kJ1 June Intensive Revision

**CSQ – Lesson 1 – Demand and Supply / Elasticity of Demand and Supply / Government Regulation – Q3**

**Changing Retail Climate in Singapore, Research and Development in US**

**Table 1: % Change in Retail Sales**

|  |  |
| --- | --- |
| **Sectors** | **Year-on-Year** |
| Department Stores | 1.3 |
| Medical Goods & Toiletries | 9.6 |
| Motor Vehicles | 35.9 |
| Wearing Apparel & Footwear | -0.5 |
| Furniture & Household Equipment | -0.8 |
| Supermarkets | -1.0 |
| Watches & Jewellery | -2.2 |
| Mini-marts & Convenience Stores | -5.1 |
| Optical Goods & Books | -6.8 |
| Recreational Goods | -6.9 |
| Telecommunications | -8.2 |
| Food & Beverages | -11.4 |
| Petrol Services Stations | -15.8 |

Source: Department of Statistics Singapore, 2015

**Extract 1: Singapore Changing Retail Climate**

Average monthly rent across Singapore declined by 1.2% while rent in the suburban areas fell by 1% in the first quarter of 2016 compared to the previous quarter.

Retail rents in Orchard/Scotts Road continued to encounter headwinds. According to the latest URA statistics, occupancy rate in that area fell by 2.1% to 92.3% in 2015, the lowest since 1996. Although visitor arrivals, which form the bulk of shoppers in the prime shopping district, inched up 0.9% in 2015, much of the increase was because of the low base in 2014 that resulted from aviation disasters. Compared to 2013 - a more representative year - visitor arrivals actually declined by 2.2% attributed to a relatively strong Singapore dollar that made shopping here more expensive.

Retailers in Orchard/Scotts Road also face competition from neighbouring places such as Bangkok, South Korea and Taiwan, which possess distinctive cultures and offer affordable shopping. Apart from weaker business sentiment, their rents were also pressured by the relatively large impending supply in 2016. Mixed-use projects slated to complete in the area include OUE Downtown Gallery (177,000 sq ft), Tanjong Pagar Centre (100,000 sq ft) and Duo Galleria (56,000 sq ft).

Source: Adapted from *The Straits Times*, 5 April 2016

**Extract 2: Strategy of Retailers**

Many retailers have recently undergone revamps to include private rooms which are fitted with superior furnishings despite the dismal retail climate. They are placing greater emphasis on providing highly personalised services. This encourages shoppers to patronise the physical outlet, it also gives shoppers a sense of exclusivity.

The newly opened Tiffany & Co outlet at Ion Orchard will have its first street-facing store in Singapore, the two-storey outlet also showcases a private viewing space with custom furnishings to include luxuriously-fitted lounge areas. A personal stylist is also present at its store to provide shoppers with fashion advice.

Source: Adapted from *The Straits Times*, 5 April 2016

**Extract 3: The Need for Government Intervention**

Technological prowess may help a country reap the financial and employment benefits of leadership in a strategic industry. A cutting-edge scientific or technological center can create a variety of spillovers that promote innovation, quality, skills acquisition, and productivity in industries located nearby; such spillovers are the reason that high-tech firms often locate in clusters or near leading universities. To the extent that countries gain from leadership in technologically vibrant industries or from local spillovers arising from inventive activity, the case for government support of R&D within a given country is stronger.

The primary economic rationale for a government role in R&D is that, without such intervention, the private market would not adequately supply certain types of research. The argument, which applies particularly strongly to basic or fundamental research, is that the full economic value of a scientific advance is unlikely to accrue to its discoverer, especially if the new knowledge can be replicated or disseminated at low cost. As a result, market forces will lead to underinvestment in R&D from society’s perspective, providing a rationale for government intervention.

Source: Adapted from *Issues in Science and Technology*, 2011

# Extract 4: Promoting Research and Development in US

Governments in many countries directly support scientific and technical research; for example, through grant-providing agencies or through tax incentives (like the R&D tax credit). In addition, the governments of the United States and many other countries run their own research facilities, including facilities focused on non-military applications such as health.

Immigration is another path for increasing the supply of highly skilled scientists and researchers. The technological leadership of the United States was and continues to be built in substantial part on the contributions of foreign-born scientists and engineers. And, contrary to the notion that highly trained and talented immigrants displace native-born workers in the labour market, scientists and other highly trained professionals who come to the United States tend to enhance the productivity and employment opportunities of those already here, reflecting gains from interaction and cooperation and from the development of critical masses of researchers in technical areas. More generally, technological progress and innovation around the world would be enhanced by lowering national barriers to international scientific cooperation and collaboration.

Another possible policy response to the market under-provision problem would be to substantially strengthen the intellectual property rights regime; for example, by granting the developers of new ideas strong and long-lasting claims to the economic benefits of their discoveries - perhaps by extending and expanding patent rights. This approach has significant drawbacks of its own, however, in that strict limitations on the free use of new ideas would inhibit both further research and the development of valuable commercial applications.

Source: Adapted from *Issues in Science and Technology*, 2011

**Questions**

1. With reference to Table 1, identify the main features of the change in retail sales. [2]
2. Using evidences in Extract 1, explain two demand factors that led to the fall in the retail sales volume of Singapore’s prime shopping district. [4]
3. Comment on the expected changes in rent by end 2016. [4]
4. Discuss the usefulness of PED to a retailer such as Tiffany & Co who aims to maximise profits. [6]

[Total 16]

**Suggested Answers**

**(a) With reference to Table 1, identify the main features of the change in retail sales. [2]**

All experienced a fall in retail sales with the exception of department stores, motor vehicles and medical goods/toiletries.

The biggest contributor to the fall in retail sales is from petrol station service.

**(b) Using evidences in Extract 1, explain two demand factors that led to the fall in the retail sales volume of Singapore’s prime shopping district. [4]**

A relatively strong Singapore dollar, deters tourists from choosing Singapore as their holiday destination because it made shopping in Singapore relatively more expensive than compared to other holiday destinations. This led to a fall in visitor arrivals which hurt the retail climate in Singapore, especially the prime shopping district which is reliant on tourism.

The growth of the retail scene in regional countries such as Bangkok, South Korea and Taiwan drew Singaporean shoppers away. There is a change in taste and preferences of Singaporeans towards these alternatives as they more affordable and distinctive in culture.

Both the above factors lead to a fall in demand of retail sales of Singapore’s prime shopping district and hence a fall its retail sales volume.

**(c) Comment on the expected changes in rent by end 2016. [4]**

As explained in part b, retailers faced challenging times as they suffered from a fall in retail sales volume, c.p, which affected their profitability. This led to shutting down of many retailers as evident by the lower occupancy rate (Extract 1). The fall in derived demand for retail space lead to a fall in rent.

As evident in Extract 1, new projects such as OUE Downtown Gallery, Tanjong Pagar Centre and Duo Galleria, slated to be completed in 2016 will increase the overall supply of retail spaces in Singapore.

Extract 1 also mention that rents were pressured by a relatively large impending supply. Hence, it is likely that the increase in supply is more than the fall in demand leading to an expected fall in rent by end 2016.

**(d) Discuss the usefulness of PED to a retailer such as Tiffany & Co who aims to maximise profits. [6]**

The knowledge of PED is useful to a retailer such as Tiffany & Co in formulating its pricing strategy to a small extent. Tiffany & Co. is a maker of fine jewellery and has been at the forefront of the world’s greatest design movements. Its PED is likely to be price inelastic given its strong brand positioning in the market which makes their target audience less sensitive to price changes. Thus, when the demand for its jewellery is price inelastic, an increase in the price of their product will lead to a less than proportionate fall in quantity demanded. The gain in total revenue due to the rise in price is greater than the loss in total revenue due to the fall in quantity demanded. This will lead to an increase in total revenue, c.p and hence maximise its profits.

However, a retailer can also adopt non-pricing strategy and look into ways to manage their operating costs in order to maximise profits. As evident in Extract 2, Tiffany & Co. is investing in providing highly personalised services to instil a sense of exclusivity for their esteemed customers. Their newly opened street-facing outlet, a first in Singapore, boasts a private viewing space with luxuriously-fitted lounge areas. This strategy will result in an increase in demand for their product and hence leading to an increase in total revenue.

Nonetheless, this investment will definitely be hefty and will add on to their operating costs in terms of rental, renovation and wages. However, so long as the increase in returns from their adopted strategies exceeds the increase in operating cost, Tiffany & Co. will be able to maximise their profits.

In conclusion, the knowledge of PED is useful to Tiffany & Co. but non-pricing and cost management strategies are also very important. This is because PED data may be inaccurate or may change over time. It may be affected by many other factors in reality, such as counter strategies adopted by competitors and economic conditions that will affect the profitability of a retailer. Hence, the reliance on PED to formulate the pricing strategy may be limited in its effectiveness.