



ANDERSON JUNIOR COLLEGE

JC2 PRELIMINARY EXAMINATION 2018

Higher 2

ECONOMICS

9757/01

Paper 1

29 August 2018

2 hours 15 minutes

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided 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 your answer to **each question** on a **fresh sheet** of writing paper.

At the end of the examination, **fasten your answers to each question separately**. Fasten **this cover page** in front of your answers to **Question 1**.

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

Name: _____ ()

PDG: _____

Question Number	Marks Awarded
1	/30
2	/30
Total Marks	

This document consists of **8** printed pages and 1 blank page.

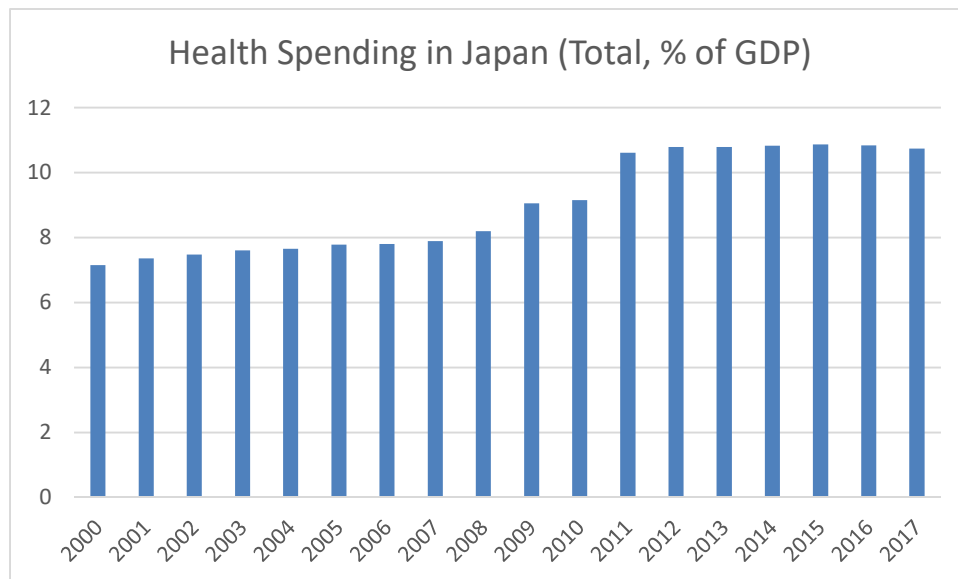
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Answer **all** questions.

Question 1: Aging population: Burden or opportunity?

Figure 1: Health Spending in Japan



Source: *OECD*

Extract 1: Japan's demographic time bomb is getting more dire, and it's a bad omen for the country

An aging population like Japan's poses numerous problems. The government will have to spend more on healthcare, and that, coupled with a shrinking workforce and tax base, is a recipe for economic stagnation. It also means, among other things, that there will not be enough young people to care for the elderly.

"An aging population will mean higher costs for the government, a shortage of pension and social-security-type funds, a shortage of people to care for the very aged, slow economic growth, and a shortage of young workers," Mary Brinton, a Harvard sociologist, told *Business Insider* last year.

Source: *Business Insider*, 6 June 2018

Extract 2: Nursing care workers hard to find but in demand in aging Japan

As the nation's population rapidly greys, ensuring there are enough nursing care workers to meet growing demand has become a pressing issue. There has actually been a rise in nursing care workers. However, this has failed to keep pace with the rapidly growing demand, resulting in a nursing care industry with a chronic shortage of manpower. Considering Japan's declining workforce, the labour shortage in the industry is expected to worsen over time.

The government seeks to add 250,000 more nursing care workers to the system from 2017 by improving their working conditions and increasing their average monthly pay by 10,000 yen. But the state has not made clear how it will finance this.

The government also plans to create new nursing care facilities to accommodate 500,000 more users by the beginning of 2020. This, however, has been questioned by industry experts who argue that in densely populated urban areas, the lack of workers is more acute than the shortage of facilities.

The increasing difficulty in finding enough workers has led more facilities to rely on temporary staff dispatched from agencies, and some have reduced services. To lessen the burden on staff, some nursing care facilities are starting to use robotics, including wearable units for elderly people and care workers.

Source: *Japan Times*, 27 June 2016

Extract 3: Japan's shrinking population not burden but incentive

Prime Minister Shinzo Abe said Japan's aging, shrinking population was not a burden, but an incentive to boost productivity through innovations. Abe's comments on Wednesday came days after official data showed that Japan has 34.6 million people aged 65 and older, or 27.3% of the population - the highest proportion among advanced nations.

"I have absolutely no worries about Japan's demography," Abe said at a Reuters Newsmaker event, noting that nominal gross domestic product had grown despite losing 3 million working-age people over the last three years. "Japan may be aging. Japan may be losing its population. But these are incentives for us," he said. "Why? Because we will continue to be motivated to grow our productivity," Abe added, citing robots, wireless sensors, and artificial intelligence as among the tools to do so. "So, Japan's demography, paradoxically, is not an onus, but a bonus."

Abe has focused on mobilising women and the elderly to compensate for a shrinking workforce rather than tackle head-on the politically touchy topic of immigration, although some changes are being considered on that front.

Source: *Reuters*, 21 September 2016

Extract 4: Aging Japan: Robots may have role in future of elder care

Robots have the run of Tokyo's Shin-tomi nursing home, which uses 20 different models to care for its residents. The Japanese government hopes it will be a model for harnessing the country's robotics expertise to help cope with a swelling elderly population and dwindling workforce. Allowing robots to help care for the elderly - a job typically seen as requiring a human touch - may be a jarring idea in the West. But many Japanese see them positively, largely because they are depicted in popular media as friendly and helpful. Plenty of obstacles may still hinder a rapid proliferation of elder care robots: high costs, safety issues and doubts about how useful and user-friendly they will be.

The Japanese government has been funding development of elder care robots to help fill a projected shortfall of 380,000 specialised workers by 2025. Authorities and companies in Japan are also eyeing a larger prize: a potentially lucrative export industry supplying robots to places such as Germany, China and Italy, which face similar demographic challenges now or in the near future. A few products are trickling out as exports: Panasonic Corp has started shipping its robotic bed, which transforms into a wheelchair, to Taiwan.

Source: *Reuters*, 28 March 2018

Extract 5: A home from home for Japan's elderly

There are some key ways in which the nursing care sector in Japan has evolved to preserve its quality of care even as the hyper-ageing society ramps up its eldercare facilities. A quarter of its people are 65 or older now. By 2040, this group will make up more than a third of its population. Growing in tandem is the number and types of long-term senior care facilities available in Japan.

The most common is the tokuyo, a publicly funded facility that provides nursing care to seniors who have serious physical or mental disabilities. There were 566,600 beds in these facilities last year, up from around 300,000 in 2000.

Family members have traditionally cared for the elderly but nursing homes became affordable with the introduction of Japan's long-term care insurance (LTCI). Such a system is designed to shift the responsibility of supporting the elderly away from the family and into the public domain. This is key as more of the elderly requiring long-term care, and for longer periods. Yet, there was a lack of adequate caregiver support. The principles of this system include: supporting the independence of the elderly rather than just providing care, and allowing users to benefit from a range of services from institutions of their choice. This has led to a competitive market of service providers, mostly private players, springing up in the last decade.

Source: *Straits Times*, 31 July 2016

Questions

- (a) From Extract 1, identify and explain a factor that could be responsible for the upward trend in Japan's health spending shown in Figure 1. [2]
- (b) With reference to data, discuss the likely effects of a shrinking workforce in Japan and technological advancement on the robotics market. [8]
- (c) Explain two possible changes that may occur to the demand curve of healthcare workers given the introduction of robots. [4]
- (d) What is the main characteristic of a normative economic statement? Identify one example of such a statement from Extract 3. [2]
- (e) Is a publicly funded nursing facility an example of a public good? Provide reasons for your answer. [4]
- (f) Discuss the factors that the Japanese government should consider in allocating resources towards the development of elder care robots. [10]

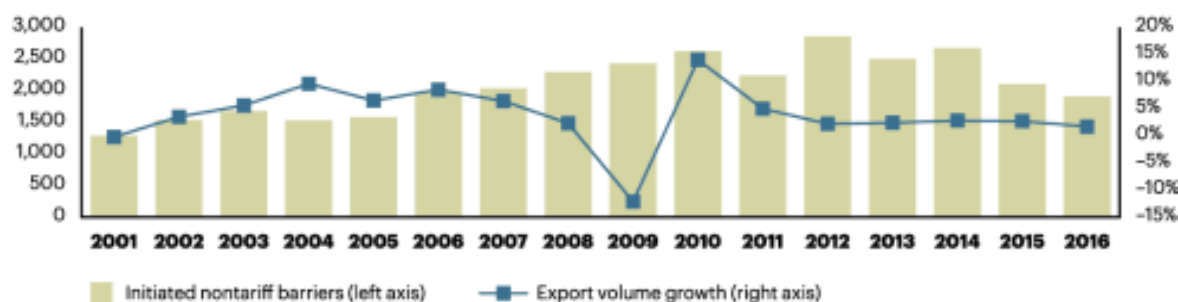
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Question 2: Issues in Trade and Protectionism

Figure 2: Trends in nontariff barriers and global export volume growth

Trade barriers and export volume growth

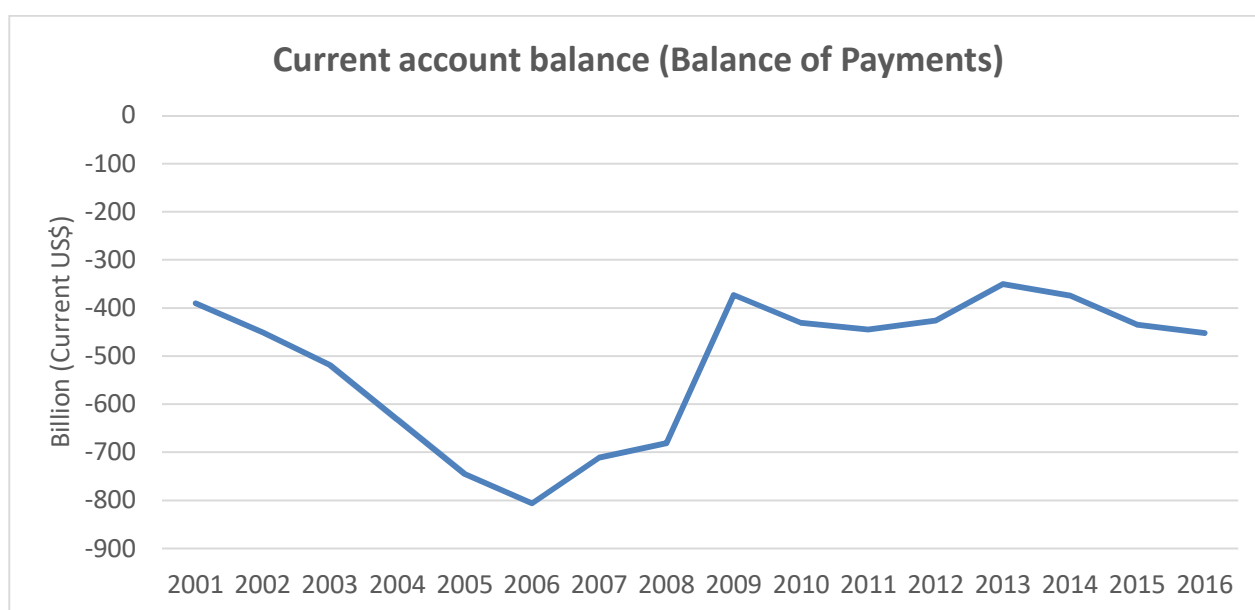
(Number of barriers initiated, % of export volume growth)



Note: Data for 2016 is forecast as of November.

Source: A.T. Kearney

Figure 3: US Current account balance



Source: www.data.worldbank.org, accessed 1 August 2018

Table 1: Top export and import partners for Singapore in 2016

Destination	Share (%) of total Singapore exports	Origin	Share (%) of total Singapore imports
China	12.99	China	14.28
Hong Kong	12.61	Malaysia	11.40
Malaysia	10.61	United States	10.85
Indonesia	7.82	Taiwan	8.24
United States	6.86	Japan	7.02

Source: www.wits.worldbank.org and *The Economist*, 9 November 2016

Extract 6: US withdraws from the Trans-Pacific Partnership

President Donald Trump who said in his inauguration speech that it would be “America first” on all issues from now on, has long opposed the Trans-Pacific Partnership (TPP) and other free trade deals, saying they take jobs away from Americans.

The TPP is one of the most ambitious free trade agreements (FTAs) ever attempted and involves 12 countries - the US, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. It is aimed at deepening economic ties among these nations and is expected to substantially reduce tariffs, or even eliminate them in some cases, and help open up trade in goods and services. It is also expected to boost investment flows between the countries and further boost their economic growth.

Mr Trump says he would protect American workers against competition from low-wage countries like Vietnam and Malaysia. Mr Trump’s stated remedies have included a promise to order his Treasury Secretary to declare China a currency manipulator, promises to put TPP talks on hold, and threats to place tariffs on imported goods. His trade stance mirrors a growing feeling among Americans that international trade deals have hurt the US job market. His fellow Republicans have long held the view that free trade is a must, but that mood has been changing.

The withdrawal of the US also represents a loss of opportunities for Vietnam, Malaysia, Brunei and to a smaller extent, Singapore. Malaysia and Vietnam stand out among the TPP members without existing US FTAs. Through the TPP, Vietnam and Malaysia were projected to enjoy some of the largest gains in exports, of 30.1% and 20.1% respectively, from access to protected foreign markets. They were also forecast to enjoy the largest boost to real incomes, by 8.1% and 7.6% respectively, by 2030.

Analysts say Singapore can still rely on the numerous FTAs that it has with most TPP members and Asean to soften the blow from a potential delay in the implementation of a Trump-shaped TPP. They believe the economic impact for Singapore would be limited given that it already has an open economy and extensive bilateral agreements in place – including an existing FTA with the US.

Source: *Straits Times*, 24 January 2017

Extract 7: Guarding against deflation in Singapore

The Monetary Authority of Singapore (MAS) should be ready to adjust its monetary policy further if deflation takes root in the city state, the International Monetary Fund (IMF) said.

Consumer prices in Singapore have declined every month since November 2014, the longest slump on record, partly due to lower oil prices and reflecting a weakening economy. Gross domestic product growth was flat on an annualised basis in the first quarter compared with the previous three months.

The IMF is forecasting growth of 1.8% this year, improving to about 2.5% in 2017. Tighter restrictions on foreign workers and an aging workforce is a constraint to growth, it said. The biggest external risk for the export-reliant economy is a sharper-than-expected global slowdown, according to the IMF.

Source: *Business Times*, 10 May 2016

Extract 8: MAS outlook for 2015

The global economy continues to grow at an uneven pace across countries, with stronger growth in the US partly offset by weakness in the Eurozone, Japan, and China. Even as some Asian economies benefit from the US recovery and the mild upturn in the global IT industry, other regional economies face weaker commodity exports. Against this backdrop, the Singapore economy grew more slowly. Looking ahead, the mixed outlook for the global economy will continue to weigh on the external-oriented sectors while the domestic-oriented sectors should stay broadly resilient. The 2015 growth forecast for the Singapore economy remains at 2 – 4%.

MAS will therefore continue with the policy of a modest and gradual appreciation of the S\$NEER policy band. However, the slope of the policy band will be reduced, with no change to its width and the level at which it is centred. This measured adjustment to the policy stance is consistent with the more benign inflation outlook in 2015 and appropriate for ensuring medium-term price stability in the economy.

Source: Monetary Authority of Singapore, 28 January 2015

Extract 9: Raise productivity or lose competitive edge

Warning that Singapore will lose its competitive edge if productivity growth continues to lag behind wage growth, Manpower Minister Lim Swee Say urged companies to overcome bottlenecks in their operations through partnerships, innovation and reducing their reliance on manpower.

As one of the most competitive economies in the world, Singapore is able to offer products and services at a cheaper price, he noted. However, it is increasingly facing stiff competition. Bottom-tier competitors are producing quality goods as their people become better educated and more skilled, while top-tier competitors are churning out products at a cheaper price through effective use of technology.

Companies have to increase productivity, innovation and responsiveness in order to compete on price, quality and speed, respectively. Raising productivity is also the only workable and sustainable solution to boost economic growth, said Mr Lim.

Some companies may not have the resources and knowledge to transform and adapt to the changing labour market. In such cases, the firms can partner others to co-develop innovative practices. Meanwhile, companies that are unable to manufacture its products cost-effectively face the challenge of an inefficient production system and the solution is to switch to manpower-lean practices.

Source: *Today*, 1 November 2016

Questions

- (a) Explain whether Figure 2 suggests a growing trend towards protectionism. [4]
- (b) (i) Using a diagram, explain how the imposition of a tariff leads to deadweight loss. [5]
- (ii) Analyse the possible arguments as to why the US would place tariffs on imported goods and consider which argument might be more justified. [8]
- (c) Use aggregate demand and supply analysis to explain how it is possible that “deflation takes root in the city state” (Extract 7). [3]
- (d) With reference to data, assess the extent to which the Singapore government’s approach to international trade may need to be adjusted in response to the withdrawal of the US from the Trans-Pacific Partnership. [10]

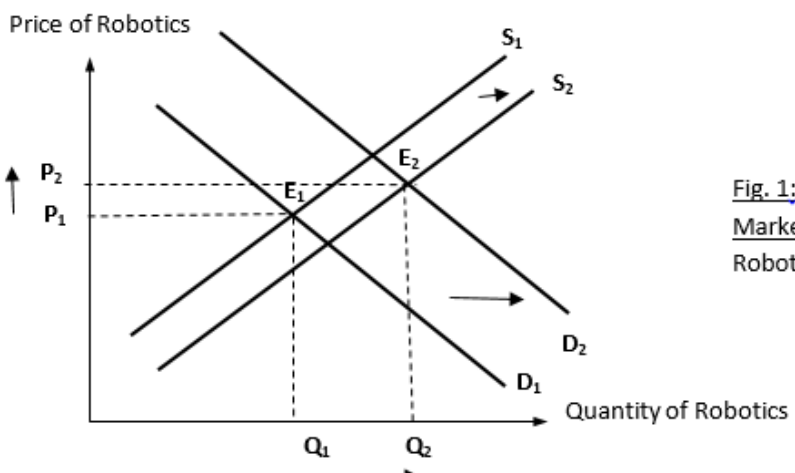
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Anderson Junior College
JC2 2018 H2 Economics
Preliminary Examination

Case Study Question 1 – Aging population: Burden or opportunity?

a	<p>From Extract 1, Identify and explain a factor that could be responsible for the upward trend in Japan's health spending shown in Figure 1.</p> <p>Aging population (Ext 1) → increase in demand → increase in P and Q → increase in spending</p>	[2]
b	<p>With reference to data, discuss the likely effects of a shrinking workforce in Japan and technological advancement on the robotics market.</p> <p>Shrinking workforce (Ext 1) → fall in supply of labour → wages increase Thus demand for robotics which are substitute for labour will increase (Ext 4: funding development of elder care robots to help fill a projected shortfall of specialised workers) → shift DD curve to the right</p> <p>Tech advancement → fall in unit COP → more profitable → increase in SS → shift SS curve to the right</p> <p>P1: increase in DD > increase in SS → equilibrium P and Q increase It takes time to develop and create robotics suitable for different types of healthcare services, coupled with the aging population. It is likely that increase in demand will outweigh the increase in supply in the SR. Hence, equilibrium price and quantity will increase (Fig 1).</p>  <p>P2: increase in DD < increase in SS → equilibrium P falls, Q increases Once the technology is fully developed, they may be able to produce more robotics. Hence it is likely that increase in supply will outweigh the increase in demand in the LR. Hence, equilibrium price will decrease while equilibrium quantity will increase (Fig 2).</p>	[8]

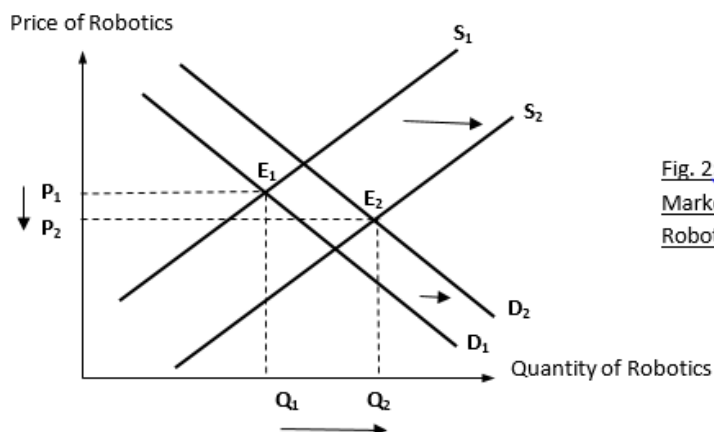


Fig. 2:
Market for
Robotics

Evaluation

Ext 2: With the rapidly aging population and, as the robotics are seen as a close substitute to the workers, demand for the robotics will increase significantly. However, given the existing technology, supply of robotics is unlikely to increase significantly. Hence the increase in demand is still likely to persist and outweigh the increase in supply. Hence, equilibrium price and quantity will increase.

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	An answer that clearly discusses the different impact on the robotics market	4 – 6
L1	An answer that is descriptive without much economic framework linking the factors to the robotics market	1 – 3
Evaluative comment		
Up to 2 further marks for an evaluative appraisal of possibly which factor is the most significant and hence eventual impact on the market		

c Explain two possible changes that may occur to the demand curve of healthcare workers given the introduction of robots. [4]

Robots are deemed as substitutes for healthcare workers (Ext 4: development of elder care robots to help fill a projected shortfall of 380,000 specialised workers) → increase in supply of robots causes fall in price of robots → increase in quantity demanded of the robots → fall in demand for the healthcare workers → leftward shift of the demand curve.

With the introduction of robots, there are now more substitutes available, therefore demand for healthcare workers also becomes more price elastic/less price inelastic → demand curve becomes gentler / less steep.

d What is the main characteristic of a normative economic statement? Identify one example of such a statement from Extract 3. [2]

A normative economic statement expresses value judgements (opinions) about economic fairness or what the outcome of the economy and policy measure(s) *ought to be*.

	<p>One example is “So, Japan’s demography, paradoxically, is not an onus, but a bonus”.</p> <p>Other accepted statements:</p> <ul style="list-style-type: none"> - “Prime Minister Shinzo Abe said Japan’s aging, shrinking population was not a burden, but an incentive to boost productivity through innovations.” - “I have absolutely no worries about Japan’s demography.” 	
e	<p>Is a publicly funded nursing facility an example of a public good? Provide reasons for your answer.</p> <p>Public goods exhibit both characteristics of non-excludability (NE) and non-rivalry (NR) in consumption.</p> <p>Excludability → an elderly’s consumption of the nursing facility is made contingent on payment, while other individuals who do not pay for the nursing facility can be effectively excluded from enjoying the benefits → can exclude non-payer from staying in the public nursing home</p> <p>AND</p> <p>Rivalry in consumption → the consumption of the nursing facility by one elderly reduces the amount of benefit that is available to others.</p> <p>Concluding statement → since publicly funded nursing facilities do not fulfil characteristics of NE and NR, they are not an example of public good.</p>	[4]
f	<p>Discuss the factors that the Japanese government should consider in allocating resources towards the development of elder care robots.</p> <p>The objective of a government is to maximise social welfare, which is achieved when production takes place up to the quantity where marginal social benefits (MSB) is equal to marginal social cost (MSC).</p> <p>In deciding how to allocate its resources towards development of robots for elder care, the Japanese government would consider various factors such as its constraints, the benefits and costs from allocating additional units, as well as gather information and consider the perspectives of relevant stakeholders.</p> <p>One factor that the Japanese government needs to consider is the constraints it faces, as the constraints will limit the available choices and their associated benefits and costs. These constraints include the budget constraint and the priority of economic aims. For example, if Japan is facing budget deficit, the amount of resources that they can allocate to the development of elder care robots will be limited. Moreover, it also depends if they have other pressing issue such as worsening of growth which would require them to allocate resources towards, hence fewer resources available for the development of elder care robots.</p> <p>Another factor that the Japanese government needs to consider will be the benefits from the development of elder care robots such as achieving efficiency and equity in the economy. Positive externality could arise due to the consumption of elder care robots such as easing the manpower shortage and promoting higher rates of economic growth as the younger generation would be more able to focus better at work and be more productive once their parents are cared for by these robots, (Ext 4: “robotics expertise to help</p>	[10]

	<p>cope), resulting in under-consumption of elder care robots. Hence, allocating recourse to the development of elder care robots would help to achieve allocative efficiency. In addition, the development of elder care robots by the government would also ensure that people who require it will be able to access it such as the lower-income elderly, hence achieving equity.</p> <p>Another factor that the Japanese government needs to consider will be the benefits from the development of elder care robots such as achieving economic growth. The government could generate export revenue from the sale of elder care robots (Ext 4: potentially lucrative export industry). With increasing export revenue, net exports will increase, <i>ceteris paribus</i>. Hence aggregate demand will increase, leading to multiplied increase in real national income, hence achieving actual growth.</p> <p>Another factor that the Japanese government needs to consider will be the costs from the development of elder care robots such as the cost of development (Ext 4: high costs, safety issues and doubts). Development of elder care robots will incur high costs such as recruiting the professionals and purchase of high technology material such as microchips. They will also need to spend on research and development to ensure that the robots are safe for usage. Moreover, they will need to increase production for the rapidly aging population. Hence production cost is likely to increase significantly which will be a strain of the budget.</p> <p>In addition, the government will need to consider the opportunity cost incurred. If they were to allocate the resources to the development of elder care robots, it will mean that they have fewer resources available for other areas such as education and healthcare, hence worsening the efficiency in other markets like education.</p> <p>Another factor that the Japanese government needs to consider will be the perspectives of others such as the consumers who are the elderly in this case. Elder care is typically seen as a job which requires a human element (Ext 4: a job typically seen as requiring human touch), and if the consumers are not receptive to this idea, there may be low demand for such elder care robots. In this way, the government should not allocate much resources to this development. On the other hand, there is generally warm reception to robots by many Japanese (Ext 4: “many Japanese see them positively”). There may be an increase in demand, and hence the government should be allocating more resources towards the development.</p> <p>Finally, after determining the MSB and MSC, the Japanese government would weigh them to make its decision. It would allocate resources towards developing more robots if the marginal social benefit is greater or at least equal to the marginal social cost as the addition to total benefit is greater than or at least equal to the addition to total cost. This would then allow it to maximise social welfare.</p> <p>EV: Make a stand and justify</p> <p>In conclusion the Japanese government makes decisions by considering the factors that affect their costs and benefits and then weigh MSB and MSC to allocate resources to maximise social welfare.</p> <p>The most significant factor may be constraint that the Japanese government</p>	
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is facing. If they are facing a budget deficit or facing more pressing issues such as slow growth, shrinking workforce and tax base (Ext 1), they may want to focus on boosting economic growth first. With economic growth, it will allow them to collect more tax revenue which could then be channelled to developing elder care robots eventually.

The most significant factor would also depend on whether the Japanese government has implemented other policies to improve the economy concurrently. It is very likely that the government may be looking at other macroeconomic stabilisation and growth policies while addressing the issue of an aging population and promoting elder care. This being the case, the most significant factor to consider would then be the perception of the public towards elder care robots or the direct benefits that elder care robots might have on the healthcare sector, rather than unintended positive impacts on the wider economy (because the latter would not be obvious).

Mark scheme:

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	An answer that clearly explains the different factors that a rational manufacturer would have to consider, including the constraints, benefits and costs.	5-7
L1	An answer that is descriptive without much economic framework linking the factors to be considered to costs and benefits.	1-4
Evaluative comment		
Up to 3 marks for an evaluative comment on which factors are the most significant or how the factors may evolve given a change in the external environment, etc.		

Question 2: Issues in Trade and Protectionism

(a)	Explain whether Figure 2 suggests a growing trend towards protectionism.	[4]
	<p>Protectionism is a trade policy whereby the government shelters domestic industries from foreign competition through the imposition of trade barriers on foreign goods and services.</p> <p>P1: Fig 2 suggests growing trend towards protectionism</p> <ul style="list-style-type: none"> Overall increase in nontariff barriers. <p>P2: Fig 2 doesn't suggest growing trend towards protectionism</p> <ul style="list-style-type: none"> Global export volume has been showing positive growth which means that the export volume has been increasing, a sign of freer trade and not growing protectionism. The no. of nontariff barriers has largely fallen since the peak in 2012 thus the world may be moving away from protectionism instead of towards it. Though nontariff barriers may have increased, tariffs may have fallen by a larger extent. Thus, information in fig 2 is not sufficient to determine whether there is a growing trend towards protectionism. 	
(b)	(i) Using a diagram, explain how the imposition of a tariff leads to deadweight loss.	[5]
	<p>Domestic supply and demand are represented by S and D respectively. We assume the country is too small to affect world prices. It is a price taker.</p> <p>The world price is OP and world supply (Ws) to the country is perfectly price elastic. At P, Q_1 is demanded, Q_0 is supplied by domestic producers and thus, $Q_0 Q_1$ is imported.</p> <p>If the government now imposes a tariff of PP_1, the price of this commodity in the domestic market increases to OP_1, and total consumption decreases to OQ_3 while domestic output increases to OQ_2 and $Q_2 Q_3$ is imported.</p>	

		<p>The imposition of the tariff imposes a cost on society. Consumers now have to pay a higher price and consumer surplus falls from DCP to DAP₁. The cost to consumers is the loss of consumer surplus equal to PP₁AC.</p> <p>However, PP₁EG is the gain in surplus for producers and EABF is the tax revenue gained by the government.</p> <p>Thus, the remaining areas EFG and ABC represent the deadweight loss to society.</p>	
	(ii)	Analyse the possible arguments as to why the US would place tariffs on imported goods and consider which argument might be more justified.	[8]
		<p>Argument 1: Protect against low-wage workers/ protect home employment</p> <p>Argument for: Extract 6 states the need to protect American workers against competition from low-wage countries like Vietnam and Malaysia. Countries such as the US where the people enjoy high wages have often felt threatened that their standard of living would be undermined by the import of cheaper goods from low-wage countries. Without protection, the local industries may be edged out and have to close down, resulting in the fall in employment and standard of living. To protect their jobs, they may press for higher tariffs and other means to keep out the goods.</p> <p>Argument against: Though such protection benefits high wage workers, it encourages inefficiency and consumers will be denied the opportunity to buy from cheaper sources of supply. If the country has lost its comparative advantage, it should re-look these industries and if necessary, let them shut down to divert resources to other more productive uses.</p> <p>Argument 2: Reduce a persistent Balance of Payments (BOP) deficit</p> <p>Argument for: Figure 3 shows that US's current account has consistently been in a deficit from 2001 to 2016, likely due to excessive import expenditure over export revenue. This is likely to lead to a persistent BOP deficit which may cause increasing foreign debt resulting in external instability and making the US economy more vulnerable to speculations against the US dollar. Hence there is a need to place tariffs on imported goods to reduce the import expenditure. By improving the current account position, it will also lead to an improvement in the BOP position, ceteris paribus.</p> <p>Argument against: The policy of reducing imports is often referred to as a 'beggar-thy-neighbour' policy. This is because the country solves its own problems by passing them on to others. Furthermore, the effectiveness of such</p>	

	<p>policy depends on the price elasticity of demand and supply of the imported goods. The balance of payments problem may not be corrected by increasing the prices of these imports. Moreover, its trading partners may retaliate and hence negate the effectiveness of the protectionist measures.</p> <p>Argument 3: Prevent dumping</p> <p>Argument for: Extract 6 mentions China being a currency manipulator. If this is true, China's exporters have an unfair advantage since a weaker currency will allow its exports to be sold at prices below the marginal cost of production, which is dumping. American firms may thus be driven out, causing unemployment and Chinese firms may gain monopoly power in US. This may result in market dominance which will increase productive and allocative inefficiency due to a lack of competition. Protection from such unfair competition would be justified based on the market distortions which can result in long-term inefficiencies.</p> <p>Argument against: It is difficult to prove that China is a currency manipulator and its low prices may in fact be due to its comparative advantage. If this is so, placing tariffs on imported goods would only cause US consumers not to be able to enjoy goods at a lower price, causing consumer surplus to be lower and also causing greater deadweight loss in society (as explained in b i).</p> <p>Evaluation: Consider which argument is more justified:</p> <ul style="list-style-type: none"> • The arguments that China is a currency manipulator or home employment in the US has suffered due to the competition from low-wage workers are difficult to prove and require more data or information to determine. • In contrast, it is clear from Figure 3 that US is indeed suffering from a large and persistent current account deficit which needs to be tackled. • Therefore, the argument to reduce the BOP deficit might be more justified, at least in the short run. • However, in the long run, protectionist measures will only distort the true costs and differences in comparative costs between countries, causing the benefits that can accrue due to free trade to be reduced. The root cause why US is suffering from a BOP deficit has to be determined and if it is due to a loss of comparative advantage (CA), US should use supply-side policies instead to directly tackle the problem rather than seeking to protect the inefficiency. 	
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		<table><tr><th colspan="3">Mark Scheme</th></tr><tr><td>L2</td><td>At least 2 well-explained reasons (arguments for) protectionism with some mention of accompanying drawback or limitation and reference to case material.</td><td>4-6</td></tr><tr><td>L1</td><td>An answer that shows some understanding of the reasons for protectionism. May only have 1 reason, not considered drawback/limitation or made reference to case material.</td><td>1-3</td></tr><tr><th colspan="3">Evaluation</th></tr><tr><td>E2</td><td>Evaluation based on economic analysis and evaluation of data</td><td>2</td></tr><tr><td>E1</td><td>Mere statement without economic analysis</td><td>1</td></tr></table>	Mark Scheme			L2	At least 2 well-explained reasons (arguments for) protectionism with some mention of accompanying drawback or limitation and reference to case material.	4-6	L1	An answer that shows some understanding of the reasons for protectionism. May only have 1 reason, not considered drawback/limitation or made reference to case material.	1-3	Evaluation			E2	Evaluation based on economic analysis and evaluation of data	2	E1	Mere statement without economic analysis	1	
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E1	Mere statement without economic analysis	1																			
(c)		Use aggregate demand and supply analysis to explain how it is possible that “deflation takes root in the city state” (Extract 7).	[3]																		
		<p>Deflation is where there is a sustained fall in the general price level.</p> <ul style="list-style-type: none">• Extract 7 mentioned that the biggest risk is a sharper than expected global slowdown. A global slowdown will lead to a fall in global demand for Singapore’s exports, resulting in a fall in (X-M) and a fall in AD. If this persists, there will be a sustained fall in the GPL.• Extract 7 also mentioned lower oil prices which will result in a fall in cost of production for many goods and services since oil is a main source of energy. This will lead to an increase in SRAS which will again lead to a sustained fall in GPL if oil prices continue to fall.• Therefore, these above factors may cause deflation to take root in the city state.																			
(d)		With reference to data, assess the extent to which the Singapore government’s approach to international trade may need to be adjusted in response to the withdrawal of the US from the Trans-Pacific Partnership.	[10]																		
		<p>Overview</p> <table><tr><td><p><u>Thesis: Need to adjust</u></p><ul style="list-style-type: none">• Reasons → negative impact on the withdrawal of USA from the TPP in Singapore• Limitations of existing policies eg. Gradual and modest appreciation• Adjust to solve the root cause of the problem brought by the issues from TPP:<ul style="list-style-type: none">- Weaken the ER- Use more SS-side policies</td><td><p><u>Anti-thesis: No need to adjust</u></p><ul style="list-style-type: none">• Reasons → extensive bilateral agreements in place• Effectiveness of current policies to address the negative impact eg existing FTAs, gradual modest appreciation</td></tr></table>	<p><u>Thesis: Need to adjust</u></p> <ul style="list-style-type: none">• Reasons → negative impact on the withdrawal of USA from the TPP in Singapore• Limitations of existing policies eg. Gradual and modest appreciation• Adjust to solve the root cause of the problem brought by the issues from TPP:<ul style="list-style-type: none">- Weaken the ER- Use more SS-side policies	<p><u>Anti-thesis: No need to adjust</u></p> <ul style="list-style-type: none">• Reasons → extensive bilateral agreements in place• Effectiveness of current policies to address the negative impact eg existing FTAs, gradual modest appreciation																	
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		<p><u>Thesis: Needs to adjust</u></p> <p>The withdrawal of the US from the TPP means fewer trading activities, assuming that the increase in X is greater than the increase in M, there might be a fall in (X-M). Capital may also be less mobile, causing a fall in FDI into Singapore. Overall, actual growth and BOP position may worsen.</p> <p>According to Extract 8, the current approach taken by the Singapore government is gradual, modest appreciation. This aims to curb inflation but is less relevant as the economy is facing negative inflation. The falling oil prices (Extract 7) also means that Singapore is unlikely to face a threat of imported inflation.</p> <p>On top of that, Extract 6 mentioned that “ the withdrawal of the US also represent a loss of opportunities for ...Malaysia...” → Given that the economic growth of Malaysia may be affected and it is Singapore’s third largest export partner (Table 1) → Singapore’s export revenue and thus growth may further weaken with negative inflation worsening.</p> <p>Exchange rate policy Should consider allowing SGD to weaken. Assuming MLC holds since there are many close substitutes available from neighbouring countries, (X-M) will increase, AD increases, RNY increases. This helps to compensate the loss in (X-M) due to the withdrawal of US from the TPP.</p> <p>SS side policies Need to use more SSP to enhance export competitiveness and maintain or create new CA (non-price competitiveness).</p> <p>Extract 9 warns that Singapore will lose its competitiveness if productivity growth lags behind wage growth. Singapore thus needs to enhance productivity growth to lower the unit cost of labour which reduces the average cost of production and can then be translated to lower prices of our exports. A more productive workforce can also help to attract investment from other countries such as China and Japan.</p> <p>More effective use of technology in new areas of growth can create new CA can improve the non-price competitiveness of our exports leading to an increase in demand for our exports.</p> <p><u>Anti-thesis: No need to adjust</u></p> <p>Trade Policy Singapore has numerous FTAs with most TPP members and Asean and it also continues to sign new FTAs with other countries. Extract 6 states that the economic impact for Singapore would be limited given that it already has an open economy and extensive bilateral agreements in place - including an existing FTA with US. These allow the Singapore economy to diversify into other regions and enjoy the benefits from specialisation and trade as well as maintain our export revenue even with the withdrawal of the US from the TPP.</p> <p>Furthermore, from table 1, US is Singapore’s third import partner but our</p>	

fifth export partner where US share of total Singapore exports is less than 7%. This may then suggest that the impact on (X-M) is less significant.

Gradual and modest appreciation with reduced slope

Since the MAS has already reduced the slope of the exchange rate as suggested in Extract 8, there is no need for further change as a gradual and modest appreciation of the exchange rate is still needed to control imported inflation, given that we are small economy, heavily reliant on imports. The lower oil prices may also not persist as OPEC may restrict supply or demand may increase with countries seeing stronger growth.

Possible EV: May not need to adjust because overall impact on SG is likely to be small. SG already has existing FTAs with many countries, including US. As long as Singapore is able to maintain her CA and establish new CA, the withdrawal of the US from TPP might not necessitate a change in her existing macroeconomic policies. That said, it is difficult to identify new areas of growth. Also, its indirect impact on Singapore can be substantial.

Mark scheme		
L2	Well-developed discussion on the reasons or current measures and policies that need to be adjusted by Singapore	5-7
L1	Brief explanation on the reasons or current measures or policies that needs to be adjusted by Singapore. May contain conceptual errors	1-4
Evaluation		
E2	Evaluation based on economic analysis (whether to adjust approach)	2-3
E1	Mere statement without economic analysis	1



ANDERSON JUNIOR COLLEGE
JC2 PRELIMINARY EXAMINATION 2018
HIGHER 2

ECONOMICS

9757/02

Paper 2

11 September 2018

2 hours 15 minutes

Additional Materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write your name, PDG and index number in the spaces provided 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 **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from **either** Section A or Section B. Begin your answer to **each question** on a fresh sheet of writing paper.

At the end of the examination, **fasten this cover page in front of the first question attempted**.

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

Name: _____ ()

PDG: _____

Question Number (list the questions attempted)	Marks Awarded
	/25
	/25
	/25

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Answer **three** questions in total.

Section A

One or two of your three chosen questions must be from this section.

- 1** Singapore's visitor arrivals hit new record highs in 2017. This has resulted in the growth of tourism-based services.

Discuss the demand and supply factors that can account for the reported change in the volume of tourism-based services in Singapore and evaluate which is likely to be the most significant factor.

[25]

- 2** Ten years ago, it seemed like Walmart had monopoly power when it came to retail. Today, Walmart has been displaced by an online retailer, Amazon. Walmart has had to deal with risks and uncertainty like the trend towards e-commerce and slower economic growth while trying to compete.

(a) Explain the factors that a firm considers in deciding whether to be larger.

[10]

(b) Discuss whether the determination of Walmart's decisions and strategies are more dependent on competitors' actions or business risks and uncertainty.

[15]

- 3** Governments typically intervene in the market for education in several ways.

Explain why government intervention is needed in the market for education, and discuss whether such intervention will help a government meet its microeconomic objectives.

[25]

Section B

One or two of your three chosen questions must be from this section.

- 4** The central bank of the US has raised interest rates from 0.1% in 2015 to 0.7% in 2016.

Explain the internal and external impacts of the increase in interest rates by the US central bank on the Singapore economy and assess whether fiscal policy is the best policy for Singapore to address the possible adverse impacts. [25]

- 5** China has long been widely touted as a nation of savers. Credit Suisse pegs China's savings rate at 32% of household income.

Source: Nikkei Asian Review, 2018

a) Explain the factors that cause household savings to be high. [10]

b) Discuss whether higher household savings rates are desirable for an economy. [15]

- 6** An economist stated 'Globalisation affects all corners of the world, yet requires more government control, not less'.

(a) Explain how globalisation impacts a country's balance of payments position. [10]

(b) Discuss the view that the role of the Singapore government is more important with the rise of globalisation. [15]

END OF PAPER



**Anderson Junior College
JC2 2018 H2 Economics
Preliminary Examination**

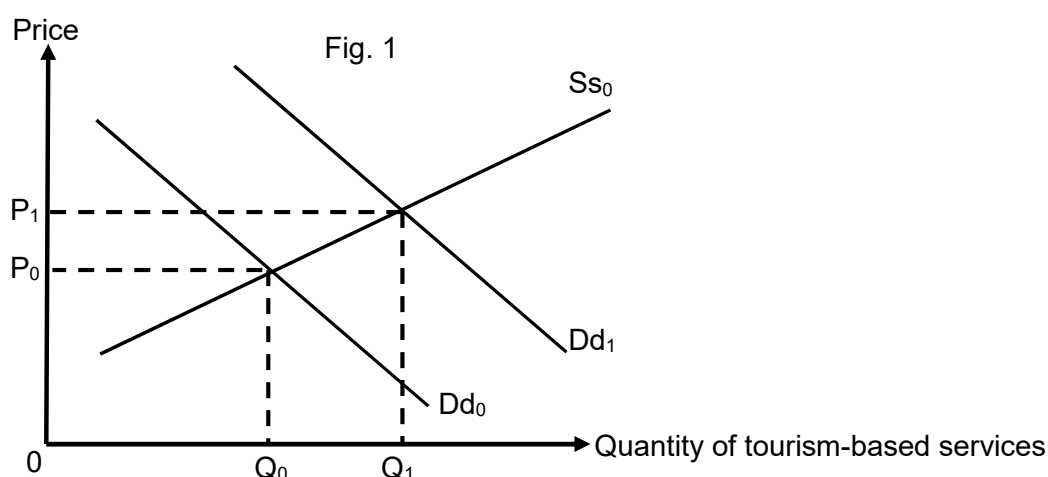
Essay 1

Singapore's visitor arrivals hit new record highs in 2017. This has resulted in the growth of tourism-based services.

Discuss the demand and supply factors that can account for the reported change in the volume of tourism-based services in Singapore and evaluate which is likely to be the most significant factor. [25]

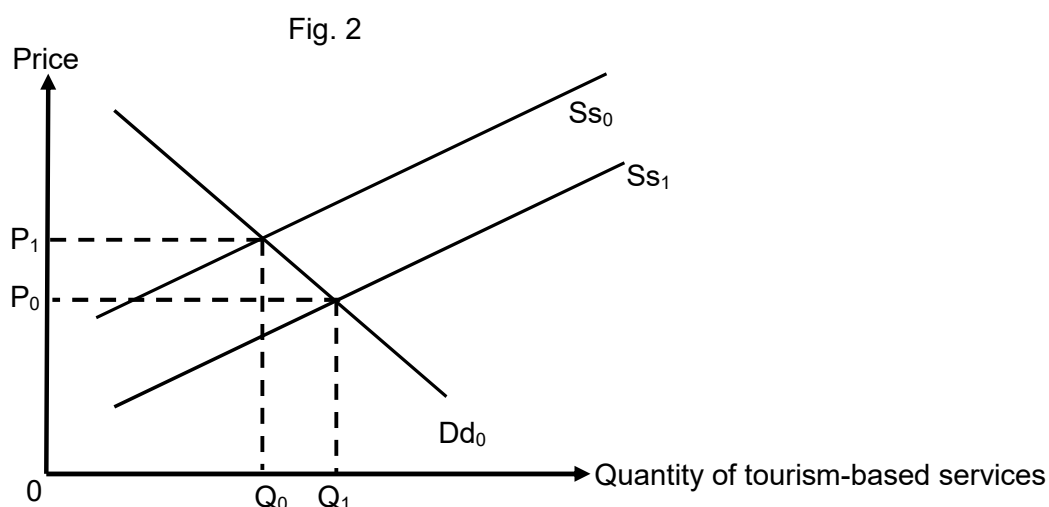
Demand factors:

- Better than expected **global economic recovery** → increase in income. As income increases, the concept of **income elasticity of demand** can be applied. Income elasticity of demand measures the responsiveness of demand to a change in income, ceteris paribus. Given that demand for tourism-based services is income elastic, as it is a luxury good, the increase in income would have resulted in a more than proportionate increase in the demand for tourism-based services, resulting in a significant increase in its equilibrium quantity. This accounts for the increase in volume of tourism-based services.
- The Singapore Tourism Board and its industry partners also have engaged in marketing efforts to promote tourism in the country, such as through various campaigns and by tapping on online platforms. This could have resulted in a change in **taste and preference** in favour of tourism in Singapore. This again will result in an increase in demand.
- Entrance of budget airlines into the air travel market increases the supply of air travel, reducing the price of air travel. As air travel and tourism-based services are close complements, the demand for tourism-based services is highly negatively cross elastic in relation to price of air travel. **Cross elasticity of demand** measures the responsiveness of demand of one good to a change in price of another good, ceteris paribus. A lower price of air travel will increase the quantity demanded of it and hence demand for tourism-based services would increase by more than proportionately.
- As demand increases, the concept of **price elasticity of supply** can be applied. Price elasticity of supply measures the responsiveness of quantity supplied of a good to a change in its price, ceteris paribus. Supply of tourism-based services is relatively price elastic given the availability of spare capacity. There has been an expansion in the tourism industry over the years with creation of more tourist spots. Given the increase in demand due to above-mentioned factors, the demand curve shifts from Dd_0 to Dd_1 as shown in Fig. 1 below. Price would increase, causing a more than proportionate increase in quantity supplied of tourism services from Q_0 to Q_1 . This accounts for the reported change in volume of the tourism-based services.

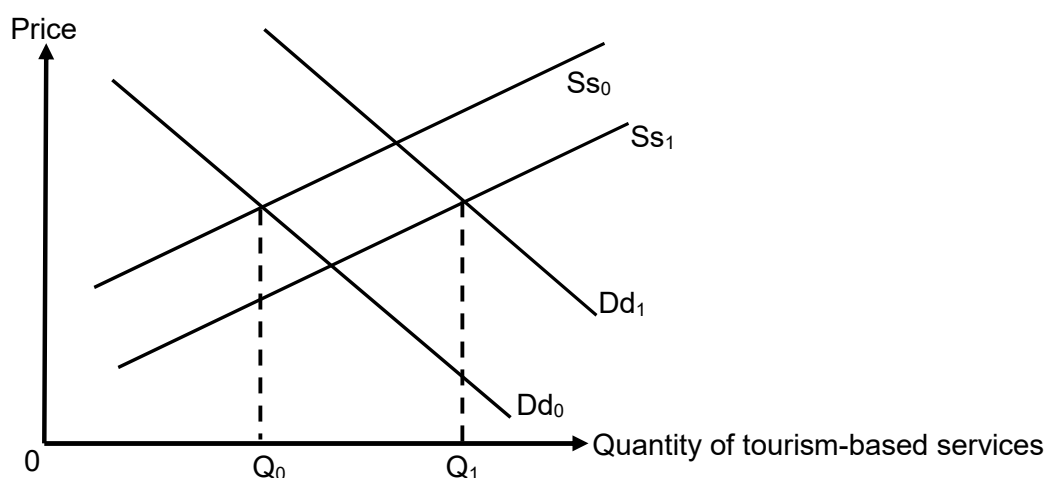


❖ **Supply factors:**

- There has also been many **government initiatives** to support competitiveness and innovation in the industry. For instance, the Singapore Tourism Board provides grants to support companies in areas of capability development, event development and product development. This could reduce the cost of production incurred by the firms, increasing supply of tourism-based industries.
- **Technological advancement** also enables firms to adopt more automation in provision of tourism-based services, such as the use of self-service kiosks. With the use of technology, output per unit of input increases, reducing cost per unit of output. This increases supply of tourism-based services.
- As supply increases, the concept of **price elasticity of demand** can be applied. Price elasticity of demand measures the responsiveness of quantity demanded of a good to a change in its price, ceteris paribus. Demand for tourism-based services in Singapore is price elastic due to availability of substitutes such as tourism-based services in other countries. Given the increase in supply due to the factors mentioned earlier, the supply curve shifts from Ss_0 to Ss_1 as shown in Fig. 2 below. The reduction in price due to the increase in supply will result in a more than proportionate increase in quantity demanded of tourism-based services from Q_0 to Q_1 . This accounts for the reported change in volume of the tourism-based services.



- **Both the increase in demand and supply** will result in an increase in the quantity of tourism-based services as shown below from Q_0 to Q_1 , hence the increase in the volume of tourism-based services.



- ❖ **EV:** Demand-side factors, particularly the global economic recovery, is likely to be the most significant factor contributing to the increase in volume of tourism in Singapore. The economic recovery was stronger than expected, hence income increases to a large extent, amplifying the increase in demand. In addition, in recent years, Singapore has developed various high-end tourism experiences such as the Gardens by the Bay, the Integrated Resorts and Universal Studios. As these services appear more luxurious, the YED value is much greater than one, causing a more significant increase in demand due to the increase in income. Supply factors mentioned earlier are likely to be less significant as their effects tend to be gradual in nature, and unlikely to cause the significant rise in volume of tourism-based services.

Knowledge, Application/Understanding and Analysis		
L3	For an answer that applies thorough economic analysis, with consideration of context, in accounting for the increase in the volume of the tourism-based services.	15-20
L2	For an answer that applies some economic analysis in accounting for the increase in volume of the tourism-based services.	9-14
L1	For an answer that shows knowledge of factors that might account for the increase in volume of the tourism-based services.	1-8

E3	For an answer that uses analysis to support an evaluative conclusion on the most significant factor that accounts for the increase in the volume of the tourism-based services.	4-5
E2	For an answer that makes some attempt at evaluation or a conclusion about the most significant factor that accounts for the increase in volume of the tourism-based services.	2-3
E1	For an answer that gives an unsupported evaluative statement.	1

Essay 2

Ten years ago, it seemed like Walmart had monopoly power when it came to retail. Today, Walmart has been displaced by an online retailer, Amazon. Walmart has had to deal with risks and uncertainty like the trend towards e-commerce and slower economic growth while trying to compete.

(a) Explain the factors that a firm considers in deciding whether to be larger. [10]

Factor	Elaboration
Constraints	1. Need to consider how constraints may affect the willingness or ability to grow. For instance, government policy may prevent firms from growing (prevent merger) or the amount of financial capital or loans that firms can get access to will also determine if a firm can fund expansion.
Advantages (Benefits)	<p><u>Revenue advantages</u></p> <ol style="list-style-type: none"> 1. Higher market share may mean that demand becomes more price inelastic → due to lower availability of substitutes → firms can now choose to increase prices to increase revenue rather than lower prices → more sustainable method to increase profits, ceteris paribus. 2. By become larger, firms can also gain more price setting ability to deter entry and increase market share by engaging in predatory pricing → can increase profits in the long run 3. There is still untapped demand in market → can easily increase demand for firm's product → by becoming larger, TR can increase. <p><u>Cost advantages</u></p> <ol style="list-style-type: none"> 4. Available internal economies of scale that firms can tap on as they grow large, e.g. marketing economies of scale where firms can purchase inputs (raw materials) in bulk and bargain for discounts and lower unit prices from suppliers → lower costs and hence, ceteris paribus, increase profits.
Disadvantages (Costs)	<ol style="list-style-type: none"> 1. Economic growth is slowing → Higher business risks and uncertainty → vertical integration may provide higher risks due to more inflexible cost structure → lower growth may lead to fall in demand and TR but TC is now higher and more difficult to lower → lower profits 2. Growing larger may result in the onset of diseconomies of scale → higher unit costs → may lead to lower profits
<p>Other possible factors:</p> <p>Considering different perspectives:</p> <p>Situation in the economy → falling demand due to slowing growth → may then choose to diversify into other product markets (i.e. inferior goods)</p> <p>Perspective of rival firms and rival's action in response to the firm growing, i.e. unsustainable price wars with uncertain effects.</p>	

	Knowledge, Application/Understanding and Analysis	
L3	For a well-developed answer with at least three factors and includes both revenue and cost advantages/disadvantages. Consideration of factors should link to how profits enjoyed by the firm is affected unless factor to consider is an alternative objective of the firm. Good use of examples to illustrate the effects on revenue/costs.	8 – 10
L2	For an underdeveloped answer that consider at least two factors on revenue and/or cost advantages/disadvantages. Max 5 if consider only one factor.	5 – 7
L1	For an answer that lacks scope and depth, or is a mere listing of points. There may be multiple major conceptual errors.	1 – 4

(b) Discuss whether the determination of Walmart's decisions and strategies are more dependent on competitors' actions or business risks and uncertainty. [15]

Dependent on...	Elaboration
Competitors' actions - Pricing strategies	<p>(affects Walmart's pricing and output, shutdown decision) Walmart is likely to operate in a competitive oligopolistic market structure where there is a high degree of mutual interdependence and rival consciousness.</p> <p>If rivals (such as Amazon) lower prices, Walmart will also respond with lower prices of similar or larger magnitude to maintain its market share and profit levels.</p> <p>If rivals lower prices to the point where it is below Walmart's AVC, it will choose to shut down.</p>
- Non-pricing strategies	<p>(affects Walmart's pricing and non-pricing strategies) Trend towards e-commerce → Walmart will also innovate and product differentiate by offering an online platform. Furthermore, as a large incumbent firm, Walmart may even choose to merge with or acquire new online e-commerce start-ups to expand its operation.</p> <p>Advertising and promotion campaigns during festive seasons → Walmart will offer similar promotions i.e. express shipping/free delivery or extensive membership programmes and benefits → Maintain market share and supernormal profits</p>
Business risks and uncertainty - Uncertainty in revenue	<p>(affects Walmart's growth decisions and non-pricing strategies) Slowing economic growth → Walmart may recognise the volatility in economic conditions and offer a larger variety of goods and diversify e.g. horizontal integration, to establish more revenue streams. Alternatively, in light of the slowing growth, Walmart may also offer own label products which may be perceived as inferior. Inferior goods will enjoy rise in demand during economic uncertainty and lead to higher revenue and profits for Walmart.</p> <p>If PED is uncertain, Walmart may use a combination of price and non-pricing strategies to make predicted changes in revenue more certain. E.g. Advertising and promotion campaigns to alter tastes and preferences to make demand price inelastic before raising prices or vice versa.</p>
- Uncertainty in costs	<p>(affects Walmart's growth decisions and non-pricing strategies) Walmart may diversify into factor markets (vertical integration) to have more certainty in costs of production.</p> <p>Walmart may even invest in new technology to tackle potentially rising costs but do so by procuring R&D outcomes rather than embarking on their own research projects. For instance, Walmart</p>

	may improve efficiency by using self-checkout machines developed by other firms and not create their own. Walmart may also leverage established e-commerce payment platforms (i.e. paypal) rather than create their own payment systems. This may lead to lower costs for Walmart.
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More or less dependent on competitors' actions or business risks and uncertainty depends on...	
Time period	<p>Business risks and uncertainty may become less significant over time as Walmart can gather more information. Thus, this may be important in the short run but in the long run, Walmart's actions are more likely to be dependent on actions of its competitors.</p> <p>In the long run, if more firms enter the market and Walmart loses its market share, the market structure might transform into a monopolistically competitive one where there is a significantly lower degree of mutual interdependence. In this scenario, the decisions and strategies of Walmart would be more affected by business risks and uncertainty rather than actions of its many rivals.</p>
Situation in the economy (actions by other economic agents, i.e. government)	<p>If the government implements policies to create a favourable business environment, the effectiveness of the policies may determine whether Walmart is still concerned about business risks and uncertainty. If the policies are effective, Walmart will then be more concerned about the actions of its rivals.</p> <p>Furthermore, rivals in the market are also simultaneously affected by events affecting Walmart. Hence, Walmart may be more concerned about how rivals are reacting to the events and the indirect effects on their profits, rather than how they may be directly affected.</p>

	Knowledge, Application/Understanding and Analysis	
L3	For a well-developed, well-balanced answer with at least three points of argument. Scope of points should be demonstrated in terms of both revenue and cost considerations as well as different decisions and strategies. Arguments should be contextualised to the given market.	8 – 10
L2	For an underdeveloped, balanced answer that consider at least one argument each for how competitor's action and business risks and uncertainty affects a firm's decision and strategy.	5 – 7
L1	For an answer that lacks scope and depth. There may be multiple conceptual errors.	1 – 4

E3	For an answer that arrives at an analytically well-reasoned judgement	4 – 5
E2	For an answer that makes some attempt at a judgement	2 – 3
E1	For an answer that gives an unsupported statement	1

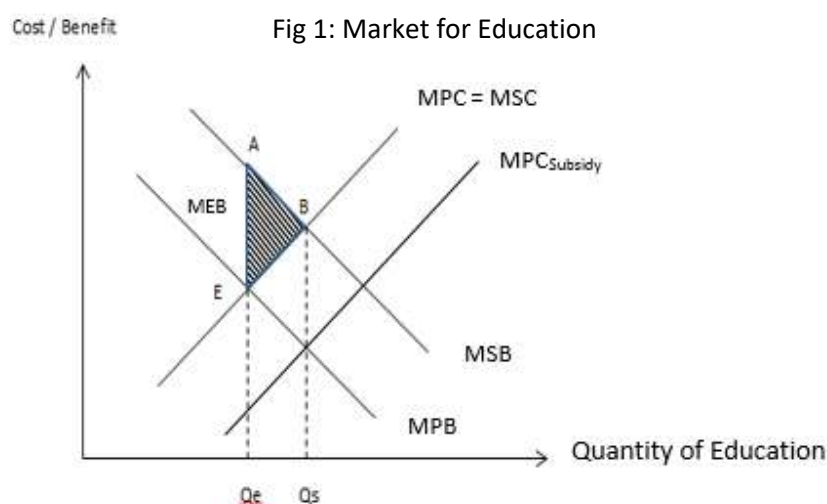
Essay 3

Governments typically intervene in the market for education in several ways.

Explain why government intervention is needed in the market for education, and discuss whether such intervention will help a government meet its microeconomic objectives. [25]

Government intervention is needed in the market for education as it is considered a merit good. Merit goods are deemed socially desirable by the government but under-consumed due to the presence of positive externality and imperfect information, leading to inefficient allocation of resources which is one of the government's microeconomic objectives. In addition, government intervention is needed as there may be inequitable distribution of resources in the market for education.

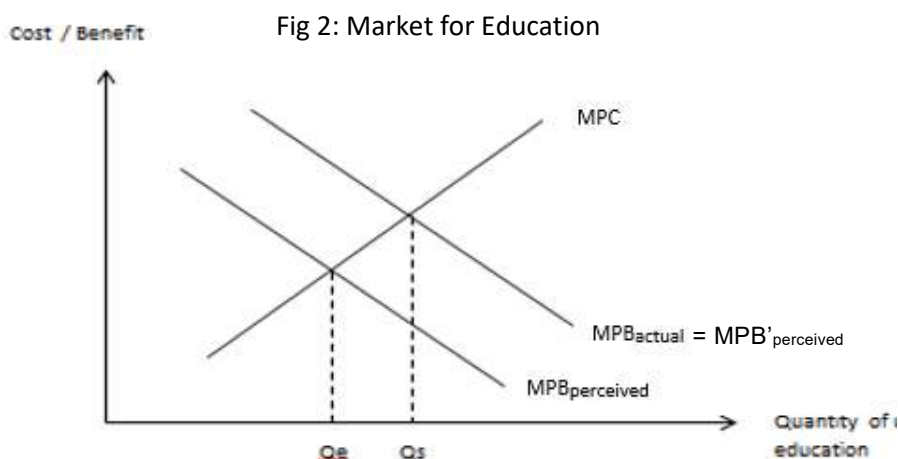
The private costs of education include tuition fees and the opportunity cost of not earning income from working while the private benefits include the gain of knowledge, better employment opportunities and potential higher wages in future from a higher level of education. In addition, education exhibits positive externalities from consumption such as the transfer of knowledge and skills to co-workers which can then help to increase their productivity and possibly income too. The employers could also profit from the increased productivity due to the more educated and skilled labour. This causes social benefits to be higher than private benefits and is illustrated by the divergence between MSB and MPB in the diagram. In deciding how much education to consume, the rational and self-interested consumer will not consider the positive externalities and only weigh his marginal private cost (MPC) against the marginal private benefit (MPB) and consume to the point where $MPC = MPB$ at Q_e . However, the socially optimal level of consumption is where marginal social cost (MSC) = marginal social benefit (MSB) at Q_s .



There is thus under-consumption of education by the amount $Q_e Q_s$. At Q_e , MSB is greater than MSC. Society values an additional unit of education more than what it would cost society to consume it and there is deadweight loss by the area ABE. Society could be made better off if consumption of education were increased to the socially optimal level at Q_s .

Besides the presence of positive externality, there is also imperfect information. Consumers under-estimate future returns on higher education due to incomplete knowledge about the full longer-term benefits from education. Knowledge of private benefits is an ongoing learning process, and it is especially difficult to realise the long term gains from education at

an early stage. Moreover, calculating future earnings is usually based on past data and may require technical knowledge that is complex. This causes the actual private benefits to be higher than the perceived private benefits and is illustrated by the divergence between MPB_{actual} and $MPB_{\text{perceived}}$ in Fig 2. Again, in deciding how much education to consume, the rational and self-interested consumer will consume to the point where $MPC = MPB_{\text{perceived}}$ at Q_e . However, the optimal level of consumption is where $MPC = MPB_{\text{actual}}$ at Q_s . There is thus under-consumption of education by the amount $Q_e Q_s$. At Q_e , MPB is greater than MPC , resulting again in deadweight loss.



Furthermore, there may be inequitable allocation of resources in the market for education. Since the free market responds to “dollar votes”, those with higher incomes are likely to determine which goods and services will be produced, as resources are allocated in order to satisfy the consumers’ effective demand (i.e. both willingness and ability to buy). In this case, resources would inevitably be channelled to the production of education demanded by consumers with higher income. Education may thus be priced out of reach of the lower income groups due to the lack of ability to pay. In other words, those who are unable to afford education may not get a chance to attend school.

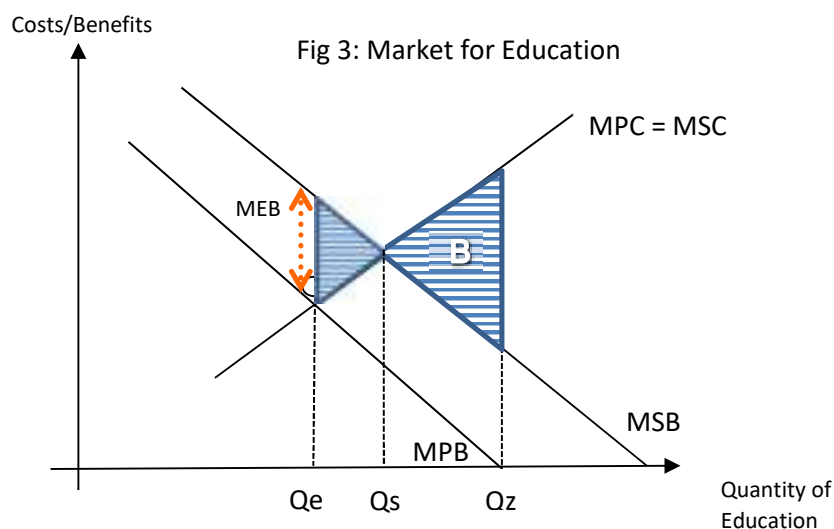
From a socio-political viewpoint, it is extremely important to achieve an equitable distribution of income in the economy as it improves the non-material standard of living of the country. As education is perceived to be a key instrument of achieving this distributive function in the long run, governments try to ensure that it remains affordable to the poorer sections of the economy. Typically the governments subsidise education in order to let it enable redistribute resources in the long run, expecting that the poor would get richer empowered by the knowledge achieved through education.

To better achieve the microeconomic objectives of efficiency and equity, governments typically intervene in the market for education in several ways. First, governments can provide a subsidy equal to the marginal external benefit (MEB) at Q_s , lowering the cost of education, as illustrated by a rightward shift of the MPC curve from MPC to MPC_{Subsidy} . The subsidy causes consumers to take into consideration the positive externality and will consume where $MPB = MPC_{\text{Subsidy}}$. This allows consumption to then be at the socially optimal level, Q_s , eliminating the deadweight loss previously due to under-consumption. One example of such an intervention is the government’s yearly contribution to students’ Edusave accounts which they can use to pay for their school fees or the Financial Assistance Scheme

where school fees and miscellaneous fees for students from lower-income households are waived and textbooks are provided free by the government.

Such a subsidy not only helps the government to meet the microeconomic objective of efficiency but also allows the government to achieve a more equitable distribution of resources in the economy. This is because subsidies make education more affordable, thus children from low income families are better able to gain access to it. If subsidies were not provided, children from lower income households may not receive education and are employed in lower-paying jobs which do not require much expertise while those from high-income families receive education and subsequently are able to land better paying jobs due to their higher level of skills and knowledge. The income gap between the rich and the poor would then likely widen over time, worsening inequity.

However, it may be difficult to provide the right amount of subsidies as there may not be sufficient information to accurately assess the value of the positive externality. If the subsidy provided is too little, the market failure will only be partially corrected while over-subsidising may instead result in greater deadweight loss. For example, if the amount of positive externality is not significant but governments fully subsidise education such that it is provided free at Q_z , it will cause the area of deadweight loss to be larger at B as compared to the original area A as shown in Fig 3.



Moreover, providing subsidies to consumers may put a strain on the government's budget or it may require resources to be diverted from other areas, incurring opportunity cost.

To tackle the other cause of market failure, that is imperfect information, the government can provide information to better help consumers understand the true benefits of education. More information such as the average starting pay and the qualifications required for various jobs can be provided, for example, through online portals like mycareersfuture.sg. With more information, the consumers will be more aware of the actual private benefits from education, illustrated by the rightward shift of the MPB curve from $MPB_{\text{perceived}}$ to MPB_{actual} in Fig 2. Consumers will then maximise their utility by consuming where $MPB_{\text{actual}} = MPC$ and this is where Q_s is, therefore reaching the optimal level of consumption.

Provision of information merely provides market participants with better information but does not artificially distort the workings of the free market. This is favourable, especially

from the perspective of proponents of the free market. However, the outcome is uncertain. This is because people may not even bother to access the information in the first place and even if they do, they may already have a pre-existing mindset on the benefits of education and the information provided may still not change their views. If so, the intervention will not help the government meet its microeconomic objective of efficiency.

Another common way for the government to intervene is through rules and regulations. For example, under the Compulsory Education Act in Singapore, it is compulsory for children born after 1 January 1996 to receive a minimum of six years of primary education. A government agency checks for compliance and parents who do not comply with the legislation are fined. This ensures that consumption of education is near, if not, at the socially optimal level.

The advantage of such an intervention is that it is simple and clear to follow and is relatively straightforward to administer. However, for it to be effective, there must be inspections and the penalty must be sufficiently harsh to have a deterrent effect. In large countries, enforcement measures can be costly. Moreover, rules and regulations may be more difficult to change when marginal external costs or benefits change given the need for legislative approval. Thus, consumption may not be at the socially optimal level when external benefits change.

In conclusion, whether such intervention will help a government meet its microeconomic objectives depends on various factors such as the amount of information the government has and the budget position. In developing countries, data collection is not as advanced or comprehensive and governments may not be able to accurately determine the amount of subsidies to be given, thus deadweight loss or market failure still remains.

Also, if a country has a budget deficit or public debt, it may be difficult for the government to be able to provide the subsidies that are necessary for the socially optimal level of consumption to be reached. If there are more urgent issues that the economy is facing, the government may decide to allocate more resources in those areas rather than subsidising education, causing both the microeconomic objectives not to be met. Nevertheless, it is more likely that intervention in the market for education can help to reduce the amount of inequity and allocative inefficiency though they may not be completely eliminated.

	Knowledge, Application/Understanding and Analysis	
L3	For an answer that gives a detailed and analytic explanation of why government intervention is needed in the market for education and whether government intervention will help to meet its microeconomic objectives.	8 – 10
L2	For an answer that gives an underdeveloped descriptive explanation of why government intervention is needed in the market for education and whether government intervention will help to meet its microeconomic objectives.	5 – 7
L1	For an answer that shows some knowledge of the reasons why government intervention is needed in the market for education and whether government intervention will help to meet its microeconomic objectives. Contains conceptual errors.	1 – 4

E3	For an answer that arrives at an analytically well-reasoned judgement about whether government intervention will help to meet its microeconomic objectives	4 – 5
E2	For an answer that makes some attempt at a judgement about whether government intervention will help to meet its microeconomic objectives	2 – 3
E1	For an answer that gives an unsupported statement about whether government intervention will help to meet its microeconomic objectives	1

Essay 4

The central bank of the US has raised interest rates from 0.1% in 2015 to 0.7% in 2016.

Source: The Federal Reserve, 2016

Explain the internal and external impacts of the increase in interest rates by the US central bank on the Singapore economy and discuss the view that fiscal policy is the best policy for Singapore to address the possible adverse impacts. [25]

A rise in interest rates would increase the cost of borrowing and the opportunity cost of consumption as returns from savings are higher. Consumers would thus prefer to save and reduce their consumption expenditure. Firms would find that with the higher cost of borrowing and with the rate of returns remaining constant, the number of profitable projects would decrease and thus lower their investment expenditure. With a fall in both autonomous consumption and investment expenditure, there will be a fall in aggregate demand, causing a multiplied decrease in real national income in the US via the multiplier effect.

The fall in the US real national income means that there is a decrease in purchasing power and a consequent decrease in import demand. As US is Singapore's main trading partner, the decrease in demand for Singapore's exports from the US will cause a substantial decrease in our export revenue. Assuming that import expenditure of Singapore remains unchanged, this will result in a decrease in net exports, decreasing aggregate demand (AD). There will thus be a multiplied decrease in Singapore's real national income. The decrease in production also results in a decrease in the derived demand for labour, leading to a rise in demand deficient unemployment.

Also the fall in national income in the US may lead to a fall in expectations of future growth. As the US is the largest economy in the world, there might be a fall in FDI to Singapore as foreign investors are likely to invest in Singapore to produce goods and services for overseas markets. The fall in FDI might result in a fall in I, and the subsequent fall in AD, fall in real national income and increase in unemployment. Also, a fall in I can lead to a fall in productivity and thus productive capacity, hindering potential growth in Singapore.

The rise in interest rates could also attract short term investments into the US. There is thus an inflow of hot money into US as investors seek expect higher rates of returns. This will increase the demand for US currency, causing an appreciation of the US dollar (US\$). In Singapore, however, there may be hot money outflow if interest rates are relatively lower. This would cause a worsening of the capital and financial account in Singapore. Coupled with the decrease in net exports that worsens the current account, the BOP position of Singapore would worsen in the short run.

In addition, with an increase in short term capital outflow from Singapore, the supply of the Singapore dollar (SGD) would increase. This will result in a depreciation of the SGD, increasing the domestic price of imported raw materials and thus cost of production, leading to a fall in the SRAS and a rise in imported inflation.

In summary, the adverse impacts of an increase in US's interest rates could be a fall in (X-M) and I, causing AD to fall and Singapore's real national income to fall by a multiplied amount. There could also be an increase in unemployment as well as an increase in imported inflation.

To address the impact of a fall in net exports, Singapore can engage in expansionary fiscal policy to stimulate economic activity and reduce demand-deficient unemployment. For example, the Singapore government can bring forward the building of economic and social infrastructure. With an increase in government expenditure (G), AD will increase. Additionally, consumption (C) and investment expenditure (I) can be boosted through the reduction of personal income tax or corporate tax rates. When income tax rates are reduced, households would have more disposable income to increase their consumption expenditure. When corporate tax rates are reduced, firms would enjoy higher after-tax profits and be more willing and able to invest on new capital goods. With the increase in C , I and G , the fall in $(X-M)$ and I due to the increase in interest rates could be offset, thus alleviating the adverse impacts on real national income and employment.

Expansionary fiscal policy can work relatively quickly in boosting growth and employment. Furthermore, Singapore is unlikely to suffer from the crowding out effect as the Singapore government has adopted a prudent approach to its fiscal policy, consistently keeping the budget balanced, achieving modest budget surpluses in normal years, and building up reserves over time.

However, there are limitations to the use of fiscal policy. The size of the multiplier is likely to be small. This is because Singapore lacks natural resources and is heavily dependent on imported raw materials, intermediate goods and final products. As such, its marginal propensity to import is high. In addition, Singapore has compulsory savings in the form of the Central Provident Fund and the marginal propensity to save is also high. Since there are large leakages out of the circular flow of income, the impact of fiscal policy on real national income is smaller.

To address the adverse impact of imported inflation, exchange rate policy may be a better policy than fiscal policy. A gradual and modest appreciation of the SGD will directly help to lower the domestic price of imported raw materials and reduce the cost of production. This increases the SRAS and addresses the root cause of the problem.

However, a stronger Singapore dollar would result in an increase in the foreign price of exports and a fall in the domestic price of imports. In the long run, firms are no longer bounded by contracts and are able to switch to cheaper alternatives. The Marshall-Lerner condition is thus likely to be satisfied, and an appreciation will lead to a fall in net exports which will aggravate the problem of a decline in exports. Therefore, there is a need for Singapore to also adopt supply side policies to boost its export competitiveness.

As a long term policy, supply side policies are better than fiscal and monetary policies as it helps to enhance the price and non-price competitiveness of exports and also increase the productive capacity of Singapore. This can help Singapore to achieve sustained, non-inflationary growth. Examples include tax credits for R&D and subsidies for upskilling. In Singapore, the Workforce Development Agency pays up to 90% of skills upgrading course fees. Such programmes increase the level of skill mastery, increasing the productivity and quality of labour. The fall in unit cost of labour will cause a fall in the price of exports, making exports more price competitive. Also, R&D subsidies can create more incentives for firms to engage in innovation, improving the non-price competitiveness of Singapore's exports', thereby increasing the demand for Singapore's exports and increasing net exports.

However, supply side policies have limitations too. Supply-side policies tend to require a longer time to take effect and the outcomes are uncertain. For example, workers need to embrace the concept of lifelong learning before they are willing to embark on training programmes to enhance their employability.

In conclusion, fiscal policy may be the best policy in terms of reducing the adverse impact of a fall in real national income and an increase in unemployment but not the best in ensuring price stability. Fiscal policy as a demand-management policy and monetary policy can be adopted in the short run to have a more immediate impact on AD and/or SRAS but in the long run, supply side policies are still needed. There is thus no single best policy to address the various possible adverse impacts brought about by the increase in US interest rates. According to Tinbergen's rule, the number of policies should be at least equal to the number of economic objectives. Therefore, both demand management and supply-side policies should be adopted to complement one another in achieving the different macroeconomic objectives.

However, we should also note that the increase in interest rates in the US may not affect Singapore much as it is an interest-rate taker. Domestic interest rates in Singapore will largely follow US interest rates and there is thus not much difference between interest rates in Singapore and US to cause a change in capital flow or exchange rates. Also, the interest rate hike in the US is likely to be due to the US central bank preventing demand pull inflation in US due to stronger economic growth. Thus the hike in the interest rates may not even have adverse impacts on the Singapore economy.

Regardless, as a small country with few natural resources, it is still critical that Singapore continuously innovates to maintain a competitive edge over other countries and sustain its economic growth regardless of changes occurring in other countries.

Note: Students who explained that the adverse impact is a fall in (X-M) but no change in exchange rate can suggest reducing the rate of appreciation or zero appreciation to address the adverse impacts of a rise in US interest rates.

	Knowledge, Application/Understanding and Analysis	
L3	A comprehensive and detailed answer that provides an explanation on the internal and external impacts on the Singapore economy with a rise in US interest rates. Provides a balanced discussion, using appropriate tools of analysis and diagrams to discuss a range of policies that address the adverse impacts on the SG economy.	8 – 10
L2	An answer that provides a balanced but under-developed discussion on the internal and external impacts on the Singapore economy with a rise in US interest rates. A range of appropriate policies to address the adverse impacts on the SG economy are discussed.	5 – 7
L1	An answer that is mostly descriptive, with some inaccuracies and is not in the context of US and Singapore.	1 – 4

E3	An answer that arrives at an analytically well-reasoned judgement on whether fiscal policy is the best policy to address the adverse impacts on the SG economy.	4 – 5
E2	Some attempt at a judgement on whether fiscal policy is the best policy to address the adverse impacts on the SG economy.	2 – 3
E1	For an unexplained judgement, or one that is not supported by economic analysis.	1

Essay 5

China has long been widely touted as a nation of savers. Credit Suisse pegs China's savings rate at 32% of household income.

Source: Nikkei Asian Review, 2018

(a) Explain the factors that cause household savings to be high. [10]

Savings is the part of disposable income that is not spent. Higher household savings will cause expenditure on consumption to fall, thus reducing AD. Factors affecting savings are largely similar to factors affecting the level of consumption.

Autonomous savings

Interest rates

Interest rate refers to the rate at which a deposit (i.e. savings) with the bank increases over time. Interest is regarded as the reward for savings. A high interest rate will allow households to earn more interest from savings, i.e. the reward for savings increases. This will incentivise people to save, causing household savings to be high.

Expectations

Households' expectations about the economic outlook play a crucial role in their decision to save. If households are expecting an economic downturn in future, they are likely to increase the level of savings since savings provide a precautionary buffer against possible job losses or fall in income levels in future. This would cause household savings to be high.

If households expect a lower or negative rate of inflation in future, they will save more now and postpone their consumption expenditure till prices are lower. This would also cause household savings to be high.

Preference of households

The level of savings can be dependent on the mindset and the lifestyles of households in the economy. Saving habits are influenced by factors such as culture, for e.g. Asians value thrift and responsibility and will seek to save more, especially to ensure that they have enough for retirement or to be able to leave assets to their children as a bequest. This would cause household savings to be high.

Government policies

There are also government policies which affects the community's attitude in savings. For example, in Singapore, there is a national savings scheme whereby all working individuals have to make compulsory monthly contributions to the Central Provident Fund (CPF). CPF savings ensures that the individuals have sufficient savings for retirement as well as medical expenses. This compulsory aspect of savings has allowed Singapore to have one of the highest saving rates in the world.

Induced savings

Induced savings changes in response to changes in the level of national income and is positively related to it. When income levels are high, households are likely to be able to save a more of their income after consumption, thereby causing household savings to be high.

	Knowledge, Application/Understanding and Analysis	
L3	For an answer that uses appropriate analysis to explain the various factors affecting savings rates	8 – 10
L2	A descriptive explanation of key factors affecting savings rates	5 – 7
L1	Knowledge of key factors affecting savings and/or unexplained/ answer contains some conceptual errors	1 – 4

(b) Discuss whether higher household savings rates are desirable for an economy. [15]**Introduction**

- Increase in savings implies fall in consumption
- Desirability measured in terms of achieving the macroeconomic objectives

Undesirable**Internal impact on Economic Growth, Employment and Price Stability**

Assuming economy operating below full employment level:

Short term impact:

- Paradox of thrift: Increase in S causes C to fall → AD will fall and RNO will fall by multiplied amount → impedes economic growth or slows down economic recovery.
- Since firms produce less, derived demand for labour falls → increase in demand deficient unemployment
- For countries facing deflation like Japan, fall in AD will cause GPL to fall. If this causes consumers to further lower C due to expectations of lower prices, AD will continue to fall causing the economy to go on a deflationary spiral.

Less effective demand management policies:

- Since APS is high, MPS may also be high, causing k to be relatively small.
- Therefore, impact of expansionary FP such as increase in G to stimulate real national income will be limited.

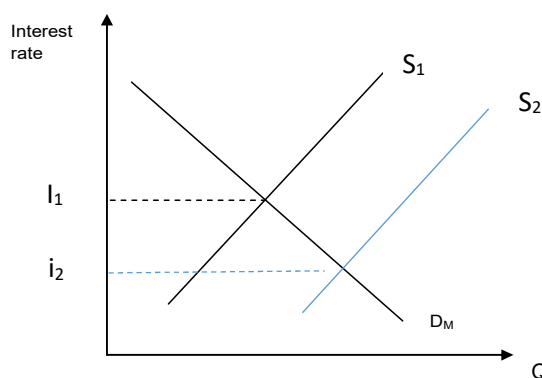
Desirable**Internal impact on Economic Growth, Employment and Price Stability**

Assuming economy operating near or at full employment level:

- Fall in AD can help to dampen demand pull inflation.

Long Term Impact:

- Supply of loanable funds decreases from S_1 to S_2 . This helps to keep interest rates low which leads to more investment.



- In the short run, investment helps to increase real national income and actual growth.
- In the long run, investment leads to higher productivity and productive capacity, increasing LRAS and achieving potential growth.
- Overall, prices are kept stable and low rate of unemployment is attained.

External impact on Balance of Payments and Exchange rate**Capital and financial account**

- As supply of loanable funds increases, interest rates fall. This results in the outflow of hot money as the rate of returns is now lower. Capital and financial account worsens.

Current account

- Consumers may reduce expenditure on imported goods, trade balance and thus current account improves, ceteris paribus.

Overall impact on BOP depends on the relative change in both accounts

- If there is a net currency outflow, the BOP position will deteriorate and the exchange rate will also depreciate. This may worsen the external stability of the economy.

Current Standard of living (SOL)	Future Standard of living (SOL)
<ul style="list-style-type: none"> Current SOL refers to the amount of goods and services that individuals have available for current consumption. Lower consumption as a result of higher savings rates will worsen current material SOL. 	<ul style="list-style-type: none"> Future SOL refers to the amount of goods and services available for future consumption. Higher savings rate allows higher expenditure on investment which can help to increase the productive capacity of the economy. With an increase in the ability to produce more goods and services in future, consumption can increase by more in the future, improving future material SOL.
Evaluation <p>[Weigh] According to the Classical school of thought, savings is beneficial to help economies achieve growth and its other macroeconomic objectives. However, based on the Keynesian school of thought, savings will actually slow down economic growth. This is detrimental to countries especially in the globalised economy in recent years. As countries decouple and are less dependent on external sources for growth, they will need to stimulate domestic consumption and investment more.</p> <p>[Recommend] While high savings rate can bring about negative impacts, government may also implement policies to address the situation in the economy. Hence, the overall impact may not be undesirable, depending on the nature of the economy as well as its current situation.</p>	

	Knowledge, Application/Understanding and Analysis	
L3	For an answer using analysis to give a clear analysis of the costs and benefits of higher household savings for an economy	8 – 10
L2	For an answer giving a largely descriptive explanation of the costs and benefits of higher household savings for an economy	5 – 7
L1	For an answer that shows knowledge of the costs and benefits of higher household savings. One-sided answer on either the costs or benefits. Largely unexplained knowledge of the impact of higher savings for an economy.	1 – 4
E3	For an answer that arrives at an analytical well-reasoned judgement	4 – 5
E2	For an answer that makes some attempt at a judgement	2 – 3
E1	For an answer that gives an unsupported statement	1

Essay 6

An economist stated ‘Globalisation affects all corners of the world, yet requires more government control, not less’.

(a) Explain how globalisation impacts a country’s balance of payments position. [10]

	Current Account	Capital and Financial Account
Increased trade flows	<ul style="list-style-type: none"> Reduction of trade barriers → countries can specialise based on their area of comparative advantage, i.e. produce goods that they incur lower opportunity cost in → this enables them to charge lower prices → assuming $PED > 1$, the lower prices will result in a more than proportionate increase in quantity demanded → higher export revenue (X) → improvement in g/s balance on the current account Greater contestability → increased threat of potential competition from imported g/s → incentive for incumbent firms to innovate → improvement in price and non-price competitiveness <ul style="list-style-type: none"> Improvement in price competitiveness, with $PED > 1$ as analysed earlier, will increase X → improvement in g/s balance on the current account Improvement in non-price competitiveness will increase the demand for exports → increase X → improvement in g/s balance on the current account If higher demand for exports is not met by an increase in productive capacity in export-related industries → compete for increasingly scarce factors of production → rise in demand-pull inflation → worsen price competitiveness of exports in the longer term → may limit improvement in g/s balance on the current account Access to cheaper imported raw materials → improve export competitiveness → improvement in the current account 	<ul style="list-style-type: none"> Heightened growth potential with the larger export market → healthy business prospects → may attract FDI (long-term capital) inflow to capitalise on the opportunities → improvement of the capital and financial account
Increased labour flows	<ul style="list-style-type: none"> Labour inflow from foreign countries to tap on work opportunities → migrant remittances of earnings back to home country → outflow in the secondary 	<ul style="list-style-type: none"> Labour inflow → rise in SS of labour → lowers cost of production → attractive to FDI → improvement of the

	income balance on the current account → worsening of the current account	capital and financial account <ul style="list-style-type: none"> Labour outflow (i.e., brain drain) → risk being a disincentive to foreign firms to locate in the country → worsening of the capital and financial account
Increased capital flows	<ul style="list-style-type: none"> Repatriation of profits, interest and rent following capital outflow/inflow may improve/worsen the primary income balance on the current account 	<ul style="list-style-type: none"> Greater “hot money” flows → e.g., increase in interest rate in a country attracts short-term capital inflows → improve the capital and financial account Entry of foreign firms due to good economic outlook in a country → inflow of long-term capital (FDI) into the country → direct improvement of the capital and financial account

	Knowledge, Application/Understanding and Analysis	
L3	For a <u>well-developed</u> answer with <u>at least three</u> impacts on <u>both</u> current and capital and financial accounts, and consideration of <u>all</u> features of globalisation (i.e., increased trade, labour and capital flows).	8 – 10
L2	For an <u>underdeveloped</u> answer that consider <u>at least two</u> impacts on <u>both</u> current and capital and financial accounts, and <u>some</u> consideration of the features of globalisation (i.e., increased trade, labour and capital flows).	5 – 7
L1	For an answer that lacks scope and depth, or is a mere listing of points. There may be multiple major conceptual errors.	1 – 4

(b) Discuss the view that the role of the Singapore government is more important with the rise of globalisation. [15]

Introduction:

- Government functions → allocative, stabilisation, distributive, and growth functions

P1: Yes, more important

- Government has a role to mitigate the negative effects of globalisation:
 - Stabilisation role
 - Issue: vulnerability to external shocks due to dependence on foreign markets OR risk of structural unemployment with changing CA
 - Appropriate policy: Singapore continually expands and diversifies its network of trading partners OR SkillsFuture to encourage workers to retrain and reskill
 - Distributive role
 - Issue: widening inequity between higher-skilled and lower-skilled workers, possibly due to changing CA (e.g., shift from low-end to high-end manufacturing) or relocation/offshoring of production processes
 - Appropriate policy: redistributive policies, e.g., progressive income tax structure, GST vouchers tiered by income level
 - Allocative role
 - Issue: generation of negative externalities, e.g., problem gambling with the establishment of Integrated Resorts by foreign companies
 - Appropriate policy: legislation/tax for Singaporeans, public education efforts
- Government has a role to further augment the positive effects of globalisation:
 - Growth role
 - Issue: benefits of globalisation, including higher growth prospects from an expanded (external) market, higher potential growth from FDI inflow
 - Appropriate policy: SG to sign more bilateral, regional, and multilateral FTAs, competitive corporate tax rates in SG

P2: No, not more important

- Globalisation may have taken over some of the roles that governments traditionally play
 - E.g., previously, governments need to regulate markets closely to ensure efficiency → these days, increased competition/contestability as a result of globalisation is enough to keep incumbents on their toes and incentivise innovation (e.g., entrance of foreign banks and telco players into SG) → higher efficiency, improved export competitiveness, sustained growth, etc → government intervention no longer needed
- Globalisation may have helped to overcome some inherent challenges that the SG government was trying to address
 - Tight labour market in SG → due to falling birth rates and aging population → may impact potential growth negatively → SG was trying to address through encouraging more births and raising retirement age → with globalisation,

- greater labour mobility across borders → rise in quantity and possible also quality of labour for SG → increase in SG's LRAS → less need for government to step in to manage
- Small domestic market in SG → globalisation has enabled SG firms to tap on the larger global export market + enabled FDI inflow to grow Singapore's productive capacity → actual (growth in AD) and potential growth (growth in LRAS) → less need for government to step in to stimulate growth
- Self-correction of problems by the free market
 - E.g., slow growth → weak economic outlook for local households and firms → local households and firms may withhold spending → AD may fall → GPL fall → however, this may mean an improvement in export price competitiveness → with globalisation, more foreigners may purchase the cheaper SG exports → *ceteris paribus*, X and hence AD may rise → “automatic” correction of slow growth → no need for government intervention
- Government intervention may cause more harm than good
 - E.g., protectionism (see below; can also be an EV point)
 - E.g., channelling resources to “combat” the effects of globalisation, when the resources could be better spent in other sectors

Conclusion/EV:

- Stand: Multiple functions for government → government's role has not been reduced → in fact, its role may be even more important/prominent than before
- Justify: Adapting to globalisation does not occur naturally → governments still need to be present to create conditions for successful integration with globalisation → e.g., need to create conditions for contestability to take place (e.g., granting more licences for foreign banks to operate in SG, granting of telco licence to Australian-based company TPG), need to help SMEs reach out globally (e.g., through Enterprise Singapore (formerly IE Singapore))
- A: Sometimes, by intervening, more harm than good is done
 - E.g., government may intervene in response to globalisation through erecting of trade barriers → briefly give an example of protectionism and negative consequences
- S: Importance of government intervention depends on the effects of globalisation
 - Where the effects of globalisation are mostly positive, it is less important for the government to intervene
 - If negative effects are more significant, the government will need to step in with mitigating measures

Note: There are many possible points of argument for this question, and the points given above are non-exhaustive. You also do not need all the above points to score the full range of marks.

	Knowledge, Application/Understanding and Analysis	
L3	For a <u>well-developed, well-balanced</u> answer with <u>at least three</u> points of argument.	8 – 10
L2	For an <u>underdeveloped, balanced</u> answer that consider <u>at least two</u> points of argument. Max 6 for a well-developed one-sided answer Max 7 for an answer that is too generic and does not provide Singapore-specific examples (e.g., policies, “small and open”, etc)	5 – 7
L1	For an answer that lacks scope and depth. There may be multiple major conceptual errors.	1 – 4

E3	For an answer that arrives at an analytically well-reasoned judgement	4 – 5
E2	For an answer that makes some attempt at a judgement	2 – 3
E1	For an answer that gives an unsupported statement	1