ANDERSON SERANGOON JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION
Higher 2

ECONOMICS **9570/01**

Paper 1 **20 August 2025**

Additional Materials: Answer Booklet **2 hours 30 minutes**

READ THESE INSTRUCTIONS FIRST

An answer booklet will be provided with this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer booklet, ask the invigilator for a continuation booklet.

Answer **all** questions.

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

This document consists of **8** printed pages and **4** blank pages.

Answer **all** questions.

Question 1: The travel industry: A dilemma for the government

Table 1: Air fare and passenger airline revenue

Year	Average air fare ($)	Passenger airline revenue as a percentage of operating revenue (%)
2018	359	74.0
2019	357	73.8
2020	261	63.7
2021	327	58.5

Source: *Bureau of Transportation Statistics*, *US Department of Transportation,* April 2025

Table 2: Estimated income elasticities of passenger demand

Countries	Short haul flights	Very long-haul flights
Developed	1.3	2.2
Developing	1.8	2.5

Source: *Travel Ready.Org*. accessed 4 August 2025

Extract 1: The world's most disappointing tourist attractions: what travel guides don't always tell you

When people dream of travel, they often imagine magical moments, perfect-picture scenery, and unforgettable experiences. But sometimes, reality doesn't match expectations. While certain destinations are promoted worldwide as must-see attractions, many travelers leave feeling underwhelmed, disappointed, or even frustrated. Whether due to overcrowding, commercialisation, inflated prices, or lack of authenticity, some of the most famous tourist spots around the globe fail to live up to the hype.

Times Square in New York City is a classic example. Featured in countless movies and ads, it's marketed as the heart of the Big Apple. But for many, the experience is more overwhelming than inspiring. It's often crowded to the point of discomfort, noisy, and filled with aggressive street performers and overpriced stores. Visitors expecting a glamorous cultural hub often find themselves dodging costumed mascots and struggling to enjoy the surroundings.

Travel is as much about expectation management as it is about destination choice. The disappointment doesn't always lie in the site itself, but in the gap between what's promised and what's delivered. Social media plays a large role in shaping unrealistic visions of travel, where every moment seems magical and every destination flawless.

Source: *https://vocal.media/wander*, April 2025

Extract 2: The world's biggest airport cost £23bn to build and has more runways than Heathrow

A colossal new airport is set to open at the end of the decade, becoming the largest in the world.

King Salman International Airport, opening in Riyadh, Saudi Arabia is undergoing major works as part of the country’s £1trillion Vision 2030 building project. When finished, the airport is planned to have six runways and serve an estimated 120 million passengers. The country hopes to increase the numbers using King Salman International Airport to 185 million by 2050. The site is planned to span 35 square miles, around a fifth of which has been put aside for retail outlets. The construction works are projected to create 150,000 jobs, in roles ranging from air traffic control operators to baristas at the retail section's eateries.

Source: *The Daily Express, UK*, 23 November 2024

Extract 3: How technology is changing the role of travel agents

The impact of technology on travel agencies is being felt in a number of ways. Services to clients are increasingly focused and travel is becoming more experiential-based than destination-driven.

- Technology is providing the data needed to help agency managers streamline their operations, reduce costs, and improve revenues.

- Customer service is becoming easier, faster, and more cost-effective. Social media is one technology tool that enables a small number of staff to handle large numbers of inquiries, forward automated alerts to update travelers on delays and wait times and share interesting industry information.

- Online data gathering is pervasive and a bit creepy, yet it also is useful in that it enables the travel agent to more effectively customize travel to the client’s interests, comfort, and well-being.

Among the more important technologies, a travel agent must employ are mobile technology, social media, and the human touch. Social media is one of the more significant tools major businesses are employing to build brand awareness and customer relationships.

Finally, the human touch. No technology on earth replaces the importance of the human touch. Computers and analytics can spout all manner of trending data but it takes the travel manager or agent to put that data to use to personalize each client’s travel. Technology doesn’t build relationships – humans do.

Source: *Travel Technology and Solutions*, 4 August 2023

Extract 4: Negative impacts of tourism in Bali

For some countries, the decision to impose restrictions on tourism may not be an easy one. Bali has been experiencing significant economic growth thanks to the surge in tourism. The influx of visitors has brought in tremendous revenue to the local economy, allowing the region to invest heavily in various infrastructure projects. The island now boasts modern facilities, high-end accommodations, and top-notch dining options, attracting even more tourists to this vibrant location. With the expansion of new attractions, Bali’s economy shows no signs of slowing down, and the local market continues to thrive. There is no denying that tourism has become a crucial driver of economic growth in Bali, bringing with it endless opportunities for progress and development.

Tourism has undoubtedly provided financial benefits to Bali, but the extent of these gains is debatable. Unfortunately, much of the wealth generated is not finding its way into the hands of local businesses and individuals, which is concerning. Instead, multinational companies appear to be reaping most of the rewards. This has created a negative impact on the local economy, as Bali is becoming increasingly reliant on outside businesses for revenue. As a result, the Balinese are struggling to keep their businesses afloat, which can have significant consequences for the island's overall economic stability.

Thus, while the tourism sector stimulates economic activity and creates jobs, the negative effects associated with overtourism often outweigh their economic benefits.

Source: *Victoria Heinz, Unsustainable Magazine*, 10 July 2023

Extract 5: Countries around the world are battling overtourism. Could a hub like Singapore be next?

Amid the slew of overtourism reports globally, Singapore, a hub in itself, would appear to stand far from the madding crowd. The millions of visitors descending on the small nation have not led to any major negative effects on the quality of life for citizens, which experts and authorities attribute to a focus on well-planned infrastructure as well as tourist spending over numbers. Still, is there a risk of this worldwide phenomenon catching up to Singapore – and how prepared is it to deal with such a possibility?

Singapore's tourism strategy takes reference from a 2018 World Tourism Organisation report, which calls for tourism to be developed and managed sustainably for both visitors and local communities. In this vein, Singapore has pursued "quality" tourism, attempting to attract target audiences with quality offerings "to prioritise growth in tourism spending over growth in tourism arrivals", said Ms Dong Limin, director for tourism human capital and sustainability of the Singapore Tourism Board (STB). Experts said this approach is one reason why Singapore has yet to face overtourism.

Singapore's tourism offerings are also well-defined. For example, a Porsche Experience Centre will be set up by 2027 at the Changi Exhibition Centre. A new world-class wellness attraction is also in the works for the southern coast of Singapore, near Marina Barrage. These attractions can connect with specific groups of visitors who could be deemed as discerning travellers. Instead of mass tourism, Singapore aims to attract affluent visitors with greater propensity to spend. Ms Dong from STB pointed back to Singapore's sustainable tourism strategy, and its alignment with the country's broader Green Plan 2030, as the way forward.

Singapore continues to ramp up efforts in the tourism industry and is pumping in more than S$300 million to continue its post-pandemic recovery, to not just develop new offerings but rejuvenate existing ones.

Source: *Channel News Asia*, 3 August 2024

Questions

(a) With reference to Table 1 and using a demand and supply diagram, explain the relationship between air fares and passenger airline revenue between 2019 and 2020. [3]

(b) With reference to Table 2, compare the income elasticity of passenger demand for air travel between short-haul and long-haul flights for both developed and developing countries. [2]

(c) With reference to Extract 1, explain the effect of information failure on the tourism market. [3]

(d) With reference to Extract 2 and using the concept of minimum efficient scale, explain why airports tend to be natural monopolies. [4]

(e) Discuss whether adopting new technology is the best way for travel agencies to remain competitive. [8]

(f) With reference to data and your own knowledge, discuss whether market failure issue is more important than economic growth as a reason for government to intervene in the tourism market. [10]

[Total: 30]

Question 2: Maintaining stability and navigating global uncertainty

Extract 6: Global economic prospects

Global growth is expected to slow to 2.4 percent in 2024, the third consecutive year of deceleration, reflecting the lagged and ongoing effects of tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and anemic global trade and investment. Against this backdrop, policy makers face enormous challenges and difficult trade-offs.

Elevated levels of public debt and borrowing costs limit fiscal space, creating significant challenges for countries as they strive to enhance fiscal sustainability while meeting growing investment demands. To boost longer-term growth, structural reforms are needed to accelerate investment, improve productivity growth, and close gender gaps in labor markets. A substantial fiscal budget deficit can undermine both consumer and investor confidence in the economy. Households and firms may anticipate future austerity measures which the government might need to implement to address the deficit.

Source: Adapted from *World Bank, Global Economic Prospects,* January 2024

Table 3: Key economic indicators for Taiwan and Singapore, 2020 to 2023

	Taiwan				**Singapore**			
Year	**2020**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Real GDP growth (%)	3.42	6.72	2.68	1.12	-3.83	9.77	4.11	1.82
Inflation rate (%)	-0.24	1.97	2.95	2.49	-0.17	2.32	6.13	4.83
Unemployment rate (%)	3.85	3.95	3.67	3.48	3.00	2.65	2.10	1.93
Fiscal balance (% of GDP)	-2.67	-2.31	-1.81	-2.27	-7.95	-1.18	-0.67	0.94
Current account balance (% of GDP)	14.41	15.23	13.26	13.98	17.50	19.80	18.42	17.69

Source: *IMF, World Economic Outlook Database*, accessed 3 July 2025

Extract 7: **Hub of the global chip industry**

Back in the 1980s, Taiwan's government wanted to establish a zone that specialised in manufacturing and research and development for the technology industry. The Hsinchu Science Park started off as a hub for personal computer production, with the government dangling carrots such as tax and land incentives to entice companies to set up shop there. But a decade later, the science park shifted to become something else: the place for high-end semiconductor production.

"This park has been at the center of Taiwan's efforts to first build the technological capacity to have a chief industry and second; to train the workforce that the industry requires, and lastly: incubate most of the key firms that have emerged in Taiwan," says Chris Miller, author of Chip War: The Fight for the World's Most Critical Technology, "It's a really interesting and successful mix of education and training programs where it's easy for firms to get established and find partners and skilled workers."

Today, Taiwan is a key link in the global technology supply chain for companies such as Apple Inc. and Nvidia Corporation, and is home to the world's largest contract chipma Semiconductor Manufacturing (TSMC).

Innovation continues to be the essence of national strength. Recognising the need to maintain its global competitive edge, Taiwan must transition from an OEM-based economy to one focused on technological innovation. To connect with innovative technologies from Silicon Valley and help Taiwanese industries seize new opportunities driven by Internet of Things (IoT), the National Development Council (NDC) formulated the "Asia Silicon Valley Development Plan". The plan aims to drive Taiwan's new economic development with two main drivers: "stimulating economic growth through innovation and entrepreneurship" and "promoting industrial transformation and upgrading through IoT."

Source: *Various*

Extract 8: Singapore’s macroeconomic performance and prospects

Singapore’s growth momentum has moderated in the face of strong external headwinds. In particular, the manufacturing sector weakened sharply, driven by falling exports of goods. However, the service sector remained strong, due to the revival of tourism as well as relatively resilient private consumption.

In the near term, mounting inflationary pressures present a significant challenge. Geopolitical tensions have heightened the risk of surging commodity prices, while domestically, wage pressures continue to build. Adding to these pressures is the planned increase in the Goods and Services Tax (GST) from 7% to 8%, effective 1 January 2023, which requires careful monitoring of its impact on prices and consumer behaviour.

Given the regressive nature of GST, the government has implemented targeted support measures to mitigate its impact on households. The GST Voucher scheme has been strategically enhanced to provide tiered cash payouts based on income levels and property ownership status. Additionally, the Assurance Package has been strengthened with an injection of S$3.0 billion to help Singaporean households cope with rising living costs and offset the effects of the GST rate increase.

The ASEAN+3 Macroeconomic Research Office endorses Singapore's adherence to its fiscal rule, which mandates a balanced budget over each government term. The government's approach to inflation relief and GST support has been particularly noteworthy for its careful design. By providing targeted and time-bound financial assistance, the authorities have successfully supported households while avoiding market distortions through price controls. This strategy aligns with the fundamental principle that higher living costs should be shouldered by real wage growth over the longer term.

Source: adapted from *ASEAN+3 Macroeconomic Research Office Annual Consultation Report Singapore*, 5 October 2023

Questions

(a) **(i)** Compare the fiscal balance of Taiwan and Singapore from 2020 to 2023. [1]

(ii) With reference to Extract 6, explain two reasons why it is desirable for countries to "enhance fiscal sustainability". [4]

(b) Using the concept of Production Possibility Curve, explain the possible short-term and long-term consequences on living standards of increasing research and development efforts in Taiwan. [4]

(c) Assess the reasons why Taiwan chose to specialise in the production and export of semiconductors. [8]

(d) With reference to Extract 8, explain how transfer payments such as the GST Voucher scheme can help to improve income distribution. [3]

(e) Discuss whether supply-side policy to increase real wage growth is the best way for countries to deal with higher living costs. [10]

[Total: 30]

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