

# economics case study questions

## Questions on data/trend

- Describe/Identify/Summarize/Define [2m]
  - Overall For data measured in absolute figures (price, qty, index numbers e.g. CPI) → increase/decrease
    - Refinement
      - **Reversal** of trend
        - E.g. if overall direction is increasing, find time period where it moves in opposite direction
      - Identify if data has **2 distinct halves**
        - One half rising, the other falling
      - Identify periods of sharp changes
        - Preferably opposite to overall direction
      - Identify periods of max or min
        - Preferably opposite to overall direction
      - **Rate** of change
    - Overall: for data on exchange rate: appreciated/depreciated
      - Same refinement as above
    - Overall: for data on CA/budget **balance**: surplus/deficit
      - Refinement: surplus/deficit is **widening/narrowing**
      - E.g. US has budget deficit throughout. The budget **deficit has increased** from 2007 to 2009.
  - Overall direction: look at where it begins and where it ends
    - **\*% change on previous year: rate of change**
      - **Anything >0: variable has increased**
      - **But if magnitude drops, decreasing rate**
    - Can use 'fluctuating' to describe
      - E.g. In general, value of X rising at fluctuating rates.
    - Refinement
      - E.g. However, towards the end of 2008, the value of exports declined sharply. (<0)
  - Describe trend in...
    - Real GDP
      - Identify which set: at 2005 (base year) market prices
      - Refinement
    - Profits
      - Revenue-Cost
  - Using data to deduce relationship
    - State relationship: **positive/inverse**
  - Comparing trend of TWO variables
    - **Similarity** [1m] and **Difference** [1m]
      - E.g. Similarity: both X and Y increasing; difference: rate of increase is higher for X than Y
    - **Or both differences!**
    - GDP  $\neq$  growth **rate!**

**Example: Using Figure 1, compare the ridership between the different modes of transport between 2005 and 2010. [2]**

[1]: Identify **similarity in ridership trend** over time for bus and MRT or **difference in trend** between bus 1 and taxi or MRT and taxi.

Examples that can secure 1 mark:

- There is a rising trend for average daily ridership for bus and MRT but a fall in average daily ridership for taxi over the period.
- There is a rising trend for average daily ridership for both bus and MRT

- There is rising trend for average daily ridership for bus but a fall in average daily ridership for taxi over the period.
- MRT/LRT ridership shows the greatest increase.

[1]: Identify **relative position** in ridership between bus and taxi.

Examples that can secure 1 mark:

- Average daily ridership is **highest for travel by bus** across all the other modes of transport while it is the lowest for taxi ridership over the period.
- Average daily ridership is highest for travel by bus
- Average daily ridership is lowest for taxi ridership

Trend questions normally followed by question that asks for reasons for the trend

Look at mark allocation

- 3m: demand reason/supply reason [2m] correct diagram [1m]
- 4m: demand reason **AND** supply reason [3m] correct diagram [1m]

## Question on Price Mechanism

- DD & SS factors
- Elasticities of DD & SS
- Price controls

### Demand and Supply

Micro market	Macro market
<p><b>'Market'</b> → direct answer to equilibrium Price &amp; Quantity of goods in context</p> <p>Use DD/SS framework</p> <p><i>If factors are given in the case material, use it, if not, recall from notes</i></p> <p><i>Sometimes may be expected to hypothesize a relevant DD and SS factor from case</i></p>	<p>AD/AS framework</p> <p>(e.g. demand/supply of labour)</p>
<p>Possibility of including <b>evaluation</b> by discussing <b>EXTENT OF CHANGE</b> in P&amp;Q</p> <ul style="list-style-type: none"> <li>- Relative shifts</li> <li>- PED</li> <li>- Make a stand as to why you think (e.g.) DD increase &gt; SS increase</li> </ul>	
<p>SIMULTANEOUS SHIFT in DD and SS → especially when changes in DD and SS produce <u>competing changes</u> in direction of P&amp;Q changes</p>	
<p>[2m] → 1 factor</p> <p>[3-5m or more] → 2 factors</p> <ul style="list-style-type: none"> <li>- Include 1 DD and 1 SS factor</li> <li>- <u>Extent of change</u> in P&amp;Q <ul style="list-style-type: none"> <li>○ E.g. PED/PES</li> </ul> </li> <li>- <u>Diagram if needed</u></li> </ul>	

### Elasticities of DD and SS

- Use of PED to analyze impact on TR
- Given evidence, conclude about PES of good
- **Reason** for good to have  $PED < 1$ ,  $YED > 0$ ,  $XED$ 
  - **S H I T (PED)**
- How low stocks (agri products) affect the extent of rise in SR (PES)

## Price controls

- Effectiveness of max price
  - When a price ceiling would be effective: if the equilibrium price is above the maximum price set by the price ceiling [Price Ceiling: below equi. Price; Price Floor: above equi. Price]
  - Identify if given price in question is above or below the highest price in the case evidence; is there a time period to consider & hence period of effectiveness?
    - P ceiling ineffective before March because highest price was < maximum price
    - Only effective from March onwards because market price was > maximum price proposed
- Effect of food price control on... (e.g. producers' revenue)
  - Establish that price control below free market equilibrium → price ceiling
  - Identify type of outcome
  - Diagram of price ceiling with accurate labelling of
    - Free market equilibrium price and
    - Controlled price correctly to get 1m for diagram
- Discuss whether max price legislation is the most appropriate way of responding to falling real disposable incomes in the UK [10m]

## Questions on Market Structure

- Type of market structure
- How firms compete with one another (price vs non-price strategies)
- Merits and demerits of the given market structure
  - Usually tied in with govt intervention
  - Which would mean another micro topic is involved → market failure (market dominance)
- Impact on profits

## Type of market structure

- E.g. Oligopoly
  - [2m]
    - Characterized by a few large firms controlling most of the market / Few firms with large market share (each <30% from Fig. 1)
      - (Note: non-price competition very intense as well due to mutual interdependence)
    - Can be seen from the **high 4-firm concentration ratio** (74%) in the UK supermarket market (concentration ratio used to identify degree of competitiveness in oligopolistic market) or
    - **CANNOT** say 'characterized by high BTE' because it is also shown in monopoly → **not** unique to oligopoly!
  - [3m]
    - Characterized by...
    - Can be seen from...
    - High BTE (high fixed costs of getting rights/licenses) from Extract 1 (third mark)
- If no graph/table to show concentration ratio, search extracts for info. Need to know your market structure characteristics well.
  - E.g. mergers & acquisition → oligopoly
  - E.g. 'There is mention of intensification of price competition, an important feature of oligopoly, as firms compete to drive out other firms to increase market share and power.'

## Microeconomics

Survival:

Ability to earn at least normal profits in the long run

Ability to survive in turn dependent on both revenue and cost factors

Revenue

Cost

1. Degree of substitutability → affects demand and XED	1. Extent to which Total Costs is covered by TR <ul style="list-style-type: none"> <li>a. If making subnormal profits, would choose to shut down only if <math>AR &lt; AVC</math> in the SR</li> <li>b. LR: whether they are able to generate enough total revenue to cover all costs</li> </ul>
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#### X-inefficiency

Firms will also be less x-inefficient due to increased competition and **cannot afford to have lax cost controls**.

Hence, they **may not pass the higher cost due to inefficiency to consumers now**, and consumers benefit from lower prices.

## Macroeconomics

- Questions on current account balance
  - Clearly state position of current account balance i.e. surplus or deficit
- Explain why the values of GDP/capita (USD) are lower than GDP/capita (PPP USD) from 2009 to 2013.
  - PPP accounts for cost of living differences between the 2 countries.
  - Thus, as cost of living is higher in the US, the same amount of GDP can buy less goods
- Use the concept of opportunity cost to explain the effect on Health Services arising from rising demand for healthcare and falling healthcare budget.
  - Identify problem of scarcity: rising demand for healthcare but falling budget (limited resources but unlimited wants)
  - Identify choice arising from scarcity – needs to decide how to allocate scarce resources. If it allocates more resources to treat the elderly, it will have fewer resources to treat other ailments for other patients
  - Identify next best alternative forgone – e.g. younger patients with obesity related ailments

## Variations of trend question

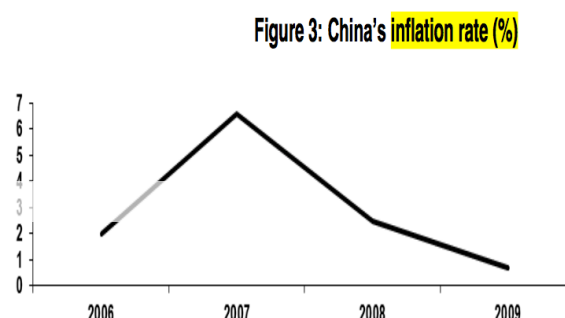
### □ Trend in inflation rate versus general price level

#### Sample question – HCI Prelims 2012

Describe the trend in the **general price level** in China between 2006 and 2009

The general price level

In China is **rising** between 2006 and 2009



Explain what is meant by GDP at 2005 prices. [2]

1. Define GDP:

- a. GDP refers to the total value of all final goods and services produced in a country within a given period of time.
2. Define *real* GDP:
  - a. GDP at 2005 prices refers to real GDP whereby the effects of inflation has been eliminated. 2005 is used as the base year. Increases in GDP due to increases in output, not price of goods.

Purchasing power parity	Converts GDP per capita to common currency using the Purchasing Power Parity exchange rate. It accounts for differences in cost of living and converts GDP per capita in India to have the same purchasing power as the USD in the US.
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Inflation	Refers to a sustained increase in general price level over time
Inflation rate (%)	Can be computed by <b>comparing nominal GDP with real GDP</b> Calculated by using the formula: $\frac{(\text{GDP at current prices} - \text{GDP at 2005 prices})}{(\text{GDP at 2005 prices})} \times 100\%$ OR $\frac{(\text{CPI in 2012} - \text{CPI in 2011})}{(\text{CPI in 2011})} \times 100\%$

Technical recession	Where the economy experiences <b>two successive/consecutive quarters of negative growth.</b>
Recession	Economy experiences two or more consecutive quarters of negative economic growth.

Injectons	Leakages/Withdrawals
Investment expenditure (I) Government expenditure (G) Export revenue (X)	Savings (S) Taxes (T) Import expenditure (M)

#### Factors affecting impact on national income of an increase in a component of AD

1. Size of multiplier
2. State of economy (availability of spare capacity)
  - a. If at full capacity, any increase in injection will not increase RNY. This is because the economy **experiences bottlenecks in production**. It will only increase GPL from P0 to P1. The increase in GPL will **dampen the multiplier effect** as each round of induced consumption is weakened by the increasing GPL.
3. Size of increase in component of AD
4. Ceteris paribus assumption

#### Theory of Comparative Advantage

TCA states that so long as there are differences in opportunity cost between two countries in producing goods and services, countries can potentially gain from specialization and trade. A country should specialize in the good she has a lower opportunity cost in producing, while importing the good she has a comparative disadvantage in. These differing opportunity costs are often due to different factor endowments.