Healthcare costs, pharma, price discrimination and patents

Figure 1: National Health Expenditure (NHE) in USA, 1970 and 2020



NHE in 1970: USD$100 billion



NHE in 2020: USD$4,000 billion

Source: Analysis of National Health Expenditure (NHE) data

Extract 1: Health expenditure on the rise

The average American spends an increasing amount of money on healthcare each year. According to the Center for Studying Health System Change, mergers and partnerships between medical providers are one of the more prominent trends in America's healthcare system. Increased provider consolidation has decreased market competition. Without this competition, these providers are in positions where they can drive up their prices unopposed.

The digital revolution is also having an impact on healthcare costs. Many patients are now able to access services such as professional consultations, testing and monitoring using the internet, wearables and other devices. These new avenues of competition have forced healthcare providers based in brick-and-mortar locations to drive up prices in order to cover their overheads. These technologically-enabled approaches to healthcare are likely to be one of the key forces driving down the cost of global healthcare in the future. But, for now, they remain at a premium.

Medical advances can improve our health and extend our life, but they can also lead to an increase in spending and the overutilization of expensive technology and drugs. Patients tend to associate more advanced technology and newer procedures and brand drugs with better care, even if there's little to no evidence to prove that they're more effective. This is fueled by the drugmakers' high launch prices of new brand medication.

Moral hazard issues in the health insurance have a part to play in the increased costs of healthcare too. Most insurers pay doctors, hospitals, and other medical providers under a fee-for-service system that reimburses each test, procedure, or visit. This can encourage a high volume of redundant testing and overtreatment.

Another prominent concern is that an increasing proportion of the U.S. population has at least one chronic disease, such as asthma, heart disease, high blood pressure, or diabetes. On top of that, nearly 40% of adults over 20 in the U.S. are either overweight or obese, which can lead to chronic diseases.

The health sector is also not spared from inflation. Inflation affects the costs of operations, supplies, administration, and facilities. Additionally, healthcare facilities have taken a hit due to continued staff shortages with more healthcare workers choosing to leave the profession.

Source: www.peoplekeep.com

Extract 2: Do public-health crises call for a departure from the rules?

With any luck, the world will be awash in covid-19 vaccines by the end of the year. For now, though, it is not, and of the billion or so doses that have been produced the vast majority have been administered in richer countries. Deaths, by contrast, are increasingly concentrated in poorer ones, like India, where only nine in every 100 people have been jabbed, compared with 64 in America. Some governments are floating radical options to remedy the mismatch. India and South Africa proposed that members of the World Trade Organisation waive intellectual-property (IP) protections for covid-fighting technologies, including vaccines. The economic argument for IP protections seems compelling: innovation is costly and risky. Pharmaceutical companies invest heavily in drug development with no guarantee of success. A short-term monopoly on production granted to innovating firms is needed to make the investments economically worthwhile. Patents and IP laws provide this protection.

Should some of these IP laws be waived in a pandemic that spreads so quickly and that continues to claim more than 10,000 lives a day? Advocates argue that the pandemic is clearly an extreme event that warrants an exemption from IP laws. While the IP laws have allowed the rapid creation and production of so many covid-19 vaccines from the long years of private investment in the associated technologies, there is no ignoring the vast public resources that made these efforts possible, from support for basic research to piles of government grants. Nor would a waiver endanger pharma firms' viability. Pfizer would still be highly profitable even if you excluded its expected vaccine-related profits of $4bn in 2021.

Yet industry interests are right to say that liberating IP regulations for covid fighting technologies would not unleash a flood of new production. Vaccines and other pharmaceutical products, like drugs for cancer treatment share similar production lines. Highly specialised manufacturing facilities, supplies of much of the equally specialised equipment required and other inputs including biobags (giant disposable plastic bags used to make drugs), filters and sterilisation gear, are already stretched thin by demands in the industry.

Source: www.economist.com

Extract 3: Big pharma the villain?

For much of the past two decades big pharma has been villainized for price-gouging, secretiveness and its neglect of global health problems. Big pharma investors are worried that citizens would eventually revolt against this "villain" and even rip up the patent system.

There is an alternative to taking a sledgehammer to the intellectual-property regime. Some governments are pushing vaccine producers to price their vaccines differently for different categories of consumers and countries by per capita income. This way, pharmaceutical companies can still make a handsome profit and continue to research new drugs and vaccines. Price discrimination could be a solution to increase market efficiency.

However, price discrimination has its own share of limitations; it could lead to political conflict if it is not done correctly and ethically through healthcare diplomacy, since different market prices could apply to different countries.

Source: www.economist.com

Extract 4: Price secrecy and discrimination

In an eight-day policy forum where health ministers define the goals for the World Health Organisation for 2020, the hottest topic is the high price of new medicines. Confidential price discounts allow manufacturers to charge different payers different prices. If final prices negotiated confidentially reflect each health system's ability to pay, such a pricing scheme would allow manufacturers to serve more markets than might be possible with more transparent pricing. Secretive negotiations, however, are just as likely to result in the lowest prices for countries with the greatest negotiating power. Indeed, there is evidence that list prices of some medications are higher in absolute terms and as a percentage of average income, in low and middle income countries than in high income countries. Secrecy makes it virtually impossible to guard against such inequity in final pricing. But allows plenty of opportunity for corruption.

In February the Italian health minister, Giulia Grillo, published a draft resolution on drug pricing. It calls for international action to improve the transparency of prices. Drug firms are not pleased. They argue that greater price transparency will mean that poor countries will no longer get good deals, because firms will not want to undermine their ability to extract high prices from wealthier states.

Source: www.bmj.com

Questions

a) i) Identify and explain a fixed cost and a variable cost for a pharmaceutical company. [2]

ii) Explain how fixed costs may have an impact on the size of firms in the pharmaceutical industry. [2]

b) i) With reference to Figure 1, describe the changes in the level and composition of national healthcare expenditure in USA. [2]

ii) Discuss whether demand or supply factors are more significant to account for the change in the level of national healthcare expenditure in USA. [8]

c) i) Define price discrimination and identify the conditions necessary for price discrimination to take place. [2]

ii) Explain the challenges to a pharmaceutical firm in undertaking price discrimination. [4]

d) Extract 2 suggests that governments should waive intellectual-property protections for COVID fighting technologies.

Discuss whether this is justified. [10]

[Total: 30 marks]

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